

QUARTERLY PERFORMANCE REPORT (2nd Quarter of Project)

Date of Report: March 31, 1999
Project Name: SME Support Network Assessment and Strengthening, Russia
Contractor / Grantee: IRIS Center at the University of Maryland, College Park, Maryland
Contract / Grant #: SEGIR - OUT-PCE-1-00-97-00042-11
Life of Project Period: October 1, 1998 to September 30, 2000
Period Covered by This Report: January 1, 1999 to March 31, 1999
Region(s) of Operation: Russian Federation

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A. PROGRESS REPORT

1. Background

Under USAID/Russia's Strategic Objective 1.3, **accelerating development and growth of private enterprises**, and associated Intermediate Results 1.3.3 and 1.3.4, **replicating models of private ownership and modern management and building a sustainable network of business support institutions rendering services to entrepreneurs and businesses**, USAID has strengthened the regional and local Small and Medium Enterprise (SME) business environment within the private sector. Previous projects have created a Business Support Institution Network, and provided targeted programs and services to entrepreneurs and SMEs throughout the Russian Federation. A wide range of successful Business Support Institutions (BSIs) grew out of this assistance, and many still exist and continue to provide services to SMEs and other businesses.

To evaluate the status of the existing BSIs, and to selectively strengthen those BSIs that are now in the best position to continue to provide long-term expertise to new and developing entrepreneurs, USAID has established the current **SME Support Network Assessment and Strengthening Project**. This project has the following three objectives: (1) provide an in-

depth analysis of the 200+ members of the BSI network; (2) identify those that are the most effective and most closely support the objectives of USAID's development agenda; and (3) provide targeted technical assistance to the selected BSIs in order to increase their viability and strengthen their institutional capacity, enhancing the self-sustainability of each participating BSI and the SME support network as a whole.

The SME project is divided into three phases:

- BSI Assessment
- BSI Selection and Assistance
- BSI Strengthening

The assessment component will survey a large number of BSIs across the Russian Federation, to determine which BSIs have the existing capability or potential for self-sustainability and reasonable client service support. The survey instrument will analyze their strengths and weaknesses, institutional development capacity, client outreach, quality of services developed and provided, and their business or educational commitment. The selection process is designed to choose those BSIs that demonstrate both an ability and willingness to participate in the project. During this phase, the 200+ BSIs surveyed will be ranked based on survey results, the top seventy-five invited for presentations, and thirty or so will be selected for intensive support in the final phase of the project. The strengthening component provides targeted technical assistance to selected BSIs, and is intended to strengthen their viability and capacity to deliver quality business support services based on modern, proven business principles and practices.

In addition, the project contains Small Grants ranging from \$5,000 - \$50,000. BSI applicants for the grants will be selected on a competitive basis, and their proposals must adhere to specific criteria, such as impact on the local/regional SME community and meeting USAID economic development objectives.

The final phase of the project will also involve creation of an informal network of SME support organizations from selected BSIs, together with existing local and national SME support structures, as an advocate of pro-SME policies and positive business development.

Previous SME projects have proven successful because local and donor stakeholders were included in the development and implementation of the projects, and this project continues this tradition. There is now a wealth of information and experience in the Russian Federation among citizens and existing SME support structures, and they are expected to materially contribute to the overall success of this project.

1. Expected Results over Life of Project (LOP)

USAID expects that the project will materially contribute to the following desired results:

- There will be an analytical assessment of the overall quality and scope of business services provided by the SME support network of BSIs, and qualitative differences among BSIs will be noted.
- Appropriate technical assistance and other interventions will be implemented to enhance

the ability of selected BSIs to strategically support the needs of small business.

- BSIs determined most likely to be sustainable in the long term and in the best position to provide expertise to entrepreneurs once USAID funding ceases will be strengthened.

