

Egon Bahr Fellowship Program for German Russian Understanding

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Preface

The 2012 Egon Bahr Fellowship Program has brought together 24 young leaders from Germany and Russia to support mutual exchange and understanding by researching and discussing a variety of current political issues.

The program was launched in Moscow in July 2012 by former German Minister Egon Bahr, who famously implemented the "New Eastern Policy" (Neue Ostpolitik) with German Chancellor Willy Brandt at the beginning of the 1970s. Based on the idea of a "change through rapprochement" Egon Bahr successfully normalized the relations between the Federal Republic of Germany and Eastern Europe, particularly with the German Democratic Republic, Poland and the Soviet Union. This path-breaking policy, which provided the foundation for the political developments leading up to the German reunification, continues to surface in today's social democratic "Realpolitik" and guides the current German-Russian partnership for modernization.

Therefore, it was a distinguished honor for the Friedrich-Ebert-Stiftung's Moscow Office that on his 90th anniversary Minister Bahr accepted the proposal to name our annual young leader program after him. With the Egon Bahr Fellowship Program we are pleased to pass on Egon Bahr's commitment to vibrant bilateral German-Russian relations to the next generation of decision makers.

This year's seminar was held in Moscow, Kostroma and Berlin. The bilateral relationship was discussed in the two capitals, while regional challenges and local developments were researched by using the example of Kostroma.

The results of these inquiries into the reality of today's political life in regional Russia are presented in the following reports on civil society, mass media, economic development and social policy. All reports are based on extensive research and numerous meetings with stakeholders, analysts and experts. The findings of the German-Russian teams have been presented to the governor of Kostroma region Mr. Sergey Sitnikov during a hearing at the local Chamber of Commerce.

The Friedrich-Ebert-Stiftung Moscow Office thanks all partners for their cooperation. In particular we are grateful to the member of the German Bundestag Franz Thönnies for his ongoing support of this program. We are thankful to Vladimir Balakhonov and Vladimir Kornev for their excellent interpretation services. Finally, we express deep gratitude to our partner Maxim Erin at the Administration of Kostroma Region and to his colleagues and friends, who warmly welcomed us in Kostroma and helped us gain extraordinary insight.

Jewgenia Potemkina, Jan Henrik Fahlbusch,
Moscow/Berlin, November 2012

The State and Civil Society in Russia: How to Increase the Legitimacy of Politics Through Better Participation

The 2012 Egon Bahr Fellowship program was organized for the purpose of bringing together German and Russian perspectives on current political and socio-economic challenges in Russia. We identified the relationship between the State and civil society as one of these challenges and chose the Kostroma region as a case study.

Contemporary political science pays a lot of attention to the role that the civil society plays within a State. There is much debate about whether civil society is involved and in how far it should be involved in the political decision-making process. However, civil society not only plays a role in the political life, but the social life as well.

What is Civil Society?

Although civil society has become a popular concept used by various political actors in different contexts, not all of them have the same understanding of the term. All of our interlocutors agreed on the importance of an active participation by civil society plays in political processes. At the same time, a number of them admitted that they didn't know what the difference between 'society' and 'civil society' was. Yes, society itself is or should become a political actor, they argued, but the term 'civil society' made things unnecessarily complicated. We therefore felt the need to first give the term a more precise definition.

One of the numerous definitions of civil society describes it as the aggregate of non-governmental organisations and institutions that manifest the interests and the will of citizens. These individuals, organisations and institutions are expected to be independent of the government.

For the purpose of our case study we decided to define civil society as follows: a society of citizens who know and use their civic rights and who actively participate in the social and political life. We discussed this definition with all our interlocutors in Kostroma.

In our opinion an active civil society can strengthen the state. There are several ways to do that:

- Socially and politically active citizens are ready to take on positions of responsibility.
- This increases the people's interest to accept further political mandates.
- More political ideas are generated.
- Citizens are encouraged to develop their own solutions to problems.
- Both, citizens and the government experience a higher level of satisfaction.

Raising the Level of Democracy by Strengthening Civil Society

As previously mentioned, we started with the hypothesis that the state of a civil society reflects the level of democracy. We analysed the role that the educational system plays in shaping an active civil society, the freedom that non-commercial and non-governmental sectors have to organise and express their opinion. We also looked at the relationship between the state and municipal authorities in Kostroma and its civil society actors. We wanted to find out what Kostroma students were taught about their role in society as well as civic education in general. As our next step we examined the opportunities for civil society actors to participate in democratic processes and to influence political decisions affecting the region. Finally, we analysed the

interaction between non-commercial and non-governmental sectors and the state and municipal authorities and tried to identify the strong and weak points of civil society organisations in the region.

While studying the level of democracy in the Kostroma region, the following questions lay at the centre of our work: Is civil society vibrant in the region? What resources and opportunities exist to help society organize in the spirit of democracy? What should and could be done to raise the level of democracy in the region?

During our 5-day stay in Kostroma we discussed these questions with a broad range of personalities involved in the political, social and religious life of the city and the region. Among them was the mayor of Kostroma, several members of the City Duma, members of the Public Chamber, representatives of civil society organisations, a schoolteacher as well as representatives of religious communities.

Our first expert was a Deputy of the city of Kostroma. He has been running his own furniture manufacturing company since the late 1980s. At first, he told us about the political vertical of "United Russia": according to him, many decisions at the local level must be coordinated with Moscow. In particular, this concerns staff issues. Other parties, both at the local and federal level, exist but are mostly irrelevant.

Our expert told us that the role of the Public Chamber is minimal – a sentiment shared by one of the region's former governors, who has dismissed the work and the purpose of the Public Chamber. The deputy also shared his opinion of the Russian society; saying that while power occupies a central role in the society, the people themselves remain too passive and occupied with other issues (one of which is income). Civil society becomes active only when something happens (such as the Duma elections). Neither did the

expert think NGOs had much influence in the matter. Altogether these conditions make for a very favourable situation for the United Russia party, because the system is simply too weak to compete with its power. Citizens' rights are limited and freedom of expression exists only on paper. Our expert said that he believed Mikhail Prokhorov to be a positive discovery for Russia, for his business knowledge that could be used to change the country.

The next day we met with the Head of the school department in the city of Kostroma. She told us about the introduction of student responsibility and self-management curriculum in schools. As of now, this is only a pilot project. An average teacher's salary is 15,000 rubles per month (€372).

The following day we met with the Mayor of the city of Kostroma Mr. Zhurin. He reported that the number of deputies has increased from 24 to 35, which, he believes, resulted in better representation. When asked about the most important and active civil society actors, the mayor said it was the City Duma.

We had a chance to meet the deputy director of School No. 7. She told us about the problems and everyday life in school. Many young people from Central Asia and from the Caucasus attend the school. This often leads to confrontations with other students. She also reported how low teachers' salaries are. At School No.7 student responsibility is scheduled to start the following year. The deputy director described to us the school's preparations and expectations connected with this project. When asked about her opinion of Russia's civil society and the possibilities a school has in educating the youth for an active civil society, she named civic values, love for the country and being active in society as important factors. Civic education, she said, is defined as empowering the children to take responsibility.

We also met with some representatives of the Public Chamber of the Kostroma region. They told us that the members of the Chamber are interested in seeing their society change. Each of the members of the Chamber represents an organisation. One of the Chamber's members directly told us that he is a strong supporter of the President. According to him, the policies introduced by the President and the United Russia party have contributed to significant improvements in Russia over the past several years. He also said he thought the army to be an important element in the education of young men. Finally, members of the Chamber told us that the Russian society is not yet ready to have a Public Chamber.

During our last meeting, we talked to two more deputies of the Kostroma City Duma. One of the deputies was a candidate for the post of the City Manager, while the other happened to be the youngest Duma member and a member of the Committee on Urban Development. We asked both politicians about the civil society in Russia. Both unanimously stressed that the public school system is the place where civil rights and responsibilities ought to be taught. Neither of them had previously heard of the "student responsibility" class.

When asked about the city Youth Parliament – an organization that has not worked well in the past – the deputies said they suspected a lack of skills was one of the problems and suggested changing the rules of the Youth Parliament. According to them, children have to be taught about civil society. Furthermore, they stated that while the administration does not work, the only thing that does is personal networks, where money is a decisive factor. Both referred to a lack of experience in making independent decisions and expressing one's opinion. The two men also mentioned honesty, diplomacy, patience and willingness to make changes and perform

well as key competencies necessary to be a Duma deputy.

