



The Russia New Business Development Project

Final Report

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Acknowledgments

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Much of the information used in this report was gathered from written materials produced the project. These materials were supplemented by meeting notes, discussions with project staff, and our own impressions. All recommendations and comments herein are solely those of the authors, and do not reflect USAID policy.

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We would particularly like to thank Leslie McCuaig and Kris Easter of USAID for their direction and support. Their inspiration provided the vision for this project and their personal commitment helped it to be realized.

CHAPTER 1: THE ENVIRONMENT FOR ASSISTANCE

This first chapter of the New Business Development Project (NBDP) final report looks at the environment for micro-, small and medium business development in Russia, particularly at the point of project start-up. Here we also discuss the critical role that SMEs and the new associations that represent them are playing in Russia's economic, political, and social transformation; and the imperative for continued American technical assistance to small business development programs in Russia. We will also summarize how the NBDP has contributed to the USAID Private Sector Program's overall objective in Russia, namely, to support the emerging Russian private sector.

After the Fall

"I have to attribute this analogy before I use it to Slava Shironin, our expert in this area. Slava described for us the nature of our program as follows: that if you picture a log that has fallen down in a forest and then look at all the mushrooms sprouting up all around it, the log can be seen as the state enterprise, or more broadly as the state system. Atrophying, decaying, breaking up. There is no way it can return to life. Our programs are concerned with the mushrooms." -- **Leslie McCuaig, USAID Program Officer, Sochi conference, May 1995**

Much has been written and said about the serious obstacles faced by the Russian people as they attempt to transition from a centrally planned, command economy to a modern, free market system. We will not attempt to restate what has been covered exhaustively elsewhere, but rather will briefly review key characteristics of the Russian economic and social environment for micro-, small and medium-sized entrepreneurs in late 1993-early 1994, when the NBDP began, as well as how the environment changed over the project's term.

When the NBDP started up, Russia had progressed toward a market economy, despite formidable problems and setbacks. Close to 80 percent of the Russian economy had been privatized, including most of the country's small and medium enterprises.¹ While significant portions of the Russian population were worse off economically than before the implementation of reforms, Russians also began to see certain benefits of the market. In 1994, for the first time in recent history, the contribution to Russia's GNP from the service sector grew dramatically.² Queues were becoming a thing of the past as consumer goods became available, although at higher, decontrolled prices. Many products were beginning to improve in quality, as a result of competition in the marketplace.

¹ Daniel Yergin and Thane Gustafson, *Russia 2010, The Cera Report*, (New York: Random House/Vintage, 1995), p.40

² Ibid., p. 95

Of all the radical market reforms introduced by Prime Minister Yegor Gaidar in 1991, only one key part of the program -- privatization -- received significant popular support. Under the mass privatization program, citizens received vouchers for ten thousand rubles, with which they could purchase enterprises being sold off by the state. Managers and employees could purchase between 40 and 56 percent of larger enterprises. Tens of thousands of small and medium-sized enterprises (SMEs), including restaurants and shops, became privately owned -- the advent of small, privately owned business in Russia.

By the spring of 1994, when the NBDP was setting up many of its first Business Support Centers (BSCs), over 80 percent of small enterprises had been privatized, and almost 50 percent of larger enterprises, with approximately 40 percent of the Russian population working in the privatized economy. However, because of the predominance of manufacturing and the development of enormous production facilities, firms which employed less than 100 workers were very scarce in the Soviet economy.

In 1994, the Russian government had made progress in privatizing and restructuring large manufacturing enterprises; over 7,000 large state enterprises had been turned into joint-stock companies and sold to private investors. Technical assistance efforts focused largely on infrastructure development, capital markets, and financial institutions to support market activity, and some permanent economic restructuring of the Soviet economy was achieved.

However, as most are aware, Russia's free market continued to peacefully co-exist with significant "remnants" of its former centrally controlled economic system, including huge, loss-making, state-owned industrial monopolies that employ millions of people, often including vast "social assets" such as housing, child care centers, subsidized food services, and even farms.³ Many of these large enterprises are in the civilian-defense industries, which employed 8 million workers, or about 20 percent of the total industrial workforce. The demand for military production dropped over 70 percent from 1993-95. Nevertheless, the conversion of defense industry was slow, and plants remained open despite the lack of product demand and decreasing technological capacity.

Though the command economy was stripped of its central control, thousands of enterprises continued to operate on the old system at the local level -- selling to each other on credit, receiving state subsidies, running at a loss, and defaulting on debts. State farms continued to sell their produce to the state. Private distribution companies were often new "shells" for state trading bodies with a product monopoly. This parallel

³ For example, the Kamaz truck factory employed almost 10 percent of a town formerly named Brezhnev, with a population of half a million people. Kamaz owned cafeterias, dental clinics, day care centers, a sanatorium, and apartment buildings.

economic universe of subsidized state enterprises both contributed to Russia's economic confusion and provided social stability by maintaining employment for millions.

Rapidly instituted reforms ("shock therapy") produced a substantial decline in economic productivity and living standards for most Russians. Official gross national product (GNP) figures, largely representing the output of the state economy, declined by one-third over 1991-94. Agriculture and industry declined. Unemployment grew from 4.5 percent in 1992 to 8.6 percent in 1996. Freed from state control, prices rose dramatically, while wages and the value of money did not. High inflation wiped out the savings of most ordinary Russians, accumulated during the Soviet years. An average family now spends about 45 percent of its income on food -- the average pensioner, 75 percent. Understandably, many Russians, while clearly choosing the free market future over the Soviet past, have reacted by demanding a slower pace toward reform.

Obstacles to Russian SME Growth

Today, despite growth of the Russian private sector, only 6 percent of Russian workers are employed by firms of less than 250 people.⁴ The microenterprise and SME sectors in Russia are growing; however, growth is difficult to measure due to lack of statistical reporting on new small businesses.

Russian entrepreneurs face almost overwhelming obstacles to the establishment and growth of legitimate businesses. Many of these obstacles are as familiar to those who read the news as to experts in Russian economics. The most significant hurdle identified by small business entrepreneurs is the constantly changing "rules of the game" -- laws, taxes and regulations promulgated by the state that make compliance almost impossible. Other constraints include a deficit of business know-how and training; lack of access to financing through a proper network of local banks, as well as to physical sites and equipment; poor communication infrastructure, i.e., lack of reliable telecommunications and roads; and the well-publicized terror and extortion reeked by organized crime on small businesses.

Russia has a serious shortage of retail outlets and office premises. Suitable premises with appropriate facilities are few and far between and the majority of new business locations are being constructed by foreign firms at inflated prices for their own use.

Small business owners must contend with racketeers who force owners of any-sized company to pay protection money, and to agree on an extortion "roof," which just keeps the business surviving but limits any hope of real growth. Corrupt officials protect gangsters while benefiting from crime.

⁴ Richard Layard and John Parker, *The Coming Russian Boom*, (New York: The Free Press, 1996), p. 136

Entrepreneurs face bureaucratic difficulties in registering their businesses; those who register are susceptible to surprise check-ups by dozens of official organizations, from local police to sanitation and labor inspectors. Remnants of the Soviet bureaucracy at the state and local levels are concerned with controlling small enterprise development, i.e., state control is still pervasive in all business relationships.

The political voice of the SME sector is just beginning to develop, as discussed in the last section of this chapter. Laws offering protection and benefits to small businesses are few, and often have no “teeth,” i.e., enforcement mechanisms. Ill-defined Soviet-style labor laws burden all business operators.

A myriad of local and national tax legislation means that SMEs carry a heavy tax burden and rarely understand how to comply with new obligations.⁵ Taxes and contributions at the national level include:

- Profits tax
- Individual income tax
- Value added tax (VAT)
- Highway users tax
- Acquisition tax on motor vehicles
- Fuel and lab materials tax
- A fee for usage of words “Russia” and “Russian Federation”
- Contributions to the pension fund, social insurance fund, compulsory medical insurance fund, and employment fund.

Taxes levied by the different republics, krays, and Oblasts can include:

- Business Property Tax
- Fees for educational institutions
- Transportation tax
- Water charges.

Local taxes can include:

- Tax on maintenance of housing and amenities
- Advertising tax
- Land tax
- Ground rent
- Car, computer, and personal computer resale tax
- License fee for holding local auctions and lotteries
- Fee for use of local symbols

⁵ For example, the NBDP, which was not a for-profit business, dedicated an employee nearly full-time to completing tax returns for the foundation established to implement the project.

- Levies on stock exchange transactions
- Charges for currency sale transactions;
- Charges for the right to film movies and TV programs
- Charges for cleaning of human settlements
- Car parking charges
- Taxes for police services and area development
- Recreation area and industrial project taxes
- Levies on the right to trade
- Liquor distribution license fees
- Charges for starting a gambling business.

These multiple taxes and “extortionist” taxation levels make it impossible for enterprises to pay all taxes and remain in business.⁶

The first part of a new Civil Code was adopted in 1995. However, laws governing the private sector -- such as contract law and laws governing the rights of shareholders -- are weak, and civil courts must be trained to operate new laws passed. In a culture where it can be said that structure is highly valued, legal structures to support business activity are just beginning to take shape.

Equally formidable obstacles to Russian entrepreneurship are the often conflicting attitudes and biases among the population, some of which have been shaped over generations. While some Russians distrust and resent foreigners and foreign concepts, many also desire to learn what the West has to teach about business. For example, in some cities, the NBDP had to contend with local administrations that perceived technical assistance as “giving away money.” There were other officials who resented the fact that Americans were trying to teach Russians how to do business. Others could not understand how the BSCs could be “giving away free services” and were suspicious of the project’s motives. A few Russian Directors of the BSCs did not believe that an expatriate Director was needed. Many of these attitudes began to change with much work, time, and relationship-building, as expatriate Directors taught Russian counterparts how to run an office, work with clients in a professional manner, and deliver consulting services; and the BSCs showed local officials and communities the value of their services.

Aspects of the Russian “work culture” are antithetical to the attitudes needed to build a private business today. It is an understatement to say the command economy in Russia did not foster individual initiative. In the Soviet system, personal alliances were often the key to power and advancement. Taking important decision making out of the hands of managers and workers led to poor management and disloyalty; poor employee relations led to infighting, absenteeism and pilfering that stemmed from deep-seated cynicism. A

⁶ The NBDP booklet, “Small Business Taxation in 1996” provides a full discussion of the various taxes on Russian businesses at the federal, republic, Oblast, and local levels.

kind of fatalism about the possibilities for change and development is an *intangible* barrier that the Russians face in building a democratic market economy today.

“Mushrooming” Against All Odds

Yet, despite these barriers, even the most cursory glance around Russia reveals the growth of the SME sector. Kiosks line streets in the middle of Siberia, auditors offer their services in the Far East, and young designers from St. Petersburg are selling tailor-made clothing to private clients. Although much new small business activity goes unreported, the ranks of entrepreneurs are growing, and whole new businesses are being built in computer and software services, telecommunications, advertising and public relations, and many other areas. Many new businesses are filling consumer demand for goods and services long denied under the Soviet system.

A Grass Roots Demonstration

“First of all, direct support to business has a demonstration effect...individual Russians have had very little chance to act independently of a repressive state. Every business that succeeds in Russia today proves that has changed. And everyone that comes into contact with that business, sees that opportunities now exist that were only a short while ago inconceivable.” -- **Leslie McCuaig, Sochi conference, May 1995**

“A second element [of a market system] is generally agreed-upon “rules of the game” that underpin behavior in the marketplace and bring some predictability to it... These may include general values, such as people’s acceptance that the market is not a corrupter, but rather a good thing...” **Daniel Yergin and Thane Gustafson, *Russia 2010, The CERA Report***

Do Russians believe that the market is a “good thing,” and how important is it that they do? While much attention is paid by donors to building market institutions and infrastructure, intangible issues -- such as the perception of the Russian public that a market economy can work for them, can offer opportunity on an equitable basis -- in short, the culture of values expressed in day-to-day economic activity, often goes unaddressed.

The destabilization resulting from poorly planned, quickly implemented economic reforms (“capitalism in a day”) has shown many Russians few of the benefits offered by a democratic market system. Some Russians have an understandable yearning for the past, with its predictable, if low, living standards and guaranteed employment. Economic hardship for vulnerable social groups such as women and the old, the fabulous prosperity of criminals and the well-connected, and the breakdown of law and order, have not “sold” Russians on the market or market values. Many Russians have a limited experience of the actual market economy and remain largely unintegrated into the new economic system. Furthermore, hard-line Communists and extreme nationalists portray the market as an evil, foreign intervention. Initially, a Western technical assistance effort can be

suspected of having “strings attached,” or, in the aftermath of the Cold War, being a front for foreign intelligence operations.

Given these factors, if the government’s reform program is to receive the popular and political support it needs to move ahead, its benefits must be tangible, immediate, accessible, and visible to a majority of ordinary Russians. It is also clearly imperative for technical assistance to be delivered through trained Russian counterparts whenever possible.

Russian SMEs are possibly the best “demonstrators” at the local level of the positive and tangible benefits that can be gained from a market economy. Successful SMEs are integral to changing Russia’s economic values and culture, and, by supporting SMEs, successful technical assistance programs can change the climate of fear and suspicion surrounding the introduction of a market economy. Legitimate entrepreneurs demonstrate the work habits and ethics needed to build private business -- initiative, responsibility, creativity, activism, respect for individual rights and property, respect for law, and other key values needed in a democratic market society. Small business associations foster horizontal links between peers -- social and economic connections often lacking in the hierarchical structure of Soviet society.

Every successful small business generates sustainability for an entrepreneur, and employment, goods, and services in the local community. Furthermore, some innovative small businesses will, with the proper environment and support, develop into the large enterprises of the future. By initiating the sale of commercial assets, providing consumer goods and services, and establishing new businesses across many sectors, small and medium-sized enterprises contribute to Russia’s restructuring and repair.

Of course, the legal, judicial, and institutional structures that can enforce and reinforce these market values must also be in place for economic development and cultural transformation to take place. For example, full property and contract rights based on legal protections do not yet exist. Since the line between legal and illegal is not always clearly defined, entrepreneurs often operate in a legal and ethical “limbo.” Lack of reliable financial institutions and systems discourages saving and investment. An unfair, antiquated tax system engenders tax evasion, and so on. Grass roots technical assistance programs such as the NBDP can and do address both the development of market infrastructure and market culture -- by both supporting the initiative of small entrepreneurs at the local level and teaching them how to create the environmental framework to support their own development.

NBDP -- A Successful Demonstration

“Eight regional Business Support Centers (BSCs) operated by Deloitte & Touche under a USAID contract have already provided over 19,000 Russian entrepreneurs and business managers with a range of consulting and training services in less than two years of operation. The Centers are currently actively supporting 77 business associations and

business support organizations throughout Russia, and have already helped small businesses access financing valued at over \$5 million -- even though the Centers themselves offer no credit facilities.” -- *USAID Congressional Presentation, Fiscal Year 1997*

The NBDP was mandated to provide the integrated technical assistance that would address constraints to Russian small business development at multiple levels. The program was designed to improve the legal, regulatory and policy environment for private sector development by assisting the government entities charged with promoting, regulating, or otherwise affecting new predominantly small businesses and advising local officials on policy issues affecting business development. At the local level, NBDP was to develop business counseling and training services; facilitate the ability of local business associations to influence national priorities and legislation and to better service their members; and establish programs through the private sector which provide a range of business support services. The NBDP was designed to support the emerging Russian SME sector with technical training and skills transfer to counterparts and improved access to credit and investment. The project succeeded in all these areas.

The NBDP has been and continues to be a successful demonstration of how technical assistance to entrepreneurs -- delivered largely through trained Russian counterparts and organizations -- can effectively support small business development. The project has achieved impressive results by any standards, as illustrated by a few statistics. During its tenure, the NBDP:

- Supported start-up of 2,606 new businesses and contributed to creating 37,098 new jobs
- Created over 50 new business and professional associations; supported established business associations to build capacity and develop strategies
- Developed seminars and workshops in which 36,110 entrepreneurs participated
- Developed close to 180 new training programs with partner organizations; 30 are still in use
- Prepared 70 books and brochures, and a video series to fill training and outreach needs
- Trained 1,722 Russian trainers to deliver business courses
- Trained 765 Russian entrepreneurs, association members and government officials in aspects of business in the U.S.
- Through outreach and assistance to grant applicants, contributed to 96 Russian organizations receiving grants from other international programs worth over US\$2 million
- Directly contributed to Russian businesses receiving over US\$8.5 million in loans
- Through NBDP-organized trade shows and investor search conferences, helped Russian businesses contract investments worth over US\$7 million
- Distributed equipment worth US\$1 million to Russian organizations
- Managed the Innovative Project Initiative (IPI) Fund, which disbursed a total of US\$2 million to fund 12 projects.

Furthermore, a 1996 survey of NBDP clients revealed that the effects of the program resulted in long-term growth and effects that were sustained after assistance was delivered.

- 75% of clients indicated an increase in production since receiving business support services
- 81% indicated increase in sales
- 89% reported increase in customers
- 82% reported increase in net profits.

As we will show in following chapters, these results followed from USAID's innovative and integrated project design and direction and DTTI's capacity to adapt to environmental constraints, as well as our ability to build strong relationships with Russian counterparts and transfer skills to them. The integrated project approach, which called for training of Russian consultants to deliver business assistance directly to entrepreneurs, as well as for the BSCs to work closely with other business support organizations, NGOs, and local government, brought together the project elements that worked.

Technical Assistance: The Future

“What is wrong in Russia is the lack of small firms, not the predominance of large ones...” -- **Richard Layard and John Parker, *The Coming Russian Boom***

“Three years into an ambitious U.S. aid program to Russia, American money has had a major impact when it has gone to the grass roots, helping to train budding entrepreneurs... Small businesses in the Ekaterinburg area, seeking help in attracting investment or formulating business plans, can now turn to the American Entrepreneurship Center, managed by Deloitte & Touche and staffed by a dozen, mostly Russian experts.” -- ***The Washington Post, February 12, 1995***

In our view, there is no debate over whether future technical assistance to the emerging Russian private sector should be focused at the “top-down,” or policy and infrastructural level, or from the “bottom-up,” as direct assistance to grass roots entrepreneurs. Clearly, continued support at both levels is needed. Rather, key questions for the future must focus on how technical assistance approaches will be integrated. How can we assist the Russians in building popular support for market-friendly policies? How can we assist the development of the legal and institutional supports that will allow entrepreneurship to thrive? How can we support the Russians in strengthening their law enforcement and jurisprudence systems, so that small business can grow without obstructions?

An important part of the process of answering these questions must be the active involvement of significant numbers of the Russian people in creating new institutions and laws, new economic relationships, and a new culture. The SME sector can and will play

a critical role in this cultural and institutional development, and U.S. technical assistance can, in turn, play a critical role in the development of the Russian SME sector, as evidenced by the success of the NBDP.

As the NBDP has proved, technical assistance is more effective when delivered with an integrated approach. Enterprise assistance must address local infrastructure; obviously, even with a great business plan and financing, entrepreneurs cannot set up shop if tax laws and registration regulations make it impossible to operate. Business training must take into account access to credit and finance; initiatives that support the development of the Russian banking sector and specialized lending programs are integral to small business growth. Policy development must include a grass roots, consensus-building component through business associations and other institutions, as illustrated below. Small business support centers must work with local government, as government can often provide resources to support business development. In short, successful private sector development requires the integration and coordination of top-down (policy and infrastructure) and bottom-up (direct support to SMEs) strategies and activities.

Demand Drives Infrastructure

Another way of thinking about the critical role of the SME sector in an integrated technical assistance approach for Russia is to consider how business demand creates viable economic infrastructure. Russian SMEs have already achieved the critical mass needed to effectively lobby lawmakers for policies and laws that support the private sector. A few examples from the NBDP illustrate how small businesses and their associations are beginning to advocate for pro-private sector policies and structures.

- In Zelenograd, a BSC-organized conference, “Local Administration and Entrepreneurship,” in May 1995, was attended by 190 local officials and small businesspeople. Representatives of federal, local and international organizations discussed their plans for business support. As a result of the conference, federal officials decided to allocate an additional 150 million rubles to promote business development, and several BSC consultants were added to local commissions on business issues.
- In October 1995, the NBDP Project participated in an interregional association known as the “Siberian Accord” conference, devoted to entrepreneurship support issues. The group helped to successfully lobby against a 1996 budget proposal which would have eliminated all tax protections for small businesses and microenterprises.
- In Voronezh, a tax policy roundtable sponsored by the local BSC led to tax reform legislation. The roundtable was attended by representatives of the association of small entrepreneurs, officials of the local tax inspector’s office, and deputies from the regional legislature’s tax policy committee. The first part of the recommended reforms was approved by the regional Duma.

- A restrictive decree that mandated compulsory certification of small producers, licensing and setting quotas on the export of goods out the region was overturned as a result of action taken by the Association of Small and Medium Entrepreneurs, with direct assistance from the Voronezh BSC.
- The Ekaterinburg BSC provided support to the Association of Small Business and the Center for Entrepreneurship Promotion of the Oblast administration to pass the “Oblast Law on Entrepreneurial Support.” The legislation establishes special rights for small entrepreneurs and dedicates state funds to small and medium-sized business support services. The BSC also worked with the city administration, the local Employment Fund, and the Chamber of Goods Producers to establish the City Business Incubator. Recently, the BSC and the city administration jointly established the Agency for Foreign Investment Promotion.

The NBDP has demonstrated that demand by small business associations for infrastructure and regulatory change is effective at the local and national levels. The examples above show the link between naturally developing private business activity and the democratic process. Business associations, by creating organic connections between entrepreneurs with mutual interests, produce spontaneous demand on government to respond to those interests. **In other words, the SME sector, properly organized, is a natural constituency for change.** Donors and governments need to recognize this role and support its development.

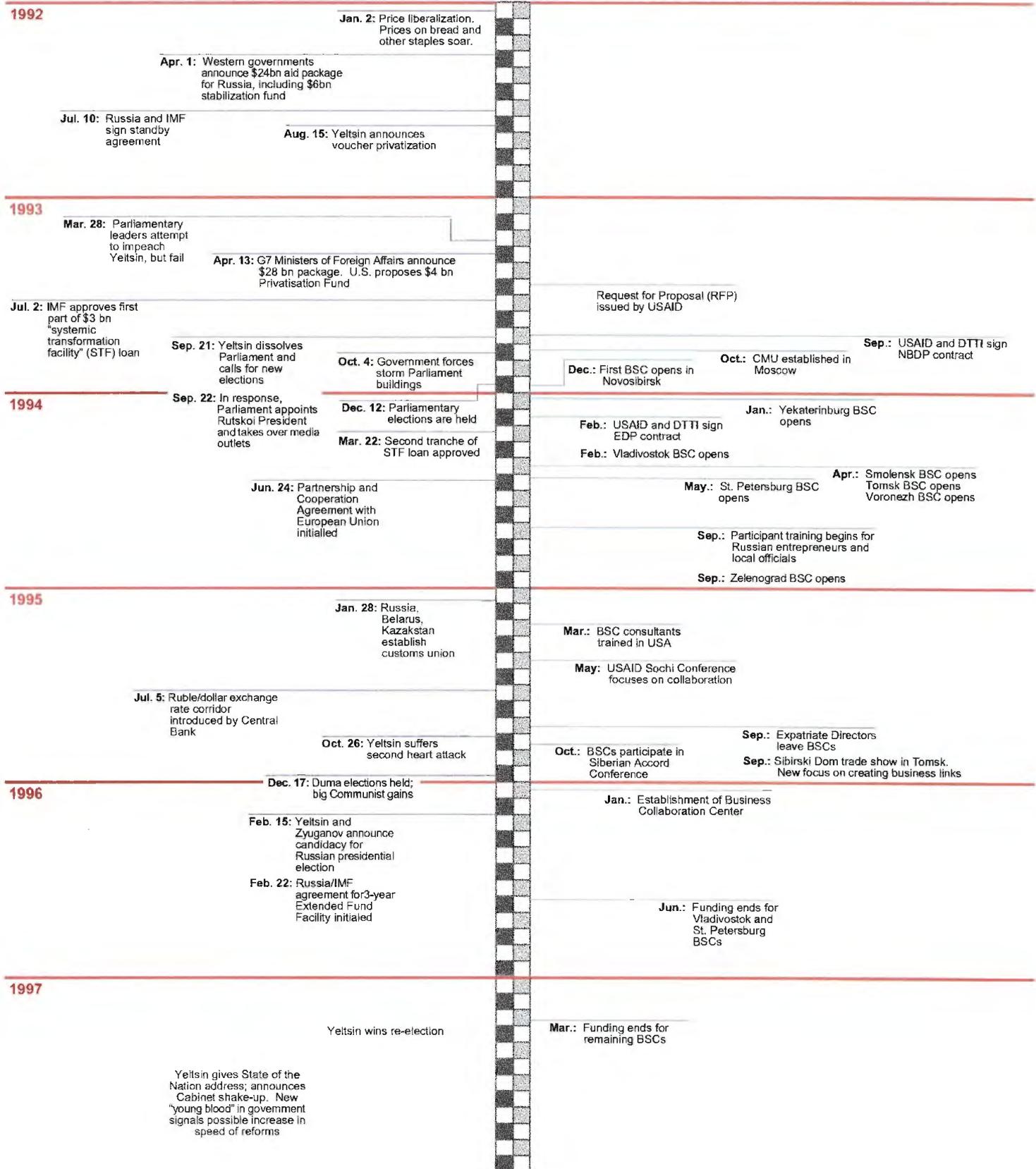
SMEs are also providing the impetus for business services to develop. This process is already underway, with evolution of a Russian consulting profession and embryonic service support industries. Again, the BSCs of the NBDP are leaving behind a rich legacy of skills transfer to Russian counterparts, many of whom now have the capacity to provide quality business services to entrepreneurs. Several BSCs have instituted a fee-for-service model that is leading to self-sustainability and institutional continuation.

In sum, one primary lesson to be learned from the implementation of the NBDP is that direct support to Russian entrepreneurs and supporting institutions -- delivered by trained Russian consultants -- works, and works at multiple levels. It builds small businesses and the organizations that support small business development, and creates the vital connection between grass roots businesses, the larger community, and government -- a collaboration that can produce societal change and effective pro-private sector policy. In the chapters that follow, we provide details on precisely how the NBDP met and exceeded its goals in all these areas.

NBDP Timeframe in the Context of Russian Events

Political and Social Events in Russia

NBDP Project Developments



CHAPTER 2: OBJECTIVES AND INTENDED OUTCOMES OF THE NBDP

On September 10, 1993, the United States Agency for International Development (USAID) and Deloitte Touche Tohmatsu International (DTTI) entered into a contract to establish and operate the New Business Development Project (NBDP) in Russia. Shortly thereafter, as the result of a separate procurement, the two parties contracted to establish the Enterprise Development Program (EDP) on February 10, 1994. It was coincidental that DTTI was selected contractor for both projects; the NBDP was driven by AID/Washington, while the EDP was designed in Moscow, originally as a World Bank project.

In consultation with and upon approval from USAID, DTTI began coordinating NBDP and EDP efforts in mid-1994, in an effort to build on the natural synergy between the two projects and eliminate duplicative efforts. Soon after, the NBDP Business Support Centers (BSCs), began to provide direct enterprise services through the EDP and the two projects were combined.

Together, the NBDP and EDP created an unprecedented project, designed to provide both grass roots and infrastructure level support to develop the small and medium-sized business sector in Russia. The NBDP was one of the largest technical assistance programs ever undertaken by USAID.

A July 1994 contract amendment outlined the combined projects' agreed upon goals and activities, as summarized below. A final contract modification in June 1996 redescribed project activities to reflect changes already in set in motion by mutual agreement of USAID and project management -- including direct services to enterprises and activities toward BSC sustainability; activities of a new Financial Linkages component; and the restructuring of some project activities (Business Information Services, Research & Policy) out of the NBDP to other USAID contractors.

The project objectives and goals, as provided in the original contract and amendments, are summarized below.

Primary Goal and Objectives

The overall goal of the NBDP was to develop institutions and infrastructure needed to support a market economy and new private sector businesses, with a focus on activities needed to stimulate actual business development. The project was intended to produce both immediate and long-term visible results. A key projected outcome was the growth of businesses which would contribute to economic development in regions where the project was located.

In addition, the NBDP was designed to be an “umbrella” effort, providing overall support to multiple USAID-funded business development programs, so that combined program efforts would provide an almost complete spectrum of support to new, private businesses in chosen regions. The NBDP was to ensure that the NBDP, EDP, and Morozov project (a multilaterally funded project for business training) would work closely together.

