

**Office of the Plenipotentiary Envoy of the President of the Russian Federation  
in the Northwest Federal District**

**United Nations Development Programme**

## **Promoting Investment and Interregional Cooperation in the Northwest Federal District**

The mission of this project is to facilitate investment and promote interregional cooperation in Russia's Northwest Federal District by improving the regional framework for domestic and international investment, enhancing the region's investor appeal in Russia and internationally, strengthening organizational and financial mechanisms of interregional cooperation and development of interregional relations.

Project 00014621 (RUS/02/015) Promotion of Business and Investment Opportunities in the Northwest Federal District of Russia. Strengthening the Potential of the Northwest Investments Agency (Development Agency) has helped define the development priorities that will be conducive to the advancement of this Project's mission.

The priorities are: (1) fostering a favorable investment environment in northwestern Russia, including a system of investment incentives and a common information domain to attract and enable investors; (2) promoting international economic cooperation between the Northwest Federal District (NWFD) and Germany, France, Italy, Austria, other West European economies and the rest of the world; (3) promoting cross-border cooperation in NWFD; and (4) better marketing for NW Russian regions.

The package nature of these development priorities calls for applying to potential of an influential international economic body, such as OECD, to be involved in the Project as advisor.

The Project's interim phase will see strategies and/or programs devised to bring direct foreign investment (DFI) to the district; those programs will aim to build up the regulatory and methodological framework for investment policymaking in the NW regions. An integrated database will be created for investment projects and financing sources. A series of activities will be carried out in a bid to boost international economic cooperation, mainly between NWFD and West European nations such as Germany, France, Italy and Austria. Furthermore, marketing concepts will be developed for 1 to 3 northwestern regions that need this the most, including a plan for training events, expos and conventions designed to facilitate the region's marketing effort. Finally, the Project's interim phase will facilitate the emergence of a support network for cross-border cooperation in the Northwest Federal District.

The final Project phase will see the establishment of an institutionalized support infrastructure for bringing investors to NWFD in the form of a coordinated network of Investment Promotion Agencies (IPAs) that will work to nurture a common information environment in northwestern Russia to facilitate investment. The mission of the IPA network will be to help prospective investors and investment project owners find each other faster and work together more productively.

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## Part I a. BACKGROUND

Project 00014621 (RUS/02/015) Promotion of Business and Investment Opportunities in the Northwest Federal District of Russia. Strengthening the Potential of the Northwest Investment Agency (Development Agency) ("Project"), completed by the Office of the Envoy Plenipotentiary of the President of Russia in the Northwest Federal District and the UN Development Program (UNDP) in Russia on 31 August 2007, studied many challenges associated with bringing investment money into the key industries of northwestern Russia, looked at ways to liven up manufacturing, and reviewed the contribution of national and regional IPAs in finding investors. Where necessary, additional research and activities were conducted with a greater focus on detail.

The activities focused on the following issues:

### **1. Design of fundamental policies on bringing investors to NWFD/study of the challenges associated with bringing investors to NWFD**

- In order to participate in the international sharing of information and best practice in investor search and investment promotion, the Development Agency ("Agency") has joined the World Association of Investment Promotion Agencies (WAIPA) and the Foreign Investment Promotion Center of the Multilateral Investment Guarantee Agency (MIGA).
- The Agency has strengthened its advisory platform for investment promotion by placing officials from the Investment Policy Department of the Ministry of Economic Development of Russia, northwest regional vice governors for economic matters, top business executives and representatives of influential international bodies (OECD and EBRD) on its Supervisory Council. The Council lineup is expected to assure an all-round take on addressing the challenges of bringing investment into the regional economy.
- Investment policy implementation materials were drafted to be embedded into the Socioeconomic Development Strategy for the Northwest.
- A study of administrative barriers in NWFD was carried out in partnership with OECD, focusing on four NW regions: St. Petersburg and the Kaliningrad, Leningrad and Novgorod Regions. The findings were reported at the task force meeting on 18 March 2004: Investing in Russia. Dialogue between Authorities and Business. The meeting was attended by officials representing OECD, the Office of the Envoy Plenipotentiary of the President of Russia in NWFD, NW regional governments, business associations and consulting firms.
- In 2005, OECD commissioned the Agency to perform a study on foreign investment in NWFD to see how successful the district has been in attracting international investors compared to other Russian regions. The study defined the region's competitive strengths and weaknesses in terms of natural resources, infrastructure and labor pool. The overview of activities aimed at promoting and facilitating foreign investment in the region offers a number of ideas on how to make the region more attractive to foreign investors. Those ideas could be applied at federal, regional or local level.

### **2. Building a Support Network for Investment in NWFD**

- Partnership agreements were signed with Investment Promotion Agencies in the Regions of Kaliningrad, Novgorod and Arkhangelsk in a bid to broaden data exchange between IPAs.

- In conjunction with Finland's Mannet Partners OY, the Agency set up a Northwest Center for Financing Search as a hands-on body to bring investment into NWFD. The Center was conceived as an information hub that will monitor financing opportunities and search and select financing solutions to meet borrowers' needs.
- Recognizing the critical importance of cross-border cooperation as an investment driver for NWFD, the Agency established a Center for Interregional and Cross-Border Cooperation between Russia and Europe.
- With wood processing being a key industry in NWFD, the Agency in 2005 signed an agreement with the Federal Forestry Agency and the Confederation of Timber Industry Bodies, Businesses and Institutions of Northwest Russia to facilitate investment projects in the timber industry.
- An upturn in the regional automotive industry, fueled by the arrival of international automotive industry leaders such as Toyota, Nissan, Ford and GM, prompted the Agency to launch a regional rep office for the National Association of Automotive Component Manufacturers (NAACM) to represent the Association in the region and assist Russian auto component manufacturers wishing to start production in northwestern Russia.

### **3. Information Support for Improving the Investor Appeal of NWFD**

- Realizing how important it is to promote cooperation between Russian and international businesses, highlight the region's economic potential, forge ties between local authorities at the level of NWFD regions and otherwise, to give the region a more attractive image and bring in investors, the Office of the Envoy Plenipotentiary of the President of Russia in NWFD has teamed up with the Agency to conduct NWFD presentations in Berlin, Düsseldorf, Hamburg and Stuttgart (Germany), Milan, Italy and Vienna, Austria, over the past three years in pursuance of the guidelines of the NWFD Socioeconomic Development Strategy until 2015.
- Seeking to put together new investment project databases and update existing ones, and to address the foremost investment challenges, the Agency has conducted a series of industry-focused, investment-themed events on a regular basis, including the roundtable Investment Opportunities in the Timber Industry (part of the International Forestry Forum '2004, 2005 & 2006), roundtable Investment Opportunities in Russia's Fuel and Energy Industry (part of the International Fuel & Energy Forum '2005), and others.
- On behalf of St. Petersburg City Hall's Committee for Economic Development, Industrial Policy and Trade, the Agency held an expo entitled Investing in St. Petersburg, promoting St. Petersburg as an investment-worthy city, where the government does its best to assure a favorable climate for enterprise and gives strong backing to investment projects. The expo came in a package with three roundtables: Formation and Revitalization of Industrial Neighborhoods, Reducing Administrative Barriers: Challenges and Solutions, and Municipal Projects: Investment Case Studies and Opportunities. The expo showcased over 20 of St. Petersburg's major investment projects.
- The Agency hosted a roundtable named Investment Opportunities in St. Petersburg at the 10<sup>th</sup> St. Petersburg International Economic Forum, promoting the city's investor appeal, and published a catalogue of 83 investment projects for handing out to the forum's VIP participants (prospective investors).
- The Agency hosted AUTOINVEST '2007, an international conference designed to encourage investment in automotive part manufacturing with a view to revitalizing NWFD's priority industries. The conference was centered around a "Business Networking Exchange" where Russian automotive parts manufacturers networked with executives from Toyota, Nissan, Ford, GM and Volkswagen.

#### **4. Regional Marketing Effort**

- A seminar entitled *Ways to Enhance the Investor Appeal of a Russian Region: Region Branding and Promotion* was held as part of the Northwest: New Investment Opportunities forum, with contributions from the Russian Public Service Academy under the President of Russia, the Embassy of Austria in Moscow, the TACIS project Tourism Promotion in Northwest Russia, the Foreign Ministry of Finland, and the Vologda Region Government. The seminar audience consisted of regional government officials, university staff, representatives of economic associations, banks and international diplomatic missions.
- The business event program of the Russia's Regions: Investment Opportunities in the Timber Industry expo featured a master class entitled *Promoting Regional Opportunities. Attracting Investors, Businesses and Professional Workforce*, involving contributions from the Russian Public Service Academy under the President of Russia, St. Petersburg State University of Economics & Finance, Vologda Region Government, and Nordic Business Facilitators. The seminar audience consisted of regional government officials, university staff, representatives of financial institutions, consulting firms, timber businesses and the media.
- In order to facilitate both domestic and international image marketing for Northwest Russia, we designed and published a catalogue on the Northwest Federal District and every region in it, covering: general information (geography, climate, population, etc.); economic potential (prevalent industries, development outlook, industrial output, fuel and energy, transportation system, import/export, and leading businesses established with domestic and foreign capital); investment (investment flows by industry, investment in fixed assets, industries with the highest investor appeal, legal framework for investment, federal and regional socioeconomic development programs, and contact details).