As a result of our meetings with different local experts, discussions among the Russian and German members of our working group had intensified. One of the first difficulties to arise was that the German participants were not familiar with certain specificities of Russian politics and society. However, their political background and experience as well as the Russian participants' willingness to explain the political and educational system in Russia were helpful in reaching an understanding on the challenges facing the city and the region of Kostroma.

Reasons for a Weak Civil Society

Our first meetings with local experts revealed that, according to their belief, 'civil society' makes up a very small part of Kostroma's public sphere and that only a few city residents can be considered politically or socially active.

However, our working group decided to categorize all citizens of Kostroma as 'civil society,' regardless of their political or social activism. We did this because we believe that they are all citizens of their city, region and country and should thus enjoy the same civil rights. Even a citizen not actively claiming his/her civil rights should be included in the political and public life. Together with our interlocutors we agreed that the objective of every elected officer or socially engaged public figure should be to motivate fellow citizens to become an active part of society and take initiative.

In further discussions we analysed the possible reasons for the seeming passivity of civil society in Kostroma. It was suggested that the historical background plays a very important role. For almost a century people in the USSR expected the state to take responsibility for almost all aspects of public life. Often people did not even have the

opportunity to take initiative and solve their own problems. Over the last 20 years people have slowly learned to claim and use their political and civil rights. However, there still is room for improvement, as almost all our interlocutors confirmed.

Another issue that seems to affect the relationship between state authorities and the citizens is corruption. During our meetings with local experts we discovered that corruption was a highly sensitive issue. There is a popular opinion that one cannot become a successful businessman, politician or public official without either accepting corrupt proceedings or using personal connections with government officials.

However, an idea that seems to be at the core of the problem plaguing Russia's civil society is reflected in the following comment, made by almost all our interlocutors: "First you have to repair the house, make it clean and comfortable. Then you can think about which pictures to hang on the walls." People generally believe that solving their everyday problems takes priority over engaging in the political or social life. Pressing issues mentioned most frequently by people were housing problems, lack of adequate infrastructure (roads, water and electricity) and environmental problems.

Apart from discussing general problems and challenges affecting the development of civil society in Russia, our meetings with local stakeholders also allowed us to analyse some of the specific municipal politics in Russia, such as the difference between the post of the City Manager and that of the elected Mayor. According to the information gathered during the meeting with our partners in Kostroma, the post of the City Manager is based on a US model whereby an official is supposed to head the city administration. Russian and German participants of our group had heated discussions about the advantages and the

disadvantages of nominating a City Manager instead of electing the Mayor. Although to us electing the mayor seemed like a more democratically legitimate option, our local interlocutors suggested that elections are merely a façade where the candidate who wins is usually the one with the best PR-campaign. Therefore, a competent candidate might lose an election simply because he is not a good speaker or does not have a good media presence. Another argument in favour of nominating versus electing an official was that he or she would be hired like a public officer whose contract (in the case of Kostroma, with the City Duma) may be terminated ahead of time. On the contrary, an elected mayor cannot be fired even if he or she leads the city into bankruptcy, because the resignation procedure is very complicated.

To us the debate about the advantages and disadvantages of city managers and elected mayors confirmed once more that corruption is perceived as one of the main challenges to the efficiency and legitimacy of political institutions. We believe that corruption as well as the poor state of the civil society reduces the efficiency of both models.

Further Observations about the State, its Institutions and Civil Society

While discussions inside our working group served to juxtapose different perspectives on the role of civil society, our meetings with the local experts allowed us to make several observations. We later used them to identify our policy recommendations.

First of all, several interlocutors mentioned the lack of people's knowledge about their rights. This could be remedied at least in two ways: civic education for the youth and distributing information among the citizens through direct contact with their deputies. At the same time, these options entailed obstacles.

Civic education is considered to be part of a group of obligatory subjects such as social science, jurisprudence and Russian history. Civic education is usually synonymous with engendering patriotism by teaching students, among other things, about the Russian flag, the governmental system, the names of the Russian political leaders and the national anthem. School classrooms have to be equipped with posters of the Russian president.

On the other hand, schools also have something that is called “self-governance” – a system that allows students to be elected to a special body and to exert influence over some decisions that are of relevance to school life. However, the rules and procedures for school “self-governance” vary from school to school.

We also presented our interlocutors with the idea of bringing politics closer to people (in the German tradition of “politische Stammtische”, i. e. regular informal meetings of elected politicians with their voters or other interested people). Although we have heard of the regular meetings that take place in the offices of the local deputies, the latter shared their concern about the general lack of culture for discussion. On the one hand, people were always ready to blame their deputies for any problem and on the other hand, people were too afraid of having free discussions with politicians because of the perceived social discrepancy.

At the same time, our interlocutors were sceptical about the actual willingness of the civil society representatives to play a constructive role in the decision-making process. We were told about the construction of a nuclear power plant, which the local “green” NGOs and the residents of the neighbouring villages were strongly opposed to. From the point of view of the elected officials, such opposition could lead to the same power plant being constructed

in a region only 60 km away. The same ecological damage would ensue, only this way another region would enjoy the economic benefits.

Generally, Kostroma’s civil society is considered to be unprepared for taking an active role in local politics. Hence, the establishment of the Public Chamber – a consultative organ representing civil society organisations. However the Public Chamber does not have a mechanism for influencing the decision-making process. Although political institutions have been put into place, many still see them as failing to perform their functions.

Summarizing our observations, first of all it is important to note that we do not believe in a quick change. Instead, fostering civil society is a task that will take a lot of time and effort. It also relies on the willingness of all actors to actively take part in it.

Just like there is no quick solution, there isn’t a simple one either. There is not one single way that would lead to success. Instead, a variety of measures will have to be implemented; some of them may seem insignificant, but put together they should have greater effect.

During our stay in the Kostroma region, we noted that several projects and initiatives have already been launched and have the potential to be of great use to developing civil society. These projects can be expanded for better effectiveness. Based on these observations, we tried to identify several recommendations.

Policy Recommendations for an Active Civil Society

First of all, we believe that strengthening civil society has to start as early as possible. Therefore, the first recommendation relates to introducing civic education in schools. We recommend establishing a debate culture, where social and political issues affecting the

Kostroma region are discussed among the students. The role of the teacher is very important in this context. He or she would have to be an equal partner in these discussions, only moderating the debate and not interfering in it. It is also crucial that students draw their own conclusions, which they can compare to reality for a better learning experience.

The existing initiatives for students' self-management should be enhanced and introduced in all schools. The goal is to establish a representation and administration system among the students. It is very important that students elect their own representatives and that the latter are not appointed by any authority. Elections have to be repeated regularly, in order to help students see the difference between how the candidate presents him or herself before the election and the work he or she actually does during his mandate. The goal is to enable students not only to learn about the benefits of democratic participation, but also to experience it.

Furthermore, we would like to emphasize the importance of exchange programs for school children, students and young adults starting their jobs. Experiencing solutions for civic engagement and democratic participation offered by other societies can have an important effect and establish a mid-term change in the approach to civic and political engagement at home. Here, the Kostroma region already provides some opportunities for school students; these programs should be expanded further and made available to as many students as possible. Kostroma's European partner cities in the United Kingdom, France, Germany, Finland and Bulgaria could help to establish exchange programs not only between partner schools, but also for young professionals and those in the city administration.

Furthermore, we believe that it is necessary to improve the connection between the elected representatives and the people. The politicians' main task should be to listen to the civil society instead of regulating it and provide it with opportunities to express ideas. Direct elections are an important element. We strongly believe that the society must be trusted to take the right decisions; then and only then, as a result of their own actions, can people understand politics. Therefore, public figures such as the mayor as well as the city manager should be directly elected. Effective impeachment procedures should be established. The Public Chamber could be supported by the Youth Chamber, which does not only exist on paper, but actually takes part in the political decision-making process.

The Challenges of Representative Democracy: Participation vs. Efficiency

Starting from the hypothesis that the state of civil society reflects the level of democracy, we decided to analyse the opportunities that the Kostroma civil society has to participate in political processes and influence decision-making. Special attention was given to the relationship between the state and the civil society, i. e. between municipal authorities and civil society organisations. The policy recommendations based on our analytical work aim at increasing participation of civil society actors and bolstering democracy.

