THE RUSSIAN OFFICER CONVERSION PROGRAMME
A PROPOSED APPROACH

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1996

COMPLETE DOCUMENT AVAILABLE ON OLIS IN ITS ORIGINAL FORMAT
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Foreword

The Russian Officer Conversion Programme (ROCOP) was developed on the initiative of the Russian government with the support of the OECD’s Centre for Co-operation with the Economies in Transition (CCET). ROCOP is an important response to the government’s request for assistance in the design of economic measures for the increasing number of Russian officers affected by military demobilisation.

This document outlines a strategic approach for ensuring effective co-ordination of development resources targeted at the retraining of Russian officers. ROCOP is an important vehicle for this co-ordination since it will, inter alia, aggregate and disseminate pertinent information concerning current and planned officer conversion programmes, thereby minimising duplication and maximising the efficient use of limited resources.

The purpose of this programme document is to provide background information and analysis for participants from the Russian government and the international development community at a donors’ conference to be held in Paris, France in December 1994. The recommendations in this document will be presented to the Russian government and the donors for their review and discussion. The goal of the donors’ conference is to develop an agreed strategic approach to ensure greater co-ordination and to gain commitments from the donors to financially support the programme’s implementation.

The contents of this programme document are based on the research of an OECD team of experts that visited Moscow in January and July 1994 and on the interviews with officials from the Committee for Higher Education, Ministry of Science and Technical Policy, Ministry of Labour, Ministry of Education, Ministry of Defence and the Federal Employment Service. Additional information was provided by the Co-ordinating Council for the Retraining of Retired Officers, military authorities, regional administrations, regional education and training institutions and several defence industries. Meetings were also held with foreign corporations investing in the Russian Federation and representatives of the international development agencies.

This document was prepared by the Directorate for Education, Employment, Labour and Social Affairs (DEELSA) within the framework of the CCET programme of work for the New Independent States (NIS), with the support of International Management & Development Group Ltd., a private consulting firm based in Alexandria, Va., USA. Contributions were also made by Peter de Souza, Research Fellow at the School of Economics and Commercial Law, Gothenburg University; Lisa Kaestner, Graduate Student at the Woodrow Wilson School, Princeton University; and Ian Whitman of the OECD Secretariat.

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The report is published on the responsibility of the Secretary-General of the OECD.

Salvatore Zecchini
OECD Assistant Secretary-General
Director of the CCET
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<tr>
<td>ARCO</td>
<td>All-Russian Centre for Retraining Officers</td>
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<td>CCET</td>
<td>Centre for Co-operation with Economies in Transition</td>
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<td>CMEA</td>
<td>Council for Mutual Economic Assistance</td>
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<tr>
<td>DEELSA</td>
<td>Directorate for Education, Employment, Labour and Social Affairs</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>FES</td>
<td>Federal Employment Service</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>NIS</td>
<td>Newly Independent States</td>
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<td>NGO</td>
<td>Non-governmental Organisation</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PCMU</td>
<td>Programme Co-ordination and Management Unit</td>
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<td>RFP</td>
<td>Requests For Proposals</td>
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<td>ROCOP</td>
<td>Russian Officer Conversion Programme</td>
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<td>RTF</td>
<td>Russian Training Foundation</td>
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<td>TACIS</td>
<td>Technical Aid to the Confederation of Independent States</td>
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THE RUSSIAN OFFICER CONVERSION PROGRAMME

A Proposed Approach

Background and purpose

1. The Russian Federation has embarked on a perilous journey toward democratic capitalism. Yet the Russian Federation’s safe arrival among the community of relatively stable nations able to offer both greater individual freedom and growing prosperity to most of its citizens is not assured. The Russian Federation’s success is of vital interest to a world weary of ideological and physical conflict. The level of help provided thus far by the West, while generous, has been less than anticipated. The pace has been slowed by a whole range of problems, including inadequate co-ordination among aid providers and excessive bureaucracy on all sides. And the impact has been blunted by design problems, duplication of efforts and the sheer size of the task.

2. The Russian Officer Conversion Programme (ROCOP) is a simple concept. It is designed to respond to the core need for rapid human resource development and the optimal use of training resources available to the Russian Federation. As noted in the OECD’s 1993 paper on the Programme, Russian military officers "are probably the most important single source of human capital available for economic development." Within the two year period 1993-1994, approximately 160 000 officers were discharged from the Armed Forces and, according to the Ministry of Defence and the Federal Employment Service, the total number of military personnel discharged is expected to reach 1.5 million by 1996. The politically volatile situation in the Russian Federation today and the dramatic loss of status and potential unemployment of large numbers of officers has caused heightened concern in the government and the international donor community. ROCOP is a direct response to these concerns and priorities. It is intended to help:

-- target and increase aid for the orderly transition of demobilised Russian military officers to private life in a way that would harness and adapt their existing skills to the demands of a democratic and free market future;

-- speed aid to the target population by offering a straightforward management and co-ordination facility in Moscow and a dedicated liaison unit within the OECD Secretariat in Paris; and

-- increase the impact of existing and planned aid through a vigorous programme of aid co-ordination that would greatly reduce duplication and delays.

Programme approach

3. The programme approach for the Russian Officer Conversion Programme is outlined in the OECD-funded report, "Russian Officer Conversion Programme" OECD/GD(93)9 of January 1993. Russian authorities have endorsed the broad concept presented in that report and, in subsequent discussions between OECD and Russian authorities, a strategy based on five principles has evolved.
4. These principles respond to past problems and build a context in which the numerous supporters of the Russian officer conversion process can improve the impact of their programmes while continuing to operate within their own guidelines and mandates. The strategy, therefore, is one of complementarity and co-ordination rather than replacement of any existing or planned activity.

5. The ability of ROCOP to complement and strengthen current and future programmes is based on its concept as a nexus where information from development agencies, training institutions, the Russian government and specialists in training and employment could be sifted, assessed, compared and fed back to its sources. This process would spark a high level of synergy, which could greatly improve the cost effectiveness and quality of the overall retraining and re-deployment effort.

6. The programme approach, therefore, can be summarised as follows:

A new partnership between the Russian Federation and OECD countries has crystallised around the Russian attempt to demobilise and then use in the civilian economy large numbers of military officers. Development agencies and foreign governments understand the critical importance of this process for future peace and stability. Therefore, a strategic partnership based on enlightened mutual self-interest has emerged. This partnership would create a positive framework for programmatic initiatives and a favourable context for holding a donors’ conference around this issue. Such a conference, scheduled for December 1994, offers the prospect of a major advance in aid co-ordination and programming in this area and an opportunity to institutionalise innovations in Russian approaches to retraining and re-employment.

7. Given this context, the principles listed above would gain expression in the operational framework detailed below through:

- **Simplicity** in administration, with a preference for contracting out work to Russian and sometimes other institutions and retaining a focus on the central goal of co-ordination;

- **Co-ordination** because the lack of it leads to duplication, wasted resources, delays and frustration;

- **Sustainability** because the ROCOP secretariat would provide important, cost-saving management, informational and other services to many institutions and agencies, for which fees can sometimes be charged;

- **Feedback** because providing clear information about which development agencies are implementing what projects in which areas, on what scale and with what effect is essential for proper planning and targeting both within development agencies and in the Russian government; and

- **Transparency** because openness and assurance about how contracts are let and funds disbursed
are critical to the credibility and continuation of the programme.

Programme objectives and outputs

8. ROCOP would have the following specific objectives:

-- to create a system through which multilateral development agencies, bilateral donors and others can better co-ordinate their aid in support of Russian officer retraining and re-employment;

-- to provide a Moscow-based management facility to enable funding agencies to contribute to the Russian officer conversion effort even if they have no presence in the Russian Federation;

-- to improve the impact of existing aid flows through improved co-ordination and the monitoring of labour market trends in the Russian Federation and comparing these to the distribution of aid training resources by type and location of training;

-- to help mobilise additional financing for Russian officer retraining and re-employment programmes;

-- to act as a clearinghouse for training information in the Russian Federation and for Russians training or planning to train overseas; and

-- to promote demand-driven training by sharing training needs and programme information among and between the Russian and multinational private sectors.

9. ROCOP would help to ensure the following outputs:

-- better and more appropriately trained demobilised officers able to contribute effectively to the civilian economy;

-- increased employability and employment of Russian officers in a rapidly changing Russian economy;

-- better targeting of aid by sector, sub-sector, industry, location and trainee;

-- development and maintenance of a database to track the flow of development agency resources earmarked for retraining Russian officers;

-- development of an evaluation methodology and system for the comparative and comprehensive evaluation of current and planned training programmes;

-- regular and improved evaluations of the impact of officer conversion programmes and feedback to funding sources and Russian institutions;

-- development of links between training institutions and potential employers;

-- improved co-ordination and flexibility to link retraining priorities with changing employment opportunities and specific industry and/or investor needs;

-- creation of a sustainable co-ordination and management unit gradually able to reduce its externally financed administrative costs through user fees for evaluation, management and information services;
-- development of a capacity to act as a catalyst for the financing of studies of employment needs and outlook by region or sector if required;

-- greater availability of practical training in areas of expanding demand, including business management, marketing, management information systems, product engineering, production management, waste management, accounting and finance skills, transport, distribution, construction, information technology, rationalisation and efficiency of business practices and tourism;

-- provision of new opportunities through ROCOP-managed projects for individuals and/or groups to work in apprenticeships in foreign and national companies in the Russian Federation and in companies’ offices overseas;

-- capacity building for local NGO training organisations and contractors in the Russian Federation that will also have access to data generated through the ROCOP; and

-- improved standards that participating training centres should achieve in the training and placement of their graduates.

