# FRANCHISING IN KAZAKSTAN & KYRGYZSTAN

## Final Report

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**Submitted by**

**Sibley International**

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Sibley International wishes to acknowledge the expert work performed by Project Specialists Kelly Raftery and Teri Webber who were key members of the implementation team. They overcame all obstacles to complete their projects on time, and since then we received many requests for them to return and continue their valuable work. Gary Vanderhoof provided essential drafting and editing for this report.

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## I Executive Summary

Transition economies such as Kazakstan and Kyrgyzstan especially need the new jobs and economic dynamism that small businesses (SME's) can create. Having completed large portions of their privatization programs and substantially achieved economic stabilization, the Governments and donors are now searching for opportunities for real growth. Job growth and investment is especially important in Central Asia, where the restructuring of large scale state enterprises is creating a large pool of unemployed.

While small business growth is strongly desirable, promoting it can be time consuming and complicated. It is estimated that in Kazakstan only 3% of employment is in small businesses, as compared to 60% to 80% in western economies. In both countries the investment climate is especially harsh, with high administrative, tax, and other legal or regulatory barriers to new startups or expansions. Business skills are low and institutional sources of financing such as bank loans are largely non-existent.

This project demonstrated how successful small businesses can be despite the harsh investment climate. Using franchising as an enterprise development strategy over a short 5-month period, the Project Team converted six existing local enterprises into franchise formats, and set the stage for the creation of 50-60 private enterprises over the next three years.

The purpose of the project was to test the franchising concept in Kazakstan and Kyrgyzstan. Its objectives were to: 1) produce at least one viable, replicable franchise, and, 2) to develop the broader legal and regulatory framework for franchising. A three person team was fielded in August, 1996 in Almaty and September in Bishkek. They worked with local professionals and other privatization, legal reform, health, and public education projects to complete the project.

The Project had three basic components; creating franchises, developing the legal/regulatory framework, and building capacity and awareness. All three were implemented simultaneously, each component strengthening and reinforcing the others.

Extensive collaboration with earlier projects and other teams on the ground accelerated the implementation process considerably.

The franchise concept operated successfully in Kazakstan and Kyrgyzstan. Project impact was specified in the number of enterprises assisted, the number of local professionals trained, and the status of reform of the legal framework.
<u>Actual Project impact however extended beyond these targets</u>. In each element specified, the tangible results achieved exceeded the performance benchmarks set in the Task Order. For example, a total of six enterprises were evaluated, analyzed, provided a full franchise package of covering financial controls, accounting, marketing, training, management, and operations. All were trained in application of these procedures. The target specified was 4 to 5 enterprises.

All six are implementing western style management and accounting practices, and five are poised to rapidly grow a network of small, independently owned enterprises operating under their licenses that is projected to grow to <u>ninety</u> enterprises over the next five years.. One of the six was taken to the next level of actually recruiting a franchisee and concluding a franchise agreement in December, 1996.

Similar outcomes were achieved in the legal/regulatory arena and the training of local professionals and institutions. Based on the recommendations made by the Team, it is now unlikely that new proposed legislation will inhibit the development of franchising. Regarding training, the Team focused on hands-on, practical application of franchise principles and succeeded in training at least sixteen local consultants, several legal professionals, and about a dozen educators and trainers.

The Project concluded with five observations for USAID, other projects, and other contractors;

1. Franchising can succeed and expand despite a difficult business environment,

2. Franchising had unanticipated results that exceeded expectations,

3. Project coordination efforts were highly effective,

4. There is questionable utility in demonstrating a model is successful if resources are not available to exploit that success, and

5. There is a high demand among entrepreneurs for this kind of practical assistance.

COTR's:  Walter Coles / Paul Davis

**Sibley International specializes in the application of franchising as a tool for enterprise development in developing economies.**

# Franchising in
# Kazakstan & Kyrgyzstan

## I. Introduction

Franchising is a method of rapidly expanding a proven business concept. It was devised by business owners to expand their successful business concept into markets when they didn't have the capital or other resources to do so on their own. It is the most successful business startup and expansion strategy ever developed, and the world's fastest growing source of independent small businesses. While it is most evident in U.S. food services, it has been successfully applied to over 60 different market sectors, around the world, including personal services, business services, telecommunications, drug retailing, building maintenance, auto repair and transport systems.