Although most of our interlocutors agreed on the importance of political participation, they did not necessarily associate participation with the state of civil society. Instead, they identified electoral participation as the most obvious manifestation of civil society. This position often comes hand-in-hand with the recommendation for direct mayoral and gubernatorial elections.

In our search for examples of active and well-represented civil society organisations we were often referred to the main business organisations. Business interests seem to be organised in such a way that they are in the best position to exert influence on the political institutions. The most striking feature in the relationship between the state and the civil society is the apparent fear that involving too many actors might complicate the political decision-making process and endanger its efficiency. Indeed, the concept of efficiency figured prominently in a lot of our conversations. Subsequent meetings with political as well as social actors revealed the popular use of the term "efficient politics." Several politicians named managerial skills among the most important skills for their profession.

Although there are different ideas on how to organise and regulate civil society, there seem to be fewer possibilities for civil society to organise itself. Therefore, our

recommendations mainly focused on very practical on the ground ideas. Against this background we can say that the case study in Kostroma city served as a useful illustration of the distinction made in political science between input and output legitimacy. Most political actors currently represented in the political system seek to gain legitimacy for their political activities and initiatives by proposing efficient political options. Efficiency is measured in terms of the capacity to solve problems. And this is exactly what the voters hope for – to see solutions to problems in the housing sector as well as those affecting the infrastructure. Much attention is given to the performance of the political institutions (efficiency, output legitimacy), whereas less attention is being paid to the possibility of increasing legitimacy by involving all relevant stakeholders (participation, input legitimacy).

Finally, both the state authorities and the civil society need to better understand the challenges of representative democracy.

Kai Doering, Nadezhda Kurnakova, Adrian Oroz, Stefan Schimming, Marina Sitova, Sergei Zakharov

“Do Not Remain Silent and Do Not Tell Lies!”

Exploring the Role of Mass Media in the Oblast of Kostroma

Bed-Time Stories Instead of Hard Facts – an Introduction

Larissa Katilova knows what she owes her viewers. “We only broadcast information that has a positive effect and is useful to people”, says the director of the state television channel GTRK Kostroma. “After all, I don’t want our viewers to have sleepless nights or to grab a spade and start attacking wealthy people or bankers.” Katilova’s channel, the regional branch of Russian state television, subscribes to the motto: “We connect.” For Katilova that means “We connect all progressive people in the Kostroma region.”

Albert Stepantsov is sceptical. “There aren’t any independent media in Russia. They are all dependent – either on the government of the respective oblast or on an oligarch.” Stepantsov knows what he is talking about. In 2011 he founded the newspaper мой город Кострома (Kostroma – My City), financing it with his own money. A year later he says soberly: “Many organisations are afraid to work with us. It is hard for an independent press to survive in the Kostroma region.”

Two journalists, two different opinions. The media landscape in the Kostroma region, 300 km north-east of Moscow, is difficult to fathom, not because there are so many publications and broadcasting stations, but because of the very different attitudes journalists adopt to their work here. Then there are expectations from outside – from politicians, the private sector, and the population – about what the media should be reporting, who they should present the information, and what function they should have. Under the auspices of the 2012 Egon

Bahr Fellowship endowed by the Friedrich-Ebert Foundation, a group of young Russians and Germans investigated the position of the media in Kostroma more closely. They talked to journalists, visited editorial offices and heard what they had to say about their daily work. In addition, they met with local and regional politicians and with representatives of the private sector and civil society who related their own experiences of the media in and around Kostroma. The six-person group then put together a list of proposals for how to improve the role of the mass media in the Kostroma region. These proposals, which are summarised below, were presented to the governor of the region, Sergey Sitnikov, on 14 July 2012.

Between Partnership and Control – Taking Stock of the Media Landscape in Kostroma Oblast

Albert Stepantsov’s editorial office still smells of fresh paint. The walls are painted bright orange and on them hang several framed editions of the newspaper Kostroma – My City. Stepantsov’s desk stands by the window. The only thing on it is a laptop. “We only moved in a few days ago”, says Stepantsov, the founder and chief editor of the paper, by way of apology. The newspaper began production of its edition of 7,500 a year ago. It is financed entirely by advertising and is distributed free of charge in supermarkets and public institutions in Kostroma. Little dots stuck on a map of the city show where Albert Stepantsov has had a turbulent year. One edition of the paper was confiscated by the police because it had published a report criticising them. On another occasion

reporters were barred from attending public events to prevent them writing about them. But Stepantsov and his editorial team, most of whom work under pseudonyms, were not to be deterred. "We try to highlight the most pressing problems of the people who live in Kostroma and adhere to the editorial guideline: Do not remain silent and do not tell lies!" says Stepantsov, clearly unperturbed.

But his situation and that of the newspaper is a difficult one. And that hasn't changed much, despite the fact that the former governor Igor Slyunyayev was dismissed in response to popular pressure in spring 2012 and replaced by the journalist Sergey Sitnikov, a native of Kostroma. "I am still not able to talk openly with all politicians", Stepantsov complains. Particular the members of Putin's party United Russia are very reserved. And he says the economic situation is even more difficult, with politicians having on past occasions put so much pressure on advertising clients that they eventually withdrew their advertisements from Kostroma – My City. "We need to finally get away from the system of state media financed from the state budget", Stepantsov believes. Public money should be distributed differently and at least some newspapers and TV and radio channels privatised.

One of the people who benefits from the current system of financing is Mariya Ushanova the thirty-seven-year-old chief editor of *Костромские ведомости* (Kostroma Gazette), which is financed by the government of the oblast. Ushanova believes the three regional weeklies that appear in Kostroma Oblast are the most important sources of information. Yet sales figures are continually falling for all three, she says, seeing this as a clear sign of the effects of the continuing economic crisis. "Dependence on the government is a thing of the past", says Mariya Ushanova. "Today, what matters is

dependence on money." She believes that in the worst case this can mean that the media refrain from reporting on certain things if this runs counter to the interests of an advertising client or a sponsor. She is reluctant to speak of self-censorship, although she does concede that in writing and evaluating articles, a fear of dismissal is always at the back of her mind.

Larissa Katilova is more blunt. "We do exercise a kind of self-censorship", says the director of the television channel GTRK Kostroma, "out of a sense of responsibility to our viewers." The key question with any report, she adds, is what the report's intended effects are. "I wouldn't like to broadcast everything we know", Katilova says. For in the end you have to think about what the consequences will be. Katilova has a particularly hard time criticising someone for having put a foot wrong. "I always think about whether the person might have children who would suffer as a result of a report", she says. Most of the TV programmes therefore simply report the facts and they do not broadcast commentaries or programmes that put situations in a broader context.

Katilova describes her relationship with the oblast government as "constructive". She says that, unlike other journalists, her editors talk to politicians in positions of responsibility, thus ensuring that "a dialogue between the government and the people" is created so that political decisions can be explained. She believes that this dialogue should include politicians' answering questions put to them by citizens.

Aleksandr Fisher, an advisor to governor Sitnikov, has already done this and regularly answers questions addressed to him by Kostroma citizens through the regional Internet forum *Форум костромских джедаев*. "The government and the media

work as partners in our region”, says Fisher, who used to be a radio journalist himself. He rejects any suggestion of political pressure being exerted on the media, let alone censorship. “Our mission is transparency and honesty and we are prepared to provide the media with all the information they need.”

Aleksandr Fisher is aware of the great hopes being pinned on his boss, elected governor in the spring, by the people in Kostroma. The mass media therefore have a big role to play in his strategy. “Governor Slyunyayev did not explain his decisions to citizens”, says Fisher, and you can tell that he thinks this was a mistake. While there was certainly a dialogue between the government and the media under Slyunyayev, there was “no partnership”. This now needs to be resurrected and developed, he adds, saying he believes the situation is favourable for this. “The Kostroma media are well positioned to provide people with objective information”, Fisher is convinced.

Tamara Dobretsova nevertheless thinks something is missing from the reporting. Dobretsova is co-chairperson of the environmental organisation “In the Name of Life” and complains that her organisation has no access to the mass media and that they completely ignore her work. Nevertheless, she says, Governor Sitnikov has announced that, unlike his predecessor, he intends to meet regularly with NGOs in Kostroma Oblast. Dobretsova hopes this will increase media interest in her work.