2. Expected Results over the Life of the Project (LOP):

- i. Production, USAID approval, and publication of a list of BSIs in the Russian Federation which have previously received assistance from USAID
- ii. Stakeholder participation in producing the initial BSI list
- iii. Initial contact with BSIs by telephone and fax
- iv. Core surveyors trained
- v. Development, pre-testing, administration, and analysis of the BSI Uniform Field Survey Questionnaire (UFSQ)
- vi. Initial selection of the 75 +/- BSIs to participate in the SME project based on results of UFSQ
- vii. Workshops conducted with presentations by BSIs in order to make the final selection
- viii. Selection of final list of top 30+ BSIs for participation in the project
- ix. Strategic Plan and Training and Development Program developed, and technical assistance targeted to strengthen participating BSIs
- x. Small Grants Policy and Procedures Manual completed and approved
- xi. Final comprehensive 'action plan' produced for each BSI agreed upon and implemented
- xii. Links established with donors, donor projects, other SMEs, BSIs, BSOs and other support organizations
- xiii. Roundtables held promoting participation in the SME Support Network Program

3. Current Results in the Reporting Period (January 1, 1999 – March 31, 1999)

The second quarter activities of the SME project focused on completion of the survey process and scoring the UFSQ. The UFSQ was administered to an additional 270 BSIs throughout the cities, regions and oblasts¹ of the Russian Federation. Questionnaires were scored, results analyzed, and the project database updated. Key results, events, outputs and project deliverables of the second quarter are outlined below. Deliverables are indicated with an asterisk (*).

***Administered the UFSQ throughout the regions of Russia.** The UFSQ was designed to determine: a) essential information about the respective BSIs, b) existing organizational and operational structures, c) types and nature of services provided to

¹ 26 BSIs were surveyed in the first quarter. The exhaustive list of sites for all surveys has been provided to USAID previously in a deliverable, and is available on the project website in map form. All legally-registered BSIs operating over one year which were located in the Phase I fax and phone exercise, plus any located in the field during the survey process, were interviewed using the UFSQ. Temporary location of website: www.members.tripod.com/pederacl

clients, d) present BSI finance and accounting systems, e) fee structures for services provided and, f) prospects for BSI growth, development and sustainability.

The UFSQ contained specific questions on such factors as: type of organization, geographic area of business, organizational structure, types of services provided to clients and specialization, if any, client base, market research and marketing strategy, market competition, finance and accounting, sources of funding, fees for services and fee structure, promotion/marketing of BSI and its services, current and prospective institutional development, goals of the BSI, business plan, technology, general operations, business constraints, projections for future growth, and the organizational development and sustainability.

296 BSIs were surveyed, out of which 287 met the pre-determined standards for consideration for further participation in the project.

Two other components of the UFSQ process included interviews with SME stakeholders from the public and private sectors, including various donors, and interviews of present or past clients of the BSIs.

Client Satisfaction Survey (CSS): Initially, clients selected from client lists of BSIs were to be surveyed for their level of satisfaction, providing another mechanism for BSI differentiation. Unfortunately, locating the clients was not feasible without assistance from the BSIs themselves, leading to the pre-selection of clients most likely to provide favorable reviews. Each BSI received approximately the same score from the clients, providing no differentiation for scoring purposes. Consequently, the CSS was not used as a component of the scoring mechanism as originally designed, nor did the BSI score include any results from the CSS.

SME Stakeholder Interviews: The questionnaire for donor organizations was designed to assess the strength and viability of BSIs from the point of view of their 'creators', the implementing agencies responsible for their initial start-up as a service provider. As became apparent during the implementation phase of the UFSQ, most of these donor organizations no longer had any direct ties with their 'offspring' BSIs, and most of them no longer maintained offices in the regions.

The meetings with donors organizations and various SME support structures, both government and private, in the regions were invaluable as a tool for assessing the local environment for SME development, which was a contributing factor in determining potential strength of the BSIs. These interviews also provided insights into the strength of the BSIs themselves as potential service providers.

Scoring and Ranking of BSIs: The initial scoring mechanism used during the field-

testing of the UFSQ in Yekaterinburg yielded a variance of less than four points between BSIs. This was not statistically significant and was insufficient to offer clear distinctions between the strong BSIs and the weaker ones. The mechanism was altered, and the revised scoring mechanism provided for a range of 20 points in the survey score. To obtain the final ranking of the BSIs surveyed, the *raw score* provided on each BSI was converted into an *index score*. The index score was based on the raw scores, but was weighted slightly to ensure the following: a representative sample of BSIs with women as owners or managers, a geographic spread of BSIs, and limitation of the number of BSIs providing equivalent services in the same locations. The weighted scoring mechanism ensured that the strongest BSIs would compete for the final 25-30 places in the project.