#### **5. Stepping up cross-border and interregional cooperation**

- The Agency has emphasized cross-border and interregional cooperation since 2004. Running presentations for NWFD outside Russia, the Agency seeks to promote closer ties between Russia's Northwest and regions across the border.
- A delegation of officials from NWFD's border regions, led by L.P. Sovershaeva, assistant to the Envoy Plenipotentiary of the President of Russia in NWFD, took a field trip to Germany in 2005. The delegation explored the prior experience of borderland German counties and municipalities bordering on Poland and the Czech Republic, comparing cooperation and exchanges before and after those nations joined the EU with an in-depth study of cooperation architecture at all levels of government.
- The 1<sup>st</sup> international conference entitled *Cross-Border Cooperation between the Russian Federation and the European Union* was held in 2005, focusing on Russia's cooperation with Estonia and Finland. The 2<sup>nd</sup> annual conference, held in 2006, was attended by broad-based delegations from all the five cross-border nations, featuring informative presentations by members of the European Commission. Both conferences yielded sets of recommendations that were forwarded to the ministries and agencies overseeing cross-border cooperation.

- The Agency initiated a WWW portal on Russia-Europe cross-border cooperation - a fully updated standby information resource on cross-border agendas.
- Agency officials took an instrumental part in Russian and international cross-border events, made reports and presentations. The Agency performed a study of cross-border cooperation in the Northwest Federal District.

## Part I a- 1. SITUATION ANALYSIS FOR INVESTMENT PROMOTION IN RUSSIA AND NWFD

### Domestic investment

Russia has achieved some favorable results in implementing its socioeconomic policy, manifested by macroeconomic stability as a background for positive change in international investors' sentiment about Russia. Russia is currently experiencing a major surge in investment (see Table 1 below).

**Table 1. Fixed Assets Investment in Russia by Federal District**

Federal District	2002	2003	2004	2005	2006
<b>RUR m</b>					
Central	435,800.0	532,900.0	689,000.0	896,214.1	1,152,663.4
Northwest	199,100.0	261,900.0	330,900.0	465,372.7	620,814.5
South	185,700.0	200,100.0	238,500.0	308,922.8	426,179.6
Volga	294,500.0	344,300.0	429,500.0	573,888.9	757,605.3
Urals	383,400.0	448,600.0	448,000.0	591,323.3	770,677.7
Siberia	150,100.0	188,200.0	237,400.0	336,080.8	442,002.0
Far East	113,800.0	176,500.0	170,000.0	234,124.6	313,702.4
Russia total	1,762,400.0	2,186,200.0	2,729,800.0	3,534,009.1	4,580,481.0
<b>USD m</b>					
Central	138,96.68	17,375.29	23,915.31	34,036.33	40,047.37
Northwest	6,348.85	8,539.29	11,485.60	17,673.88	21,569.17
South	5,921.56	6,524.24	8,278.38	11,732.24	14,806.90
Volga	9,390.94	11,225.95	14,908.02	21,795.10	26,321.73
Urals	12,225.77	14,626.67	15,550.16	22,457.22	26,775.91
Siberia	4,786.35	6,136.29	8,240.19	12,763.64	15,356.62
Far East	3,628.83	5,754.81	5,900.73	8,891.56	10,899.07
Russia total	56,198.98	71,281.38	94,751.82	134,214.26	159,141.18

Source: RF Federal Service of National Statistics

Note: statistics for Russia overall include certain investments that are not confined to a specific region, so the total exceeds the sum total of all regions.

The Ministry of Economic Development and Trade of Russia reports that, following the January 2006 slump in investment in the wake of a general slowdown in the economy, investment activity has picked up again since February, albeit at a slower rate than last year. Some of the reasons why investment activity is slower this year are:

- slowdown in economic growth;
- the buildup of disposable investment resources accumulated by businesses since the 2004 tax cuts, ran out;

- high credit costs despite an appreciable drop in financial market rates and phased reduction of the refinancing rate;
- inadequacy of stock market and collective investment institutions, including poor use of the cash pools of insurers, retirement funds and investment funds in the investment process.

Despite the general upturn in investment over the past few years, investment activity varies considerably between Russia's regions, and much depends on the local context. In the Northwest Federal District, the dynamic is favorable at the moment, and the district's investment contribution on the national scale has increased. NWFD was 4<sup>th</sup> among Russian federal districts in investment in 2006, after the Central, Volga and Urals Districts (Table 2). NWFD has been third in per capita investment since 2002, trailing the Urals and the Far East, where investment has rocketed in the raw materials sector (Table 3). NWFD has a higher per capita investment rate than the national average.

**Table 2. Federal Districts' Contribution to Fixed Assets Investment Nationwide: % Change Dynamic**

Federal District	2002	2003	2004	2005	2006
Central	24.73	24.38	25.24	25.35	25.16
Northwest	11.3	11.98	12.12	13.16	13.55
South	10.54	9.15	8.74	8.74	9.30
Volga	16.71	15.75	15.73	16.23	16.54
Urals	21.75	20.52	17.91	16.73	16.83
Siberia	8.52	8.61	8.7	9.5	9.65
Far East	6.46	8.07	6.23	6.62	6.85
Russia total	100.0	100.0	100.0	100.0	100.00

Source: see Table 1

Note: see Table1

**Table 3. Per Capita Investment Dynamic**

Federal District	2002	2003	2004	2005	2006
<b>RUR</b>					
Central	11,945.62	14,043.27	18,259.39	23,750.61	30,546.78
Northwest	13,963.11	18,775.54	23,922.79	33,643.86	44,881.44
South	8,648.88	8,741.04	10,437.64	13,519.58	18,651.16
Volga	9,307.25	11,068.96	13,898.78	18,572.09	24,517.49
Urals	30,623.00	36,291.56	39,704.45	48,012.81	62,575.58
Siberia	7,306.98	9,395.44	11,929.05	16,887.17	22,209.42
Far East	16,179.37	26,422.16	25,625.57	35,291.54	47,286.96
Russia total	12,242.80	15,080.99	18,934.85	24,518.17	31,778.36
<b>USD</b>					
Central	380.92	457.88	633.79	902.00	1,061.30
Northwest	445.25	612.18	830.36	1,277.72	1,559.33
South	275.79	285.00	362.29	513.45	648.00
Volga	296.79	360.91	482.43	705.33	851.82
Urals	976.50	1,183.29	1,378.15	1,823.43	2,174.08
Siberia	233.00	306.34	414.06	641.34	771.63
Far East	515.92	861.50	889.47	1,340.30	1,642.91
Russia total	390.40	491.72	657.23	931.15	1,104.09

Source: see Table1

## 1.2 Foreign Investment

Domestic investment has been complemented by growing international investment in Russia, which increased 2.7% in 2006 from 2005, totaling US \$55.1 billion.

As of the end of June 2006, there was US \$142.9 billion of international capital in Russia, up 27.8% from 2005 year on year. International institutional loans, commercial loans, and other similar investments usually subsumed under the "miscellaneous" category made up 49.1%, or the highest percentage of total foreign capital accumulated by Russia, slightly less than at the end of 2005, when the figure was 53.8%. Direct investment made up 47.5% (up from 44.5%), and portfolio investment, 3.4% (up from 1.7%).

The international economic community feels better about investing in Russia. Moody's gave Russia an investment-grade rating in October 2003, followed by equally high ratings from Fitch in November 2004, and Standard and Poor's in January 2005.

Investment dynamics have improved in NWFD. Most notably, foreign investment has recently picked up in the district. Being 4<sup>th</sup> in Russia by investment volume and 3<sup>rd</sup> by per capita investment, NWFD has ranked 2<sup>nd</sup> by foreign investment and 3<sup>rd</sup> by per capita foreign investment in Russia in 2007 so far. NWFD has a much higher per capita foreign investment rate than the national average.