“The media should not only deliver the facts but also do more in-depth reporting”, Valentin Orlov, president of the Chamber of Trade and Commerce in Kostroma, says. Of course, it is important to report on his institution, he says, but often journalists fail to understand the material properly and therefore either get it wrong or do not report at all. News about important investment

projects in the region thus fails to make it into the media. “A lot of good things are happening here”, Orlov is convinced, “but hardly anyone is aware of this”. He describes current reporting practices thus: “We commission a particular media organisation to cover a story, pay for it, and the journalists report on it.” Orlov thinks the press should show more initiative in reporting on the work of local enterprises, and he also favours the establishment of specialist trade magazines.

Larissa Katilova doesn’t understand this criticism, saying that she is just as willing to report on economic enterprises as she is on NGOs like Tamara Dobretsova’s. However, she points out: “Someone has to pay for the airtime.” If the political will is there to allocate civil society organisations airtime, then she won’t stand in the way, she says.

“Political will” seems to be the key factor on the way to more press freedom and a more important role for the mass media in both the Kostroma region and Russia as a whole. The degree of press freedom or power of the press depends strongly on what politicians – whether governors or presidents – allow. This is the underlying impression that the members of the groups gained from all their conversations. It is no coincidence that the general mood improved considerably after the old governor was dismissed and the new one appointed.

Another word that cropped up often in the discussion was “Internet”. “We are living in an era when civil society is being activated”, says Kostroma’s mayor, Yurii Zhurin. He believes the Internet provides a decisive tool to make contact with citizens. Mariya Ushanova, chief editor of the Kostroma Gazette, predicts “a development of the media, especially Internet media”. CCI President Orlov also emphasises the “important role” of the global network. Aleksandr Fisher’s announcement that “We will go further in the direction of the

Internet” therefore scarcely raises any eyebrows.

Open Dialogue and other Sources of Funding – Proposals for Reforming the Mass Media

Sergey Sitnikov is a friendly, easy-going type. The new governor of Kostroma Oblast smiles a lot, often nodding his head in approval as he listens to the participants in the Egon Bahr Fellowship 2012 group presenting the results of their week of intensive discussions. “Complete control of the media is impossible”, says Sitnikov, and as a former journalist he does not seem to regret this fact, even though he is now sitting on the other side of the microphones. The governor even goes one step further, stating that the new media have considerably broadened the freedom of journalists and that it is now up to them to make use of this new freedom. “Journalists must be as open as possible”, Sitnikov says, “and the state must support them in their work.”

Whatever the Russian state leadership may think of such a view of the media, the politicians governing Kostroma region seem to take an essentially positive attitude. This is important, for the role of the local holders of power, particularly that of the governor, is a decisive factor in the degree of press freedom in a region. The replacement of Governor Slyunyayev with Sergey Sitnikov seems to have been a move in the right direction.

Nevertheless, old habits die hard, and the media is no exception, so it may take time for change to come about. One of the most crucial things that needs changing is journalists’ own self-censorship. Among the state mass media, be it Larissa Katilova’s TV channel GTRK Kostroma or Mariya’s Ushanova’s Kostroma Gazette, journalists have become so used to censoring what they say or write that they don’t even notice that

their reports are one-sided. This means not only that some reporting is not as objective as it should be, but also that there is scarcely any analysis of important events (such as the dismissal of Governor Slyunyayev). The mass media are therefore not in a position to play the role of intermediaries between the state and society that so many people the team talked to considered important. Instead, communication works only in one direction: from the government to the governed.

Seen from a German point of view at least, the media in Kostroma region do a poor job of fulfilling their role as the “fourth power”. If we take this to mean acting as a political watchdog, then this function is fulfilled, if at all, only by privately financed media such as Albert Stepantsov’s weekly Kostroma – My City, which investigates what is going on behind the scenes in the government and police and publishes its findings, which has led to its some of its journalists being threatened. If, however, one interprets “fourth power” as meaning that the media should help people to solve their problems (an interpretation that cropped up several times in the group’s discussions with leading media and political personalities), then one can certainly say that the mass media in the Kostroma region are doing their job. The German members of the group, however, found this definition rather unhelpful.

So how can the mass media best go about becoming stronger and improving their social function? First of all, we should acknowledge that since Governor Sitnikov was appointed, the situation in the Kostroma region has certainly taken a turn for the better. He and his advisor, Aleksandr Fisher, seem to have recognised the signs of the times and are encouraging a more open dialogue between government, mass media and society, which takes the form of regular meetings of the governor with representatives of NGOs and swift responses

to media questions. This dialogue should definitely be continued and where possible conducted in more depth. It may even serve as a positive example for representatives of other parties, which during the conversations were described as very reserved in their dealings with the media.

In order to find out what people in the Kostroma region expect from the mass media it would be a good idea to conduct an oblast-wide survey. The group's discussions with top media and political personalities have already brought to light many wishes and demands addressed to the region's mass media. A broad survey would be a further step in this direction and would allow one to find out how citizens use the media and to teach them how to make better use newspapers, television and the Internet. Regular discussions organised by the media on various political and social topics could make a contribution to this.

The establishment of an independent social council for the mass media would also appear to be a good idea. This could serve as a forum for representatives from civil society, professional associations and churches to advise the media and to ensure that freedom of opinion and the expressions of a range of opinions is respected.

Without wishing to anticipate the results of such a survey, the group has gained the impression that social groups, in particular NGOs, are given little space to air their views in the Kostroma media. While there is a willingness in principle to give them coverage, this is offered only in exchange for payment. This attitude is problematic and needs to be reconsidered by leading media representatives. Here policy-makers could help by funding airtime for social issues. Better still would be for the media to accord equal treatment and equal coverage to such issues prioritising them according to

relevance rather than political function. The state should also put some thought into how free media can be better supported.

After running a private newspaper for a year Albert Stepansov knows only too well what it feels like to have to come up with all the funding for a media organisation. Given the difficulties this entails even for a newspaper, to found a self-financed radio or television station would thus seem to be well nigh impossible. Stepansov advocates distributing state money differently, so that fewer media than before are financed chiefly from the oblast budget and instead coverage of specific topics could be put out to tender for which different media could compete. A special committee of the oblast Duma (or parliament) would decide on the allocation of funding, thus promoting a broad spectrum of different media. After all, it is certainly not in the interests either of a functioning democracy or of policy-makers to retain permanent control over the media. Instead, the state administration should use this to create incentives to motivate journalists in Kostroma Oblast to do their jobs and to offer them more latitude to realise their own ideas.

For this purpose it might be helpful to hold an annual literary competition – not only for “traditional” media but also for more modern media such as television, radio and Internet. A jury would evaluate the entries in different categories, such as news, reportage or film. The best entries would receive prize money. This might serve to stop the current trend whereby many talented journalists have left Kostroma and moved to Moscow, because they see more opportunities there for their work and personal development. To improve journalists' training the journalism course at Kostroma's Nekrasov University should be improved.

In the long term the privatisation of the mass media in the Kostroma region should be

considered. One state newspaper, radio station and television channel should be sufficient to communicate the decisions taken by the governor and the Duma.

Private, and above all financially independent, media would be in a better position to fulfill the role of a true "fourth power" monitoring the activities of the government and parliament. There is, however, some danger of exchanging one form of dependence for another, and attention should be paid to preventing oligarchs from seizing control of the media. If they did, they might well use it to pursue their own interests, which would run counter to the principle of a free press.

One medium with great potential – in Russia as a whole as well as in Kostroma – is the Internet. It has the advantage of reaching a wide audience at relatively low cost and it is therefore hardly surprising that all the people the group spoke to were pinning great hopes on this comparatively young medium. Portals like Форум костромских джедаев and k1news.ru already represent important steps. This strategy should be pursued, for the Internet offers citizens a good and relatively simple way of communicating their needs

and wishes to the government directly. Here, too, however, certain conditions must be fulfilled. First of all, a good net infrastructure must be established that allows every citizen access to the Internet to get information. Second, the Internet must not be subject to censorship of any kind. "The boundaries between bloggers and journalists are increasingly becoming blurred", Governor Sergey Sitnikov acknowledges and behaves accordingly: while listening to the presentations of the findings of the four working groups of the Egon Bahr program he reacted immediately to several contributions addressed to him by users of the portal Форум костромских джедаев. While certainly positive, this development also presents new challenges to journalists who now see themselves exposed to new competition. Moreover, readers must be able to assume that the information being disseminated is reliable. Thus in a certain sense the Internet reflects a change which society as a whole is having to come to terms with. That change is democracy. "Without the participation of the population a government will never enjoy its trust", Sergey Sitnikov admits. "A government should never have to be afraid of its own people."