**Why is Franchising a Tool for Economic Development?**

Transition economies such as Kazakstan and Kyrgyzstan especially need the new jobs and economic dynamism that small businesses (SME's) can create. The majority of new job growth in the U.S. and most European economies as well is coming from such businesses. Job growth and investment is especially important in Central Asia, where the restructuring of large scale state enterprises is creating a large pool of unemployed. It is estimated that in Kazakstan only 3% of employment is in small businesses, as compared to 60% to 80% in western economies.

While small business growth is strongly desirable, promoting it can be time consuming and complicated. Typically, the environment for small businesses in transition economies is especially harsh, with high administrative, tax, and other legal or regulatory barriers to new startups or expansions, and few business skills or institutional sources of financing such as bank loans. Kazakstan and Kyrgyzstan follow closely in this pattern. The systemic constraints evident in the overall investment climate require concerted efforts to resolve, and there is a period of painful transition. But jobs and economic dynamism are required immediately if the benefits of market reforms are going to be felt. How then can donors or governments foster growth immediately?

The economic picture is never entirely black, and <u>even transition economies have pockets of growth</u>. Some small businesses find ways to operate profitably despite the hostile environment, and the jobs they create are like food for a starving man. These entrepreneurs may have accumulated resources and gained experience trading, or have capitalized on their ability to manipulate the regulatory system to their advantage and are ready to become more conventional investors and operators.

Franchising is an enterprise development strategy that starts with these entrepreneurs who are succeeding in the difficult environment, and builds on their success to create similar opportunities for many more. During this period of transition and afterward, it can lay the foundation for the emergence of a vibrant small business sector more quickly than through any other enterprise development strategy. This is particularly evident when compared to business counseling and generic business training efforts.

**In the U.S. franchise outlets account for approximately 50% of all retail sales.**

**In an informal survey in Russia that did not include McDonalds Corporation, the largest franchise investor in the country, it was estimated that the number of franchised businesses will grow from <u>70 in 1994 to over 600 in 1997</u>. A large number of these are Russian franchise businesses with uniquely Russian concepts.**

**Individual units are predominantly small scale, new start ups that mobilize Russian capital and rely very little on foreign investment or sophisticated technical support. This is despite an inhospitable investment climate. Franchise businesses today employ over 25,000 Russians.**

It is only recently that this successful private sector concept has been "discovered" by development professionals. It is increasingly being viewed by USAID, the World Bank, TACIS and the Know How Fund as a highly effective economic development tool, with projects in places as diverse as Russia, Kazakstan, Philippines, South Africa, Morocco, Swaziland and Ghana.

In its simplest form, this project took the best features of franchising - a business system, the financial controls, the transfer of technology and know-how, the training and support, and the marketing expertise - and combined them with the energy and resources of other small entrepreneurs. It created franchisors who will rapidly grow networks of healthy small businesses operating more efficiently than the vast majority of independent enterprises. Other project elements such as training or regulatory work built local expertise and improved the environment for private businesses generally, and franchises in particular.

## II. The Economic Environment in Kazakstan and Kyrgyzstan

As was noted in USAID's recent strategy documents, most countries of the Former Soviet Union, are not so much under-developed, but rather misdeveloped and out of sync with international market forces. Kazakstan is closer to this description than Kyrgyzstan, but both are still early in their market reform programs.

Kazakstan is the world's largest land-locked country, with 52 million people, ninety-eight percent of whom are literate. It has vast natural resources and started its reform effort soon after the break up of the Soviet Union. The overall economy has stabilized, with a new local currency, and inflation under control. Still, privatization has only proceeded in spurts, and GDP contracted severely over the last 3-5 years. It is estimated that still only 25% of GDP originates in the private sector. The GOK reports only 21,260 small businesses registered, accounting for just 3% of employment. The enabling legal framework and financial institutions are still forming and the overall investment climate remains difficult for all but the largest private businesses. The hope however is that the economy has finally bottomed out.

