



INVEST IN

**TOOLS FOR CREATING FAVORABLE
INVESTMENT ENVIRONMENT WITHIN
THE FRAMEWORK OF SOVETSK
DEVELOPMENT STRATEGY.**

***AGENCY FOR DEVELOPMENT
AND INVESTMENT PROMOTION***

***АРПИИ
ADIP***

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EXECUTIVE SUMMARY

Working on this report, we did not intend to create a strategy of the city development. There are two explanations for it:

1. It is not possible for any consultants staying at some unfamiliar city for 3 months to work out a strategy of its development for the period of 10-15 years. For certain, many companies can prepare a professional document, which will have an impressive format and content but it will never be materialized. The main reason for that is the fact, that an external expert is not aware of all specific characteristics of the city. That is why we have always had an opinion that ***it is local self-government bodies, city business community and citizens who are to create the strategy for the city development***, for they are the ones who responsible for implementation of this strategy.
2. Taking this reason into consideration, we have never been engaged into development of strategies. However, through our rich experience we have accumulated algorithms and approaches to solving problems. No doubt this experience can be of great support for many municipalities that are developing new strategies. Therefore, ***the objective of this work is to provide the local authorities with a set of instruments for strategy development as well as its basic elements and principles, rather than developing the strategy.***

At first our participation in the strategy development was limited to presenting a plan of actions to be undertaken within the framework of the strategy realization. As our interest in the project was much deeper, we made a suggestion to the city administration to widen the work frames and have an opportunity to prepare more explicit material. This offer was accepted and that made it possible for us to compose ***a set of strategy realization instruments***. In our opinion, preparation of this set of instruments became the most significant part of our work.

The structure of our work is represented in the chart A-1. Any work performed on a professional level is of high respect. That is why in chapter I we used information collected by the Administration. The high quality of this material shows how much preparation work the group of strategic planning has done.

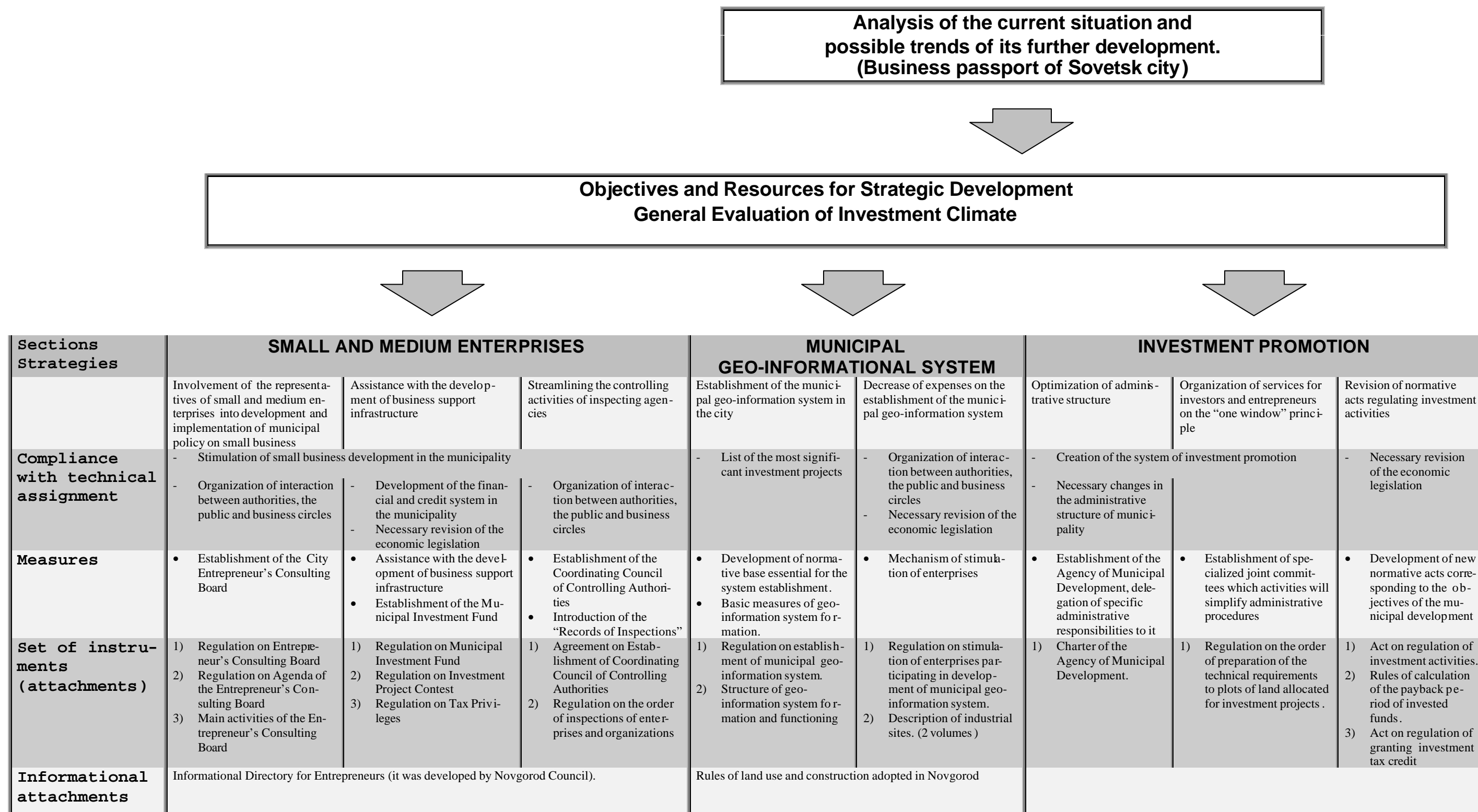
Chapter II is a product of our independent work. Though it would have been more logical if the objectives of city development were also outlined by the group of strategic planning, we chose to indicate relevant objectives ourselves. Indeed, in a mutual dialogue by opposing our opinion or sharing our ideas the Administration can clearly identify both priorities and available resources.

At first sight one might get an impression that this report aims at creating a favorable investment climate while social and other important issues remain untouched. However, in order to create such a favorable business environment, the local Government should apply a comprehensive approach to the policy-making thus developing education, healthcare and public life as well. Improvements in these spheres will be rather costly for the city. For this reason we focused our attention on the most efficient activities. But the impressive results can be reached only if the local Government is really willing to implement the strategy for the reforms and demonstrates its political will.

The main objective of this work is to develop ***an effective set of instruments that will enable the municipality to implement its policies at the lowest cost***. It has always been our priority to find the most simple and practical way of achieving the main goal.

We would like to express our appreciation to the citizens of Sovetsk who have contributed to this project. We feel positive that cooperation initiated by the project will continue in the future.

Chart A-1. Structure of the development strategy of Sovetsk.



CHAPTER I. ANALYSIS OF THE CURRENT SITUATION AND POSSIBLE TRENDS OF ITS FURTHER DEVELOPMENT (BUSINESS-PASSPORT OF SOVETSK CITY).

I.1. Geographic, economic, historical and cultural characteristics of Sovetsk.

Sovetsk is a city of regional subordination, second largest in Kaliningrad region. It is located on the region's border with Lithuania at the river Neman, 59 km away from the river's mouth, 123 km to the north-east of Kaliningrad, and it has a territory of 42 km². Established in 1552, the city (former Tilsit) used to be one of the largest in eastern Prussia, performing significant trade, cultural, administrative and military functions. The settlement Tilsit (located in the territory of modern city Sovetsk) was first mentioned in the chronicles in 1276. Historically, this territory had been occupied by the Prussians.

At the beginning of the 13th century, the land was conquered by the Teutonic Knights. Later on, during 1230-1289, it became a full possession of the Teutonic Order and was invaded by the German colonists.

The first bastion – Schlossberg Fortress – was erected there in 1365. By the beginning of the 15th century, in order to protect the north-east territory of the Order, Prince Albrecht ordered to build the last fortress on the Memel – Tilsit – which was constructed in 1537. The fortress (Tilsit castle) existed up to the beginning of the 19th century.

The newly built castle was surrounded by several separate settlements of the Prussians loyal to the Order. Since 1515-1516 a trade settlement situated near the fortress walls had become known as Tilse (from the river Tilsile). That was how the city was originally founded.

Due to an extremely favorable position on the river Memel, the Prussian settlement Tilsit became a trading center delivering hemp and flax seeds, rye, lard, nuts and honey to Lithuania.

In 1525 the Prussian Order was transformed into a dukedom. This change brought peace and prosperity into the country and caused rapid development of its cities including Tilsit.

On November, 2 of 1552 the place Tilse received a privileged urban right and a coat of arms, while the city status was assigned to Tilsit. At the same time there was designed the first city development plan. The population of the city was 3000 people then.

In 1701 the Dukedom of Prussia became a kingdom. This strengthened the status of the city and contributed to its intensive development.

For a long historical period the city had avoided destruction which could have been caused by wars or large fires, and until the World War II it had preserved its old historical appearance and structure.

In 1807 in the city there were held historical negotiations between Napoleon the First, Frederick Wilgielm and Alexander the First. The Tilsit Peace was concluded there.

In the 19th century the history of the city was characterized by its rapid development: there were constructed numerous civil, industrial, military and technical engineering projects, most which survived but were rebuilt later.

In 1845 between Tilsit and the nearest city Ragnit there was constructed a highway.

In 1865 other important events took place: the railway Tilsit – Insterburg (Tchernyakhovsk) was put into operation, and the railway station was constructed in the city. The station building with minor alterations has been preserved up to now.

In 1875 a railway bridge across the Memel river was put into service. It connected the city with Klaipeda.

In 1875 a gas plant provided gas light for the city (now its place is occupied by the warehouses of a hosiery factory “Druzhba”).

Industrial development caused rapid growth of the city population. In 1873 the central streets were paved; in 1880 there began a construction of a sewage system.

The city development was accompanied by an increasing number of industrial enterprises. In 1898 there was built a plant producing pulp and paper (it still exists), a sawmill, and in 1901 – a grain elevator (now it is a flour-milling factory at the river Neman), and a number of other industries.

In 1907 the construction of a stationary automobile bridge across the river Memel was completed. The bridge was named after the Queen Louisa.

At the end of the 19th century the city largely expanded. Lindenstrasse became the most beautiful street (now Lomonosov Street).

At the beginning of the 20th century the western and southern districts of the city were actively built up. New cottage districts appeared expanding the city territory again.

From the foundation time and until now, due to its proximity to the border, Tilsit has always been a place for concentration of troops and therefore in the city there is a great number of barracks and other military objects.

At the end of the World War II the city suffered damage from the battle operations. Practically all buildings along the river Neman were destroyed, after the Soviet Army stormed the city.

The World War II over, under the decision of Berlin (Potsdam) conference of 1945, being a part of former eastern Prussia Tilsit joined Russia. In 1946 Tilsit was renamed into Sovetsk.

In post-war time the city lost a significant amount of its valuable historical buildings, while city blocks of typical five-storied buildings were erected, and the central part of the city was reconstructed. During that time a number of new industrial enterprises, warehouses and public buildings appeared.

Sovetsk plays an important social-cultural role of regional significance. In the city there are 9 secondary schools (5 144 persons), evening secondary school (153 persons), boarding school (260 persons), orphanage (31 persons), shelter for children, 13 kindergartens (1 206 persons) including 11 municipal (1066 persons), 2 vocational-training colleges (800 students), 2 professional lyceums (896 students), cinema college (647 students). In the city there are also branches of Saint-Petersburg University of Culture (120 students), Saint-Petersburg State University of Service and Economics (249 persons), Moscow New Law Institute (100 persons), North-West Correspondence Polytechnic Institute of Saint-Petersburg (100 persons).

In the city the following healthcare institutions are situated: city hospital#1 for 160 beds, city hospital #2 for 80 beds, city hospital#3 for 50 beds, children’s hospital for 40 beds, TB-hospital for 80 beds, maternity hospital for 60 beds, dentistry, psychoneurological hospital for children for 75 beds. Besides, in the city there is a regional sanatorium.

As for the institutions of culture and art, they are the following: children’s musical school for 640 students, children’s art school for 200 persons, Leisure center ‘Parus’, city libraries for youth and children of total area 2 120 m² with 19 916 registered readers, Culture Palace (auditorium for 800 seats), House of Offices (auditorium for 400 seats), ‘Molodezhny’ theater (300 seats), city history museum (area 475 m²), Kaliningrad regional college of culture and art –780 students, Creativity Center for children and youth (departments: technical, tourist, art, nature, applied).

I.2. General statistics on the number of population and demographic situation in Sovetsk

The city has a population of 43,7 thousand people. The population has undergone little changes during the last decade. If earlier its growth was caused by a mechanical increase (500 persons annually), recently such growth has stopped while the natural growth is characterized by negative parameters.

Total population (persons)	43 700
Among them:	
Russians	34 185
Lithuanians	2 280
Ukrainians	2 537
Byelorussians	2 365
Poles	172
Other nationalities	2 161

Labor forces - 21.8 thousand people.

Employed population – 13.1 thousand, including:

Industry	4.3 thousand,
Agriculture	0.1 thousand,
Budget sphere	3.4 thousand,
Other fields, spheres (commerce, communication, transport, construction, etc.)	5.3. thousand.

Pensioners amount to 11.4 thousand persons, children under the age of 15 – 8.5 thousand persons, children over the age of 15 and students of educational institutions - 4.1 thousand persons. Unemployment (01.01.2000 – 288 persons, 1.5% out of the economically active population.

I.3. Administration system in Sovetsk

The city administration system is based on three traditionally strong elements:

- City council
- City administration
- Mayor

The Charter of the City defines the powers delegated to them by the city population.

Mayor is a supreme decision-maker in the local self-government system. The Mayor is elected by the citizens every fourth year. The Mayor has individual overall responsibility for performing functions of executive authority. The Mayor independently appoints city administration workers according to the administrative structure approved by the City Council. He also has the right to appoint/discharge directors of municipal enterprises and institutions. Within the limits of his authority defined in the Charter of the City, the Mayor gives orders and promulgates resolutions. The activities of the Mayor are accountable to the city population and City Council.

City Council is a representative body of local self-government. The City Council consists of 21 deputies elected by the population for the period of 4 years. The City Council is headed by a chairman, a full-time professional politician elected among the City Council deputies for the same period. The City Council passes joint resolutions on local issues.

City administration is administrative machinery, which carries out assignments on behalf of the Mayor. The employees of the city administration are appointed and discharged by the Mayor.

In order to meet the expectations of the population, municipal management has three priority sectors:

- Social sphere;
- Financial and economic issues;
- Municipal economy.

The management of each sector is assigned to one of the vice-mayors to whom the Mayor delegated some of his authorities.

Each sector has a number of problems to be solved:

Social sphere:

- To make and carry out the social policy which satisfies the concerns of the city population;
- To create a favorable environment and living conditions;
- To provide medical care as well as wide access to education, culture and sports;
- To establish a common system of social protection of the city population.

Financial and economic issues:

- To provide financial sources for the implementation of the programs of social-economic development of the city;
- To control financial discipline of the state institutions as well as enterprises and organizations financed from the municipal budget;
- To form and implement the municipal budget;

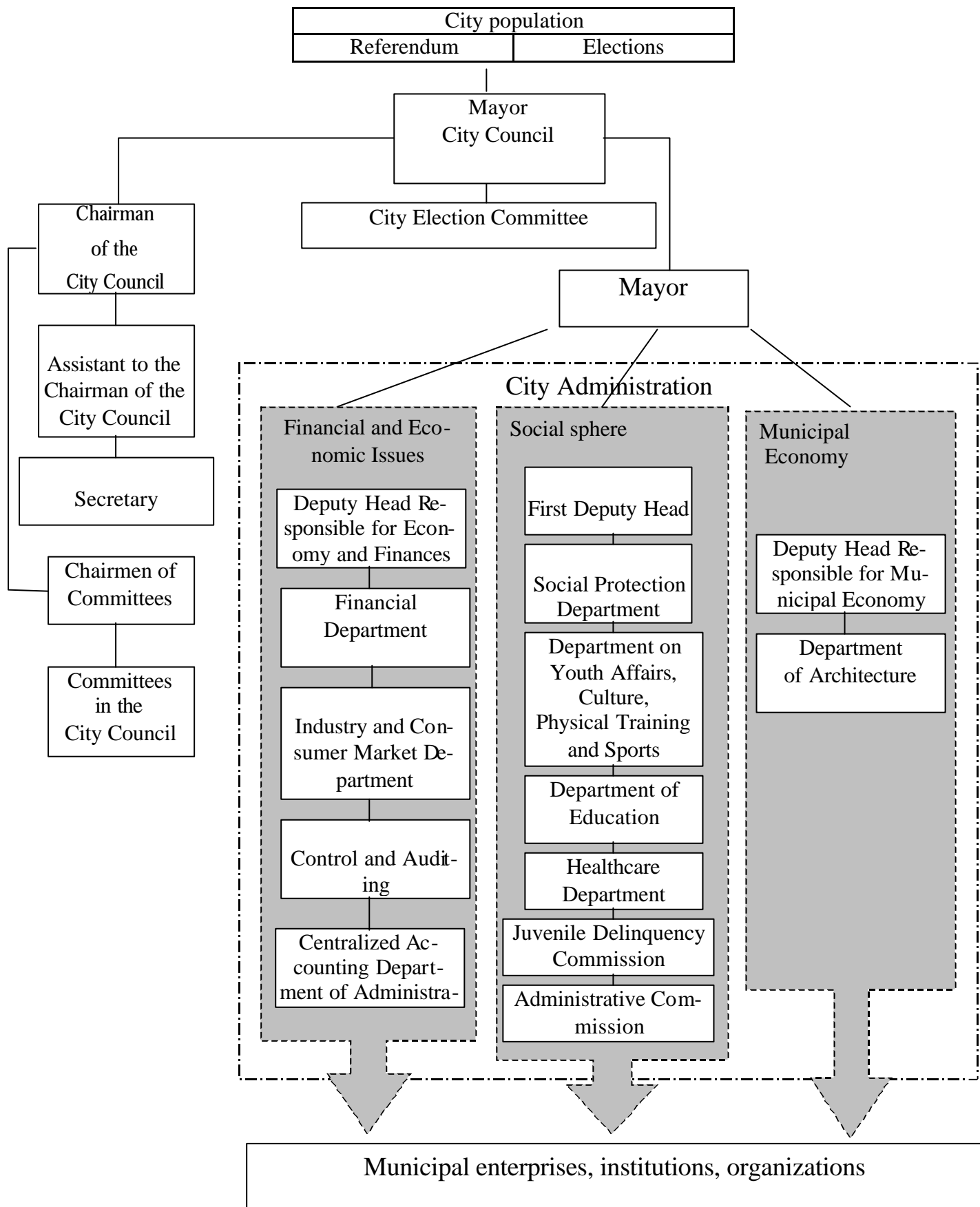
- To organize activities for obtaining new economically sound sources for the municipal budget;
- To coordinate financial activities of municipal enterprises.

Municipal economy:

- To develop and carry out municipal orders on maintenance and operating of housing, public utilities, energy facilities, water supply, transportation, communication, ecology, city development;
- To provide all necessary kinds of fuel for the city;
- To provide tangible security of the programs of social-economic development of the city.

Taking into account that the present Charter of the City does not satisfy the requirements of the legislation system of the Russian Federation and the one of Kaliningrad region, the new edition of the Charter is now being developed. It is planned to introduce a number of principle changes that will develop a working, constructively-oriented organizational model of self-government: “strong mayor - council”, on the one hand, and make the Charter adequate the active legislation of the Russian Federation and the one of Kaliningrad region, on the other hand.

I.4. Administrative Chart



I.5. Structure of the city economy

In Sovetsk there are 278 enterprises of:

- state ownership	-	11, including 9 branches;
- municipal ownership	-	23
- private ownership	-	191
- mixed ownership	-	20, including 7 branches;
- foreign ownership	-	22
- joint ventures	-	11

Types of ownership:

- limited liability companies	-	139
- open joint stock companies	-	20
- closed joint stock companies	-	22
- limited partnership	-	16

There were registered more than 2,5 thousand individual entrepreneurs.

Key industry sectors:

- pulp and paper	-	59,6%
- light industry	-	14,6%
- food-processing industry	-	7,8%
- printing	-	1,5%
- flour-milling	-	15,5%
- other industries	-	1%

Major companies:

- pulp and paper plant,
- plant "Raduga" (instrument manufacturing),
- ship-building yard,
- furniture production,
- cardboard-printing combine,
- garment factory,
- hosiery factory,
- fruit-canning plant,
- flour-milling factory
- meat-processing plant

Sovetsk possesses a developed multi-functional economic base. In the city the number of economically active population amounts to 16,2 thousand persons and 15,5 thousand of them (95,8 %) are engaged in all types of economic activities.

There are 516 enterprises, organizations and institutions in the city. Most of them (295 enterprises) were privatized. There are 13 joint ventures with foreign ownership and 17 joint ventures with foreign capital participation. As for the production branches, in the city there are enterprises of industrial production (103), trade and catering (156), and construction (58).

Industry is the basic branch of the local economy. In the structure of industrial production more than half of the gross output belongs to the pulp and paper industry (producing pulp, paper, cardboard, wallpaper) represented in the city by the "Sovetsk Pulp and Paper Plant"(SPPP). The light industry (producing clothes, hosiery) is characterized by high development as well. The following companies operate in the city: Open JSC "Druzhba-I", open JSC "Druzhba-II", closed JSC "Shveyi". Food-processing industry produces meat, sausage products, mineral water, beer, bakery, flour, and cans. In Sovetsk one can find a meat-processing plant, dairy production, food-processing plant, flour-milling factory, fruit-canning plant, and other food productions. Besides, there are advanced furniture and printing productions in the city.

Among 3,8 thousand industrial workers, the "Sovetsk Pulp and Paper Plant" employs 1,8 thousand persons while the closed JSC "Shveyi" employs 0,8 thousand persons. At the other industrial enterprises there are less than 200 workers. Nowadays there is a tendency of decreasing number of the employed by all enterprises. Thus, 7,5 thousand persons were employed by the city industry in 1991. Another key branch of the local economy is transportation. The main means of transportation are railway and automobile. There is also a river port but the volume of its output is rather low now. Construction organizations (SMU-6, UNP 390) are engaged in industrial, civil, and special engineering.

The main specialization of the area surrounding the city is agriculture (dairy farming, livestock breeding, pig breeding, growing potatoes, and grain production). The district has rich peat and forest resources as well as sufficient deposits of clay (for the production of refractory materials) and oil.

Most commodities of the pulp and paper production and light industry are exported. Food products, however, are distributed on the home market.