"Kostroma Mon Amour": Prospects for Regional Economic Development

Introduction

This report explores the investment climate in the Kostroma region. The following questions will be answered:

What is the state of the economy in the Kostroma region? How much progress have various sectors made and what are the strengths and weaknesses of the local economy?

What changes can be made to improve economic development? What difficulties do the region's entrepreneurs face? What contribution can the politicians make to help foster a good investment climate?

Our perception of Kostroma is similar to that of a traveling businessman who would be looking at the city and the region through the same lens as we did and assessing the investment potential of its economy. As a guest he cannot help but fall under the spell of Kostroma. He will surely buy a souvenir at the market, window-shop for gold jewelry from the village of Krasnoye-na-Volge, taste the famous Kostroma cheese, walk amid old houses, take a boat ride down the wide Volga River and feel awed at the sight of the formidable Ipatyev Monastery.

At the same time as a person who knows the price of a good investment environment, our colleague will be thrown off by the rudeness of the train attendants servicing passengers on the Moscow-Kostroma route in old worn-out train cars, notice the outdated road infrastructure in the Kostroma Region and heave a sigh when a local citizen, for an umpteenth time, begins the story of his city with the words: "Before the Bolshevik Revolution Kostroma used to be famous

throughout Russia, but then..." After talking with local businessmen he will notice how much more important siding with the authorities or the "siloviki" (law enforcement and security people), the power industry and a host of supervisory agencies is compared to showing personal initiative. He is sure to notice that local business is straightening its shoulders and is desperate for mutual understanding with the authorities, security and dialogue.

Our business tourist is sure to appreciate the signs of truly Russian business acumen: excellent restaurant projects, creative advertising and the willingness of the local government, businessmen and ordinary citizens to forge mutual understanding and to work here and now in order to improve life in Kostroma. He will certainly feel inspired by the presence in the region of such famous brands as McDonalds and Kronostar. He will want to gain deeper insight in their investment history and, if properly presented, this experience will convince him that he is not alone in being optimistic about the future of Kostroma.

The Economy of Kostroma

According to the generally available statistics, the Kostroma Region has a population of 662,000 people comprising 114 different nationalities, of whom 197,000 are rural dwellers. Population density – 11 people per square kilometer – is the lowest among all the regions in Central Russia.

In the Soviet times the region's economy was thriving, but in the 1990s the recession set in. 21st century has brought signs of sustained growth, which has reached the national

average of 3%. The average salary is 14,600 roubles (€360). The official unemployment rate is about 1%.

The key sectors of the local economy are timber and paper industry (74% of the region's territory is covered in forests), electricity and textile industries, mechanic engineering and the manufacturing of auto parts, gold processing, optical and chemical industries. The production of leather, plastic and footwear has slowed down because of the imports from China. The manufacturing industry accounts for about 29% of the gross regional product.

Retail trade has been growing steadily, with 60% of entrepreneurs in the Kostroma Region representing small and medium-size enterprises. The region can also export processed timber, particularly woodchips and could boost the export of auto parts. Among the imports one can single out medical supplies, raw materials for the chemical industry and components.

The most serious problems of the local economy are labour shortage and inadequate infrastructure (streets, roads as well as water, power and gas supply). These sectors are obviously in desperate need of investment, but the process needs to be tightly controlled to make sure that investment is targeted. Waste disposal is practically non-existent, domestic waste is dumped outside the city. The official inflation rate (6%) is significantly less than the country's average (by 3 percentage points).

Agriculture

The Kostroma Region is a leader in Russia in terms of farming. This sector covers 300% of the region's needs, and there is also potential for exporting eggs, potatoes, cucumbers and other agricultural products to other regions. Dairy farms and livestock breeding could be further developed.

A considerable part of the population lives in rural areas, but in spite of the presence of such educational establishments as the Kostroma Agricultural Academy, agricultural enterprises are short of young professionals. The wages in the sector are low and people are reluctant to work there. Skilled young people prefer to go to Moscow, other Russian regions or even abroad.

Russia's accession to the WTO threatens to result in the reduction of quotas and restrictions on state subsidies until 2020. That means that new measures to support and develop agriculture must be worked out in agreement with the WTO rules and regulations.

Vysokovsky Greenhouse Complex

Alexei Sitnikov, 41, is the head of the Vysokovsky agricultural enterprise located just outside Kostroma. An agronomist with a scientific degree, Mr Sitnikov is a deputy in the Kostroma Regional Duma representing the United Russia party.

Our visit began in a small greenhouse where they grow bananas, pineapples and coffee. "This is for visitors and for fun. We bring children here to show how tropical fruits grow. Not everyone here has a chance to go and see them in the wild," Mr Sitnikov explains. But we will talk about places to take your children in another part of the report.

Vysokovsky is an example of a successful agricultural enterprise that cannot develop without adequate infrastructure. This greenhouse complex is connected to gas networks and produces its own heat and electricity for the greenhouses. We were told that there were practically no additional gas facilities in Kostroma, and that negotiating with heat and power providers for a wholesale price has failed. That means that such a large and successful enterprise may face a shortage of resources for develop-

ment, which is fraught, considering the tough competition in this segment of the market in Russia.

Vysokovsky is not the only case where there is an opportunity to show initiative and to help the strong and not the weak to become even stronger and compete successfully in the interregional market. Vysokovsky has ambitious development plans, so investment support for such enterprises in the form of tax breaks or interest rate subsidies would be of much help. This does not mean that they should be owned by the state. We will talk about this later.

Vysokovsky received a loan for its development. We were told at the enterprise that it amounted to 160 million roubles at a 20% annual interest rate, to be redeemed within seven years. The 18-hectare greenhouses that grow tomatoes, cucumbers and lettuce employ 400 seasonal workers. Production drops between December and February because the plants do not get enough sun. The products are bought by wholesalers, besides that Vysokovsky is developing its own retail network, positioning itself as a local producer of ecologically clean products. There is tough competition among vegetable producers in the Kostroma Region. However, Mr Sitnikov sees great potential in bio-products (grown without the use of chemicals). He says that in the winter they can cost twice as much as the imported analogues, but still sell better.

Recruiting new specialists is a problem for Vysokovsky, although Mr. Sitnikov says he pays them well compared with the average wage in Kostroma. Many enterprises complain about the shortage of working hands, but looking at the brand-new black Audis gleaming in the sun at the gates of some agricultural enterprises one cannot help but think that there is room to raise the wages of the rank-and-file workers.

Mr. Sitnikov praised the work of unions of employers and greenhouse complexes. He considers it important to be a member of the Kostroma Region Chamber of Trade and Industry, especially now that he has to learn to play by the WTO rules.

Karavayevo Cattle-Breeding Farm

The Kostroma breed of cattle is the region's main trademark, while the Karavayevo cattle-breeding complex reflects the state and the prospects of agriculture in the region. It appeared to us that today Karavayevo and the whole Kostroma region are witnessing a revival in the meat and dairy sectors. It is great to see such a famous enterprise survive. But on the other hand, if an enterprise such as this one does not have the conditions for sustainable development, what can be said about other enterprises? The manager of a dairy farm, the open joint stock company Suchchevo, Boris Adrianov, told us that today he sells milk to Danone at 16 roubles per litre, while production cost is 11 roubles. The average wholesale price charged by producers in the region is 14 roubles per litre (this price is to be proved again. I send the result early in the morning at 19th of November - KP). Danone guarantees steady volumes of purchases, but at the moment Mr. Adrianov is developing his own dairy production to boost his profit. The businessman's main task is to organize marketing.

Successful enterprises show what kind of assistance the industry needs. These include, on the one hand, development of one's own processing capacity and local brands with higher surplus value. And on the other hand, they need major consumers who guarantee purchases (such as Danone) and major federal retail networks (such as Auchan). For that purpose the agricultural enterprises or consultancies in this sphere must have advanced knowledge of new products in the

market and farming technologies, possible subsidies in accordance with the WTO rules, branding of foodstuffs, exhibitions, fairs and auctions of producers held by major retail networks. The big stumbling block is the qualification of agricultural workers. Today agriculture managers in the Kostroma region are thinking of bringing in foreign manpower (Uzbekistan, Tajikistan). Managers say that students of the Kostroma Agricultural Academy come to intern at their enterprises, but once they obtain their degree, they do not return to the sector.