Kyrgystan is a relatively small country with 4.6 million people, on the border with far western China, but without the rich natural resources of Kazakstan. It has moved far in establishing the basic framework of a market economy; stable currency and low inflation, relatively sound fiscal policies, and a nearly completed privatization program. However the country is economically isolated and among the least developed in Central Asia. With substantial work remaining to reform the legal and regulatory framework, the investment climate remains difficult for most private enterprises, and especially so for small businesses.

In both countries the lack of efficient markets, the high level of taxation and regulation, and the low level of business knowledge are considerable constraints for small businesses.

## III. Project Description

The Project was developed by the USAID Almaty Office of Market Transition and USAID Washington ENI Bureau, Office of Privatization and Economic Reform. The project objectives, resources and strategy employed by the Sibley Team are described below.

### A. Goal and Objectives

The purpose of this project was to **test the concept of franchising in Kazakstan and Kyrgyzstan** in pre-selected sectors as an enterprise development strategy. The principal project objectives were two;

1. to produce viable, replicable franchise businesses that are indigenous to the respective countries, and
2. to develop the broader legal and regulatory framework for franchising.

These objectives are consistent with USAID Almaty's Strategic Objective of "accelerated development and growth of private enterprises".

### B. Resources and Time

This was a five-month project that started in August, 1996 and ended in December. The work took place primarily in the capital cities of Almaty and Bishkek, using a full time expatriate Franchising Expert in country, two short term in-country franchise specialists, and a short term legal expert. The Team Leader was Reid Lohr and Project Manager Michael Amies.

The Team drew extensively from local professional resources as well, building a team of local professionals who were provided hands-on training in franchising concepts and techniques. This group became an integral part of the implementation team. Franchising materials that had been developed by the Contractor in previous Task Orders in Russia and on behalf of the Eurasia Foundation were fully utilized throughout this project.

The Sibley Team also collaborated with, and drew on the resources of, other projects already operating in the two countries. These included the local professionals, market analyses, and contacts developed under the Demonopolization Projects implemented by Carana Corporation. Also utilized were the preliminary restructuring work and sector analyses of the health care and pharmaceutical distribution industries under the Social Benefits Project, performed by the Futures Group and Abt Associates. The Team used the civil code drafting and reform initiatives under the Private Enterprise Project implemented by Institute for Reform in the Informal Sector. (IRIS). Finally, the public information initiatives and distribution channels created by the Public Education Task Order were utilized with the help of Overseas Strategic Consulting (OSC).

### C. Strategy Employed by the Project Team

The Project had three basic components; creating franchises, developing the legal/regulatory framework, and building capacity and awareness. All three were implemented simultaneously, each component strengthening and reinforcing the impact of the others. For example, local professionals were directly involved in enterprise evaluation, analyses, and training in order to prepare them to train others.

1. Creating Franchises

To accelerate implementation USAID used market segment analyses performed under a separate project to identify the target sectors. These were pharmacies, freight forwarding, retail gas and oil, and wholesaling / retailing of consumer goods. The Sibley Team then determined where franchising could be a suitable strategy within these sectors, and selected six enterprises, four in Kazakstan and two in Kyrgystan, that were evaluated as commercially promising. In the case of freight forwarding, this involved a tendering process among several good candidates. One retailing firm in Kazakstan eventually declined to participate, but an excellent substitute was quickly found.

**The Pilot Enterprises Selected**

1. **Karamai Oil & Gas (**Raimbek Company) **-** A subsidiary of a large, highly diversified company, it was started in 1991 and is located in Almaty. It operates 1 retail gas outlet and distributes in bulk. Plans to capture 20% of the Kazak market over the next 5 years.

2. **Incom-Mebel Company -** (Consumer Goods) **-** A furniture manufacturer and retailer located in Almaty. Formerly state-owned, and operating since 1992 under current ownership, with 72 employees and one outlet.

3. **Romat** (Pharmacy) **-** Importer, produced and distributor of pharmaceutical goods operating privately since 1995 from Semipalatinsk. It has 3 warehouses, a manufacturing facility, and 20 drug retailing outlets.