I.6. Major trends of city economic development in 1995-1999

1	Parameters	Unit of measure	1995	1996	1997	1998	1999
1	2	3	4	5	6	7	8
1.	Volume of production, total:	Thousand rubles	235043.0	244469.0	147671.0	181627.0	485397.0
	including:	-					
	- pulp and paper	-	108159.0	136390.0	71877.0	89784.0	289633.0
	- wood processing	-	-	-	578.0	2406.0	-
	- light including clothing	-	15723.0	18975.0	16730.0	27828.0	70888.0
	- food processing including bakery	-	71400.0	53052.0	29702.0	23208.0	37931.0
	- flour-milling	-	27166.0	28156.0	24194.0	33504.0	75305.0
	- printing	-	12214.0	7762.0	4479.0	4890.0	7260.0
	- other branches	-	380.0	134.0	111.0	7.0	4380.0
2.	Output of products and services, total:	Thousand rubles	235043.0	244469.0	147671.0	181627.0	485397.0
	including:	-					
	Open JSC SPPP	-	108159.2	136390.0	71877.0	89784.0	289633.0
	Open JSC Druhzba - I	-	3841.2	3125.0	1258.0	-	-
	Open JSC Druhzba - II	-	-	-	-	2621.0	5914.0
	Closed JSC Shveyi	-	11881.9	15850.0	15472.0	25207.0	64974.0
	Ltd Tipek	-	9701.4	12756.0	14822.0	15997.0	30794.0
	Open JSC Yeast factory	-	4028.6	3087.6	2153.0	507.0	-
	Open JSC Fruit canning factory	-	1183.5	1161.0	451.0	308.0	522.0
	Open JSC Poligraf	-	118141.9	7136.0	3535.0	878.0	-
	Open JSC Tsitron	-	2461.9	1886.0	936.0	346.0	313.0
	Open JSC Meat processing plant	-	45875.7	29840.0	11052.0	5486.0	1585.0
	Open JSC Milk combine "Sovetsky"	-	6749.2	3211.0	97.0	229.0	1729.0
	Open JSC Flour-milling factory	-	27166.1	28156.0	24194.0	33504.0	75305.0
	Open JSC "Raduga" plant	-	149.4	29.0	111.0	7.0	-
	Printing house	-	399.4	626.0	944.0	1001.0	2375.0
	Open JSC Baltic Furniture - Sovetsk	-	-	-	578.0	2406.0	2377.0
	Food processing plant	-	1399.5	1110.0	191.0	335.0	2988.0
	Closed JSC Poligraf-I	-	-	-	-	3011.0	4855.0
	Commercial ship-building yard	-	12.0	-	-	-	-
	Limited partnership Ferro-concrete production plant	-	218.6	105.0	-	-	-
	Subsidiary of Fur factory	-	-	-	-	-	2003.0
3.	Manufacture of the most important types of industrial products						
	Open JSC SPPP: - pulp	Tons	14096.0	15336.0	11614.0	14837.0	9250.0
	- paper	Tons	15848.0	17131.0	12228.0	12283.0	10447.0
	- cardboard	Thousand pieces.	529.0	128.0	1287.0	455.8	578.0
	- wallpaper	Standard units	7990.0	9542.0	9102.0	8182.0	6601.0
	Open JSC Druhzba - I:	Thousand pairs					
	- hosiery		1219.0	727.0	91.0	0,0	0.0
	Open JSC Druhzba –	Thousand pairs					
	- hosiery		-	-	-	245.0	475.0
	Closed JSC Shveyi:	Thousand rubles					
	- clothing articles		7163.7	11380.0	15565.0	25065.0	64977.0
	- overcoats, coats	Thousand units	240.0	326.0	275.5	192.0	193.8
	- raincoats	-	-	-	-	-	75.3
	- jackets	-	-	-	-	-	2.8
	Open JSC Poligraf: - paraffin labels	Tons	978.0	374.0	158.2	42.5	0.0
	- paraffin paper	Tons	257.0	41.8	15.9	0.06	0.0
	Open JSC Yeast factory:	Tons					
	- baking yeast		1037.0	530.5	310.1	99.4	0.0
	Open JSC Meat processing plant "Sovetsky":	Tons					
	- meat		2396.0	1431.0	637.0	411.0	744.8
	- sausage products	-	2120.0	977.0	640.0	256.0	763.1
	- fat	-	-	-	41.0	22.0	28.2
	- semi-finished products	-	-	-	47.0	19.0	28.3
	- flour	-	-	-	-	-	28.5
	Open JSC Milk combine "Sovetsky"	Thousand liters					
	- mineral water		91.6	176.6	444.0	2219.0	387.0

1	- unskimmed milk products	Tons	375.1	140.9	-	-	237.0
	2 - fat	Tons	256.1	116.0	6	7	-
	- milk powder (skimmed)	Tons	337.8	141.0	-	-	-
	Open JSC Flour-milling factory	Tons	23356.0	15288.0	12194.0	17874.0	20789.0
	- flour of different quality	Tons	161.0	92.0	76.0	84.0	103.0
	- farina	Tons					
	Open JSC Tsitron	Thousand dal	117.0	66.0	29.0	10.9	18.4
	- beer	Thousand dal	134.1	68.0	21.0	4.8	16.0
	- nonalcoholic beverages	Thousand liters	-	-	196.1	43.5	40.0
	- mineral water	Thousand liters					
	Open JSC Fruit canning factory - cans	Tubes	700.0	515.0	261.0	101.0	86.0
	Ltd Tipek - bakery	Tons	6911.0	5747.0	5906.0	5757.0	6133.0
	Open JSC Baltic Furniture - Sovetsk	pieces	-	-	771.0	3075.0	1203.0
	- tables	pieces	-	-	104.0	358.0	103.0
	- chairs	Thousand rubles	-	-	552.0	1861.0	2249.0
	- furniture	pieces	-	-	-	-	172.0
	- wardrobe	pieces	-	-	-	-	22.0
	- bed	pieces	-	-	-	-	-
	Food processing plant	Tons	39.9	41.8	8.9	15.0	115.6
	- sausage products	òóá.	380.6	171.8	-	-	-
	- cans	òóá.					
	Closed JSC Poligraf -1	Tons	-	-	-	115.1	-
	- paraffin labels	Tons	-	-	-	25.3	-
	- paraffin paper	Tons	-	-	-	-	-
	Limited partnership	Thousand cubic meters	0.24	0.057	-	-	-
	Ferro-concrete production plant	Thousand cubic meters					
	- pre-fabricated ferro-concrete structures	Thousand cubic meters	0.74	376.0	-	-	-
	- wall blocs	Thousand cubic meters					
4.	Retail turnover	Thousand rubles	94978	161309	173619	25879	28424
5.	Scope of paid services provided for the population industry, total:	Thousand rubles	276.0	37.4	29.5	24.4	113.0
	including:						
	Open JSC SPPP	-	125.8	32.9	18.2	15.0	17.0
	Open JSC Yeast factory	-	2.0	0.6	2.3	3.4	0.0
	Open JSC Poligraf	-	3.2	3.9	7.0	5.0	0.0
	Open JSC "Raduga" plant	-	145.0	-	2.0	1.0	0.0
	Open JSC Baltic Furniture - Sovetsk	-	-	-	-	-	0.0
	Subsidiary of Fur factory	-	-	-	-	-	89.0
	Closed JSC Poligraf -1	-	-	-	-	-	7.0
6.	Receivable debt, total:	Thousand rubles	-	54986.0	47234.0	40782.0	69906
	including:						
	Open JSC SPPP	-	-	43239.0	35843.0	26938.0	53319
	Open JSC Druhzba - I	-	-	463.0	-	2.0	-
	Open JSC Druhzba - II	-	-	-	-	294.0	555
	Closed JSC Shveyi	-	-	2409.0	1959.0	4333.0	6129
	Ltd Tipek	-	-	550.0	349.0	388.0	734
	Open JSC Yeast factory	-	-	486.0	413.0	97.0	-
	Open JSC Fruit canning factory	-	-	690.0	470.0	382.0	175
	Open JSC Poligraf	-	-	2086.0	1343.0	823.0	-
	Open JSC Tsitron	-	-	460.0	476.0	195.0	205
	Open JSC Meat processing plant	-	-	1812.0	1314.0	1611.0	2982
	Open JSC Milk combine "Sovetsky"	-	-	476.0	16.0	-	41
	Open JSC Flour-milling factory	-	-	2030.0	4920.0	3752.0	3659
	Open JSC "Raduga" plant	-	-	285.0	112.0	42.0	240
	Printing house	-	-	-	19.0	62.0	95
	Open JSC Baltic Furniture - Sovetsk	-	-	-	-	1330.0	1371
	Closed JSC Poligraf -1	-	-	-	-	522.0	242
	Food processing plant	-	-	-	-	11.0	159
7.	Trade liabilities, total:	Thousand rubles	-	66821.0	69530.0	95984.0	217735
	including:						
	Open JSC SPPP	-	-	50324.0	56494.0	71128.0	185978
	Open JSC Druhzba - I	-	-	1201.0	1396.0	1449.0	-

1	2	3	4	5	6	7	8
	Open JSC Druzhba - II	-	-	-	-	136.0	789
	Closed JSC Shveyi	-	-	1317.0	1125.0	4303.0	5338
	Ltd Tipek	-	-	655.0	855.0	772.0	588
	Open JSC Yeast factory	-	-	1339.0	992.0	1059.0	-
	Open JSC Fruit canning factory	-	-	750.0	1198.0	1889.0	1100
	Open JSC Poligraf	-	-	600.0	297.0	1057.0	-
	Open JSC Tsitron	-	-	207.0	134.0	689.0	876
	Open JSC Meat processing plant	-	-	2683.0	2126.0	4827.0	5438
	Open JSC Milk combine "Sovetsky"	-	-	2145.0	3826.0	4708.0	5689
	Open JSC Flour-milling factory	-	-	5201.0	566.0	887.0	7567
	Open JSC "Raduga" plant	-	-	399.0	454.0	355.0	2566
	Printing house	-	-	-	67.0	88.0	149
	Open JSC Baltic Furniture - Sovetsk	-	-	-	-	173.0	232
	Closed JSC Poligraf - I	-	-	-	-	1742.0	673
	Food processing plant	-	-	-	-	722.0	752
8.	Financial situation (+profit, - loss), total:	Thousand rubles	33523.0	-16280.0	-31797.0	-6846.0	5293
	including:						
	Open JSC SPPP	-	17939.0	-13320.0	-21488.0	-7734.0	-12885
	Open JSC Druzhba - I	-	248.0	-530.0	-1060.0	-295.0	-
	Open JSC Druzhba - II	-	-	-	-	61.0	222
	Closed JSC Shveyi	-	2369.0	448.0	675.0	3682.0	7479
	Ltd Tipek	-	1738.0	1738.0	2050.0	2750.0	4395
	Open JSC Yeast factory	-	614.0	-355.0	-259.0	-698.0	-
	Open JSC Fruit canning factory	-	245.0	-447.0	-605.0	-982.0	-900
	Open JSC Poligraf	-	2675.0	-363.0	-826.0	-1430.0	-
	Open JSC Tsitron	-	697.0	-37.0	-320.0	-1480.0	-598
	Open JSC Meat processing plant	-	2576.0	1474.0	483.0	-3246.0	-138
	Open JSC Milk combine "Sovetsky"	-	-1795.0	-6493.0	-12000.0	-350.0	-2020
	Open JSC Flour-milling factory	-	6391.0	2067.0	2400.0	3800.0	9500
	Open JSC "Raduga" plant	-	-274.0	-610.0	-790.0	-318.0	-220
	Printing house	-	100.0	148.0	243.0	223.0	505
	Open JSC Baltic Furniture - Sovetsk	-	-	-	-	-	-
	Closed JSC Poligraf - I	-	-	-	-	-321.0	12
	Food processing plant	-	-	-	-300.0	-508.0	-59
9.	Arrears of wages, total:	Thousand rubles	-	-	3252.0	4654.2	2053
	including:						
	Open JSC SPPP	-	-	-	2875.0	4009.0	1556
	Open JSC Druzhba - I	-	-	-	65.0	-	-
	Open JSC Druzhba - II	-	-	-	-	-	-
	Closed JSC Shveyi	-	-	-	-	-	-
	Ltd Tipek	-	-	-	-	-	-
	Open JSC Yeast factory	-	-	-	-	4.2	-
	Open JSC Poligraf	-	-	-	-	-	-
	Open JSC Fruit canning factory	-	-	-	-	35.0	-
	Open JSC Tsitron	-	-	-	-	-	-
	Open JSC Meat processing plant	-	-	-	103.0	170.0	-
	Open JSC Milk combine "Sovetsky"	-	-	-	70.0	152.0	80
	Open JSC Flour-milling factory	-	-	-	-	-	-
	Open JSC "Raduga" plant	-	-	-	72.0	8.5	-
	Printing house	-	-	-	-	-	-
1	2	3	4	5	6	7	8

Open JSC Baltic Furniture - Sovetsk	-	-	-	23.0	74.6	92
Closed JSC Poligraf - I	-	-	-	-	-	-
Food processing plant	-	-	-	44.0	200.9	-
Municipal enterprise of city improvement	-	-	-	-	-	146
Open JSC " Motor transport "	-	-	-	-	-	179

In comparison to 1995, the volume of production increased 2,1 times. However, due to the ruble denomination of 1997 the volume of production significantly decreased in terms of monetary value. In August 1998 the ruble devaluation took place. Consequently, exporters greatly increased the volume of their productions in terms of monetary value. First of all, these were open JSC "SPPP", closed JSC "Shveyi", open JSc "Druzhba-II". During the last two years the economic situation in the city became more stable. At the large and medium companies, the production of goods and services increased 2,43 times in comparison to 1998.

The growth of the production volume took place both in terms of monetary value and in kind. So if we compare the present figures with those of 1998, one can see that hosiery articles were produced 88,5% more, clothing articles – 2,57 times more, bakery – 6,2 % more, sausage products – 8,3 times more, mineral water – 2,1 times more, flour – 16,2 % more.

According to the statistics, retail turnover was reduced 2,9 times in comparison to 1995. But in 1995-1997 all commercial enterprises of the city submitted reports to the Agency of Statistics while in the period of 1998-1999 reports were received only from 8 commercial enterprises that were mostly municipal stores. The analysis of activities of private commercial enterprises shows that the turnover in the monetary value is not decreasing but instead increasing in the city. The main reason is constant growth of commodity prices.

The unstable economic situation in the country of the last 5 years influenced the financial situation both of individual enterprises and the city at large. In 1995 city enterprises produced a profit of 33523,0 thousand rubles, later on in 1999 their profit amounted to 5293,0 thousand rubles. Economic crises that occurred in our country during 5 previous years damaged financial solvency of the city enterprises. To compare with 1995, receivable debt increased 27,1%, while trade liabilities increased 3,3 times and thus exceeded the amount of receivable debt 3,1 times. It means that enterprises of the city ran into debts. But the major trends of the volume production growth, production of goods in kind, growth of turnover and personal services of the last two years give some hope that the current situation will be improved.

I.7. Budgeting Sources and Structure of the Municipal Budget

In 1999 the budget revenues constituted 71.346 million rubles including 29.675 million rubles from the regional budget, and the expenditures amounted to 75.160 million rubles.

Tax proceeds increase in the city annually:

1997 – 29824 million rubles (non-denominated)

1998 – 33287 thousand rubles

1999 – 42 402 thousand rubles

The growth of tax and fees collection has to do with distribution of some taxes between different budget levels. It was also caused by the increase of prices and tariffs (inflation). The main part of the local budget is tax proceeds (more than 50% of the revenues). The most substantial budget proceeds are:

- Income tax from individuals – in different years its share is around 19,5% - 23,7 %;
 - Value added tax – 7,2% - 7,9 %;
 - Local taxes and fees.

The local taxes and fees have started to influence the formation of the local budget revenue part. The collection of local taxes and fees and their share in the revenues amount to:

1997 – 5377 million rubles (non-denominated) or 10,4 %

1998 – 6522 thousand rubles or 10,5 %

1999 – 8647 thousand rubles or 12 %

2000 (plan) – 10288 thousand rubles or 13,5 %

The levying of local taxes and fees is envisaged by the Tax Code of the Russian Federation, Article 21, the Law of the RF on “Fundamentals of Taxation in the Russian Federation” of December, 27, 1991, ¹ 2118-1

The following local taxes and fees are collected in the city:

- Property tax imposed on individuals (the rates are set by the decision of the City Council, October, 10, 1999, ¹ 530);
- Land tax (by the decision of the City Council July, 7, 1999, ¹ 473)
- Registration fee imposed on individual entrepreneurs (by the decision of the City Council, March, 22, 1995, ¹ 29)
- Levy for maintenance of housing and objects of social-cultural sphere (by the decision of the City Council, August, 26, 1998, ¹ 299)
- Levy on right of sales
- Advertising tax (by the decision of the City Council, January, 22, 1997, ¹ 34)
- Tax on car resale and computer engineering resale (by the decision of the City Council, February, 17, 1999, ¹ 374)
- Fee on motor transport parking (by the decision of the City Council, July, 3, 1997, ¹ 136)

- Levy for police maintenance (by the decision of the City Council, December, 22, 1999, 1 563)

Concise Description of Local Taxes

Property tax imposed on individuals	
Taxpayer	Individuals – owners of some property
Subject to taxation	1. Real estate (dwelling houses, apartments, country houses, garages). 2. Vehicles (helicopters, airplanes, yachts, launches, motor sledges, motor boats).
Tax base	1. Buildings, facilities, constructions – inventory value of projects. 2. Vehicles – engine capacity.
Tax rate	1. Building cost rate up to 300 thousand rubles 0,1 % from 300 thousand rubles up to 500 thousand rubles 0,3 % over 500 thousand rubles 2,0 % 2. Engine capacity • Over 100 horse power 5,0 % of minimum monthly wage • Up to 100 horse power Each unit of horse power 3,0 % of minimum monthly wage Each kilo watt of power 4,1 % of minimum monthly wage • Air-force transport without an engine, except for rowing boats 5,0 % of minimum monthly wage
Procedure and dates of tax payment	Annually, twice: - no later than September, 15 - no later than November, 15

Levy for maintenance of housing and objects of social-cultural sphere

Taxpayer	Legal entities
Tax base	Volume of sales
Tax rate	1,5 %
Procedure and dates of tax payment	– Within five days after the deadline of submitting the quarterly book keeping report. – Within 10 days for traders.

Source of tax payment	Tax revenue
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Land tax

Taxpayer	1. Legal entities. 2. Individuals – owners of plots.
Subject to taxation	Plots of agricultural and non-agricultural use.
Tax base	Size of a plot in sectors and square meters.
Tax rate	System of basic rates (by the decision of City Council, ¹ 473, July, 7, 1999).
Procedure and dates of tax payment	In equal shares, no later than September, 15 and November, 15
Source of tax payment	Cost of products (work, services).

Registration fee imposed on individuals engaged in entrepreneurship

Taxpayer	Entrepreneurs
Subject to taxation	Persons wishing to become entrepreneurs
Tax base	Type of activity
Tax rate	Minimum monthly wage
Procedure and dates of tax payment	Before receiving a registration license
Source of tax payment	Net profit

Levy on right of sales

Taxpayer	1. Legal entities. 2. Individuals.
Subject to taxation	Trade in commodities
Tax base	Trading day

Tax rate	12 of % minimum monthly wage
Procedure and dates of tax payment	Before trading activities start
Source of tax payment	1. Net profit. 2. Earnings of individuals.

Advertising tax

Taxpayer	1. Legal entities. 2. Individuals – advertisers.
Subject to taxation	Work and services on production and distribution of their own advertisements.
Tax rate	5 % of the cost of advertising services rendered to an organization or individual
Procedure and dates of tax payment	Not later than the day of an advertisement’s placement or publication

Special-purpose levy on police maintenance

Taxpayer	1. Legal entities. 2. Individuals.
Subject to taxation	Wage fund
Tax base	Wage fund based on the size of a minimum monthly wage
Tax rate	1 % - for legal entities. 1 % of 12 minimum monthly wages – for individuals.
Source of tax payment	Pre-tax profit

Tax on car resale

Taxpayer	1. Legal entities. 2. Individuals.
----------	---------------------------------------

Subject to taxation	Car resale
Tax base	Cost of goods for resale
Tax rate	10 %
Procedure and dates of tax payment	During the period of transaction
Source of tax payment	Net profit

License fee on sale of alcohol products

Taxpayer	1. Legal entities. 2. Individuals selling alcohol products
Tax base	Sale of alcohol products
Tax rate	1. Legal entities annually 50 minimum monthly wages 2. Individuals annually 25 minimum monthly wages
Procedure and dates of tax payment	Before receiving a license
Source of tax payment	After-tax profit

Fee on motor transport parking

Taxpayer	Legal entities and individuals
Subject to taxation	Right to park in parking lots
Tax rate	– Passenger car parking – 3 rubles – Parking of a minibus, truck with a trailer/ semitrailer – 8 rubles
Procedure and dates of tax payment	Time of arrival at the parking lot

Proceeds from the use of municipal property (facilities, land) amounted to 3,9% of local budget revenues or 2 876 thousand rubles in 1999.

The municipal budget is around 41% subsidized by transfers, subvention and reciprocal offsets from the regional budget. In 2001 the allocation of funds (in the form of transfer and subvention)

from the regional budget will constitute 26644 thousand rubles or 35% of the municipal budget. These funds, however, will not be sufficient and the local budget deficit is expected to be 16556 thousand rubles, and that will create problems in the city life.

The local budget funds cover the expenses in:

- maintenance and development of municipal institutions of education, healthcare, and culture;
- maintenance of municipal housing;
- energy, heating, water, gas supply in the city;
- city improvement;
- organization of the public transportation in the city;
- maintenance of public order and municipal police;
- maintenance of self-government bodies.

Volume of local budget expenditures:

1997 – 60570 thousand rubles (non-denominated)

1998 – 62151 thousand rubles

1999 – 75160 thousand rubles

2000 (plan) – 92626 thousand rubles

Most expenditures of the local budget are of social significance. In 1999 the amount of 38323 thousand rubles (or 51% of budget expenditures) was spent on maintenance of budgetary institutions of education, healthcare, culture, and social assistance (see table below).

	Number of institutions	Number of employees	Unit of measure	Capacity
Education, total	28	1488	persons	
including:				
- kindergartens	10	450	persons	982
- schools	10	670	persons	5244
- orphanages	2	160	persons	266
- institutions for after school activities	4	162	persons	3013
- other (training center)	1	24	persons	1073
- evening secondary school	1	22	persons	306
Healthcare, total	8	837		
including:				
- hospitals	6	704	beds	575
- orphanages for infants	1	80	beds	90
- polyclinics	1	53	visits	51474
Culture, total	6	183		
including:				
- libraries	3	65	readers	18125
- Center of Culture and Leisure	1	42	seats	775
- City museum of history	1	7		
- theater	1	69	seats	285
Social policy	5	76		

- social assistance services	4	47	persons	304
- social shelter for children	1	29	beds	28

In 1997 for the same purposes there were allocated 34036 million rubles (non-denominated), in 1998 – 29752 thousand rubles, and according to the plan of 2000 -- 57658 thousand rubles or 62,2 % of budget expenditures.