One can pay substantially less to migrant workers than to local job seekers. Germany also makes wide use of unskilled migrant workers in the agricultural sector, but here it is important to make sure that they have decent living conditions and their children have an opportunity to acquire a good education. Otherwise, such this decision could result in social problems.

Unfortunately, even successful enterprises in the Kostroma Region are not interested in exporting to either other regional markets or the world market. We were told about tough competition in Moscow. But there are other destinations for supplies, for example, Yekaterinburg. Producers need help if they are to become major market players, acquire the confidence and knowledge to promote Kostroma goods far beyond the region's boundaries. Perhaps one should think about promoting and defending the Kostroma cheese brand ("Kostroma" cheese is at present produced in Belarus), open an Internet site in Russian and English devoted to this product and display Kostroma cheese at exhibitions and fairs across the world. Today even big Russian supermarket chains do not carry the entire range of Kostroma cheese and some have none at all. And yet cheese is brought from Lithuania and Ukraine while Kostroma dairy farmers say making cheese is unprofitable. Perhaps this just

means that Kostroma cheese needs new markets and better marketing.

Tourism

Kostroma obviously has a certain potential in the sphere of tourism, but it remains practically untapped. In 2009 170,000 tourists spent at least one night in the Kostroma Region. This is the worst figure among all the regions in the Central Federal District. The figure for the Yaroslavl Region is 541,000 (according to the Russian Tourism Ministry).

Kostroma is part of the tourist route known as the "Russian Golden Ring", but it does not appear to be as attractive as it once was. Getting to Kostroma is not so easy. Given the decline of regional aviation, the two regional airports can hardly be of use. So tourists can mainly reach the city by taking an overnight train from Moscow. However, the quality of this form of transportation and services is poor. It seems to have remained in the Soviet period. The frequency, quality and diversity of railway connections with Moscow is in our opinion the main area for negotiations between the regional authorities and the railway management.

The quality of motorways is also very important. We understand that the consolidated budget does not have the wherewithal to restore the network of streets and roads in Kostroma and the Kostroma Region. So it is particularly important to identify the priorities and repair above all the roads and streets that reflect the quality of the roads in Kostroma in general. A tourist coach takes 5-7 hours to reach Moscow, and yet the distance is only 300 km. In order to develop federal highways and interregional roads it is necessary to cooperate with the neighboring regions and promote their interests. The streets in the city of Kostroma are also in need of a clean-up. The main advantage of Kostroma as a potential tourist centre is its history. So it should participate in

cultural events and help to promote the region and its goods. The celebration of the 400th anniversary of the Romanov dynasty in 2013 will certainly help Kostroma to make an impact.

One should not forget about the scenic attractions of the region. The River Volga and the Kostroma forests can be particularly attractive for tourists who travel outside busy cities to get some rest and relax. Ecologically clean produce may also interest tourists considering the fact that the concept of agricultural tourism has proven to be popular in Europe.

One should prepare for an influx of foreign tourists by upgrading services and printing restaurant menus in foreign languages. Shopping areas that sell souvenirs and local goods should be more noticeable, so that tourists do not have to search for them. Perhaps one should think about building tourist complexes (or refurbishing other buildings) to follow the principle “bus stop – food for drivers – food for tourists – souvenir shops – local goods supermarkets – jewelry shops.” Such complexes can be located in the historical centre of Kostroma and near the Ipatyev Monastery.

Manufacturing and Sale of Jewelry

The Kostroma Region has a long tradition of manufacturing gold decorations, but even in Kostroma jewelry shops are few and far between and tourists have difficulty finding them. Meanwhile, only connoisseurs know about the Krasnoye-na-Volge brand. If the sector is to develop and to come out of the woods it is important to bring down the bureaucratic barriers that impede the manufacturing (branding) of items, their sale and especially export. It is possible to develop and implement a program that would engage Kostroma in Russian and international exhibitions, open a center and a museum for the design of jewelry, and thereby

connect the concept of gold and silver jewelry with Kostroma. For now, the official website of Russia’s biggest jewelry factory Diamant (Krasnoye-na-Volge) does not even provide an address or a telephone number for its office in Kostroma.

We propose to develop this industry by concentrating jewelry trade in Kostroma, which would offer convenient conditions, low prices and attract tourists. When we presented our group’s report on 14 July 2012 we spoke about the “Golden Street” or the “Golden Bridge” in Kostroma similar to Ponte Vecchio in Florence (Italy). An effective policy of small-size business assistance, cutting the cost of rent as well as implementing measures to stop human capital flight should make a difference not only in this sector but in other sectors, such as the tourist and restaurant sectors, etc.

Steps to Improve the Investment Climate

1. We understand that Kostroma is suffering a major budget deficit. Therefore, it is necessary to strengthen the Kostroma lobby in Moscow and use every opportunity to obtain subsidies or subventions for the local budget. One step in that direction is the appointment of the former governor of the Kostroma Region, Igor Slyunyayev, as Russia’s Minister of Regional Development. Taking part in all possible competitions and programs organized by the Ministry of Regional Development, the Transport Ministry (especially the development of transport infrastructure), etc. is also a must. The experience of the Krasnoyarsk Krai proves that such work in the Moscow corridors of power sooner or later pays off. The terms and benefits for major investors should also be discussed at the federal level. Strange as it may sound, Kostroma’s plight may turn out to be its advantage. Lobbyists should argue that Kostroma has the right to jump the queue for obtaining assistance and

hosting major investment projects. One should not forget about the international programs offered by the Bank for Reconstruction and Development, programs to restore historical heritage and so on. We are sure that Kostroma has specialists who can gather and use all the necessary information.

2. Privatization of state property and the sale of government stakes, especially in efficient enterprises, can also replenish the budget. The authorities, in our opinion, should not do business themselves, but create the best possible conditions for it. It is no secret that some top managers would like to be co-owners of successful enterprises or even their sole owners, but they are afraid to lose the protection provided by the region as the owner. But the Kostroma Region or the Kostroma city does not necessarily need to hold 100% of the shares in order to influence the development of business. As the experience of other regions shows full privatization can boost the growth of business. But in that case it should still secure the support of the authorities.

3. The land and forest resources in the Kostroma Region are in need of serious preparation, evaluation and demarcation. It also has to do with replenishing the budget. The vast tracts of forest are an excellent basis for the development of wood processing and the so-called "forest economy". The woodworking sector has a major player - OOO Kronostar (OOO is for Russian. Ltd. – is for English). Its positive experience in the region could be presented to potential investors in order to boost the woodworking industry.

4. Kostroma businessmen (not named in this report) admit they are afraid of the pressure from the authorities, the "siloviki" and the supervisory agencies. They give pessimistic accounts of their colleagues who are in

pretrial detention or in jail on charges that the business community considers to be unfair. Facilitating safe operating conditions for business, honest hearings of all the cases and prevention of searches, confiscations and detentions on specious charges (sometimes trumped up by competitors) is a major challenge to the development of Kostroma and indeed the entire Russia.

5. Businessmen are eager to establish dialogue with various levels of the government. In Germany many cities have a tradition of informal meetings between the authorities and businessmen. These informal meetings may bring together the head of the region, a minor official from a small town, an owner of a big enterprise and an owner of a small shop. Of course, one should invite representatives of the supervisory bodies, the Interior Ministry and the public to such meetings so that they could see that this work is transparent and do not suspect the authorities of being hand-in-glove with business. We are convinced that the Chamber of Trade and Industry and the Kostroma branch of Delovaya Rossiya would be glad to take part in organizing such meetings.

6. The business community says it is ready to tackle social tasks, for example, opening private kindergartens. But it needs support in clearing administrative hurdles and would like the local budget to provide as much money as it does to the municipal kindergartens to cover the cost of attendance, while parents can cover the rest. This is a very interesting opportunity for the development of public-private partnership.

7. Tourism and event marketing. We have heard many different opinions about earlier attempts to make Kostroma attractive for tourists. Perhaps not all of the events held were worth the costs they incurred. However, activists and journalists have very favorable

things to say about events such as the "Romanov Festival." This may be the best time to come together and discuss together with the citizens what annual events should stay and which ones should be dropped. One can also enlist the services of Russian and foreign advisors on tourism development. We see some potential in the "weekend" tourism from Moscow. One night on the train is very fast by Russian standards. The "weekend in Kostroma" can be particularly attractive for children. Kostroma can offer them and their parents an excellent educational program on the history of Russia, ecologically clean locally-produced food, agricultural tourism programs and low prices in the services sector. Low prices and proximity to Moscow is a good starting point for the development of congress tourism. Why don't the major companies who hold their congresses in Moscow make forays into the "real Russia" over the weekend once the congress is over? With the development of its own congress culture Kostroma could attract more and more of such events. All this of course is a sphere of partnership between the authorities and business.