4. **Transsystem** (Freight Forwarding) **-** Selected through an open tender, this company was started in 1990 in Almaty.

5. **Astron** (Pharmacy) **-** a Kyrgyz drug retailing operation with 2 units operating already. Founded in 1994, it plans to open 3 new units next year.

6. **Talapaker Freight** (Freight) See insert

A four step process was undertaken by the Team for each enterprise. Using teams of one expatriate and several local professionals, the operations of each of these enterprises were analyzed on site by starting with the business plan where available or developing one where not, and then examining each aspect of the business. A Franchise Development Plan was then prepared for each, and once adopted by management, 13 individual manuals[1] were prepared covering all procedures of each business. These were like the “tool kits” used in other post privatization projects. Finally, management and staff were trained in the application of the manuals and revisions made where necessary.

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[1] See Apendix B for a list of the subjects dealt with in these manuals.

To lay the groundwork for future USAID initiatives, 16 additional enterprises were identified and evaluated as promising franchise candidates

2. Developing the legal/regulatory framework

The Team undertook two sets of analyses and consultations to develop the framework for franchising, with most findings described in separate mauals entitled "Franchising in Kazakstan" and "Franchising in Kyrgyzstan"[2]**.** Using a Franchise Legal expert, detailed reviews of proposed franchise law were conducted for both Kazakstan and Kyrgyzstan (See Appendix C). Recommendations were formulated based on an examination of each article of the law and comparison to similar legislative frameworks set out in Europe and U.S. A further review of related laws such as trademark protection, leasing, anti-monopoly, contract law, and others was undertaken to both inform franchisees, assist legal professionals, and foster a sound enabling environment. A series of briefings and consultations regarding the findings and recommendations were then undertaken with Civil Code drafters and key legal professionals of each country. Clarifications and further information were provided as a follow on during implementation.

In order to prepare the pilot enterprises to franchise, a second set of analyses and consultations involved evaluating the broader regulatory framework for small businesses and how it is applied to franchises. This involved taxation compliance, leasing issues, protecting trademarks, sample franchise agreements, bank operations, and registration requirements. Requirements were investigated and documented in each country, and compliance strategies developed. These are also contained in the manuals mentioned above.

3. Building capacity and awareness

[2] A detailed Table of Contents from the "Franchising in Kazakstan" is attached as Appendix A to illustrate the wide range of topics covered by these analyses. The actual manuals are included in the full text in Appendix D.

Capacity, know-how, and awareness were created or strengthened at several levels using a variety of strategies in each country.

First, local professionals were utilized in every aspect of implementation to give them hands on experience, understanding franchise concepts and applying them to local businesses. This included their involvement in each stage of pilot selection, evaluation, analysis, documentation, and implementation. Local legal professionals worked on each aspect of the legal component as well. In addition, key legal professionals and firms in each country were trained in franchise law with a view that they will be the foundation of the legal services supporting further industry development.

At another level the key managers and staff of the pilot franchisors received extensive on-the-job training in the management and marketing systems introduced through the process of developing their business and franchise formats.

The Team also selected local education and training institutions as a means to enhance awareness and introduce the concept of franchising to the broader community of professionals. Seminars and workshops were conducted and materials shared with both graduate level business schools in Almaty, and several associations in Bishkek. To further enhance project impact, seminars and teaching materials were provided to a group of Almaty trainers who were well positioned to give subsequent presentations on their own.

The final strategy deployed was targeted at the general public's awareness of this new concept. Throughout the project, pamphlets, radio and television interviews, articles and other informational materials were produced relating to franchising and the project. They were disseminated to the general public and business associations using local media sources and focused on the potential benefits of franchising to consumers and small businesses.

# IV. Project Impact

Project impact was expected and specified in the number of enterprises assisted, the number of local professionals trained, and the status of reform of the legal framework. Actual Project impact however extended beyond these targets. In each element specified, the tangible results achieved exceeded the performance benchmarks set in the Task Order.

The Project had measurable impacts on each of the Mission's Intermediate Results as articulated in its programmatic strategy. These are: 1) improved operational environment for private sector growth, 2) human resources improved to function in a market economy, and, 3) increased availability and access to technological and financial resources.