**Table 4. Foreign Investment by Federal District, USD m**

Federal District	2002	2003	2004	2005	2006
Central	9,526.3	15,664.3	19,276.6	28,930.4	30,100.6
Northwest	1,593.9	1,877.4	2,869.1	3,469.9	7,701.6
South	586.8	665.8	688.7	987.3	1,259.1
Volga	1,448.7	944.7	2,415.5	2,173.4	3,128.6
Urals	2,538.7	5,561.8	7,032.9	5,364.8	4,290.0
Siberia	2,944.1	2,138.0	3,153.6	6,790.5	1,909.3
Far East	1,141.5	2,846.8	5,072.5	5,934.7	6,719.9
Russia total	19,780.0	29,699.0	40,500.0	53,651.0	55,109.1

Source: see Table 1

**Table 5. Foreign Investment Per Capita (USD)**

Federal District	2002	2003	2004	2005	2006
USD					
Central	261.12	412.79	510.85	766.69	797.70
Northwest	111.78	134.59	207.42	250.85	556.78
South	27.33	29.08	30.14	43.21	55.10
Volga	45.78	30.37	78.17	70.34	101.25
Urals	202.77	449.95	571.04	435.60	348.33
Siberia	143.32	106.73	158.46	341.20	95.94
Far East	162.19	426.17	764.62	894.59	1,012.95
Russia total	137.41	204.87	280.98	372.22	382.33

Source: see Table 1

NWFD has strengthened its role as a magnet for foreign investment dollars. Only 6% to 8% of all foreign investment in Russia went to NWFD in 2002-2005. In 2006, the district's share was up to 14% (see Table 6).

St. Petersburg remains the primary destination for foreign investment dollars in the district, followed by the Leningrad and Vologda Regions and the Nenets Autonomy, which has shown the strongest growth dynamic as increasing amounts of investment money flow into its very substantial



oil and gas sector. The Nenets Autonomy also shows the best per capita investment rate. The Komi Republic has experienced a similar surge in investment for the same reason. But St. Petersburg and the Regions of Kaliningrad, Vologda and Arkhangelsk (excluding the Nenets Autonomy) have also shown higher than average investment growth rates.

**Table 6. Variation in Federal District Shares of Total Foreign Investment in Russia**

Federal District	2002	2003	2004	2005	2006
%					
Central	48.60	52.74	47.60	53.92	54.62
Northwest	8.06	6.32	7.08	6.47	13.98
South	2.97	2.24	1.70	1.84	2.28
Volga	7.32	3.18	5.96	4.05	5.68
Urals	12.83	18.73	17.37	10.00	7.78
Siberia	14.88	7.20	7.79	12.66	3.46
Far East	5.77	9.59	12.52	11.06	12.19

Source: see Table 1

### 1.3. Direct Foreign Investment by Industry

The bulk of foreign investment in NWFD goes into the manufacturing industries, followed by retail, transport and telecommunications, which is mainly in line with the general pattern of foreign investment in Russia. In the manufacturing industries, most investment targets processing, mining and the food industry. However, foreign investment breaks down differently by sector in the NWFD regions. The same industry may not have the same level of investor appeal in different regions.

In the Republic of Karelia, the highest percentage of foreign investment goes into processing industries (60.5%) and timber logging (29.5%). In the Republic of Komi, foreign capital mainly flowed into the fuel industry (most notably, oil mining) between the late 1980s-early 1990s and the end of 2001. Those years saw the emergence of a number of joint ventures in the oil industry, which grew and strengthened over the years. The fuel industry remained by far the most attractive sector for foreign investors until 2001, absorbing over 96% of all foreign investment in the region. Foreign money flowed in as both direct and indirect investments, e.g. loans. Since 2002, following the acquisition of Syktyvkar LPC OAO, a complex of timber processors and paper mills, by Austria's Mondi Group, sizable amounts of foreign investment dollars have migrated into Komi's pulp and paper industry. By now, nearly a quarter of all accrued foreign capital is domiciled in the pulp and paper industry. A percentage of this capital are direct and portfolio investments.

The Vologda Region received upwards of US \$161.5 million in foreign investment in 2006. The majority of international investors have committed to processing industries (81.3% of the total), production and distribution of electricity, gas and water (12.7%), wholesale and retail (4%), and forestry (1.6%). The region was targeted by investors from 23 countries in 2006, but mainly from the UK, Cyprus, France, Finland, Sweden, Hungary, and the US.

The Arkhangelsk Region absorbed US \$153.4 million in foreign investment in 2006, up 1.7 times from 2005. 71.1% of investors' dollars went into the timber industry; 18.8% into production and distribution of electricity, gas and water, and 10.1% were funneled into other sectors. Direct investment totaled US \$29.8m, quadruple the 2005 figure.

## 1.4 Geography of Direct Foreign Investment

Similarly to the rest of Russia, the bulk of investment comes to the Northwest Federal District from the UK, US, Germany, Finland, the Netherlands and Cyprus. According to the National Statistics Agency, the leading investment originators for Russia in 2006 were Cyprus, Luxembourg, the Netherlands, the British Virgin Islands, Switzerland, Germany, the UK, the US and France. These nations accounted for 84.81% of all accrued foreign investments in Russia, and 85.8% of all accrued direct foreign investments.

It would be fair to say that NWFD receives most of its foreign investment from Western Europe and offshore tax havens such as Cyprus and the British Virgin Islands, but the nuance about NWFD is its more prominent presence of investors from Scandinavia and the Baltic States in consequence of their geographic proximity. Furthermore, there is a clear link between the origin of investment and the industrial specialization of regional economies. For example, regions with a more prominent forestry and timber sector tend to receive more investment from Canada, Austria, and some other nations with vested interest in the timber industry.

## 1.5 Foreign Investors in the Northwest

Many international industry leaders operate manufacturing facilities in northwestern Russia. Some of the best examples are:

- wood processing, pulp and paper industries: Fleiderer, Stora Enso, Mondi, UPM Kummene, International Paper, a. o.
- automotive industry: Ford, BMW, Toyota.
- food industry, including tobacco: Cadbury, Pepsi, Coca-Cola, Wrigley, Heineken, Kraft Jacobs, Philip Morris, British American Tobacco, JTI.
- consumer appliances: Merloni, Bosch, and Electrolux.
- retail: IKEA, Metro.

Many of these and other companies, having successfully launched their initial projects, are now busy expanding their Russian operations, adding more products, opening new stores, and so on.

Project 00014621 helped define a set of development priorities that need to be addressed in order to advance this Project's mission.

## Case studies and lessons learned by national and international partners

### 1. OECD's Istanbul Program for Investment Promotion

Despite dramatic political, economic and social change, foreign investment remained low in the transitional economies covered by the Investment Promotion Network during the past decade. Foreign investment was below the world average, and was mainly confined to natural resources and privatization.

Established in 1996, the Investment Promotion Network is a unique forum where the Network member nations, international bodies, private companies and OECD members can share ideas, information, best practice and investment promotion know-how. Leveraging the resources offered by the Istanbul-based Center for Private Sector Development, the Network is ideally positioned to serve as a coordinating center for the entire process.

The Istanbul Program addresses numerous complex issues relevant to IPA policies and budget resources. The Program is bolstered by the strong commitment of the IPA, national governments, international bodies and private sector entities to improving investment-related services and supporting the investment promotion effort. Reflecting those commitments, the Istanbul Program

underpins various IPA projects that draw on its resources for ongoing project work and outputs. The Program is to receive adequate funding through the Center for Private Sector Development in Istanbul.

Although the Istanbul Program primarily addresses the investment promotion agenda and, specifically, foreign investment promotion, it should be viewed in a broader context of economic development relevant to transitional economies, most notably, within the framework of investment policy and setting clear ground rules for the corporate behavior of major transnational corporations. The new, improved edition of Governing Principles for Transnational Companies, governing transnational corporate actions, was ratified in June 1999 by the governments of OECD member states. OECD and World Bank are currently working to improve corporate governance globally, relying on the Corporate Governance Principles adopted by the OECD member states.

## **Principles and Goals of the Istanbul Program for Investment Promotion**

### **Principles**

The fundamental principles governing the overall implementation of the Istanbul Program are:

- Implementation of competitive market economic principles and requisite structural change;
- Recognition of the benefits of free trade;
- Commitment to non-discriminatory liberalization and transparency in trade and investment;
- Alignment of all initiatives with the existing multilateral cooperation agreements affecting the parties to the investment promotion process;
- Mobilization of private business resources and promotion of active investment dialogue between private businesses and the government.