8. All the decisions require human resources, whom are difficult to lure into the region but can be educated on the ground. Developing human resource potential could use help of higher education institutions and secondary vocational schools that train workers in retailing, woodworking, metalworking, agriculture and foreign languages.

9. The Kostroma brand. We have mentioned the role of jewelry in Kostroma. There are

many other interesting goods and services that Kostroma can offer. They need a common "umbrella," a brand, logo and a slogan that would be developed and promoted both at the official and informal levels. Such promotion must be developed and carried out by a private company that has won a tender, under the supervision of the authorities and activists, for example, of the Kostroma Region Development Foundation. One creative solution could be the popular Russian greeting "Zdorovo, Kostroma" (Hello, Kostroma), or a more intellectual and global aimed "Kostroma – mon amour" from Boris Grebenshikov's popular song of the same name. A business tourist we mentioned at the beginning of this report was very disappointed that he could not buy the most ordinary souvenir: a jersey with the emblem of the city and such slogans as we have mentioned. But he hopes to do it on his next visit to hospitable Kostroma.

Today the main and inexhaustible potential of the Kostroma region is its people. They are the people in power who know their region well and who have the trust of the population. They are the people who did not shut down their businesses and leave the country during the hard years when it was unsafe to be a businessman. Finally they are young people who are acquiring an education, raising families and who want their children to be successful and happy in Kostroma. All that remains to be done is for these people to come together and agree on how to make Kostroma attractive for themselves, for tourists and for business.

Future of Social Policy in Russia's Regions: On the Economy of the Housing and Utilities Sector in Kostroma

*If we don't act now
this will result in a disaster in a few years.¹*

*Former President of the Russian Federation,
Dmitri Medvedev in 2010*

Two years have gone by since President Medvedev urged politicians to address the severe problems in the Russian housing sector. Residents in cities all over the country have filed complaints about bursting water and gas pipes, damaged roofs and poor electrical maintenance services. According to the official statistics, 40% of all apartment buildings are in need of renovation.²

Come election time, there politicians of all levels begin to make promises. So, in 2012 a couple of months after the elections, a group of Egon-Bahr fellows travelled to the city of Kostroma to take a closer look at the local housing sector and the policy in place. We talked to the people in the city administration, the residents of the affected buildings and the people from the managing companies.³ We even had the opportunity to speak to the governor of the Kostroma Region and the mayor of Kostroma. They all seem to have a strong position on the issue yet none can find common ground. Therefore, the purpose of this paper is to provide insight into the fundamentals of this conflict and to explore some of the perspectives we have come across.

We have discovered that in many ways the issue of housing services and utilities is a reflection of all major problems in post-soviet Russia. Many of these problems, such as the oversized bureaucracy, lack of clear rules and regulations, corruption, and the absence of competition only seem to be getting worse.

The housing sector affects one of the most essential parts of people's lives and is therefore one of the most critical social issues in Russia.

The roots of the current mess go back more than 20 years to the collapse of the Soviet Union. Lacking liquidity the Russian government asked the IMF and the World Bank some \$1 billion in loans, which the latter granted as a condition for the liberalization program. During Yelzin's so-called shock therapy Russia had to transit from a social planned economy to a capitalist market economy. The housing sector was excluded from this liberalization process. The expectation was that it would adjust on its own by absorbing the rising cost of living⁴. Apartment residents were offered a change to buy the property they were living in from the state for a very small price. As a result of this, the vast majority of apartments in Russia today are privately owned. This process of privatization led to great social inequality and society transformation.

Property management, however, was left almost untouched. First, this meant that bureaucratic authorities remained responsible for property maintenance and the supply of gas, electricity, water and heat. Although many property management companies had also been privatized, a number of them still remained in the possession of the community or senior government officials who held 100 percent of the shares. But neither the residents nor the local authorities could afford to cover the cost of maintenance services.

As a result, further reform of property management became one of the govern-

ment's main priorities. A number of reforms had been discussed before Moscow realized that only private ownership could effectively modernize the system. In 2004 the State Duma passed a series of legislations aimed at fostering competition between fully privatized managing companies. But experience has proven that what looked good on paper actually failed in reality. Under the new law apartment owners pay for all expenses and repairs. But while few of them can afford a full renovation, many others reject the very idea of having to pay for something they believe to be government's responsibility. Meanwhile, managing companies' fees continue to rise every year in the absence of any improvements in service.

In fact, some managing companies offer no maintenance at all, while some of the others have used the housing market with some 43 million tenants to their own benefit, organizing fraud schemes of various kinds. Neither has the new legislation helped to eradicate corruption. In many cities the housing market is controlled by crooked businessmen and corrupt city officials, who created an illusion of a free market only to divide and use the territory for profit. These hidden monopolies and cartels are another reason why serious investors remain wary of entering the market.

The only thing that can help to improve the current situation is state involvement. Thus far, government agencies have relied on a special fund created for using regional budgets to cover 95 percent of the total cost of renovations. But the fund's €6 billion is hardly enough to cover the cost of renovating all residential buildings, which the Ministry of Regional Issues in Moscow has estimated to be €150 billion.

All these problems that plague the housing sector could be due to the fact that while

most sectors of the economy have successfully transitioned to a free-market model, the housing sector still remains stuck somewhere in between. The main reasoning behind reforming the housing sector was to replace the state as a provider of services with private companies. "No landlord is worse than the state" was the popular slogan at the time. The hope was that privatizing the sector would reduce bureaucracy, introduce competition and improve the quality of services, while keeping the price down. Sadly those expectations have not been met and people all over the country have to deal with bad-quality services, deteriorated utilities and persistently rising fees.

The Case of Kostroma

Kostroma is not an exception. In fact it is quite representative of the general situation in Russia. The price of water, gas and electricity has increased by 15% in the region in 2012. Rising prices are a number one concern for Kostroma residents. The share of household income spent on housing services gets bigger and bigger every year, while the reason for the increase remains unclear. Private managing companies claim they are not responsible for the change in price, saying they merely redistribute commodities that they receive from state-owned companies. They insist that they have limited influence over the price.

This is only partly true. In addition to add-ons, managing companies also charge for services like cleaning, maintenance, renovation and so on. This creates a lot of room for corruption. It is not uncommon for residents to be billed for services they did not receive, (e.g. repair work that never happened or cleaning that was not performed as stated). Sometimes the situation can even be comical when, for example, residents are billed for repair work on an elevator in a building that doesn't have one.

State companies cite their expenditures on renovations and the increasing global energy prices as the reason for the rising cost of utilities. While the first reason seems to make some sense (although it is somewhat unfair to the citizens of a country that is one of the biggest exporters of oil and gas in the world), the second one raises many questions. Very little appears to be done in regard to investing in utilities. Breakdowns happen with increasing frequency, leaving people without heat, water and electricity for days, damaging their property and creating unsafe living conditions.

Needless to say, the current quality of services is far from perfect. In the winter, indoor temperature of people's homes is often not high enough, while the water is neither clean nor warm enough and the living conditions in general can hardly be qualified as comfortable.

Again, the managing companies and the state try to point the finger at each other, avoiding responsibility by all means. At the end of the day, Kostroma residents and those living in other regions plagued by similar problems have to face unsatisfactory housing services provided at a high price.

According to the statistics of the Kostroma region, annual subsidies account for 2,5 billion Rubles (3,600 Rubles per person), which means Kostroma covers most of its expenses without the help of the federal budget. And of the 2,5 billion Rubles that it receives, it spends up to 80 per cent on social projects. This situation points to the wide gap between the federal center and the regions and is quite typical for Russia. The problem is that the money that Russians pay in taxes to the federal authorities is not used for improving life in the regions. This leads to a lack of trust between the people and the regional authorities. People don't feel like responsible taxpayers due to the lack of

transparency in budget allocation. If the authorities were to provide more information and statistics on how money is used it would help dispel the notion of "us vs. the government" where "us" are the citizens who feel deceived by the state.