10. Overall, ROCOP would seek to stimulate the provision of a comprehensive set of services in support of the demobilised officers’ transition from military to civilian life. These services would include on-site career counselling, skills and aptitude testing, assistance in placement in training programmes and job placement assistance.

Beneficiaries

Demobilised officers

11. Being an army officer in traditional Soviet society implied considerable status. Applicants with a secondary school education were subjected to extensive and thorough testing at one of the 140 military colleges located throughout the Soviet Union. The training programme for cadets was extremely comprehensive, comprising some 40 subjects, including philosophy and advanced psychology. Theoretical training was matched by troop-training exercises, field exercises and manoeuvres. After four years, cadets graduated as lieutenants and started their professional careers.

12. Officers can be classified in three broad categories: (1) those on duty abroad, (2) those already demobilised and often pensioned and (3) those still in the military within the Russian Federation.

13. All officers have the equivalent of a university undergraduate degree. Their specialised training is often a combination of technical knowledge, leadership training and international exposure. As in other countries with sophisticated military forces, officer training is supplemented by further education in war colleges, special schools and military academies. Military training has been of high quality, with a considerable number of experienced teachers.

14. Officers and their families lived in housing areas located within the perimeters of military bases. There were many advantages to being a member of the military, including access to special food shops with greater selection and supplies of food.

15. The Soviet military had a much stronger position in traditional society, in both social and political terms, than has been generally understood in the West. Beginning in nursery school, children were taught how important it was for the nation to have strong armed forces, which were "a common protection for all peoples of the Soviet Union against external threat." The military maintained a presence everywhere in
society at a very tangible level. The armed forces were not just an influential power factor in Soviet society but also constituted an important facet of the society’s identity.

### Areas of Military Education

- civil engineering and construction
- engineering and weapons technology
- military oriented production capabilities
- training and instruction
- law
- psychology
- field and staff officer training

16. With the dissolution of traditional Soviet society, officers have become increasingly discouraged and frustrated by the lack of attention that has been paid to them by a society and government that once relied on them. Retraining these individuals would tap a tremendous resource to assist the economic progress of the Russian Federation.

17. In 1993, approximately 75,000 officers were discharged under the Russian government’s Demobilisation Programme. Approximately 67,000 officers are to be discharged under the Programme this year, and this number may increase by another 30 per cent. Statistical data on the number of officers demobilised by region can be found in Annex 2.

18. Demobilised officers are not a homogeneous group and retraining programmes should consider several factors to account for these differences:

- military status and location;
- training background;
- marital and family situation;
- geographical background and preferences; and
- age of officer.

19. Another critical issue to consider is the shortage of housing, which impedes the mobility of officers to be retrained. Since World War II, the Soviet Union made numerous efforts to solve its housing problems. Yet the number of available apartments is insufficient, owing to the continuing migration from rural to urban areas and the upgrading of communal apartments to private ones. The situation has been aggravated by large numbers of people moving between the Commonwealth members and the Baltic States, between Georgia and the Russian Federation, and within the Russian Federation. Housing will be a major factor for officers to consider when deciding about educational and occupational opportunities.
20. ROCOP would seek to address the needs of these individuals by co-ordinating the services that would lead them from identifying their skills, assessing their training, writing curricula vitae and gaining admittance into training programmes, to employment.

Indirect beneficiaries

21. While demobilised officers clearly constitute the primary beneficiaries of ROCOP, several other groups would benefit indirectly from the programme, including:

-- families and dependents of military officers whose lives would become more secure;
-- future employers who would gain from improved management and increased productivity of retrained officers;
-- the Government of the Russian Federation, especially the Ministry of Defence; and
-- multinational corporations, which would benefit from having a Russian officer as a trainee or colleague for a period of time, thereby establishing interpersonal links that could lead to trade and investment opportunities.

Russian Federation participation

22. President Boris Yeltsin issued a decree on 27 October 1991 accepting the proposal by the Council of Ministers to establish an All-Russian Centre for Retraining Russian Officers leaving active duty and a Co-ordinating Council for Retraining of Russian Officers. A second decree on 23 October 1993 was issued by Prime Minister V. Chernomyrdin to define the members of the Co-ordinating Council and to approve the programme for retraining Russian officers.

23. The Co-ordinating Council serves under the Inter-Agency Commission on Social Problems of Army Personnel, headed by the Vice Prime Minister for social policy. The Inter-Agency Commission was established to provide support to demobilised officers. The Commission oversees 50 training institutions which are financed by a combination of central budget resources, some regional employment funds and donor agency support.

24. The Co-ordinating Council comprises representatives of the State Committee on Higher Educational Institutions, the Federal Employment Service and the Russian Committee for Defence Industries. During the past two years the Co-ordinating Council has overseen the retraining of 4 692 officers at 14 regional centres under the All-Russian Centre for Retraining Officers (ARCO).

25. Russian Federation support for ROCOP could include the following:

-- allocation of government budgetary resources from the Ministries of Education, Defence and Labour;
-- self-financing through student fees and student payments (e.g., special vouchers);
-- indirect government financial support to enable part of the costs of conversion training to be met while officers are still on active duty; and
-- in-kind contribution by the Russian Federation through the provision of space in existing training facilities, as well as exemption from import duties and other levies.
Operational framework

Introduction

26. The proposed operational framework responds to the urgent needs (a) to accelerate the pace of training for Russian officers, (b) to ensure that training is appropriate to the individual and reflects the changing skill demands of the Russian economy and (c) to ensure optimal co-operation and co-ordination among funding organisations to gain the greatest efficiency in the use of scarce development resources.

27. For the large-scale retraining of Russian officers to be successful, co-ordination and co-operation are essential among the following institutional actors:

- donor and development agencies;
- Russian Federation government structures (local, regional and national);
- various military branches and officer associations;
- potential employers and employers’ associations;
- unions; and
- potential investors (foreign and domestic).

28. The ROCOP would not co-ordinate all these groups; that is not its intended mission. It could, however, act as a clearinghouse for information about programmes to retrain Russian officers and disseminate that information to all interested parties, thereby reducing the number of overlapping programmes. In addition, it could reduce costs by managing training funds provided by development agencies that have little or no presence in the Russian Federation and it could ensure that analyses are carried out on the training data to monitor progress and to generate recommendations for improved targeting of training. While co-ordination would be limited to development agencies, co-operation would extend to all groups listed above.

29. The recommended operational framework is transitional since data gathering, co-ordination and retraining must be decentralised to the regional and "oblast" levels. Decentralisation is essential due to:

- the size of the country;
- its federal structure;
- the uneven geographic distribution of military installations and personnel;
- the general lack of mobility caused, in part, by severe housing shortages; and
- the poor quality of labour statistics and resulting lack of accurate data on labour market trends at the national level.

30. In view of the urgency of the retraining effort and the burgeoning number of independent initiatives, a free-standing programme co-ordination and management unit is proposed for Moscow, with a small liaison and monitoring office in the OECD Secretariat in Paris. As explained below, it is the intention of the programme to incorporate these structures into a larger organisation, such as the World Bank-financed Russian Training Foundation (RTF). In brief, the proposed structures are:

- Programme Co-ordination and Management Unit (PCMU). Located in Moscow, the PCMU would be a catalyst for action and a focal point for co-ordination and co-operation within the Russian Federation. It would be an information clearinghouse and a management and evaluation unit able to increase the speed of programme implementation by designing requests for proposals (RFPs), by improving the efficiency and security of fund disbursement and by ensuring methodologically sound comparative evaluation of retraining programmes.

- OECD co-ordination unit. Located at the OECD headquarters in Paris, a co-ordination unit
would be a small entity designed to help mobilise resources, provide feedback to development agencies, encourage the timely movement of financial commitments to disbursements, co-ordinate among the institutional sources of finance, review programme progress and assist in policy analysis relevant to programme direction and impact.

31. It should be re-emphasised that these units would not be operational in nature. They would advocate and assist in the disbursement of requests for proposals to implement training or training needs assessments, career counselling, placement services, job opportunity information and establishment of training standards. ROCOP would monitor these activities, aggregate and disseminate information and manage discrete projects entrusted to it. It would maintain a database of the number of officers trained, the training fields and the percentage of retrained officers re-employed. ROCOP would operate for approximately 3 to 5 years depending on need and the decisions of the Russian government and the development community.

Setting

32. There would be several options regarding the physical and institutional location of ROCOP. One objective of the December 19-20, 1994 conference would be to discuss the options and agree on one that would be suitable. The options listed below could serve as a basis for those discussions.

-- to establish an independent Programme Co-ordination and Management Unit with its own Board of Governors and Advisory Council;

-- to place the Programme Co-ordination and Management Unit within an existing training institution; or

-- to establish a Programme Co-ordination and Management Unit within the World Bank-financed Russian Training Foundation (RTF).

