

QUARTERLY PERFORMANCE REPORT (3rd Quarter of Project)

Date of Report: July 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: April 1, 1999 to June 30, 1999
Region(s) of Operation: Russian Federation

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A. PROGRESS REPORT

1. Background

USAID/Russia has strengthened the regional and local Small and Medium Enterprise (SME) business environment within the private sector under key objectives: Strategic Objective 1.3, **accelerating development and growth of private enterprises;** with subordinate Intermediate Results 1.3.3, **replicating models of private ownership and modern management;** and Intermediate Result 1.3.4, **building a sustainable network of business support institutions rendering services to entrepreneurs and businesses.**

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 surveyed 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 analyzed their strengths and weaknesses, institutional development capacity, client outreach, quality of services developed and provided, and their business or educational commitment. The selection process was designed to choose those BSIs that demonstrate both an ability and willingness to participate in the project. During this phase, the 200+ BSIs surveyed were ranked based on survey results, the top seventy-five invited for presentations, and thirty or so were 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 a total of \$500,000 for 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. In addition, this project takes advantage of related projects such as the EBS Project to enable synergy in sectoral assistance.

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. Roundtables held promoting participation in the SME Support Network Program
- x. Strategic Plan and Training and Development Program developed, and technical assistance targeted to strengthen participating BSIs
- xi. Small Grants Policy and Procedures Manual completed and approved, grants disbursed to qualifying BSIs and impact assessed
- xii. Final comprehensive 'action plan' produced for each BSI agreed upon and implemented; impact assessed
- xiii. Links established with donors, donor projects, other SMEs, BSIs, BSOs and other support organizations
- xiv. Regional SME Development Advisory Boards established
- xv. SME Support Network created and BSI member Quality Certification program implemented

3. Current Results in the Reporting Period (April 1, 1999 – June 30, 1999)

The third quarter activities of the SME Project focused on selection of the final BSIs for participation in Phase III of the Project. Five regional Selection Workshops were held, and 33 BSIs were chosen for further Project support. These BSIs were invited to attend a Team Building Workshop, to build cohesiveness, initiate creation of the SME Support Network and identify technical assistance needs of the individual BSIs and of the network. A Training Plan and Strengthening Strategy were developed, including individual targeted interventions and general BSI training. A Grants Policy and Procedures Manual was also prepared. USAID granted an extension to July 31st for finalization of the MOUs between BSIs and the Project, including individual action plans and targeted project interventions.

- **Regional Workshops/Final Selection of BSIs for Strengthening Phase:**

The top 77 BSIs were invited to participate in one of five regional workshops, held in Moscow, St. Petersburg, Novosibirsk, Samara and Khabarovsk during the last two weeks of April. Each BSI was allowed a period of one hour to present its annual business plan and describe its grant request, and to respond to questions from the selection committee regarding their presentation. An expert selection committee, including entrepreneurs and representatives of business associations, USAID, the donor community, and Russian government structures scored the BSIs based on their written and oral presentations, and ranked the presenting BSIs at each location.

The BSI presentations were evaluated on management capacity and vision; innovativeness and sensibility; diversity of planned vs actual income sources; actual and potential client SME outreach; and realism of their grant proposal and proposed matching funding of their grant. Analysis of scores and geographic concentration led to the suggested final list of 33 BSIs.

The top 33 BSIs will be included in the remainder of our project activities. They are slightly more concentrated in the European part of Russia, where the majority of business activity takes place. However, there is a good representation and distribution of BSIs throughout the rest of the Russian Federation.

Most of the BSIs were formed in the period from 1993-96, although a few were founded later, and three date back to the initial reform years of 1989-91. Their affiliation shows their genesis, and the advantage of donor funding in kick-starting an organization: five are Morosov Foundation affiliates, three represent the former Tacis network, and five are spin-offs from the USAID funded BDS project.

Over half the final 33 BSIs have received funding from the Eurasia Foundation during the course of their organizational lifetimes. BSIs also received grants and training support from the local and national Departments of Entrepreneurial Support and Development, and from government agencies and ministries such as Siberian Aerospace. The selected BSIs have received grants from donors and linked financiers

such as TACIS, the Soros Foundation, the Know-How Fund, and the Bortnik Fund, as well as from USAID intermediaries such as the Carana Corporation, CDC, CCI and ARC.

Women play an important role in the ownership, management and employment of the finalists, with over one-third of the firms being run or owned by women. Two are associations for women entrepreneurs, and another 11 have women as owners or chief executives. Women employees make up at least half the staff in a majority of the BSIs. The selected BSIs have from 4 to 50 employees. Most list 5-7 full time staff and a large number of consultants to draw on when needed; but a smaller group has 20-27 regular employees, on average.

The activities of the finalists are wide-ranging, although most provide consultancy services and facilitation of meetings and seminars. The BSIs include:

- 13 training and consultancy organizations,
- four technological innovation support institutions,
- three business incubators,
- three vocational training institutions,
- two women's entrepreneur associations, and
- one each of the following: commodity producer association, apex for regional business centers, trainer for the unemployed and home-based businesses, environmental protection consultancy, software development, legal practice, construction company association, and Chamber of Commerce.