To meet project goals and objectives, the NBDP contract amendment allowed for significant flexibility in the project’s response to changing economic and political circumstances, subject to approval by the USAID/Moscow Project Officer.

Project Objectives by Program Area

- **Training.** At a national level, the project was charged with preparing curriculum materials and identifying already prepared modular courses tailored to the needs of new business, especially in financial management. Trainers were to be trained through local seminars and participant training in the U.S. Long-term academic training for advanced degrees could be provided. In addition, each BSC was to assist local business training centers to become self-sustaining.
- **Local Government and Business Relations.** The BSCs were charged to assist local businesses in overcoming legal and regulatory constraints to business growth, including tax policies, business regulation, access to sites, and to help new businesses advocate on behalf of positive, pro-business policies at the local, regional and national levels.
- **Liaison and Special Projects, Innovative Program Initiatives (IPI) Fund.** The NBDP was charged with acting as a liaison to NGOs and PVOs in Russia, to access volunteer short-term technical assistance and utilize volunteer in-country training programs whenever possible, and thus to leverage BSC reach and effectiveness. Coordination would also eliminate program duplication of efforts and functions. The project was also to liaise with viable business development organizations outside of the BSC regions and provide them with support, as requested by the USAID/Moscow Project Officer.

The July 1994 contract modification reallocated substantial funds for discretionary program development, allowing the NBDP to provide seed funding to new business development programs with potential high-impact. These funds were to be used to partner with and leverage existing initiatives, including those of other U.S. Government agencies. Activities in this area were to be approved by the USAID Contracting Officer. These funds became known as the Innovative Program Initiatives (IPI) Fund.

- **Enterprise Services.** Direct services to enterprises became an NBDP project component with the integration of the EDP in 1994. The local network of BSCs was to deliver business advisory services to new and existing local businesses, via local

national staff and consultants, PVOs, appropriate short-term expatriate consultants and Moscow program office staff.

- **Financial Linkages.** The Financial Linkages (FL) component was created from Enterprise Services, or direct services to businesses. It was mutually decided by USAID and project management that FL activities required enough time and resources to become a separate component within the project. Activities under this component included working with both Russian and Western financial institutions/funds to learn about the lending and/or investment opportunities available to Russian entrepreneurs, and communicating such information to BSC clients.
- **Research & Policy.** An initial area of priority for the project, this component was to strengthen the institutional support for new business development by supporting an independent research forum. This component was eventually transferred from the NBDP to the Business Collaboration Center (BCC), a program managed by the Citizens Democracy Corps (CDC) under a cooperative agreement.
- **Management of the Special Projects Fund.** While the NBDP did not have its own funding for special projects, USAID charged the NBDP to manage a Special Projects Fund.

Business Support Centers

Under the project contract, the Business Support Centers (BSCs), were the primary vehicles through which the NBDP was to meet its goals and objectives. The job of the BSCs was to transfer resources and knowledge, and to build economically self-sustaining organizations and businesses that would survive the life of the project.

Located in geographically diverse regions throughout Russia that were each facing a distinct set of restructuring challenges, the BSCs were viewed as “laboratories” where relevant solutions could be developed to address particular problems in a region, as well as approaches that could be applied nationally.

The size and activities of the BSCs were to vary with location and local business conditions. The BSCs were instructed to recruit program consultants to implement the project’s key activities. Each BSC was to have an American and a Russian director, with the American director operating for two years. It was envisioned that the Russian Director would be fully in charge of the BSC by the project’s third year. Local consultants were to be recruited as needed. The strategy for each BSC was to be reviewed and approved by the USAID/Moscow Project Officer.

The BSCs also provided a point of focus for USAID private sector development efforts, and were to act as a liaison with other organizations. A primary BSC mandate was to work in partnership with other organizations, NGOs, and USAID-funded private sector development projects, i.e., “strategic partners.” Coordination among business support

organizations, training institutions, etc., was considered critical to leveraging project resources and developing a limited number of high-impact programs.

The BSCs were to generate proposals for specific regional activities based on the local situation, and request the short-term technical assistance needed to implement activities. The BSCs were also authorized to provide limited commodities to meet local organizations' needs for information resources, communications, automation, and similar areas. . The project's Contract Management Unit (CMU) would then access resources needed.

Contract Management Unit

The CMU was to be responsible for the selection of other BSC sites, and assist in the preparation of implementation work plans for each local BSC site, in conjunction with the management at the particular site. The unit was to be fully responsible for coordinating with USAID on reporting obligations and subsequently fulfilling the obligations as well as conducting internal evaluations. The CMU was also to coordinate the flow of money to and from the regions and the processing of project related documents. In addition, technical assistance and professional support was to be rendered to the sites through the CMU, to include the tools necessary for implementation of initiatives, coordination of participant training and training of staff at a local level. The CMU was to have a manager for each of the above program areas, whose job was to manage funds for her/his particular area, coordinate program activities among the BSCs, and locate resources to carry out the programs.

The project's activities to achieve its objectives and results are described in the following chapters.



CHAPTER 3: CREATING EIGHT REGIONAL BUSINESS SUPPORT CENTERS

Two-Fold Mission of Business Service Centers

As described in Chapter 2, the New Business Development Project (NBDP) and the Enterprise Development Program (EDP) merged in mid-1994. Both projects called for activities geared toward policy and regulatory change and infrastructure development, and were mandated to establish local BSCs in cities throughout the country.

Below we detail the nuts-and-bolts process of setting up the two projects, the natural development that led to their merger, and the development of the BSCs.

Site Selection and Management

NBDP Site Selection

Before the NBDP contract was signed, USAID hired Cecchi and Co. to survey six possible BSC sites and to recommend two sites, using the following criteria for site selection:

- Strong commitment to providing services to new businesses
- Conditions favorable to a BSC becoming self-sustainable
- Cities or regions currently providing services to new businesses.

The project contract emphasized that the BSCs should spread throughout the regions, stating that the first four sites would be selected from the Moscow and St. Petersburg regions, Ekaterinburg, Novosibirsk, and cities in the Volga region. Final selection of the first four sites was reserved for USAID and the U.S. Embassy; DTTI led the selection of additional sites.

Leslie McCuaig became the USAID/Moscow Project Manager for both the NBDP and the EDP in December 1993. She developed new criteria for site selection and urged the NBDP to get the sites up and running quickly. New site selection criteria included:

- The characteristics of the local business environment
- Type of technical assistance required
- Institutions already in place assisting new business
- Attitude of the local administrations toward new business
- The political environment
- The existence of other Western assistance programs.

Based on these new parameters, the number and status of new businesses, the population, DTTI experience, and the Cecchi report, DTTI visited seven sites: Ekaterinburg, Novosibirsk, Perm, Smolensk, St. Petersburg, Vladimir and Voronezh.

The DTTI consultants determined that Novosibirsk, Smolensk, Ekaterinburg, and Voronezh would be appropriate for a BSC. Perm was not elected because the infrastructure for new business was not sufficiently developed and because the local administration was not cooperative. St. Petersburg was to be given more careful consideration before implementation, because of its political divisions and because many Western assistance programs were already operating there.

In selecting the first six sites, it was important to USAID that they be located throughout Russia and in major cities outside of Moscow. Eventually, USAID selected St. Petersburg, an important business center; Vladivostok, the main city in the far East; Novosibirsk, the center of Siberia; and Ekaterinburg, the capitol of the Ural region. Smolensk and Voronezh were the other sites chosen.

USAID originally envisioned that there would be a total of 16 BSCs throughout Russia. However, after the first eight BSCs opened, a decision was made to wait on further expansion until the existing BSCs were operating smoothly. In Spring 1994, after a few months of start-up experience, the project team found that significant time, effort, and resources were needed to establish a single business center. Factors contributing to extended start-up time included legal and logistical constraints, including negotiation with local officials, physical set up, staff recruitment, and outreach to clients. While we could “open the door” of a BSC in three-to-six months, it took close to a year to hire the right staff, find the right local partners, establish a relationship with the local officials, and make the BSC fully operational. Based on experience gained in the start-up period, DTTI and USAID agreed to create eight BSCs with a four-year life span, instead of sixteen BSCs operating for two years as envisaged in the original project. This plan gave the BSCs the time needed to establish offices, market to clients, and develop service capacity.⁷

EDP Site Selection

The EDP project envisioned five initial sites-- Pskov, Voronezh, Moscow, Tomsk, and Novgorod. The goal of the EDP was to set up the Business Centers in partnership with a Russian strategic partner and there were Russian entities identified in each city which the

⁷ The amended NBDP contract reflected a changed strategy informed by the team’s start-up experience. Section C.1.(a), Statement of Project Objectives, was changed to stress the NBDP’s long-term presence in each locality. Experience taught everyone involved that new business development efforts in Russia require long-term commitment, due to the peculiarities and constraints of the Russian environment.

EDP could work with. However, the EDP opened only three sites. One, in Tomsk, was to work with the Technopark there. The USAID Project Officer had worked in Tomsk and was familiar with the local government and the Technopark staff. St. Petersburg was chosen, with the prestigious Leontief Center as counterpart, which would enable the EDP to leverage its impact on local and national policy issues. St. Petersburg was also chosen by EDP as a key business center. The Moscow suburb of Zelenograd was chosen as the third site, because of its proximity to Moscow and the project's opportunity to partner with the Zelenograd Business College and the Morozov Project there.

Site Management

Each of the sites was to operate independently, with the Moscow office providing only necessary support. The NBDP's structure of six initial sites running independently, without a central control center, was very foreign to the Russians working on the project. One of the carry-overs from the centrally planned economy was Russian familiarity with a model wherein all direction and control was located in Moscow. Moreover, some Russians thought that a decentralized system would be impossible to manage given distances and poor communication infrastructure. Project management emphasized that such a system could be managed if all the site leaders shared a common vision of program goals and activities.

Russian strategic partners were not expected to co-manage the program. Rather, individual Russians were hired as project directors and co-directors of the BSCs. As the project developed, it identified institutional counterparts and beneficiaries through the BSCs in each location.

BSC Director Selection

Once the sites were chosen, the central NBDP office hired expatriate directors. The contract's requirements for expatriate directors included approximately five years of international experience and demonstrated management experience; preferably an MBA or an advanced degree in international relations, political science or economics; Russian language proficiency; and some private sector experience, preferably as a small business owner or manager. The first expatriate directors would work for two years with a Russian director, with the Russian director taking over by the third year.

DTTI submitted a list of possible candidates for the expatriate director positions and the positions were advertised in the Wall Street Journal. Many resumes were received, but very few from qualified people. Most directors were found through referrals and all were hired as employees of the DTTI national practice in the CIS.

The plan was for the expatriate directors to get the BSCs started and to hire Russian directors as soon as possible. The directors would work together for approximately two years, after which the Russian director would take over each BSC. However, when budget pressures increased in 1995, it was decided that the costs of the project could be

reduced if the expatriate directors left earlier. Thus, all expatriate directors left the sites by September 1995.

By contrast, the EDP always planned to hire Russian directors for the Business Centers, with Western experts providing support as needed. The EDP allowed the Russian partner entity to recommend candidates for the director positions.

Organizational Structure of a BSC

The matrix below illustrates the typical personnel structure and roles in a BSC.

Position	Role in BSC
BSC Director	Overall Strategy / Management of BSC Relationships with Strategic Partners Key Client Contact
Enterprise Services Consultant	Direct Assistance to Enterprises
Financial Linkages Consultant	Direct Assistance to Enterprises
Training Consultant	Seminar and Course Design / Organization / Delivery
Liaison / Business Government Relations Consultant	Liaison to Other SME Assistance Programs; Local Government Assistance to Business Associations / NGOs
Business Links / Information Consultant	Direct Assistance to Enterprises - Information Services, Internet, Trade and Investment Links
Independent Consultants	Regulatory Compliance: Registration, Tax, Legal, Export Consulting
IT Technician	Support to BSC Staff, Clients on IT/Software Issues
Office Manager	Operations
Secretary / Receptionist	Administrative Matters
Accountant / Financial Manager	Financial Management of BSC
Interpreters / Translators	Assistance to Western Investors / Volunteers

Level of Effort - Typical BSC and Project Staffing 1994-1997

Resources Employed at each BSC	Jan 94	July 94	Jan 95	July 95	Jan 96	July 96	Jan 97
Russians Full Time	2	4	8	10	10	8	5
Russians Part Time	2	1	4	4	4	4	2
Expats Long Term	1	1	1	0	0	0	0
Expats Short Term	1	0	1	1	0	0	0
Volunteers	0	1	2	2	2	2	0
Total Staff	6	7	16	17	16	14	7

Total Staff -- All BSCs and CMU	20	63	97	131	162	150	61
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A Brief History of Each BSC

The following short histories and comments on each of the eight BSCs are based on direct interviews with BSC directors and staff.

Novosibirsk

The NBDP determined that Novosibirsk would play a key role as a BSC site, as the gateway for transportation and distribution into Central and East Asia. Novosibirsk was an initiator of the Siberian Accord, a regional movement to stimulate the economy. Novosibirsk is also an information hub for Siberia. The city is home to the Siberian Exchange, the Siberian Interbank Currency Exchange, the Siberian Commodity Exchange, and a World Trade Center. Novosibirsk has a well-educated population, and includes the "Academgorodok," the premiere scientific center in Russia, with a high concentration of engineers, programmers, and other high-tech specialists. The city has many other Universities and Institutes.

The Novosibirsk area is industrialized; much industry was defense-related. When defense spending was reduced, many area plants experienced major economic problems. Local government was very conservative and the "Red directors" of former defense industries had a great deal of political influence.

USAID selected Novosibirsk because of the project's mandate to be in key regions and centers. The Novosibirsk BSC opened in December of 1993. Josh Saul of the NBDP start-up team was the BSC's first expatriate director, soon followed by Denis McCauley, who had worked on the NIS for the Economist Intelligence Unit. Yuri Masharov was hired as the Russian director.

McCauley and Masharov worked well together and created an multinational team which helped them to gain credibility in the eyes of the BSC clients. Denis was especially helpful because of his consulting experience and his knowledge of Western business culture, which he imparted to Yuri and the rest of the Russian staff. In June of 1995, Yuri became the sole director. Later in the year, Yuri left for personal reasons and Vladimir Ivankin, who had worked as the BSC Business\Government Relations Manager, became BSC director.

The Novosibirsk BSC had difficulty locating adequate facilities. The BSC eventually settled within the Academy of Civil Service, with which Yuri had a good relationship. The Academy was secure because there were other Western firms there, as well as established Russian firms. The location gave the BSC a local network of potential partners and clients in the building. The building also had good training facilities that were available for BSC use. The Academy was in the center of town, close to the government administration buildings and near the Metro. It had communication facilities, including a satellite, which had been set up by the other Western firms. The BSC's good relationship with the Academy brought in some clients; however, the high office rent became a problem when the BSC tried to become self-sustaining.

The Novosibirsk BSC had no difficulty registering as a branch of DTTI/CIS in Moscow and locally with the Mayor's office. However, the BSC had problems with the tax authorities, who could not understand how the BSC could be part of DTTI (the initial structure was set up with BSCs as branch offices of DTTI), yet operate as a non-commercial entity. The tax police believed that the BSC was operating as a DTTI commercial office and just trying to avoid taxes by claiming that it was non-commercial. After a long struggle, the BSC finally convinced tax authorities of its special status.

Eventually, the BSC registered as an affiliate of the Moscow Foundation. As a Russian affiliate, the BSC no longer experienced the problems described above. The BSC later re-registered as an independent Russian non-commercial organization, in line with becoming a self-sustaining entity.

The BSC initially hired staff with consulting experience, who already had their own clients. However, these staff did not want to be managed by the BSC, and left shortly. The BSC then concentrated on recruiting people who desired to become good consultants, with an eye toward training them. Five staff members received professional certificates and three of these went on to receive their Bachelor's Degree in business administration. However, some staff who were trained and became qualified consultants used their skills to obtain jobs elsewhere before project closure. One employee, who received audit training through the BSC, left and started his own auditing firm. Another used training to obtain a position with local government. A contributing factor to staff attrition was BSC employees' recognition that the project contract was time-limited.

Staff motivation issues included monetary compensation. The budgeting system made it difficult for the BSC to institute profit-sharing or to compensate employees based on the

value they added to the BSC. The structure of the project was such that people could work very hard or very little and still receive their pay. The BSC management wanted to establish a system whereby employees were evaluated and compensated accordingly. However, this was very difficult to implement, especially in the first two years of the project.

Initially, the local administration perceived technical assistance as “giving away money.” There were other officials who resented the fact that Americans were trying to teach Russians how to do business. Others could not understand how the BSC could be giving away free services and thought there was some underlying motivation to the BSC’s presence. With the recruitment of Yuri Masarov as Russian director, relations with the local authorities improved slightly, as Yuri had many contacts in local government. After the 1995 elections, the local authorities began to be more cooperative with the BSC. However, relations remained at arms’ length and very businesslike. One possible factor contributing to this lack of political support was that Novosibirsk was one of the few BSCs which did not sponsor a participant training program in the U.S. for local officials.

As the project matured, the Novosibirsk BSC’s criteria for selecting partners also evolved. The BSC looked for organizations with which it could establish long-term partnerships -- organizations that did not see the BSC merely as a financial source. This meant that a potential partner had to be financially self-sustaining or have the ability to become so very quickly. The BSC also wanted partners who could help it become self-sustaining by helping to establish contacts with potential clients or by helping to develop BSC staff. For example, the BSC helped one partner to develop its Internet services; that partner later gave the BSC free access to its satellite. The BSC also hired a manager of the Open University as a part-time consultant, in exchange for use of the University’s facilities, trainers, and its certification and VAT exemption. The BSC developed several successful initiatives with strategic partners, including the **Business Incubator and Training Center**, in conjunction with the Morozov Project and the Siberian Civil Service Academy, which is sponsoring and supporting BSC partners to conduct regular fee-generating training courses on business start-up.

Smolensk

NBDP first investigated Smolensk as a possible site because of USAID’s interest in working in a smaller city. Smolensk was the smallest city chosen as a BSC site. The local administration was very supportive, and there were a reasonable number of business support institutions already in place. DTTI found that businesspeople were accustomed to working with foreign assistance programs, and that the needs of businesses in Smolensk corresponded to the goals of the NBDP. Smolensk also proved to be a good site because of its location near the border. When the BSC sought to become self-sustaining, it was able to expand its activities into the neighboring countries of Poland, Belarus and Kalinengrad.

The Smolensk BSC officially opened in April 1994. Roland Champagne, its first expatriate director, had an MBA and was proficient in Russian. In July 1994, Marat Ovchiyan was hired as the Russian director. Marat was working in Smolensk as the Chairman of the Regional Economic Committee, and had served as the Deputy Director of the Oblast Administration's Economic Department. Marat had also served as Deputy Director of the Building Department and as Chief Architect of the Oblast. The two directors worked well together and had well-defined responsibilities. Roland organized and managed staff operations and reporting activities. Marat concentrated on working with clients. Roland gave Marat a Western viewpoint on things and taught him how to market and deliver consulting services. Marat provided experience and connections in the Smolensk area.

After two moves from inadequate offices, the Smolensk BSC found permanent space within the Center for Regional Development, a strategic partner. The Center's 10 founders all rented space in the building. The Center owned and maintained the building and charged rent to the founders only to cover costs. This helped to keep the BSC's rent low. Many common expenses, such as security, cleaning, and so on, were shared.

The BSC was registered in Moscow and locally as a branch of the DTTI/CIS office. The DTTI name was very helpful to the Smolensk BSC in setting up and getting started -- the BSC's connection to DTTI lent it credibility with clients.

The two directors balanced hiring between young trainees who spoke English and three Russian consultants who had professional experience. The experienced consultants proved very important when the BSC focused on becoming self-sustaining.

Salaries were three to four times higher than average in the city. The staff received extensive training, and had opportunities to make foreign and local contacts and to travel to the U.S. Marat did have some problems with the old Russian work culture at project start. Some employees were accustomed to showing up for work and getting paid, regardless of performance. Marat emphasized from the start that this would not be tolerated. Once this was stressed, there were no further problems. When minor disciplinary problems arose, Marat threatened to deduct wages if they persisted. This alone was enough to stop unwanted activity.

The BSC management style created a team atmosphere, which became very important when the BSC faced the task of becoming self-sustaining. The staff knew they had to work together as a team to maintain their jobs and their incomes.

Initially, the Smolensk community believed that the BSC would be giving out money. As the BSC and the business environment developed, clients began to seek technical assistance. The BSC created such business support entities as the Businesswomen's Association, the Credit Union, the Technopark, the Caravan Information Union, the Realtor's Association, the Advertising Association, the Dentist's Association, and others. The BSC did not give these associations much start-up resources, but rather helped them

to prepare grant proposals and offered other consulting services. These partners became an essential part of the BSC structure and now contribute tremendously to the self-sustainability of the BSC. The Credit Union, the Technopark and the Caravan Information Union became fully self-sustainable. These and other partners now employ many of the BSC staff and assist the BSC through cost-sharing activities.

St. Petersburg

St. Petersburg, Russia's second largest city with over five million people, was probably the most controversial choice for a BSC site. Of the eight centers eventually selected, St. Petersburg arguably was in a class by itself, because its business environment had developed beyond those of the other BSC locations. At the time of site selection, St. Petersburg was inundated with international foreign assistance programs. This was due, in part, to its geographic access to Europe and its status as a cultural center. In short, it provided a more comfortable haven for early Western "pioneers" during their initial forays into Russia.

St. Petersburg's academic and business diversity exceeded that of other potential sites. There were over 130,000 enterprises functioning within the city, 9,000 of these operating with foreign investment. More than 100 institutes of higher education and scientific research are located in the city. The city also supports all sizes of business -- small to large, including shipbuilding, machine building, electronic engineering, instrument making, meat processing, furniture making, fishing, and an increasingly well-developed retail mix.

However, small business support programs were still lacking in St. Petersburg; in fact, the growing concentration of investment and the emerging small business sector created a unique and promising but still fledgling center for business activity in Russia. As a result, early architects of the NBDP initially debated as to whether St. Petersburg's development was inevitable -- with or without assistance from the Business Development Program -- because the city was so attractive to foreign investment, or whether it was precisely the international interest in the city that made it the best candidate for assistance in its early stages of business development.

A factor which weighed in favor of the decision to select St. Petersburg as a BSC site was its proximity to assistance-starved cities such as Pskov, Novgorod, Murmansk, Archangelsk, and Pushkin. As part of the experimental aspect of the project, the BSC would eventually reach out to these and other smaller cities in an effort to broaden the program's impact.

The initial expatriate director for the St. Petersburg BSC was Andrew Vitvitsky. At about the same time as the NBDP director was getting started, the EDP had established a relationship with the Leontief Center. Leontief provided the office space for the EDP and a director, Veniamin Markofsky, and deputy director, Marina Lebedeva. When it was decided for the NBDP and EDP BSCs to merge into a single BSC, a number of

implementation difficulties arose. Mr. Vitvitsky left the project and was succeeded by Christina Lane. After a period of time, Marina Lebedeva became the Russian director of the BSC. In St. Petersburg, the working relationships between the Russian staff and the expatriate staff were difficult, at best.

However, despite difficulties, a number of successful programs were carried out through strong relationships with the local strategic partners. The BSC worked with the Leontief Center to provide programs of economic research, development, and business linkages for entrepreneurs. Excellent training was provided through the "laundry project," which helped entrepreneurs develop and defend business plans for laundries and other service businesses and trained them in management skills. Workshops and other programs were provided through the Association for the Support of Artists. The Association of Northwest Russian Furniture Manufacturers was another major strategic partner.

In outlying committees, successful programs were established with the Northwest Innovative Center (formerly a Technopark), the Arkangelsk Fund for Small Business Support, the Novgorod Chamber of Commerce, and the Novgorod Business Training Center.

That the St. Petersburg BSC eventually managed to overcome obstacles encountered in its start-up and early development is evidenced by the fact that it is self-sustaining over one year after the end of USAID funding.

Tomsk

Tomsk was initially chosen by the EDP as its site in the Siberian region. Tomsk is located about 250 kilometers from Novosibirsk in the middle of Siberia, and boasts a population of just over a million people. Tomsk is a highly industrial and scientific city which was closely connected with defense and nuclear power. Many scientists and well-educated people live in the city. For these reasons, Tomsk was a closed city until 1991.

The Tomsk area is rich in natural resources, including oil, timber, peat, minerals and rare metals. Major industries include oil extraction and refining, machine building and instrument making.

The USAID Project Officer for the EDP had visited Tomsk and developed contacts in the area. The local administration was flexible and open to the idea of business development and technical assistance. The BSC planned to establish itself by forming a partnership with the Tomsk Technopark.

The EDP asked the Technopark to recommend a Russian director. The Technopark nominated Yuri Matveev, who had a technical background and had worked as an engineer and as the director of a joint-stock company. Yuri did not speak English; however, the language problem was solved by hiring an English-speaking assistant with translation experience.

Unlike the NBDP, the EDP did not structure an expatriate director into the process. Furthermore, Yuri did not believe that one was needed; in fact, he believed an expatriate director would generate distrust of the BSC. His opinion changed somewhat after working with other BSCs directors, particularly in Novosibirsk, where he saw Western businesspeople teaching Russians how to run an office, work with clients in a professional manner, and deliver consulting services. The central office sent short-term expatriate consultants to Tomsk frequently. However, because the consultants were on site for such a short time, these visits had limited effect.

Staff management issues included addressing staff attitudes toward BSC clients. Because staff were hired by an American program, receiving higher salaries, traveling, and receiving training from Western and Russian experts, a kind of “elitism” sometimes developed that resulted in barriers between staff and BSC clients. To combat this problem, Yuri held staff discussions emphasizing that condescending attitudes would prevent staff from gaining the client’s trust and building a working relationship. These talks seemed to be effective.

The job itself, with its benefits as described above, motivated the BSC staff. There were no monetary bonuses offered. Employees were recognized and their successes were discussed at staff meetings; those that were most successful were given the first opportunity to attend training seminars. In the few times there were problems with an employee, Yuri simply wrote a memo to that employee’s file. The employees understood that after a certain number of memos, there would be legal grounds to terminate them, so the undesirable activity usually stopped immediately.

The Tomsk BSC was never registered in Moscow or locally, since there were no local requirements for formal registration or permits to operate. However, before the BSC was opened, BSC staff held talks with the local administration and informed them of the Program’s intention to establish a site in Tomsk. The local administration welcomed the BSC’s presence. Later the BSC did register as an affiliate of the Moscow-based BSC Foundation.

A technical assistance program like the NBDP was unknown to the area. People had a very difficult time understanding and believing that the BSC was offering free services. Some believed that there had to be some “strings attached” -- motives which were not fully disclosed. As a result, people were initially a bit leery of the BSC.

Yuri had gone to school and/or worked with many of the Tomsk government officials. The administration welcomed the BSC at first, although it was not sure exactly what the purpose or goals of the BSC were. The administration began to understand the goals of the BSC and did not interfere with its activities; yet, local authorities did not actively support BSC activities. It was only through constant work and dialogue with the Oblast Administration that the BSC was eventually able to influence local decision makers to

enact laws beneficial to small business development and to begin a program for small business.

Members of the local government administrations were able to travel to the U.S. to take part in a participant training program. Through participant training, the government officials and Yuri gained a better understanding of the types of support that government could offer small businesses. The training gave the BSC more credibility and helped to gain support for BSC activities. Local officials were also impressed with the effective, high-profile activities undertaken by the BSC on behalf of SME clients, such as the widely successful Partner Search and Trade Show called "SibirskiDom 95'." The **Tomsk Technopark** and the BSC partnered to organize the trade fair, which focused on home building and related businesses. The fair attracted 5,000 regional and international visitors and nearly 100 exhibitors.

More than 80 percent of the Tomsk BSC's partners were also clients. The BSC's main partner, the Technopark, remained a strong partner throughout the BSC's course. While the BSC first looked to clients as potential partners, it also wanted to find partners that could help expand its client base. Potential partners had to prove that they could pursue the goals of the BSC effectively, and be willing and able to cooperate well with the BSC. Establishing such a relationship sometimes took a long time, and sometimes developed more quickly.

The Tomsk BSC terminated several partnerships, either because the partner was not cooperating with the BSC, because of negative results, or because of a lack of trust. Some partners ended their relationship with the BSC when the BSC stopped giving them money and started charging for services. However, most of the BSC's partnerships continued and many partners helped the BSC earn revenue, usually by becoming a paying client or through referring other clients.