### **Goals**

The paramount goal of the Istanbul Investment Promotion Program (IIPP) is to bring substantial investment flows into the Network member economies. To achieve this goal, IIPP is to address the following priorities:

- Improving the investment climate;
- Strengthening partnership between government bodies and private-sector entities, and deploying tools for adequate cost accounting on both sides;
- Improving the region's investor appeal to OECD members and other major investor nations;
- Interfaces with existing programs to promote investment, including government initiatives such as the European Business Information Center, European Partner & Investor Union and others, as well as initiatives of the business community: the World Economic Forum, Eastern Europe and Asia Summit, and Southeast European Economic Forum; the programs are to invite input from the Chambers of Commerce;
- Better investment policy and ground rules in the region;
- Networking between the regional business communities for their mutual benefit; incentives for dynamic economic growth and international partnership;
- Creating, if necessary, or improving information networks and communication tools serving the cause of investment promotion.

## **2. OECD Forum on Entrepreneurship and Enterprise Development**

The OECD Forum on Entrepreneurship and Enterprise Development (FEED) for Russia focuses on fostering a more enabling environment for small enterprise by identifying and eliminating specific barriers hindering the normal operation of small businesses. In addition, OECD tackles a variety of issues related to investor engagement at national and regional level.

In addition to the OECD events, international donors will contribute to drafting Russia's investment policy framework, spanning TACIS support programs for Foreign Investment Promotion Centers under the Economics Ministry to USAID initiatives on venture capital development. All this highlighted the need for a new concept on investment strategy planning at regional level. OECD and its member states are in a position to help northwestern Russia build up its capacity to attract and efficiently use DFI and strengthen interfaces between the region and its neighbors.

### **3. Investment Strategy Task Force (ISTF) for Northwestern Russia**

Northwestern Russia has previously attempted to develop an integral policy on investment infrastructure improvement with the assistance of international institutions. One such attempt involved pre-investment research by OECD in a bid to develop investment strategies for NW Russia, but the outputs of OECD research were never put into action.

The project called for an investment strategy task force to be formed in the Northwest that would draft initiatives for improving the investment climate in the region. The task force would focus on St. Petersburg, the Leningrad Region, Kaliningrad, Karelia, Pskov, Murmansk, Arkhangelsk, Novgorod and the Komi Republic. The task force would consist of decision-makers from NW Russia, OECD Secretariat, OECD member states (including Norway and Finland), and country and region private sector entities, as well as representatives of relevantly specialized international agencies who would make sure the same jobs are never done twice.

ISTF will work in close partnership with FEED for Russia and other bodies, such as the Baltic States Council, Chambers of Commerce of the Baltic Sea Region states, and bodies overseeing the development of new management solutions for the investment cycle.

The mission of ISTF is to design new investment strategies, leading to:

- better awareness of the investment climate and investment opportunities for foreign investors;
- better investment strategy at regional and local level;
- stronger public/private partnership in the region;
- a rise in the influx of DFI to the region.

These goals will be achieved by implementing region-wide initiatives and strengthening regional cooperation. The job of the Task Force is to devise an investment policy framework and to serve as a medium for disseminating project outputs. ISTF will focus on:

- cutting-edge strategy for attracting DFI into Russia;
- a regional policy on DFI promotion;
- case studies on how the strategy works on the ground;
- setting of priorities in attracting DFI into northwestern Russia;
- prior experience of investing in the region, and the role of the private sector in DFI strategy planning and policymaking;
- institutional framework for DFI promotion at federal and regional level;
- initiatives for strengthening ties between IPAs in OECD member states;
- a better image for the region to attract foreign investors;
- making industry more attractive to direct foreign investors;

- initiatives in specific areas of networking, e.g. business partnership, including taxation issues.

These matters will be the center of attention for ISTF, shaping the groundwork for DFI strategy dialogue between OECD member states and northwestern Russia, as well as countries having a common frontier with Russia.

Most of the work will be dedicated to designing field action aimed at promoting investment in the region.

The project envisions a coordinating role for other donors and partners, apart from UNDP, such as the OECD and the UN Economic Commission for Europe (UNECE), in a bid to nurture an enabling environment for investment in Russia's Northwest Federal District, aimed first of all at attracting Russian and foreign investors into the manufacturing industries. The resultant industrial growth will generate more competitive domestic products and create new jobs.

## **PART 1B. PROJECT IMPLEMENTATION STRATEGY**

The mission of this project is to facilitate investment and promote interregional cooperation in Russia's Northwest Federal District by improving the regional framework for domestic and international investment, enhancing the region's investor appeal in Russia and internationally, and promoting cross-border and interregional cooperation.

The Project's implementation strategy is to achieve several different development targets, the sum total of which will advance its core mission.

The Project will focus on the following development priorities:

- ***fostering a favorable investment environment in northwestern Russia, including a system of investment incentives and a common information domain to attract and enable investors;***
- ***promoting international economic cooperation between NWFD and Germany, France, Italy, Austria, other West European economies and the rest of the world;***
- ***better marketing for NW Russian regions;***
- ***promoting cross-border cooperation in NWFD with an eye on the district's strategic place within the Northern Dimension.***

Let us review the Project priorities more closely:

1. ***Fostering a favorable investment environment in northwestern Russia, including a system of investment incentives and a common information domain to attract and enable investors***

The role of NWFD government bodies in investment promotion is mainly limited to coordination, presentation and methodology development in relation to NWFD regions' investment policy implementation effort. Regional Investment Promotion Agencies, Chambers of Commerce & Industry and Development Agencies are tools for specific investment projects, magnets for

financing instruments, and so on. In its drive to maximize the inflow of DFI, the district will have to tackle a number of tasks, namely:

- **Development of strategy and/or programs to promote DFI, and regulatory and methodological facilitation for the investment policies of NWFD regions**

Competent, qualified Investment Promotion Agencies are able to provide methodology support to their regions in drafting investment promotion programs, investment and infrastructure legislation, and so on. Investment promotion best practice from NWFD regions should be generalized at district level and disseminated to other regions. Regional governments must be kept fully informed on the progress of investment policies in their district and the rest of Russia, so as to act accordingly. A favorable investment climate requires more than merely the existence of the right conditions in the region; it has much to do with the state, trends and development vision of major business entities that shape the regional industrial landscape. Every region needs a coherent industrial policy, devised at district level.

As mentioned above, all key stakeholders of the investment cycle in the district must act within a common framework strategy. Such a strategy should be developed at district level, drawing on the key points of the Strategy Guidelines for Socioeconomic Development in the Northwest Federal District for the Period Until 2015. Furthermore, implementation tools should be deployed for the strategy: it will be necessary to draft and adopt implementation action plans, legislation and targeted programs with an eye on every NWFD region's socioeconomic priorities.

In this context, the Agency will leverage its hands-on experience to issue advice and recommendations to NWFD regional governments on how to design foreign investment promotion strategies and/or programs, and how to apply them on the ground. At the same time, the Agency will emerge as a business integrator, spearheading implementation of its recommendations and draft management decisions, overseeing the district's investment promotion policy on the ground, and servicing both individual businesses and all kinds of associations, unions, and groups.

- **Fostering a solid "conductive" environment for investment** that will help investors, investable businesses, and investment seeking regions find each other. One of the network functions will be to render support for investment projects. The key components of the network should operate on the "one window" principle, at least as far as information support for investors is concerned (investment climate, legal issues, prepared sites available, labor market information, etc.). The investor support network will incorporate Investment Promotion Agencies, business associations, and consulting firms specializing in foreign investor services. Many of these network components already exist. For instance, a network of Investment Promotion Agencies is currently shaping up on the basis of NGO Northwest Agency for Development and Investment Promotion. The main challenge is to make all these components work in a coordinated manner within a single, district-wide framework investment strategy, and to make them interact with each other effectively.

In this context, the mission of the Agency is to act as a coordinating information center for investment in the region, accumulating and disseminating relevant information on investment opportunities, liaising and partnering with regional development agencies, networking with NWFD-based businesses and seeking out financing schemes to meet their financial needs.

- **Promoting regional investment projects and priority programs.** By organizing and running various investment themed events targeting the timber industry, construction, fuel and energy utilities, and other industries present in NWFD, the Agency will build and periodically update its investment project databases. Relying on its tried and tested ties with the relevant bodies within NWFD regional governments, the Agency will receive first-hand knowledge of its region's development priority lists. Since solid, economically viable and highly profitable investment projects are few and far between in the financial domain at the moment, demand runs high among banks and other financiers for well-researched, high-quality major and medium-sized projects to invest in. With this in mind, the Agency will set out to find investors for eligible projects and vice versa. It is assumed that regional investment projects and priority programs will be promoted at federal and international level. Cooperation from district/regional

authorities may be needed in matters of government decision-making at federal level, as well as in accessing major Russian and international investors. Promotional presentations will be held for the district outside Russia in order to boost cooperation between NWFD and foreign countries.