Another significant item of the local budget is to finance the maintenance of municipal housing, water and heating supply, and city infrastructure lightning. In 1999 these expenditures constituted 40,5%, and in 2000 it is planned to allocate 24,4% or 22655 thousand rubles (reduction is caused by the changed size of fees for housing services).

Expenditures on industry and energy include costs for heating supply of the poor population. In 2000 for the same purpose it is planned to allocate 400 thousand rubles.

In comparison to 1997-1998, the structure of expenditures has been changed:

- subsidies to the citizens with children (the annual amount used to be 5 thousand rubles) are excluded from the local budget;
- it is planned to increase financing of target social support;
- the general approach to allocation of funds was revised (definition of main directions, development of programs, special appropriations, appliance of protection principle to budget items).

There were also revised priorities of healthcare institutions' financing:

- analysis and correction of needs and sufficiency of institutions of preventive medicine;
- development of a 5-year purpose-oriented program "Healthcare". In 2000 the financing of the program will amount to 2800 thousand rubles.

In the budget 2000 it is planned to increase capital expenditures (investments into major funds, overhauling – so called budget development) up to 7662 thousand rubles unlike 4011 thousand rubles in 1999.

Municipal Budget Expenditures' Structure of Sovetsk								
	1997		1998		1999		2000 (plan)	
	Amount, thousand of rubles	% of total volume	Amount, thousand of rubles	% of total volume	Amount, thousand of rubles	% of total volume	Amount, thousand of rubles	% of total volume
Management	2825	4,7	3108	5,0	3787	5,0	5111	5,5
Maintenance of public order	167	0,3	18	-	117	0,2	245	0,3
Industry, energy, construction	145	0,2	156	0,3	281	0,4	400	0,4
Agriculture	436	0,7	346	0,6	779	1,0	922	1,0
Transport, communication	662	1,1	695	1,1	867	1,2	800	0,9
Housing management	19133	31,6	17864	28,7	30470	40,5	22655	24,5

Emergency prevention and liquidation of consequences of natural disasters	11	-	5	-	-	-	-	-
Education	16912	27,9	16555	26,6	22399	29,8	31587	34,1
Culture and art	663	1,1	601	1,0	1017	1,4	1843	2,0
Mass media	39	0,1	40	0,1	31	-	55	0,1
Healthcare and physical training	8955	14,8	8031	12,9	12721	16,9	21571	23,3
Social policy	7506	12,4	4565	7,3	2186	2,9	2657	2,9
Other expenditures	3111	5,1	10167	16,4	505	0,7	4780	5,2
<u>Expenditures. total</u>	60570	100,0	62151	100,0	75160	100,0	92626	100,0

Sources and Structure of Sovetsk Municipal Budget Revenues								
	1997		1998		1999		2000 (plan)	
	Amount, thousand of rubles	% of total volume	Amount, thousand of rubles	% of total volume	Amount, thousand of rubles	% of total volume	Amount, thousand of rubles	% of total volume
<u>Tax revenues</u>	26740	51,8	29794	47,8	37967	52,7	44978	59,1
including:								
- profit tax, enterprises and organizations	2313	4,5	3131	5,0	5949	8,3	6847	9,0
- income tax, individuals	12237	23,7	12138	19,5	14396	20,0	17500	23,0
- other profit taxes	67	0,1	510	0,8	609	0,8	703	0,9
- value-added tax	4090	7,9	4552	7,3	5210	7,2	6260	8,2
- license fees	1547	3,0	876	1,4	89	0,1	60	0,1
- real estate taxes	2274	4,4	2355	3,8	2578	3,6	2824	3,7
- excise fees	-	-	-	-	-	-	5	-
- charges on natural resources' use	466	0,9	724	1,2	594	0,8	1673	2,2
- other taxes, fees, duties	3746	7,2	5508	8,8	8542	11,9	9160	12,0
<u>Non-tax revenues</u>	3084	6,0	3493	5,6	4435	6,2	4448	5,8
including:								
- revenues on municipal owned property	1494	2,9	2368	3,8	2786	3,9	3557	4,7
- revenues on land sale	2	-	77	0,1	270	0,4	-	-
- revenues on state owned property sale	359	0,7	331	0,5	731	1,0	-	-
- penalties	795	1,6	613	1,0	570	0,8	-	-
- administrative charges	327	0,6	22	-	-	-	828	1,1
- other not-tax revenues	107	0,2	82	0,1	78	0,1	63	0,1
<u>Transfer of money supply</u>	21831	42,2	29067	46,6	29675	41,2	26644	35,0
including:								
- subsidy from the regional budget	18876	36,5	18990	30,5	14991	20,8	15644	20,6
- reciprocal offsets	2955	5,7	10077	16,2	14484	20,1	-	-
- subvention	-	-	-	-	200	0,3	11000	14,5
<u>Revenues, total</u>	51655	100,0	62354	100,0	72077	100,0	76070	100,0

CHAPTER II. OBJECTIVES AND RESOURCES FOR STRATEGIC DEVELOPMENT. GENERAL EVALUATION OF INVESTMENT CLIMATE.

II.1.Strategic development of Sovetsk.

The main objective of strategic development of Sovetsk is absolutely identical to the ones of many other Russian municipalities. In our opinion, the objective of Sovetsk strategic development is *to achieve a certain state when the municipality has sufficient resources to provide high quality services and is characterized by independent progressive development.*

By this we do not imply that Sovetsk only needs to reach budget stability and be able to provide financial support for other structurally disadvantaged municipalities of Kaliningrad region. Becoming a financial donor does not mean that the objective has been achieved. Indeed, the imperfection of the Russian system of inter-budget relations prevents all municipalities including donors from efficient performance of their functions.

The local self-government bodies are responsible for a number of essential public services which are rather costly. Therefore, speaking about strategic development of the municipality, it is necessary to point out specific objectives:

- to define the so called “growth points” which development can lead to fast and maximum effect;
- to reduce budget expenditures and use free funds for financing social services and supporting the development of “growth points” ;
- to increase budget revenues by creating new working places;
- to develop a special system modifying objectives according to the achieved results.

II.2.Explanation of the “growth points” and priority analysis for the municipality development.

In order to accurately define the “growth points”, it is necessary to outline major problems that have negative effect on the city development. As the number of problems is rather high, it is worth to divide them into groups according to their origin.

Basically, numerous problems are caused by three reasons:

- 1) economic crisis in Russia, declining standard of living, social stress and distrust;
- 2) “semi-enclave” position of Kaliningrad region that results in increasing living costs for the population, transaction costs for economic management, and budget expenditures;
- 3) history of Kaliningrad region (this point needs explicit explanation. In 1945 Eastern Prussia was divided between Poland and the Soviet Union. During the next 50 years authorities took great pains to wipe out all German traits. As a result of this destructive policy, the system of public utilities and housing were destroyed. Presently, the local authorities have to deal with consequences of such a policy).

Therefore, the local authorities of Sovetsk have to solve both typically Russian problems and unique problems caused by the geographic position and historical development of the municipality.

However, a “prescription” proposed in the present report is not extraordinary. In fact, all recommendations meet the principal requirement – to reach maximum effect at the lowest cost. To achieve the result, one should take the following measures:

- 1) Support and development of small business. It is small and medium business that will form the basis of economic development of Sovetsk because the city has excellent conditions for development of small-size enterprises.
- 2) Development of a municipal geo-information system. This system will make it possible to improve management efficiency for all users and increase budget revenues.
- 3) Promotion of investment projects. Nowadays this aspect becomes extremely important because foreign investments are the only source for production renewal, development and building up.

Please, pay attention that the presentation order of measures is not deliberate. **NONE OF THEM CAN BE CONSIDERED AS A PROIRITY.**

As you see, practically all measures will have some impact on the development of business climate in the city. It means that evaluation of the business climate is of high relevance for selecting a set of instruments of its development.

II.3.General evaluation of business climate.

In the research done by a company *Invest In*, business climate in a municipality is described as a combination of factors. According to the possibility and amount of time necessary for their change, these factors are divided into the following groups:

Invariable factors:

- geographic position of a municipality (proximity to main markets and resources);
- natural resources.

Slowly changing factors:

- ecological situation in a municipality;
- sufficient number of skilled manpower;
- presence, availability and level of transportation system (railways, highways, ports, airports);
- presence, availability and level of technical infrastructure (public utilities, gas pipe lines, electrical lines);
- economic situation in a municipality;
- presence, availability and level of communication network.

Rapidly changing factors:

- system of legislative acts (general condition, possible privileges and guarantees, implementation procedures);
- local policy on business development (flexibility, willingness to improve the situation);
- presence and pressure of administrative barriers;
- presence of business support infrastructure.

Analysis of these factors gives information about general condition of investment climate in a certain area. Special attention should be paid to the rapidly changing factors for the outcome of their development is seen in the nearest future. Besides, the development of the rapidly changing factors leads to improvement of the slowly changing factors.

Invariable factors:

<ul style="list-style-type: none"> • geographic position of a municipality (proximity to main markets and resources); 	<p>The geographic position of Sovetsk has both an advantage and a disadvantage:</p> <p>On the one hand, located in the territory of Kaliningrad region, Sovetsk is very close to Europe. The city is contiguous with Lithuania and has a bridge connection with it. Therefore, this factor can be considered as favorable.</p> <p>On the other hand, the city is practically cut off the main Russian markets and natural resources. As a result, companies located in the city incur high costs.</p>
<ul style="list-style-type: none"> • natural resources; 	<p>There are actually no significant natural resources in the city territory, except for some artesian wells. This situation is quite clear for the municipality. That is why we can describe the factor as neutral.</p>

Slowly changing factors:

<ul style="list-style-type: none"> • ecological situation in a municipality; 	<p>On the whole, the ecological situation seems to be normal. However, the presence of pulp and paper production as well as a number of military units makes the situation worse. Besides, there is a lack of sewage disposal constructions in the city. Thus, here we can conclude that the factor is of negative character.</p>
<ul style="list-style-type: none"> • sufficient number of skilled manpower; 	<p>Both local authorities and businessmen point out the problem of human resources. Indeed, the city lacks highly skilled manpower while the development of the training system of human resources is not completed yet. In addition, the city proximity to the Lithuanian border has a negative effect for it causes outflow of labor forces: citizens prefer to be engaged in trade with Lithuania rather than have a permanent job.</p>
<ul style="list-style-type: none"> • presence, availability and level of transportation system (railways, highways, ports, airports); 	<p>Most part of the road infrastructure was inherited from Prussia and is of high quality. There is also an international airport situated 120 km away from the city. At the same time, the transport connection between the city and Russia is carried out through the territories of contiguous states and that makes the transfer of transport rather expensive.</p>

Rapidly changing factors:

<ul style="list-style-type: none"> • system of legal acts (general condition, possible privileges and guarantees, implementation procedures); 	<p>This factor is unfavorable (see the evaluation of local normative legal acts in Attachment II-1).</p>
<ul style="list-style-type: none"> • Local policy regarding investors, presence and pressure of administrative 	<p>The local policy is quite flexible. Moreover, during the numerous interviews representatives of the local self-government bodies expressed readiness to take ac-</p>

barriers;	tive steps in the direction of creating favorable conditions for business development.
<ul style="list-style-type: none"> • presence of business support infrastructure. 	Located far from Kaliningrad, the city of Sovetsk has almost no infrastructure of business support.

Conclusion. Therefore the description of most factors shows that the business climate is not favorable in the city. At the same time, we can not characterize the business climate as negative because presently **the administration makes decisive efforts to improve it**, and the existence of this report proves it.

Attachment II-1. Analysis of the standard legal regulations system in Sovetsk.

1. List of the analysis sources.

The following standard acts has been used as the analysis sources:

The Regulation «On regulating investment activity on the territory of the city Sovetsk of Kaliningrad Region, realized in the form of capital investments» confirmed by the Resolution of the City Council of Deputies ¹ 459 on 16th of June 1999.

The Regulation «On procedure of providing investment tax credit» confirmed by the Resolution of the City Council of Deputies ¹ 460 on 16th of June 1999.

The Regulation «On procedure of providing investment tax credit» confirmed by the Resolution of the City Council of Deputies ¹ 461 on 16th of June 1999

The Order of City Administration of Sovetsk «On organization of the standing bidding committee on consideration of investment projects, realized on the territory of the city Sovetsk» ¹ 481-đ 01.12.2000.

Apart from that, the standard legal acts of Kaliningrad Region have been taken into consideration (but have not been evaluated) for general regarding:

The Law of Kaliningrad Region «On the conditions for investments stimulation in Kaliningrad Region» ¹ 10 11.05.95 (Accepted by the Region Duma on 27th of April 1995) in version of the Law of Kaliningrad Region 13.06.2000 N 215

The Law of Kaliningrad Region «On providing tax incentives to the organizations, realizing investment projects in Kaliningrad Region» N 127 on 21st of May 1999. (Accepted by the Region Duma on second convocation on the 29th of April 1999)

2. Obtained information.

The following information has been obtained from the study of standard legal acts:

à) The main (basic) standard legal act, regulating investment on the territory of Sovetsk, is the Regulation «On regulating investment activity on the territory of the city Sovetsk of Kaliningrad Region, realized in the form of capital investments».

b) The Regulation is not applied for the investment projects, the amount of investments where does not exceed the sum 75 000 \$US.

c) In accordance with the Regulation investors have the right for obtaining a number of tax incentives:

- for the period of project repayment (but not more than 3 years), for the amount, paid to the city budget, the investor is entirely exempted from payment of:
 - property tax, imposed on the property created or purchased for the investment project realization;
 - profit tax, imposed on the profit gained from realization of the output (works, services), produced on the premises, created (or purchased) during investment project implementation or by resources of technologies, implemented during investment project realization, as well as profit tax, levied on the profit gained from the resources and assets, accepted gratis by the investor for investment project realization;
 - rent for using municipal property (land).

- within two years since repayment period maturity for the amounts paid to the city budget the investor's payments are decreased in the part of:
 - property tax – up to 100% (in the part of the property, created or purchased during investment project realization);
 - profit tax, imposed on the profit gained from the output (works, services) realization, produced on the premises, created (or purchased) during investment project realization or by resources of technologies, implemented during investment project realization, as well as profit tax, levied on the profit gained from the resources and assets, accepted gratis by the investor for investment project realization:
 - up to 30% with the investments amount from 75 000 \$US to 1 000 000 \$US in ruble equivalent at the exchange rate of CB RF when the payment is due;
 - up to 50% with the investments amount more than 1 000 000 \$US in ruble equivalent at the exchange rate of CB RF when the payment is due.

d) the calculation of reaching complete repayment of the funds invested is done in accordance with the Rules, which are the appendix to the Regulation concerned. The Rules are identical to the Rules that are in force in Novgorod Region.

e) for obtaining tax incentives, apart from conformity with the amount criterion of the investment project, the investor must submit to the Sovetsk Administration one of the following guarantee documents:

- Guarantee (bank or insurance);
- Agreement on Estate Mortgage;
- Contract of Guarantee.

The stated above guarantees are necessary for the Investor to repay the amount of tax incentives in case of violation of the Investment Contract.

â) The ground for providing the incentives is the Investment Agreement on exemption of the Enterprise-Investor from payment of the local taxes, concluded between the Investor and the Administration.

f) The Regulation contains the list of documents, which are to be submitted by the Investor to City Administration (to Industry and Consumer Market Department). Apart from this, the project is subject to the investigation of an independent expert. The resolution on providing the incentives is made within a month since the date of presentation of all the necessary documentation.

g) Apart from the incentives above, the enterprises on the territory of the city have a right to count on:

- Obtaining investment tax credit (in accordance with the Regulation «On procedure of providing investment tax credit») in the following cases:
 - The organization carries out scientific research or development works or technical modernization of the own production, including the modernization, targeting creation of vacancies for invalids and environment protection from industry waste pollution;
 - Carrying out inculcation and innovative activity, including development of new technologies or improving the applied ones, development of new sorts of commodities (raw materials);
 - Execution of highly important order on social-economical development of Sovetsk or rendering highly important services to the people of Sovetsk;

- According to other grounds, stipulated in the legislation on tax and duties.
- Investment tax credit may be provided for the period from 1 to 5 years. The organization, having obtained the investment tax credit, has the right to decrease its tax payments, the decrease can not exceed 50% of the tax payments concerned at that. For obtaining the credit an enterprise is obliged to submit Agreement on Estate Mortgage and Contract of Guarantee .

Agreement on Estate Mortgage and Contract of Guarantee.

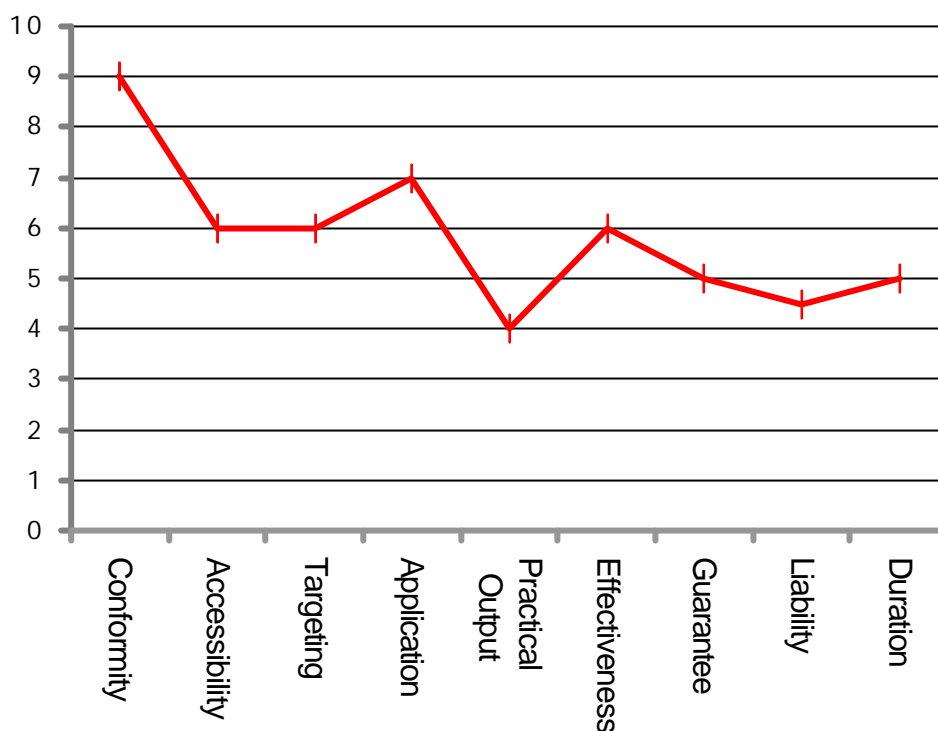
- obtaining tax credit (in accordance with the Regulation «On procedure of providing investment tax credit»)
-

3. Criteria analysis.

The criteria analysis of standard legal acts system was carried out by two experts on the basis of the information obtained. The essence of the criteria analysis is presented in the Information Appendix II-1.

Criterion	Score	Assessment Explanation
<i>Conformity</i>	9	The existing Standard legal acts are in conformity with basic principles of forming normative systems.
<i>Accessibility</i>	6	Standard legal acts are published in local mass media after acceptance
<i>Targeting</i>	6	Standard legal acts system does not entirely comply with its targets
<i>Application</i>	7	On the whole the procedures of applying Standard legal acts, which are the part of the system, are described, the documents list is given, the organizations, fulfilling the procedures execution, are stated. The documents list is not always sufficient.
<i>Practical Output</i>	4	There has not been experience of applying Standard legal acts yet (by the moment of starting the assessment the first application for incentives provision has been submitted).
<i>Effectiveness</i>	6	The existing Standard legal acts stipulate exemption from a number of municipal taxes to investors for the period not more than 5 years.
<i>Guarantee</i>	5	The basic guarantees were declared.
<i>Liability</i>	4,5	The liability for violation of the Standard legal acts on the part of the Investor is stipulated.
<i>Duration</i>	5	The basic acts of the system of Standard legal acts are valid less than 5 years.

4. Graphic presentation of criteria analysis.



5. Executive summary.

So, one can come to conclusion, that the system of Standard legal acts of Sovetsk does not meet the basic requirements that are put forward to the system of Standard legal acts, stimulating investment and entrepreneurial activity.

The following features should be considered as negative:

- restriction of investment projects, to which tax incentives are applied, in accordance with investments sums, that results in impossibility for small and medium-sized businesses to obtain such incentives;
- inconsistency of the procedures for obtaining incentives (businessmen in Novgorod, whom the Regulation was given for feedback, outlined unanimously that any mortgage or guarantee increases project costs and, consequently, it would be simpler for them not to apply for tax incentives).

Besides, the following disadvantages should be pointed out:

- complexity of calculation method of the complete repayment point that also makes the incentives unobtainable for small enterprises, having no funds for hiring qualified consultants;
 - the lack of sufficient list of the required documents in the Regulation on investment tax credit;
 - restriction up to 5 years (or actually 3) of the period when the incentives are provided;
- non-provision of the incentives on municipal police duties and advertising tax.

CHAPTER III. SMALL AND MEDIUM ENTERPRISES

III.1. Choice motivation of the main trends in development and measures for its implementation.

It has already been mentioned that small and medium enterprises are one of the most important resources of municipal development. However, small and medium enterprises will be able to actively grow, to create new jobs and to increase tax base provided that there have been introduced suitable conditions for the development of this economic sector.

To point out the most effective measures that are to be taken by local authorities, let us enumerate the main problems indicated by entrepreneurs of small enterprising. The problems include:

1. Taxes.
2. Imperfect legislation.
3. Lack of financing.
4. Abuse of power by inspecting agencies.
5. Human resources.

There are much more problematic issues in the sphere of small business development but these can be found among the 10 most serious problems in any region or municipality. Some of these problems require clarification. For example, the problem of high taxation is often a consequence of eternal conflict between entrepreneurs and authorities. Indeed, businessmen want to pay less taxes (or absolutely avoid tax payments) while authorities want to collect more taxes. The lack of feedback between lawmakers and businessmen is caused by the imperfection of legislation.

Next, the lack of financing and human resources can be explained by a weak business support infrastructure.

Consequently, within the framework of small and medium enterprises' development the administration of Sovetsk has to accomplish the following tasks:

1. To involve representatives of small and medium enterprises into development and implementation of municipal policy in the given direction.
2. To assist in formation of business support infrastructure.
3. To streamline the monitoring activities of inspecting agencies.