***Summary and Final Reports issued to USAID describing the Analysis and Results of the UFSQ:** The results of the survey process were provided, based on the analysis of data and information obtained from three principal assessment instruments used in the survey and analysis component of the project: the Initial Fax-Out, Uniform Field Survey Questionnaire, and Client Satisfaction Survey. The report contains a complete explanation of the specific tasks, methodology, survey instruments, and development process, together with the analysis and results from the UFSQ.

***Created and Published a Professional Directory of 75+/- BSIs resulting from the survey of the BSIs from the various regions of the Russian Federation:** The contractor produced a directory of all BSIs selected for possible final participation in the project. The list is a directory of viable BSIs operating in the various regions of the Russian Federation (RF). The Directory also contains the names of key SME support organizations and stakeholders in the RF. As such, it can be a valuable networking and linkage tool for BSIs throughout Russia.

A list of stakeholders who are also potential recipients of the directory was provided to USAID, with a request to advise on the appropriate organizations to receive this document.

Regional Workshops/Selection Committee Process Initiated: The final 75+/- firms were invited to present their plans and grant requests at one of five locations during the last weeks of April. The locations, selection and presentation procedures were carefully outlined for all invitees. Funding was arranged for transportation and overnight accommodations for invited BSIs, allowing participation of two persons from each organization. Presentations will be audiotaped. Quantitative and qualitative analyses are involved in the selection process. One technical person from the SME project team will work as support to each selection committee, but will not be involved in the scoring process.

The selection committees were formulated and discussed with USAID, and the list finalized. There are five teams, each including a representative of: USAID, a business association, a government body working with small business, and a

stakeholder organization, as well as an entrepreneur. In each case, selection committee members will be assigned to locations other than their primary work location. Extra individuals have been included to account for emergencies.

A process for training of selection committee members was established, including a "mock" presentation and scoring session. This was conducted March 26th, 1999. Scoring processes were agreed-upon and finalized.

USAID agreed to allow delays of submission of the final list of BSIs and documentation of the selection process through May 21, to account for both Easter and May Day holidays throughout Russia.

Collaboration with Volunteer Projects: ongoing consultations have been held with business volunteer organizations regarding mechanisms for providing services to the Russian SME sector clients.

4. Performance To Date

The following deliverables of the contractor have been completed to date, reports submitted to USAID as per time and quality agreements, and approved:

Annual Work Plan

Initial BSI List

BSI Uniform Field Survey Questionnaire

Field Testing of BSI Uniform Field Survey Questionnaire

Administer the Uniform Field Survey Questionnaire (UFSQ) throughout the regions of Russia.

Summary Report to USAID of UFSQ Process

Analysis of Results of the UFSQ

Create and Publish a Professional Directory of 75 +/- BSIs resulting from the analysis and ensuing results of the UFSQ

Project BSI Database

5. Problem Areas and Ways to Address Them

- **Survey timing:** due to the timing of the project signing and pressures to produce early results, surveys were completed in isolated areas during the depth of winter. This was difficult to achieve, and it is possible that some legitimate BSIs exist in some of these areas which could not be located due to weather and access concerns. In future, timing of projects should allow for survey work to be done during weather which is more conducive to travel.
- **BSI directory/locations:** a number of BSIs (over 60) were identified in the field, during the survey process. It is likely that additional organizations have simply not been identified to date, due to flaws in the information network and miscommunication. As information on these BSIs emerges, the project will add them to the database.
- **Informal BSIs:** the onerous tax burden has driven a number of BSIs to operate in the gray economy, without legal status. This may in fact make them more likely to survive and thrive than those which are openly recognized. Since these firms are not registered, information on them is not captured in the BSI directory. The question of how the finalists will compete with these underground BSIs will bear watching, and possibly is worth some study, as it affects project outcomes and the competitive environment.
- **Financial data:** as most firms avoid tax by keeping multiple sets of accounts, validation of BSI survey data which has been provided on their finances is problematic to say the least. Physical observation of business activities during peak times over the next year could help in this process.