## ***2. Promoting international cooperation between NWFD and (primarily) Western Europe: Germany, France, Italy, Austria***

The Agency has carried out a comparative study of several regions in Europe, in order to select suitable international economic partners for NWFD. Every region was assessed by the following parameters: population, unemployment level, GRP, GRP structure, prevalent industries, main import/export partners, transportation system, and interregional links to NWFD regions. The Agency has found that the most eligible European regions for NWFD to cooperate with are: Stockholm (Sweden), Uusimaa and Pirkanmaa (Finland), Lombardia (Italy), Baden-Württemberg, Bavaria and Hamburg (Germany), Il de France and Provence (France), Southeast England and Scotland (UK).

International economic cooperation should be encouraged through the following activities:

- NWFD presentations abroad; promoting partnering ties with other countries and their regions;
- companies and institutions based in NWFD regions should be encouraged to take part in international programs, expos, conventions, etc.;
- international investors should be kept informed about investment opportunities in the region through publications, websites, press events, personal contacts, and otherwise;
- NWFD regions must procure investment and credit ratings from the leading international rating agencies.

### **3. *Better marketing for Northwest Russian regions***

Our region marketing seminars revealed a high degree of interest in the subject, most notably among regional government officials from NWFD. International participants frequently complained about the lack of information on individual NW regions. For prospective investors and travelers, sufficient information about a region is a critical decision-making consideration before they visit, while impressions from their visit may strongly affect their subsequent decision to invest. While St. Petersburg and the Leningrad Region are fairly well known, other regions have not done nearly enough to market themselves in Russia or internationally.

The application of region marketing tools and technique must be aimed at building or bolstering the region's favorable image, or improving it by raising public awareness of the region, its resources and opportunities, and by spreading regional information among the target audience groups, which may include local residents, Russian and international business communities, prospective travelers, and others.

Region marketing should progress along the following lines:

- marketing concept design for individual NW regions, complete with implementation action plans;
- coordinating and integrating specific regional marketing events with marketing events promoting NWFD as a whole;
- design and delivery of educational events and conventions for region marketing;
- constant updating and reprinting of NWFD information products.

### **4. *Promoting cross-border cooperation in NWFD***

Russia's Northwest Federal District has a very convenient geographic location. Six of its 11 regions share a common border with EU member states. The Republic of Karelia, Leningrad and Murmansk Regions border on Finland, and the Leningrad Region also shares a section of the border with Estonia. The Kaliningrad Region borders on Lithuania and Poland. And the Pskov Region shares the border with Estonia and Latvia. All the neighboring states are EU members. St. Petersburg and the Leningrad and Kaliningrad Regions are also linked to these and other EU members by sea.

Regional development is increasingly conditional on external factors, or shaped by the interaction of many intraregional and external factors at work in Russia's economy. Interregional and cross-border ties create new opportunities for regional development, enabling regions to address their priorities more effectively. Cross-border cooperation derives from the Socioeconomic Development Strategy for NWFD, and is expected to advance the implementation of that strategy.

In its 2003 Strategy Guidelines for Socioeconomic Development Over the Period Until 2015, the Northwest Federal District formulated its cross-border cooperation priorities as strategic commitment to promoting cooperation with Northern Europe and the Baltic Sea Region, participation in the Northern Dimension program, more systemic information exchange, and encouraging NW regions to participate in international bodies such as the Council of Baltic Sea States, Nordic Council of Ministers, Council of the Barents Sea-Euro-Arctic Region, and the Arctic Council.

The work carried out under UNDP Project No. 00014621 was highly instrumental in taking cross-border cooperation to a whole new level in NWFD. In September 2006, a government edict was issued to set up a Coordinating Council on Cross-Border Cooperation under the presidential Envoy Plenipotentiary in NWFD.

To quote the Northern Dimension framework policy instrument approved on 24 November 2006 by Russia, EU, Iceland and Norway, "The Northern Dimension is primarily focused on northwestern



Russia, the largest territory covered by the Northern Dimension policy, in light of certain special challenges associated with that territory, and the opportunities it holds for the entire Northern Dimension region." With this in mind, the initial session of the Coordinating Council on 14 December, 2006 resolved to create an Expert Team, tasked with overseeing the details of cross-border cooperation in the Northern Dimension mandate area. S.T. Khodko, National coordinator for UNDP Project No. 00014621, was appointed to lead the Expert Team.

In NWFD, cross-border cooperation is increasingly important for individual regions, the entire district, and Russia's relations with the countries covered by the Northern Dimension program, so the ongoing work should be continued and intensified, pooling the efforts of all the parties concerned.

### **The Project will yield the following outputs:**

- A strategy and/or programs to promote FDI and provide regulatory and methodological facilitation for the investment policy of NW regions, resulting in:
  - methodology assistance to the regions in drafting their investment promotion initiatives and their legislative framework for investment, business infrastructure development, and so on;
  - generalizing investment promotion best practice, culled from NWFD regions.
  
- Institutional infrastructure (IPA network) for promoting investment in NWFD, which will be created with the following goals in mind:
  - coordinated action by all regional IPAs, committed to advancing the common investment promotion policy;
  - better information exchange between regional IPAs to facilitate dissemination of investment promotion best practice, sharing investment project information, and information on foreign investors, international programs and regional investment environment;
  - lower partner/investor search costs for NW-based companies;
  - financial, economic, legal and other advisory support for NW-based businesses having found an investor or planning to put their project on the market and seeking financing;
  - identifying, formalizing and monitoring all hurdles and barriers at every level (federal, regional and company level), blocking investors' path into the region;
  - interacting, on behalf of NW-based businesses, with international, domestic or national agencies, committees, or other bodies in charge of investment promotion or investor search;
  - training facilities for specialists with the ability to put the entirety of export support and investment promotion tools used elsewhere in the world into action in their work.
  
- An integrated database for investment projects and financing sources. Benefits of such a database:
  - online access to investment project information for both domestic and international investors;
  - project owners can place their project info on the web;
  - quick financing search in accordance with project owner's requirements.

- Various activities and events aimed at promoting international economic cooperation in NWFD, mainly with West European countries such as Germany, France, Italy and Austria. These activities will result in:
  - new business ties and cooperation between NW-based businesses and their foreign counterparts;
  - awareness of the region's brand;
  - inflow of foreign investment money and businesses into the region;
  - awareness of the IPA network as the chief promoter of investment in the region.
  
- Development and early implementation of new marketing concepts for 1 to 3 NW Russian regions that happen to need this the most. The new marketing concepts for NW regions will be designed to:
  - raising awareness and recognition of both individual regions and the entire Northwest Russia among target audiences in Russia and abroad;
  - continued building of a favorable image for both individual regions and Northwest Russia overall in Russia and abroad.
  
- Planning for training events, expos and conventions to market the region:
  - training events, expos and conventions will seek to familiarize the target audiences with what marketing techniques can do to enhance a region's investor appeal, with a special focus on government officials and decision-makers at companies involved in area revitalization/development.
  
- Elaboration and design of a NWFD information package
  - systematizing of information about the NWFD and its subjects of Federation
  - publishing of an information package in a single format
  - dissemination of information materials on the North-West region in Russia and abroad
  
- Support infrastructure for cross-border cooperation in NWFD with a strategic focus on the district's partnership with Northern Dimension stakeholders:
  - support for the Coordinating Council on Cross-Border Cooperation under the Envoy Plenipotentiary of the President of Russia in NWFD; assistance to the Expert Team in the area of information and analytical support for cross-border cooperation and participation in Northern Dimension;
  - pooling NW Russia's research resources to carry out steady information gathering and analytical work on cross-border cooperation and partnership within the framework of Northern Dimension;
  - preparation of a technical brief and Cross-Border Cooperation Program for NWFD (including cooperation with Northern Dimension stakeholders);
  - annual conference: Cross-Border Cooperation between Russia and EU;
  - various activities addressing Northern Dimension partnership priorities such as transport, energy and environment;

- raising awareness of cross-border cooperation issues among federal government decision-makers with appropriate mandates, as well as regional and municipal government decision-makers, NWFD business community and the public, highlighting specific issues and challenges in cross-border cooperation;
- spreading cross-border cooperation news and info via available information channels.

## PART II. RESULTS AND RESOURCES FRAMEWORK

**Anticipated outputs listed under the Country Outputs section:**

Better regional infrastructure for promoting domestic and foreign investment; more attractive regional image; a boost to cross-border and interregional cooperation.

**Outputs listed in the section Program Country Resources and Outputs, including initial indicators and goals:**

More investment for strategic industries in Northwest Russia and its individual regions, including investment generated by cross-border cooperation.

**Tentative strategic guidelines for support:**

Institutional basis for sustainable economic growth in Northwest Russia and its individual regions.