## 1. Enterprises Assisted

Intermediate Results - Increased availability and access to technological and financial resources & human resources improved

Over a period of three years, this project will have created 50-60 new small enterprises, depending on how aggressive each pilot implements their development plan[3]. It is projected to create 450 to 500 new jobs, not including jobs created indirectly from suppliers and service providers to the new enterprises. Using a very conservative estimate of franchise growth, over five years the projected number of enterprises created increases to over 120. These will be predominantly independently owned, small businesses operating with western accounting, financial and management practices. This expansion will not depend on a wholesale improvement in the investment climate, although improvements will accelerate it. Neither will they depend on sophisticated technology or technical support, nor large scale bank financing, all of which are largely absent in Kazakstan and Kyrgyzstan. And each of the franchisors has already devised means of coping with the harsh tax and regulatory environment.

[3] Six pilot enterprises started franchise development. Each one will open an estimated 7-8 units each during the next 3 years. On average each unit will have 10 employees

The Task Order laid out **<u>three tiers</u>** of expected results at the enterprise level. The **first tier** involved selecting an enterprise and taking it completely through the development process from evaluation through to initiating the selection and training of a franchisee. The **second tier** involved selecting a number of enterprises and taking them from evaluation to adoption of franchising as an expansion strategy, to include a "road map" for them to use after the project. And the **last tier** required the identification and preliminary evaluation of additional enterprises for which franchising is an appropriate expansion strategy. Over the <u>five month</u> period of implementation, the results were as follows:

| | **Tier I** | | **Tier II** | | **Tier III** |
|---|---|---|---|---|---|
| **Target** | **1** enterprise | | **3-4** enterprises | | **5** enterprises |
| **Result** | **1** enterprises | | **5** enterprises | | **16** enterprises |

All five of the Tier II enterprises were provided fully developed franchise "packages", i.e. the set of manuals tailored to their concepts, and each was provided assistance in implementing them in corporate owned units. These were similar to the tool kits used elsewhere in post-privatization work. The Team therefore went beyond providing them a "road map", as specified by the task order. <u>These enterprises in fact all became franchise businesses</u>.

A particularly noteworthy achievement of the Team was the recruitment of the region's first franchisee (Talapaker Freight Brokering of Kyrgyzstan), and the signing of the first indigenous franchise agreement with them by the freight forwarding/brokerage pilot, Transsystem Company (Kazakstan). This was a remarkable achievement for a five month project in the Central Asia business environment.

**Enterprise operations** - Although no explicit target was articulated in the Task Order, the Project's impact on enterprise operations was significant and noteworthy. In the process of analyzing each component of the business and developing a franchise package, the operations and management of each business were markedly improved. In some cases this meant identifying and resolving a persistent operational problem, or installing western accounting practices. In most cases financial controls and monthly performance benchmarks were instituted where none existed before. Comprehensive marketing plans were developed as part of the package, and implementation begun in most cases. More importantly, all of these western management practices will be passed on in tool kit fashion to the estimated ninety new enterprises being formed as the roll out of the franchise development plan takes place. Each of these fledgling business operators will thus be equipped with the tools necessary for survival in a market economy.

**TRANSSYSTEM: KAZAK FRANCHISE PROFILE**

**Chosen through a bidding process as one of the six pilot projects, the company is wholly owned by Eduard Kaplan as a private freight brokering and freight forwarding enterprise. It was established in February 1990 and restructured in 1995 to position itself for further expansion. The company is debt free.**

**Transsystem's corporate headquarters is in Almaty and it plans to expand its operations throughout the CIS and into Eastern Europe through a network of independent franchises, operating under the Transsystem logo. The database management system developed by Sibley International under this USAID project will be the central mechanism by which the network is linked. The Company had no prior experience in franchising. With the signing of a formal franchise agreement with Talapaker in Osh, Kyrgyzstan in December, 1996, Transsystem became an International Franchisor and took its first step in reaching its long term expansion objective. Transsystem is eager and is now equipped to continue to develop its business through a successful and innovative franchise system.**

Over the short term, in the franchisors themselves, these changes will result in increased sales, reductions in inventory requirements, lower costs, more effective controls, and lower working capital needs. All these will impact on the quality and price of goods and services offered to customers as well, such freight brokering for manufacturers. It was impractical to measure the impact of these changes in the short operational period of the task order, but follow on efforts should reveal significant changes.