III.2. Involvement of representatives of small and medium enterprises into development and implementation of municipal policy on small business.

This task requires a rather delicate approach of the administration. In the discussion process about the strategic development of the city, there was established a productive dialogue between entrepreneurs, the public, and the administration. This, however, is not enough. The administration must have a possibility to regularly conduct consultations with businessmen. It is quite easy to coordinate consultations with representatives of large enterprises, while organization of "feedback" with small business becomes a difficult task.

Taking this into consideration, the administration could initiate the establishment of the Entrepreneurs' Consulting Board.

The Board must be established by a special decree of the administration. Naturally, such “implantation” of the Board might cause antagonism among entrepreneurs and that is why the administration has to be very delicate.

Advantages of establishing the Entrepreneurs’ Consulting Board from the top outweigh disadvantages. First of all, the administration takes the responsibility of an organizer. The experience gained in other small municipalities shows that businessmen are not always ready to take an active part in the organization process.

Another important issue is to publish the regulation “On Establishment of the Entrepreneurs’ Consulting Board” simultaneously to the decree. The regulation is to delegate real responsibilities to the Board and make it an active body. The responsibilities can be the following:

- during the Board meetings to discuss all decrees and normative acts regarding the local policy on small and medium enterprising;
- to examine the report submitted by the administration on the budget expenditures on small business support;
- the Board has the right to request all necessary information from the administration.

In addition, the administration has to openly follow recommendations of the Board (for instance, in all new normative acts there should be mentioned: “Adopted on the recommendation of the Entrepreneurs’ Consulting Board”). There is an example of a similar regulation in the attachment III-2-1.

Special attention should be paid to the selection of Board members. Hopefully, it will consist of 12 persons, not more. In the Board there should be represented equally legal entities and individual entrepreneurs as well as all sectors of small business existing in the city (if possible). At first, the Board members can be appointed by a regulation issued by the administration but afterwards entrepreneurs are to choose the procedure of the Board formation (for example, to elect members by a rating voting at the city conference of entrepreneurs).

The activities of the Entrepreneurs’ Consulting Board will be governed by the “Regulation on Agenda” (attachment III-2-2). Ideally, the Board will follow the algorithm presented in the chart III-2-1.

It is necessary to introduce the following principles into the activities of the Entrepreneurs’ Consulting Board:

- At the very beginning the Board members have to define main directions of their activities which will be possible to implement within the competence of their municipality. In other words, if the Board deals with tax issues, it is not worth to work on federal taxes because the local authorities are not able to solve the federal problems.
- The Board appoints one member to supervise the activities done within the framework of each direction. Supervisors will collect information, prepare reports and so on. The supervision will inevitably be of high responsibility and pressure for the Board members because entrepreneurs will address the supervisors, if they face any problems that are of their competence.
- In order to facilitate the working procedures, the Board needs to employ a professional manager – secretary executive. During the first stage of the Board’s activities, a municipal worker can perform this work. Later entrepreneurs must independently hire a manager.

Here is an illustration of the work done by an Entrepreneurs’ Consulting Board. As the company *Invest In* took part in organizing a similar Board in Veliky Novgorod, let us rely on its experience.

Currently, experts of Novgorod region re-examine the ratio of the single tax on imputed earnings. In the City Entrepreneurs' Consulting Board there are two members supervising these activities. The choice of the supervisors was predetermined:

- Director of the Micro-crediting Fund (Most clients of the Fund are individual entrepreneurs bearing this tax.);
- Director of a consultative company which specializes in taxation of small enterprises.

Both supervisors prepared a special report presenting calculations based on the practices of local companies and individual entrepreneurs. These calculations had been earlier audited by the Tax Inspection. After the hearings the Board recommended the administration to make use of the report in the process of re-examining the ratio of the single tax on imputed earnings.

Therefore, establishment of the Entrepreneurs' Consulting Board will provide the administration with a competent assistance from businessmen in the decision-making process. As a result, the city management will become more effective and the local authorities will avoid the problem of opposition by entrepreneurs.

III.3. Assistance with the development of business support infrastructure

The existence of business support infrastructure is a necessary condition for stable development of entrepreneurship in a municipality. The ideal model of such infrastructure is presented in the chart III-3-1.

A municipality cannot develop the system of business support in one day. The authorities of Sovetsk should take it as a serious long-term project. Fortunately, among the elements of the system there are commercial companies, which will be inevitably set up in the municipality when there is a demand for their services.

Let us enumerate the services that are of high demand for both experienced and new businessmen:

- access to financial resources;
- advice on taxation, marketing, legislation and other issues;
- recruitment of personnel;
- production area selection;
- search for equipment (including leasing).

The administration has enough resources to provide these services by using the following methods:

1. independent development of missing elements of the infrastructure;
2. creation of incentives for the development of missing elements of the infrastructure.

(a) Development of missing elements of the infrastructure.

By this report we suggest that the administration takes an active part in the establishment of two institutions:

- Agency of Municipal Development of Sovetsk.
- Municipal Investment Fund.

The Agency of Municipal Development will provide consulting services for businessmen and assist with registration, licensing, and tax payments. The description of the Agency's role, process of creation and specific character of work is presented in chapter V – I.

The Municipal Investment Fund is to finance small business. Here is detailed information about the procedure of its establishment and organization of work.

The main goal of the *Municipal Investment Fund* is to regulate credits granted from the local budget and other sources to small enterprises and individual entrepreneurs.

The status of the Municipal Investment Fund is defined in a special regulation (attachment III-3-1).

The procedure of establishment.

The Municipal Investment Fund can be established either as an independent legal entity or as an item of the municipal budget. In the second case specific budget funds are reserved for financing of certain activities described in the Regulation on Municipal Investment Fund.

à) independent legal entity

The establishment of the Municipal Investment Fund as an independent legal entity presupposes the necessity to meet the requirements of the acting legislation on NGOs. In other words, in order to establish the Fund it is necessary to prepare charter documents and receive a state registration. The Fund needs a certain location (legal and mail addresses), its own management. The Fund might also have personnel and property. As for the founders, these can be the administration and other organizations interested in attracting investments to the municipality.

In comparison to the situation in which investment needs are financed by the municipal budget, the Municipal Investment Fund has both advantages and disadvantages.

Advantages of the Municipal Investment Fund as a legal entity:

- High specialization (more efficient distribution of funds and better monitoring of their use);
- Possibility for employees to perform commercial activities in order to increase funds (As for the NGOs, the legislation allows to use profit only for the purpose of achieving objectives set up in the charter of an organization, and these objectives can not include the idea of gaining profit);
- Investment stimulation by implementing different activities connected with investors' financing (granting credits);
- A possibility to increase funds by using different financial resources rather than relying only on the local budget financing. (Presumably, the local administration will make a contribution to the authorized capital of the Fund. And the Fund will use the funds (money and property) for commercial activities envisaged by its charter and thus attract necessary resources.)

Disadvantages of the Municipal Investment Fund as a legal entity:

- The local authorities lose control over the distribution of investment support funds;
- There is a risk that being out of control, the Fund will keep requesting additional resources from the municipal budget;
- In the chain of state and municipal investments there appears an additional element. It means that budget funds allocated for investments will be inevitably transferred through the Municipal Investment Fund;
- Initially, the founder (the local administration) has to make a very high contribution including property (facilities, computers and so on);

- The Fund will bear additional expenditures (wages to employees, payments for communication services and public utilities);
- There is a risk that the Fund will start accumulating financial resources instead of investing them into investment programs developed by the local authorities;
- There is a risk that the activities of the Fund will contradict the investment policy of the local authorities.

b) Budget item

There are a number of reasons (mentioned below) which make us believe that it will be more expedient to establish the Municipal Investment Fund within the existing municipal budget.

The Fund exists on a special clearing account opened by the municipal Financial Committee according to a special regulation issued by the administration. The allocation of the Fund's resources is planned (taking into account recommendations of the Entrepreneurs' Consultative Board) during the annual development of the municipal budget. Besides, the allocation of funds is only possible within the limits defined in the regulation. In other words it has to be implemented through the contest of investment projects (attachment II-3-2). The Financial Committee of the administration is responsible for monitoring the Fund's expenditures.

The Municipal Investment Fund established as a budget item is characterized by a number of advantages, in comparison to the Fund established as a legal entity:

- annual revision of the amount of its resources and expediency of the Fund, which takes place during the budget approval;
- strict control of the Supervising Council and the Financial Committee of the administration over stipulated and efficient use of the Fund's resources;
- expenditures of the Fund follow the municipal policy on small business support and satisfy local priorities;
- more efficient use of the funds by the administration in comparison to the situation when the Fund established as a legal entity uses the funds of its founders;
- temporarily free resources of the Fund can be redistributed according to the investment priorities of the administration;
- the structure, goals, and functions of the Fund are transparent and clear to all taxpayers and eligible for financing small enterprises.

Presented in this report regulation "On Municipal Investment Fund" presupposes its establishment within the municipal budget. A few words about the title given to the Fund. Although the Fund will grant credits to small enterprises, we intentionally chose not to name it the "Fund of Small Business Support". This is done to avoid contradictions with the regional legislation (Law of Kaliningrad region on State Support of Small Enterprises). According to the law, municipal funds of small business support are to be established as legal entities. We, however, suggest to establish the Fund as a budget item.

The regulation "On Municipal Investment Fund" has to be adopted together with the regulation "On Contest of Investment Projects". The winners of the contest will be financed/ receive credits from the Fund.

c) main tasks of the Fund

The most important tasks of the Municipal Investment Fund are the following:

- promotion of small business in the city territory;
- assistance with implementation of municipal programs on small business development.

Another important task of the Municipal Investment Fund is to support competition among small enterprises. Here we mean that Fund's resources are equally available to all small enterprises. To receive a credit for an investment project, organizations will compete with each other.

d) sources of the Fund

The Municipal Investment Fund will be most likely financed by the municipal budget funds allocated to support small business. Such expenditures are usually planned in the municipal budget annually. The existence of the Municipal Investment Fund will facilitate the distribution of these funds. The allocation of funds will be planned during the budget development and approval.

In addition, the Fund can receive financing from the federal and regional budgets that also envisage to support small enterprises.

Another source of finance is repayment of credits including interest. In the future such provision of funds can become the main financial source on condition that the management of the Fund is efficient.

e) main directions of allocation of funds

All funds obtained from the budgets must be used only for granting credits to small enterprises in the following proportion:

- 65% of funds – to grant credits over 5000 USD converted into rubles;
- 35% of funds – to grant micro-credits under 5000 USD converted into rubles.

Regarding the sums received as interests on the granted credits, they are to be used exclusively for small business support according to recommendations of the Entrepreneurs' Consulting Board.

f) conditions and procedures of granting credits

Conditions and procedures of granting credits by the Fund are to be clearly described in the normative documents. Procedures will differ depending on the amount of a credit granted to an entrepreneur.

First of all, it is necessary to define the interest rates on crediting. In our opinion, it will be logical to use the refinancing rate of the RF Central Bank as a unit of measure:

- Credits over 5000 USD:
 - first loan – 3/4 of the refinancing rate;
 - subsequent loans – 2/3 of the refinancing rate.
- Micro-credits:
 - first loan – 1,5 of the refinancing rate;
 - second loan – 1,25 of the refinancing rate;
 - subsequent loans – 1 refinancing rate.

The wide range of interest rates can be explained by a specific character of finance. Credits amounting to 5000 USD are granted for the projects accompanied by business plans while micro-credits are popular among entrepreneurs and as a rule are used to purchase goods for resale or to increase circulating assets.

For the same reason there are different terms of finance:

- micro-credit – under 1 year;
- other credits – over 3 years.

The lists of necessary documents differ as well (see attachment).

It is necessary to point out a few important principles:

1. Information about possible credits, interest rates, and conditions of finance must be available to businessmen. In this case publishing normative acts in a local newspaper is insufficient. There should be prepared a special booklet that could be distributed through the Tax Inspection.
2. If an investment project is not approved for financing, the applicant must receive a letter explaining the reasons of rejection.
3. Report on the use of funds must be published in mass media and submitted to the Entrepreneurs' Consulting Board annually.

(b) *Incentives for the development of missing elements of the infrastructure.*

In our opinion, an important incentive is *tax privileges* granted within the competence of a municipality. We recommend applying the following system of tax exemption (we speak about tax exemption within the amounts placed to the city budget):

- ◆ Tax privileges for credit organizations granting credits to investment projects (exemption from the profit tax on the amount of proceeds received by granting credits to investment projects; the amount of tax exemption is calculated according to the amount of given credits in proportion to the total credit value of the bank);
- ◆ Tax privileges for insurance companies that insure investment projects against commercial risks (exemption from the profit tax on the amount of proceeds obtained by insuring against commercial risks the investment projects implemented in the territory of the city/municipality);
- ◆ Tax privileges for organizations which provide support (including financial support) for small enterprising (exemption from all local taxes on condition that the specific weight of work/services rendered to small enterprising amounts to not less than 50% of the total volume of performed work/services);
- ◆ Tax privileges for organizations that
 - provide informational and consulting services to small enterprising;
 - perform marketing research for enterprises and agencies located in the municipality;
 - develop business plans and examine investment projects of municipal enterprises;
 - provide assistance with registration and preparation of charter documents.(exemption from the property tax, land tax, land rental and levy for police maintenance on condition that the specific weight of the mentioned above services is more than 75% of the total volume of performed work/services);
- ◆ Tax privileges for organizations providing research and development support for enterprises and agencies (exemption from the property tax, land tax and land rental on condition that the specific weight of the mentioned above services is more than 75% of the total volume of performed work/services);
- ◆ Tax privileges for enterprises and organizations engaged in training and re-training of human resources as well as assisting with personnel recruitment (exemption from the land tax and land rental on condition that the specific weight of the mentioned above services is more than 75% of the total volume of performed work/services);
- ◆ Tax privileges for leasing organizations (exemption from the property tax on condition that the property and equipment were obtained for leasing).

Basically, these tax privileges are of “psychological character”. They display the willingness of the administration to support the development of business infrastructure. The regulation on tax privileges must be a separate document (see attachment III-3-3).

III.4. Streamlining the controlling activities of inspecting agencies.

The implementation of all activities proposed in this chapter will be more relevant at the level of Kaliningrad region. In several regions like Belgorod region or Nizhegorodskaya region these activities have been successfully carried out.

Therefore the administration of Sovetsk should try to initiate a number of measures (see below) at the regional level. And their independent implementation will be only appropriate, if the initiative is rejected. In the situation of independent implementation the administration of Sovetsk can suggest to the regional authorities conducting an experiment in the city territory.

The measures to be taken by the administration will help to solve a common problem faced by businessmen and that is the pressure of inspections carried out by controlling authorities. In most cases the issue of power abuse is not relevant and entrepreneurs complain of the lack of coordination of routine checks conducted by inspecting agencies.

Measures to be taken:

1. To establish the Coordinating Council of Controlling Authorities
2. To streamline the inspections by introducing the “Records of Inspections”

The establishment of the Coordinating Council of Controlling Authorities must be based on a multilateral Agreement (attachment III-4-1) because the Council is to consist of representatives of different subordination levels (mostly federal). As a result, consultations and discussions are to take place during the process of its establishment.

The main tasks of the Coordinating Council of Controlling Authorities:

- To coordinate and develop a common inspection schedule for all controlling and supervising authorities including the controlling bodies of territorial subdivisions and dual subordination. The schedule will be obligatory for all participants of the Agreement. In this case all inspections of enterprises will be carried out according to the plan;
- To stipulate the periodicity of the routine checks, paying special attention to the manufactures and providers of certain services whose activities might cause danger to the population in case of violation of rules;
- For all controlling bodies of the city to plan special complex inspections not more than once a year (unplanned checks are possible in exceptional cases. Based on a certain information, the unplanned checks should be carried out according to a special order signed by the director of the inspecting agency);
- To collect information about the results of inspections in a computer version at the Agency of Municipal Development where this information will be used for evaluation of the inspections’ effectiveness;
- To create a mechanism of resolving conflicts between entrepreneurs and inspecting agencies.

Another step of the administration in this direction – introduction of the “Records of Inspections” – will decrease the number of conflicts. The “Records of Inspections” are to be distributed among businessmen and at the enterprises through the Agency of Municipal Development. The “Records of Inspections” will help to collect actual information that will in turn become a basis

for examining specific conflicts. The decree on introduction of the “Records of Inspections” is presented in the attachment III-4-2.

Although the description of these measures appeared to be shortest in this chapter, their implementation is extremely difficult. If the measures are successfully carried out, they will not only promote business development but will also coordinate activities of different services.

Attachment III-2-1 Regulations on SME Advisory Council of Sovetsk

REGULATIONS ON SME ADVISORY COUNCIL OF SOVETSK

1. General Provisions

- 1.1. SME Advisory Council (further referred to as the Council) is the advisory and deliberative body established to coordinate and increase development of small entrepreneurship in Sovetsk.

2. Objectives of the Council

- 2.1. The main objectives of the Council are:
 - 2.1.1. To create favorable environment for small business;
 - 2.1.2. To develop the dialogue between the local government and the business community;
 - 2.1.3. To assist with development of the effective municipal policy for small businesses;
 - 2.1.4. To develop social initiative.

3. The Main Activity of the Council

- 3.1. The Council is established to implement the following activity:
 - 3.1.1. To approve the annual activity plan for support of SME; and to control the implementation of the plan.
 - 3.1.2. To give recommendations on the application of the budget funds prescribed for the support of SME.
 - 3.1.3. To determine the priority in the activities of SME.
 - 3.1.3. To assist SME in creating new working places, preferably for the young people.
 - 3.1.4. To monitor the situation with development of SME in the city.
 - 3.1.5. To enable communication between SME and local government, business infrastructure agencies and mass media.

4. Rights of the Council

- 4.1. The Council has the rights to:
 - 4.1.1. Demand and receive from City Government committees and departments analytical, informational and other materials necessary for the efficient operation of the Council within his competency.
 - 4.1.2. To participate in development, consideration and discussion of the issues of small entrepreneurship support in the departments of the city Government.
 - 4.1.3. To conduct according to the prescribed order meetings of the Council on all issues within its competence.

5. Structure of the Council

- 5.1. The Council includes the representatives of the business community, private entrepreneurs, small business support agencies, social organizations and associations. These representatives are the permanent members of the Council and have the voting rights.
- 5.2. The maximum allowed number of the members of the Council is 12 people.
- 5.3. The Council can independently constitute the working bodies if finds necessary for performing its functions.
- 5.4. The initial members of the Council are nominated by the City administration. The Council for one calendar year defines the further order for organization of the Council after the present regulations approval.

6. Operation of the Council

- 6.1. The activity of the Council should comply with the Rules of the Council accepted by the Council.
- 6.2. The meetings are conducted according to the approved plan. The Council upon initiative of the Chairman or members of the Council can convene extraordinary meetings if necessary. The meeting shall be deemed validly convened if more than a half of all the members are present.
- 6.3. The City Administration is obliged to submit for the Council's consideration the following:
 - 6.3.1. Draft Regulations of Administration relevant to SME.
 - 6.3.2. Draft municipal programs for SME support and development.
 - 6.3.3. Draft programs that provide financing for small business from the city budget.
- 6.4. All decisions of the Council are of advisory character and should be considered by the Administration.
- 6.5. All decisions are taken by the majority vote.
- 6.6. The Council can invite to the meeting individuals and experts, working at the SME sector with the right of advisory vote.
- 6.7. Once in two years the Council reports on its work to the entrepreneurs' conference.

Attachment III-2-2 Rules Of The City SME Advisory Council

APPROVED
By the City SME Advisory Council

Minutes ¹ _____
“__” _____, 2001

RULES Of the City SME Advisory Council

1. General Provisions.

- 1.1. SME Advisory Council (further referred to as the Council) is the advisory and deliberative body established to increase the efficiency of the municipal policy in small business sector.
- 1.2. The present Rules define the structure and order for the operation of the Council.
- 1.3. The present Rules are written on the basis of the Regulations on SME Advisory Council approved by decree of Sovetsk Administration No. _____.

2. Membership and Structure of the Council.

- 2.1. The Council includes the representatives of the business community, private entrepreneurs, small business support agencies, social organizations and associations. These representatives are the permanent members of the Council and have the voting rights.
- 2.2. The total number of the members should not exceed 12 people.
- 2.3. The Chairman and Deputy Chairman of the Council constitute the supreme governing body of the Council.
- 2.4. The Chairman of the Council is elected from the Council members for 1 year period.
- 2.5. The Chairman is responsible for the following:
 - 2.5.1. To convene meetings of the Council.
 - 2.5.2. To supervise activity of the Council.
 - 2.5.3. To represent the Council at mass-media and at the meetings with entrepreneurs.
 - 2.5.4. To sign minutes of the Council's meeting.
 - 2.5.5. To send inquires on behalf of the Council to the city Administration.
- 2.6. The Deputy Chairman of the Council is elected among the members of the Council for the period of 1 year.
- 2.7. The Deputy Chairman of the Council is responsible for the following:
 - 2.7.1. To open and chair the meetings of the Council in absence of the Chairman.
 - 2.7.2. To sign the Minutes of the Council's meetings in absence of the Chairman.
 - 2.7.3. To speak at mass media and at the meetings with entrepreneurs if approved by the Council or the Chairman of the Council.
 - 2.7.4. To send inquires on behalf of the Council to the City Administration.

- 2.8. The Council appoints the Executive Secretary to support the work of the Council and perform the functions of the Council.
- 2.9. The Executive Secretary is not the member of the Council and he does not have the voting right.
- 2.10. The Executive Secretary is responsible for the following:
 - 2.10.1. To maintain administrative and technical support for operation of the Council.
 - 2.10.2. To prepare the meetings of the Council.
 - 2.10.3. To keep minutes at the meetings.
 - 2.10.4. To prepare inquires for the city Administration.
 - 2.10.5. To keep archives of the documents of the Council.
 - 2.10.6. To execute the functions of the press secretary of the Council and perform other functions.
- 2.11. The membership at the Council is organized at the voluntary base.
- 2.12. The members of the Council are responsible to participate in the work of the Council and attend the meetings.
- 2.13. Until the regulation on forming the Council is accepted, the new members of the Council can be accepted at the Council on decision of the current members. The candidates should be recommended by at least two active members of the Council.
- 2.14. The number of the new members of the Council should not exceed the number of vacancies.
- 2.15. The membership at the Council can be called back for the following reasons:
 - 2.15.1. Impossibility to execute the functions of the member of the Council due to natural reasons;
 - 2.15.2. Own free will;
 - 2.15.3. Decision of the Council.
- 2.16. The membership at the Council can be stopped on the decision of the Council in following situations:
 - 2.16.1. Non-execution of the responsibilities by the member of the Council;
 - 2.16.2. Non-attendance of two meetings of the Council in succession without good reasons or four meetings of the Council in succession for any reason. The following are considered the good reasons:
 - 2.16.2.1. Illness;
 - 2.16.2.2. Business trip;
 - 2.16.2.3. Other reasons decided to be good by the members of the Council.