**Partnership strategy:**

UNDP is committed to promoting partnering relationships between all stakeholders, in order to secure their long-term project engagement. Those partnerships include UN agencies, international foundations, bilateral and multilateral committees, Russian government bodies at federal, regional and local level, and local business entities. At program level, UNDP manages its partnerships by holding meetings with their coordinating bodies, consulting with stakeholder organizations, undertaking joint field trips, and so forth. Russia's contingent of program partners includes non-governmental, not-for-profit organizations and business entities alike.

**Project title and number:**

No. 00057909 Promoting Investment and Interregional Cooperation in the Northwest Federal District

Anticipated outputs	Activities
<p><b>Output 1</b></p> <p>Generation of strategy / programs to promote FDI and providing regulatory and methodological support for the investment policy of NWFD subjects of Federation</p>	<p><b>Activity 1.1.</b> Examination of the regulatory and managerial framework that regulates investment activity in the subjects of the North-West federal district</p> <p><b>Activity 1.2.</b> Detecting advantages and disadvantages of the region in terms of investment attraction</p> <p><b>Activity 1.3.</b> Development of the guidance materials, terms of reference for strategy/program of FDI promotion to the subjects of Federation</p> <p><b>Activity 1.4.</b> Formation of the expert group on preparation of the strategy/program of FDI promotion</p> <p><b>Activity 1.5.</b> Preparation of the strategy/program of FDI promotion</p> <p><b>Activity 1.6.</b> Summing up of best practices of the subjects of the North-West federal district in the sphere of investment attraction</p>
<p><b>Output 2</b></p> <p>Formation of a coordinated IPA network in NWFD, providing better, more mobile support for investors and investment project owners</p>	<p><b>Activity 2.1.</b> Forging and bolstering partnerships with regional and international IPAs, Chambers of Commerce, a.o.</p> <p><b>Activity 2.2.</b> Joint drafting of cooperation priorities in information exchange, sharing investment promotion best practice, and workforce exchange</p> <p><b>Activity 2.3.</b> Staff training: internships for NWFD IPA staff with international IPAs under WAIPA programs</p> <p><b>Activity 2.4.</b> Advisory services for NW-based businesses – both those who have found investors, and those planning their own projects</p> <p><b>Activity 2.5.</b> Support for investment project implementation</p> <p><b>Activity 2.6.</b> Preparation of analytical materials and proposals for improving and optimizing the region’s investment promotion system, drawing on joint experience and best international practice</p> <p><b>Activity 2.7.</b> Joint development of solutions to eliminate or reduce administrative barriers</p>
<p><b>Output 3</b></p> <p>Creating and running an integrated database for investment projects and financing opportunities as a section of the existing Agency website</p>	<p><b>Activity 3.1.</b> A series of industry-focused, investment themed events (roundtables, conferences, etc.) to review industry challenges and generate investment project ideas</p> <p><b>Activity 3.2.</b> Gathering information about investment projects in all regions of NW Russia</p> <p><b>Activity 3.3.</b> Concept design for the integrated database on investment projects and financing opportunities, and for the website</p> <p><b>Activity 3.4.</b> Updating, auditing and translation of investment projects into English; editing of gathered information</p> <p><b>Activity 3.5.</b> Watching out for available financing sources</p> <p><b>Activity 3.6.</b> Filling the website with information about investment project and financial sources</p> <p><b>Activity 3.7.</b> Building an investment project portfolio for banks to include in investment plans</p>

<p><b>Output 4</b></p> <p>Promoting international economic cooperation between NWFD and West European regions (Germany, France, Italy, Austria)</p>	<p><b>Activity 4.1.</b> Reviewing the economic potential of West European regions to identify areas for cooperation</p> <p><b>Activity 4.2.</b> Preparing a feasibility study for broader cooperation between NWFD and a number of economically advanced regions in Western Europe</p> <p><b>Activity 4.3.</b> NWFD presentations, task force meetings, conferences, seminars, etc. abroad</p> <p><b>Activity 4.4.</b> Signing partnership agreements at interregional level</p>
<p><b>Output 5</b></p> <p>Development and early implementation of marketing concepts for 1-3 NW regions</p>	<p><b>Activity 5.1.</b> Selection of eligible regions based on statistical analysis and expert opinion</p> <p><b>Activity 5.2.</b> Forming task forces for each region</p> <p><b>Activity 5.3.</b> Preparation of an analytical platform for marketing concept development for each region: definition and analysis of marketing goals, research and evaluation of the region's external environment and status</p> <p><b>Activity 5.4.</b> Development of regional marketing concepts – a general concept for the region, and a concept highlighting the region's specific competitive strengths</p> <p><b>Activity 5.5.</b> Action planning to implement the regional marketing concepts</p> <p><b>Activity 5.6.</b> Action plan implementation begins</p> <p><b>Activity 5.7.</b> Evaluation of interim results</p>
<p><b>Output 6</b></p> <p>Development and early implementation of planned educational events, expos and conventions for regional marketing</p>	<p><b>Activity 6.1.</b> Forming a task force with representatives of the target audience groups</p> <p><b>Activity 6.2.</b> Forging and maintaining partnerships with higher educational institutions and organizations engaged in regional marketing</p> <p><b>Activity 6.3.</b> Setting priorities for the planned educational events, expos and conventions designed to advance regional marketing</p> <p><b>Activity 6.4.</b> Development of a detailed action plan</p> <p><b>Activity 6.5.</b> Plan implementation begins</p> <p><b>Activity 6.6.</b> Preparation of analytical materials and ideas for further regional marketing, based on the results of each activity</p>
<p><b>Output 7</b></p> <p>Elaboration and design of a NWFD</p>	<p><b>Activity 7.1.</b> Gathering relevant information on Russia's NWFD and each of its regions</p> <p><b>Activity 7.2.</b> Analysis and editing of gathered information</p> <p><b>Activity 7.3.</b> Design and publication of an information package in a single format</p>

information package	<p><b>Activity 7.4.</b> Adjusting/updating the contents to reflect changes in the district's statistics and analytical showings</p> <p><b>Activity 7.5.</b> Publication of the updated information package</p>
<p><b>Output 8</b></p> <p>Building a support network for cross-border cooperation in NWFD</p>	<p><b>Activity 8.1.</b> Support for the Coordinating Council on Cross-Border Cooperation under the presidential Envoy Plenipotentiary in NWFD: preparation of materials for meetings; organizational and methodology assistance</p> <p><b>Activity 8.2.</b> Support for the Expert Team in its information analysis effort and contribution to Northern Dimension: work planning, meetings, agenda planning, material preparation, and handling Expert Team ideas and proposals day to day</p> <p><b>Activity 8.3.</b> Regular information analysis on cross-border cooperation</p> <p><b>Activity 8.4.</b> Preparation of a technical brief and Cross-Border Cooperation Program for NWFD (cooperation with Northern Dimension stakeholder nations)</p> <p><b>Activity 8.5.</b> Annual conference: Cross-Border Cooperation between Russia and EU</p> <p><b>Activity 8.6.</b> Various activities addressing Northern Dimension partnership priorities such as transport, energy and environment</p> <p><b>Activity 8.7.</b> Dissemination of information on cross-border cooperation; raising awareness of cross-border cooperation issues</p>

### **PART III. RESOURCE MOBILIZATION STRATEGY**

Financial resources mobilization will be carried out in order to obtain the above-mentioned outputs.

Determination of the certain sources of financing at the present stage seems to be quite complicated in view of specific character of the project. Donors are attracted, as experience of the project 00014621 has shown, for various events, carried out within the framework of the project.

The main categories of donors are: international organizations, financial institutions, Russian and foreign private companies, etc. As a rule, donors are structures that are either interested in activity on the territory of the North-West region of Russia, or that are already developing this activity and are in need of additional assistance within the project.

Taking into consideration a wide spectrum of the project events and their diversified sectorial character, potential donors of the project would be companies and organizations, specializing in various spheres of investment, international, educational, informational and other types of activity.

Financing from donors is targeted at the realization of certain projects, events and any other activities inside the project.

In the course of the project additional potential donors will be defined, meetings with their representatives will be held and agreements on donors' contribution to the Project will be prepared and signed in case of mutual interest.



## **Part IV. MANAGEMENT ARRANGEMENTS**

Responsibility for Project implementation in accordance with applicable UNDP policies and procedures rests with the Office of the Envoy Plenipotentiary of the President of Russia in NWFD "Executing Agency").

Project strategy and policies will be determined by the Project Task Force, consisting of:

- National Project Director (Manager),
- National Project Coordinator,
- Executive Secretary.

Project funds will be managed by UNDP and Project Implementation Unit (PIU), headed by the National Project Director. Project implementation will draw on the resources of NGO Northwest Agency for Development and Investment Promotion, which is equipped to provide the necessary space for the Project staff, as well as the required technical, research and organizational facilities.