This dichotomy is well known to all Russians, but people coming from abroad have a different perception. This is why we want to introduce two assessments of the situation in the Kostroma Region – one made by a young Russian familiar with the workings of the system, and the second one made by a young German, who provides an "outside perspective." Both are members of the group. Their perspectives show two sides of the same coin.

Understanding a Russian Perception

When Russians talk about their country they usually feel ambivalent: the more displeasure they express, the more love they feel. We see Russia as our child – we would like it to be perfect, but it never fulfills our expectations. And no one except us has the right to criticize it. This is what we call *amor patriae*.

There are a lot of things we are proud of. First of all, it is our history and culture. But what do we understand by culture? Most Russians will tell you it is Russia's cultural heritage – temples, museums, historic landmarks etc. But the word "culture" itself has many other meanings, such as political culture, which refers to the relationship between power institutions and the people.

"Do you have a social state?" If you ask me this question, I will think for a while and most likely say "no." I hope you understand when I say that I am very patriotic. But isn't it wrong when a person receives only €250 per month in pension after having worked for at least 25 years? Yes, you are right - free education and basic medical care make Russia an exception. But this is still so much less than what people

had in Soviet times. This is not even “capitalism with a human face,” this is a “double-headed eagle” with two heads (the authorities and the people) looking in different directions because their very nature won’t let them look in the same direction.

Going further, I would like to stress that improving the public sphere is essential if the government wants to make people feel safe and discourage them from leaving their region. How can we improve the working conditions, including salaries? It is like running in a circle. If we try to increase salaries by reducing staff, we will end up with higher unemployment on our hands. Incidentally, unemployment in the Kostroma region is quite low (< 1%). However, this statistics only takes into account what is called registered unemployment, meaning those people who have registered at an unemployment office and receive a social allowance (it should be noted that this system is quite different from the one in Germany). Many Russians avoid this step so as not to be constrained in their job search. As a result, statistics change, but the problem stays. It is like in Soviet times – we have no unemployment because those who don’t work are in prison.

The housing and utilities sector is crying for a moon. It is looking for a compromise between consumers and property management companies. People want renovations and the opposite side insists it is the residents’ responsibility. Who is right and who is responsible for what? Russia has a housing code – a law that both parties can refer to. But they are unwilling to do so and most importantly, they are not aware of their responsibilities and rights (I put “responsibilities” first because people usually know more about their rights than their responsibilities). And this is the Russian version of democracy, which in reality is only aggressive capitalism.

When you arrive in Kostroma you see a small city with a friendly atmosphere: clean streets and open-minded people who seem to be cheerful. Optimism is a typical trait among Russians who live with the motto “Things used to be worse.” This is the main difference between the residents of big cities and those who live in the regions – the latter are more friendly and optimistic. To help them stay optimistic and improve their living standards Kostroma authorities should first of all listen to them. Only then can public participation be improved (according to the Maslow’s pyramid).

Understanding a German Perception

Russia, as it is known in Germany, is a country with many problems. Russians seem to have enjoyed only a small share of democratic improvements over the last twenty years. Corruption remains a major issue, in addition to a weak judiciary and press that is stuck between self-censorship and centralized control. None of this is obvious when you come to Kostroma and look around. The city looks beautiful and even romantic when you cross the Volga River on a boat. Given my secret admiration for Russian culture and history, it was disconcerting to learn about the social situation in Kostroma, especially what is happening in the housing sector.

I found myself in the middle of a conflict that has its roots in wrong political decisions made by politicians who later decided that the people they got into this mess should take care of the problem alone. And to their surprise they couldn’t. Today no one wants to assume responsibility and as always it is the weakest that pays the price.

Tatiana Pavlova, chairperson of the NGO “The Eldest in the House,” is one of the few people who do not want to accept this situation. She fights for the residents’ rights and acts as a mediator in their communication with managing companies.

As the result, she has found a natural enemy: Alexander Bakanov – president of an NGO called the “Association of the Housing Owners and Managing Companies.” His point of view differs from Tatiana’s. He thinks that house owners expect too much from the state and act like they still live in the Soviet Union. Bakanov thinks they should adapt to the new system like he did. This leads me to the following question: who should be financially responsible for the renovation? Alexander says it is the responsibility of the residents. They argue that they can’t afford it and that they have already spent years paying for maintenance they did not receive.

I also ask myself: where are the forces of innovation in this country? Where are the creative businessmen of good will? Listening to each other is both a great asset and a challenge. Why not use this as a business opportunity? Every party involved in the Kostroma housing debacle only cares about his/her own interests without considering or respecting the interests of others. The investment climate is characterized by mutual distrust. Nobody wants to admit that the other party’s position has a right to exist.

There should be an independent consulting company, which would carry out the negotiation process, supervise contracts and provide the local Duma deputies with updates on current developments and needs. Owners and residents could be provided with information about the housing situation to make sure that everyone knows about his/her rights and responsibilities.

Furthermore, my experience in Germany tells me that politicians should at least be responsible for mediating between the parties. I understand that the local budget has already reached its limits. The local authorities are waiting for the state government to provide financial support, thereby sacrificing their autonomy having to depend on Moscow. Nevertheless, at least it

could help them to kick-start the process of fostering free-market conditions and competition. Home-owners should be offered a choice of housing companies – something that still hasn’t happened. Once again the Region’s new governor Sergey Sitnikov has given hope for improvement. He is rumored to be bringing in some of his old connections in the Kremlin. Dum spiro, spero. While I breathe I hope.

Conclusion

Though one has to admit that since 1992 Russia has faced an unprecedented task of having to transit from the largest social planned economy to a huge market economy. It has had to introduce the so-called basics of a free-market economy – privatized ownership, freedom of competition and entrepreneurship, contractual relationship and restrictions to state intervention.

Although major element of a market economy is public participation, so far there are few options for people to influence the situation. Russians face a colossal bureaucratic machine and have no choice when it comes to selecting a managing company. Formally there is a possibility for inhabitants to change managing company, but in practice it is a complicated procedure that demands a lot of time and effort that most people don’t have. More importantly, changing a managing company does not necessarily mean subscribing to better quality services. All companies operate in the same environment, which makes it difficult to make profit and provide good and honest service at the same time.

To sum up what has been said, we want to stress that Russia needs better communication between the actors in the conflict. Citizens and entrepreneurs should communicate with each other to be able to find a common solution. Only politicians can provide a forum for dialogue.

They should act as mediators to help resolve the conflict. Only then can the warring parties settle on to a compromise. No single actor should be excluded from the dialogue process. And what is most important is the rule of law and independent observers that could provide transparency and report on the situation.

Twenty years since the collapse of the Soviet Union, the housing sector reform is still incomplete, with poor communication between the parties in the conflict. The following are some of the issues to consider:

- Political approach to reform (concrete steps should be introduced by the authorities)
- Economic implications (for the residents of Kostroma as well as for private business)
- Social aspects (Soviet mentality lives alongside a new mentality that upholds social Darwinism: old thinking vs. new thinking?)
- Political actors have left the people to sort out problems they helped to create
- The federal government should not only improve living conditions, but also emphasize the importance of social solidarity – this as well as the willingness to engage in a dialogue are important factors for a functioning community

- Local media does not cover the issue even though it's hard not to notice that the situation in the housing and utilities sector is in a dire state.

¹ Voswinkel, Johannes: „Im Chaos zu Hause“, in: Zeit Online (2011), <http://www.zeit.de/2011/06/Russland-Wohnungswirtschaft> [accessed September 29, 2012].

² *ibid.*

³ Different experts have provided us with the information about the current state of social security and housing system in the Kostroma Region. Anatoly Noskov, Dmitry Uryadnikov and Vladimir Konovalov as city bureaucrats referred to official statistics when they talked about the lack of budget money to cover the cost of renovation and the ineffective city management. Alexander Bakanov, director of NGO “Association of the housing owners and managing companies” provided us with another side of the issue, arguing against the notion of managing companies as a manifestation of aggressive capitalism. Tatiana Pavlova, chairperson of the NGO “The eldest in the House,” gave more inside information that helped us understand an average Kostroma citizen who tries to fight the arbitrary behavior of the power institutions.

⁴ Tschetwernina, Tatjana: „Wohnen und Wohnungsbaupolitik im Wandel“, in: *Russland-Analysen 111* (2006), <http://www.laender-analysen.de/russland/pdf/Russlandanalysen111.pdf> [accessed September 29, 2012].

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