3. Work Order of the Council.

- 3.1. The work of the Council is based on the current and perspective Action plans.
- 3.2. At the first meeting the Council approves the list of activities that are of the priority for the Council. The Action Pan is based on this list. The perspective action plan is accepted at the first meeting of the Council and covers all planned meetings of the Council for a year.

- 3.3. The Council also makes the current Action Plan. The current Action Plan includes questions that are not included into the perspective Action Plan. The current Action Plan can be changed at the next meetings of the Council.
- 3.4. A separate member will be made responsible for each priority activity (further Supervisor). The list of Supervisors will be published at mass media.
- 3.5. The Supervisor is responsible for the following:
 - 3.5.1 To select information relevant to the problem;
 - 3.5.2 To prepare the inquiries to the administration together with the Executive Secretary;
 - 3.5.3 To prepare the informational materials for the meetings of the Council dedicated to the relevant problem together with Executive Secretary;
 - 3.5.4 To speak at the meetings of the Council dedicated to the relevant problem;
 - 3.5.5 To meet with the entrepreneurs and discuss the problem.
- 3.6. The list of Supervisors is sent to the corresponding departments of the administration by the Chairman of the Council to ensure that the Supervisors receive necessary support and assistance.
- 3.7. The meetings of the Council are held according to the approved plans. Extraordinary meetings can be convened by the Council upon initiative of the Chairman, deputy Chairman or not less than the half of the members of the Council if necessary.
- 3.8. Not less than one question from the Priority Plan and one question from the Current Plan should be discussed at the meeting.
- 3.9. Before the meeting, the Executive secretary together with the Supervisors prepare the agenda, thesis of the reports, and other necessary informational and analytical materials.
- 3.10. The agenda, thesis of the reports, and other necessary informational and analytical materials should be sent to the members of the Council not later than 7 days before the meeting.
- 3.11. The meeting shall be deemed validly convened if more than a half of all the members are present.
- 3.12. The speakers will have not more than 15 minutes for the report and 10 minutes for the supplementary report.
- 3.13. The Council can invite to the meeting individuals and experts, working at the SME sector with the right of advisory vote.
- 3.14. All decisions are taken by the majority vote.
- 3.15. The minutes are kept for each meeting.
- 3.16. The thesis of the speeches and relevant informational materials are attached to the minutes.
- 3.17. The Minutes should be signed by the authorized person not later than two days after the meeting of the Council.
- 3.18. The originals of the minutes are kept by the Executive Secretary.
- 3.19. The extracts from the minutes are sent to the corresponding departments of the administration, Curators and other interested people.

4. Reporting of the Council.

- 4.1. At the last meeting in a year the Council approves the Report on the Activity of the Council prepared by the Executive Secretary and Supervisors. The Report will include description of the following:
 - 4.1.1. Questions discussed together with decisions;
 - 4.1.2. Results of the recommendations that have been sent by the Council to the Administration;
 - 4.1.3. Other events conducted by the Council.
- 4.2. Annually the Council should report on the activity at the conference of entrepreneurs. The manner of the Conference should be defined by the Council and City Administration

Chart III-2-1. Organization of Advisory Council

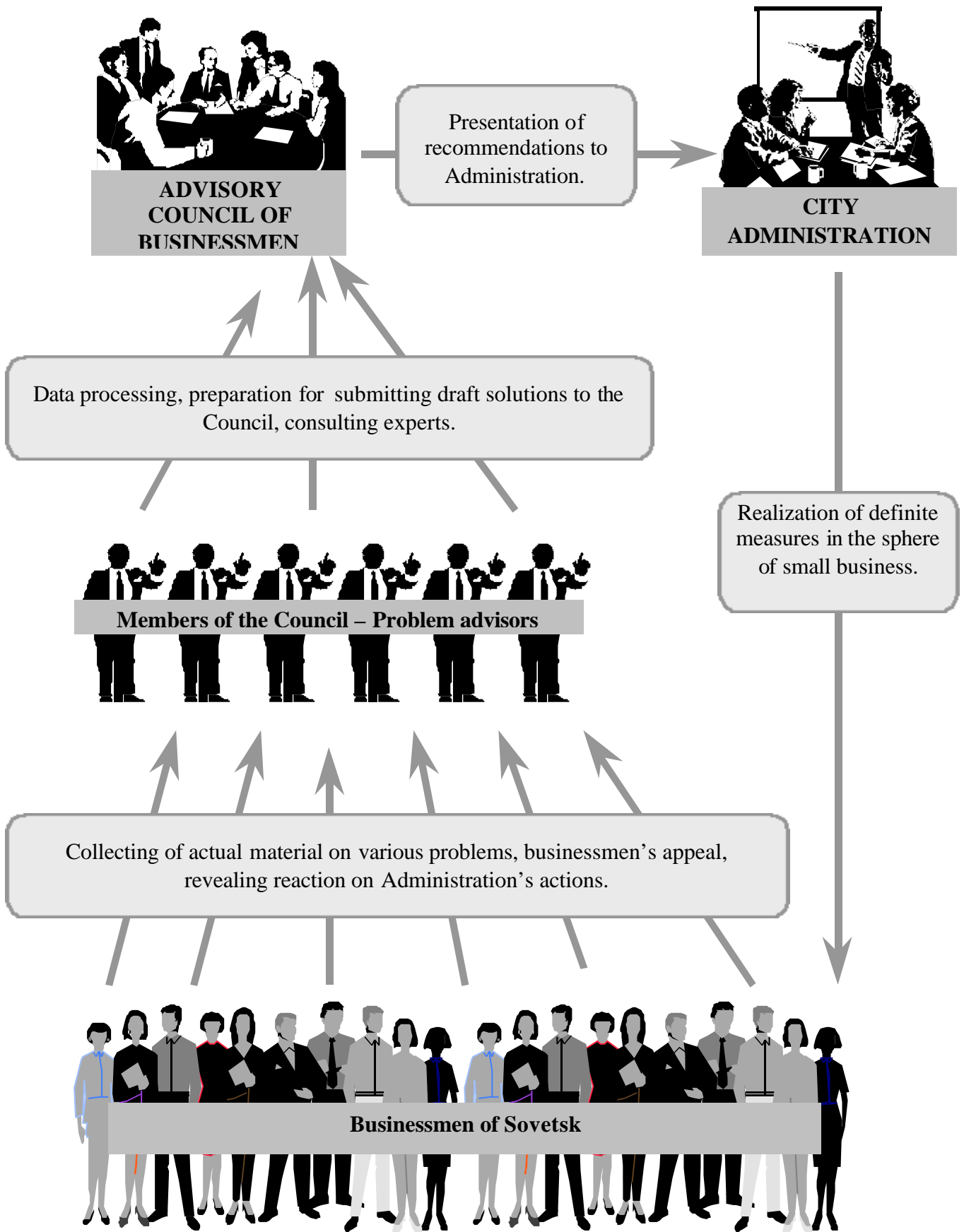


Chart III-3-1. Infrastructure of the business support: contents and functions.

	Financial support (including benefits, postponement of payments and so forth)	Assistance with registration and development of constituent documents	Facilities and equipment on easy conditions	Development of business-plans, evaluation of investment projects	Selection of production areas, production capacities, buildings, facilities	Leasing	Project work	Construction, repairs	Granting credits, investment funds	Provision of banking accounts and calculations (assistance with financial activities)	Training and re-training	Personnel recruitment	Auditing services	Legal advice	Consulting services	Information services	Marketing	Scientific and technological support	Customs services	Transportation services	Communication services (telephone, cell-phone, Internet) and advertising and PR	Insurance against risks, property insurance, guarantee insurance	Basic services (protection, cleaning and others.)
Municipal administration	1	1	1		1									1		1							
Banks									1	1													
Investment funds									1														
Leasing companies						1																	
Insurance companies																						1	
Reciprocal funds									1														
Real estate agencies					1																		
Planning and design organizations							1																
Construction organizations								1															
Universities, secondary schools and vocational-training colleges											1							1					
Training business centers, business schools											1	1											
Employment Fund divisions											1	1											
Labor exchanges												1											
Recruiting agencies, firms												1											
Auditing firms													1										
Consulting companies		1		1	2								2	1	1	2	2						
Legal advice offices, the bar, notary public		1												1									
Local mass media, printing houses																						1	
Advertising agencies																						1	
Customs																			1				
Customs brokers																			1				
Transportation companies																			2	1			
Providers of communication services, Internet providers																					1		
Institutions of research and development, design departments																		1					
Technology parks, technological centers																		1					
Patent offices																		1					
Environmental funds, centers, organizations							1									1							
Agencies, regional funds and centers of small and medium enterprises' support; business-parks		1	2	1	2	2	2		2		2			1	1	1	2	2				2	
Business incubators			1		1	1					2	2		1	1	1		1					1
Business centers			1															1					1
Information and Analysis Centers; cadastre centers															2	1	2	2					
Agencies of investment support		1		1	2				1					1	1	2	1						
Associations of manufacturers, Chambers of Trade and Commerce																1		2				2	

1 - perform the corresponding function
2 - could perform the corresponding function

Attachment III-3-1. Regulation in municipal investment fund.

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

1 ___

On approval of Regulation «On municipal investment fund»

After consideration of the draft Regulation «On municipal investment fund», presented by City Administration, the City Council of Deputies.

DECIDED:

1. To approve the Regulation «On municipal investment fund».
2. To publish the Resolution in the newspaper “Vestnik”
3. The Resolution comes into force since approval date.

Chairman of the City Council
of Deputies

REGULATION

«On municipal investment fund»

1. General regulations.

1.1. Municipal investment fund (hereinafter referred to as Fund) is established with the purpose of using budget and non-budget sources of investment and creation of credit-financial mechanism in the sphere of small business support.

1.2. Financial Department of City Administration deposits Fund's resources in the special account, which is opened on the ground of the Order of City Administration.

2. The main objectives of the Fund.

The Fund is established for solving the following problems:

- 2.1. Financing subjects of small business.
- 2.2. Financial maintenance of municipal programs in the sphere of small business.
- 2.3. Support of market infrastructure development
- 2.4. Development of competition in the sphere of small business.

3. Ways of formation of the Fund's resources.

Sources of formation of the Fund's resources are:

- 3.1. The resources of City budget indicated in the separate article of the budget.
- 3.2. The resources of Region and Federal budget assigned for the support of small business on the territory of the municipality.
- 3.3. The resources formed by payments for credits and loans, provided by the Fund, as well as payments of interests on such credits and loans.
- 3.4. Voluntary contributions of individuals and legal entities, as well as the resources from other sources under the Law of the Russian Federation.

4. Allocation of the Fund's resources.

The Fund's resources are allocated for:

- 4.1. Crediting subjects of small business.
- 4.2. Financial maintenance of municipal programs in the sphere of small business.
- 4.3. The Fund's resources are allocated for crediting subjects of small business in the following proportion:
 - 4.3.1. not more than 35% of the total sum of the Fund's resources – for micro credit allowance at the rate of not more than 5000 \$US in ruble equivalent at the exchange rate of CB RF for the date of credit allowance decision.
 - 4.3.2. not more than 65% of the total sum of the Fund's resources – for credit allowance at the rate of more than 5000 \$US in ruble equivalent at the exchange rate of CB RF on the date of credit allowance decision.

4.4. Not less than 50% of the resources, gained in the form of payments on interest, are allocated for financial maintenance of municipal programs in the sphere of small business.

4.5. Financial Department of City Administration sets interests on credits annually, guided by the refunding rate of CB RF with adjusting ratios considered. The adjusting ratios are not to be revised upwards during the year since the date of approval.

4.6. The Fund's resources are not subject for withdrawal or spending for other purposes, not associated with allocation of the Fund's resources, stated in the paragraphs 4.1-4.2. of the present Regulation.

5. The conditions and procedure of crediting from the Fund's resources.

5.1. The credits on the account of the Fund's resources are allowed in accordance with the Regulation on bidding of investment projects.

5.2. The credits on the account of the Fund's resources are extended for the following period:

5.2.1. Microcredits for the period not more than 1 year.

5.2.2. Other credits for the period not more than 3 years.

5.3. Financial Department of City Administration is in charge of conclusion of the contracts of crediting on the account of the Fund's resources and also of their execution control.

5.4. Financial Department of City Administration is in charge of accounting the Fund's resources and appropriate spending according to the objectives.

Attachment III-3-2. Regulation on bidding of investment projects.

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

¹ ___

On approval of Regulation «On bidding of investments projects»

After consideration of the Regulation draft «On bidding of investment projects», presented by City Administration, the City Council of Deputies

DECIDED:

1. To approve the Regulation «On bidding of investment projects».
2. To recommend Administration to make amendments to the corresponding standard acts of Administration.¹
3. To publish the Resolution in the newspaper “Vestnik”
4. The Resolution comes into force since approval date.

Chairman of the City Council
of Deputies

¹ Here the Order of Administration of Sovetsk «On organization of the standing bidding committee on consideration of investment projects, realized on the territory of the city Sovetsk» ¹ 481-đ 01.12.2000 is meant.

REGULATION

«On bidding of investment projects»

1. General Regulations

1.1. The main objective of the present Regulation is practical realization of the Regulation «On Municipal Investment Fund».

Bidding for investment projects that are credited on the account of the Municipal Investment Fund's resources is carried out in all the sectors excluding:

- alcohol production;
- tobacco goods production;
- military production and accompanying ammunition.

1.2. The present Regulation determines steps and conditions of bidding organization, the main requirements to the bidding documentation and offers of participants, the procedure of consideration of the offers, as well as registration of results of bidding.

2. Participants of investment bidding

2.1. Participants of the bidding may be any subject of small business, regardless of forms of ownership, business associations and other legal entities, established in accordance with the present legislation, including individuals, doing business.

2.2. The following applicants-bidders are not allowed to participate in bidding:

undergoing structural re-organization,

those that are being liquidated or undergoing bankruptcy procedure or legally restricted by active legislation;

those presenting false data about themselves;

those fail to submit required documents, as well sufficient guarantees of fulfilling financial obligations.

2.3. Bidding Committee on consideration of investment projects, realized on the territory of Sovetsk (hereinafter referred as Committee) makes the decision on rejection or admission of participants in the bidding.

3. The bidding documentation requirements.

3.1. The Committee carries out the current activity on organization the bidding.

3.2. Applicants, claiming for obtaining microcredits, submit the following documentation to the Committee:

- application, made up in arbitrary format, including the period for which the credit is required, the purpose of obtaining the credit;
- the participant's questionnaire, that includes: name of organization or enterprise; status and form of ownership (joint stock company, partnership and so on.); last, first and middle name of director and other parties, responsible for investment project realization; mailing address, telephone, fax, telex numbers and others;
- copies of Charter documents;

- copies of the licenses concerned;
- financial plan approved by the applicant and credit repayment scheduler;
- information on the applicant's solvency provided by the bank;
- accountancy balance-sheet (forms # 1,2 with addenda) covering the previous year and the last quarter of the current year, attested by fiscal inspection;
- draft of Agreement on Estate Mortgage or Contract of Guarantee, drawn in accordance with paragraph 9 of the Regulation «On procedure of providing investment tax credit» confirmed by the Resolution of the City Council of Deputy's ¹ 460 on 16th of June 1999.

3.3. The applicants, claiming for obtaining other credits submit the following documentation to the Committee:

- application, made up in arbitrary format, including the period for which the credit is needed, the purpose of obtaining the credit;
- the participant's questionnaire, that includes: name of organization or enterprise; status and form of ownership (joint stock company, partnership and so on.); last, first and middle name of director and other parties, responsible for investment project realization; mailing address, telephone, fax, telex numbers and others;
- copies of Charter documents;
- copies of the licenses, concerned;
- business plan, approved by the applicant;
- letters of guarantee – requests, agreements (contacts) serving as a proof of sales of the product under the presented project;
- information on the applicant's solvency provided by the bank;
- draft of Agreement on Estate Mortgage or Contract of Guarantee, drawn in accordance with paragraph 9 of the Regulation «On procedure of providing investment tax credit» confirmed by the Decision of the City Council of Deputy's ¹ 460 on 16th of June 1999.

3.4. The list of the documents, specified in the paragraphs 3.2. – 3.3., is sufficient.

4. The order of consideration of bidding documentation.

4.1. The applicant's requests are taken by the Committee for consideration, analysis, correction if needed, and registration;

4.2. Regarding the requests submitted, the Committee carries out a check of the applicants' solvency and their qualified selection;

4.3. The Committee considers the bidding documentation submitted within 30 days since the request's registration and makes decision on it;

4.4. The main criteria for making the decision on project financing are:

- maximum economical and social efficiency of a project,
- creation or preservation of working places,
- project realization in the sectors of high priority for the city development.

4.5. After making the decision on project financing the Committee announces the winner of the bidding within 3 days. Within the same period written notifications are sent to the applicants, whose application were rejected.

5. The Contract conclusion, relations between the organizers and participants after the bidding carried out.

5.1. Informing the enterprise-winner of the bidding results is the official invitation for the Contract signing. The Contract is to be signed within 30 days since the decision having been made;

5.2. The Contract is to be drawn up by Financial Department of City Administration. The Contract serves as the document, which guarantees that City administration shall contribute to project financing for the period of its realization;

5.3. The Contract stipulates the terms and liabilities under the bidding results:

- Contribution of Administration to the project financing (method of financing, terms, amounts);
- Allocation of amount of financing, project management functions and the dates of adjusting production to the given output (capacity);
- System of relations in respect of the property in the form of the raised production resources;
- Name of the bank, rendering an account for the project financing, and terms of its possible participation in the investment process;
- Sanctions for violation of the Contract by the Bidder, as well as other mutual obligations, the procedure of the Contract cancellation and subsequent settlements of relations between the Parties.

5.4. Simultaneously the Enterprise and Administration sign up the Agreement on Estate Mortgage and The Contract of Guarantee.

Attachment III-3-3. Decision on tax incentives for enterprises and organizations, situated on the territory of Sovetsk.

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

1 ___

“On tax incentives for enterprises and organizations, situated on the territory of Sovetsk”

With the purpose of stimulation of business support infrastructure the City Council of Deputies of Sovetsk DECIDED:

1. To exempt from payment to the city budget the taxes, where the right to grant incentives is given to local government (profit tax in the part, that goes to the city budget; estate tax in the part, that goes to the city budget; tax on land and rent on land in the part, remaining with the city budget; duty on municipal police):

1.1. Organizations, the functions of which are to support and develop small business in the city, with percentage of works and services performance for subjects of small business not less than 50 % of total works and services realization. At calculation of works and services concerned, rendered to subjects of small business by the organizations, mentioned above, certain types of services are excluded: intermediate trade, sales, supply, trade operations and services.

2. To exempt from payment of estate tax in the part, that goes to the city budget, tax on land and rent on land in the part, remained in the city budget, duty on municipal police:

2.1. Organizations, providing information and consulting services to subject of small business, marketing research services for enterprises and organizations, situated on the territory of the city, assistance in writing business-plans and evaluating investment projects of enterprises of the city, rendering assistance in registration and elaboration of constituent documentation.

The incentive is granted on the whole to an organization, provided that its percentage of the works and services concerned is not less than 75 % of total works and services realized.

3. To exempt from payment of estate tax in the part, that goes to the city budget and from payment of tax on land and rent on land in the part, remained in the city budget:

3.1. Organizations, focused on scientific-technical support of enterprises and organizations, situated on the territory of the city, with the percentage of works and services on scientific-technical support 75 % of total works and services realized.

4. To exempt from payment of tax on land and rent on land in the part, remained in the city budget:

4.1. Enterprises and organizations, situated on the territory of the city, that deal with personnel training and qualification improvement, provide recruitment services to the enterprise and

organization of the city, with percentage of works and services concerned not less than 75 % of total works and services realized.

5. To exempt from payment of estate tax in the part, that goes to the city budget:

5.1. Organizations, dealing with leasing operations (leasing companies, leaseholders) in the part of the estate, purchased for the needs of enterprises and organizations of the city and assigned to them on leasing terms.

6. To exempt from payment of profit tax in the part, that goes to the city budget:

6.1. Banks and credit establishments getting profits from allowing target investment credits (except centralized state credits) for the period of 3 and more years to the enterprises and organizations, realizing investment projects.

7. To invest the resources, raised as a result of provided tax incentives, in production development and improvement.

8. Organizations, that are provided with tax and duties incentives, shall submit the balance-sheet with the form # 2 enclosed to Financial Department of City Administration and City Inspection quarterly, as well as the report on the resources, raised from incentive taxation, and on disburse of the resources.

9. To publish the Resolution in the newspaper "Vestnik"

10. The Resolution comes into force since approval date.

Chairman of the City Council
of Deputies

Attachment III-4-1. Agreement on establishing the Coordination Council of the supervisory organizations

DRAFT.

AGREEMENT

«On establishing the Coordination Council of supervisory services»

1. The Parties of the Agreement.

The list of all the services and organizations, exercising control functions in respect to businessmen (tax inspection, tax police, social funds, State sanitation epidemic inspectorate and others.) in the following format:

Sovetsk Administration in the person of City Governor, acting in accordance with the Charter of the city;

...

hereinafter referred as the Parties,

concluded the present Agreement on the following:

2. Subject of Agreement.

The subject of the present Agreement is the establishing the Coordination Council of supervisory services, functioning on the territory of Sovetsk. The objectives of establishing of the Council are:

- drive of the Parties to improve conditions for business development on the territory of the city;
- necessity to coordinate their work on carrying out control inspection of legal entities;
- necessity to establish non-juridical mechanism of settlement of disputes between legal entities and supervisory organizations.

3. Liabilities of Parties.

The Parties are obliged to:

- work out Standing Order of the Council within 3 months since the date of conclusion of the present Agreement;
- within a month prepare the List of business subjects, that are engaged in production, or providing services, that can result in danger to people's health and life in case of business disturbance.
- within two months work out the schedule of inspections of legal entities on the territory of Sovetsk, that will meet the following requirements:
 - none of the legal entities may be subject to complex inspection by neither of the Parties frequenter than once in a year;
 - none of the legal entities may be subject to inspections by two or more Parties within a month.

- within two months agree on the Decision on introduction of Control Inspections Records on the territory of the city.

The Parties undertake to follow strictly the obligations, stipulated by the Agreement in their activity.

4. Validity of the Agreement.

The Agreement enters into force since the date of signing and is valid with no fixed term.

In case of mutual consent of the Parties, alterations and amendments may be introduced to the Agreement.