## 2. Professionals Trained

Intermediate Result: human resources improved to function in a market economy

Like the enterprise assistance, training took place at several levels. The Team adopted a hands-on methodology to conduct most training, focusing their efforts on the practical application of franchise concepts instead of the more academic approach of class-room style training.

Management Consultants - The task order specified at least six local consultants to be trained in franchising and thereby acquire specialized know-how in this form of business for Kyrgyzstan and Kazakstan. The Team succeeded in training sixteen (16) local professionals.

They achieved varying degrees of competence, but all became proficient in the basic concepts of franchising and small business development. Thirteen of them had prior training and consulting experience working on the Demonopolization Projects under the guidance of Carana. Most are capable of evaluating an enterprise, identifying its principal operating components and procedures, and applying upgraded franchise procedures to existing operations. With leadership and some supervision, many are now capable of developing a franchise package and advising management on its implementation.

**Profile on Kyrgyz Pilot Enterprise**

**Talapker, a freight and transportation enterprise was formed in 1993. Operating out of Osh in Kyrgyzstan, it is the only private firm of its kind in the Oblast. It engages in freight brokering, trade brokerage, training of drivers, and transport research. It is a closely held "small enterprise", directed by Erkinbek Bekbutaev, with 15 years experience in the industry.**

**Their target market is the oblast of Osh near the border with China. Their proposal to introduce freight brokering there will transform this informal and largely disorganized road transport market. They are the first franchisee in Kyrgyzstan.**

Legal professionals, some directly involved in civil code reform in each country, and others in commercial practice, were given in-depth briefings on the legal principals behind the recommendations made on franchise requirements. This involved the principles of intellectual property rights, trademark protection, lease law, and the proposed franchise law.

In addition, three external consulting firms in Kyrgyzstan received training and have been provided with general franchise materials[4]. These companies understand the basic concepts of franchising and are capable of conveying their benefits to local businesses. They also have a clear understanding of the desirable legal framework for franchising.

Enterprise Managers - The prime targets were the key management teams of the 6 pilot franchisors, as specified in the Task Order. They and their staff each received on-the-job training in the management and marketing systems introduced through the process of developing their business and franchise formats. All received extensive documentation on how to operate each aspect of the business concept, a kind of "tool kit" to operate by. All of the owners/managers were talented in their own right, having started and operated profitably a small business in the very difficult Kazak or Kyrgyz business environments. As noted earlier, the impact of this training will be felt at the enterprise level in improved profitability, more rapid expansion, and generally more astute management.

Trainers/Educators - While not a required result of the task order, the Team concluded that modest efforts to train this group would raise awareness in the business community and have a multiplier effect, as this group could give lectures and presentations on their own. Approximately one dozen staff at the International Business School and Kazak State Management Academy were introduced to franchising through a week-long series of lectures and seminars, and provided teaching materials to equip them to carry this out. As of January, 1997 at least one nationally promoted workshop was scheduled for the Spring of 1997, to be run by the trainers.

General Public/Constituency Building - It was impractical and uneconomic for the Team to attempt to measure the results of this multi-media effort. This requires expensive public opinion polls and attitudinal surveys. However, the radio interviews, television spots, and

[4] *Shade*, specializing in legal consulting, collaborating with Carana's pharmacy sector work.
*Ho and Company*, specializing in legal consulting with Carana's gas and oil sector work.
*Granat*, specializing in market research and business consulting with Carana's freight forwarding sector work

newspaper articles had audiences in the tens of thousands each time they were broadcast or published. Over 100 informational packets were distributed and it is estimated that they will be read by 5-7 times in the near term. Therefore, both the project partner in this effort, OSC, and the Team, were pleased with the widespread exposure given the general public to the benefits of franchising to the consumer and the economy at large.

### 3. Legal & Regulatory Framework

Intermediate Result: Improved operational environment for private sector growth.