Vladivostok

Vladivostok was one of the last cities selected to become a BSC site, but was one of the first BSCs to open its doors in the Spring of 1994. Although Vladivostok was not on the initial list of candidate cities, its strengths as a potential BSC site soon became clear. It is the most important industrial and trade center in the Russian Far East, a region otherwise not represented amongst the NBDP selected cities. A city of about 650,000, it is the capital of the Primorsky Krai, a region known for industrial production (metal-working, machine building), maritime freight, and fishing and sea food production. Vladivostok has an impressive share of these activities -- 30%, 80%, and 40%, respectively.

NBDP's assessment of Vladivostok's potential took into account its geographic proximity to the key trading markets of Japan, Korea, Australia, and even the Western United States. Vladivostok's location may have outstripped its industrial significance as the determining factor in its eventual site selection. Moreover, the transportation infrastructure for trade was already in place, as one of Russia's largest railway companies

has its hub there. This railway interconnects with a deep water harbor on the Sea of Japan, one of the best-equipped for freight handling in Russia.

As a direct result of such attributes, Vladivostok had already attracted some foreign investment. Over 500 enterprises were partly owned by foreign entities. Nevertheless, Vladivostok still has underutilized potential. Hundreds of container cranes sit idle much of the time and the harbor is littered with rusting hulks which the regional authority would like to remove, but cannot because it is starved for tax revenues.

Lawrence Freedman was the initial expatriate BSC Director. This gave the Vladivostok BSC a much-needed head start in locating suitable office space and hiring staff. Lawrence recruited Victor Tumanov as the Russian director. Victor had worked in the local administration and had excellent relationships throughout the administration. Lawrence's successor for expatriate director was Peter Thatcher. Shortly after Peter joined, Victor left for a position with a Western bank. Peter's successor was Don Hansen, who recruited Sergey Verolainen, who also came from the local administration. The high turnover of directors was an impediment for the development of the BSC.

Despite these difficulties, the BSC developed ongoing relationships with partners. Its first partner was the Far Eastern Polytechnic University, where a small business support center was set up. The Peace Corps had a volunteer there who was providing business planning and other advisory services to entrepreneurs. The BSC hired a skilled Russian consultant from the University business center. The BSC also developed a relationship with the Far Eastern Technical Institute. After establishing a temporary office in a city administration building, the BSC relocated to one of the Technical Institute's buildings.

The BSC had effective partnering relationships with several business associations, including the Association of High Tech Entrepreneurs, the Association of Fishermen, the Women's Business Association, the Association of Appraisers, the Association of Constructors, and the Association of Accountants and Auditors. In part because of its access and relationships with the local administration, the BSC was very helpful to these partners in moving their agenda.

The Vladivostok BSC faced logistical problems in its relationship with Moscow. The two cities are separated by eight time zones. This distance complicated the management and oversight of the Vladivostok BSC, as well as general communications in both directions. Despite attempts to step up communications, the Vladivostok directors and staff felt isolated from the project and its activities. In addition, Vladivostok is a city which typically loses electric power and hot water for all but several hours each day; telephone and fax communication, even e-mail, was arduous due to poor line quality and frequent power outages.

All of this could have resulted in program discontinuity; however, the relationship between local administration and partners -- particularly high technology and business training institutions -- developed nicely and the work was continued during successive

management changeovers. In fact, Vladivostok was one of the first two BSCs to become self-sustaining. To date, it has succeeded as a business consulting and information provider, enjoying strong local support from the city and Oblast governments, as well as key business institutions.

Voronezh

Voronezh is the major city in the “Black Soil” region of Russia, with a population of a little more than 900,000. It is a relatively modern city, mostly built after World War II. Its main industry is agriculture; 20% of Russia’s sugar and 12% of its flour comes from this region.

Voronezh is also home to the aerospace, electronic and machine-building industries, and possesses a scientific braintrust in fields that compliment these industries. The city is well-developed and its people are well-educated and conservative. DTTI consultants were impressed by the region’s general economic condition and the fact that industry was not dominated by defense or burdened with environmental problems.

The BSC opened in April of 1994, with Jody Thomas as its expatriate director. Proficient in Russian, Jody had a master’s degree in foreign service, a bachelor’s degree in political science, and had worked as the director of Trade and International Relations for the National Governor’s Association. In the latter capacity, she had experience working in Russia , where she established a USAID-funded project.

In November of 1994, Boris Makeev was hired as the Russian director. Boris received his degree in engineering and later studied to be an economist. He served four years as the director of the Regional External Economic Association in Voronezh, where he made numerous contacts in business and political circles. Boris spoke intermediate English.

The two directors developed a close working relationship. Boris felt it necessary and useful to work with an expatriate director, and would have preferred this relationship to continue through the stage where the BSC transitioned to self-sustainability.

Boris felt it would have been better for the BSC if he had been hired much earlier in the process, if not at the same time as Jody. Because there was a gap between the time Boris was hired, many important decisions were made without his input and assistance. Furthermore, many of these decisions were irreversible, particularly the selection of the staff.

The staff was motivated by bonuses for employees who brought in clients. Promotion and recognition at regular staff meetings were other methods used that were not nearly as effective as monetary bonuses. If staff performed poorly, Boris sometimes would issue written warnings and display these warnings publicly. On other occasions, Boris would deny staff the opportunity to travel for seminars or meetings if they were not working

well. Boris also would discuss employee problems one-on-one to try to improve performance.

The Voronezh BSC successfully trained its staff. One consultant became a specialist in grants and another became a specialist in leasing. However, some staff who received such training through the program used it to obtain other jobs.

The Voronezh BSC was set up as a branch of DTTI/CIS. The local government assisted the BSC in registration and allowed the BSC to use City Hall as its registration address until the BSC found office space. This allowed the BSC to obtain the proper registration before it had an office. The BSC had no problems later registering as an affiliate of the BSC Foundation.

Cost was a key factor in setting up office space. The BSC moved when the landlord of its original office repeatedly raised the rent. The local directors wanted to purchase an inexpensive building, but as purchasing property was not USAID policy, another space was found. The office was near the center of town and provided ample space. However, the BSC spent money in rehabilitating the space to make it look professional. It was very important for the office to fit the image of an American firm, or many people would not have taken the BSC seriously.

The BSC leadership recognized that developing a working relationship with the local administration would be key to the project's success. A crucial factor in the development of such a relationship was the participant training program in the U.S., which was offered to local authorities early in the program. The officials learned first-hand how business operated in the U.S. and what type of support was provided to small businesses there. This allowed them to better understand the role of the BSC and its goals. The BSC also had a strong and successful business/government relations component, which was also directed by Jody Thomas.

The BSC's major partners were the Agribusiness Center, the Technical University and the Employment Center. The BSC maintained close relationships with most of their strategic partners, even after the change to commercial activities. When the BSC began to operate on a fee collecting basis, it was able to work with some of its strategic partners to conduct activities that would generate revenue for the BSC. The BSC established the Agribusiness exhibition with the Agribusiness Center and the University.

Ekaterinburg

Ekaterinburg is the political, economic and cultural capital of the Ural region. A closed city until 1991, Ekaterinburg has approximately 1.5 million inhabitants. About 15% of Russia's GNP comes from Ekaterinburg. It is a highly industrial area -- the leading producer of iron, steel and non-ferrous metals, boasting other strong industries in machine building, chemicals and pharmaceuticals, lumber, and paper. The area is rich in mineral

resources and contains 48 of the 55 elements in the periodic table. Ekaterinburg is also a scientific center and its people are very highly educated.

When Cecchi consultants initially visited Ekaterinburg in their site selection survey, they rated it highly as a potential site. Ekaterinburg has a relatively well-developed infrastructure. The city had a strong interest in having a USAID program there, had a number of ongoing projects for new and small businesses, and had very competent people who could be hired. However, the consultants believed that open, hostile competitiveness between the Oblast and City Administrations make successful implementation of the program very difficult, if not impossible. They also felt there was no need for full-time resident advisers, and recommended assistance through periodic visits from Western consultants.

DTTI also gave Ekaterinburg high marks as a “trailblazer in reform,” with citizens who were confident of the city’s potential. The consultants found rapid growth in new businesses, 80% of which were small businesses. The city had foreign investor presence (40 joint-ventures and 30 representative offices of foreign companies), and institutions already in place assisting new businesses.

In January 1994, Gina Volinsky was hired as the expatriate director of the BSC. Gina received her Master’s Degree in Economics from the University of Ottawa, a Diploma in International Business from St. Mary’s University in Halifax, and studied in at the Moscow Lenin Pedagogical Institute. Gina was the President and Commercial Liaison of Russian International Trading Consulting, which provided consultations to clients in Russian-Canadian Trade. Gina is of Russian descent, had traveled to Russia many times, and speaks fluent Russian. Anatoly Plotkin became the BSC’s Russian director. Anatoly was born, raised, and worked in Ekaterinburg his entire life. He had a technical background and worked as an engineer in the beginning of his career.

Anatoly and Gina worked very well together. Gina effectively marketed the BSC to clients, and gained the respect and support of the local U.S. consulate. She also emphasized cooperation and joint efforts with other U.S. Government programs in the city, including those of the International Executive Service Corps, CDC, and USIS.

The two directors initially differed concerning the BSC’s relationship with local government officials. Gina wanted to work with the local and regional governments, but on terms that furthered project objectives. Anatoly wanted the BSC to make more of an effort to cooperate with the government’s business support efforts. The Oblast and City Administrations eventually created their own small business support centers without involving the project BSC. However, relationships with local officials improved over the course of the project. Government officials eventually asked the BSC to participate in substantive activities, rather than simply requesting money or resources, as they had before. Anatoly played a role in the Oblast’s Small Business Association and was involved with the city government’s small business development activities.

In July 1996, Anatoly went to the U.S. with a group of local officials for a participant training program, where officials saw first hand the kinds of support the local government could offer to small businesses. After this training program, the BSC received more cooperation and support.

Gina left the BSC in September of 1995, as per the project's goal to have the Russian directors take over the BSC. The issue of self-sustainability was introduced to the BSCs after Anatoly had been at the BSC for only six months. Anatoly felt a need for continued support from a Western expert to establish consulting services on a fee-for-service basis.

The BSC office was located in a building owned by the Central Instrument Plant. At first the BSC occupied about half of the second floor of a two story building. Later, the BSC added some space on the first floor which it used as a Training Center. The office space was sufficient when the goal of the Program was to provide free services. However, the BSC felt that this space was less than sufficient when it found itself having to market its services and generate revenue. The space provided no public exposure for the BSC. It was far from the center of the city and was not easily accessible by public transportation. Moreover, the cost of the office space was very high.

Gina initially used Western management techniques to get the office running smoothly. Motivation was an ongoing management issue. Because of Russian labor laws, it was very difficult to fire people unless they did something terribly wrong. Thus, some of the staff were not motivated to work hard. Anatoly was able to get much more out of the staff when he was able to offer them a small bonus for exceptional performance. Furthermore, Anatoly wanted to give raises based on performance, not on tenure. This issue was important when self-sustainability was the goal and funding was cut. Some staff were lost to Western private sector firms when project funding was cut and money for salary increases was eliminated.

The BSC registered in Moscow as a branch of DTTI/CIS. Initially, the BSC was not registered with the City or the Oblast, but obtained accreditation from the Chamber of Consumer Goods. Because it was connected to a foreign firm, the BSC received a lot of attention from the local authorities, who constantly arrived at the BSC office to collect money for certain permits and services. The BSC was perceived as a "spy office." Anatoly was often called in by the FSB (formerly the KGB) for questioning about the BSC's activities and foreign personnel.

Later, the Ekaterinburg BSC (and all other BSCs) registered as an affiliate of the Moscow-based BSC Foundation, a Russian non-commercial entity. After it was registered as a Russian affiliate, the BSC did not experience any of the problems described above. Eventually, the BSC re-registered as an independent local non-commercial organization, in line with becoming a self-sustaining entity.

Initially, USAID asked the BSC to cooperate with certain local partners, mainly in the area of training. Some of these initial partnerships did not work out well. However, the

BSC was able to cooperate effectively with many other groups and associations which provided business training or small business development services. BSC partners included Technopark Zarechny, the Chamber of Consumer Goods Producers, Association of Business English Teachers, Small Business Association, Ural Business Women's Association, and the Pervouralsk Business Women's Association. The BSC contributed to the creation of the Federation of Business Women; established training programs for NGOs; and published a catalogue on equipment and services available in conjunction with Chamber of Consumer Goods Producers. The BSC also worked effectively with partners in neighboring towns, including Pervouralsk and Zarechny.

In an effort to support small, local businesses the BSC, the Chamber of Consumer Goods Producers, and the Consumer Market Development Department of the City Administration hosted three innovative trade exhibitions. The exhibitions gave small business operators a unique opportunity to display, demonstrate and sell their inventory. The bread producers of Ekaterinburg were the first to benefit from an exhibition which attracted over 85 buyers from supermarkets, retail and specialty stores. The second exhibition focused on the dairy and meat industry followed by makers and traders in apparel and shoes. The exhibitions had the support of local and oblast officials and attracted media attention.

Zelenograd

Zelenograd, located 40 kilometers from Moscow, was built in the late 1950s and designed to house the Russian textile industry. Later, Zelenograd became center for the micro-electronic industry and became known as the "Silicon Valley" of Russia. The biggest micro-electric plants were located there, producing components for missiles, submarines and other strategic weapons. Micro-electronics experts from all over the former Soviet Union were invited to work and live in Zelenograd, which was a closed city until recently.

Drastic cuts in defense spending caused the micro-electronic plants to lose orders for 90% of production output. This caused the city to undergo drastic political and socio-economic changes, and a large number of people lost their jobs. A private sector, made up of small and medium sized businesses, began to develop to improve the situation. The people of the region were very intelligent and highly educated, mainly in technical fields. This provided a good basis of entrepreneurial activity.

The Zelenograd BSC was created as a part of the EDP, and established through an agreement by the EDP, the Morozov Project and the Zelenograd Business College. However, the EDP and Morozov had a strained relationship from the beginning. As a result, Morozov stepped aside and did not take an active part in the operation of the BSC.

The doors of the BSC opened September 1, 1994. An initial priority was to develop training programs in cooperation with the two partners and then try to attract clients for consulting services through training. Initially, because small companies in the area were skeptical and distrustful of the BSC, the BSC focused on individual training. After the

BSC began to work with these companies through training seminars, it earned trust and gained credibility.

Sergei Khudyakov was recommended by the Business College to serve as director. Sergei was the Deputy director of the Business College and had good contacts and relationships with many people in the area. Sergei has a B.S. and a Ph.D. in international economics from the Moscow State Institute of International Relations, and was a professor of economics for many years at the Moscow State University. Sergei also studied at and worked with Western universities. He is fluent in English, Russian, German, Bulgarian and Polish.

The BSC was offered free rent by the Business College, in exchange for helping the College to develop its business curriculum. The Business College also had a wealth of equipment which it made available to the BSC, including computers and audio-visual aids.

Sergei kept the BSC staff small, anticipating that there would be eventual funding cuts and that a large staff would have to be reduced. When funding was cut, the BSC did not need to cut any staff. The BSC had eight core staff people, along with five to eight consultants hired on short-term, renewable contracts. Sergei also utilized CDC and MBA Enterprise Corps volunteers with great success.

The staff was largely motivated through raises. If people did a good job, they would receive raises to the extent the budget allowed. Sergei did all he could to make sure that the staff enjoyed their work. He let the staff come up with their own initiatives and pursue them. Most of the staff truly enjoyed their job. The BSC held weekly staff meetings on what the BSC was doing and what each staff member was doing.

For its first year of operation, the Zelenograd BSC was not registered, which did not cause any problems. In January of 1996, the BSC registered as an affiliate of the Moscow BSC Foundation and began having problems with the local authorities, who said that the BSC needed to register as an independent entity, not as an affiliate. Sergei actually had to show the local authorities the laws which allowed for registration of affiliates, after which they allowed the BSC to register as such. The BSC later registered as an independent non-commercial entity.

At its start, the BSC experienced difficult relations with the local authorities. Because the BSC was affiliated with a foreign entity, some were suspicious of its purpose, believing it to be an office for the CIA. The Business College had a good relationship with the local authorities and tried to smooth government relations with the BSC. A turning point came when the BSC sponsored a successful conference entitled "Local Government and Entrepreneurship," which demonstrated specific ways the BSC could benefit small business development. As a result, Sergei was asked to sit on the Committee of Experts for the City of Zelenograd, which advised the city administration about business activities and acted as a liaison between the administration and local businesses. Through this

appointment, the BSC gained an opportunity to influence city strategy in small business development, and to make contacts with local businesses.

Sergei decided to work first with the City Administration before moving on to the Oblast level, because many Oblast officials had a negative attitude toward entrepreneurship and generally were conservative. The BSC did try to work with the Oblast's Employment Center. However, the BSC soon learned that the Oblast officials were not willing to contribute anything to this relationship. Sergei later contacted certain members of the Oblast Duma who were less conservative and more open to supporting small business development. By getting some sympathetic ears, it was hoped that the BSC could begin to have some relationship with the Duma officials. The BSC also connected with government officials and local businessmen through participation in certain Christian groups, including the Russian-Christian Businessmen's Association.

The BSC had two primary strategic partners - the Morozov Project and the Zelenograd Business College. It was also targeted to work as a strategic partner with the Technopark in the Technical University. The BSC worked with the Business College and the Technopark very successfully.

The BSC's most successful relationship was with the Business College. This relationship worked best in the area of training, but also benefited the BSC in providing consulting services as well. Through the Business College the BSC was able to obtain the cooperation of College faculty and students, whom the BSC often used as trainers and consultants. Students often were used to conduct research, usually for free. The BSC used the students to conduct a marketing project which later was developed into a training course. In return, the BSC assisted the Business College in developing its business curriculum to U.S. and European standards.

The BSC later formed a successful partnership with the local Small Business Association. The BSC helped the Association to develop and maintain four Funds which supported small business development -- the Informational and Analysis Fund, the Investment Fund, the Small Business Development Fund, and the Innovation Fund. The Innovation Fund developed into an entity which became a strategic partner of the BSC, the International Foundation of Social Innovations.

In December 1995, the Zelenograd BSC, together with the International Foundation of Social Innovations, received significant financing from the World Bank amounting to over \$170,000, 50% of which was awarded as a grant and the other 50% to be repaid as a low interest loan. The World Bank awarded the money to develop service management programs with the follow-up grant aimed at training and consulting in marketing.

Program Office in Moscow

As discussed in Chapter 2, the role and structure of the project's Contract Management Unit (CMU) in Moscow changed along with project strategy and goals. During the start-

up phase, the CMU was driving the project -- finding sites, hiring personnel, setting up procedures, and initiating programs.

Once all the BSCs had been established, the role of the CMU changed to that of providing general contract management; interfacing with USAID and principal subcontractors; project administration and finance, including logistics, reporting, record keeping and financial and management reporting; and providing strategic guidance and support to the BSCs, including procurement support and program delivery support. The CMU was also charged with replicating successful BSC efforts throughout the network and ensuring communications between the BSCs.

The original project design primarily funded central office and BSC operations, and program delivery. Only about 10% was allocated for program activities. A reorganization of home office staff in 1994 tripled the amount of funds available for project field activities. The project reduced staff in the CMU, and undertook further efficiencies to limit travel and communications costs.

The NBDP, like most projects, developed in stages: planning, early implementation and growth, realization, and phase-out. In the early phase, the CMU included two expatriate directors, Charles Twyman (for NBDP) and David Fenning (for EDP); deputy project directors Jeremy Ingpen and Yuri Malyshev; a senior finance director, Hayley Alexander; and a team of mostly expatriate resource managers. Clint Stinger served as project liaison in the contractor's Washington, D.C. office for the program, coordinating the activities of U.S.-based NGOs and training programs.

At the project's realization stage, the CMU boasted a strong team of resource area managers, expatriate and Russian. This management level was guided by one expatriate director, Tom Aman; one Russian deputy director, Vassily Riabov; and the senior finance director. In the phase-out stage, the CMU became much leaner, meeting its goal to have an all-Russian team of resource managers; a newly appointed Russian director, Irina Astrakhan; and a combined project/financial director, Hayley Alexander.

The use of resource managers was an effective strategy that allowed managers who were specialists in their field to steer infrastructure development and direct assistance to the BSC clients. Expatriate resource managers began to define the strategy for a particular resource area. When the process was underway, the resource manager was responsible for the selection of a Russian counterpart. This counterpart learned the process and took over the role of resource manager, phasing out expatriate assistance.

Initially, the program areas emphasized included local government relations, liaison and volunteer activities, training, and local business service development. However, as the project evolved, each program area defined its own emphasis based on the immediate and growing needs of SMEs and entrepreneurs. At its peak, the project resource areas and directors were as follows:

<u>Resource Area</u>	<u>Directors</u>
• Training	Carol Bradford and Yelena Yanboukhtina
• Business/Government Relationships	Jody Thomas and Irina Astrakhan
• Liaison	Jana Fankhauser and Yelena Vassileva
• Enterprise Services	Dan Allaire McDonald
• Financial Linkages	Jennifer Mudd and Mkrtch Hakopian
• Research and Policy Development	Slava Shironen
• Business Links	Gina Volinsky
• Business Information	Evgeny Sinitsyn

Coordination and cooperation between each component area became crucial to leveraging resources and efficiency, with a goal of eliminating unnecessary correspondence and ground work. (See Chapter 2 for specific program goals in each area.)

In most cases, the BSC structures reflected the different components of the program office. The resource managers would partner with the BSC component representatives in initiatives which would directly affect the achievement of component goals and plans. This included training the representatives to undertake a range of activities, e.g., to facilitate BSC training programs, initiate small business loan programs, coordinate international programs in the regions, render professional business consulting, identify product needs, or host a roundtable discussion with local tax officials. The BSCs called on the resource managers regularly for implementation management assistance.

Planning and Evaluation

Each six-month period was planned by the management team, with input from the BSC directors and their respective consultants and managers. The six-month plan allowed the NBDP to not only plan for the short-term but to develop long-term strategies, identify needs, and respond to the unpredictable changes of a country in the reform process.

The six-month planning process went through different phases in response to the changing needs of the regional centers. With a move toward self-sustainability for the BSCs, emphasis was put on realistic business planning. When new component areas were being introduced, tangible deliverables were analyzed. As with almost all areas of the project, there was constant change -- not dramatic change in direction, but rather the evolution of processes which took into account the stage of the project and, more importantly, the extent to which the objectives of the project were being met.

Programming initiatives were thought out and presented in a form not unlike proposals, detailing objectives, strategy, resource costs, and expected outcomes, usually as described in the current six-month plan. Often resource managers and BSC field representatives would develop ideas together. Throughout most of the project, these proposals were submitted as Task Definition Worksheets (TDW). The TDW was later replaced by a Grant Request Worksheet (GRW). The coordination and processing of these proposals became a key CMU role.

About three times per year, all regional directors came together with CMU management to take part in open discussions about project implementation, financing issues and to exchange ideas. Meetings were rotated in locations throughout the regions. A regional BSC would be charged with coordination responsibilities, with agenda and administrative support from the CMU. Where possible, the CMU research areas of particular importance, especially when the project as a whole was faced with legal issues, tax implications, and restructuring. In this role, the CMU became an information provider, administrator and facilitator of consensus change.

The CMU also accumulated data, recorded project successes and impact, and measured these against the desired outcomes. BSC directors were involved in the evaluation process, and recommendations came from every level. Using this material, the CMU would inform USAID and other United States Government agencies of what was working and lessons learned, and recommend ways to further the effort's success and growing momentum.

The NBDP recorded outstanding results, even by Western standards, and succeeded in overcoming some of the cultural and environmental barriers addressed in earlier chapters of this report. The CMU measured results in areas such as: businesses created and sustained; jobs created and sustained; business association registered and now self-sustaining; numbers of loans awarded and dollar amounts; numbers of grants given and dollar amounts; people trained locally and international; people consulted and from which professional area; number of government incentives granted; and referrals with results achieved for other USAID-funded organizations.

The Challenge of Measuring Results

The CMU collected and reported result data to measure short- and long-term project impact. As the project became larger and more complex, data collection on results became more of a challenge. The project faced some initial caution on the part of Russian counterparts in sharing real data and information, which changed with time and work.

A key question addressed in data collection was how to measure results at the local level. BSCs were trying to achieve a constellation of results at the local level: more business development, improved access to financing, improved local government support, growth of NGOs and associations, the availability of practical training, and so on. While one could count new businesses assisted and trained, or the emergence of new associations and NGOs, other indicators of BSC impact in the region were harder to measure. To measure both quantitative and qualitative results, the NBDP collected and analyzed a large amount of data on individual interventions with businesses and partners, as well as qualitative success stories that demonstrated the impact of these actions on the business environment as a whole.

The CMU appointed a writer responsible for the development of a standardized system based on the reporting needs of USAID, DTTI, the regional Directors, resource managers, and senior management at CMU. What evolved was a comprehensive collection of statistics in a format that was efficient and gave an immediate reading on progress and impact. Subsequently, each BSC was encouraged to appoint an office reporter to become the point person for data collection and to ensure that essential information was submitted in time to meet the regular deadlines. The CMU facilitated training for the reporters to develop their skills and to emphasize the necessity of reporting. Additionally, reporting on a BSC's results became good PR, a chance to publicize a center's success and growth.

Collecting quantitative data for a project the size and geographic expansion of the NBDP was not only vital for contract obligations but also for analysis, planning, and resource allocation. Upon review, the data would show what was working well and what should be replicated in other regions.

The NBDP collected data on a monthly basis to be incorporated into a monthly report, quarterly report, and USAID Target Tracker. The monthly report detailed training programs facilitated by the BSCs, either independently or with a strategic partner, to include participant information on gender and industry sector breakdown. In addition, 33 statistics were collected each month from the BSCs and for the activity of the CMU. The body of the report summarized successful initiatives undertaken by each BSC and a section for Moscow-initiated results.

For quarterly reporting, statistics on assistance provided to over 100 strategic partners were collected, along with information on assistance given to other USAID organizations and results. For the Target Tracker, due every six months, more data was collected through the use of a survey and extrapolation of data on businesses and jobs created, as well as businesses and jobs sustained.

The NBDP's impressive results were brought about through the ceaseless efforts of the BSCs. The following chapter, *A Day in the Life of the Ekaterinburg BSC*, vividly illustrates the day-to-day BSC activities and teamwork that generated the project's success.

CHAPTER 4: A DAY IN THE LIFE OF THE EKATERINBURG BSC

The following narrative depicts one day in the life of the Ekaterinburg BSC:

It is 10:00 p.m. Monday night and the staff of the Ekaterinburg BSC are returning home after spending the evening together at the Philharmonia listening to a performance of Pushkin's classic play *Yevgenny Onegin*, which was performed with music by Prokofiev. It was quite an eventful day in the BSC. The morning began at 8:00 a.m. with the weekly staff meeting. Every Monday morning, with coffee and tea in hand, the BSC staff gathers for this business ritual.

The agenda of today's staff meeting was as follows:

- Each staff member discussed his or her activities of the last week and his or her planned activities for the coming week. This is a way for everybody to learn what each other is working on. It is also a way to motivate people to do things because everyone wants to brag about their activities and about how much they are doing.
- The BSC Director, Anatoly Plotkin, announced that the next sixth month plan would be due in two weeks. He requested that each staff member submit their plans and ideas for the next six months to Irina so that she could begin to prepare the plan.
- Then we discussed the seminar on International Trade Finance to be held in three weeks time, for which the BSC was bringing in an expert from Ireland to talk about letters of credit and other international finance instruments. We defined what each person's role was to be in preparing for this seminar. Everyone will be involved in this seminar in some way.
- Other miscellaneous business and housekeeping activities were discussed.
- Finally Anatoly reminded each staff member about the in-house training that is to be held on Wednesday at 9:00 a.m. The subject will be the basic terms and clauses used in international contracts.

The staff meeting ended at 9:00 a.m. at which time the Business Center opened its doors for business and at which time each staff member began the day. Here is an introduction to each staff member and a sampling of what his or her schedule was today:

ANATOLY PLOTKIN, BSC DIRECTOR

Anatoly is the leader of the BSC and is in charge of all BSC administrative matters. Anatoly is the rainmaker who spends a lot of time out in the business community making contacts and luring potential clients. Anatoly also plays a key role in maintaining relationships with the City and Oblast government administrations and other small business organizations.