B. ADMINISTRATIVE INFORMATION

Contract Data:

1. Estimated Cost (Life of Project) USAID Funds (\$): \$3,500,000.00
2. Expenditure of USAID Funds During Reported Period (\$): \$ 345,992.18
3. Cumulative Expenditure of USAID Funds
Including the reported period (\$): \$699,978.69
4. Average Expenditure Rate of USAID funds (\$/month): \$116,048.00

Number of US employees receiving salaries from USAID grant funds: 2

Number of Russian employees receiving salaries from USAID grant funds: 4

Schedule of Positions:

No.	Position Title	Position Description	US or Rus
1	Chief of Party	SME assessment & strengthening	US
2	Deputy Chief of Party	SME assessment & strengthening	US
3	Evaluation Specialist	Evaluate & assess BSIs in Russian Federation	Russian
4	Strengthening Manager	Develop strengthening programs for BSIs	Russian
5	Administrative Asst/translator	Office Management, accounting, translations, program administration, logistics	Russian
6	Secretary	Secretarial work	Russian

B. ADMINISTRATIVE DATA

TABLE 10. GRANT/COOP. AGR. FUNDS ACCOUNTABILITY STATEMENT (FAS)

Data in this table should be as of the end of the reported Quarter.

Structure of Line Items should be same as in Grant / Coop. Agreement , and throughout Tables 10 - 12

USAID CONTRIBUTION

FUNDING SUMMARY

Original Obligation (\$):	2,500,000
Amendment No. 1 (\$):	
Amendment No. 2 (\$):	
Etc.	
Total Obligation (\$):	2,500,00

No.	Grant/Coop.Agreement Budget Line Item Description	Total Line Item Obligation (\$)	Expended Cum. Previously (\$)	Expended This Period (\$)	Expended Cum. To Date (\$)	Expended Cum. as % of Total Obligation
1	Labor	\$ 1,197,408	\$ 153,017	\$ 172,769.72	\$ 325,787	27.21%
2	Other Direct Costs	\$ 2,302,592	\$ 200,970	\$ 173,222.46	\$ 374,192	16.25%
Etc.						
	Totals	\$ 3,500,000	\$ 353,987	\$ 345,992.18	\$ 699,979	43.46%

TABLE 11. GRANT/COOP. AGR. FUNDS ACCOUNTABILITY STATEMENT (FAS)

Data in this table should be as of the end of the reported Quarter.

COUNTERPART CONTRIBUTION- N/A

FUNDING SUMMARY

Original Contribution (\$):	
Amendment No. 1 (\$):	
Amendment No. 2 (\$):	
Etc.	
Total Contribution (\$):	

No.	Grant/Coop.Agreement Budget Line Item Description	Total Line Item Contribution (\$)	Expended Cum. Previously (\$)	Expended This Period (\$)	Expended Cum. To Date (\$)	Expended Cum. as % of Total Contribution
1						
2						
Etc.						
	Totals					

TABLE 12. GRANT/COOP. AGR. FUNDS ACCOUNTABILITY STATEMENT (FAS)

Data in this table should be as of the end of the reported Quarter.

USAID AND COUNTERPART CONTRIBUTIONS COMPARED

FUNDING SUMMARY	USAID	Counterpart	Total
Original Obligation (\$):			
Amendment No. 1 (\$):			
Amendment No. 2 (\$):			
Etc.			
Total Obligation (\$):			

No.	Grant/Coop.Agr. Budget Line Item Description	USAID Budgeted Amount (\$)	USAID Total Expended (\$)	USAID (%) Expended of Line Item (%)	Counterpart Contributed Amount (\$)	Counterpart Total Expended (\$)	Counterpart (%) Expended of Line Item (%)
1							
2							
Etc.							
	Totals						

No.	Grant/Coop. Agr.	USAID & Counterpart	(%) Expended	(%) Expended
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