There were two principal results of the analytical reviews of the laws and regulations in each country and series of presentations and briefings around the recommendations were principally. The first is a greatly enhanced likelihood that new proposed legislation will be revised to ensure it will not inhibit the development of franchising. While a new law specifically on franchising was not technically required, there are merits to “dignifying the concept”, i.e.to recognize it as a legimate way of conducting business in Kazakstan.

The second result is greatly enhanced availability of detailed, practical information on how businesses plan for and comply with the standing regulatory framework, including the withering set of taxes, licensing, financing and other requirements. The latter result is contained in two manuals prepared under this project, “Franchising in Kazakstan”, and “Franchising in Kyrgyzstan”, a kind of tool kit for the pilots.

As mentioned earlier, an ancillary outcome is a set of informed civil code drafters and reform advocates both inside and outside of the USAID legal reform project; and entrepreneurs, consultants, managers, and educators who were counseled on the regulatory framework and how to comply with it in running businesses.

## V. Problems, Lessons & Recommendations

USAID has said that it considers this project a success, and Sibley firmly believes this as well. All targets were met or exceeded, and the project was implemented without any delays or roadblocks. The following are a number of valuable lessons derived for other projects, USAID Almaty, and other contractors.

***1. Franchise businesses can succeed and expand despite a difficult business environment***

The team had little difficulty identifying successful small businesses poised to expand. This despite the harsh tax regime, difficult regulatory framework, limited business skills or western management practices, almost non-existent organized bank financing, and high interest rates. The project helped show how small businesses are the ideal way to spur private investment in this environment because they have found profitable market niches and developed ways to operate successfully despite investment impediments. More importantly, it showed that franchising is a highly effective way of growing the small business sector. Franchisors can pass their experience and skills on to others through franchising relationships, creating viable small scale investment opportunities for others, and growing independently owned networks very rapidly.

***2. Franchising had unanticipated results that exceeded expectations***

The Project's impact on a broad range Mission private sector strategic objectives was not fully recognized in programmatic terms in the planning stages. For example, the enterprise creation results, and dissemination and adoption of western management and accounting practices, were not incorporated into the task order, but remain some of the most impressive gains for the small investment of program resources. Both contributed directly to Mission strategic objectives.

***3. Project coordination efforts were highly effective***

The Mission strategy and the Team's efforts to carefully seek opportunities to leverage program resources using on-going project efforts was very effective, even when this required linking two different technical offices and projects, such as health care restructuring and economic reform in the Model Pharmacy initiative. In particular, the collaboration with the Demonopolization/Business Counseling initiatives accelerated project start up, sharpened pilot enterprise selection, and enhanced the Team's capability to develop the local professionals into a coherent team. While this coordination caused stress at times over competing demands for resources, it was an effective strategy.

***4. There is questionable utility in demonstrating a model is successful if resources are not available to exploit that success.***

While the franchising model proved very successful, its practical utility was limited to the relatively small universe of firms assisted during the short 5-month duration of the project. A much higher impact could have been derived from these initial program resources by investing more resources and time to roll out the successful model. It would have led to exponentially greater impact on several levels, including such objectives as the adoption of western accounting and management practices, which were not even anticipated in the task order.

Likewise, the value of training of consultants and other professionals, who will inevitably require further direction to fully exploit their training, was not maximized. They could have formed the core of an inexpensive roll-out team.

In addition, the short period of performance curtailed the Team's effectiveness on the legal and regulatory reform, limiting the project to only documenting and counseling about regulatory requirements, rather than actually reducing or eliminating them. Even this effort exceeded project requirements. Going further would have required a more intensive effort than resources permitted.

The combined effect of these limitations precluded USAID, and the host countries, from gaining all the potential benefits from this initiative, and artificially curtailed the economic return on these scarce grant resources.

### ***5. There is a high demand among entrepreneurs for this kind of practical assistance***.

In the short period the Team was on the ground, it was constantly bombarded with requests from businesses and others for information and assistance regarding franchising. There are many more successful small businesses that could expand through franchising, and the information dissemination and education was largely limited to the capitals of Almaty and Bishkek.