- Right after the staff meeting, Anatoly went to the Oblast Administration building to attend a meeting with representatives from the City and Oblast Administrations and with representatives from other small business associations. At this meeting, those in attendance discussed proposed legislation which would create and fund a Small Business Association. This Association would provide support and financing to small businesses in Ekaterinburg and the Sverdlovsk Oblast.
- After this meeting, Anatoly returned to his office, where he hosted two gentlemen who are organizing a group of Irish businessmen who will come to Ekaterinburg for a trade mission later in the year. They discussed using the BSC as a coordinator to help work out the logistics of the mission and to help locate local businesses which the trade mission could visit.
- At lunch, Anatoly attended the opening of the Innovative Business Center, a strategic partner to which the BSC donated equipment and gave other logistical support and consultations. The Innovative Business Center is located within the Ural Polytechnical Institute and is designed to provide support to small businesses and inventors who deal in high-technology.
- After lunch, Anatoly attended a monthly meeting at the U.S. Consulate in Ekaterinburg, along with Elena Zheberlyaeva. The Consul uses this meeting to get all the U.S. businesses and NGOs together to discuss and coordinate their activities.
- In the afternoon, Anatoly and Tatyana met with two potential clients in his office. These potential clients were representatives from the local airport who wanted the BSC to organize an Aviation Exhibition which would attract managers from all the big Western airline companies in order to promote their airport.

TATYANA NASAKINA, ENTERPRISE SERVICE DIRECTOR

Tatyana is in charge of the consulting end of the BSC. She coordinates all the work of the full and part-time consultants as well as gives consultations herself. Tatyana has become a specialist in the Russian tax system through continual training and experience in this fast-changing field. Tatyana also takes the lead in the financial linkages services of the BSC, in which the BSC attempts to locate potential sources of financing for clients and then helps them to apply for this financing.

- In the morning, Tatyana attended a meeting with a group called the “Taxes of Russia”, which is developing tax legislation that will improve the tax system and provide tax relief to small and medium-sized businesses. Because Tatyana is a tax expert, she is very involved with this group. The group refined the tax legislation that they were getting ready to present to Federal and Oblast government officials.
- After the meeting, Tatyana met with a local bank to see if an arrangement can be made for the BSC to offer consultations to the bank’s clients. The bank stated that many of its clients want to transact certain types of business, but need help to do so. The bank wanted to be able to refer its clients to the BSC to receive consultations to do better business. For example, the bank thought it could refer its clients who were

conducting international trade deals to come to the BSC for help with their contracts. The arrangement would benefit both the bank, the BSC and the bank's customers.

- After lunch, Tatyana was visited by a representative of the EBRD. The two discussed the EBRD's new micro-lending program for small businesses. The EBRD told Tatyana how the BSC's clients should go about applying for these loans.
- In the afternoon, Tatyana attended the meeting with Anatoly and the potential clients.

ALEXANDER KALENYUK, SENIOR CONSULTANT

Alexander is a very talented consultant who received business training in England and France. He provides consultations in all areas, but specializes in business plan preparation, management issues and financial matters. Alexander also delivers many seminars for the Training Center of the BSC. Alexander is fluent in English.

- After the staff meeting, Alexander had a meeting with two clients to help them with their business plan. They were preparing to present a proposal to an investment firm to obtain financing to buy equipment for filling bottles of natural water for distribution to retailers. They consulted Alexander for potential investors and so that Alexander could help them to develop their business plan better. In this meeting, Alexander stressed that it was important that he only help them to write their business plan instead of writing it for them. This way the clients will learn how to write such plans in the future. Alexander also was able to give them information about a U.S. firm that was offering financing to Russian companies who wanted to purchase such equipment.
- In the late morning, the owners of a local trading company came to obtain consultation regarding a deal they are about to put together to buy food products from an American supplier. They wanted help with choosing the proper mode of payment (i.e. letter of credit) and in writing other contract provisions.
- After lunch, Alexander prepared a fax for the U.S. Export/Import Bank to request from them any information regarding the types of credit guarantees they offer to Russian companies who want to purchase goods from U.S. exporters.
- Later, Alexander spoke with representatives from one of the local television stations who were interested in possibly establishing a corporation in the U.S. They wanted information regarding the various forms of businesses they could organize, the legal requirements of establishing each form, the taxes they would have to pay, and other liabilities they would incur. Alexander gave them the information they wanted and told them that if they wanted to establish such a business in the U.S., that he would be able to refer them to some attorneys who could assist them.

ELVIRA BEDROVA, TRAINING COORDINATOR

Elvira is responsible for the Training Center and other training programs. She organizes seminars and training programs which are held in the BSC's Training Center or at the

sites of the BSC's clients and strategic partners. Elvira also delivers seminars on management issues.

- Elvira began the morning working with the participant training program that was scheduled to go to the U.S. and attend business education courses at the Florida Atlantic University. Approximately fifteen businesspersons from the area would go to Florida for three weeks and attend business classes. They also would have the opportunity to visit some of the small and medium-sized businesses in the area. Of course they also would have time to enjoy some of the attractions in Florida.
- Later, Elvira met with a representative of the Business English Teachers Association, a strategic partner, to work together on their next training seminar. This seminar would bring together many teachers of business English and provide them with training in how to teach business English better. They wanted the English speaking MBA volunteers to present some lectures during this seminar. It was also agreed that the seminar would be held at the BSC.
- In the afternoon, Elvira began to develop a training program for managers of businesses that were undergoing defense conversion. The U.S. Department of Commerce asked the BSC to provide training to select group of managers in various business principles. This was part of the overall Department of Commerce's defense conversion project in Russia. Elvira worked with other BSC staff to put together a curriculum and to find persons, preferably within the BSC, who could teach the selected courses.

ELENA ZHEBERLYAEVA, CONSULTANT

Elena is a very talented young consultant. She works to coordinate the efforts of the BSC with those of the other NGO's and non-commercial organizations in the area. Elena also consults non-commercial organizations in how to establish themselves, how to register with the local administration, and how to obtain potential funding or grants. Elena also has begun to conduct executive searches for Western companies coming to Ekaterinburg. Elena is fluent in English and is the main interpreter for the BSC. Elena also writes most of the Task Definition Worksheets (TDWs) which are submitted to obtain funding for BSC initiatives.

- In the morning, Elena met with a group of people who wanted to register a non-profit organization to help unemployed persons. Elena consulted them as to how they must go about registering the organization and told them about the different grants that may be available to them. Elena informed them that she could assist them in applying for any grants they may wish to seek.
- Later, Elena met with a client who was preparing a proposal for a grant offered by the Soros Foundation to develop further a theory he had developed to refine copper. Elena assisted the man in putting together his grant proposal.
- In the afternoon, Elena continued her work in organizing a seminar for all the NGOs operating in Ekaterinburg. The idea behind this seminar is that each NGO would

make a presentation introducing themselves and describing what it is they do. This would allow each of the NGOs to gain a better knowledge of what the others are doing and to allow them to cooperate better with one another. Elena is also working with each NGO to prepare a booklet that will list each of the NGOs, describe their activities and provide contact information.

- In the course of preparing for this seminar, Elena met with representatives from IESC and CCI.

ELENA BUDINA, ACCOUNTANT

Elena takes care of all financial matters for the BSC, in close consultation with Anatoly. This includes the budget, the payroll and all dealings with the tax authorities. Elena attends special accounting and English classes at the local University.

- Elena was very busy the entire day trying to work out the payroll. She also was working with the BSC's bank to develop a system whereby the BSC could collect money from the International Trade seminar participants in order to help defray some of the costs of bringing in an expert from Ireland.
- Elena also began to do some work on the budget aspect of the six-month plan.

IRINA TRETYAKOVA, TRAINING COORDINATOR/OFFICE MANAGER

Irina coordinates all the BSC activities, including transportation, meetings, travel, etc. She also helps Elvira to coordinate the activities of the BSC's Training Center. Irina writes all the reports in English for the Moscow office and USAID. Irina is fluent in English and teaches business English courses in the Training Center. Irina is another interpreter for the BSC.

- Irina began the morning by collecting statistics from all the BSC staff members regarding their activities over the past week. She then used these and other statistics to put together a monthly report to be submitted, in English, to the Moscow office and USAID.
- Irina also was preparing all the logistics for the seminar on International Trade. She had to arrange for hotels for the participants and the Irish expert, arrange for copies to be made of the materials to be passed out, make sure all the necessary equipment would be available, etc.
- In the afternoon, Irina began to prepare for the English classes she was teaching at the BSC's Training Center tomorrow night.
- Irina also was going to the Florida Atlantic University with the participant training group, so she assisted Elvira in developing the program. By participating in this training, Irina would be able to learn skills which would allow her to consult clients in the future. It was also an opportunity for Irina to go the U.S. and get a first-hand view of how business is conducted there. All the other staff members already have participated in such training in the U.S. or Europe.

IVAN SMIRNOFF, INFORMATION MANAGEMENT SPECIALIST

Ivan is the technical master of the BSC. He handles all the technical and computer matters in the BSC. Ivan maintains the BSC computer system and network, writes computer programs, maintains a client database, and handles all e-mail and Internet correspondence. Ivan consults clients who have questions regarding information technology. Ivan also attends classes at the Technical University and is fluent in English.

- Ivan began the day updating the client database which was going to be used to send further advertisements about the International Trade seminar. After finishing the updates, Ivan developed a program which would allow us to use the client database to generate personalized invitations to the clients.
- In the afternoon, Ivan installed some new software in all the computers and made alterations to the LAN.
- Ivan then retrieved all the e-mail messages and sent e-mail for the staff.
- Finally Ivan began to conduct research on what it would take for the BSC to obtain a dedicated line for Internet use and what equipment would be needed to be able to provide Internet access to staff and to clients.

DR. DMITRY STROVSKY, PUBLIC RELATIONS SPECIALIST

Dmitry handles all the advertising and public relations for the BSC. He prepares the monthly newsletter and writes articles for various newspapers and magazines which help to promote the BSC. He also consults clients on advertising and public relations. Dmitry is fluent in English and studied public relations and journalism in England. Dmitry also delivers lectures to students at the Ural State University.

- Dmitry spent the entire morning writing articles that were to be published in a highly circulated local business magazine "Focus". The appearance of the articles in this magazine provided great exposure for the BSC.
- In the afternoon, Dmitry prepared some articles for the BSC's monthly newsletter which was to go to press later in the week. The monthly newsletter was another source of exposure for the BSC. The newsletter contained articles concerning business issues, provided a calendar of events for BSC activities, and listed the services and experts available at the BSC.
- Later Dmitry met with members of a local advertising company. The group was planning to start selling billboard space and was seeking some advice as to promotions and pricing. Dmitry discussed the company's problems and promised to get them a proposal in week.

CHIP MUMFORD, MBA CONSULTANT (MEMBER OF THE MBA ENTERPRISE CORPS)

Chip is the only non-Russian working at the Center. Chip consults clients in various business matters and helps clients to conduct partner searches in America and Europe.

Chip also delivers seminars on business and other topics. Chip speaks excellent Russian, but still attends private lessons twice a week.

- In the morning, Chip was helping a local clothes manufacturer to put together a business proposal and to find the names and addresses of potential partners from the U.S. Chip used the many registers and computer indexes in the BSC to help this client find potential partners in the U.S. to contact. Chip also showed the client how to conduct such searches on his own in the future.
- Later, Chip assisted a client in making an application for funding to the local Technopark. This client had developed a special electronic device for measuring the ability of the ground to withstand an earthquake and needed to get money to build a working model. The theory behind the device was lauded by many scientists, including some in the U.S. Chip assisted the client in filling out the application in English and sent it off to the people at the Technopark.
- After lunch, Chip went to a local high school where he was giving a series of lectures on various business topics to students who were studying both English and business. Chip presented a lecture on basic management principles, which was well-received.
- Finally, Chip assisted a doctor of physics who lost his job due to the many cuts in defense-related activities. This scientist had developed a new type of adhesive for making sandpaper and wanted to present his invention to a Western firm. Chip assisted this client in putting together a proposal to send to the 3M Corporation in the U.S.

ALLA FILLEMOVA, SECRETARY

Alla does all the typing, answers all the phones, takes care of office supplies, send all faxes, and provides all the day-to-day support to the consultants and other staff members. She also maintains the BSC library and assists clients who come in to use the library.

- Alla started the day by writing up the minutes of that morning's staff meeting. Then Alla began working on faxing invitations to the upcoming International Trade seminar to all the BSC clients. There were many people who came in to use the BSC library today and Alla was busy helping them. Alla also did a lot of typing for the consultants and was kept very busy answering the many telephone calls that came in. Alla has the most active job in the BSC because she has to juggle many different tasks from many different people.

PART-TIME CONSULTANTS IN TAX, PATENTS, CUSTOMS, LAW AND GRANTS

- The BSC boasts five experts who come to the BSC one afternoon a week and offer free consultations in their respective fields to BSC clients. On Mondays, tax specialist Julia Datsko helps clients sort through the very difficult and fast-changing tax laws. On Tuesdays, patent expert Olga Klimenko gives advice to clients on how to protect their intellectual property. On Wednesdays, customs expert Svetlana Trafkina helps clients who are involved in international trade. On Thursdays,

attorney Marina Bakareva offers clients advice on Russian legal matters. On Fridays, Elena Zhirina, a representative of the Eurasia Foundation, assists clients in obtaining grants from the Eurasia Foundation. Today the tax expert was in and she, as always, had a large crowd of people waiting to meet with her.

VALYA, COOK

- Valya prepares lunch and serves it to all staff members in the office kitchen. This practice has some cultural significance, but is done mainly for practical reasons. Providing lunch in the office keeps the staff members in the BSC, where they are accessible and where they are able to return to work very quickly. In fact, usually the staff spends only about fifteen to twenty minutes eating lunch before they are back at their desks working.

BORIS, SERGEI AND IGOR - DRIVERS

- The three part-time drivers are busy carting everybody around from meeting to meeting. They also keep very busy driving visitors and staff to and from the airport. In the few moments that they have a chance to grab a cup of tea in the office kitchen, they usually provide a bit of comic relief with their stories and satiric viewpoint of office personnel and operations.



CHAPTER 5: DELIVERING TECHNICAL ASSISTANCE - BUILDING INFRASTRUCTURE

In Chapters 5 and 6, we summarize the project's activities, tools and processes involved in the delivery of technical assistance. Chapter 5 focuses on the development of supporting infrastructure -- the institutional and legal context needed for small business to thrive. Chapter 6 discusses the project's direct services to entrepreneurs. The NBDP found that direct assistance to enterprises and enhancing the local business infrastructure were mutually reinforcing and interdependent activities in the Russian context.

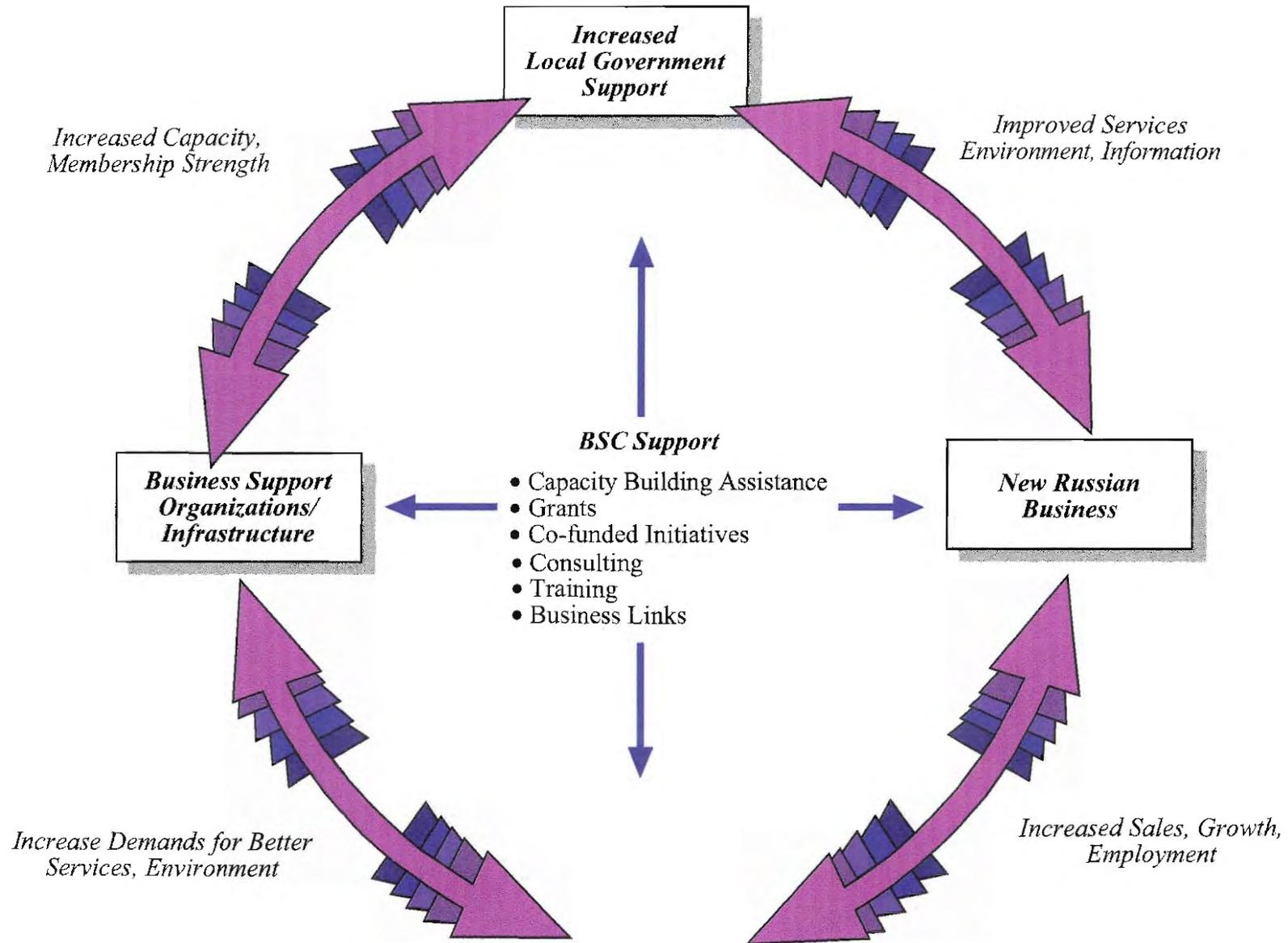
Providing direct assistance to enterprises -- helping them grow and prosper -- was a vital part of demonstrating the potential of private business in the local market. These new private enterprises, bringing goods to market, providing employment, etc., began to establish new norms and change attitudes. Successful new businesses demanded a better business infrastructure and business support organizations. Our efforts to build government support for entrepreneurship, strengthen business associations, and spread the availability of practical training, were strengthened and shaped by a strong, emerging private business constituency. Figure 5.1 on the following page illustrates these interrelated activities.

As depicted in the preceding chapters, each Business Support Center (BSC) served as a nexus in the local community for key players who were making the new market economy a reality. Each BSC brought together:

- New businesses seeking advice and assistance
- Business association members and staff
- Local government officials
- Independent experts and consultants
- Foreign consultants and volunteers
- SME lending program officers and bankers
- Local and international business support NGOs
- Others involved in business development activities.

As a result, new opportunities were recognized, new businesses were formed and grew, transactions were completed, associations emerged, local officials and businesses joined forces. The comprehensive nature of the project's business development assistance delivered through each BSC created synergies supportive of reform. The BSC empowered constituencies of business, government, and support organizations that together provided new opportunities for private business and an improved enabling environment. In Russia, this happens best at the local, grass roots level where relationships and trust are formed over time and with shared experience. The NBDP created a context where these relationships could develop.

BSCs Became the Center of a Comprehensive Support System



Identifying and Reaching Project Beneficiaries

The NBDP strictly focused on assisting newly formed, private Russian enterprises and institutions that support them. Former state enterprises and Soviet-era business organizations fell outside the scope of NBDP activity. Within this context established by the NBDP contract, each Business Support Center (BSC) developed a strategy for targeting beneficiaries and delivering assistance that took local market conditions into account, including the attitudes of the local administration, the capacity of existing business support organizations, and the extent of private sector development. BSC staff reviewed local analyses of the private sector, met with and interviewed local officials, association representatives and business people. The Russian BSC Directors provided valuable insight into the dynamics of the local environment. The story of each BSC can be found in Chapter 3.

Selecting and Cultivating Strategic Partners

Each BSC played an important role in the improvement of the business infrastructure and environment at the local level. This was accomplished in part through the development of strategic partners to the BSCs in each region. The BSC network developed over 100 strategic partners that ranged from economic development committees, business associations, training centers, business incubators, trade show and exhibition firms, credit unions, and a range of other business support organizations.

Strategic Partners	Number	Example	Activity
National Partners	8	Morozov Project	Training
Ekaterinburg	16	Zarechny OZ	Incubator
Novosibirsk	16	Open University	Training
Tomsk	14	Technopark	Incubator, Exhibitions
Voronezh	16	Agricultural University	Consulting, Exhibitions
Smolensk	12	Caravan Plus	Information Services
Zelenograd	11	Moscow College	Training
St. Petersburg	7	Leontief Center:	Training, Policy, Research
Vladivostok	8	High Tech Association	Consulting

Identification of and support for BSC strategic partners followed from the analysis of the local environment and the potential of existing organizations. As a guide, BSCs avoided working with former Soviet structures to the extent possible. BSCs also assisted groups of entrepreneurs in forming new associations and NGOs to meet their needs. For example, in each region, BSCs supported the formation of women's business associations, to encourage women to start new businesses and to build government support for their interests. In each case, a substantial effort was made to develop the local administration as a strategic partner.

The Moscow Program Office developed a strategic partner screen, a simple list of principles used to evaluate and qualify strategic partners, which included criteria such as:

- Organization's objectives correspond to NBDP objectives
- Organization not subject to undue influence of state entity
- Trustworthy, respected management
- Demonstrated commitment to business support activities
- Cost sharing/in-kind commitments
- Written memorandum of understanding.

A project-wide workshop was organized for BSC Directors on the process for identifying and working with strategic partners, addressing such important issues as selection criteria, developing working relationships, addressing problems, and terminating unproductive partnerships.

Within this framework, each BSC agreed on the nature of assistance and joint activities to be undertaken with strategic partners. In many cases, partnerships evolved over time as the organizations succeeded or failed to uphold commitments to the partnership.⁸ Generally, BSCs that worked with numerous partners achieved a greater "ripple effect," i.e., had greater effect on the area's infrastructure and business development. Also, while some partnerships failed or fizzled, having multiple partners ensured program continuation and success.

Delivering Assistance Tailored to Partner Needs

A core strategy of NBDP assistance was to match expertise and resources to local ideas, creativity, and commitment. This involved a great deal of collaboration with other donor funded programs, local governments, and innovative business support organizations. NBDP assistance was designed to be flexible enough to empower a wide variety of local initiatives to support business development.

Consistent with the grass roots, bottom-up strategy of the program, the NBDP did not impose project-wide approaches to delivering assistance at the local BSC level. For example, while some BSCs delivered training through strategic partners, others offered training on site, with their own staff. Each BSC, assisted by their Moscow counterparts used of a variety of resources and tools to support new business development in ways that made the most sense at the site. The elements of assistance available to project consultants are illustrated in the following matrix:

⁸ This was a particular problem in Novosibirsk, where the lack of reliable strategic partners proved to be a major issue.

Assistance	Forms
Direct Consulting Assistance	Direct Assistance delivered by: <ul style="list-style-type: none"> ◆ BSC staff ◆ BSC independent consultants ◆ Moscow-based consultants ◆ Short-term Western consultants
Training	Assistance in: <ul style="list-style-type: none"> ◆ Curriculum development ◆ Training of Trainers ◆ On-site training, seminars, workshops ◆ Participant training in the United States
Commodities	No cost lease or grants for: <ul style="list-style-type: none"> ◆ Computer and Office Equipment ◆ Rent of Office Space ◆ Trade Exhibition Booths ◆ Purchase of Software / Databases
Co-funded Initiatives	Funding for: <ul style="list-style-type: none"> ◆ Conferences ◆ Business Plan Competitions ◆ Networking and Trade Shows ◆ Technoparks / Incubators

BSC consultants developed specific initiatives, drafted as program proposals in the form of Task Definition Worksheets (TDWs). These TDWs were submitted to the Moscow office, where program managers would, in dialogue with the BSC, refine the proposals and identify the most cost-effective resources for fulfilling the objectives of the proposed intervention. Upon approval of USAID, funds were made available and BSC consultants were responsible for implementing the particular initiative. Successful initiatives were replicated at several BSC sites.

Program Activities

As discussed above, all the project's program activities contributed to the development of infrastructure in the BSCs' eight regions. Key program activities in this area included: Business-Government Relations; Training; Liaison; Business Information; and Research and Policy Development, each discussed below.

Business-Government Relations

Expected Outcomes - Business -Government Relations

- ◆ Existence of one or more groups of business people working effectively with the local government
- ◆ Increased capacity of local business support organizations (associations, incubators, business parks, etc.) to provide services to member firms
- ◆ An increased understanding of new business interests by federal and local government officials
- ◆ Improvement in the local tax and regulatory environment for new business.

The NBDP used a variety of tools to build effective business-government relationships. Faced by a recalcitrant bureaucracy skeptical of the benefit of private business and trained to control private initiative, project consultants designed a participant training program in the U.S. that was used to illustrate first-hand the benefits of public-private partnerships for small business development. Both before and after the training in the U.S., the project brought Western consultants to BSC sites to work with local officials. Business association representatives and entrepreneurs were also included in these groups, to educate new Russian association members on the workings of U.S. trade and professional associations. As described in Chapter 3, participant training had a significant positive effect on local government support for the BSCs' efforts at several sites and for private sector development in general.

In addition to training, the NBDP organized joint initiatives with the local administration in each BSC site. These included:

- SME Development Round Table Meetings and Fora
- Trade Exhibitions
- Regional Development/Investment Promotion Committees and Activities
- Retraining Schemes
- Business-Government Symposia
- Sister City programs

These activities demonstrated the value of BSC activities to the local economy, and built a level of trust with the local administration that was key to the success of each.

The NBDP also supported institutionalization of the new public-private constituency for reform it helped to bring about. In 8 regions, the BSCs provided assistance in the formation of 53 new business and trade associations, including Women's business associations. Assistance took the form of seminars on the benefits of member-driven business associations; consulting assistance in the legal registration and governance of associations; and institutional capacity building through training, technical assistance and commodities.

Illustrative Approach - Business -Government Relations

An example from the Voronezh BSC helps to illustrate how, in many cases, a series of interventions are needed to effect changes in business-government relations.

In the early stages of the project, local officials showed a marked resistance to supporting private enterprise and small business development. After initial meetings with officials, the BSC Director developed a participant training program designed to illustrate effective public-private partnerships for small business development in action. When the training program had been arranged, a specialist from the National Governor's Association traveled to Voronezh to prepare the officials for their training in the U.S.. While in the U.S., the group was exposed to many different examples of public support for small business, and met local officials who designed these schemes. To assist the committee in implementing reform, the BSC arranged for one of the organizers of the training to travel to Voronezh and work on a regional development strategy. The consultant developed a framework for the local government that resulted in

several concrete improvements to the business environment. Over the course of the project, there has been a significant change in the local administration's view of private enterprise and support for small business development. Results included the formation of a tax roundtable which has developed new tax laws for the region. In 1996, the BSC participated in several government investment promotion activities and was appointed as the official consulting resource for the region's new leasing center.

The program played a strong role in building support for new ideas and institutions to support business development. The BSCs provided advice, Western consultants, and training to local governments, financial institutions, and business associations on the development of incubators and technoparks, SME and microenterprise credit schemes, leasing, and franchising. In several instances, the NBDP provided direct assistance and commodities to the local government to establish such institutions and programs.

Individual BSCs are continuing to found dozens of business support organizations across Russia. The BSC Foundation is also a founding member of National Association of Business Incubators of Russia. In total, the BSCs acted as advisor and catalyst in the creation of 59 government initiatives which leveraged \$664,800 of local government funds. In addition, over 765 local government officials, entrepreneurs, and business association representatives were trained in USA.

To support their work in business-government relations, NBDP consultants developed a number of standardized guides and training courses. For example, the Moscow office developed a workbook comparing small business taxation in eight Russian cities, seminars on business association management, and a guide to establishing a business incubator in Russia.

Success Story: Novosibirsk - Improving the Business Environment

In November 1996, the Novosibirsk BSC played a key role in the drafting of a new law on governmental support of SMEs in the Novosibirsk region. The regional Duma received the draft law which was reinforced and supported by the participants of the First Regional Conference of Entrepreneurs. As a follow-on to the success of the three-day conference the Regional Administration initiated a coordination council on entrepreneur support. The BSC was asked to submit proposals on how the council should function and to formalize its primary objectives. In December, the BSC played a pivotal role in a regional court rejection of a usurious tax on entrepreneurs in the neighboring town of Suzun. In 1996, the Suzun Soviet of Representatives levied a fee on entrepreneurs for their right to trade, originally a one-time fee which developed further to also include a fixed commission on all activities. The BSC supported the entrepreneurs and, after a three-day trial, helped to turn the decision against the tax, with the Novosibirsk Administration finding the resolution adopted by the Suzun Soviet of Representatives to be a contradiction of federal legislation.