33. The RTF is a component of the World Bank-financed Management and Financial Training Project, which will provide workers with skills relevant to the changing labour market in the Russian Federation. The Project concentrates on six priority sectors: management development; small business development; accounting, auditing and finance; banking training; public administration and finance training; and market economics. The Project will:

-- help design strategies, identify priorities and allocate funds competitively to locally generated training projects;

-- operate at the federal and regional levels, with regional foundations established initially in Moscow, St. Petersburg and Nizhny Novgorod; and

-- function as a nonprofit public-private sector partnership able to involve employers in the identification of demand-driven training priorities and to operate on a commercial basis.

34. The scope of the RTF’s mandate, its decentralised structure and demand-driven approach to training would complement and facilitate ROCOP’s monitoring, management and informational roles. It is clearly preferable to place ROCOP within a larger organisation since ROCOP would need to be able to decentralise its activities and respond to training needs throughout the country.

35. If ROCOP were housed within the RTF, aid co-ordination would be facilitated and partnerships between government agencies and private consumers of training (employers, enterprises, professional associations) could be promoted more efficiently, thereby ensuring that training is more demand driven. The World Bank has agreed to consider this approach.6
**Structure**

**Board of Governors**

36. The Board of Governors would be the supreme policy-making body for ROCOP. The Board would meet three times a year and would have the following authority and responsibilities:

-- to establish and, as necessary, modify overall programme policy goals and objectives;

-- to recruit the Executive Director;

-- to review the performance of the Executive Director three times a year and to provide a brief written statement on its conclusions and recommendations for improvements and changes;

-- to appoint members of the Programme Advisory Council and to alter its size as needed; and

-- to meet annually with the Programme Advisory Council to review and assess the overall direction and impact of the programme and make recommendations based on the results of the meeting.

37. The Board of Governors would include:

-- the chairperson of the Co-ordinating Council for Retraining of Russian Officers;\(^8\)

-- a senior representative of the Ministry of Defence;

-- a representative of a leading participating development agency;

-- a representative of the private sector; and

-- a representative of a leading participating training institution.

**Programme Advisory Council**

38. The Programme Advisory Council would be established to facilitate the co-ordination function of the PCMU by grouping key actors into a single body able to provide information and advice to the PCMU. It would be broad-based and establish its own charter. The following concepts are meant to be illustrative only.

39. The Council would have approximately 21 members unless the Board of Governors votes to change its size.

40. The Council would meet once a year in Moscow. Between meetings, the PCMU Executive Director and his or her staff may call on individual members for information and advice at any time. The PCMU is expected to play an active role in liaising and co-ordinating among Programme Advisory Council members and between Programme Advisory Council members and the Board of Governors to ensure that retraining and re-employment programmes for Russian officers are optimally effective.

41. The Council would include (a) the directors of major internationally funded retraining programmes that include military officers as a target group and (b) other entities that are involved in programme implementation. The proposed membership is listed below.
Council members to lead retraining programmes:

42. There are four planned or recently launched retraining programmes that are targeted, at least in part, on Russian officers. The head of each of these programmes would be invited to become a member of the Programme Advisory Council:

   -- The Russian Management and Financial Training Project (The World Bank);
   -- TACIS, Technical Assistance to the Commonwealth of Independent States (European Union);
   -- The New Business Development Programme (U.S. Agency for International Development & Deloitte & Touche); and
   -- The Morozov Project (European Bank for Reconstruction and Development).

Other anticipated Council members:

43. Other Council members would be selected after consultation between the Board of Governors and the PCMU Executive Director. Among those expected to be included are:

   -- selected representatives of participating regional governments and local governments ("oblasts");
   -- representatives of ministries and committees of the Russian government, e.g., the Committee for Higher Education;
   -- one or more representatives from key training institutions;
   -- leading Russian experts on retraining and re-employment from academia, the public and/or private sectors;
   -- the Federal Employment Service;
   -- representatives of trade unions and associations for officers, e.g., the Independent Trade Union of Servicemen; and
   -- selected foreign experts who may be working in the Russian Federation directly on the key problems confronting ROCOP.

Programme co-ordination and management unit

44. The PCMU would be the central processing point for a large amount of data and programme activity. It would:

   i) receive programme and project information directly from development agencies and indirectly through the OECD co-ordinating unit;
   ii) receive funds from those international development agencies that decide to finance elements of ROCOP via the OECD co-ordinating unit;
   iii) review the priorities, scope, limitations and any conditions that may be attached to the funds received;
iv) programme the funds received in light of (a) development agency requirements, (b) priorities of ROCOP, (c) ongoing and planned activities of other programmes operating parallel to ROCOP, and (d) policy guidelines from the Board of Governors;

v) establish policy guidelines and criteria that potential training institution grantees must meet;

vi) ensure establishment of a system for screening and qualifying officers and recommend selection criteria;

vii) develop and issue requests for proposals for Russian training institutions, based upon ROCOP priorities and development agency requirements;

viii) review the technical and cost proposals submitted by eligible bidders and select a winning bidder;

ix) draft and negotiate contracts with winning bidders;

x) establish a payment schedule linked to the project workplan and the percentage of training and other work successfully completed;

xi) solicit proposals for overseas training management from organisations specialising in selection, placement and management that are able to organise Russian officer training in one or more foreign countries;

xii) monitor the quality of the provision of training and other services directly and, as needed, with the help of Russian or outside contractors;

xiii) encourage and support initiatives to establish uniform training standards and certificates;

xiv) help establish a testing process to determine whether officers’ skills and aptitudes are applicable to their chosen training and career;

 xv) recommend training and institutional strengthening that interested financing agencies can support through the PCMU or independently to build local capacities, for example, by buying textbooks for a training institution’s course on toxic waste management;

vi) design and apply an evaluation system permitting an assessment of each ROCOP programme element and a comparative assessment of the relative effectiveness of different training programmes and activities in light of the Russian Federation’s national training needs and labour market trends;

xvii) advise development agencies on the findings or evaluations of programme impact;

xviii) act as a clearinghouse for information about training opportunities, training institutions and training programmes catering to Russian officers;

xix) ensure that useful information is disseminated rapidly and widely through military, government and media channels in the Russian Federation and to development agencies involved in officer training programmes;

xx) provide regular reports to the OECD Co-ordination unit in Paris that detail disbursements by development agency, by activity, by recipient, etc., and offer feedback to development agencies with respect to progress achieved, constraints and any new directions proposed
for the programme.

45. The PCMU is to be headed by an Executive Director responsible for implementing the directives of the Board of Governors. The Executive Director would be an ex officio member of the Board.

46. The Executive Director would also provide leadership to ROCOP and ensure that, together with his or her staff, the PCMU carries out its tasks. The Executive Director of the PCMU is to have a professional staff of eight people in three offices as follows:

**Programme office**

47. This office is to be responsible for programme planning, offering policy and programme advice to the Executive Director, co-ordination and liaison among programme components, co-ordination and liaison with external programmes assisting Russian officers, developing overall workplans for the PCMU, developing criteria for proposal selection, preparing requests for proposals, monitoring performance of grantees, designing evaluation systems and providing data to the management information system office.

48. The office is expected to begin with two professionals, a research assistant and two support staff.

**Finance and administration office**

49. This office is to be headed by a Finance Officer, assisted by (a) a Contract Review and Compliance Officer, (b) an Internal Auditor and (c) an Office Manager. The Office Manager would supervise administrative support staff and researchers and be responsible for office logistics.

**Management information system office**

50. The management information system office is to be responsible for data collection, aggregation and dissemination and for preparing statistical information about the programme for submission to the Executive Director for review and submission to the OECD Co-ordination Unit. Such data would be prepared in conformance with generally accepted statistical methodologies so that development agencies could have a clear sense of how funds are spent and the impact of the expenditures.

51. For example, the management information system office is expected to:

   i) track and report on financial flows for officer retraining by source, volume and sector;
   
   ii) report on the number and percentage of officers who have been retrained by type of training, level and duration;
   
   iii) report on the number of new business start-ups, their initial circumstances and their situations after six and twelve months;
   
   iv) report on which training institutions have received how much financial support to train how many officers over what period in what areas and at what price per training-month delivered;
   
   v) relate training fields and output to labour market trends;
   
   vi) report statistically on placement approaches, capacities and performance;
vii) arrange periodic evaluations for activities being managed by the PCMU and assess statistically their impact and targets compared to those of other programmes for which the PCMU has information;

viii) arrange evaluations to determine long-term programme impact either through the training institutions or by keeping a statistically valid sample of trainee addresses for use with future questionnaires.

52. The management information system office would also gather and organise data about the training capacities of Russian training institutions. The office is to have two professional staff. The analysis of the data would be performed mostly by the Programme Office, with statistical guidance and interpretation from the management information system office and, as needed, from OECD information systems specialists and statisticians.

53. A proposed budget is included at the end of this section. It estimates that the PCMU would need nine senior staff and six support staff (four secretaries and two researchers).