It is the duty of the National Project Coordinator to plan Project events and oversee their implementation, prepare progress reporting and financial statements, and to monitor and evaluate Project outputs. The National Coordinator will also:

- manage PIU staff;
- prudently manage and use financial and technical resources available to the Project, and assure the proper use thereof;
- organize training (on the job) for Project staff.

Duties of the Executing Agency include:

- overall coordination and monitoring of the Project;
- state expert review and advisory services to advance the Project;
- participation in Project events held at regional, national and international level.

The National Project Director is the Deputy Envoy Plenipotentiary of the President of Russia in NWFD, who will assure proper implementation of the Project on behalf of the Office of the Envoy.

See Annexes 3 and 4 for the Job Descriptions of the National Project Director and National Project Coordinator.

## **Part V. MONITORING AND EVALUATION**

The Project monitoring and evaluation will be in accordance with the UNDP policies and procedures, including but not limited to:

- The UNDP Country Office and the National Project Director jointly establish specific monitoring criteria for project evaluation and associated procedures, designed to assure effective Project implementation as per documented Project plan.
- A UNDP officer (representative) will supervise the project progress;
- There will be tripartite project progress meetings between UNDP, Office of the Envoy Plenipotentiary of the President of Russia in NWFD and National Project Coordinator .
- Independent external Project progress audits in accordance with applicable UNDP policies and procedures.

- National Project Coordinator will prepare annual and final Project progress/implementation reports to be reviewed at dedicated meetings. The reports will contain an evaluation of the latest completed Project stage, and recommendations for further implementation.

In order to monitor and evaluate progress and results of the project, a Project Steering Committee chaired by the National Project Director with the participation of UNDP representatives will be formed. The existing Supervising Committee of the Autonomous Non-Profit Organization “Northwest Agency for Development and Investment Promotion” will perform functions of the Project Steering Committee. Key participants of the Committee would be representatives of high governmental level, of Russian and international financial organizations, in particular: Deputy Plenipotentiary Envoy of the President of the Russian Federation to the North-West federal district, vice-governors of several subjects of the North-West federal district, head of St.Petersburg office of the European Bank for Reconstruction and Development, representative of the Organisation for Economic Co-operation and Development and some other heads of international and regional organizations.

Steering Committee comprised from representatives of the federal and regional governments, international and non-governmental organizations, ensures coordination of this project with the efforts of various stakeholders, and interaction with other activities in the Northwest Federal District.

## **Chapter VI. LEGAL CONTEXT**

This Project Instrument was drafted in accordance with Art. 1, Par. 1 of the Treaty of 17 November 1993 between the Russian Federation and the UN Development Program.

No changes may be made to this Project Instrument unless agreed to and signed by UNDP Permanent Representative in the Russian Federation, provided that no signatories to this Project Instrument have any objections to the proposed change.

The following changes may be made in the manner aforesaid:

1. amendments or addenda to any of the Annexes attached to this Project Instrument;
2. amendments dictated by the need to revise earlier cost projects in view of higher costs resulting from inflation, as long as this does not imply any material change in Project goals, anticipated outputs or events planned within this Project Instrument;
3. mandatory annual amendments reflecting new deadlines for the disbursement of agreed monies, or increased costs (resulting from inflation), including audit/evaluation costs, or amendments reflecting any change in spending categories.

Pursuant to Art. 3 of the Principal Standard Agreement on Assistance, responsibility for the safety and integrity of the Executing Agency, its staff and property, as well as UNDP property in the custody of the Executing Agency, is vested in the Implementation Partner.

It is the duty of the Executing Agency:

- (a) to activate an appropriate security plan and adhere to it as warranted by the security conditions in the Project country;
- (b) to assume all risks and obligations associated with the Executing Agency's security, and assure full compliance with the security plan.

UNDP reserves the right to audit security compliance and, where appropriate, offer certain adjustments to the security plan. Failure to produce an appropriate security plan or assure continual compliance therewith in keeping with the above requirements may constitute grounds for termination hereof.

The Executing Agency agrees to make its best effort to provide reasonable assurance that no UNDP funds or resources received under this Project Instrument will be used to support any individuals or entities linked to terrorist activity, and that none of the recipients of any monies disbursed by UNDP hereunder are mentioned on the List approved by the Security Council Committee pursuant to Resolution 1267 (1999). The List is available at <http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>. This clause must appear in all contracts and agreements covered by this Project Instrument.

## SIGNATURE PAGE

Country: Russian Federation

Country Programme Output: Poverty reduction through sustainable and more equitable economic growth

Project Output: Improvement in regional infrastructure for domestic and foreign investment promotion; building an attractive image for the region, promotion of cross-border and interregional partnership

Executing Agency: Office of the Envoy Plenipotentiary of the President of Russia in the Northwest Federal District

**Project Summary**

The mission of this project is to facilitate investment and promote interregional cooperation in Russia's Northwest Federal District by improving the regional framework for domestic and foreign investment, enhancing the region's investor appeal in Russia and internationally, strengthening organizational and financial mechanisms of interregional cooperation and development of interregional relations.

Project 00014621 (RUS/02/015) "Promotion of Business and Investment Opportunities in the Northwest Federal District of Russia. Strengthening the Potential of the Northwest Investments Agency (Development Agency)" has helped to define the development priorities that will be conducive to the advancement of this Project's mission.

The priorities are: (1) fostering a favorable investment environment in northwestern Russia, including a system of investment incentives and a common information domain to attract and enable investors; (2) promoting international economic cooperation between the Northwest Federal District (NWFD) and Germany, France, Italy, Austria, other West European economies and the rest of the world; (3) promoting cross-border cooperation in NWFD; and (4) better marketing for NW Russia's regions.

<p><u>Country Program Period:</u> 2004-2007; 2008-2010</p> <p><u>Program Component (MYFF goal):</u> Achievement of Millennium Development Goals and Poverty Reduction</p> <p><u>Project Title:</u> <b>Promoting Investment and Interregional Cooperation in the Northwest Federal District</b></p> <p><u>Project No.:</u> 00057909</p> <p><u>Project Duration:</u> September 2007 – September 2010</p> <p><u>Management Arrangement:</u> NEX</p>	<p>Total Budget: US \$280,000.00</p> <p style="padding-left: 40px;"><i>GMS (7%)</i>      <i>US \$15,400.00</i></p> <p>Funding sources:</p> <ul style="list-style-type: none"> <li>• UNDP                      US \$30,000.00 – 2007                                     US \$30,000.00 – 2008</li> <li>• Donors                     US \$220,000.00</li> </ul> <p>Prospective donors: OECD, private companies</p>
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On behalf ofSignatureName/TitleDate

**Office of the Envoy Plenipotentiary  
of the President of Russia  
in the Northwest Federal District**

\_\_\_\_\_

Evgeny Lukyanov  
Deputy Envoy Plenipotentiary

**United Nations  
Development Programme**

\_\_\_\_\_

Marco Borsotti  
Resident Representative

## **ANNEX 1. PROJECT IMPLEMENTATION ARRANGEMENT**

<b>Project Title and No.</b>	<b>00057909 Promoting investment and interregional cooperation in the Northwest Federal District</b>
<b>Executing Agency</b>	<b>Office of the Envoy Plenipotentiary of the President of Russia in the Northwest Federal District</b>

### **A. Relations between the Executing Agency and UNDP Country Office in the Russian Federation**

1. The Executing Agency and UNDP Country Office in the Russian Federation have entered into an agreement on cooperation in the implementation of the Project No. 00057909 to be financed from the proceeds as specified by the Co-financing Agreement and as per the UNDP rules and procedures.
2. The Executing Agency will be fully responsible for the Project implementation having identified the appropriate procedures for the Project implementation pursuant to the internal rules of the Agency.
3. Amendments to the activities, budget, etc. which may result in substantial changes with respect to the Project goals may be incorporated by the Executing Agency only upon a formal "no objection" from the UNDP Country Office in Russia. The UNDP Country Office in Russia will carry out an annual review of the Project budget.
4. The Executing Agency will be fully responsible for the activities under the Project including the preparation of terms of references, selection and recruiting of experts and consultants, assessment of their work. Based on its internal rules and regulations, the UNDP Country Office in Russia may support the Executing Agency in its work but only upon written request of the latter. In all its activities under the Project (procurement of assets, office rent, hiring and releasing consultants, etc.) the Executing Agency will be guided by its internal rules and regulations, which, nonetheless should be consistent with standard international requirements and principles of competition.
5. The Executing Agency may choose one of the following methods of settlement under this Project such as bank transfers, cash payments or advance payments. The method of payment may vary depending on the commercial practices of a company participating in the Project implementation and situation in the national financial market.