Developing Local Training Infrastructure

Expected Outcomes - Developing Training Infrastructure

- ◆ Existence of one or more places where people can receive practical business training.
- ◆ Courses or modules with materials tailored to the needs of local businesses.
- ◆ Existence of a pool of trainers delivering practical business skills training.

A major activity for each BSC was to strengthen the capacity of local training providers to provide practical, skills-based short courses to new business owners and entrepreneurs. The emphasis was placed on strategic partners that had competitive advantage in delivering this type of assistance and the institutional commitment to developing training as a service line.

BSC training consultants, assisted by their Moscow counterparts provided assistance to these strategic partners through:

- Curriculum development assistance
- Assistance in locating and obtaining existing materials
- Training of trainers
- Participant training
- Co-funding of training activities
- Launching and sustaining fee-based training programs.

Twelve strategic training partners received assistance at the BSC sites. The project also provide start-up financing and assistance to the Morozov project, a national business training program with over 40 business training centers across Russia.

In support of local training infrastructure, the NBDP developed training curricula on business planning, marketing, and other subjects, instructors guides and workbooks, “train the trainers” workshops in Russia, and participant training in the U.S. The NBDP also developed and distributed a course on training program design for training professionals. A list of training products and curricula is found in the Appendix to this report, the USAID Target Tracker that summarizes project results.

A goal of each of the BSCs was to ensure that practical business training was available in the local market. The BSCs provided direct training and worked through strategic partners, including the Higher Technical University in Vladivostok, the Agricultural University in Voronezh, several Business Training Centers of the Russia-wide Morozov project, and the Open University of the UK in Smolensk and Novosibirsk. In Zelenograd, the BSC co-located with the Moscow College of Business Administration. Over the course of the project, the BSCs and Moscow program office developed over 175 new training programs with partner organizations, 30 of which are still in use. Over 3,000 Russian trainers were trained to deliver business practical skills-based business courses using Western training methods.

Success Story: Zelenograd- Local Training Capacity

In December 1996, the BSC received significant financing from the World Bank amounting to over \$170,000, 50% of which was awarded as a grant and 50% as a low interest loan. The BSC put the finishing touches on a second proposal which has potential to increase the amount to more than \$290,000. The World Bank awarded the money to the BSC and its strategic partner, the International Foundation of Social Innovations, to develop service management programs with the follow-up grant aimed at training and consulting in marketing. The two partners began to generate income and cover the cost of the loan by charging a large Zelenograd-based company for these services. At the end

of 1996, the BSC transferred many of its operations under the banner of the International Foundation for Social Innovations, anticipating the withdrawal of Business Development Program funds.

The Zelenograd BSC also increased training capacity through its partnership with the local business college. Over the course of the project, the college collaborated with the BSC to create several new business curricula in the areas of Leadership, Entrepreneurship, and Business Development. These courses became part of the ongoing training activities at the college.

Participant Training Has a "Ripple Effect"

The participant training program in the U.S. gave Russian local officials and entrepreneurs first-hand experience of productive working relationships between business and government. As well, participant training generated demand for follow-on training.

BSCs in most regions consolidated successful participant training with relevant in-country training. As shown in the example below from Voronezh, the impetus for follow-on local training sometimes came from the participants themselves, who sought to replicate their newly found experience and expertise.

Success Story: Participant Training Has a "Ripple Effect" *by the Voronezh BSC staff*

Voronezh felt the "ripple effect" in its community, when a group of women entrepreneurs returned home after participant training in the United States. On their return to *Voronezh*, the enthusiastic local women banded together to create a Women's Business Association. Their first call to duty was to put in an application for a grant to establish a training center with a view of passing on their newly acquired Kasten course knowledge.

The second activity undertaken was to organize a conference for women entrepreneurs, backed by the Voronezh BSC, the Voronezh City Administration, the Oblast Employment Center and the Agency for International Development. This is considered significant and can certainly be attributed in part to the favorable relationship fostered between the BSC and the local agencies.

The conference "Women in the Business World" attracted over 100 participants. Not unnerved by the large numbers, nor by their new roles as community leaders the women from the Kasten & Co. Participant Training Group facilitated a professional and comprehensive two-day event that included workshops, site visits and discussion groups.

The conference offered an opportunity for many of the entrepreneurs to display and sell their products, resulting in brisk commerce. Twelve entrepreneurs used the occasion to market and sell their goods, ranging from jewelry to building materials, attracting the attention of participants and workers from nearby offices.

The women have been motivated to begin much needed charity work and with the help of the BSC have proceeded by applying for a grant from the Eurasia Fund which will be used to send sick children to the United States for medical help or vacations.

On her return one participant, a very talented seamstress started working with an ad agency. She developed a color catalogue of her designs and took out full-page color ads in the local papers. Her business is growing in leaps and bounds and she is still fostering the relationships with both Americans and local women colleagues to increase her business.

Another participant is in the process of jointly publishing a book on children's learning with an American partner met while in the United States on Participant Training.

The training showed the women what they can realistically and rightfully achieve. The vigor is contagious and the activity has yielded success in the form of:

- Increased membership in the new Association
- Plans for more training for women
- Support for equal rights in the business sector
- And, more than anything, a strong voice for small business being heard.

For the New Business Development Program this is evidence that the Participant Training Programs being developed are having a significant ripple effect on the entrepreneurs of Russia.

Liaison Component

Expected Outcomes - Liaison

- ◆ Increased impact of NBDP assistance by increasing local partner/clients access to assistance from other international organizations
- ◆ Increased local impact of other organizations through joint projects and referrals
- ◆ Increased resources made available, through grants and other assistance, to Russian NGOs that assist business development.

As the primary USAID initiative designed to promote New Business Development in Russia, a major role of the project was to seek out opportunities to empower and collaborate with other donor-funded programs, NGOs, and assistance programs.

In the start-up of the BSCs, the project enabled U.S. NGOs and volunteer groups to expand their programs to BSC sites. Through the NBDP contract, volunteers provided by the MBA Enterprise Corps and the Free Market Development Advisors Program were placed in each BSC site. Later, the focus shifted to Moscow and BSC staff training in all aspects of grants proposals and management. The BSCs gained credibility in their local markets as expert grants consultants with the ability to help local NGOs access assistance from international foundations. This liaison work cut across all project components, with grants to training organizations, business associations, and private firms.

Liaison consultants worked to increase the impact of business development institutions and NGOs in a host of ways, such as:

- Establishing effective communication with other programs to learn what is working and avoid duplication, particularly with the CDC, CCI, and Eurasia Foundation
- Significantly increasing the funding of NGO activities
- Increasing funding to Russian NGOs
- Leveraging resources from existing NGOs and U.S. Government agencies, such as the Peace Corps and Civic Initiative program
- Emphasizing agreements with other technical assistance providers; targeting non-AID sources of funding, such as the Ford Foundation;
- Increasing use of low cost resources to reduce the project costs
- Using flexible funding to support innovative program initiatives.

BSCs assisted associations and NGOs to attract grant funding from international foundations and donors. Over the course of the project, the BSCs assisted 96 Russian organizations receiving grants from other international programs of approximately US \$2.1 million. Russian organizations received equipment through the NBDP contract costing US \$1 million.

Activities of the Liaison Component are summarized in the matrix below; more detailed results are provided in the Appendix to this report.

Liaison Activity	Method of NBDP Assistance	Total Agreements	Total Value
Direct Programming with Russian NGOs at BSCs	BSC consultants provide capacity building assistance, co-funding of initiatives	over 100	\$3.3 m (approx.)
Direct Grants / Subcontracts with U.S. NGOs	Washington and Moscow-based staff negotiate joint agreements for U.S. NGO participation in program.	13	\$ 2.2 m
Innovative Program Initiatives (IPI) Fund	Moscow and Washington based staff review, refine proposals, assist grant recipients with project implementation.	8	\$ 2 m
Special Projects Fund Technical Assistance	Moscow-based staff review proposals submitted to USAID, strengthen proposals, assist USAID in awarding grants.	4	\$ 7 m
Technical Assistance to Grantees / Joint Grant Competitions	Moscow and BSC staff assist local NGOs in preparing grant proposals for joint grant competitions with international foundations, assist grantees with grant, program management.	50	\$1.5
Technical and Logistical Support at BSC sites	BSC consultants assist U.S. Volunteer groups such as the Citizens Democracy Corps and IESC with office space and joint programming, enhancing program effectiveness.	n/a	\$.5m
Start-Up Assistance to the USAID Business Collaboration Center (BCC)	Sharing of office space, donation of NBDP equipment, seconded staff consultants, etc.	n/a	\$.5m
Creation of the BSC Foundation	NBDP creates BSC Foundation to register BSCs as Russian, non-profit business support organizations, allowing BSCs to enter contracts, receive grants, etc.	n/a	\$5 m

Illustrative Approach - Liaison

The NBDP liaison component effectively leveraged Western assistance to business development activities in Russia. The liaison consultants were advisors to leading business support organizations, understood the needs of Western grantmakers, possessed grant proposal and presentation skills, and a strong capability in grants and program management. The NBDP negotiated joint grant competitions with the Eurasia Foundation and the Civic Initiatives Program, a consortium of nonprofits led by Save the Children. Liaison consultants acted as intermediaries, offering the grantmakers greater reach and impact, and provided BSC grantee clients with much needed support. Over 50 grants worth \$1.5 million were disbursed as a result of the liaison component's efforts.

Business Information

Expected Outcome - Business Information

- ◆ Information is readily available locally on practical business topics

Over the course of the project, efforts to provide local businesses with practical business information and services changed. In its early stages, the project emphasized developing information providers who, in partnership with the NBDP, would promote the development of the business information services market in the local sites. Over time, it became apparent that this was happening without project assistance, and so the project did not need to be a catalyst in this area. The project then shifted to disseminating existing business information as widely as possible, and to offering information services to BSC clients. Other activities of the Business Information component were handed off to the Business Collaboration Center for further development.

The typical information services offered to clients by BSCs include:

- Business and Trade Information Libraries
- Trade and Other Client Databases
- Internet Services and Partner Search

Illustrative Approach - Business Information

Recognizing the unmet need for business information in Smolensk, the BSC supported the establishment of a non-commercial business information provider, Caravan Plus, to which the BSC provided consulting assistance, commodities, and professional networking opportunities. As a result, Caravan Plus now offers, on a cost recovery basis, a broad range of information and Internet services to the new business community. Caravan Plus offers e-mail, electronic brokerage services, World Wide Web page design, a variety of marketing and design services to clients.

Research and Policy Development

Expected Outcomes - Research and Policy

- ◆ Improved understanding of local business conditions by federal and local policymakers and business leaders
- ◆ Increased pool of local market research organizations (MROs) providing useful, market information to entrepreneurs

Over the course of the project, a Moscow-based Research and Policy team conducted approximately 10 research studies on small business and private sector development issues, including:

- How the Russian Entrepreneur Operates
- The Recruitment Service Market in Russia
- How to Buy or Sell a Moscow Apartment
- How to Open an Office in Moscow

- Green Pages of Russia
- Regional Information Market
- Market Research in the Urals Region
- Payment Systems in Russia
- Ratings and Audiences in the Russian Regions
- Graduate Business Programs in Russia

As the project evolved, this project component also evolved and changed. The initial impact of this activity was low due to lack of clarity in the objectives of the program, poor distribution of research, and the lack of an active federal counterpart in the first year of the project. With the creation of the Business Collaboration Center in 1996, the research and policy component gained a key partner, through which materials and publications were disseminated to policymakers, entrepreneurs, and the technical assistance community.

Illustrative Approach - Research and Policy

In 1995-96, the NBDP was instrumental in the establishment of a policy counterpart for the program. The project provided bridge financing to a World Bank loan, and start-up technical assistance to the Institute for Private Sector Development and Strategic Analysis (IPSDSA). The Institute was formed to conduct research on private sector development problems, disseminate best practices in business development projects, and provide data and analysis for the donor community and federal authorities.



CHAPTER 6: DELIVERING TECHNICAL ASSISTANCE - DIRECT ASSISTANCE TO ENTERPRISES

The NBDP's efforts to develop and strengthen business infrastructure, covered in Chapter 5, were integrated with the delivery of direct assistance to individual entrepreneurs. This chapter focuses how the project assisted tens of thousands of Russian entrepreneurs to develop business plans, access financing and attracting investment, and receive business training.

Economic Restructuring from the Ground Up -- Assisting Enterprises

Over the project's life, the Business Support Centers refined and improved their approaches to supporting new enterprises. While working directly with enterprises, each BSC built strong support networks whose work will continue well into the future. These networks of private businesses, support organizations, financial intermediaries and local government organizations, working at the grass roots level to bring about fundamental change, are one of the most important legacies of the Business Development Program.

The BSCs exposed new entrepreneurs to new market norms and concepts through consulting and training activities, conferences and trade shows, and through the placement or facilitation of hundreds of US volunteers as advisors to Russian enterprises. These activities created tens of thousands of opportunities for Russians and Americans to build friendships, exchange ideas, and form mutually beneficial business relationships. In many of Russia's regions, especially in the formally closed, military cities, such as Tomsk, exposure to new ways of thinking and doing business had a profound effect. The project was also able to finance training in the United States for over 750 Russian entrepreneurs and local officials. In many ways, the project provided the first glimpse of the workings of a Western market economy to many people in Russia's regions.

Identifying and Reaching Beneficiaries

At each site, the BSCs identified enterprises eligible for direct assistance based on key criteria:

- Target new private enterprises unencumbered by relationships to former state companies.
- Emphasize growth-oriented businesses that do more than just trade.
- Target potential entrepreneurs with ideas and the mindset to create new businesses.

Our approach was to assist a broad range of potential and existing small- and medium-sized enterprises (SMEs). Over time, as the level of private sector activity increased in the regions, the project was able to target subsectors well-suited to small business growth, and where packages of business skills, industry skills, and finance were available to the entrepreneur. These subsectors included:

- Bakeries
- Laundries
- Electronics
- Science/technology
- Furniture makers
- Construction
- Private medical clinics
- Dairies
- Housing
- Advertising
- Agribusiness / food processing

In the later stages of the project, the BSC network attained excellent results by replicating assistance programs in these subsectors at several sites.

Targeting Subsectors: Bakeries

Building on the successes of other BSCs, the Voronezh BSC developed a range of activities designed to support the development of new, private bakeries. The BSC offered training courses for potential entrepreneurs in business planning, equipment and operations of a mini-bakery. The BSC then developed a strong relationship with a Russian-Swiss SME lending program designed to provide credit to start-ups. Finally, the BSC negotiated with several equipment manufacturers that made mini-bakery equipment. As a result, the BSC could provide aspiring entrepreneurs with training, access to credit and a good deal on bakery equipment. Over 15 new bakeries are now operating in the region. The bakeries initiative also supports the sustainability of the BSC. The potential entrepreneurs pay a small fee for training and consulting services. The Russian-Swiss fund provides a fee to the BSC for bringing it bankable projects, and the equipment manufacturers pay the BSC a commission for all equipment sold to new mini-bakeries through their efforts.

To reach potential beneficiaries, each BSC advertised the availability of assistance in the local media, in specialized business publications, and at strategic partner events. For walk-in clients, the general screening approach consisted of several steps, illustrated in the diagram on the following page.

Delivering Assistance to Entrepreneurs

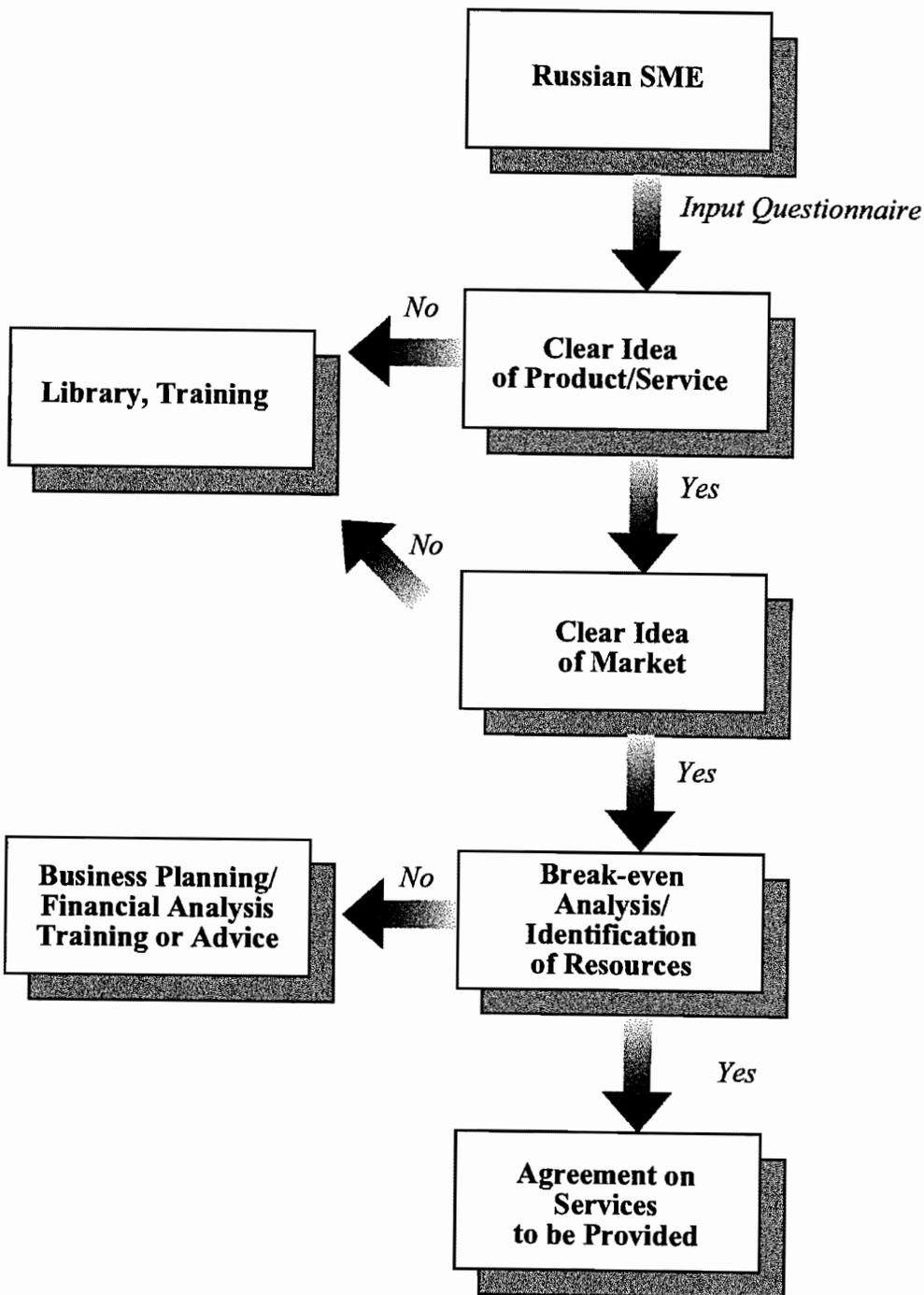
Each BSC, assisted by their Moscow counterparts, used a variety of resources and tools to support direct assistance to enterprises in ways that were most relevant to the circumstances at each site. Our experience with different aspects of direct assistance to enterprises is discussed below.

Enterprise Services

Expected Outcomes - Enterprise Services

- ◆ Existence of self sustaining business centers providing services to private businesses
- ◆ Pool of qualified consultants able to deliver advisory services to private businesses
- ◆ Increase in number of new, private-sector businesses and jobs
- ◆ Entrepreneurs able to apply modern management methods in the establishment and operation of their firms.

Enterprise Services



The NBDP's direct assistance to enterprises focused on enhancing their ability to attract and manage capital. The goal of this assistance was to offer a menu of services that made sense in the particular region, and to build the capacity of the BSC and strategic partners to deliver this assistance on a self-sustaining basis. Although the menu of services offered differed across BSCs, core services included:

- Business planning
- Financial management and analysis
- Marketing and sales strategy
- Legal and regulatory compliance
- Trade and export development
- Business registration and start-up.

Supported by a Enterprise Services manager in Moscow, each BSC developed a strategy to train staff and launch direct enterprise services, delivered by a mix of their own staff, local experts who spent a day or two a week at the center, and volunteers placed through the MBA Enterprise Corps or Citizens Democracy Corps. In 1995, BSC Directors and Enterprise Services consultants were included in a participant training program in the United States. Many of the Russian consultants trained by the BSCs continue to provide business services in the regions, either through the self-sustaining successors to the BSCs or in other organizations.

The NBDP also developed a series of handbooks and short courses to support BSC consultants. These products include:

- Business planning workbook and courses
- Financial management for small business
- Marketing workbook
- Tax minimization workbooks
- Customs and exporting workbooks.

Illustrative Approach - Enterprise Services

In Ekaterinburg, the BSC developed a strategy for delivering direct enterprise assistance that worked exceptionally well. First, the BSC conducted a survey of existing business support services in the region. This survey was printed by the BSC as a resource directory for walk-in clients. The BSC then hired and trained consultants in the areas of business planning and financial management. Over the course of the project, three American volunteer MBAs worked with BSC consultants to refine the consulting process and provide expertise to individual clients. To supplement these skills, the BSC retained a series of independent consultants with expertise in taxation, legal issues, exporting, and other specialized areas. Each independent consultant worked one day a week at the BSC. These schedules were widely advertised to the local small business community. Each BSC consultant was also required to lead training courses in his or her particular area of expertise. This helped to build the credibility and reputation of the consultants in the local market. At the height of the program, the BSC was serving over 100 clients per month.

Over the life of the project, the Business Development Program provided practical business consulting to 11,493 potential or existing entrepreneurs at BSCs. The BSCs supported the start-up of 2,606 new businesses. Over 36,000 entrepreneurs participated

in business seminars and workshops. In 1996, clients of the BSCs were surveyed on the impact of assistance. The survey revealed that:

- 75% of assisted enterprises indicated an increase in production
- 81% indicated increase in sales
- 89% reported increase in customers
- 82% reported increase in net profits.

Success Story: Tomsk Business Planning

After thorough analysis and business planning on the part of the BSC, two clients embarked on a new venture to open two gas stations in the region. The BSC played a key role in bringing the new partners together, one an owner of gas storage units and the other an equipment producer. Both businessmen are alumni of the NBDP/AVACOM training program and received extensive support through consultations and local seminars from the BSC. The two firms combined financial resources with another local investor and created a venture that was profitable and provided 20 new jobs.

Business Links

Expected Outcome - Business Links

- ◆ Creation of new business for clients through promotion of company-to-company links

Business Links was not a distinct project component at the NBDP's outset. As local project activities and operations developed, the BSCs recognized the need to develop relationships and partnerships between businesses to leverage the potential for new business growth. The project eventually defined a specific component in this area, assigned a program manager, and developed a project-wide approach. This area has tremendous potential in the Russian context, as the lack of horizontal links between Russia's regions, and the absence of a transparent business networking and promotion tradition means that many opportunities remain unexplored.

Initially, BSCs offered trade information and partner search services to new entrepreneurs. BSC consultants advised their clients of potential trade partners and how to approach a foreign or regional partner. Later, several BSCs organized partner search events or exhibitions, where local firms were matched with regional and international companies in the same industry subsector. The BSCs were very successful in organizing, promoting, and achieving results for clients at these events, as the two examples in this section from Voronezh and Ekaterinburg illustrate.

In their drive for financial sustainability, BSCs also developed value added services for interested Western and international companies. By 1996, much of the attention of international companies and firms turned toward the potential of Russia's regions. BSCs co-funded investment promotion activities and publications with the local administration, participated in trade shows and exhibitions and courted investors, and were successful in providing fee-based support services to several international companies which were establishing distribution networks throughout Russia.

Business Links services offered by BSC consultants to local and international clients included:

- Consulting Services
- Brokerage Services
- Trade and Export Information Services
- Trade Shows and Exhibitions
- Technology Licensing Links
- Recruitment and Staff Training
- Partner Search
- Internet Market Research
- WWW Design.

One of the distinctive features of Business Links services is the cross-cutting nature of the services offered. Each area of the BSC had a role to play in serving Russian and Western clients with these services.

Illustrative Approach - Business Links

In October 1996, the Voronezh BSC and the Voronezh Agricultural University opened the doors to the Chirnozern Agribusiness International Trade Show, which focused on all aspects of agribusiness, from agricultural equipment and food processing, to refrigeration and storage. Attending the show were 49-nine exhibitors and 1,200 visitors; over \$22,000 contracts were signed in less than 20 days. The BSC offered consulting, information, industry catalogues and business links services to exhibitors and visitors alike, essentially coordinating the flow of activity. In December the BSC and its partners hosted a meat processing show which attracted 500 visitors and secured four contracts for the exhibitors.

Based on success of the trade show, the Voronezh BSC made Business Links the cornerstone of their sustainability strategy. With its strategic partners, the BSC made the "Chernozern Agribusiness," show a permanent exhibition. The BSC receives 33% of the revenue earned by the exhibition, offers fee-based training and consulting on-site, and has entered into commission sales contracts with firms exhibiting at the show. The BSC then secured additional local and federal government support for the exhibition, and has established a commercial entity to develop related businesses such as a leasing center and agribusiness equipment maintenance and repair firm.

As the Business Links component developed, the BSCs organized trade missions, trade shows, and investor search conferences, provided Internet marketing and partner search services, and served large companies such as Dupont and 3M, assisting them in their efforts to expand their business in Russia's regions. As a result of these activities, Russian clients signed contracts worth over US\$7 million.

Success Story: Ekaterinburg Business Links

In November 1996, in an effort to support small, local businesses, the Ekaterinburg BSC, the Chamber of Consumer Goods Producers and the Consumer Market Development Department of the City Administration hosted three innovative trade exhibitions which created a unique forum for trade. With limited resources to promote their products and limited capacity to compete head on with major producers, the exhibitions gave small business operators a unique opportunity to display, demonstrate and sell their inventory. The bread producers of Ekaterinburg were the first to benefit from an exhibition which attracted over 85 buyers from supermarkets, retail and specialty stores. The second exhibition focused on the dairy and meat industry followed by makers and traders in apparel and shoes.

As a direct result of these trade exhibitions, over 25 contracts were signed between traders and producers within the small business and production community of Ekaterinburg. The exhibitions had the support of local and oblast officials and attracted media attention, putting the spotlight on the development of small business in the region.

Financial Linkages

Expected Outcomes - Financial Linkages

- ◆ Increase in the number and amount of loans made to new and small businesses
- ◆ Improved access for new and small businesses to credit in the local market

From the project's start, it was evident that the lack of access to a small business credit facility within the NBDP was going to be a major challenge to achieving business development at BSC sites. In response to that challenge, the NBDP designed a financial linkages program to partner Russian SMEs with sources of finance and investment. In line with the project's direct assistance theme of helping new businesses attract and manage capital, the NBDP worked extensively to expand access to credit at BSC sites. This assistance involved four main thrusts:

- Staff training for BSC consultants on linking projects to sources of finance
- Increasing the availability of information on sources of finance and investment and formal and informal application procedures
- Support for the development of alternative SME financing schemes, such as credit unions, microenterprise lending, and leasing
- Expansion of existing SME financing schemes through complementary technical assistance.

Coordinated by a manager resident in Moscow, each BSC was coached on linking its clients to sources of finance. The Moscow manager developed relationships with key investment funds, banks, and SME lending programs; distributed information of fund activity through the BSC network; and monitored the investment projects and loan applications submitted by BSCs to these institutions. As a result of these interventions, the BSCs' ability to link their clients to finance was greatly enhanced.

The NBDP also played a critical role in promoting the development of alternative SME lending vehicles. This work included managing consultants who examined the potential for microfinance schemes in Russia, reviewed of legal options for the development of credit unions, developed manuals on successful leasing companies in Russia, and conducted a banking sector assessment for USAID.

The NBDP produced several notable successes in the Financial Linkages area, despite the slowly evolving Russian financial sector and the cautious approach by Western investors.

Illustrative Approach - Financial Linkages

The NBDP constantly searched out opportunities to expand existing SME credit programs into BSC cities. During 1994-95, the most successful nationwide SME lending program was being funded by the EBRD. The EBRD Small and Micro Loan Funds had a consistent track record in successfully working through Russian banks to make small loans to

Russian SMEs. The NBDP and EBRD agreed to expand the program into Ekaterinburg and Novosibirsk. The NBDP negotiated a subcontract with the EBRD's contractor to support the technical assistance needs and operating costs of the lending programs in both sites over a one year period. This was a successful example of the NBDP's role in leveraging other donor funds for the benefit of Russian SMEs.