OECD co-ordination unit

54. This unit would be a small office that could be located in the office of the Secretary-General that is part of the Centre for Co-operation with the Economies in Transition (CCET) in the OECD’s headquarters in Paris. The OECD co-ordination unit, having two full-time professional staff and access to the data management and computer support services of the OECD, would:

i) help to identify and mobilise donor and development agency resources;

ii) track the flow of donor and development agency resources;

iii) act as a catalyst to assure the timely flow of pledged resources into the programme;

iv) review data from the PCMU and prepare it for suitable presentation and dissemination to donor governments and the headquarters of development agencies;

v) act as a Paris-based liaison for co-ordination among participating development agencies and other programmes having objectives similar to those of ROCOP.

Advantages and risks

Advantages

55. The advantages of the proposed operational framework for the ROCOP co-ordination and management system can be summarised as follows:

-- It would be the only clearinghouse dedicated to the enormous officer conversion process and, as such, could have an important positive impact on the return on investment of training funds;

-- It would assist OECD Member countries by serving as an interface between participating multilateral and bilateral funding sources and the Russian Federation government and training institutions;
-- It would have a financing structure unencumbered by large institutional requirements and would be able to accept, co-ordinate and pass through funds quickly from both public and private sources;

-- It would operate a transparent financial system to ensure that funds are appropriately and effectively used;

-- It would develop a comprehensive and multi-programme evaluation and feedback capability able to assess officer conversion training efforts comparatively and comprehensively; and, based on the above

-- It would offer recommendations for improving the effectiveness of existing and future programmes.

Risks

56. Risks can be grouped into two categories: internal and external. Internal risks would include:

-- an inability to obtain adequate data to permit sound assessments of institutional capacities and decisions in the selection of training institutions, especially in the regions more remote from Moscow;

-- difficulties in obtaining data and co-operation from central and regional Russian government authorities due to the rapid changes in the Russian Federation’s political context and civil service;

-- banking and currency conversion difficulties caused by inflation and currency instability; and

-- language and language training constraints leading to difficulty in finding a sufficient number of overseas placements, even with the use of private contractors who are placement specialists.

57. External risks would include:

-- unwillingness of some agencies to share information and participate in ROCOP;

-- ROCOP becoming over-burdened by too many conditions and/or too many different reporting requirements placed by different funding sources on their funds; and

-- ROCOP undertaking too great a responsibility for a new organisation.
### ROCOP Budget (U.S. $)

#### PCMU personnel (Moscow)

<table>
<thead>
<tr>
<th>Position</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>22 000</td>
<td>26 400</td>
<td>48 400</td>
</tr>
<tr>
<td>Programme Co-ordinator</td>
<td>19 000</td>
<td>22 800</td>
<td>41 800</td>
</tr>
<tr>
<td>Training Institutions Specialist</td>
<td>18 000</td>
<td>21 600</td>
<td>39 600</td>
</tr>
<tr>
<td>Researcher (Programmes)</td>
<td>11 000</td>
<td>13 200</td>
<td>24 200</td>
</tr>
<tr>
<td>Finance Officer</td>
<td>18 000</td>
<td>21 600</td>
<td>39 600</td>
</tr>
<tr>
<td>Contract Review &amp; Compliance Officer</td>
<td>18 000</td>
<td>21 600</td>
<td>39 600</td>
</tr>
<tr>
<td>Internal Auditor</td>
<td>16 000</td>
<td>19 200</td>
<td>35 200</td>
</tr>
<tr>
<td>Office Manager</td>
<td>16 000</td>
<td>19 200</td>
<td>35 200</td>
</tr>
<tr>
<td>Information Systems Director</td>
<td>18 000</td>
<td>21 600</td>
<td>39 600</td>
</tr>
<tr>
<td>Computer Specialist</td>
<td>15 000</td>
<td>18 000</td>
<td>33 000</td>
</tr>
<tr>
<td>Data Research Specialist</td>
<td>12 000</td>
<td>14 400</td>
<td>26 400</td>
</tr>
<tr>
<td>Secretaries (4)</td>
<td>36 000</td>
<td>43 200</td>
<td>79 200</td>
</tr>
<tr>
<td>Other Support Staff (cleaners, drivers, etc.)</td>
<td>25 000</td>
<td>30 000</td>
<td>55 000</td>
</tr>
<tr>
<td><strong>TOTAL PERSONNEL</strong></td>
<td>219 000</td>
<td>262 800</td>
<td>481 800</td>
</tr>
</tbody>
</table>

* 9 professionals, 2 researchers, 4 secretaries

#### OECD co-ordination unit personnel (Paris)

<table>
<thead>
<tr>
<th>Position</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-ordinator</td>
<td>62 000</td>
<td>65 000</td>
<td>127 000</td>
</tr>
<tr>
<td>Information Specialist/Programme Assistant</td>
<td>45 000</td>
<td>49 000</td>
<td>94 000</td>
</tr>
<tr>
<td><strong>TOTAL PERSONNEL</strong></td>
<td>107 000</td>
<td>114 000</td>
<td>221 000</td>
</tr>
</tbody>
</table>
RUSSIAN OFFICER CONVERSION PROGRAMME
ORGANISATION CHART

BOARD OF GOVERNORS
- Russian Government Ministry Representatives
- Training Institution Representative
- Development Agency Representative
- Private Sector Representative

Programme Advisory Council
- Selected Multilateral Development Institutions
- Selected Bilateral Agencies
- Regional Governments
- Private Sector
- Training and Employment Experts
- Training Institutions

OECD Co-ordination Unit
- Resource Mobilisation
- Programme Monitoring
- Info. Aggregation 
  & Feedback

Programme Co-ordination & Management Unit
- Executive Director

Programme Office
- Finance & Admin.
  Office
- Management Info.
  Services

Training Institution Grant Recipients

Russian Officer Beneficiaries
ROCOP Information Clearing House Function to Promote, Co-ordinate and Improve Efficiency in the Use of Funds for Russian Officer Re-training

Data Inputs

- Multilateral programme information
- Bilateral programme information
- Programme information from foundations, NGOs and others
- Russian training institution competencies, capacities, experience and performance
- Foreign training capacities and opportunities by region and sector
- Location, size and training needs of officer contingents
- Emerging employment trends and opportunities by region and sector

Data & Analytical Outputs

- Comparative reviews of planned training with labour market trends and activities of existing programmes
- Summary of combined impact of all training initiatives on officer retraining (numbers trained, levels, sectors, placement rate, by region, etc.)
- Recommendations for improved targeting of training and improved co-ordination among donors, development agencies, government and the military
The Role of International Development Agencies

Rationale for participation

58. A key aim of ROCOP would be to enable development agencies and institutions within the Russian Federation to gain the maximum possible benefit from all resources provided for Russian officer retraining and re-employment. Improved co-ordination and planning in the use of funds would be central to that objective.

59. There is currently no effective mechanism for co-ordinating officer retraining projects, making the potential for duplication and waste unacceptably high. ROCOP is a proposed solution that could create a new way for development agencies to share information about their programmes, target beneficiaries and successes.

60. It would be, therefore, in the direct interest of multilaterals, bilaterals and other funding sources to share information with ROCOP and take advantage of the cost-saving management assistance that would be offered by the PCMU in Moscow.

61. While development agencies are expected to be a major source of financing for ROCOP, they would also be an important source of creativity and new ideas to address the problem of retraining and re-employing Russian officers. For example, the development agencies could:

-- share with the Russian Federation their experiences with retraining and re-employment programmes designed and implemented in other countries for demobilised officers;

-- share more fully and systematically their internal evaluations of existing programmes they finance;

-- help think through how training in the Russian Federation can become more demand driven and linked to private sector needs;

-- suggest ways to strengthen NGOs in the Russian Federation and their role in training, placement and employment of demobilised officers; and

-- advise on ways to make training programmes more sustainable, using a range of techniques common to training institutions in other parts of the world (e.g., users fees, service fees, sale of publications and training materials).

62. The ROCOP PCMU in Moscow would be able to compile and share these types of information among development agencies, the Russian government and training institutions.

63. The rationale for the involvement of development agencies in ROCOP is three-fold: (1) it would reduce overlapping programmes, which is a major and justifiable concern of donors; (2) it would improve the quality of the programmes and of programming through better co-ordination and information sharing; and (3) as a consequence, it would be likely to leverage additional funds from other external sources, including foundations and the private sector.
Ways in which development agencies could participate

64. There are several ways in which development agencies could participate in ROCOP:

- Those lacking a presence in the Russian Federation could pledge funds to the PCMU to finance training programmes managed by ROCOP on their behalf;

- Those (independent of ROCOP) with ongoing training programmes that are targeted wholly or in part at retraining demobilised Russian officers would be encouraged to pledge additional funds to finance elements of the ROCOP programme;

- Those that prefer to continue financing projects independently would be encouraged to share information with ROCOP about their programmes/types of training offered, duration, number of participants, location and could receive advice on where and what types of programmes are needed;

- The development agencies could receive advice to help them prioritise and select training in relation to their own areas of expertise, comparative advantages and special interests.

65. In addition to providing funds and sharing descriptive and statistical information, development agencies could participate in the programme by sharing their analytical expertise at the policy level. The development agencies are a major source of analysis of the current policy framework. The World Bank and others regularly undertake policy and macro-economic analyses, identifying policy constraints and recommending interventions. This information could assist the ROCOP staff to programme funds and perform their clearinghouse function more effectively.