5. Legal Addresses and signatures of Parties

Attachment III-4-2. Order on introduction of Control Inspections Records on the territory of Sovetsk.

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

ORDER

_____ 2001

1 ___

On introduction of Control Inspections
Records on the territory of Sovetsk

With the purpose of creation of favorable environment for business development, regulation of control inspections of enterprises and businessmen, as well as with respect of conclusion of the Agreement on establishing Coordination Council of the supervisory organizations:

1. To introduce Control Inspections Records on the territory of Sovetsk.
2. To approve the attached Instruction on keeping Control Inspections Records.
3. To entrust Industry and Consumer Market Department with preparation and distribution of Control Inspections Records.
4. Businessmen and enterprises of the city shall buy Control Inspections Records within 90 days since the date of signing of the Order.
5. To vest _____ with execution of the present Order.
6. The Order enters into force since the date of signing.

Governor of Sovetsk

Manual on keeping Control Inspections Records

Control Inspections Records (hereinafter referred as Records) are introduced by the Order of the Governor of Sovetsk.

The Records are distributed by the Industry and Consumer Market Department of City Administration.

The Records are kept at the enterprises, organizations regardless of organizational form and property form, as well as in their subsidiaries, branches, outlets, by businessmen, on working places and so on, that can be subject to inspection by organizations, exercising control. Withdrawal of the Records by organizations, exercising control, is not allowed.

If the Records are available at the place inspected, the organizations, exercising control are obliged to make the appropriate notes on inspection by their own initiative or on demand of those inspected, regardless of its results. The notes are to be made efficiently, with complete and exact reference to all the standard acts (laws, regulations, orders and so on), according to which the reference are made if the deviation from norms or flaws in work are revealed, the names of inspectors are to be recorded also. Besides, the organizations, exercising control are to submit the representative of the enterprise, organization or the businessmen, present at the inspection, with order or any other document, that serves as a proof of the inspection necessity for comparing with the notes in the Records. In case of drawing up any acts, certificates, protocols based on the results, the copies of them are remained at the place, inspected and kept in the separate folder together with the Records. The signatures of all the people involved in the inspection are to be in the Records and the document, drawn up upon the results of the inspection. At conducting the inspection the presence of the people, who are not included in the order (except the legal authorities) is not allowed.

The purchase of new Records is necessary only after completion of the old ones. Replacement or addition of sheets to the Records is not permitted.

The Records template

1	Name of supervisory organization exercising control	Release date and registration number of order or other document, which is the ground for inspection conduction	Last, first, middle name, position, certificate of employment, the inspector's signature	Last, first, middle name, position, signature of business representative, present at inspection	Date (time) of the beginning, date (time) of the completion of inspection	Inspection objects, results of inspection, deviation from (breach) of norms revealed, penalty imposition
---	-----------------------------------------------------	----------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------

CHAPTER IV. MUNICIPAL GEO-INFORMATION SYSTEM.

IV.1. Necessity and basic measures for establishment of municipal geo-information system.

To achieve efficiency in management of city territories, the municipal administration needs sufficient information about the condition of real estate and plots of land in the territory. Indeed, reliable information about the object of management and its condition predetermines the right decisions and correct evaluation of the condition of the available resources constituting the main part of the tax base

Consequently, establishment of an active geo-information system is a necessary condition for municipal development. Such a system is of fundamental importance especially for the city municipality.

Municipal geo-information system is a combination of interconnected systems and databases of compound structure, which provide full description of the municipal territory and are regularly up-dated.

Here is an example of high importance of the geo-information system. In the summer of 2000 St.Petersburg civil engineers began the construction of Ushakovsky road junction. At some point it was necessary to perform drilling for fixing piles. Before drilling the engineers inquired about the existence of restricted areas in that district. Unfortunately, the available information was outdated and unreliable. As a result, the drilling damaged a gas pipeline and that could have caused an explosion. The construction work had been stopped for two weeks and for the safety reason the nearest metro station was closed. If there were an active geo-information system, this problem would not have arisen.

Therefore, formation of the geo-information system is one of the main objectives for strategic development of Sovetsk. The system will provide reliable information, facilitate the creation of a favorable investment climate in the city and increase revenues of the municipal budget.

These positive aspects make us believe that the major part of municipal investments (except for the funds directed to the small business development) must be allocated to establishment and development of the geo-information system that in turn will become a main element of the municipal information system.

Basic measures of geo-information system formation. The structure of geo-information system and its functioning.

The municipal geo-information system provides conditions for development of an effective mechanism of city management, which is based on efficient use of natural geographic, environmental protection and urban characteristics of different areas as well as topological data on real estate objects located there. To develop a similar mechanism of management, it is necessary to involve different specialists and organizations for planning and design, and to use a number of advanced and tested scientific tools.

The evaluation of the mechanism of geo-information system formation and functioning (see chart IV-1-1) leads to a conclusion that the development process of the geo-information system is time-consuming. Besides, it is quite expensive to keep it in an active condition.

Nevertheless, the active geo-information system is beneficial for all participants of its development. Each participant (one or more organizations) is responsible for creation of a certain layer. By the way, creation of each layer is accompanied by the creation of a system of restrictions and

requirements for the use of plots of land and real estate objects located in the city's territory. The restrictions and requirements have to be documented in the form of a normative legal act adopted by the self-government bodies. This act will become a part of the regulation system (a basis for the municipal geo-information system), according to which committees of the city administration make decisions. On the one hand, the system will simplify the procedures of allocating plots for civil construction or other stipulated use. On the other hand, it will limit the possibilities of controlling and supervising authorities to abuse their power.

After the development of layers and procedures, there will be prepared a common document regulating the land use and building construction in the territory of the city. (See Informational attachment 3 on Novgorod: "Rules of land use and construction building").

As for the process of geo-information system development, the first step is to create a working group in which ALL organizations somehow involved in the system formation will be represented. The decree project on the working group is presented in the attachment IV-1-1. In our opinion, the task of creating the spirit of cooperation and informational openness among all organizations is much more important than the selection of software and platform of the geo-information system during the first stage of the development process.

The participation of independent agencies and services must be regulated by mutual agreements between them and the administration; responsibilities clearly defined.

Finally, the ideal version of preparation requires denoting the sequence of layers.

IV.2. Possibilities to attract additional resources for the development of municipal geo-information system.

It has already been mentioned that establishment of the geo-information system is an expensive project. Besides, the development of numerous layers is time consuming. Relying on our experience and research, we can offer possible methods of decreasing costs and amount of time necessary for the creation of databases.

The first source of geo-information system development is to use the results of a land passport system describing all plots of land and objects of real estate and engineering infrastructure. This land passport system will be of high interest to a potential investor planning to build up a certain type of production in the municipal territory. If the land passport system contains full and accurate information about the condition of the plot, its legal status and procedures of its use, such reliable source of information will surely convince investors that the municipal administration is really interested in cooperation. But if the facts are misrepresented (even unintentionally), investors will lose confidence. Moreover, a similar situation in the future will make them strongly believe that the local authorities are incompetent, and this opinion can spread beyond the boundaries of the municipality.

To avoid such unpleasant situations, one can use information of different origin, for example, records of operational organizations and maintenance services as well as information submitted by high professionals performing research on real estate. Comparing the records, it is easy to discover and eliminate disparities and inaccuracies and that will provide a certain degree of authenticity and completeness. As a rule information presented in land passports exceeds the limits of a simple description and provides additional information about the plot. That will satisfy the investor's interest in the possibility of expanding his future production facilities, engineering and transport infrastructure, facilities for social purposes, and housing construction for personnel.

The passports consist mostly of topographical surveys, drawings, and diagrams. This information has to be grouped and designed for visual presentations understandable even for general public.

To process this huge and diverse material, one needs to use modern computer technologies that have recently become extremely popular.

As a result of computer processing, all passport information (about real estate and elements of the city engineering and transport infrastructure) documented both graphically and semantically will be presented in the form of a computer database. In order to have as an element of the municipal information system, the full description of real estate objects located in the municipal territory, the municipal administration needs:

1. to develop a common classifier of databases;
2. to select a software which will form the basis of the municipal system;
3. in corresponding local normative and legal acts to document requirements and conditions;
4. to assign this task to specialists developing investment proposals.

During the research work we described two sites (see volumes 2, 3 of the report). The presentation material and working files were given to the administration, which can continue working in this direction.

The municipal administration can order and finance the development of investment proposals. The money spent on it will be considered and reimbursed when an investment company decides to buy the right on use of land, real estate, and engineering and transport infrastructure.

There is also another way to attract additional resources for the development of the municipal geo-information system. That is to explain to the management of major modern municipal enterprises the inevitability and necessity of production modernization and reconstruction. Defining the tax base of each enterprise by recording the real estate objects and optimal size of plots is one more issue. For the management of the enterprises the difficulty of the problems lies in the fact that they need to make a comprehensive high quality evaluation of the technical conditions of the real estate and engineering and transport infrastructure.

A very popular approach to solving the problems is to conduct an inventory based on the engineering and diagnostic research of the building and construction. The inventory results form the basis of management decisions on the future use of objects as well as on defining the optimal size and borders of the plots that are to be used for main production or implementation of new investment projects. The inventory activities include collection of data describing location, size and configuration of real estate objects and engineering and transport infrastructure, renewal of topological survey, and reconstruction of principle patterns of energy supply with the help of old and current documentation used by operational organizations.

The territories of some enterprises are so large that the inventory material can be processed and corrected only by using special computer technologies. Therefore, it is worth to structure all inventory material and create graphic and semantic computer databases. Through these activities the enterprises are able to introduce the geo-information system into the management of real estate. The municipal administration can try to interest the management of an enterprise to combine the inventory with creation of an automated system of real estate management based on a software compatible with the software of the municipal geo-information system. In this situation the inventory results will become an element of the municipal geo-information system and are to be used by the administration on certain conditions.

Indeed, the administration needs to indicate certain conditions stimulating industrial enterprises to conduct an inventory simultaneously with establishing a computer database.

The stimulation might include tax incentives covering 50% of the cost of work.

However, granting tax incentives to enterprises must have certain limits:

- first, tax incentives will be granted after the enterprise completes the formation of its own geo-information system and presents its copy to the administration;

- second, the software of the geo-information system of the enterprise has to be compatible with the municipal geo-information system software.

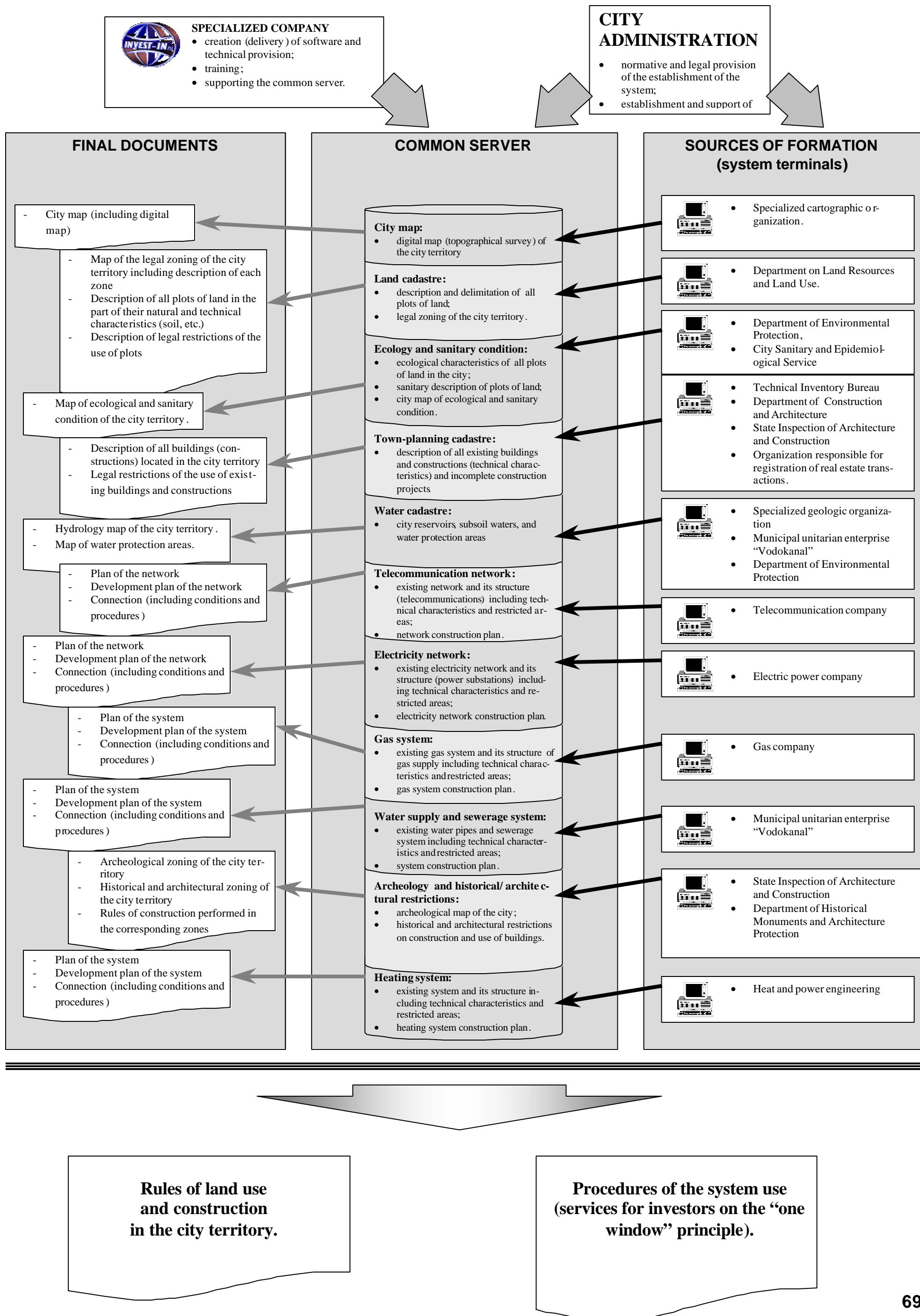
The Regulation on Tax Incentives is presented in the attachment IV-2-2. The adoption of the regulation will be beneficial both for enterprises (they will create their own geo-information systems at half price) and for the administration (it will gain an additional element of the system and accurate inventories of the city enterprises).

Next, in the situation with competitive production of an enterprise, there is an opportunity to interest it in the formation of different lots representing separate parts of its land and property complex. Facing the necessity for transfer of title, the enterprise can sell the lots of stipulated use. The digital version containing information about real estate objects and engineering and transport infrastructure for each lot as well as quality and quantity characteristics of the corresponding plot of land can be used as an additional resource of the municipal geo-information system.

Computer technologies will be used for the development of project variants of how to divide the land and property complex into lots. As a result of this productive work, the Board of Creditors will be able to take into consideration different factors, evaluate the degree of liquidity of the enterprise and, finally, to choose the best strategy. Thus, the enterprise can lawfully allocate financial resources to the development of lots, while the municipal administration takes the responsibility to coordinate the technical requirements necessary for new production development. At the same time the administration uses the project materials as an element of the municipal geo-information system and provides active support for the specialists engaged in the development of investment proposals by attracting potential investors to purchase the lots of land and property.

The chart IV-2-2 shows the mechanism of attracting additional sources for the development of the municipal geo-information system.

Chart IV-1-1. Algorithm of the municipal geo-information system formation and functioning



Attachment IV-1-1. Order on establishing geoinformation system.

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

ORDER

_____ 2001

1 ____

On establishing geoinformation system

With the purpose of enhancing the city management efficiency, improving investment climate and attracting investments to the city economy, as well as within the framework of the Strategy of Sovetsk Development:

1. To start establishing city geoinformation system.
2. Automated Management Systems Department in collaboration with Land Resources and Land Management Committee shall present proposals on selection of development contractor of city geoinformation system within two weeks.
3. To create work team involved in development of city geoinformation system in membership according to Attachment 1, in accordance with planned information layers.
4. To vest _____ with execution of the present Order.
5. The Order enters into force since the date of signing.

Governor of Sovetsk

MEMBERSHIP

Of work team involved in development of city geoinformation system of Sovetsk

Deputy of Head of Region Administration, chairman of the Committee

The Head of Automated Management Systems Department, the deputy of chairman of the Committee

Members of the Committee:

The Head of Land Resources and Land Management Committee

Chief architect

The Head of Construction and Architecture Department

Senior doctor of State Sanitation Epidemic Inspectorate

Senior state inspector on environment preservation

Telephone company representative

Electrical network representative

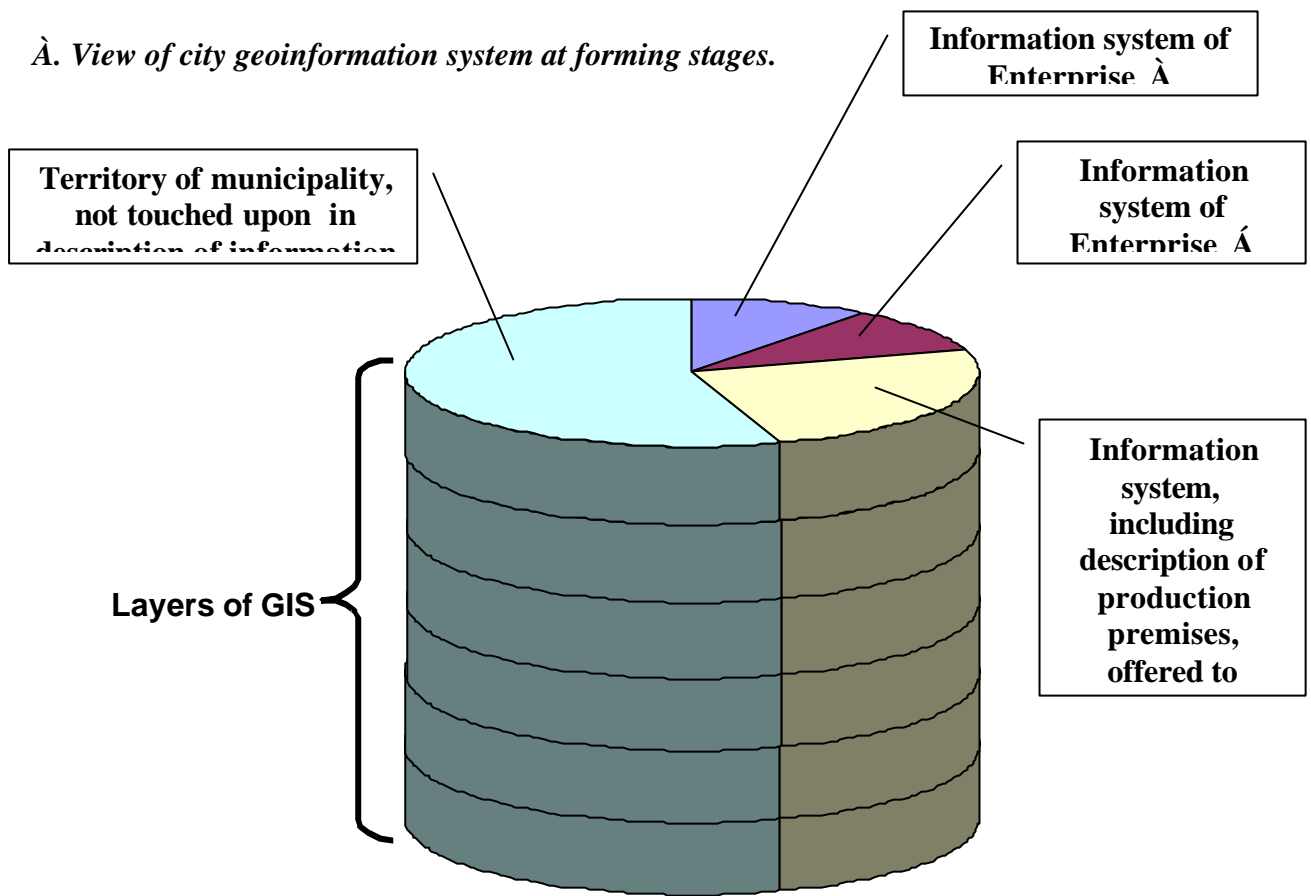
Gas company representative

Heating network service representative

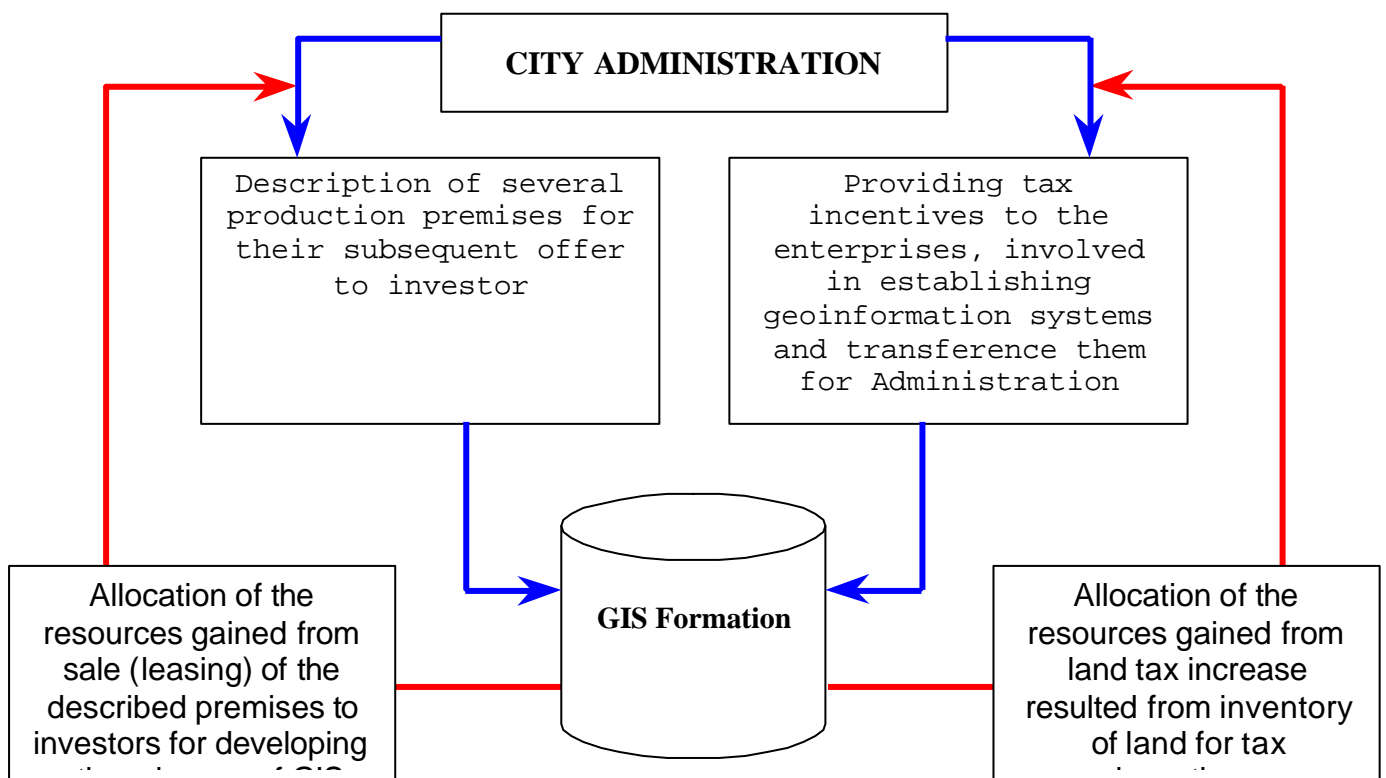
Water supply and sewerage service representative

Attachment IV-2-1. The alternative of low-costly forming of geoinformation system.