Recognizing that the absence of financing for enterprises within the BSC was a significant barrier to enterprise development, the BSCs developed a number of services designed to assist Russian entrepreneurs to attract and manage capital. Using the expertise and technical assistance that was in the project, and by developing close links with lending programs, banks and other institutions, the BSCs built a solid track record of linking clients to appropriate sources of finance. Over the life of the project, BSCs provided 983 referrals or linkages to financing. BSC clients obtained financing of approximately US\$9 million.

Local Training

Expected Outcomes - Local Training

- ◆ Courses or modules with materials tailored to the needs of local businesses

Across the BSC network, short, practical, skills-based courses and seminars were developed to meet the needs of local enterprises. Concurrent with the grass roots strategy of the project, each BSC developed local training to meet particular local needs. Courses and seminars ranged from practical business skills to legal and regulatory compliance to export and international trade. Over time, the best of these local level courses were refined and distributed throughout the network. These curricula include:

- Business Planning
- Financial Management
- Sales and Customer Service
- Merchandising
- Customs Regulation
- Marketing

Each BSC took a different approach to organizing local training. For example, in Novosibirsk and Zelenograd local training was organized through strategic partners, who tailored curriculum to the needs of BSC clients. In Voronezh the BSC used a large network of independent local consultants who, with the assistance of the BSC training consultant developed curricula and delivered the specialized courses. In Ekaterinburg, emphasis each BSC staff member developed curricula in line with their specialization and presented courses to local clients. This approach built the credibility of local consultants and kept costs in control, allowing the training to be a profit center for the BSC.

Illustrative Approach

The Voronezh BSC made training a cornerstone of their direct assistance activity. With the assistance of outside consultants and the Moscow training managers, the BSC developed over 50 short courses and seminars on practical business topics. The BSC partnered with the Morozov project to leverage trainers and other resources. Seminars and

courses developed in Voronezh were distributed throughout the network. These courses included: Financial Management, Strategic Planning, Marketing and Business Links courses.

The NBDP trained 36,110 entrepreneurs who participated in business seminars and workshops. The project was also responsible for creating business training curricula based on local Russian models that are now used by the BSCs, strategic partners and others institutions across Russia, in areas such as business planning, financial management, sales and customer service, merchandising, customs regulation, and marketing.

The following example from Smolensk illustrates the relationship between local training, support for strategic partners, and new enterprise development.

Success Story: Smolensk Local Training

In November the BSC and its Technopark partner successfully initiated the School of Young Businessmen with local administration support and a wave of interest from the business community. The BSC was able to develop the curricular based on its experience, international training and access to current information on business management theories, financial management and marketing. The school will generate over \$500 a month in revenue through fees charged to the participants, \$10 a month for university students and \$20 a month for entrepreneurs. The current program will run for nine months and the positive evaluations by students have prompted a rush of applications being submitted for the second program in 1997. The Deputy Mayor participated in a Christmas awards ceremony at the School in December, congratulating the inaugural class and confirming the support of the local administration. The School for Young Businessmen has the potential to train many entrepreneurs and would-be entrepreneurs in the latest business theories and at the same time operate a successful, self-sustaining small training business.



CHAPTER 7: WHAT'S LEFT BEHIND: INSTITUTIONAL LEGACIES OF THE NEW BUSINESS DEVELOPMENT PROJECT

Through the integrated approach described in Chapters 5 and 6, the NBDP transferred business skills and resources to Russian counterparts, and created and strengthened supporting institutions. In this chapter, we review the institutions created or assisted by the NBDP, and their prospects at the end of the project. These institutions include:

- Eight regional Business Support Centers
- Business Support Centers Foundation
- Over 100 Strategic Partners.

Business Support Centers

Novosibirsk

The Novosibirsk BSC has re-registered as an independent, nonprofit organization, the International Consulting Center (ICC). The office of the Novosibirsk ICC is centrally located, of Western standard, with Internet access and 68 square meters of space. The staff includes the director, six consultants and three support staff. The ICC is a member of the International Business Association, uniting representative offices of foreign companies in Novosibirsk, the Association of Enterprise Managers of Western Siberia, and the member of the Novosibirsk working group of business consultants, coordinated by the Local Privatization Center (LPC). The ICC has signed a cooperation agreement with the Central Siberian LPC in Krasnoyarsk, and has extensive business relations with Altai Kray and Kemerovo oblast.

Current revenue comes from several contracts with local businesses for business planning, training, marketing and advertising assistance. The focus of the ICCs consulting services are:

- Business planning
- Grant proposals
- Tax planning
- Franchising
- Leasing
- Market research/analyses
- Partner search and Internet marketing services.

The center's well established relationship with the local administration has led to a contract to implement a 7 million ruble program for Novosibirsk Technopark, and a co-funded initiative with the local branch of the Russian Chamber of Commerce.

Smolensk

The Smolensk Business Support Center (BSC) is well known in the region. The BSC continues to expand its client base, diversifies the activities and continues to develop links with foreign foundations, such as the Eurasia Foundation, Ford Foundation, and the Russian and International Women's Organizations.

The BSC is responsible for the creation of five self-sustaining organizations:

1. **The Business Development Center** (6 permanent staff members)
2. **The information consumer company "Caravan Plus"**, (4 staff members)
3. **Educational center "Technopark"** (5 employees on staff)
4. **Non-commercial consumer company "Credit Union"** (2 employees on staff)
5. **Appraising agency** (4 staff members).

These organizations act as partners in delivering support and services to small and medium business entrepreneurs. The main areas of their activities are:

The Business Development Center

- Liaison: collaboration with foundations and international programs
- Consulting services of non-commercial organizations
- Writing grant requests and grant monitoring
- Search for alternative sources of finance
- Partner search for Russian and foreign companies
- Collaboration with investment institutions; fund-raising
- Evaluation of the reliability of business partner
- Registration of new enterprises
- Development of leasing activities.

The information consumer company, "Caravan Plus"

- Information services
- Creating regional information system
- Creating database on existing companies in Smolensk and Smolensk region
- Disseminating information about foreign companies that are looking for partners
- Software development and services
- Computer services and training

Educational center "Technopark"

- Training for small and medium business entrepreneurs
- "Distance" training courses
- Delivering consulting services in high-tech areas

Non-commercial consumer company, "Credit Union"

- Credit scheme for small and medium business entrepreneurs, especially women entrepreneurs.

Appraising agency

- Accounting services, reducing taxes for enterprises,
- Evaluating businesses, real estate, fixed assets

Smolensk Business Development Center has received a credit of 1.5 billion rubles from The Federal Fund for Small Entrepreneurship Support and Development for the development of leasing activities in the region.

St. Petersburg

The St. Petersburg Business Support Center has retained its name and is registered as separate, non-commercial entity. The BSC provides consulting and training services in the following areas:

- **Financial Services**
Reviewing proposals for financing and business plans
- **Business-to-Business Links**
Assisting local entrepreneurs to locate venture partners and investors
- **Business Seminars and Training**
Training services, particularly to business associations such as the High-Tech Association and the Association of Furniture Producers.

In all these service areas, the St. Petersburg BSC has continued collaboration with its key strategic partner, the Leontief Center.

Tomsk

The Tomsk BSC is comprised of two entities:

- Tomsk Business Support Center
- The Center for Business Development.

Both organizations are co-located at the Tomsk Technopark. The office is fully equipped, has Internet access, and meets Western standards. One quarter of the office space is subleased to clients. The BSC is staffed by a director, six consultants and five support staff, all with extensive business experience. The BSC has a well-established relationship with the local administration. There is the potential for a contract with the local administration to support business development consulting, training, and association development. Both organizations have submitted grant proposals to the Eurasia Foundation for continued support. Both organizations are marketing monthly retainer based contracts with client. The BSC would like to develop a base of 30 clients on semi-annual retainer contracts, 30% small enterprises, 70% medium to large companies. The services offered to clients include:

- Business planning
- Leasing planning
- Tax/legal consulting
- Market research
- Appraising services
- Grant proposals
- Patent and intellectual property consulting
- Business links and information services.

Vladivostok

The Vladivostok Business Support Center has also retained its original name, and is a separate legal entity. The BSC has continued its close working with local authorities in many areas of its work. Among the BSC's primary activities are:

- Developing a leasing program in conjunction with local authorities, including a publication on leasing
- Training business associations, particularly in how to relate to local government
- Providing consulting services to local and foreign clients, particularly in the areas of marketing and market research
- Assisting Asian and Western clients to locate local venture partners and to understand the Russian market.

The Vladivostok BSC's business training function has been largely assumed by a key strategic partner, the Association of Business Tutors. Several former members of the BSC's training staff now provide training services through the Association.

Voronezh

The Voronezh Business Support Center was recently registered as a non-for-profit organization, also titled the International Consulting Center (ICC). The Voronezh ICC is located in a downtown office; part of its premises is also subleased to partner companies. The ICC staff at the contract end included 6 full-time employees and 10 part-time consultants, although the distinction between the two groups is rather flexible.

The main services provided by the Center include:

- Business-consulting (including financial management)
- Development and evaluation of business-plans and investment projects
- Consulting on issues related to leasing
- Market research
- Legislative support of entrepreneurial activity
- Assistance in establishing business-links.

The main attention is presently focused on the following projects with high revenue-generating potential:

- Agribusiness Regional Trade Fair, where ICC is one of the co-founders. All revenues from the Fair are being reinvested. In the near future, ICC plans to become a founding member of Voronezh Expocenter, which is to be established as a result of the Agribusiness Regional Trade Fair.
- The Regional Administration and a local affiliate of Sberbank may become partners of the ICC in establishment of a leasing company.
- ICC received two grants from Eurasia Foundation. The first, to support consultancy services in the sphere of leasing, provides salaries for four consultants; the second grant is to support training programs for graduate students.
- In alliance with an Italian consulting company, ICC submitted a proposal for funding through the BISTRO Program of EU TACIS. According to the proposal, a survey of Voronezh textile and machine building enterprises is to be conducted. The objective of the survey is to identify enterprises appropriate for subcontracting by European companies to supply them with components and spare parts. The total cost of the proposal is 100,000 ECU; ICC funding amounts to 20,000 ECU.
- In partnership with Voronezh Agency for Small Business Support (established with the help of TACIS), ICC initiated organization of a Central Black Soil Region investment opportunities presentation in Moscow. ICC applied for financial support for this event from the Regional Administration and EU TACIS.

The ICC has long-term cooperative relations with the regional and municipal administrations, business-associations, and local enterprises and banks, as well as foreign technical assistance programs implemented in the region (TACIS, CDC, CCI, etc.).

Ekaterinburg

Ekaterinburg Business Support Center was recently registered as the International Consulting Center (ICC), a non-for-profit organization. At the end of contract funding, it had five full-time employees and four part-time employees. ICC has reached agreements with local consulting companies, which are ready to participate in implementation of ICC projects. The main activities and services available include:

Business Consulting in

- Enterprise management
- Development and evaluation of business plans and investment proposals
- Franchising
- Tax planning
- Legislative support of the entrepreneurial activity

- Marketing and marketing research
- Grant proposals writing

Training

- ICC provides training courses and seminars on different aspects of business, including Accounting, Finances, Investment Analysis, Business Psychology, and Customs Regulations, etc.
- Courses of foreign languages - English (basic and business) and Russian.

Business Links and Information-Analytical Services are considered to be the main source for revenue generation. They include:

- Search for local and foreign business partners
- Organization of exhibitions of goods and services produced by SMEs
- Assistance for Russian and foreign companies in entering the Urals market and establishing their representative offices
- Access to the Internet and specialized databases and systems (creation of home pages for companies on WWW). ICC plans to work in cooperation with the International Information Union.

Strategic Alliances and New Directions of Activities

- An Agreement was signed with Business Collaboration Center (BCC) in accordance with which ICC became a regional representative of BCC. The agreement facilitated information exchange between USAID-funded projects, other bodies supporting small business development and SMEs. The BCC provided informational and technical support and \$1,000 per month for salaries.
- ICC has long-term partnership relationships with Regional and City administrations, and business associations. Recently, the ICC has started work with the city administration on implementing a Center for Foreign Investments. The Center's main objective is to assist local businesses and the administration to attract investors to the region.
- ICC has a well-equipped office and subleases part of its premises to partner organizations such as the International Executive Service Corps (IESC), the Eurasia Foundation, and two private companies.

Zelenograd

The Zelenograd Business Support Center has split into three separate organizations located in different offices:

- The International Foundation of Social Innovations
- The International Business Support Center
- The Moscow Innovation Foundation.

The International Foundation of Social Innovations numbers two full-time employees and two part-time employees. It provides training and consulting services. The Foundation is working on the implementation of a World Bank grant for training and consulting with a total funding of \$250,000. The International Business Support Center at the Academy of National Economy is building its client base and is planning to establish links with the Voronezh, Smolensk, and Ekaterinburg Business Support Centers.

The Moscow Innovation Foundation is located in the Zelenograd NGO-incubator, which houses all major organizations involved in small and medium-sized business support. The Foundation's main areas of activity and services are:

- Liaison: collaboration with foundations and international programs
- Consulting services of non-commercial organizations
- Writing grant requests and follow-up after the grant was received
- Search for alternative sources of finance
- Partner search for Russian and foreign companies
- Placing information about the companies in the Internet
- Assistance in negotiations, preparatory work for negotiations
- Collaboration with investment institutions: fund-raising
- Business consulting and marketing research
- Evaluation of the reliability of the business partner
- Registration of new enterprises
- Accounting services
- Reducing taxes for enterprises.

At the end of the contract, the BSC had well-established relations with the local administration. The BSC participates in the implementation of a number of large projects, such as:

- Establishing a Technopark for small and medium-sized hi-tech enterprises; the project is funded by the Moscow government (15 billion rubles)
- Creating territorial-industrial areas for small and medium-sized manufacturing enterprises with tax and customs privileges; the project is funded by the government of Russia
- Analyzing the industrial potential of large and medium-sized Zelenograd enterprises, estimating their chances for investment, and creating an investment portfolio; establishing a marketing center under the Financial Industrial Corporation.

BSC Foundation

In 1995, the NBDP established the Business Support Centers Foundation (BSCF). This Russian, not-for-profit foundation became the "umbrella" for the Business Support Centers, which registered as its local affiliates. The central BSCF office in Moscow is staffed by skilled consultants with over three years experience in providing support to small and medium businesses and BSCs in the regions. The Foundation will continue to

implement small business development programs and market the BSC network to Western and international companies, foundations, and international lending agencies. In April 1997, the Foundation was awarded a contract to implement an 18-month local government and business association development program, funded by the World Bank.

Strategic Partners

Regional Strategic Partners

Over the course of the project, the BSCs assisted over 100 local strategic partners with consulting advice, training, commodities, and co-funded initiatives and projects. The Appendix to this report, the USAID Target Tracker, details results achieved through work with strategic partners.

Business Collaboration Center

In May 1995, we organized, on behalf of USAID/Moscow, the Sochi Conference on Direct Assistance to Russian Enterprises and Entrepreneurs. The objectives of this conference were to pull together the collective experience of the leading practitioners in Russia providing direct assistance to Russian SMEs and entrepreneurs; to reach preliminary conclusions about best practices; and to more widely disseminate this experience.

As a result of this conference, USAID established the Business Collaboration Center (BCC). The BCC now provides management tools for SMEs and consultants, and an electronic clearinghouse of trade offers, investment projects, and other offers for business collaboration.

Institute for Private Sector Development and Strategic Analysis

In 1995-96, the NBDP was instrumental in the establishment of a policy counterpart for the program. Through the Innovative Programs Initiative (IPI) Fund, the project provided bridge financing, and start-up technical assistance to the Institute for Private Sector Development and Strategic Analysis (IPSDSA). The NBDP also provided equipment, staff time, office space and other resources to make this organization a success. The Institute was formed to conduct research on private sector development problems, disseminate best practices in business development projects, and provide data and analysis for the donor community and federal authorities. The Institute now manages the implementation of activities under the World Bank's PIAL loan for privatization and private sector development.



Legal Structure and Tax Status

Two primary factors affect how an organization operates in Russia -- its legal structure and tax status. Both issues add a degree of difficulty to doing business in Russia, even for operating a technical assistance program.

At the start of the project, in order to develop legal infrastructure for the BSC sites, the NBDP used the established structure of Deloitte & Touche/CIS. Using the legal status of the contractor, regional management was able to sign contracts under a registered entity, which allowed them to do some basic set-up, such as connecting telephones, employing staff, and securing office space. This process was considerably quicker than trying to first register each site. What needed to be achieved initially was done so legally and without too many obstacles.

While this initial approach served its purpose, the solution was only temporary. The parent company as it was originally developed had a limited life span and ceased to exist in the early stages of the project. However, the BSCs faced challenging obstacles in changing their legal status, as described in the short history of each BSC provided in Chapter 3.

For Deloitte & Touche, the risk resulting from BSC affiliation became significant with regard to tax implications, since local tax authorities tried to impose taxes on program assistance funds flowing through the project. It is important to keep in mind that the NBDP was developing during a period when many new legal and tax systems were being implemented in Russia. A new regulatory environment was being created and the project responded to changing legislation.

Together, USAID and Deloitte & Touche developed innovative structures which moved the NBDP from one phase to the next. The NBDP changed the structure of the BSCs twice. The BSCs changed from Deloitte & Touche affiliates to affiliates of the BSC Foundation, an entity which furnished the centers with a non-profit status and afforded them limited tax liabilities. Eventually, some BSCs became completely independent, unaffiliated Russian entities, and re-registered as such (see Chapter 3).

Cash Management

One of the primary and perhaps most difficult challenges for the NBDP was that of money movement. While banks existed in Russia, they were not sophisticated and not well-located in relation to all BSCs. In addition, banks charged high fees for transferring money and invited the attention of tax authorities and criminal elements.

Money was needed to establish the BSC offices in the regions, for salaries, office expenses, and program activities. Out of necessity, the first approach to money transfer involved having employees deliver money during routine trips to the regions. This was obviously a less than optional solution, both from the perspective of the employees and the project, yet the NBDP was able to get through this period without incident.

It became clear that the BSCs needed a clearly defined legal status in their respective regions, for a variety of administrative purposes. The subsequent transition of the entire BSC network to a non-profit organization allowed the BSCs to set up their own legal bank accounts. In addition to eliminating the movement of large amounts of cash around the country, this status afforded considerable tax advantages, and allowed the BSCs to carry on activities unobstructed by taxation on assistance funds. This untaxable status was clear in Russian law, and did not rely on local acceptance of the bilateral agreement between the United States and Russia.

While the use of banks solved some problems, it created others, in the form of challenges in dealing with a volatile banking industry. Though the project researched banks carefully, there was little which could be done to anticipate impending bank failures.

The NBDP selected its first Russian bank based on certain criteria, including years in operation, assets, and the number of branches that overlapped with BSC sites. Despite this careful research, the bank selected became an industry casualty within one year. Following this, the primary requirement in selecting another bank became all available measures of stability. The project analyzed portfolios and solicited inputs from local experts, as formulas used in the West did not always apply in evaluating the suitability of Russian banks.

To add to the complexity of financial management in Russia, the tax authorities closely monitor all banking transactions -- transactions over \$10,000 are reported regularly to the Central Bank. A person or a company cannot simply go into a bank and withdraw large amounts of cash. During the project's tenure, two million rubles (\$360) was the maximum increment allowed for daily withdrawal. Additionally, forms had to be filled out which detailed the intended use of the money and an invoice is drafted for the tax auditors. Such requirements for withdrawal and limited access to cash were burdensome, and effort, cost, and manpower requirements for this function outstripped original budgeted estimates.

Designers and implementers of development efforts should plan for the movement of money, with attention to such factors as the time and cost involved in dealing with banks, their fees, and the risk involved. To work in a changing and unpredictable environment such as Russia, a technical assistance organization must factor in allowances for the fast-changing regulatory and legislative environment.

Budgeting and Control Process

In the early stages of the project, budgeting for the site offices was based on estimating rents, salaries, equipment, insurance, and so on. In practice, this budgeting process proved difficult, because prices varied dramatically from one region to the other. What cost \$200 in Ekaterinburg was likely to be doubled in St. Petersburg. It was difficult to establish realistic budgets and to engage in normalized financial planning with an eye to being equitable to each of the regions.

As the project grew, a more predictable pattern formed and individual budgets were firmly established for each BSC. The financial management team established monthly budgetary ceilings and required approval of all contractual expenses by a BSC Director and the project Financial Director. In this way, the business centers were held closely accountable for their monthly program and overhead expenses.

The nature of the USAID funds obligation process also posed a challenge for long-term project planning. The NBDP received obligations generally twice annually, though in several instances the prior obligation was nearly exhausted before any notice of renewed funding was available. This process eventually played a significant role in budgeting for self-sustainability. With an estimated (but as yet unobligated) nine months of remaining funding, a dramatic cut-back in spending was enforced and a new cost-sharing and revenue generation system implemented. Distribution of remaining funds was calculated based on cost cutting incentives and how well the BSCs refined and targeted their services.

With limited time and funds to achieve the transition to BSC sustainability, cutbacks were necessarily dramatic. In April 1996, the BSCs were receiving 100% of their operating and programming expenses from USAID. By November, they were down to receiving only 50%, which meant that in only seven months the BSCs were responsible for generating at least half of what it cost to operate and introduce programs. In future technical assistance efforts involving BSCs, a decision on self-sustainability should be made early in the life of the project, to begin the process of transforming funded technical assistance delivery offices to self-supporting entities as soon as possible.

With the transition to self-sustainability, the project experienced some difficulty in holding to program objectives, writing reports, and submitting financial records, as the BSCs devoted their time and energies to simultaneously developing paying clients, marketing their services, and cutting their operating costs.

As the program was originally envisaged, \$3 million was to be available for training and other program activities, while the majority of funds were to be used for operational money. Project management created a system which separately tracked program money and operating funds. As the project developed, program management eliminated the higher costs of international consultants, reduced CMU staff, and separately itemized

participant training and commodities, to give the NBDP approximately \$9 million to work with for technical assistance activities.

The separate line items allowed the NBDP management to track, control, and tie expenditures directly to results. To facilitate the linkage to tangible results the Task Definition Worksheet (TDW) process was implemented. This process of planning, costing out, and anticipating results gave everyone a clear analysis of what was spent, where it was spent, and how effectively it was spent. Effective initiatives could then be easily replicated by others within the BSC network, as the TDWs to be implemented were distributed project-wide.

The TDW process was created as an internal system. It was not contractually required. However, the contractor designed the process to include USAID sign-off on initiatives. This process improved communication and helped prevent contractual misunderstandings. It also enabled USAID to provide insights and/or recommend resources or strategies for use in particular initiatives. The process enabled the CMU to have greater input into the regional initiatives, to plan for the involvement of other professionals, and to coordinate and replicate effective initiatives throughout the sites, resulting in delivery of a higher quality product.

Budgeting was made easier using the TDW process and management had a clear understanding of expenses by program area. The system also encouraged more accountability with regard to regional spending. Each initiative was detailed and follow-up expected. While the process had many advantages, it created more paperwork and sometimes caused minor delays to timely initiatives.

BSC Budget Planning

As the project matured, a six-month planning process was adopted, giving the BSC Directors a chance to anticipate long-term resource needs and to create larger, more all-inclusive initiatives which warranted several months of planning. The plans evolved and changed as the project itself changed. The initial planning process utilized a relatively formal structure which detailed initiatives, expected outcomes and resources needed. One later version of the plan asked the Directors to estimate their cost recovery opportunities, either by sharing expenses or charging for services. This approach complimented and supported the changes toward self-sustainability of the individual centers; it also improved the centers' overall professionalism as nascent consulting operations.

The latter six-month plans took on the format of a traditional business plan. At this point, as a result of cost-cutting policies, the BSC Directors were acutely aware of their overhead cost and the value added by their current resources. This control mechanism encouraged the Directors to evaluate their immediate and long-term needs to achieve both USAID objectives and the BSC's commercial objectives. The BSC plans were submitted to USAID for a conditional sign-off, which allowed both the project office and USAID to simultaneously forecast resources required.

As the final phase of the project drew closer, a decision was made to evolve the TDW process into a grant request process which captured initiatives on a macro-level, as opposed to detailed task definitions. While many of the same planning principles were adopted, the new grant request process again complimented the final stage of the project and the strategic thinking of the BSC Directors. The grant request encouraged the Directors to account for their operational costs in addition to their programming costs, and to measure impact and cost recovery. This allowed the financial management component of the project to assess resource needs accurately and direct the limited remaining funds. More importantly, the process gave BSC Directors discipline with regard to their spending and revenue generation. This successful approach reflected the level of sophistication achieved by the NBDP in giving the BSC Directors a realistic approach to business, allowing the BSCs to emerge from the system of subsidization.

Implications of the Self Sustainability Issue

The original contract outlined a program which was not designed to leave self-sustaining independent entities in place -- in fact, each center was to operate for one year and then close down. Although the original contract mentions sustainable activities, this did not refer to the BSCs as entities in themselves. While various program activities were to be continued by other Russian support organizations and strategic partners, the BSCs themselves had been designed to close at project end.

The original project strategy was to build 16 BSCs throughout Russia. As discussed in Chapter 3, due to the start-up time and resources required to establish each BSC, the contractor and USAID eventually revised the number of BSCs to eight centers, with each one open and fully operational for the entire length of the project. With so much invested in BSC resources, people, training, and general development, it was suggested that the centers would prove valuable resources as self-sustaining business support entities. The status of the BSCs had to change -- they required profit generating initiatives, extra consulting support and training, and plans to make the individual centers viable business structures.

A Russian network of business support centers was created through the BSC Foundation. This eliminated the BSCs' dependency on USAID and limited its risk if something happened to the centers. When the contract funded ended, the centers would be responsible for themselves and accountable for their own business dealings. The legal status of the Foundation became a point of contention among the individual centers, as each director realized the liability of the other centers in the network. If one center failed, the others could be negatively impacted. Eventually, each center was re-organized as a separate legal entity. This structure did not take away the advantages of the business support network, but eliminated financial liability and gave each BSC Director the capacity to make independent decisions based on the business opportunities presented in each region.

Accordingly, in its final phase the NBDP set up two independent entities in each region -- one commercial and one non-commercial. The two new structures allowed the NBDP to continue to donate equipment and resources to the non-profit BSCs without being taxed, yet allowed the BSCs to undertake commercial activities. Each center became an autonomous, non-commercial entity, which meant it could receive the equipment and resources with a minimal tax burden so long as it was donated and not sold. This dual role of the Directors, as founders of a non-commercial entity and directors of commercial activities, had the potential to create some legal conflict. While there was no guarantee that the structure created would not have some problems, the process served its purpose to date.

For the most part, the NBDP could not rely on the bilateral agreement which was supposed to protect the BSCs and the project from income tax and customs liability. After recurring problems and many unanswered questions, the NBDP needed to implement alternative systems in order to operate.

Lessons learned in Managing Money for the NBDP

- A detailed plan is needed to structure and set up of Central Management Unit and regional offices; only in this way can some otherwise unknown obstacles be identified early.
- The contractor should start with expert legal advice, particularly in a difficult environment such as Russia. A clear understanding is needed of the legal framework with regard to moving money and avoiding large tax obligations. The costs incurred in moving money, from extra security to travel expenses, need to be considered.
- Bank fees and miscellaneous charges need to be factored into the budget. The fees become very significant and amount to a considerable cost.
- High-profile operations attract unwanted attention from the tax authority. USAID and the contractor need a clear understanding of tax implications. In Russia, with its extremely high taxes and sometimes unscrupulous authorities, it is difficult to adhere to the myriad of conflicting laws while continuing to meet project objectives.
- Flexibility must be built into the project for timely and creative response to changing situations. Major alterations to strategy must be implemented at the earliest possible time in the project life cycle, as future funding for multi-year programs is routinely uncertain.



CHAPTER 9: LESSONS FOR DESIGNING AN SME DEVELOPMENT PROGRAM

This chapter is to assist those designing and/or managing an SME development program, particularly one which includes a network of business support centers.

Select Cities Where Assistance Will Make a Difference

It is essential to select geographic locations where assistance will have significant impact and the chances of success are high. Two of the most important criteria for site selection are the following:

- Select cities other than the capital cities. Although facilities and resources are much more limited in smaller cities, the needs are greater and the willingness to emphasize SME development is usually higher.
- Select cities where local government officials are receptive to assistance. This may not necessarily mean that local officials are receptive to foreigners, but rather that they are receptive to new ideas, e.g., that there may be new ways to attract business, that job growth is good for the local economy, and so on.