A locator map was created and submitted to USAID together with information on the finalist list of selected BSIs. The list was approved by USAID in early May, 1999.

- **Development of Strengthening Strategy and Training and Intervention Plan:**

A consultant was engaged to examine the technical assistance requests of the selected BSIs, and to work with the project team to create a strengthening strategy and training plan to meet these development needs.

The primary goal of the SME Network Strengthening Strategy is to build a sustainable network of business support institutions rendering services to the SME sector. The training and technical assistance activities are intended to establish a high-level baseline of skills and capabilities for all of the selected BSIs, and to enhance the capacity and capability of each BSI to increase outreach and provide quality, demand-driven, fee-based services and products to clients in the business sector. The Strengthening Strategy will include both individual, targeted interventions, and general training sessions meeting the needs of a significant number of individual BSIs. The Project will also work with the BSI leaders to facilitate creation of a network of SME support structures throughout the Russian Federation.

A list of eleven general interventions was created, with recommended Russian and expatriate organizations able to provide the required training. These formed the basis for consultations with the BSIs during the team-building workshop. Included were:

- Management
- Western accounting and financial management
- Networking
- Human Resources
- Marketing and Promotion
- Information Technology and Internet
- Credit Access
- High technology sector and intellectual property laws

In those instances where the SME Network Support Project will be unable to provide the technical assistance required by the BSI due to its highly specific nature, the BSI will be referred to the USAID-funded Entrepreneurial Business Support Project, a partner project with IRIS participation.

- **Team Building Workshop:**

Development of the group as a team, with joint interests and potential for synergy, was deemed an important step toward facilitation of agreements and understandings between USAID, the partner BSIs, and the project staff regarding the inputs and results to be produced. Accordingly, a senior-level consultant facilitated a three-day team building workshop in June 1999. The project team members worked as facilitators with the consultant, and participants included both the 33 finalist BSIs and USAID staff.

During the three day workshop, leaders of the 33 selected BSIs learned techniques for strengthening teamwork and cooperation, exchanged information on their activities, established a shared vision of the project, and began the process of creating a SME support network. The workshop also provided an opportunity for BSIs to begin developing their individual action plans. These are being incorporated into the Memoranda of Understanding to be signed between the Project and each BSI. The workshop also enabled BSI leaders to define their individual and general training and technical assistance needs. This information was used to finalize the strategy document and Training and Intervention Plan.

At the Team Building Workshop, the BSI representatives decided to set up a training and materials review committee to work with the project team. The BSI leaders also concluded that they wished to establish a council for leadership of the newly created SME Support Network. This council will coordinate their activities, as well as facilitating work with various governmental structures and other organizations providing assistance to the small enterprise sector.

- **Participation in Conferences and Workshops:**

At the request of AID/W and with the support of USAID Russia, the project sent Natalia Petrova, President of the Russian Association of Women Business Owners, to speak at the plenary of the USAID Conference "Women Mean Business: A Global Lessons Without Borders Exchange", held in Chicago, Illinois during June 1-4, 1999. Over 600 women from all over the world, including leaders such as Maria Otero of Accion and Queen Rania of Jordan, were in attendance. The Russian Association of Women Business Owners has a national membership of over 100,000 women, and Ms. Petrova took this unique opportunity to provide information and exposure on Russian women and business opportunities.

-- more on the activities John travelled for in Sofia, and those for the Funds in your meetings in Moscow?!

- **Year Two Work Program and Funding Request**

In addition to the work on strategy and training, the IRIS team developed a second and final year workplan for activities commencing October 1, 1999. This included a good deal of detail on the general training program for the year, along with measurement of BSI progress, meetings on special issues such as the needs of women and development of the network, and provision for individualized activities with BSIs. Synergy with the EBS project and, as feasible, with other related AID-funded activities is also planned.

IRIS also submitted a request for final funds from USAID. These materials were submitted at the end of the quarter, for consideration by the COTR.

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
- Five (5) Regional Selection Workshops held for 75+/- BSIs to compete for inclusion in list of final 30 +/- BSIs
- Prioritized list of top ten BSIs from each Selection Workshop
- List of final 33 Project-supported BSIs
- BSI Strategy Plan/Report and Training & Development Program
- Grant Approval Policies and Procedures Manual
- BSI Strengthening and Team Building Workshop
- Year Two Work Program

5. Problem Areas and Ways to Address Them

- **Network:** The sheer size of the Federation, and the youth and fragility of the BSIs, means that the network effort may be weak. The project will work to foster the network by holding network trainings, considering grant financing for startup costs, and facilitating specific advocacy work defined by the council.
- **Training timing:** one of the key problems of BSIs, as with all SMEs, is their dependence on a few key managers. In order to improve performance, these people are likely to be those attending training programs, with the BSIs consequently vulnerable while they are away. The project team has taken great care to make planned joint trainings short and intensive, so these individuals are not away from the BSIs for any length of time. Specific work will take place on-site and be very focused.
- **Synergy:** to some degree, the capacity for synergy will be limited by the objectives and orientation of other projects. IRIS will use its connection in the EBS project to facilitate initial joint planning, and will work closely with USAID and other partners to explore options in this regard.

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