66. Several development agencies fund projects that generate critically important data that could contribute to the ROCOP programme’s success. For example, the World Bank-financed Employment Services and Training Sector Project is designed to assist the Russian Federal Employment Services to develop a system for collecting and analysing labour market statistics to determine current labour demands. ROCOP could establish links with the Federal Employment Services and the regional offices to access this information.

67. As noted earlier, the development agencies are to be asked to participate on the Board of Governors and the Advisory Council of ROCOP. The role of the development agency representative on the Board of Governors would be to draw upon existing policy analysis in working with the other Board members to establish and oversee the operational policies and procedures of ROCOP.

68. In some cases, the development agencies would instruct ROCOP on how and where their funds are to be disbursed. In this scenario the PCMU would act as a management unit that delivers funds that would have essentially already been programmed through bilateral discussions between the funding source, the proposed beneficiary institution and the Russian Federation government. For example, a foundation might agree to finance retraining for 50 officers in an institution in Murmansk that applied independently to the foundation. The foundation, located in Australia, lacks the on-site capacity to monitor and disburse the funds. It would turn to ROCOP to provide management and monitoring assistance.

69. In other cases, development agencies would make untied grants to ROCOP, which then would programme and disburse the funds according to its understanding of the areas of greatest need and urgency. In such a case, the PCMU would convene a technical review committee within itself, to be chaired by the PCMU’s Executive Director. The committee would review ROCOP’s strategic plan and policy guidelines as developed and approved by the Board of Governors, note where retraining is currently under way, identify major gaps and decide how available funds could best be used to fill the gaps. As described in the section on the operational framework, ROCOP would issue requests for proposals for the planned...
training and then award and execute contracts. The transparent reporting and evaluation system would ensure that the funding agencies and all relevant bodies in the Russian Federation would be informed of the PCMU’s decisions.

70. The following examples and accompanying diagram may help to clarify the role of the development agencies and their prospective relationships to ROCOP:

Example 1. When a development agency has an ongoing training project implemented in parallel with the projected ROCOP, it would:

-- provide information to the PCMU on project and programme objectives and target beneficiaries;
-- share lessons learned from evaluations;
-- share documentation and statistics;
-- share experiences from other countries.

Example 2. When development agencies pass funds directly to the prospective ROCOP, they would:

-- pass funds directly to the PCMU via the OECD co-ordination unit to implement training programmes following ROCOP policy guidelines;
-- provide ideas and propose training programmes to retrain demobilised Russian officers; share project design, training and technical expertise with the PCMU;
-- share experiences from other countries.

Example 3. When bilateral donors pass funds through the prospective ROCOP and implement projects parallel to it, they would:

-- finance programmes in areas identified by ROCOP;
-- carry out overseas training separately, but provide ROCOP with information and access to training programmes in their home country;
-- provide ideas and propose training programmes to retrain demobilised Russian officers;
-- share project design, training and technical expertise with the PCMU;
-- share experience from other countries.
Development Agency Financial Flows for Russian Officer Re-training Programmes

Board of Governors

Programme Advisory Council

Multilateral Development Agencies
Bilateral Donors
Foundations and other Sources

OECD (Paris)
Co-ordination Unit

PCMU (Moscow)
Programme Co-ordination & Management Unit

Russian and International Training Institutions and Contractors

Re-trained Russian Officers

Direct Flows***

OCRCP Flows**

* Two types of Development Agency Financial Flows

** OCRCP flows are funds channelled through the OCRCP programme and managed by the PCMU on behalf of funding entities not represented in Russia or which prefer using the OCRCP facility.

*** Direct flows to existing Programmes and Programmes to be executed directly by the funding source or agency in Russia.
Overview and characteristics of the Russian Federation’s economy

71. Since its emergence from the former Soviet Union, the Russian Federation has been characterised by economic and political instability. The progress of economic reform continues to be impeded by the institutions, structural relations and attitudes that have been inherited from the previous centrally administered system. As old systems are abolished, a vacuum effect is created because the new structures to replace them have not yet been fully established. The result is turbulence and instability.

72. Progress has been made in implementing structural adjustment policies, but the process is long term and difficult to track. This is due in part to the intangibility of the concepts being measured, as in the case of psychological barriers. In the case of growing entrepreneurial activity, achievements and potential are difficult to measure because much of the activity takes place in the informal and parallel sectors.

73. The government budget has spiralled out of control. On the expenditure side, the primary problem is subsidies. There have been some reductions in state investments and in expenditures on military procurement. These have had a recessionary impact on production and employment. The number of commercial or commercial-type banks is increasing, but their activities and subsequent impact on the economy are severely constrained by limited capital, an abundance of requests from government divisions and/or ministries for the banks to provide for their needs, incomplete and inconsistent legislation on banking and commercial activities, lack of banking personnel with insight into the workings of economies in transition and/or market economics and credit that are short term and high interest as a result of fluctuating inflation rates.

74. On the income side, the collection of taxes has become difficult and the number of tax exemptions is increasing. Sections of the budget once financed by taxes now are supported by revenues generated from other government sources. New taxes have been levied, but their collection will take time and effective enforcement is doubtful.

75. While the assistance of international financial institutions, including the International Monetary Fund (IMF), the World Bank and the European Bank for Reconstruction and Development (EBRD) is vital, the level of assistance being considered appears small in comparison to the problems to be addressed.

Regionalisation

76. Any in-depth examination of labour markets must consider the variations in economic conditions, natural resources and types of industry among different regions. These regional differences are the result of several factors. Severe housing shortages, the vestiges of the Soviet system that discouraged mobility (through the propiska system it was illegal to move freely) and a lack of experience changing jobs and residences have produced a labour force that is very immobile relative to that of other industrialised countries. In addition, national political instability has increased regional authority in the reform of social programmes, privatisation, restructuring of state enterprises and agricultural reform. In 1993, the socio-economic disparity among regions increased and is likely to continue to increase throughout 1994. Regional variations in the pace of reform may lead to growing income inequalities and further antagonise a society already doubting the benefits of economic reform.
77. The high regional concentration of single industries with little diversification may result in those regions with contracting industries being particularly hard hit. Similarly, cities built entirely on one industry, a common Soviet phenomenon, may face mounting difficulties. The volume of industrial production decreased most in the North Caucasus Republics, in the Evrei (Jewish) Autonomous Region, in the Kalmikya Republic, the Chita and Kaliningrad Oblasts, and in the Taimir and Komi-Permi Autonomous Districts. The greatest decrease in hours worked due to halts in production occurred in the Altai, Ivanovo, Chita and Vladimir regions (13-19 per cent more lost hours than in 1992). Losses of 11-12 per cent in work hours occurred in the Central, Central-Chernozemni (Black Earth), Volgo-Vyatka and Northwest Economic regions. Of special concern is the Northwest region around St. Petersburg, where employment is dominated by military industries. Work hours there have contracted by 5 per cent. Shutdowns of unprofitable enterprises are expected to have the greatest impact on unemployment increases in the North Caucasus and in the central regions of the Russian Federation, exacerbated by increasing migration to those areas from the Far North, the Far East and the former republics.

78. An even more critical situation is expected in the Far North and in the eastern regions of the Russian Federation. The harsh climate, an underdeveloped infrastructure and higher tariffs on electricity, heat and transport (especially the railway) make production expensive, uncompetitive and often unprofitable. According to an analysis by the Russian Council of Ministers, "In current economic conditions the creation of a sufficient number of positions to employ those who are unemployed and trained for work specific to the region seems impossible." The region does show potential for development in ports and transport (roads and railways) to facilitate the transport of Russian exports.

79. The Kaliningrad region is burdened with population growth due to an influx of people from other Commonwealth members and the Baltic States and a disproportionate share of military personnel. Major industries employing more than two-thirds of all workers in the region include fishing, machine building and paper making. Production in these industries fell by 25 per cent from 1992.

Sectoral structure

80. The Russian economy is based primarily on the industrial and agricultural sectors, whereas Western economies rely much more heavily on the service sector. The majority of the decline in production is expected to occur in these two sectors. In the industrial sector, production is expected to decline particularly in the areas of raw material extraction and refining, heavy industry and "hightech" manufacturing. Agricultural output is also expected to decline, due in part to the lack of inputs, e.g., spare parts, fertilisers and fuel, and to distribution problems as a majority of each harvest rots in the fields, in warehouses, and/or in transit to the consumer. Two sectors with promise for former military officers are the production of consumer goods and the provision of services, e.g., tourism and catering.

The impact of political change on economic reform and the labour market

81. The most recent changes in the Russian political scene profoundly affect the present and future prospects for success of the reform process. The Russian society’s fluctuating political loyalties reflect the hardships currently experienced by Russian citizens. If this is not made a priority, voters could begin to rationalise the past, viewing it as a materially better way of life, and put less reform-minded officials back into positions of authority. If this occurs, the process towards democratic capitalism may be compromised.