Smolensk – a small city with high-level effectiveness

Smolensk was the smallest Russian city selected as a BSC site. The Smolensk BSC effectively leveraged its assistance by providing consulting services to local enterprises seeking financing from international lending agencies. As a result of a well-written business plan by the BSC, a client received an \$800,000 loan from the EBRD Venture Fund. The substantial loan was awarded to Sitall, a glass manufacturing company, which paid a fee to the BSC for its effective consulting expertise. The BSC assisted more than 17 enterprises seeking EBRD loans.

The BSC gained support from local officials for its efforts. To promote activities in support of small business development, the Smolensk BSC participated in an unprecedented Business Press and SME Support conference. The BDP agreed to act as a press center to facilitate reporting on business initiatives. Participants included local government officials, entrepreneurs, and award winning business journalists, along with other SME support organizations. The journalists identified the lack of information about entrepreneurs, the regional tax policy, and the high cost of information from the local administration as some of the most difficult barriers to reporting on the progress of SMEs and the business environment. Government representatives developed and subsequently submitted a proposal to support the business press and to facilitate the access of information. The BSC was asked to work on a program to develop the skills of the journalists, increasing their interview and reporting skills through training.

With local administration support, the BSC and its Technopark partner successfully initiated the School of Young Businessmen. The BSC developed curriculum based on its experience, international training and access to current information on business management theories, financial management and marketing. The school will generate over \$500 a month in revenue through fees charged to the participants.

Partner with Local People and Organizations; Establish Clear Criteria for Partner Selection

Local presence is essential for success. Yet, starting a local center from scratch (“greenfield”) takes more time than the life of most assistance programs. The

participation of a local partner can lessen start-up time, increase receptivity of local people to the program, and up the chances of sustainability when the assistance phases out. Local partners also leverage the outreach capacity and acceptance of the program. Because of the central role of local partners, establishing clear criteria for partner selection from the start of the project is critical.

- Local partners should be respected institutions truly interested in SME development, whether a training institution, business association, or regional development agency. A word of caution -- the partner(s) selected may have local relationships that may thwart open access to the BSC by the business community, by giving preferential treatment or directing services solely to contacts of the partner. Potential partners should be screened carefully in this regard.
- While working with more than one local partner is advisable, it is more effective to develop deep working relationships with several reliable local partners than to “spread out” too thinly.
- The local partner should be self-sustaining or have the capacity to become so with technical support in a short time. Local partners should receive targeted training as needed from the project to build their capacity in areas such as government lobbying, grant proposal writing, financial management and other skills.
- Ideally, the local partner should have resources and relationships that can contribute to BSC self-sustainability.
- Local participants may be simply interested in benefits from the assistance program. It is important to work out an understanding of the contributions and expectations of both parties in early discussions.

Tomsk: Partnership with Technopark results in \$6 million in Deals Signed at “SibirskiDom” Trade Fair

The Tomsk BSC initiated the successful Partner Search and Trade Show called SibirskiDom (Siberian Home) 95'. A \$50,000 supporting partnership was formed between the Tomsk Technopark and the BSC to carry out the initiative. The Trade Fair, which focused on home building and related businesses, attracted 5,000 visitors and nearly 100 exhibitors to the formerly closed Western Siberian city. Business representatives came from all of the regions of Russia, and several foreign company representatives were present from the USA, Italy, Germany, and Slovenia. The fair was marked by intensive deal-making and negotiating among the participants. At least \$6 million worth of contracts were signed. For three days, Russian and foreign participants visited exhibitor's booths, attended seminars, and negotiated with new business contacts and industry experts.

The NBDP arranged three events for participants in the “SibirskiDom”. A trade-show and exhibition presented innovative and marketable home technologies and products for Russian and foreign companies. A “partner search” event matched potential buyers and sellers from all of the countries represented at the fair. The third event was a series of seven seminars, including one conducted by US-based National Association of Home-Builders, which advised entrepreneurs on topics ranging from how to find a partner in the United States to dealing with international customs.

The successful event brought unique business opportunities to participants and encouraged Russian entrepreneurs to take advantage of the trade fair format. In November 1995, another BSC-supported NGO, the Seversk Technopark, undertook a similar event that attracted international attention.

Select Local Staff Carefully; Develop A Coherent Strategy For Skills Transfer

The success of project activities will depend on the capability of local people working on the program. Select people who are pragmatic enough to work in and around the old system, yet willing to adopt new ways. Local staff should have the capacity to learn the principles and lessons of the West and apply them in Russia.

When you hire in Russia, you don't just hire a person; you hire their entire set of relationships -- the "family circle." It will be more advantageous for the project to select staff, particularly at the Director level, with leadership standing and respect in the community, who know and can command respect and attention from other local leaders in government and business.

The program must develop a coherent strategy and plan for skills transfer from expatriate to local staff, in areas such as training, consulting, and other skills. Focused training should be provided to the BSC staff in business consulting, lobbying, and other key skills to enable them to contribute to the BSC's sustainability.

Establish a Plan for Self-Sustainability; Run the BSCs as Businesses

BSCs should be run as models of what they are teaching others to become. This means adopting a coherent business plan, including a marketing plan, fee-for-service schedule, and so on, from the start of the project. Each BSC should undertake market research to identify a competitive niche for itself in the local business services market and formulate a strategy to develop it.

The BSCs should also be managed as businesses, with clear, coherent human resource plans, a team-building business culture, disciplinary procedures, salary and promotion incentives, training and education incentives, and so on. Although the NBDP BSCs used some of all of these management techniques with varying degrees of success, they were somewhat limited by the not-for-profit structure and culture of the BSC network. This non-profit status became more constraining when the BSCs were directed to become self-sustaining entities at the mid-project point.

If staff see their position with the BSC as leading to long-term, sustainable employment and personal career development, they will be motivated to contribute more, and the project will achieve greater stability and experience less staff turnover.

Novosibirsk

The Novosibirsk BSC struggled with staff retention throughout the project. Five staff members received professional certificates and three of these went on to receive their Bachelor's Degree in business administration. However, some staff who became qualified consultants as a result of training used their skills to obtain jobs elsewhere. One employee received training in auditing through the BSC and then started his own auditing firm. Another took a position with the local government. A contributing factor to staff loss was BSC employees' recognition that the project contract was time-limited. The project perspective on the BSC's institutional self-sustainability changed only at the mid-project

point, and as the expatriate Director was scheduled to leave; the Russian Director felt that a for-profit orientation and structure should have been built in from the start-up phase.

Effective staff motivation approaches included monetary compensation. The budgeting system made it difficult for the Novosibirsk BSC to conduct profit sharing or to compensate employees based on their performance.

Provide an Integrated Approach With Critical Mass

A program which assists enterprises and builds the environmental supports for enterprise development enhances its impact. An approach which simply provides assistance to enterprises without addressing the business environment will be less successful. A combination of training, consulting, policy and infrastructure development, and access to financing will be most effective. Bring as much together in one place as possible -- establish an "incubator" or similar structure which brings multiple elements together, coordinates them, and thus builds something that is more than the sum of its parts.

BSCs with weak capacity in a particular area can link with other organizations or business support entities to fill the gap. For example, if a BSC cannot provide direct consulting services to entrepreneurs, it should do so through cooperation with at least one other consulting organization.

Financial linkage activity should include cooperation with local Russian sources of finance, including commercial banks. To generate interest from local financial institutions, the BSCs can organize training for bank credit specialists offered by Western bank training organizations, run business plan competitions, and similar activities.

The BSCs should base their strategy in the business information market based on a survey of existing services. BSC staff should be trained in how to use electronic resources made available to them by the donor, and how to work with clients in this area.

Work with the Key Parties in the Existing Structure .

A number of assistance programs have attempted to operate by creating new structures and/or bypassing existing structures. This approach is unproductive. Assume that the task is to transform the beliefs and behaviors of the incumbents in the state structure and go to work on them.

The NBDP found that U.S.-based participant training for local government officials, which enabled them and the Russian Director of the BSC to see first-hand how local government in the U.S. supports small business development, was one of the most effective tools for "reorganizing" the officials' perception of the government-business relationship and the NBDP. Business associations can also have a strong impact as the natural advocates for pro-small business policy at the local and Oblast levels, and the project can provide valuable training to associations in how to lobby effectively.

The program office should help the BSCs set specific and realistic goals for achieving improvement in the local tax, regulatory, and operating environment, based on a survey of the most pressing issues. Local pro-small business policy advocates can leverage their impact by linking with other resident international organizations to press for improvements in the tax and regulatory environment.

In pursuing policy goals, the BSCs can “spread out,” particularly if host city and regional governments prove unreceptive. A BSC can pursue initiatives aimed at improving local business-government relations and the operating environment in neighboring regions and lower level city districts.

The project should create a distribution mechanism for delivering reports and information to federal and local policymakers and business leaders, followed up by a survey of report end-users to determine if the information is contributing to improved understanding and change.

Identify Key Business Sectors for Assistance

To achieve a visible impact, focus on specific business areas where individual enterprises can network with, learn from, and reinforce each other. When the program brings together enterprises of a particular type, often the entrepreneurs will naturally create trade associations, sponsor seminars and conferences, and undertake other joint activities. Particular small business areas that worked in Russia include:

- Bakeries
- Hi-tech
- Information and communications services
- Agribusinesses

Be Demand-Driven; Focus and Target Services Provided

The project must identify and address needs based on what is happening at the local level, as opposed to the program office in Moscow. Different types of assistance, or a different assistance emphasis, will be needed in every region. One way to test the validity of the local assistance plan is to assess needs at the local level. The following are some types of SME-oriented assistance needed in Russia:

- Training/ Skills, i.e., practical business training
- Networking
- Financing
- Business linkages

An important objective in service delivery is to grow the BSCs’ capacity to provide effective services. Recipient clients will quickly discern whether the center is providing assistance that is worth their time and effort. Sustainability of a center means focusing or

targeting services and being very good at doing something people will pay for. This may mean doing business plans for SMEs, helping them obtain financing, or writing grant requests that meet the standards of donor agencies.

Coordinate and Collaborate

Working together with other U.S., foreign, and Russian assistance programs is essential to leverage the limited supply of resources, given the unlimited demand for assistance.

Ekaterinburg: U.S. Department of Commerce Training Program

Recognizing the proven track record of the Ekaterinburg BSC, the US Department of Commerce awarded a grant to the Center to provide business training courses to enterprises undergoing defense conversion. The BSC developed a series of seminars and using BSC consultants conducted customized programs at the BSC Training Center and on-site at a defense conversion plant. The 18 managers from five local defense conversion facilities participated in 13 different business based training courses over a period of 11 days. Drawing on extensive business training experience and previous seminar coordination, the BSC consultants were able to offer this comprehensive package for the project. Courses covered such topics as public relations, negotiations, strategic planning, financial analysis and basics in contractual activity. The response was very positive and requests have already been received for more training at other facilities.

Keep the Program Flexible to Change with the Environment

Like the NBDP, a grass roots technical assistance effort in Russia must be able to adapt to changing conditions in every aspect of its organization, from its legal structure to its program activities. The project must be able to respond to factors such as the changing legal environment, developments in the business sector, and changes in program funding. Such flexibility can be built into the project design, with structure where the local BSCs drive program activities and a streamlined process for USAID approval of changes in strategy, delegation of funds, program activities, and other key areas.

In the project implementation, flexibility can also be enhanced by hiring “expert institutions” only as needed, to avoid creating a large, unwieldy consortium of firms. At the local level, by hiring individuals directly, rather than institutions, the project can avoid bureaucratic inflexibility and delay in implementing activities. The project should include both leading practitioners within technical fields and “trouble-shooters” with flexible skills who are primarily responsible for setting up the BSCs. The project implementation team should also fill key coordinative roles with direct hires, to ensure a close-knit organizational structure and quick response in changing circumstances.

APPENDIX
USAID “TARGET TRACKER”

TARGET TRACKER

Date of Report: March 28, 1997
Project Name: Business Development Program (BDP)
USAID Contractor: Deloitte Touche Tohmatsu
Contract #: CC-005-C-00-3148-00 & 110-005-C-00-4008-00
Life of Project Period: October 1993 to March 30, 1997
Reporting Period: September 30, 1996 - March 28, 1997

Regions Where We Operate:

1. Moscow
2. Novosibirsk
3. Ekaterinburg
4. Smolensk
5. Voronezh
6. Tomsk
7. Zelenograd
8. St. Petersburg
9. Vladivostok

Person Who Completed This Form: Lisa Hickson Thomas

Section 1

PROGRESS IN CREATING BUSINESSES AND JOBS

A. Indicate how many businesses and jobs you have helped create and sustain.

	Cum. Previously	This Period	Cum. To date
Number of new businesses created	2,606	40	2,646
Number of new jobs created	37,098	*	37,098
Number of businesses sustained	2,599	50	2,649
Number of jobs sustained	100,829	467	101,296

B. Describe how you tracked these figures.

The figures we have indicated in question A came about as a result of a survey which the Business Development Program conducted in six Business Support Centers (BSCs). The Smolensk, Ekaterinburg, Novosibirsk, Zelenograd, Voronezh and Tomsk BSCs surveyed 15% of their permanent clients, asking them a series of questions about new businesses developed, businesses sustained and jobs newly created as well as those sustained. The survey was designed based on the estimation model developed by CCI and used in the previous Target Tracker. Based on the recommendation by USAID, the Business Development Program undertook implementing the survey and asked 129 firms to participate. The 129 firms amount to approximately 15% of permanent clients, i.e. 858 clients regularly serviced. The final figures are an extrapolation representing 100% of activity over a four month period. (Please see *Attachment 1* for survey results.)

(*While jobs were created over the four month period, when extrapolated the survey results indicated fewer jobs than the previous period, therefore the cumulative figure will stay the same so an exaggerated total is not given.)

C. List other facts or figures you track that demonstrate how businesses are being strengthened by your assistance. For example, list the percentage of clients that have shown an increase in sales or profits during the past six months, or the percentage of clients that say their business is healthier than it was six months ago.

	Cum. Previously	October	November	December	January	Total This Period	Cum. To Date
Number of business plans revised by BSC	929	18	22	11	5	56	985
Number of linkages or referrals to financing	494	27	25	12	12	65	559
The number of grants awarded due to our assistance and training	98	7	0	1	3	11	109
The total amount of grant money awarded	\$2,121,941	18,200	0	170,000	\$297,500	\$485,700	\$2,607,641

The statistics shown above in C were tracked on a monthly basis (October to January) and summarized for USAID.

Section 2

PROGRESS IN EXPANDING THE SMALL BUSINESS SERVICES SECTOR

- A. List the names of the business associations, professional associations, small business incubators, business centers, or other support organizations you are strengthening. Indicate how close each is to being self-sustaining.**

A = already self-sustaining

C = close to becoming self-sustaining (anticipated within 6 months)

N = not yet self-sustaining but well on its way

F = far from self-sustaining

Give the figure that applies to :

1. the number of active association members
2. the number of micro businesses in the incubator and how many employees work for them
3. the number of Russian staff being prepared to run a self-sustaining business support center.

Where a cell is left blank the statistic is not applicable.

Summary of Following Strategic Partner List:

# of Associations	51	Self-sustainable level A	48	Novosibirsk Partners	16
# of Training Centers	13	Self-sustainable level C	22	Ekaterinburg Partners	16
# of Technoparks	9	Self-sustainable level N	29	Smolensk Partners	12
# of BSCs	16	Self Sustainable level F	12	Voronezh Partners	16
# of Financial Org.	6			Tomsk Partners	14
# of Incubators	4			Vladivostok Partners	11
# of Int. Org.	2			Zelenograd Partners	11
# of NPO Support Centers	2			St. Petersburg Partners	7
# of Newspapers	1			Moscow Partners	8
# of Information Centers	2				
# of Exhibition and Trade Fair Coordinators	3				
# of Chambers of Commerce	2				
Total # of Strategic Partners working regularly with the BDP	111				

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Novosibirsk 1	Siberian Fair	A	30			May 1989	<ul style="list-style-type: none"> • Coordinating and hosting local and international trade fairs and exhibitions. • Conducting seminars and roundtable discussions. • Information transfer
Novosibirsk 2	Altai Fair	A	15			May 1995	<ul style="list-style-type: none"> • Sharing information about the schedule of exhibitions and fairs in Novosibirsk and neighboring regions. • Providing business links opportunities for clients.
Novosibirsk 3	Molodost Sibiri Newspaper	A	8			1991	<ul style="list-style-type: none"> • Organizing and financing marketing studies for the paper's further development. • Developing an organizational plan for issuing a regional newspaper.
Novosibirsk 4	The OASIS Association	C	7			August 1994	<ul style="list-style-type: none"> • BSC working with OASIS and Riss-Telecom to complete a project to provide better access to Siberia for Internet use. • Information services
Novosibirsk 5	Business Incubator and Training Center - in conjunction with the Morozov Project and the Siberian Civil Service Academy.	C	4			Continuing with the process of registration	<ul style="list-style-type: none"> • Sponsoring and supporting BSC partners to conduct regular fee generating training courses on business start-up. • Programs being developed and promoted on the BSC's "International Programs of Novosibirsk" electronic guidebook.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Novosibirsk 6	The Open University Business School Students and Graduates Association	N				December 1995	<ul style="list-style-type: none"> Organizes regular meetings and roundtable discussions that bring together regional entrepreneurs, business associations and former and current London University students. Developing and facilitating team building programs.
Novosibirsk 7	The Siberian Realtors League	A	22			Continuing the process of registration	<ul style="list-style-type: none"> Supporting the development of a professional Realtor's sector in Novosibirsk. Conducting a 72-hr certification training course for representatives of estate agencies.
Novosibirsk 8	Association of High-tech Enterprises	N	6				<ul style="list-style-type: none"> Working with high-tech local enterprises, their development and introduction of products into the market.
Novosibirsk 9	Siberian Leasing Company	A	5			August 1995	<ul style="list-style-type: none"> Organizing mutual participant training for BSC consultants and SLC managers in Moscow Leasing Company. Preparing a series of leasing seminars in Novosibirsk.
Novosibirsk 10	Novosibirsk Chamber of Commerce and Industry of the Russian Federation	A	11			April 1991	<ul style="list-style-type: none"> Drafting plans for a new Information Analytical Center. Participating with BSC in the coordination of First Regional Conference of Entrepreneurs.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Novosibirsk 11	The Association of Sustainable Development of Human Settlements	C	5			March 1996	<ul style="list-style-type: none"> Helping to promote Siberian Exhibition Place for the Demonstration of Power Saving and Ecological House Building Project in Technopark.
Novosibirsk 12	Regional Foundation of Federal Support for Entrepreneurs	C	4			November 1994	<ul style="list-style-type: none"> Working with BSC to conduct first regional conference on Entrepreneurship.
Novosibirsk 13	Youth Business Center	C	15			August 1995	<ul style="list-style-type: none"> Support of business related initiatives for young business people. Organizing and facilitating a Marketing and Business Information seminar for the Youth Center's Information Managers Club. Assistance rendered in the development of business plans.
Novosibirsk 14	Business Consultants Association	C	11			September 1996	<ul style="list-style-type: none"> The BSC been helping to create and organize this new association and the members will focus on business consulting, auditing and legal services. Developing an information and advertising guide.
Novosibirsk 15	The Siberian Advertising Association	C	15			December 1995	<ul style="list-style-type: none"> Developing the advertising industry sector. A new Advertising Training Center was opened through the Association. Help given to organize the Red Fox Advertising Festival in Novosibirsk

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Novosibirsk 16	International Business Association	C	30			September 1996	<ul style="list-style-type: none"> • Developing further international business and links. • BSC Director elected as head of the information and telecommunications committee for the association.
Ekaterinburg 17	Technopark Zarechny and Business Support Center	N	9	2/24		August 1993	<ul style="list-style-type: none"> • Information on tax incentives, loans, leases and business. • Marketing of innovative high-tech activities.
Ekaterinburg 18	The Chamber of Consumer Goods Producers	A	10		4	1994	<ul style="list-style-type: none"> • Support of businesses producing goods. • Information-Exhibition Center • Business Support Services
Ekaterinburg 19	The Association of Business English Teachers	C	71		3	May 1995	<ul style="list-style-type: none"> • Support and training for teachers of business English. • Providing innovative teaching techniques and research.
Ekaterinburg 20	Small Business Association	A	16		15	August 1990	<ul style="list-style-type: none"> • A consulting and information center supporting small business.
Ekaterinburg 21	Business Support Center	A	20		15	July 1992	<ul style="list-style-type: none"> • A consulting and information center supporting small business. • Primary funding source from the city.
Ekaterinburg 22	Ural Business Women's Association	C	600			March 1994	<ul style="list-style-type: none"> • Support of women in business • Lobby for improved conditions for women in business and improved city policies.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Ekaterinburg 23	Pervouralsk Business Women's Association	C	20			June 1994	<ul style="list-style-type: none"> • Support of women in business • Creating new opportunities and jobs for women.
Ekaterinburg 24	Innovation Business Center	A	8			December 1994	<ul style="list-style-type: none"> • The Center was established to act as an advisory and training facility to support small businesses engaged in the process of scientific research and development.
Ekaterinburg 25	Association of Professional Translators	A	60			March 1994	<ul style="list-style-type: none"> • Support and training and certification of business translators and interpreters.
Ekaterinburg 26	Franchising Association	N	40		36	April 1996	<ul style="list-style-type: none"> • Dedication to the development of an environment for the development of franchises, with assistance to entrepreneurs.
Ekaterinburg 27	The Training Center of the Oblast Prosecutor's Office	A	20		12	July, 1992	<ul style="list-style-type: none"> • Consulting and information center.
Ekaterinburg 28	Ekaterinburg Leasing Company	N	3			June 1996	<ul style="list-style-type: none"> • Securing and making available equipment and machinery for small and medium business.
Ekaterinburg 29	The Association of Self-Governed Territories	N	3		6	May 1996	<ul style="list-style-type: none"> • Work with local government decision makers to lobby for positive reform and offer advice on resource and financial allocation for the SME market in Ekaterinburg.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Ekaterinburg 30	The Union of Entrepreneurs In Verkhnya Pishma City	F	5		3	August 1996	<ul style="list-style-type: none"> • Lobbying the local administration in the interest of entrepreneurs. • Information support and coordination of activities to improve the economic situation in the region.
Ekaterinburg 31	The Regional Center for NGO Development	F	15		5	In the process of registering	<ul style="list-style-type: none"> • NGO information, consulting services and training. • The Center will also help NGOs access grants.
Ekaterinburg 32	Quorus Corporation	A	12			December 1989	<ul style="list-style-type: none"> • Computer software distribution and environmental training.
Smolensk 33	Business Women's Association	N	60			February 1995	<ul style="list-style-type: none"> • Supporting women in business through training and networking opportunities. • Opened new high school for women • Develops charter documents for registration and is being supported for this initiative through a Eurasia Foundation grant of \$25,000.
Smolensk 34	Smolensk Advertising Association	C	16			August 1995	<ul style="list-style-type: none"> • Uniting small groups and private business people in advertising. • Seminar series on the advertising business.
Smolensk 35	Financial Construction Corporation	A	87			October 1994	<ul style="list-style-type: none"> • Evaluating housing certificate projects. • Sponsoring new development and new building techniques.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Smolensk 36	Credit Union	A	31		4	September 1995	<ul style="list-style-type: none"> • Small loan program supporting .
Smolensk 37	Mass Media Association	C	15			October 1995	<ul style="list-style-type: none"> • Support of mass media and private journalism enterprises. • Seminar series in business negotiations and psychology.
Smolensk 38	Technopark	C		8	2	October 1995	<ul style="list-style-type: none"> • Support of high-tech businesses and projects and a new representative of the Bortnik Foundation. • Training of entrepreneurs and now housing the School of Young Businessmen.
Smolensk 39	Private Dentist's Association	C	40		3	October, 1996	<ul style="list-style-type: none"> • Support of Private Dental Firms • Lobbying for member's interests • Innovative investment plans • Potential business links
Smolensk 40	Medical Business Incubator	N		3/18	2	September 1995	<ul style="list-style-type: none"> • Private medical business support • Brochure publishing • Setting up of medical retail store.
Smolensk 41	Regional Farmers Association	A	30				<ul style="list-style-type: none"> • Consulting and assistance for farmers. • Currently working on the development of the mini-brewery initiative.
Smolensk 42	Valuers/Appraisers Association	A	14		3	1996	<ul style="list-style-type: none"> • Consulting and support to appraisers

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Smolensk 43	Retailers Association	A	24		8	1996	<ul style="list-style-type: none"> • Support of retailers • Lobbying for member's interests.
Smolensk 44	Karavan Plus	C	44		11	May, 1995	<ul style="list-style-type: none"> • Research and information providers
Voronezh 45	Business Support Fund	A	36			July 1993	<ul style="list-style-type: none"> • Consulting for small & medium businesses • Financing and business plan development
Voronezh 46	Business Support & Development Division within Oblast Administration Economy Department	F		6 employees		February 1992	<ul style="list-style-type: none"> • Business consulting and Seminars • Registration
Voronezh 47	Bortnik Foundation	A		5 employees		February 1994	<ul style="list-style-type: none"> • Promotion of regional high-tech projects.
Voronezh 48	Regional Research Coordinating Center (RENAKORD)	A		6 employees		January 1993	<ul style="list-style-type: none"> • Business plan development • Consulting for small business • Searching for customers for partners. • Scientific Conferences
Voronezh 49	Agency for the Support of Small & Medium Business	A		15 employees		March 1995	<ul style="list-style-type: none"> • Seminars • Project promotions

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Voronezh 50	INTERSERVICE Consulting Center	A		9 employees		April 1994	<ul style="list-style-type: none"> • Business plan development • Arrangements for business trips abroad.
Voronezh 51	Retraining Center (No longer Morozov Project)	A		3 employees		April 1994	<ul style="list-style-type: none"> • Small business support. • Functions similar to the BSC
Voronezh 52	Business Incubator	C		5/10		October 1995	<ul style="list-style-type: none"> • Provides production space to manufacturers.
Voronezh 53	Technopark	N		15/80		September 1995	<ul style="list-style-type: none"> • Provides space and support for high-tech enterprises.
Voronezh 54	Junior Achievement	N	12	3 employees		April 1995	<ul style="list-style-type: none"> • Training
Voronezh 55	Agribusiness Center	A		25 employees		February 1993	<ul style="list-style-type: none"> • Participation in development of rayon agribusiness infrastructure.
Voronezh 56	Association of Business Women	N	150			January 1995	<ul style="list-style-type: none"> • Support for women in business through consulting and training.
Voronezh 57	Association of Small & Medium Sized Businesses of the Black Soil Region	N		4 employees		November 1995	<ul style="list-style-type: none"> • Support for business through consulting and training and customer searches.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Voronezh 58	Association of Medical Insurers	A	5			January 1992	<ul style="list-style-type: none"> • Representation in the Business Support Fund of the Administration. • Business consulting • Tabled a draft law on insurance practices to Oblast Duma that has already passed first reading.
Voronezh 59	Association of Lawyers for Small & Medium Sized Businesses.	N	6			November 1995	<ul style="list-style-type: none"> • Legal services and seminars for SMEs.
Voronezh 60	Association of Labor Organizers	C	600			June 1993	<ul style="list-style-type: none"> • Development in the field of an organization.
Tomsk 61	Non-profit Organization Support Center	F	4		4	June 1995	<ul style="list-style-type: none"> • Informative consulting support for non-profit activities in the region. • Roundtable discussions coordinated to address the relationship between commercial and non-commercial organizations. • Publishers of an NPO Newsletter. • Published brochure with BSC on Public Organizations of Tomsk.
Tomsk 62	The Association of Women in Business	F	35				<ul style="list-style-type: none"> • Supporting women in business.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Tomsk 63	The Marketing Club	N	15		1	1994	<ul style="list-style-type: none"> • Seminars carried out with the help of the BSC on securities markets. • Support and development of the marketing concept in business.
Tomsk 64	Seversk Technopark	A		11/200	4	December 1995	<ul style="list-style-type: none"> • Technopark for the support of high-tech business. • Established an Expertise Center on the grounds of the Technopark. • Established a computer network which linked Seversk Administration, Employment Fund, the university, mass media and entrepreneurs. • Wooden consortium has produced another batch of wooden houses for private orders.
Tomsk 65	Association of Dentists	F	3			April 1996	<ul style="list-style-type: none"> • Support of private dentistry, offering assistance in developing infrastructure, training, identifying availability of equipment and legal status.
Tomsk 66	Technocenter A	F		25/200	1	January 1995	<ul style="list-style-type: none"> • The Technocenter is developing a construction project with potential international partners.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Tomsk 67	Tomsk Technopark	A		28		1995	<ul style="list-style-type: none"> • Support of small business development and high-tech projects for the region and business links. • Establishing a marketing office for industrial enterprises with the Seversk Technopark. • Two exhibitions coordinated for Siberian manufacturers.
Tomsk 68	USIA Center	F	350		1	1994	<ul style="list-style-type: none"> • Information and training center. • Distribution of materials for training and studying abroad. • Coordination of TOFEL examinations for students wishing to apply to US Universities.
Tomsk 69	Morozov Training Center	F	15		1	September 1995	<ul style="list-style-type: none"> • Training in business and education.
Tomsk 70	Tomsk Advertising Association	F	11		4	May 1995	<ul style="list-style-type: none"> • Support of private advertising ventures. • Marketing for Agencies and Organization of Advertising Campaign training courses.
Tomsk 71	Tomsk Certification Center	A	12				<ul style="list-style-type: none"> • Offers certification to entrepreneurs and SME activities.
Tomsk 72	Business Education Center	A	10			September 1995	<ul style="list-style-type: none"> • Distance learning center which has developed a package called Manager: Marketing Specialists”.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Tomsk 73	Tomsk Polytechnic Department - University Business Center	F	16			May, 1993	<ul style="list-style-type: none"> • Offer specialty training on Self Employment. • Long term program called Manger of a Small Business. 14 of the 27 participants have started their own business.
Tomsk 74	TACIS Business Agency	A	7		5	April, 1995	<ul style="list-style-type: none"> • Training seminars for the TACIS agency Directors and staff. • Offer leasing training for bankers. • Leasing seminars for business agencies in Siberian regions. • expert Council for Small and Medium Business Support has been created with the Oblast Administration.
Vladivostok 75	High-tech Association	N	110			January 1995	<ul style="list-style-type: none"> • Supporting SMEs in the high-tech industry • Search and support of producers of commercial products.
Vladivostok 76	Association of Fisherman	N	30			June 1994	<ul style="list-style-type: none"> • Network and assistance for the members of the fisheries industry.
Vladivostok 77	Women's Business Club	N	31			July 1995	<ul style="list-style-type: none"> • Support for women entrepreneurs. • Facilitators of a roundtable for women in business.
Vladivostok 78	Association of Business Tutors	N	35			August 1995	<ul style="list-style-type: none"> • Business training and consulting .