À. View of city geoinformation system at forming stages.



À. The procedure of formation GIS according to low-costly scheme.



Attachment IV-2-1. Regulation on tax incentive stimulation of participation of the enterprises of Sovetsk in formation of city geoinformation system.

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

1 ___

On approval of the Regulation «On tax incentive stimulation of participation of the enterprises of Sovetsk in formation of city geoinformation system»

After consideration of the submitted Regulation by City Administration «On tax incentive stimulation of participation of the enterprises of Sovetsk in formation of city geoinformation system», City Council of Deputies

DECIDED:

6. To approve the Regulation «On tax incentive stimulation of participation of the enterprises of Sovetsk in formation of city geoinformation system».
7. To publish the Resolution in the newspaper “Vestnik”
8. The Resolution comes into force since approval date.

Chairman of City Council of Deputies

REGULATION

«On tax incentive stimulation of participation of the enterprises of Sovetsk in formation of city geoinformation system»

1. General Regulations

- 1.1. The present Regulation determines terms and order of tax incentives provision to enterprises, that participate in formation of city geoinformation system.
- 1.2. The following terms are used in the present Regulation:

City geoinformation system – Information system, developed in accordance with the Order of Administration of Sovetsk «On establishing city geoinformation system» _____ 2001, ¹ ____.

Information system of enterprise – Information system, which describes enterprise territory, exists in program format identical to city geoinformation system and consists of all the information layers, constituents of city geoinformation system.

Participation in formation of city geoinformation system – assignment of information system by an enterprise to City Administration for integrating into city geoinformation system.

Development costs of information system of enterprise – amount of money, paid by an enterprise to development contractor, for elaboration of information system of an enterprise.

Development contractor – firm, realizing development and maintenance of city geoinformation system.

2. Tax incentive content and rate.

- 2.1. The enterprises, participating in formation of city geoinformation system, are granted tax payments decrease in:
 - profit tax, in the part that goes into the city budget;
 - land tax, in the part that goes into the city budget,as well as:
 - rent payments, in the part that goes into the city budget.
- 2.2. Tax and rent payments are decreased by the sum, equivalent to 50% of development costs of information system of an enterprise.

3. Procedure of tax incentives provision.

- 3.1. The enterprise claiming for tax incentives provision in accordance with the present Regulation shall submit Financial Department of City Administration with the following documents:
 - Application, made up in arbitrary format;
 - Acceptance Act, revealing assignment of information system of enterprise to Automated Management Systems Department of City Administration. The form of Acceptance Act is to be worked out by Automated Management Systems Department and approved by the Governor of the city;
 - Copy of Contract with development contractor, with reference on development costs of information system of an enterprise;
 - Copies of payment orders, certifying the fact of transfer of sums under the Contract to development contractor's account.
- 3.2. Within two weeks since the date of submission of the documents Financial Department of City Administration draws up the Order draft on providing tax incentives to the enterprise. The Order stipulates the amount of tax incentives.
- 3.3. The Order is signed by the Governor of the city. The copy of the Order is forwarded to Tax Inspection.
- 3.4. The date of starting of tax incentives provision is the date of signing of the Order.

4. Circumstances, excluding tax incentives provision.

- 4.1. The enterprise claiming for tax incentives provision in accordance with the present Regulation may be rejected due to the following reasons:
 - Non-submission of the documents, stated in the paragraph 3.1. of the present Regulation, to City Administration;
 - Submission of invalid document, stated in the paragraph 3.1. of the present Regulation;
 - Holding the case on tax infringement, or on administrative infringement, connected with breach of law on taxes and duties, in respect of the enterprise claiming for tax incentives provision.
- 4.2. The list of grounds for rejection in tax incentives provision, presented in the paragraph 4.1. is full and complete.

CHAPTER V. INVESTMENT PROMOTION

V.1. Choice motivation of the main trends in development and measures for its implementation.

Taking into account the subject matter of this report, the choice of investment promotion as a main trend is not surprising. Besides, Sovetsk possesses high potential for attracting investments.

As the two previous chapters were also devoted to the creation of a favorable investment climate, now we will describe those important issues that were not covered earlier. Therefore, the description part of the chapter will be rather short.

The specific measures proposed for implementation in this chapter are directed to support investors in solving main problems, which they often face carrying out their investment projects in Russia. Relying on our previous experience, we can outline a number of major problems:

- Lack of information (here we mean any information about the Russian reality);
- Imperfection of administrative procedures and existence of administrative barriers;
- Imperfection of tax system.

Therefore, the proposed set of measures is to mitigate the problematic circumstances and thus to improve investment climate in Sovetsk.

V.2. Optimization of administrative structure.

Within the framework of this direction, we do not intend to encourage the administration in establishment of new departments responsible for investment activities or small enterprising. This would be excessive for such a small city.

In our opinion it will be more expedient to establish a quasi-administrative structure (the administration establishes an organization delegating to it a number of its responsibilities). The quasi-administrative structures are traditionally established as agencies in the form of a non-profit partnership or municipal institution.

Any non-profit partnership requires at least founders that is why the form of a municipal institution satisfies the conditions of Sovetsk better.

The attachment V-2-1 contains an approximate charter of an agency of municipal development.

The main responsibilities of the Agency are:

- to assist with reconstruction of the municipal economy structure;
- to attract external investments and accumulate internal investments, in order to develop a stable municipal economic structure that will be strong enough to survive crises;
- to form a competitive market environment;
- to provide informational support for city organizations;
- to implement measures enabling the growth of the city investment rating;
- to conduct a comprehensive and opportune analysis and forecast of the main development trends of the structural policy and growth of economic efficiency;
- to monitor economic activities of municipal organizations aiming to increase their efficiency and profitability;

- to revise the City passport quarterly;
- to support and revise the city web-site;
- to form a database and disseminate full and relevant information among potential investors and partners;
- to establish contacts, develop and strengthen relations with international and interstate financial organizations, foreign and other partners;
- to attract financial resources of domestic and international financial and other organizations as well as private persons and entrepreneurs;
- to provide assistance for municipal organizations of Sovetsk with creating business-pans;
- to promote of investment projects and programs;
- to advise on legal, commercial and financial issues of business operations.

It is necessary to dwell upon the financing of this organization. There are three main sources of financing:

1. Contribution of the administration as a founder.
2. Grants of international organizations and programs.
3. Fees for consulting services.

The last item requires special consideration. First of all, the Agency should be the main provider of consulting services for small and medium enterprises. It means that for them the Agency has to become “one window”.

Generally, there is an opinion that small business is not ready to pay for consulting services. This opinion is only partially correct. Indeed, the small business is not ready to pay the same amount of fee as the large companies. The rest depends on the ability to sell services. Let us take, for example, the experience of other regions. Thus, in Voronezh region agencies sell “informational leaflets”. These leaflets describe standard actions in a standard situation (for instance, during the tax inspection check). The price of a leaflet is 10-15 rubles. They are very popular among entrepreneurs. As for the more serious issues, the consultation will be more expensive.

Finally, it is important to point out that there is a big difference between INFORMATION and CONSULTATION. All information must be given to investors free of charge because the main task of the Agency consists of attracting new investments to the city. For example, if in the process of preliminary negotiations the investor requests information about possible tax privileges granted by the city, it has to be provided free of charge. However, if the investor needs to have a calculation of the amount of tax benefits for a specific project, this is a paid service.

V.3. Organization of services for investors and entrepreneurs on principle “one window”.

The term “one window” appeared recently. Two or three years ago instead of this term one would use another one - “investment project support”. Although both terms imply methods of reducing and overcoming administrative barriers, they differ in the choice of approaches.

The administrative barriers are so confusing, time-consuming and contradictory that they have always made investors implementing their projects in Russia desperate. The investors were ready to pay all taxes but failed to understand the reasons why they could not solve a simple problem of receiving information about the construction technical requirements.

In order to solve the problem, in Novgorod region there was applied a principle of the “investment project support” a few years ago. Each investment project was supervised by a representative of the administration (vice-governor, as a rule). This representative helped the investor to solve all his problems.

However, the increasing number of investment projects made this practice less efficient. Therefore, experts began to look for more comprehensive approaches to solving the problem. That was the first step to application of the principle “one window” in the process of providing investment support.

Currently, there are two methods of the application of this principle within the acting legislation:

1. To establish joint committees working on the principle “one window”. It means that the representatives of different bodies, organizations and services involved into the same stage of investment process will work together as members of one committee.
2. To use the organizations (companies) of narrow specialization as intermediaries between an investor and the administrative bodies.

The first method can be easily illustrated. In order to fulfill the technical requirements to construction works, the investor deals with representatives of more than 10 organizations and services of different levels of subordination and ownership. Each institution has its own set of requirements, which is given to the investor at a specific stage of the construction process. Sometimes it is necessary to pay for obtaining a certain set of technical requirements. If there is a special joint committee consisting of representatives of all services, the investor can ask for an appointment and then submit his project. After a definite period of time he will receive a package of technical requirements.

We recommend establishing two joint committees in Sovetsk:

- Land committee – this committee will consist of all representatives of the bodies, organizations and services involved into the process of allocating plots of land to investors.
- Above mentioned committee on technical requirements to construction works (an example of a similar regulation on the committee is presented in the attachment V-3-1).

As for the second method – the use of the organizations (companies) of narrow specialization – it should be applied on certain conditions. Thus, the Agency of Municipal Development can provide support for small companies in the process of its registration and obtaining different permits. At the same time it will be more logical, if large companies use the services of consulting firms that have experience in solving the problems and are able to work according to the principle “one window” (for example, company *Invest In*).

V.4.Revision of legal acts regulating investment activities.

We have already described the weak points of the normative acts regulating investment activities in Sovetsk (see chapter II). That is why we prefer to draw attention to another significant issue.

This section is placed at the very end of the report only because we have always stated that despite general public opinion tax privileges (in fact, most changes proposed in the report have to do with tax privileges) are not the most important instrument of investment promotion. Moreover, tax privileges will make no use, if the measures proposed by this document are not implemented. This point should be clear to the local authorities.

It is also necessary to point out that tax privileges must be available for investors. That is why we have made a number of changes in the content of normative acts of Sovetsk.

The act “On Regulation of Investment Activities in the territory of Sovetsk Carried Out in the Form of Capital Investments” was seriously revised (see attachment V-4-1). Here are the following improvements:

- The restriction on the amount of investment was cancelled due to the fact that small and medium enterprises could not enjoy the tax benefit;
- The restriction on the period of tax exemption (3 years) was cancelled. Now tax exemption is granted for the payback period calculated on the basis of the Rules;
- Exemption from the fee on municipal police maintenance for the payback period (the fee is paid from the Wage Fund therefore investors are not interested in paying high wages and the city collects less income tax);
- The application procedure for tax privileges was simplified, the requirement to furnish a deposit, guarantee or security was cancelled. Indeed, foreign investors implementing projects in Russia take high risks, and the administration workers should not put more pressure on the project in the form of an additional requirement;
- The introduction of the “grandfather’s clause” provides additional guarantees for investors.

It is also necessary to introduce an amendment to the regulation “On the Order of Granting Investment Tax Credit” (see attachment V-4-2). The thing is that enterprises can not apply for tax privileges, if they receive a credit on investment project implementation. Therefore, the credit should be granted for a longer period (we suggest one-year period) than the payback period of the investment project.

Finally, we have formulated new calculation rules of the time when the organization carrying out an investment project achieves full payback of invested funds (see attachment V-4-3). Unfortunately, the old rules are a copy of the Novgorod method, which is outdated and prevents from correct independent calculation of the payback period of an investment project. Many investors who needed to apply the rules (in Novgorod) complained about difficulties. To avoid the difficulties, it was necessary for them to use consulting services and that became a barrier for small enterprises.

Therefore, within the frameworks of this report we propose a set of rules developed by our experts. One should take into account that the calculation rules of the payback period of an investment project used on the municipal level must comply with similar rules of the regional level. This is a necessary condition for an investor to make a correct calculation of the project development, when he applies for both regional and municipal tax benefits. This requirement must enable the municipality to lobby the adoption of similar rules on the regional level.

Attachment V-2-1. The Charter of the Agency for Municipal Development of Sovetsk.

Registered
by the Order of City Administration

Approved:
by the decision of the Municipal
Property Management Committee

_____2001¹

_____2001¹

CHARTER

**Municipal establishment
«Agency for Municipal Development »
of Sovetsk
of Kaliningrad region**

1. General Regulations

1.1. Agency for Municipal Development of Sovetsk is a municipal non-profit establishment, hereinafter referred as “the Establishment”.

1.2. The official abbreviated name of the Establishment - АИД

1.3. The Establishment is a legal entity, has its own property, balance-sheet, settlement account and other accounts in banks, seal with its own name, stamps and forms, as well as a registered in the established order logotype.

1.4. The Establishment acts in accordance with the law and standard acts of Russian Federation, standard and legal acts of Kaliningrad region, Regulations and Orders of the Governor of the city, Resolutions of the Council of Deputies of Sovetsk, the present Charter and other standard acts.

1.5 The Establishment acquires property and non-property rights and is liable for the obligations, can be plaintiff and defendant before the court and the Arbitration Court under the present law of Russian Federation.

1.6. The Establishment is in charge of its liabilities by the funds available at disposal, as well as by the property, reported by the separate balance sheet. If the Establishment is short of funds, the owner of the Establishment is liable for obligations (debts).

1.7. Location of the Establishment:

1.8. The Founder of the Establishment is City Administration of Sovetsk.

2. Mission and object of the Establishment’s activity.

2.1. The mission of setting up the Establishment is complex social-economical development of the city through:

- restructuring of economy and economic complex of municipal education;
- attraction of external and accumulation of internal investments for developing steady resistant to crises economical structure of municipal education;
- creation of competitive market environment;
- information support of organizations of the city;

2.2. For reaching the stated targets the Establishment realizes the following main activities:

- realizes complex of measures, for strengthening investment rating of the city;
- conducts complex and efficient analysis and forecasting on chief direction of structured policy and enhancing of economy efficiency of the city;
- carries out on its own or on demand of Administration monitoring of activities of legal entities with the purpose of advance in their efficiency and profitability;
- conducts quarterly adjustment of City Passport;
- provides support and renovation of the city web-site;
- forms databases and disseminates complete and necessary information for potential investors and partners;
- establishes contacts, develops and maintains relations with international financial organizations, foreign and other partners;

- attracts financial resources of domestic and foreign financial and other organizations, as well as individuals and businessmen;
- evaluates potential partners;
- renders practical assistance in writing business-plans for legal entities of Sovetsk;
- supports investments projects and programs;

In addition to the main activities, the Establishment has the right to realize the following activities, resulting in profit:

- consultation on juridical, commercial and financial issues of business;
- carrying out marketing research;
- working out complex development programs, business-plans, technical-economical reports, meeting the requirements of both local and foreign potential investors and partners for enterprises and businessmen;
- preparation and submission of the necessary documents and requests to international funds, organizations, as well as foreign firms; their follow up;
- investment and other projects expertise, preparation of contracts on joint ventures;
- advertising-publishing activity;
- elaboration of forms of research by questionnaires of all levels;
- other activity, that is in compliance with the mission of setting up the Establishment.

Realizing of some activities that are subject to licensing is allowed on the ground of licenses, obtained in the established order.

3. Property of the Establishment

3.1. The property of the Establishment is owned by municipality and is assigned to the Establishment for operative (day-to-day) management. The Establishment has the right to possess and use the property assigned.

3.2. The Establishment has no right to alienate or misuse the property assigned to it and the property, purchased with the funds, allocated from the cost estimate.

3.3. The property, purchased by the Establishment at the account of revenues from its activities, is owned by the Establishment and reported in the separate balance-sheet.

4. Sources of the Property formation.

4.1. The sources of Property formation of the Establishment in the form of money and other forms are:

- the property assigned by the owner or authorized person;
- receipts from the founder, regular or in a lump;
- voluntary property contributions, including foreign investments and donations;
- revenue, gained from profit-making activity, allowed to the Establishment;
- dividends (income, interest), on shares, bonds, and other securities and deposits;
- other permitted by the law receipts.

The procedure of regular and lump receipts from the founder is determined by the decision of the founder, but the procedure is not to interfere with the interests of the Establishment and its functioning.

4.2. Net profit, received after all the taxes being paid by the Establishment, materials costs recovery, purchasing of the necessary equipment, payments of payroll, may be divided by the founder at the following rate: 30% to non-budget fund of City Administration, 70 % - on the Establishment development in accordance with the agreed cost estimate.

4.3. Property resources, made by foreign investors to the Agency for Municipal Development are not subject to withdrawal and redistribution by the founder.

5. Organization of the Establishment's activity.

5.1. The Establishment builds its relations with State organizations, other enterprises, organizations and citizens, both in Russia and abroad, in every sphere of activity on the basis of agreements and contracts.

5.2. The Establishment determines the prices and tariffs on all kinds of works performed, services, goods produced and realized under the present law.

5.3. For reaching the mission the Establishment has the right:

- to set up the branches and subsidiaries on the territory of Russian Federation under the law of Russian Federation;
- to approve regulations on them, to reach decision on their reorganization and liquidation;
- to purchase or lease assets and current funds at the expense of its financial resources, credits, loans and other ways of financing;
- to request and obtain the necessary information from organizations of the city and departments of City Administration except commercial and state secrets;
- to correspond with foreign organizations and citizens;
- to work out independently document drafts on the issues, referring to the competence of AMD and introduce them for consideration of the local government;
- to render commercial services to enterprises, organizations, establishments, and individuals within the authorities given;
- to participate in preparation, conclusion, and fulfilling of region projects and programs within authorities given;
- to receipt foreign citizens.

6. Management of the Establishment.

6.1. The management of the establishment is conducted under the present law and the Charter.

6.2. The supreme executive of the Establishment is the Director. City Administration appoints the Director with the contract conclusion.

6.3. The Director acts according to the present law of Russian Federation, the present Charter, Property Assignment Contract, the Contract, as well as the other obligatory standard acts for the Establishment; he is subordinate to City Administration that concluded the Contract with him.

6.4. The Director acts on the principals of undivided authority as far the questions within his competence is concerned.

6.5. The Director acts without power of attorney on behalf of the Establishment, represents its interests in the state organizations, enterprises, establishments, concludes agreements, allows powers of attorney, opens settlement and other accounts. Within his competence he issues orders gives instructions, obligatory for all the employees of the Establishment.

6.6. The Director independently determines and approves the Establishment structure, its staff and qualification composition, appoints for a post and dismisses employees of the Establishment in accordance with labor agreement (contract).

6.7. The structure of the Establishment, its staff and qualification composition, payroll are agreed on with the founder (City Administration).

6.8. The relations between the employees and the Director, arising from labor agreement (contract) are regulated by labor legislation.

6.9. The Founder, City Administration has exclusive rights for the following:

- making alterations to the Charter;
- determination priority targets of activities of the Establishment, formation principals and making use of the property purchased by the founder;
- approval of fiscal report and annual accountancy balance-sheet;
- approval of the financial plan of the Establishment and making alterations to it;
- setting up subsidiaries and opening of branch offices of the Establishment;
- participation in other organizations;
- reorganization and liquidation of the Establishment.

7. The procedure of making alterations and additions to the constituent documents

7.1. The alterations and additions to the constituent documents of the Establishment are made on Decision of City Administration of Sovetsk.

7.2. The alterations and additions to the constituent documents of the Establishment enter into force since their state registration.

8. Reorganization, reformation, liquidation

8.1. The Establishment may be reorganized in the order stipulated by the civil law of Russian Federation "On commercial organizations" and other Federal Laws.

Reorganization of the Establishment may be conducted in the forms of merger, joining, division, separation or reforming.

The Establishment is considered to be reorganized since the date of state registration as a new organization except the cases of reorganizing in the form of joining.

At the reorganization of the Establishment in the form of joining of another organization, the original one is considered to be reorganized since the date of record in the state legal entities list about the joint organization's discontinuance of business.

8.2. Reformation of the Establishment into non-profit organizations of other organizational forms of legal entities is allowed in cases and in the order, established by the law.

The Decision on reforming of the establishment is taken by its Founder.

In case of reformation of the Establishment the new organizations acquires rights and liabilities of the reformed establishment in accordance with the Act of Acceptance.

8.3. Liquidation of the establishment is realized on the basis and in the order that are stipulated in the Civil Law of the Russian Federation, the Law «On non-profit organizations» and other Federal Laws.

The Founder of AMD or the organization, that made the decision on liquidation of the Establishment appoints the Liquidation Committee agreed upon with the organizations, that perform State registration of legal entities, and establishes the procedure and terms of liquidation of the Establishment.

8.4. Liquidation of the Establishment upon the Founder's decision may be realized only after expiring of the period set for control of allocation of investment resources by foreign investors.

Attachment V-3-1. The Order on regulation of preparation and providing of technical conditions at realization of investment projects

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

ORDER

_____ 2001

1 ___

On regulation of preparation and providing of technical conditions at realization of investment projects

With the purpose of creating favorable investment environment and optimization of the procedures on providing technical conditions at realization of investment projects at construction stage:

1. To appoint standing Committee, with the membership consisting of representatives of organizations and departments, providing technical conditions for using plots of land, engineering, sanitation and anti-fire support of plots of land, and managing city development, environment preservation, water resources, roads operation and other issues, represented by the following people:

Deputy of Head of Region Administration, chairman of the Committee

The Head of Automated Management Systems Department, the deputy of chairman of the Committee

Members of the Committee:

The Head of Land Resources and Land Management Committee

Chief architect

The Head of Construction and Architecture Department

Senior doctor of State Sanitation Epidemic Inspectorate

Senior state inspector on environment preservation

Telephone company representative

Electrical network representative

Gas company representative

Heating network service representative

Water supply and sewerage service representative

2. To determine the Committee as a standing one, with meetings every Tuesday.
3. To determine the investors submit construction projects for obtaining technical conditions at any meeting of the Committee.
4. To determine the provision term of technical conditions – 3 weeks. In 3 weeks at the next meeting of the Committee the investor is to be handed in the project with all the technical conditions of all the services – members of the Committee.
5. To vent responsibility for quality and terms of technical conditions preparation with the members of the Committee.
6. To notify the managers of the enterprises, organizations, establishments, that provide technical conditions for objects, about inadmissibility of groundless charging for technical conditions providing.
7. To vent the control for the Order execution with _____.
8. The Order enters into force since the date of its signing.