82. The extended powers granted to the Presidential Office by the new constitution were criticised by some reformers, but even the stronger Presidency proved unable to sustain the Gaidar-Fedorov macro-economic reform programme. It is clear that the new constitution provided the President with enough authority, but political constraints compelled the government to move away from austere policies to control the budget, reduce subsidies and control inflation.
83. The Russian and international media generally described Prime Minister Chernomyrdin’s reshuffling of the Government as the return of the old guard. In a certain sense, that may be correct. Upon further analysis, the reshuffling may be seen as an attempt by the government to respond to the short-term needs of the Russian people while it maintains its commitment to continue difficult austerity measures. The period of market romanticism is over, as explained by Prime Minister Chernomyrdin. The Yeltsin government is attempting to find the point of optimal reform consistent with the limits of tolerance of the Russian people for economic hardship and political uncertainty. Finding that point is greatly complicated by the sheer number of problems vying for the government’s attention as it attempts to balance between hyper-inflation and hyper-recession.

84. The differences between regional and national governments could negatively impact the growth of the economy and the functioning of the labour market. The existing power struggle between the centre and the periphery could result in greater regional control of natural resources, taxing rights and thereby budgetary allocations, transforming the Russian Federation into a market comprising numerous labour markets with different capacities and characteristics.

85. What appears on the surface to be a step away from the reform process should not, however, lead to a reduction in Western assistance. On the contrary, timely and well-targeted assistance could play a pivotal role in sustaining the momentum for reforms and an effective retraining and re-employment programme for Russian officers is absolutely central to reform.

Results of economic reforms

86. The transition from a centrally planned authoritarian state to a free-market capitalist democratic state is neither simple, easy nor tidy. Short-term dislocations and upheavals are to be expected and confusion is normal. Despite inflation, rising unemployment and declines in agricultural and industrial production, the shift to a market economy offers the prospect of increasing living standards for tens of millions of Russians and -- most importantly -- their children in both the medium and long term. Although many in the Russian Federation have never been exposed to the riskier but liberating world of market economics, many understand that Western market systems will eventually lead to a better way of life. The near-term challenge is to sustain reform long enough to permit the fruits of market economics to become apparent to a large enough sector of the Russian people to make the reforms acceptable and, consequently, sustainable. Central to this process is support for opinion leaders as well as for the mass of ordinary Russians within Russian society. The special place of the Russian military and of Russian officers make aid to demobilised officers an absolutely critical component of the overall effort and could determine the success of this great Russian surge toward the 21st century as an economically viable state in the family of market-oriented democracies.

87. With respect to the short-term consequences of economic reforms, the following are among the critical issues confronting policy makers:

Inflation

88. The inability of the central government to define and maintain a solid macro-economic policy is rooted in the fluctuating price system and the resulting inflation.

89. The special treatment the regions have gained in terms of subsidies, preferential credits, tax relief, import subsidies, price supports for selective inputs and essential consumer goods and other non-market financial transfers exacerbates the problem and also undermines structural reform by providing incentives to reduce the budgetary constraints of state enterprises.
90. The economic returns of planned investments become impossible to predict because calculations become invalid after a short time. Long-term contractual agreements are therefore out of the question if clauses of inflationary protection are not included. This factor has dampened investment enthusiasm and makes economic growth more difficult to stimulate.

91. Additional causes of inflation in the Russian Federation include:

-- increased production of banknotes to finance the national budget, particularly for subsidising consumers and producers;

-- liberated prices -- in sectors dominated by monopolies, the response to liberated prices has been higher prices and reduced output -- not restructuring production in other ways;

-- expanding levels of credit going to the state enterprise sector at subsidised interest rates; and

-- increased lending from the Russian Federation to the central banks of other states of the Commonwealth of Independent States.

**Decline in production**

92. As was mentioned earlier, the Russian economy continues to be dominated by heavy industry. However, the system by which the State controlled the production and provided outlets for goods produced by these industries no longer exists. As a consequence, production has declined substantially. The main reasons for this are:

-- decreased demand associated with the drop in real incomes following the wake of liberalising prices;

-- lack of flexibility and adaptability of the supply system -- the fall in output and the disintegration of the former supply system, both in its formal and informal dimensions, has not resulted in the reallocation of factors to new activities;

-- decreased subsidies;

-- cutbacks in military spending;

-- breakdown of traditional economic and trade links among enterprises (both inter- and intra-regional);

-- breakdown of trade among the countries of the Council for Mutual Economic Assistance; and

-- decrease in imports of intermediate goods due to the lack of convertible currency.

93. The rate of decline of industrial output has varied substantially across different branches of industry.
Increasing privatisation

94. Progress has been made by the privatisation programme. Approximately 70 per cent of Russian industry has been privatised, including over 10 000 large and medium-sized enterprises. Some 40 per cent of industrial workers are now employed by private firms. The programme has provided for the local sale of small retail and service establishments. Large and medium-sized enterprises have been privatised through partial employee buyouts, voucher auctions and other forms of sale. Municipally-owned apartments are being transferred to officially registered occupants and the number of privately owned farms has increased.

95. Many small and medium-sized enterprises have reacted to the new market conditions by adjusting their output mix, economising labour inputs, reducing inventories and monitoring the extension of inter-enterprise credit. Often these adjustments have taken place under new ownership structures, without substantial new investment. Most large enterprises have not made these adjustments, possibly because they have access to substantial subsidies and direct credit on preferential terms.

Unemployment

96. Statistical information on levels of unemployment is unavailable for reasons that are explained below. Open unemployment has been a direct result of restructuring and has and will continue to have major repercussions on the pace of political and economic reform.

97. Unemployment will grow gradually due to the strong social inhibition toward laying off workers. The policies of the "new" government reflect this. The government expects to develop social safety nets for the unemployed, emphasising those programmes that can be replicated throughout the Russian Federation. Significantly, the rate of decline in subsidies has slowed but will be phased out only in the long term. Predictions of dramatically increased unemployment may not be accurate; many leaders have stated a preference for decreasing real wages versus letting workers go. A number of schemes are already being executed to retain labour, including administrative leave (paid and unpaid) and reduction of the work week.

Job opportunities created by economic reforms

Service sector

98. Employment opportunities in the service sector are likely to increase. As noted above, the ratio of services to material production is decidedly smaller than in most industrialised countries due in part to the excessive emphasis on production, which fuels a public preference for jobs in industry.

99. The financial sector may hold the greatest possibilities for retrained officers. It is the fastest growing and best paying service sector, attracting highly educated individuals, including scientists and engineers. The World Bank has estimated a need for 300 000 accountants annually for the next five years to service new private enterprises and for 150 000 certified auditors immediately and then 24 000 annually. The banking and financial service sector will have to double from 500 000 to 1 000 000 in the near future if growing needs are to be met.

100. Knowledge of a foreign language (especially English or German according to a World Bank survey) is a skill certain categories of officers have that is needed in all sectors, especially in international business and finance. With some training in trade and international business, officers with foreign languages could respond to a need for qualified personnel to handle such areas as trade procedures -- a need noted by surveyed enterprises trying to enter international markets with manufactured exports. Earlier, Soviet firms depended on trading organisations and had little direct contact with potential foreign partners.
Fuel and energy industries

101. The Russian Federation is the second largest producer of energy in the world. The Russian Federation’s fuel and energy industries show a potential for growth with increased foreign investment in energy production.

102. Although these industries are currently depressed, they have potential for future growth and will be important for the revitalization of other sectors. From 1991 to 1992 there was a 9.7 per cent increase in employment in the energy sector and an 11.4 per cent decrease in the fuels sector. Output decreased in both branches. A 5 per cent decrease in fuel resources and a slight increase in the share of gas are predicted for 1994.

Oil

103. This sector is primarily concentrated in the Western Siberian region, where gas and coal are also produced. While production in the oil industry has been falling over the past three years (with an 8 per cent fall in production projected for 1994), last year more than 1 500 wells began production again. There is also potential for the development of oil and gas production in the Eastern Siberian Region.

Gas

104. In conjunction with the earlier fall in oil production, gas production decreased by 9 per cent between 1992 and 1993. Despite this, the gas sector is described by the Centre of Economic Analysis under the Council of Ministers as the single sector capable of increasing the Russian Federation’s energy resources.

Nuclear energy

105. Given the country’s electric shortages, nuclear energy may be increasingly used. Officers with the technical expertise needed for restructuring and refitting nuclear power plants could be instrumental in alleviating the electric shortages.

Coal

106. The coal sector is not recommended as a target for retraining. A contraction in demand is predicted over the next decade and coal will be replaced in many uses by gas. Employment is currently at unrealistically high levels, and up to a 10 per cent contraction in employment is expected this year.

Transport and communications

107. The development of the currently inadequate transport and communication systems in the Russian Federation will facilitate the development of all the other sectors, and this may be a sector for which officers can be re-trained. In a survey by the World Bank, Russian exporters cited congested ports and transport facilities as obstacles to their transactions. The disintegration of internal transport lines is often cited as a reason for falling production. Foreign investment has begun in telecommunications and in the automotive sector. Existing military distribution networks could be renovated for civilian use. Officers could be used in restructuring ports, railways, roads, aviation and communications.
Agriculture and agro-processing

108. Agriculture is not a likely candidate for employment growth, although there may be growth in agro-processing. Successful agricultural adjustment within the next 3-5 years is unlikely, but a 5-6 per cent increase in production is predicted for 1994. Yields are low in crops and even more in livestock and dairy. There are shortages in equipment and parts, and farmers are plagued by distribution problems due to transport inadequacies. Labour surpluses and redundancy of administrative and managerial staff suggest no need for entry of more labour into agriculture. In fact, with the introduction of technology to increase the extremely low labour productivity, employment may fall by more than 10 million in the next fifteen years.