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Vladivostok 79	Technical University Business Center	N	3			February 1993	<ul style="list-style-type: none"> • Provide consultations on business plans, lecture and train in the business sector.
Vladivostok 80	Association of Appraisers	N	20			March 1995	<ul style="list-style-type: none"> • Training and consulting for local appraisers.
Vladivostok 81	Association of Accountants and Auditors	N	40			April 1994	<ul style="list-style-type: none"> • Assist in the education and certification of auditors, accountants and financial experts.
Vladivostok 82	Association of Constructors	A	30			December 1995	<ul style="list-style-type: none"> • Introduce and maintain standards in construction. • Match construction companies with materials providers. • Offer information and consulting.
Vladivostok 83	Association of Lawyers	A	10			July 1995	<ul style="list-style-type: none"> • Effective legal support for small businesses. • Develop legal infrastructure through lobbying interests of members of the Association and their clients in government agencies.
Vladivostok 84	Association of Private Dentists	N	10			March 1996	<ul style="list-style-type: none"> • Assist in the development of a private dental industry.
Vladivostok 85	Association of Bankers	A	26 Banks			June 1990	<ul style="list-style-type: none"> • Promote and assist banks in developing small business lending program. • Provide training and consulting.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Zelenograd 86	Moscow College of Business Administration (Morozov BTC)	A			28 students and 7 faculty members	1992	<ul style="list-style-type: none"> • Implementation of skill development programs and training for entrepreneurs. • Marketing research
Zelenograd 87	Zelenograd Technopark	A		42	6	1991	<ul style="list-style-type: none"> • Support and provide space for the development of small businesses, with concentration on high-tech projects.
Zelenograd 88	Zelenograd Small Business Association	A	100		11	1994	<ul style="list-style-type: none"> • Support of small business. • Joint project with BSC to establish an analytical and information center.
Zelenograd 89	Financial-Industrial Corporation	C		24		1995	<ul style="list-style-type: none"> • Skills development programs for entrepreneurs.
Zelenograd 90	International Fund of Social Innovations	C			4	1995	<ul style="list-style-type: none"> • Skills development programs for entrepreneurs and consulting services.
Zelenograd 91	Joint Stock Company - LINK	A		75 regional centers		1991	<ul style="list-style-type: none"> • Joint implementation with BSC of the London Open University.
Zelenograd 92	Moscow Oblast Employment Center	A		72 regional centers	30	1990	<ul style="list-style-type: none"> • Offering training and consulting to entrepreneurs and college graduates. • Focus on re-training and passing on new applicable skills.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Zelenograd 93	Board of Trustees	A	7			February 1996	<ul style="list-style-type: none"> Coordinate plans and cooperate on issues pertaining to the effectiveness of partners in the region.
Zelenograd 94	Women's Business Association	F				In process of registering	<ul style="list-style-type: none"> Support of women in business through training and offering networking opportunities.
Zelenograd 95	Business Center "InterZelenograd"	A	4 enterprises		4	1991	<ul style="list-style-type: none"> Development of a joint marketing program.
Zelenograd 96	Institute of Psychology and Sociology	A		8 employees		1992	<ul style="list-style-type: none"> Implementation of the training and consulting program Business Leadership and Career Management.
St. Petersburg 97	Leontif Center	A	50		50	August 1991	<ul style="list-style-type: none"> Social and economic research partner. Small business support and consulting Creation of programs for economic development of St. Petersburg.
St. Petersburg 98	Northwest Innovation Center (formerly Technopark ETU)	N		34	3	November 1991	<ul style="list-style-type: none"> Support of high-tech businesses.
St. Petersburg 99	Arkangelsk Fund for Small Business Support and Development	N	5		2	September 1994	<ul style="list-style-type: none"> Offering support and business consulting to SMEs.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
St. Petersburg 100	Novogorod Chamber of Commerce	A	10		2	July 1994	<ul style="list-style-type: none"> Organizing exhibitions, partner search events. Offer advertising services and legal advice.
St. Petersburg 101	Economic Knowledge	N	100		10	July 1995	<ul style="list-style-type: none"> Lobbying on behalf of business associations and NGOs. Business support through consulting and funding.
St. Petersburg 102	Fund for the Support of Small Service Oriented Businesses.	F	20		15	May 1995	<ul style="list-style-type: none"> Support of small companies starting a new service-based business. Assistance in the St. Petersburg Private Laundry Initiative.
St. Petersburg 103	Association for the Support of Artists	C	50				<ul style="list-style-type: none"> Support of artists through exhibitions and training. Received a SOROS grant for \$2,500. Partnered the BSC to facilitate and promote "Art Means Business" workshops and sale.
Moscow 104	Institute for Private Sector Development	N		10			<ul style="list-style-type: none"> Primary role is improving legislation for SMEs. Business Support Programs Administering a World Bank Fund and a loan guarantee fund.
Moscow 105	Russian Association of Small Business Support	A	52 regional affiliates				<ul style="list-style-type: none"> Lobbying for the interests of entrepreneurs in executive and legislative government bodies. Assistance in activities and cooperation with unions, associations and small business support organizations.

	Strategic Partner	Self-Sustaining Level*	Number of Active Members	Number of Micro Businesses and Total Employees	Number of Russian Staff Being Prepared to Run a self-sustaining Business Center	Date of Registration	Activity Description
Moscow 106	Moscow Leasing Company	A					<ul style="list-style-type: none"> • Finance the leasing of equipment for small business. • Research latest equipment and expertise with a goal to apply them to Russian environment. • Training for BSCs developing Leasing Companies.
Moscow 107	Public Expert Council for the Development of Small Business and Private Initiatives	A					<ul style="list-style-type: none"> • The overall objective is to advise the Mayor of Moscow and the Moscow Government on the issues of small business support and development.
Moscow 108	Technopark of Moscow State University	A		35			<ul style="list-style-type: none"> • Leases premises to small high-tech firms. • Renders consulting to members. • Assists BDP in the facilitation of seminars.
Moscow 109	Business Education Center (St. Petersburg)	N			4	1996	<ul style="list-style-type: none"> • Training center focusing on the development of owners and operators of private laundries.
Moscow 110	Volkhov Incubator	N		3		1994	<ul style="list-style-type: none"> • Support of small business development through training, the provision of space and consulting services.
Moscow 111	Guildia Training Center	N			6	1991	<ul style="list-style-type: none"> • Active training center in Moscow, developing small businesses and increasing the practical skills of managers in business.

The BDP is developing strategic partnerships with the new business entities being established in St. Petersburg and Vladivostok, since the formal close of the original BSCs. This partnership allows the BDP an opportunity to foster their growth and to pursue their business support initiatives. It also allows the BDP to stay in contact with former strategic partners, so as to continue with BDP goals on a broad scale. Many of the strategic partners in both St. Petersburg and Vladivostok are currently benefiting greatly from equipment and resource contributions from the BDP.

B. Describe some of the most significant achievements of these organizations during this period.

The BDP partners 111 organizations throughout Russia. Many of the most significant results in the regions have come about through these partnerships, capitalizing on the variety of expertise available through this significant resource. For initiatives to have impact on a local level they need to be grassroots driven and this approach by the BDP has meant long-term change and significant achievements in business development. Some examples of these partner achievements are as follows:

- On the 9th of October the Voronezh BSC and the Voronezh Agricultural University opened the doors to the Chrinozem Agribusiness International Trade Show. Forty-nine exhibitors, 1,200 visitors and over \$22,000 in contracts signed in less than 20 days gives a good indication of the great potential this innovative exhibition has. The BSC takes center stage with its satellite support center, offering consulting, information, industry catalogues and business links services to exhibitors and visitors alike, essentially coordinating the flow of activity. In December the BSC and its partners hosted a meat processing show which attracted 500 visitors and secured four contracts for the exhibitors. The organizational committee agreed to offer subsidized rent for a small business interested in operating a small cafe, a car service workshop, parking lot and a wholesale store within the trade show complex. The trade show received exhibition equipment and tools from the municipal government, worth over \$40,000 and assistance in upgrading communication facilities and roads to help encourage successful trade show opportunities.
- In December the Zelenograd BSC and its strategic partner, the International Foundation of Social Innovations received significant financing from the World Bank amounting to over \$170,000, 50% of which was awarded as a grant and the other 50% to be repaid as a low interest loan. The BSC put the finishing touches on a second proposal which has potential to increase the amount to more than \$290,000. The World Bank awarded the money to the BSC and its strategic partner based on their prior successes in business training and consulting, to develop service management programs with the follow-up grant aimed at training and consulting in marketing. The two partners will generate income and cover the cost of the loan by charging a large Zelenograd based company for these services which promise to increase productivity and to develop a more service-oriented business. During the final quarter of 1996 the BSC transferred many of its operations under the banner of the International Foundation for Social Innovations and in January 1997 officially became integrated into the Foundation.

2C. Indicate the number of people who you have provided training or consulting services. Indicate the number of person hours of training or consulting given.

	Cum. Previously	October	November	December	January	Total This Period	Cum. To Date
<i>1. Number of people consulted or trained</i>							
# who received practical business consulting	4,610	208	205	228	127	768	5,378
# who participated in training seminars of programs in Russia	30,013	333	406	447	197	1,400	31,413
# who participated in training seminars or programs in the USA	763	9				9	772
<i>2. Number of person hours of consultation or training</i>							
# of person hours of practical business consulting	21,966	773	940	898	514	3,125	25,091
# of person hours of training in Russia	294,906	3,565	8,875	9,944	3,971	26,576	321,482
# of person hours of training in the USA	76,658	856				865	77,514

	Cum. Previously	October	November	December	January	Total This Period	Cum. To Date
3. A More Detailed Breakdown							
# of people listed who have completed train the trainer programs	1,722	89	4	40	25	168	1,890
# of people listed above who were government officials	546	19	11	22	6	58	604
# of people listed who were banking officials or lending officers	451	4	4	14	7	29	480

2D. Describe how you tracked these figures.

The Business Development Program keeps records of the activity undertaken at each BSC and on a monthly basis submits the figures to USAID according to our reporting obligations. The end figures used in the Target Tracker are the sum of the monthly statistics.

2E. Give some brief concrete examples of how your training or consulting efforts have made an impact in the community or led participants to make significant improvements or reach specific benefits.

The BDP is directly responsible for the training of almost 32,000 people in Russia and for consulting with close to 5,500 people involved either in business directly or as a supporter of the development of business in Russia. With this hands-on intervention many successes have resulted. Some of the examples of success due to BDP training, consulting and enterprise service initiatives are as follows:

- During the last quarter of 1996 over 25 contracts were signed between traders and producers within the small business and production community of Ekaterinburg. In an effort to support small, local businesses the BSC consultants, the Chamber of Consumer Goods Producers and the Consumer Market Development Department of the City Administration hosted three innovative trade exhibitions which created a unique forum for trade. With limited resources to promote their products and limited capacity to compete head on with major producers the exhibitions gave small business operators a unique opportunity to display, demonstrate and sell their inventory. The bread producers of Ekaterinburg were the first to benefit from an exhibition which attracted over 85 buyers from supermarkets, retail and specialty stores. The second exhibition focused on the dairy and meat industry followed by makers and traders in apparel and shoes. The exhibitions have the support of local and Oblast officials and have attracted media attention, putting the spotlight on the development of small business in the region.
- After thorough analysis and business planning on the part of the Tomsk BSC consultants, two clients embarked on a new venture to open two gas stations in the region. The BSC played a key role in bringing the new partners together, one an owner of gas storage units and the other an equipment producer. Both businessmen are alumni of the AVACOM training program and have received extensive support through consultations and local seminars from the BSC. The two firms combined financial resources with another local investor and if all goes according to plan should expect a 30% profit on their investment in the near future. It is anticipated that 20 new positions will be created because of this new business venture.

2F. Describe any especially successful courses or counseling techniques. Explain why they work so well and how others can replicate them. List any curriculum, workbooks or brochures you have produced that others would benefit from. Indicate how people can obtain copies.

- The BDP developed several courses from its Moscow base, addressing the needs of the regional support centers and their clients. One which has already been replicated in many of the regions is Sales and Merchandising for Retailers. The course combines hands-on display exercises, combined with sales techniques to increase sales and customer satisfaction. Each BSC trainer went through an intensive train-the-trainer course to learn how to facilitate the program. They were given materials, examples of American coupons, sales promotions and a copy of the BDP made Sales and Customer Service Video. The course was shared with BDP trainers in December of 1996, by January two courses were presented in the regions with more being planned. For the participants the training means an improved and practical understanding of placement of products, use of signs, creating an environment conducive to buying and very importantly focusing on the needs of the customer.
- In November the Smolensk BSC and its Technopark partner successfully initiated the School of Young Businessmen with local administration support and a wave of interest from the business community. The BSC was able to develop the curricular based on its experience, international training and access to current information on business management theories, financial management and marketing. The school will generate over \$500 a month in revenue through fees charged to the participants, \$10 a month for university students and \$20 a month for entrepreneurs. The current program will run for nine months and the positive evaluations by students have prompted a rush of applications being submitted for the second program in 1997. The Deputy Mayor participated in a Christmas awards ceremony at the School in December, congratulating the inaugural class and confirming the support of the local administration. The School for Young Businessmen has the potential to train many entrepreneurs and would-be entrepreneurs in the latest business theories and at the same time operate a successful, self-sustaining small training business. This training technique offers comprehensive and consistent training opportunities for entrepreneurs ready to develop their practical business skills. The structure of the school is replicable and in light of its ability to generate an income, is an attractive prospect for business support entities.

2 F continued

The Business Development Program created a Product Development Component to manage and distribute new products created centrally and offers full assistance to product development in the regions. All products can be acquired through the BDP's Moscow Office.

Number	Type of Product	Title	Language	Available
1.	Guide	Financial Management	Russian	Moscow Office
2.	Guide	Taxation of SMEs	Russian and English	Moscow Office
3.	Workbook	Business Planning	Russian	Moscow Office
4.	Brochure	Advertising for a Small Business	Russian	Moscow Office
5.	Brochure	Financing Your Small Business	Russian	Moscow Office
6.	Brochure	Managing Technoparks and Incubators	Russian	Moscow Office
7.	Brochure	Business Incubators - Russian Experience	Russian	Moscow Office
8.	Booklet	Things to Consider When Opening a Restaurant	Russian	Moscow Office
9.	Booklet	Interior Design of a Restaurant	Russian and English	Moscow Office
10.	Brochure	How the Russian Entrepreneur Operates	Russian and English	Moscow Office
11.	Brochure	The Recruitment Service Market in Russia	Russian and English	Moscow Office
12.	Brochure	Banking Sector Development	Russian	Moscow Office
13.	Brochure	How to Buy or Sell a Moscow Apartment	Russian	Moscow Office
14.	Brochure	How to Open an Office in Moscow	Russian	Moscow Office
15.	Research	Green Pages	Russian and English	Moscow Office
16.	Research	Introduction to Stock Investing	Russian	Moscow Office
17.	Research	A Report on the Regional Information Market	Russian	Moscow Office
18.	Research	A Report on Market Research Experience in the Urals	Russian	Moscow Office
19.	Research	A Report of Payment Systems Used in Russia	Russian	Moscow Office

Number	Type of Product	Title	Language	Available
20.	Research	Ratings and Audiences in the Russian Region	Russian	Moscow Office
21.	Research	Understanding the Design and Evaluation of Graduate Business Programs	Russian and English	Moscow Office
22.	Research	TV Guide Monitoring	Russian	Moscow Office
23.	Research	Guide to Successful Business Links	Russian	Moscow Office
24.	Research	Marketing Service in Russia	Russian	Moscow Office
25.	Research	Russian Advertising Market	Russian	Moscow Office
26.	Research	Statistics System of the Russian Federation	Russian	Moscow Office
27.	Video	Sales and Customer Service	Russian	Moscow Office
28.	Training Curriculum	Merchandising for Retailers	Russian and English	Moscow Office
29.	Training Curriculum	Sales and Customer Service	Russian and English	Moscow Office
30.	Workbook	Presentation Skills	Russian	Moscow Office
31.	Training Curriculum	Presentation Skills	Russian	Moscow Office
32.	Training Curriculum	Foundations of Success	Russian	Moscow Office
33.	Workbook	Exhibit Successfully	Russian	Moscow Office
34.	Training Curriculum	Service Business Management Course - Laundry Training	Russian	Moscow Office
35.	Workbook	How to Write a Grant Proposal	Russian	Moscow Office
36.	Workbook	Customs Regulations	Russian	Moscow Office
37.	Video	St. Petersburg from Historical Capital to Business Capital	Russian and English	Moscow Office
38.	Training Curriculum	Course Design Workshop	Russian	Moscow Office

Number	Type of Product	Title	Language	Available
39.	Workbook	Marketing	Russian	Moscow Office
40.	Training Curriculum	Customs Regulations	Russian	Moscow Office
41.	Guide	How to Conduct a Selection Interview	Russian	Zelenograd BSC
42.	Guide	Yellow Pages of Advertising Services in Novosibirsk	Russian	Novosibirsk BSC
43.	Bulletin	Siberia - Culture, Economy and Business	Russian	Novosibirsk BSC
44.	Brochure	Non-Profit Foreign Projects	Russian and English	Ekaterinburg
45.	Booklet	Ekaterinburg BSC	Russian	Ekaterinburg
46.	Videos	Franchising Seminars 1,2 & 3	Russian	Smolensk BSC
47.	Guide	Smolensk	Russian	Smolensk BSC
48.	Brochure	Accounting for Agriculture Organizations	Russian	Smolensk BSC
49.	Guide	Charter Papers for a Joint Stock Company	Russian	Smolensk BSC
50.	Training Curriculum	Negotiating	Russian	Smolensk BSC
51.	Guide	Who's Who in Tomsk and the Tomsk Region	Russian	Tomsk BSC
52.	Bulletin	Tomsk BSC (6 issues)	Russian	Tomsk BSC
53.	Brochure	Business Training Institutions in Vladivostok	Russian	Vladivostok Training Center and Moscow Office
54.	Guide	Economic and Business Education in St. Petersburg	Russian	Moscow Office
55.	Catalogue	Investment Proposals	Russian	Moscow Office
56.	Brochure	Programs and Institutions Offering Management and Business Training in St. Petersburg	Russian	Moscow Office
57.	Research	An Analysis of SME Policy in St. Petersburg Region	Russian	Moscow Office

Number	Type of Product	Title	Language	Available
58.	Workbook	Business Navigator - Financial Documentation	Russian and English	Moscow Office
59.	Training Curriculum	Financial Management	Russian	Voronezh BSC
60.	Training Curriculum	Investment Management	Russian	Voronezh BSC
61.	Training Curriculum	Strategic Planning	Russian	Voronezh BSC
62.	Training Curriculum	Entrepreneurship	Russian	Voronezh BSC
63.	Training Curriculum	Real Estate Market	Russian	Voronezh BSC
64.	Training Curriculum	Business Planning	Russian	Voronezh BSC
65.	Training Curriculum	Organizing International Business Links	Russian	Voronezh BSC
66.	Training Curriculum	Cooperative Management	Russian	Voronezh BSC
67.	Training Curriculum	Marketing	Russian	Voronezh BSC
68.	Research	Success and Problems of Entrepreneurship Regulation in Moscow	Russian	Moscow Office
69.	Research	Open region Analysis of Investment Climate in Novgorod Region	Russian	Moscow Office
70.	Research	Analysis of Entrepreneurship Development in St. Petersburg in 1995 - 1996	Russian	Moscow Office
71.	Directory	A Directory of Business Associations in Russia	Russian	Moscow Office
72.	Data-base	International Foundations and Donor Programs	Russian	Moscow Office
73.	Workbook	Presentation Skills	Russian	Moscow Office
74.	Workbook	Personnel Management	Russian	Moscow Office
75.	Booklet	Public Relations	Russian	Moscow Office

Section 3

PROGRESS IN BUILDING A BETTER BUSINESS ENVIRONMENT

- A. Briefly describe any new regulatory or policy changes that you have influenced - changes that have helped build a more stable environment in your area. Explain who helped bring the change about and how they benefited from your training, support and guidance.**

Following are examples of Federal and Local level results, where the BDP has been a catalyst for positive change:

- During the last quarter of 1996 the Local Government and Business Relations Component Manager participated in the discussion on the amendments to Federal Law on simplification of taxation and accounting systems for small business. This round of discussions was a culmination of activities designed to change the law, including the BDP's All-Russia Roundtable held in June of 1996. This time the Expert Council, of which the BDP has representation made proposals to the Chairman of the Federation Council, who subsequently used the recommendations in a new law to be presented to the Duma.
- On a regional level the Voronezh BDP played a vital role in the adoption of a similar law which greatly simplifies the process of taxation for small businesses. The BSC was responsible for initiating the All-Russia Roundtable in Moscow which brought together representatives of administrations from the majority of Russian regions in June of 1996. Among the participants was the Director of the Regional Legislation Institute for Voronezh and he returned to the region with a clear understanding of the burden on small businesses to report monthly to the tax office and to have on staff an accountant and lawyer. It took several months for the new law to come into effect, however now small businesses are obliged to only report quarterly and companies with fewer than seven people are exempt from having legal and accounting professionals on staff.

Section 4

PROGRESS IN IMPROVING ACCESS TO CREDIT

A. Briefly describe (list) any banker training institutions you have established/ strengthened and training programs you have developed/run for people in the banking or lending industry. Explain any positive results that have stemmed from these efforts.

	Cum. Previously	This Period	Cum. To Date
Created/ strengthened small business banker training/consulting institutions: # of such institutions.	31	6	37
Small business banker training courses accepted by training institutions: # of such courses (attach list)	35	8	43
New commercial bank lending and related mechanisms for the small business sector developed and applied (manuals published and adopted by financial institutions): # of such mechanisms	5	0	5
Banks - recipients of small business banker training/consulting: # of such banks			
Bank specialists - recipients of small business banker training/consulting: # of such specialists	656	24	680

B. Briefly describe any training programs or other methods you have used to help entrepreneurs get better access to credit. Explain any positive results that have stemmed from these efforts.

- The Smolensk BSC has been successful in its bid to develop a Leasing Company in the region. Leasing offers small business people an alternative to the traditional forms of financing and assists directly by keeping the loan focused on the real needs of the business. Leasing also allows the small business owner, opportunities to change obsolete equipment and helps to establish a good credit rating. The BSC has been the instigator of the project from the start and has negotiated with the local administration which came forth with overwhelming approval for the initiative and real-estate as the required collateral for a \$200,000 fund set up by the Federal Foundation of Small and Medium Enterprise Support. The pool of funds will be accessed to finance the individual leasing projects. The BSC also succeeded in obtaining a Eurasia Foundation grant to develop and train the Leasing Company management team and to create the necessary infrastructure. The BSC began the selection of projects in January 1997.
- Both Voronezh BSC and Tomsk BSC are proceeding with Leasing Company Initiatives. The Voronezh BSC also received a \$25,000 grant from Eurasia Foundation to fund its leasing project and will start the process by developing training curriculum and consultations for clients. One of the initial steps for Voronezh is introducing the benefits of leasing to the small business operator who is more familiar with the challenges of traditional financing. The Tomsk BSC was able to elicit local support also with the Tomsk Mayor issuing a decree regarding the official establishment of the Tomsk Leasing Center.
- A well written business plan by the Smolensk BSC resulted in \$800,000 going to a client and a fee being paid to the BSC for its effective and critical role in the loan. Despite the nascent relationship with the EBRD Venture Fund the BSC was able to submit a professional business plan and funding application which resulted in the substantial loan going to Sitall, a glass manufacturing company. Not satisfied with one great success the BSC received news that two other proposals were approved by the Russian EBRD representatives and now wait for news from the UK of approximately \$2 million being awarded to a broiler manufacturer and a prefabricated housing manufacturer. The BSC is also preparing documents and plans for Sitall to submit another application to the Russian Pollution Abatement Program, sponsored by the World Bank which awards loans to companies to reconstruct plants to incorporate environmentally sound production systems. It is this type of hands-on assistance that is proving effective for BSC clients applying for business financing.

D.

The following chart details the loans approved for BSC clients during the last six-month period. The BDP is very active in its work with the loan departments of banks, funds and financial institutions to understand their requirements from loan applicants. With this information the BSC is able to consult with clients, assist in the development of professional business plans according to the needs of the financing bodies. The success rate is considerable because due to BDP input the applicant is acutely aware of the needs of the target Fund and/or bank.

Company Name	BSC	Type of Business	Purpose of Loan	Date of Approval	Financial Source	Amount Approved in US\$	Amount Approved Rubles
Sitall	Smolensk	Glass Manufacturing		October 1996	EBRD	\$800,000	4,480,000,000
	Voronezh	Photo Service	Build One-hour Photo Processing Studio	October 1996	Russian Fund	\$120,000	672,000,000
Beauty-M	Tomsk	Beauty Salon	Enlarge facilities	October 1996	Oblast Administration	\$54,000	302,400,000
Ecosti	Voronezh	Environmental Products	Increase production, and create 40 new jobs	November 1996	Sberbank	\$56,000	313,600,000
	Voronezh	Construction Materials		December 1996	Sberbank	\$54,000	302,400,000
TOTAL:						\$1,084,000	6,070,400,000

Section 5

ADDITIONAL INFORMATION

5. A (*See attached 4*)

5. C

Indicate the number of full-time employees who were on your staff on the end date of the reporting period whose salaries were 100 percent funded by our USAID contract.

# of U.S. Citizens	1
# of Russian Citizens	6
# of citizens from other countries	0

Attachment 3

Business Banker Training Courses

1. Finance of an Enterprise
2. Financial Management
3. New Models of Management
4. Business English
5. How to Export to the West
6. International Trade and Finance
7. Negotiations and Sales
8. Budgeting and Cash Flow Analysis
9. International Accounting Standards
10. Leasing Training for EBRD and TACIS
11. Customs Regulations
12. Computer Techniques
13. Working Capital and Cash Management
14. Sources and Methods of Business Financing
15. Securities Market
16. Effective Management

New programs to help entrepreneurs get better access to credit, facilitated as of September 30, 1996:

17. Leasing - A Tool of Industrial Investment
18. Financial Resources for Agriculture
19. Business Links