Governor of Sovetsk

Attachment V-4-1. The Order on regulation of investment activity on the territory of Sovetsk, Kaliningrad region carried out in the form of capital investments

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

1 ___

On approval of Regulation «On regulation of investment activity on the territory of Sovetsk of Kaliningrad region carried out in the form of capital investments»

After consideration presented by City Administration the Regulation draft «On regulation of investment activity on the territory of Sovetsk of Kaliningrad region carried out in the form of capital investment», the City Council of Deputies

DECIDED:

1. To approve the Regulation «On regulation of investment activity on the territory of Sovetsk of Kaliningrad region carried out in the form of capital investment»
2. To publish the Decision in the newspaper «Vestnik».
3. The Decision enters into force since the date of its approval.

Chairman of the City Council of Deputies

REGULATION

«On regulation of investment activity on the territory of Sovetsk of Kaliningrad region carried out in the form of capital investment»

The present Regulation targets investment activity development on the territory of Sovetsk of Kaliningrad region through creation of favorable environment for enterprises and organizations implementing investment projects except trade and catering businesses. Classifying an activity as production is made in accordance with a present classifier of national economy industries (CNEI or other classifier-substitute).

1. General regulations.

1.1. Regulation of investment activity on the territory of Sovetsk of Kaliningrad region carried out in the form of capital investment (hereinafter referred as Regulation) is elaborated in accordance with the laws «On foreign investments in RF», «On investment activity in the form of capital investment in RF», «On investment activity in RSFUR», «On investment tax credit» and other standard acts of Russian Federation.

1.2. The main terms and notions:

- Investment project – the practicability of economic feasibility, amounts and terms of capital investments including the necessary project-estimate documentation worked out in accordance with law of Russian Federation and approved in established order standards (norms and rules), as well as practical steps description on investments implementation (business-plan).
- Investments – cash resources, securities, other property including property rights, other rights evaluated in money terms, invested in the objects of business and other activity with the aim of gaining profit or achieving other benefit.
- Investment activity – investing in practical activity with the aim of gaining profit or achieving other benefit.
- Capital investments – investing in capital assets including expenses on new constructions, expanding, reconstruction and technical modernization of present enterprises, machinery, equipment, tools, inventories purchasing, research and development and other expenses.
- Enterprise-investor - investment activity subject realizing an investment project.
- City Administration of Sovetsk – executive body of local government of Sovetsk.
- Investment city programs (development programs) – programs including financing and incentive crediting of new construction, expanding, reconstruction and technical modernization of present enterprises and legal entities, pre-project and project work, equipment purchasing as well as financing innovation and other programs aimed to gain profit or another positive social effect.
- Innovation programs – work programs, stipulating the shift to new quality or activity level of the objects of financing or intellectual property creation.

1.3. The investors, contributing their own, borrowed and attracted resources in the form of investments and guaranteeing their efficient disposition can be:

- organizations authorized to manage state and municipal property or property rights;
- individuals, enterprises, businesses and other legal entities;
- foreign individuals and legal entities, states and international organizations.

The investors are allowed to merge their resources for joint investment realization.

1.4. Investors or any other individuals or legal entities authorized by investors to realize an investment project can act as customers without interfering with business or other activity of other participants of investment of process at that, unless otherwise agreed upon.

2. Targets, principles of investment activity regulation.

2.1. The main targets of the investment policy of the City Administration of Sovetsk are:

- creation of favorable investment environment, resulting in enhancing of investment activity of non-government sector;
- investment support of vitally important production and social sphere;
- formation of developed and up-to-date social , economic and market infrastructure on the territory of Sovetsk;
- thorough and efficient use of material, production, personnel and intellectual potential of Sovetsk;
- providing high standards of living conditions of Sovetsk.

2.2. At regulating of investment process City Administration of Sovetsk is guided by the following principals of:

- maximum social-economic effectiveness;
- program-target basis;
- accessible information;
- competition;
- preliminary analysis;
- increasing of the own resources share in investments;
- control of efficient use of state resources.

3. Forms and methods of regulation of investment activity.

3.1. By regulation of investment activity on the territory of Sovetsk is meant:

3.1.1. creation favorable environment for investment activity development on the territory of Sovetsk through:

- providing investment activity subjects with local tax incentives;
- providing investment activity subjects with incentive conditions for using property, land, and other natural resources, owned by the municipality;
- defending the interests of investors by measures, taken by City Administration of Sovetsk, that are in conformity with Russian legislation.

3.1.2. direct participation of City Administration of Sovetsk in investment activity through:

- development, approval and financing of investment projects (programs), realized by City Administration of Sovetsk;
- share participation of City Administration of Sovetsk in investment projects realization;
- participation in financing of target programs of social-economic development of enterprises (organizations) of Sovetsk, stipulating partial financing at the expense of city budget;

- allowance of municipal loans under the law of Russian Federation;
- involving in investment process temporary suspended and frozen constructions and objects, owned by the municipality;

3.2. Regulating investment activity by City Administration of Sovetsk may be realized with the help of other forms and methods under the law of Russian Federation and Kaliningrad Region legislation.

4. Procedure of investment activity regulation

4.1. The procedure of measures on investment activity stimulation includes:

- creation of favorable investment environment (organization of trade fairs, investment exhibitions, bidding, publication of articles and surveys in investment catalogues, bulletins and advertising publications);
- information support of investment activity (development of potential investors and investment projects database) and technical support of information, resulting in substantial demand;
- development of organizational-legal forms suitable for efficient collaboration of investors and customers, support of joint ventures, holding companies, financial-industrial groups and so on, that are engaged in investment activity;
- providing tax incentives and investment tax credits to enterprises (organizations), realizing city investment programs, as well as realizing their own investment projects;
- approving of the standard acts concerned at City Administration level.

4.2. Attraction of non-budget resources to participation in financing and crediting social-economical development programs, investment projects is realized through:

- incorporation of joint ventures, with mission to realize investment projects;
- creation of joint depreciation funds;
- development of estate market, secondary stock exchange market, depreciation funds market, capital market;
- establishment and management of target non-budget funds with different aims, particularly non-budget investment fund;
- making bonds loans;
- development of leasing relations.

Participation of City Administration of Sovetsk is stimulation and direct realization of the steps concerned.

5. Incentive taxation of enterprises and organizations implementing investment projects.

5.1. The right for tax incentives is granted to the enterprises and organizations, realizing investment projects, approved by City Administration of Sovetsk, until the investments are repaid completely, but no longer than repayment period, which can not be less than a year and calculated in accordance with the Rules of calculation of repayment point of investment projects, as well as within two years after complete repayment. The incentives are given for the following taxes:

5.1.1. for the repayment period of investment project – 100% exemption from payment (within the sums, paid to the city budget:

- property tax, imposed on the property created or purchased for the investment project realization;
- profit tax, imposed on the profit gained from the output (works, services) realization, produced on the premises, created (or purchased) during investment project realization or by resources of technologies, implemented during investment project realization;
- profit tax, imposed on the profit from the resources, granted by investors for investment project realization;
- rent for using municipal property (land);
- duty on municipal police support.

5.1.2. within two years after complete repayment of investment project:

à) property tax - 100% exemption from payment (in the part of the property, created or purchased for the investment project realization);

á) profit tax, imposed on the profit gained from the output (works, services) realization, produced on the premises, created (or purchased) during investment project realization or by resources of technologies, implemented during investment project realization:

- decrease by 30% at investment amount in ruble equivalent up to 1 million US\$ at exchange rate of CB RF when the payment is due;
- decrease by 50% at investment amount in ruble equivalent more than 1 million US\$ at exchange rate of CB RF when the payment is due.

5.2. The incentives are provided for the taxes, accounted on the whole on the Enterprise-investor provided that the revenue, gained from realization of products (goods and services), production (performance, rendering) of which is stipulated by investment project, constitutes less than 70% of total amount of the revenue from products (goods and services) realization of the Enterprise-investor.

Shall the share in revenue from realization of products produced (works performed, services rendered) stipulated by an investment project, be less than 70% of total amount of the revenue from products (goods and services) realization of the Enterprise-investor, the incentives are provided in the part, regarding the investment project.

5.3. For obtaining tax incentives, an enterprise-investor submits to Industry and Consumer Market Department of City Administration of Sovetsk the following documents:

- application in arbitrary format in favor of the Governor of Sovetsk;
- business-plan, demonstrating profitability of the project and social-economic effect, that was subject to independent expertise and proved to be up to standards;
- calculation of repayment period of investment project according to the method, described in the Rules of calculation of repayment point of investment projects;
- accountancy and statistics reporting for the year under review.

5.4. Industry and Consumer Market Department in collaboration with Financial Department within a month since the documentation submission prepare the resolution on the investment project. Social-economic significance and repayment period are determined in the conclusion, where the approval of incentives provision is stated. In case of the Enterprise-investor's agreement on the conclusion Industry and Consumer Market Department within two weeks since the Conclusion agreed works out the Order draft of City Administration on providing of tax incentives. The Order is signed by the Governor of Sovetsk.

5.5. The Enterprise-investor may be refused provision of tax incentives on the following grounds:

- commitment of criminal case with crime evidence, referring to infringement of law on taxes and duties, in respect of the Enterprise-investor;
- holding the case on tax infringement, or on administrative infringement, connected with breach of law on taxes and duties, in respect of the Enterprise-investor;
- Non-submission of the documents, necessary for making Decision on tax incentives provision, stated in the paragraph 5.3. of the present Regulation, to City Administration or submission of not authentic information, the submitted documents contain.

5. Guarantees and Liabilities of participants of investment activity.

5.1. Guarantees of stability of municipal legislation.

On the territory of Sovetsk stability of conditions for organizations activity, determined by the city standard acts and existing at the launch of investment project is guaranteed for the period of complete repayment of the investment project, excluding the cases of adjustment of the acts concerned to Federal and region legislation.

Investments in Sovetsk are not subject to forced withdrawal (disinvestment) except the cases stipulated by Federal legislation.

5.2. Guarantees of investment activity realization.

City Administration of Sovetsk guarantees all the subjects of investment activity:

- Guaranteeing equal rights at investment activity realization;
- Publicity in discussion of investment projects;
- Stability of rights of subjects of investment activity.

5.3. Liability of investors for breach of law.

In cases of violation of legislation requirements, infringement of terms of a contract and (or) state contract, subjects of investment activity are liable under the law of Russian Federation.

Disputes referring to investment activity in the form of capital investments are settled in the order, established by legislation of Russian Federation, international contracts of Russian Federation.

In cases of suspension of investment project ahead of schedule (before complete repayment point), liquidation of an Enterprise-investor total amount of tax incentives, provided to the Enterprise is subject to payment to the city budget.

5.4. Liability of Administration for violation of legislation.

In case of violation of municipal legislation regulations on the part of Administration, it is liable for damages caused.

Attachment V-4-2. Regulation on the procedure of providing of investment tax credit

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

1 ___

On making alterations in the Regulation «On procedure of providing investment tax credit»

After consideration of proposal of City Administration about making alterations in the Regulation «On procedure of providing investment tax credit», the City Council of Deputies

DECIDED:

1. To make the following alterations in the Regulation «On procedure of providing investment tax credit», approved by the Resolution of the City Council of Deputies 16.06.99 1460:
To word the paragraph 1.5. of the Regulation in the following wording «Investment tax credit is provided:
On the grounds stated in the paragraphs 4.1.1. – 4.1.2. of the present Regulation for the complete repayment period, calculated according to the Rules of calculation of repayment point of investment project, plus 1 more year;
On other grounds – for not more than 5 years»
2. To publish the Resolution in the newspaper «Vestnik»
3. The Resolution enters into force since the date of approval.

Chairman of the City Council of Deputies

Attachment V-4-3. Rules for calculation of repayment point of investment projects

DRAFT

RUSSIAN FEDERATION
CITY COUNCIL OF DEPUTIES OF SOVETSK
OF KALININGRAD REGION

RESOLUTION

_____ 2001

1 ___

On approval of the Rules of calculation of repayment point of investment projects

After consideration of the presented by City Administration draft of Rules of calculation of repayment point of investment projects, the City Council of Deputies

DECIDED:

1. To approve the Rules of calculation of repayment point of investment projects.
2. To publish the Resolution in the newspaper «Vestnik»
3. The Resolution enters into force since the date of approval.

Chairman of the City Council of Deputies

RULES

for calculation of repayment point of investment projects

The rules of calculation of repayment point of investment projects for incentive taxation regime realization (hereinafter – the Rules) determine the calculation procedure for repayment period and actual repayment period of investments.

The Rules are intended for investors, developers and experts of investment projects as well as for other individuals and legal entities interested in investments.

1. Main concepts used in the Rules.

1.1. Investments repayment period – a period of time calculated in accordance with investment project data, within which the sum of depreciation payments and profits (after taxation), calculated by the accumulated totals method, comes to the total amount of investments stipulated in the investment project.

1.2. Actual investments repayment period – a period of time from the first day of the quarter when investments realization started to the moment of actual repayment of investments.

1.3. The point of actual investments repayment – the last day of the quarter when the sum of depreciation payments and profits (after taxation), calculated by the accumulated totals method within the period of investments realization comes to the total amount of investments. The calculation is made according to Appendix 1.

2. The procedure of calculation of repayment period and actual repayment period of investments.

2.1. The planning interval in calculations can be a month, a quarter or a year. It is recommended to use quarters since all the accounting documentation is submitted quarterly.

2.2. The calculation of repayment period of investments is made in rubles or foreign currency. The foreign currency (e.g. dollars, marks, etc.) is chosen by the recipient of the incentives.

2.3. The calculation of actual repayment period of investments is made in rubles only, with consideration of the exchange rate of foreign currency chosen by the recipient.

2.4. All project and actual data used for the calculation of repayment period and actual repayment period of investments are taken in rubles.

2.5. The calculation of repayment period and actual repayment period of investments is made with/without consideration of reduction in tax payments into the city budget according to the form in appendix 1 of the present Rules.

2.6. The investor is obliged to keep separate analytical accounting of operations related to realization of an investment project.

2.7. The filling of the forms in appendices 1 and 2 of the present Rules at calculating the period of actual repayment of investments and the amount of reduction in tax payments for this period is made on the basis of analytical accounting data.

2.8. At keeping analytical accounting, the investor should be guided by the following documents:

- taxation law of Russian Federation, subject of Russian Federation as well as local govern-

ment;

- card chart of accounts of financial-economic activity of enterprises and instruction on its implementation approved by the order of the Ministry of finance of Russia ¹ 94í, October 31, 2000;
- the regulation on keeping accounting and accounting documentation in Russian Federation (the order of the Ministry of finance of Russia, July 29, 1998, ¹ 34í) with amendments and additions;
- orders, instructions and other normative documents of the Ministry of finance of Russian Federation on quarterly and annual accounting documentation of enterprises and organizations.

3. The conditions of application of the Rules.

3.1. The calculation of actual repayment period of investments is submitted annually by the investor to the taxation bodies at the place of registration as well as to City Administration within the period of time specified for submission of annual accounting documentation.

3.2. After reaching the point of actual repayment the calculation of actual repayment period is submitted by the investor to the taxation bodies at the place of registration as well as to City Administration within three months from the moment of actual repayment.

3.3. If an investment project is realized by the functioning enterprise (which has assets on balance before the realization of the investment project) then the incentive on investment project is provided as a proportion of assets purchased during the investment project realization and total amount of assets of the enterprise. For example, the balance sheet cost of all the assets of the enterprise is 100 million rubles, the balance sheet cost of the assets purchased within the framework of the investment project is 10 million rubles. In this case tax incentives are to constitute 10% (10/100) of total amount of taxes that are subject to be paid to the local budget.

1	Appellation	1st year				2nd year				...year			
		I	II	II I	IV	I	II	II I	I V	I	II	II I	IV
1	Amount of investments for the accounting period in rubles												
2	Profit for the accounting period after taxation in rubles												
3	Depreciation payments for the accounting period in rubles												
4	The sum of profits and depreciation payments for the accounting period												
5	Foreign currency exchange rate in the middle of the accounting period												
6	Amount of investments in foreign currency												
7	Amount of investment in foreign currency calculated by accumulated totals method												
8	The sum of profit and depreciation payments in foreign currency												
9	The sum of profit and depreciation payments in foreign currency calculated by accumulated totals method												
10	Difference between lines 9 and 7												

Notes

- 1) The point of actual repayment is considered to be the last day of the quarter of the corresponding fiscal year, for which the figure in line 8 becomes non-negative.
- 2) At will of the recipient of the incentives, the calculation can be made on a monthly basis if the exchange rate of the chosen currency has been substantially fluctuating during the given quarter.
- 3) If similar information is observed for all the quarters of an accounting year then the planning interval - a year is allowed.
- 4) Line 1 contains the total amount of investments shown in analytical accounting of the

investor at investment project realization on the following accounts:

a) account 08 "Capital investments" within the framework of the investment project realization on the corresponding subaccounts, namely:

- the construction of fixed assets;
- the purchasing fixed assets (including equipment without installation required and equipment handed over for installation and written off the account 07 "Equipment for installation" in the established order);
- the purchasing of plots of land;
- the purchasing of objects of natural resources use;
- the purchasing of intangible assets;

b) account 07 "Equipment for installation" within the framework of the investment project on the corresponding subaccounts, namely:

- domestic equipment which requires installation;
- imported equipment which requires installation;

c) account 01 "Fixed assets" within the framework of the investment project realization for specific kinds and specific inventory numbers of fixed assets objects accepted for exploitation and written off the account 08 "Capital investments" in the established order;

d) account 04 "Intangible assets" within the framework of investment project realization on corresponding subaccounts;

e) account 12 "Items of little value or quick-wearing items" within the framework of the investment project realization related to investment expenditures on corresponding subaccounts;

f) account 10 "Materials" within the framework of the investment project realization related to investment expenditures on corresponding subaccounts;

g) the amounts mentioned above are summed up with the amounts spent on formation of the stock of raw materials (turnover capital) within quotas agreed upon on the stage of project consideration but not more than 10% of the annual stock;

5) Line 2 contains the profit calculated in accordance with the law of Russian Federation as the final financial result of an accounting period (with consideration of incentives provided) and reflected in analytical accounting of an enterprise as balance of account 80 "Profit and loss" less the amount of profit tax calculated in accordance with the current law of Russian Federation (with consideration of incentives provided) and reflected in analytical accounting of an enterprise on the credit side of the account 68 "Payments to budget", subaccount "Profit tax".

6) Line 3 contains the amount of depreciation of fixed assets of an enterprise calculated in accordance with the norms of depreciation payments specified by the law of Russian Federation and reflected in analytical accounting of the enterprise on account 02 "Fixed assets depreciation" and account 05 "Intangible assets depreciation".

7) Line 4 contains the sum of lines 2 and 3 (the sum of profits and depreciation payments in rubles)

8) Line 5 contains the exchange rate of the chosen foreign currency in the middle of the accounting period (if accounting period is a quarter then exchange rates on February 15, May 15, August 15 and November 15 are taken, if accounting period is a month then exchange rates on 15th of each month are taken).

9) Line 6 contains the ratio of lines 1 and 5 (amount of investments in foreign currency).

If the exchange rate has changed considerably during the month (by more than 10%) then the enterprise has a right to recalculate the investments in foreign currency on actual date (e.g. on the date of money transfer for the equipment purchased etc).

- 10) Line 7 contains the amount of investments calculated by the accumulated totals method
- 11) Line 8 contains the ratio of lines 4 and 5 (the sum of profits and depreciation payments in foreign currency)
- 12) Line 9 contains the sum of profits and depreciation payments in foreign currency calculated by the accumulated totals method
- 13) Line 10 contains the difference between lines 9 and 7. The point of repayment corresponds to the last month of the quarter for which the first positive figure appeared in this line

Appendix 2

Provisional example of calculation of the repayment period of investments for the investment project

1	Appellation	Year 2001				Year 2002				Year 2003			
		I	II	III	IV	I	II	III	IV	I	II	III	IV
1	Amount of investments for the accounting period in rubles		28										
2	Profit for the accounting period in rubles		3	3	3	3	3	3	3	3	3	3	3
3	Depreciation payments for the accounting period in rubles		0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4
4	Sum of profits and depreciation payments in rubles		3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4
5	Foreign currency exchange rate in the middle of the accounting period		28	28	28	29	29	31	31	31	31	31	31
6	Amount of investments in foreign currency		1										
7	Amount of investments in foreign currency calculated by the accumulated totals method		1	1	1	1	1	1	1	1	1	1	1
8	Sum of profits and depreciation payments in foreign currency		0,1 2	0,1 2	0,1 2	0,1 1	0,1 1	0,1 1	0,1	0,1	0,1	0,1	0,1
9	Sum of profits and depreciation payments in foreign currency		0,1	0,2	0,3	0,4	0,5	0,7	0,8	0,8	0,8	1,0	1,1

	preciation payments in foreign currency calculated by the accumulated totals method		2	4	6	7	8	6 8	8	8	9 8	8	8
1 0	Difference between lines 9 and 7		- 0,8 8	- 0,7 6	- 0,6 4	- 0,5 3	- 0,4 2	- 0, 3 2	- 0,2 2	- 0,1 2	- 0, 0 2	+0, 08	

1. According to the business-plan of the investment project it is planned to invest 28 thousand rubles in construction of a new enterprise on the territory of Sovetsk in 2001. The foreign currency used in calculations is US dollar.

2. The planned date of the first payments for works performed, related to the investment project realization (the purchase of equipment), is May 11, 2001.

The beginning of the investments repayment period is April 1, 2001, i.e. the second quarter of 2001.

3. In accordance with calculations (appendix 1 of the provisional example) the point of investments repayment is considered to be the last day of the 3rd quarter of 2003 for which the sum of depreciation payments and profits (less the amount of profit tax paid into federal budget) calculated by the accumulated totals method – \$1080 comes to the total amount of investments in rubles.

4. The period of repayment of the investments is a period of time from the second quarter of 2001 to the end of the third quarter of 2003, i.e. to the third quarter of 2003 inclusive, consequently – 2 years, 6 months.

5. In case of an investor not being provided with the most favorable environment regime, the calculation of the investments repayment period without considering reduction in payments into the city budget would have shown an increase in repayment period.