109. There may be employment growth in processing and storage of food products. Seventy per cent of processing plants need total rehabilitation, and packaging lines are in short supply.

110. In addition, with the privatisation of land and agriculture, an opportunity in the near term for employing officers would be in the formation of a land survey institution.

Civil engineering and construction

Roads

111. Greatly improved transport infrastructures will be necessary to increase the mobility and flexibility of the work force. State management and maintenance have meant poor quality and low maintenance, terrible energy inefficiency, and chronic shortages that create a major obstacle to labour adjustments. There is a tremendous and increasing number of uncompleted public works due to greater contractual incentives to start rather than to finish projects.

Housing and sewerage

112. The rate of provision of living space is on a level equivalent to norms of the 1950s. In 1993, 19 per cent of Russian families were on waiting lists to receive new living space. Thirteen per cent of those families had been on waiting lists for ten years or more. In 1993, more than half of the regions increased their rate of construction of living quarters -- by more than a third in St. Petersburg, Ivanovo, Kostroma and the Ulyanovsk region. The growth in construction is attributed in part to increased state credits. Private construction is now the fastest growing component of the housing construction sector. Official estimates state, however, that significant construction increases are unlikely before 1997, after which growth is forecast at 5-10 per cent until 2000. Although by all accounts this sector is expected to grow, there is currently under-investment and a lack of materials.

Tourism

113. A mixed private/state sector with large-scale potential for the future is tourism. The range of potential occupations and therefore educational orientation is quite extensive. The payoff is clear in the short and medium term. The tourism sector could absorb large volumes of potential job seekers although many changes are required in government regulation of tourism if this sector is to achieve significant expansion.

Environment and waste management

114. A problem of tremendous proportions in the Russian Federation is environmental degradation, the extent of which is difficult to imagine. In the short term, an educational programme directed toward the
handling of waste and by-products of refining and manufacturing processes may prove profitable, while other aspects of ecological education would have more limited real economic results in the short term but would be preventing huge losses in the long term. Large numbers of officers could be engaged to address these issues.

Traditional job opportunities

Education

115. Opportunities in technical and vocational training for demobilised officers within the teaching profession hold tremendous potential for employing a significant number of officers. Further research should be completed in this area, but the amount of retraining that needs to be done, in both the military and civilian communities, makes education a viable professional opportunity for some officers. Officers may respond more readily to other officers in the classroom, knowing that their backgrounds and experiences may be similar.

Public sector

116. What is needed in an effective market economy environment, apart from well-trained economists and business people, is a large number of equally well-educated economists, lawyers and industrial specialists in central and local government service. In view of the social background and privileged position of many military officers in the NIS, it is possible that many may prefer a career in the service of the state rather than in the unknown territory of the civilian private sector. Although competitive salaries are essential if officers are to consider a future career in the public sector, retraining programmes should not ignore this sector’s considerable need for trained staff in a post-Soviet society.

117. Additional public sector job areas with growth potential include:

- **Forecasting, permits and licenses, tariffs and taxes.** Civil servants and decision-makers are needed in the various central government ministries, county administrative boards and municipalities in post-Soviet Russia to deal with these issues, which are primarily related to the transition to a market economy;

- **Legal assistance.** There will be high future demand for occupations linked to legal practises. From the central government to the municipal level, legal assistance is required to deal with the establishment of a framework of laws and directives for a free market, protection of free competition and the fair taxation of both small and large corporations.

  Basic training in legislative practises and the legal framework within which commercial transactions occur will contribute to a more predictable and stable investment climate, the development of the market and the promotion of business ethics.

- **Labour offices and employment services.** The continued expansion of a social safety net, possibly to include labour bureaux and employment services is another sector of importance. This is a sector where the training need is nearly universal since knowledge of labour market functions are just beginning and as a result, training has not been linked to direct market requirements.

- **Small business administration.** The development of small business has been emphasised to further the formation of a functioning market economy. Demobilised officer entrepreneurs would require assistance to get started, especially in management, marketing and other economic skills.
Obstacles to finding employment

Employment services

118. The Federal Employment Service (FES) has been responsible for providing unemployment benefits, job placement services and job retraining. A significant increase in unemployment could present the Employment Fund with major challenges and significant strain. The proportion of the earmarked payroll tax that has been transferred to the FES is very small, therefore, the ability of the federal government to redistribute local surpluses (if any) to more depressed areas has been and will continue to be seriously limited.

119. The unemployment benefits initially provided by the law were a "replacement" of 75 per cent of the average of the previous two months wages for the first three months of unemployment, decreasing to 60 per cent for the following four months and to 45 per cent for the final five months, after which benefits are technically exhausted. The minimum benefit level is equal to the minimum wage. Redundant workers are eligible for 90 days severance pay in addition to standard unemployment benefits. Unemployment benefits expire after 12 months.

120. In addition, benefits were substantially reduced because of high inflation and the rapid increase in prices. After a six-month interval the unemployed worker can reapply for another 12 months of benefits.

121. Social welfare is limited to a small amount of in-kind assistance and only a limited number of opportunities through public works are available.

122. There is an increasing number of labour centres in the Russian Federation but co-ordination and networking between the local and national levels and between regions remains under development. Within current funding restraints, steps are being taken by the FES to enhance staff training, upgrade equipment and improve the overall organisation and effectiveness. One remaining problem is the lack of an effective exchange of vacancy information between employment offices.

123. Many Russian workers are baffled by unemployment. They are unfamiliar with the nature of employment/unemployment services and, due to the lack of resources, the FES in the past could not effectively market the services provided. A major overhaul of the FES has been proposed by the World Bank. Such a step is critical if the system is to be able to handle the volume of officers that will require its assistance.

Labour market distortions

Surplus labour and hidden unemployment

124. In the former Soviet Union, the use of labour was centrally planned and controlled. All people of employable age were required by law to work, firms were instructed as to how many people to hire and state policies channelled labour into target industries or regions. Industries had little incentive to lay off workers or to develop and use technology that would yield greater productivity per worker. The result in most sectors has been a labour surplus, labour-intensive production, and a very low rate of return to capital. Early in perestroika, surplus labour accounted for 10-12 per cent of the total workforce. World Bank estimates suggest that by 1992, the level of excess staffing accounted for 20 to 25 per cent of the workforce.
125. In spite of many predictions that 1993 would be the year that unemployment would increase significantly, with firms forced by reforms to shed excess labour, this was not the case. Most firms continued to maintain workers, even when they could not meet payroll costs. This labour hoarding has been attributed to two likely causes -- optimism that production will pick up and an ingrained psychology that the firm has a social responsibility to support its workers. The latter grows out of Soviet ideology and is complicated by the fact that there are benefits beyond wages that are supplied by the workplace, such as daycare, medical care, and housing. Privatisation has proceeded at a slower pace than was expected.

126. Instead of laying off employees in response to the reductions in demand, state-owned enterprises have required workers to take mandatory "vacations" without pay or work shorter work weeks to reduce labour costs. Authorities estimate that as many as one quarter of industrial enterprises engage in these practices, resulting in substantially more work lost than are reflected in the unemployment statistics. In 1992, some 20-33 per cent of firms, especially enterprises with more than one thousand employees, had large shares of their workforce on short time or leave.

127. On the other hand, anecdotal evidence points to a growing share of workers moonlighting in the private sector, which suggests that much of the employment in the growing private sector is unrecorded.

Inaccurate statistics

128. Unemployment statistics are subject to several biases. The Russian definition differs from the standards adopted in market economies by excluding from the unemployed category all job seekers who have an alternative source of income, such as pensioners and students. Authorities believe that only a fraction of total job seekers ever register with the state unemployment agency.

129. As of the 1st December 1993, 1 055 900 were officially registered as "out of employment." Another 779 200 were labelled unemployed (under 1 percentage point) and 480 200 received unemployment benefits. In 1993 there was a more or less stable increase of 580 000 unemployed, with some seasonal variations.

130. Calculations performed according to the standard ILO methodology produced a figure of 3.8 million people, or 5 per cent of the population unemployed. If those looking for a job and working part time are recorded as unemployed, the number would jump to between 7 and 8 million for November 1993, or 10.4 per cent of the employed population. Other rough estimates range from 7 to 12.5 million in hidden unemployment.