### **B. Provision of Equipment and Services**

1. Based on the existing rules and regulations, the Executing Agency will do its utmost to ensure the implementation of the Project. In some cases (i.e. the selection of a foreign company to deliver goods or services under the Project, etc.) the Executing Agency, upon the selection of the corresponding company, may request the UNDP Country Office in Russia on entering into agreement with said company. In this case, UNDP rules and regulations will apply.

2. In the absence of such a request from the Executing Agency, the UNDP Country Office in Russia will not participate in the selection of consultants, procurement of equipment and execution of the respective payments.
3. The consultants will be accountable and report to the Manager of the Project nominated by the Executing Agency. Should any consultant fail to carry out his obligations as proper, the UNDP Country Office in Russia and Executing Agency will enter into consultations on this issue to make the relevant decision.

### **C. Equipment**

1. Procured from UNDP funds and co-financing proceeds, all the equipment, materials and other assets will be the property of UNDP. These should be properly safeguarded and may be transferred only upon signing of the transfer agreement.
2. The transfer of property for said assets will be carried out upon the completion of the Project or during its implementation upon the corresponding consultations with all the Project stakeholders.
3. UNDP may transfer the property rights to the beneficiary provided the equipment and assets are used for the Project goals if not otherwise decided upon by UNDP and Executing Agency.

### **Termination**

This Project document shall terminate within 30 days upon one party receives a written notification on termination sent by the other party.

## Annex 2. Work Plan

<b>Project title</b>		<b>Promoting investment and interregional cooperation in the Northwest Federal District</b>											
<b>Executing Agency</b>		<b>Office of the Envoy Plenipotentiary of the President of Russia in the Northwest Federal District</b>											
<b>Project No.</b>		<b>00057909</b>											
<b>Activity</b>		<b>Quarter</b>											
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>Output 1: Generation of strategy / programs to promote FDI and providing regulatory and methodological support for the investment policy of NWFD subjects of Federation</b>													
1.1.	<i>Examination of the regulatory and managerial framework that regulates investment activity in the subjects of the North-West federal district</i>							X	X				
1.2.	<i>Detecting advantages and disadvantages of the region in terms of investment attraction</i>							X	X				
1.3.	<i>Development of the guidance materials, terms of reference for strategy/program of FDI promotion to the subjects of Federation</i>									X	X		
1.4.	<i>Formation of the expert group on preparation of the strategy/program of FDI promotion</i>									X	X		
1.5.	<i>Preparation of the strategy/program of FDI promotion</i>										X	X	
1.6.	<i>Summing up of best practices of the subjects of the North-West federal district in the sphere of investment attraction</i>										X	X	
<b>Output 2: Formation of a coordinated IPA network in NWFD, providing better, more mobile support for investors and investment project owners</b>													
2.1.	<i>Forging and bolstering partnerships with regional and international IPAs, Chambers of Commerce, a.o.</i>	X	X	X	X								
2.2.	<i>Joint drafting of cooperation priorities in information exchange, sharing investment promotion best practice, and workforce exchange</i>			X	X	X	X						
2.3.	<i>Staff training: internships for NWFD IPA staff with international IPAs under WAIPA programs</i>				X	X	X	X					
2.4.	<i>Advisory services for NW-based businesses – both those who have found investors, and those planning their own projects</i>		X	X	X	X							
2.5.	<i>Support for investment project implementation</i>	X	X	X	X	X	X	X	X	X	X	X	
2.6.	<i>Preparation of analytical materials and proposals for improving and optimizing</i>			X	X	X							

	<i>the region's investment promotion system, drawing on joint experience and best international practice</i>												
2.7.	<i>Joint development of solutions to eliminate or reduce administrative barriers</i>			X	X	X	X	X	X	X			
<b>Output 3: Creating and running an integrated database for investment projects and financing opportunities as a section of the existing Agency website</b>													
3.1.	<i>A series of industry-focused, investment themed events (roundtables, conferences, etc.) to review industry challenges and generate investment project ideas</i>		X	X	X	X	X	X	X	X	X	X	X
3.2.	<i>Gathering information about investment projects in all regions of NW Russia</i>		X	X	X	X	X	X	X	X	X	X	X
3.3.	<i>Concept design for the integrated database on investment projects and financing opportunities, and for the website</i>				X								
3.4.	<i>Updating, auditing and translation of investment projects into English; editing of gathered information</i>				X								
3.5.	<i>Watching out for available financing sources</i>		X	X									
3.6.	<i>Filling the website with information about investment projects and financial sources</i>					X							
3.7.	<i>Building an investment project portfolio for banks to include in investment plans</i>												
<b>Output 4: Promoting international economic cooperation between NWFD and West European regions (Germany, France, Italy, Austria)</b>													
4.1.	<i>Reviewing the economic potential of West European regions to identify areas for cooperation</i>	X											
4.2.	<i>Preparing a feasibility study for broader cooperation between NWFD and a number of economically advanced regions in Western Europe</i>		X	X									
4.3.	<i>NWFD presentations, task force meetings, conferences, seminars, etc. abroad</i>			X			X				X		
4.4.	<i>Signing partnership agreements at interregional level</i>			X			X				X		
<b>Output 5: Development and early implementation of marketing concepts for 1-3 NW regions</b>													
5.1.	<i>Selection of eligible regions based on statistical analysis and expert opinion</i>		X										
5.2.	<i>Forming task forces for each region</i>			X									
5.3.	<i>Preparation of an analytical platform for marketing concept development for</i>			X	X								







### **Annex 3. TOR for National Project Director**

The National Project Director is a public servant appointed by the National Executing Agency and vested with the necessary powers and discretions to administer general Project management and coordination. The Country Director receives no monetary compensation. The National Director assumes the full measure of responsibility vis-à-vis the National Executing Agency and UNDP for the Project's success, for proper use of Project resources, and for coordinating the UNDP Project with other programs and projects.

The duties of the National Director include:

- ratifying Project activity plans, budget audits and, where necessary, also Project audits;
- chairing the Steering Committee;
- appointing, in conjunction with UNDP, Executing Agency to carry out individual Project components, and coordinating their work;
- assuring the Project's compliance with Russian legislation;
- endorsement of technical briefs, Project Coordinator's and experts' reports;
- hiring of Project staff;
- endorsement of purchasing plans;
- endorsement of financial reports, including annual spending reports;
- liaison and collaboration with federal and regional authorities in the course of Project implementation;
- reporting to the National Executing Agency, UNDP and Steering Committee concerning Project resource drawdown and outputs.

The National Director may delegate some of his duties to the National Coordinator/ Project Manager, unless this would interfere with proper implementation of the Project.

#### **Annex 4. TOR for National Project Coordinator**

The National Project Coordinator is responsible for general Project management and coordination in Russia and vis-à-vis international institutions. The National Coordinator works to assure the Project's longevity and sustainability, making sure the Project outputs are integrated into the Agency's work plans. The Project Coordinator is responsible for Project implementation and successful completion of all Project activities. The National Coordinator reports directly to the National Project Director. Subject to UNDP consent, the National Director may delegate some of his powers to the National Coordinator.

##### **The National Coordinator will be responsible for:**

- Control and coordination of anticipated results in line with Project documentation and procedures.
- Project management and coordination in accordance with activity plans, in order to make sure the Project is successfully completed and its anticipated results are achieved.
- Overseeing Project activity planning and revision of activity plans, budget and financial projections.
- Overseeing Project staff and support staff.
- Steady reporting to UNDP.
- Planning for integrating Project outputs into regional development plans.
- Standby communication with UNDP, governing bodies and Project partners.
- Instrumental contribution to devising new, more effective hands-on approaches that would facilitate successful Project implementation and achievement of anticipated results.
- Assure lasting, sustainable Project's outputs and define main directions of its development.
- Participate on behalf of the Project in international conferences and meetings with government officials/UNDP to issue recommendations and instructions, discuss upcoming events, and review problems and trends relevant to the Project.
- Contribute to general preparation for strategic intervention as part of the Project; develop specific Project activities aimed in good faith to advance the Project agenda;
- Set priorities, assign work responsibilities of the Project's staff, necessary to assure the Project's realization;
- Negotiate with top UNDP officials and private sector decision-makers on issues arising in connection with purchasing and supply activities undertaken by the Project team; offer constructive solutions to any disputes within acceptable financial and procedural limits, and issue recommendations for acceptable settlement of disputes.
- Evaluate the Project with special emphasis on UNDP contribution to Project results so as to assess the effectiveness and productivity of UNDP participation, and offer new policy ideas for use in ongoing and future projects.