131. Distortions such as disguised unemployment, together with inaccurate statistics (figures do not take into account undeclared incomes), make any prognosis for the future of the economy and potential employment next to impossible. As a consequence, it is difficult to ascertain where there may be potential demand for retrained military officers. While sectors and sub-sectors with growth potential can be indicated, the scale of that potential and the pace of its realisation can only be guessed.
## ANNEX 2: NUMBER OF OFFICERS DEMOBILISED BY REGION

<table>
<thead>
<tr>
<th>Region</th>
<th>No. Demobilised in 1993</th>
<th>No. Demobilised in 1994</th>
<th>Total per Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>1 475</td>
<td>3 090</td>
<td>4 565</td>
</tr>
<tr>
<td>North Western</td>
<td>6 019</td>
<td>8 367</td>
<td>14 386</td>
</tr>
<tr>
<td>Central</td>
<td>16 080</td>
<td>20 836</td>
<td>36 916</td>
</tr>
<tr>
<td>Central Black Soil</td>
<td>4 195</td>
<td>5 767</td>
<td>9 962</td>
</tr>
<tr>
<td>Volga-Vyatka</td>
<td>1 743</td>
<td>2 472</td>
<td>4 215</td>
</tr>
<tr>
<td>Volga</td>
<td>5 876</td>
<td>7 317</td>
<td>13 193</td>
</tr>
<tr>
<td>North Caucasian</td>
<td>3 180</td>
<td>4 148</td>
<td>7 328</td>
</tr>
<tr>
<td>Ural</td>
<td>3 474</td>
<td></td>
<td>3 474</td>
</tr>
<tr>
<td>West Siberian</td>
<td>2 681</td>
<td>3 592</td>
<td>6 273</td>
</tr>
<tr>
<td>East Siberian</td>
<td>1 648</td>
<td>2 345</td>
<td>3 993</td>
</tr>
<tr>
<td>Eastern</td>
<td>2 865</td>
<td>4 073</td>
<td>6 938</td>
</tr>
<tr>
<td>TOTAL</td>
<td>49 236</td>
<td>62 007</td>
<td>111 243</td>
</tr>
</tbody>
</table>
ANNEX 3
LOGICAL FRAMEWORK
RUSSIAN OFFICER CONVERSION PROGRAMME

<table>
<thead>
<tr>
<th>GOAL</th>
<th>INDICATORS</th>
<th>MEANS OF VERIFICATION</th>
<th>ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid demobilisation, retraining and re-employment of Russian Officers.</td>
<td>100 000 officers enrolled in retraining programmes and after training 90 per cent re-employed.</td>
<td>Periodic reports and annual evaluation.</td>
<td>The development agencies will continue to have confidence in the Russian Federation’s reforms and provide funding for retraining programmes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Russian Military and the government will maintain their commitment to reduce the size of the military.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>There are a sufficient number of training institutions in the Russian Federation and abroad that are offering suitable market-oriented training programmes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PURPOSE</th>
<th>END OF PROJECT STATUS</th>
<th>MEANS OF VERIFICATION</th>
<th>ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-ordinate, better target and increase aid to assist Russian officers make the transition to civilian life.</td>
<td>100 000 Russian officers will benefit from retraining programmes and 90 per cent of them will have found new jobs.</td>
<td>Data developed by the PCMU and annual evaluations.</td>
<td>The PCMU will be able to meet its overhead costs and recruit qualified staff to establish and operate a data collection and information management system.</td>
</tr>
<tr>
<td>OUTPUTS</td>
<td>INDICATORS</td>
<td>MEANS OF VERIFICATION</td>
<td>ASSUMPTIONS</td>
</tr>
<tr>
<td>---------</td>
<td>------------</td>
<td>-----------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>1. Better trained demobilised officers.</td>
<td>100 000 Russian officers trained and employed in fuel and energy industries, transport and communication, agro-processing, and other sectors of the economy that are expanding.</td>
<td>Data and periodic reports prepared by PCMU.</td>
<td>Development agency resources will be provided under separate programmes to strengthen the capacity of Russian training centres to deliver training geared to labour market demands.</td>
</tr>
<tr>
<td>2. Increased employability and employment of Russian officers.</td>
<td>90 000 Russian officers employed in civilian sectors and in jobs requiring newly acquired skills.</td>
<td>Data and periodic reports prepared by the PCMU.</td>
<td>The training centres will assume a role in helping their graduates find jobs by creating links with local employers.</td>
</tr>
<tr>
<td>3. Better targeting of aid by sector, industry, and location.</td>
<td>A more equal distribution of resources allocated to targeted sectors, industry, and geographic region.</td>
<td>Data and periodic reports prepared by the PCMU on the allocation of resources by sector, industry, region and trainee.</td>
<td>Development agencies will provide information to the PCMU on expenditures for training by region, sector, industry, and number of beneficiaries, as well as information on future programme strategies and resource allocations.</td>
</tr>
<tr>
<td>4. A database to track the flow of development agency resources for retraining and an evaluation system for the comparative and comprehensive assessment of current and planned training programmes.</td>
<td>Funds budgeted for a management information system in Moscow and two staff assigned to operate a database in Paris.</td>
<td>Programme operational budget.</td>
<td>The OECD CCET database will be expanded to track the flow of development agency resources for ROCOP and two people will be assigned to maintain this portion of the database.</td>
</tr>
</tbody>
</table>
| 5. Standards which participating training centres should achieve in the training and placement of its graduates. | 90 000 officers re-employed in areas of economic growth.  
Local committees established with representatives from training centres, private sector, and government administration.  
A guideline on standards for the training centres. | Data and reports collected and prepared by the PCMU.  
A handbook prepared for the participating training centres. | Development agencies will continue to provide support to Russia's municipal governments to help them establish links with the private sector and educational institutions.  
Development agencies will provide support to strengthen the institutional capacity of some of the participating training centres. |
|---|---|---|---|
| 6. A Programme Management and Co-ordination Unit in Moscow and an OECD Co-ordination Unit in Paris. | Trained staff and leadership.  
Office space, furniture, and equipment.  
Procedures and policy manual.  
Operational budget. | Initial workplan.  
Mid-course evaluation. | Start-up funding for the PCMU and the Co-ordinating Unit in Paris.  
Experienced local staff and a qualified executive director.  
PCMU will be established as an independent, legal entity. |
<table>
<thead>
<tr>
<th>INPUTS</th>
<th>FUNDING TARGETS</th>
<th>MEANS OF VERIFICATION</th>
<th>ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Funding for the PCMU and the OECD Co-ordination Units.</td>
<td>(to be completed)</td>
<td>Workplan and budget. Number of programmes funded and information gathered on current training programmes. Mid-course evaluation.</td>
<td>One or more of the development agencies will pledge funds to support the start-up costs of the PCMU and the OECD unit. Fees will be charged on funds passed through and interest will be earned on funds pledged.</td>
</tr>
<tr>
<td>2. Funding to support programmes for the retraining of demobilised Russian officers.</td>
<td>(to be completed)</td>
<td>Monthly and bi-annual audits. Number of programmes funded.</td>
<td>The PCMU and the OECD unit will be established and properly staffed. The government will rapidly approve any by-laws or application required to create the PCMU. A Board of Directors will be created in accordance with the laws of the Russian Federation.</td>
</tr>
<tr>
<td>3. Information on development agency training programmes in the Russian Federation and abroad.</td>
<td>(to be completed)</td>
<td>Management information system operating in the PCMU and a database tracking the flow of donor resources managed by the OECD. Reports prepared by the OECD.</td>
<td>The development agencies will provide information on their current and planned programmes on a regular basis.</td>
</tr>
</tbody>
</table>
NOTES

1. ROCOP is based on a broad concept outlined in the OECD report, "Russian Officer Conversion Programme" [GD(93)9] of January 1993, which was endorsed by the Russian government.

2. These figures were provided by the Ministry of Defence in Moscow and the Federal Employment Service.

3. Sustainability here refers to the operational costs of the Programme Co-ordination and Management Unit (PCMU) in Moscow and a co-ordination unit in Paris. The sustainability of the programme’s ROCOP funds and the sustainability of training offered by training institutions are clearly also of major concern. For those projects managed by ROCOP on behalf of a development agency, the sustainability would remain the responsibility of the source of funds and/or the Russian government. The co-ordination role of ROCOP would be paramount and ROCOP’s contribution to the promotion of sustainability among the training activities would be to use the data-gathering and feedback mechanism to point out deficiencies and to recommend improvements and/or alternative strategies.

4. "OECD Russian Officer Conversion Programme" [GD(93)9], January 1993, p.5.

5. These statistics were taken from the Statistical Analysis of the Current Demobilisation Programme of the Armed Forces completed by the European Commission (EC) in August 1994.

6. An OECD delegation has met on a regular basis with the World Bank in Moscow and in Washington to update them on the status of ROCOP and to discuss the possibility of housing ROCOP in the Russian Training Foundation. The most recent meeting was held October 7, 1994.

7. The structure of ROCOP would depend on which organisation the donors select to house the programme.

8. The Co-ordinating Council for Retraining of Russian Officers is supervised by the Inter-Agency Commission on Social Problems of Military Personnel and will liaise with this body and provide input from the Commission to the Board of Governors. The Government issued Decree #58 on January 30, 1992, which created, under the authority of the Inter-ministerial Commission for Social Protection of the Military, a co-ordinating council on problems of retraining officers leaving the active military service.

9. Although ROCOP is a programme designed to support training directly, capacity building will be essential if the programme is to be rooted in the Russian educational context and sustained beyond the eventual end of external funding.

10. The Centre for Co-operation with Economies in Transition (CCET), established in 1990, consists of core staff who manage and co-ordinate programmes of assistance to the Central and East European countries and staff who implement programme activities allocated to various parts of the Secretariat.