



# **Enhanced Small and Medium Sized Enterprise Development Program**

## **Quarterly Performance Report**

**October 1, 2005 to December 31, 2005**

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*Submitted by*  
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Counterpart International  
Center for Investment and Support (Prognoz)  
Sakhalin Association of Business People  
Counterpart Enterprise Fund  
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The Far Eastern Center for Economic Development  
The State Organization for Additional Education *Business School***

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## 1. Background

Winrock International, in partnership with Counterpart International, Center for Investment and Support (Prognoz), Sakhalin Association of Business People and Counterpart Enterprise Fund, is working to increase the number of successful small businesses and improve the environment for small businesses to emerge in the Russian Far East. Funded by the United States Agency for International Development, the Enhanced Small and Medium Sized Business Development Program (ESD) has four primary objectives:

- 1) Reduce the burden of regulations on SMEs by increasing SME association advocacy;
- 2) Increase the availability of credit for SMEs and entrepreneurs;
- 3) Provide and increase the availability of advanced business and sector-specific training skills; and
- 4) Build capacity of sector-specific associations by working through them to provide sector-specific consultancies.

In addition, the ESD Program is demand driven, ensures women and remote people benefit, and works to ensure collaboration between business support institutions and other businesses development projects with open and free information.

The project began August 1, 2003, and will continue until August 3, 2006. This report covers activities and results for the period from October 1 to December 31, 2005.

### Project Administration

October-December 2005 project staff traveled to Moscow and St. Petersburg to lead RFE companies to Hospitality and Tourism trade shows. Senior Project Manager Petrova participated at the 4th Russian Microcredit Conference "Microfinance Strategies for Economic Growth" in St. Petersburg in early December. Chief of Party Schetinina attended the opening of the New Eurasia Foundation in Vladivostok on December 15, 2005.

In December, Khabarovsk was faced with an environmental crisis when benzene from a plant explosion in China contaminated the Amur river with alarmingly high levels of cancer causing and toxic chemicals. There was concern that the city would shut down in December when the chemicals arrived, but the office was able to continue as planned. Staff with families worked from remote sites to reduce risk. While the problem seems to be currently under control, Winrock and Counterpart will monitor the situation. Most of the chemicals are trapped in the frozen river and there is uncertainty about the impact on the city when the river thaws.

## 2. Progress Indicators

### 2.1. Improving Regulatory Environment

During the last quarter of 2005, Counterpart and ESD local partners encouraged the associations to apply for advocacy grants to address the regulatory constraints they face. Six proposals were funded during this time. In addition, Counterpart facilitated the development of business association networks and coalitions to achieve common goals. Bringing the association leaders together periodically to share information, best practices, and lessons learned and to identify

potential areas for collaboration on advocacy issues is helping to build the working relationships that are making the associations and networks a strong force for change.

### ***Overcoming Administration Barriers through Advocacy Grants***

The Grant Committee considered **fifteen new grant applications** during the quarter and approved six. Five grant agreements have been signed. The following table lists currently active grants:

**Table 1 – Grants Awarded in Oct.-Dec. 2005**

<b>Grant title</b>	<b>Grant Objectives</b>	<b>Project period</b>
Poronaisk Municipal Central Library System (Sakhalin)	To decrease the load and stress on business activities caused by Poronaysk District fire, sanitary and other inspections and to improve the legal literacy of small businesses interacting with these units	October 1, 2005 - January 31, 2006
Aniva (2) Union of Businesspeople (Sakhalin)	To create favorable conditions for developing entrepreneurship in Aniva District, improve legal documents, request the that the 2006–2008 Entrepreneurship Support Program provide financial support for the business incubator, and decrease unscheduled inspections carried out by “Rospotrebnadzor”.	November 22, 2005 - February 28, 2006
Union of Entrepreneurs (Amur region)	To develop proposals for legal policies that decrease the adjustment factor for calculating the imputed earnings tax.	November 23, 2005 - March 10, 2006
Construction Association (Amur region)	To facilitate removal of the administrative barrier for SMEs engaged in the construction sector of the region. The barrier arose because state authorities used a legal document that failed to meet current requirements and conditions and to consider entrepreneurs’ concerns.	December 1, 2005 - February 28, 2006
Nevelsk (2) Entrepreneurs Union (Sakhalin)	To develop proposals to improve the existing “2005-2007 Nevelsk District Entrepreneurship Support Program” and to submit proposals on SME development priorities to the Duma.	December 9, 2005 - March 10, 2006
“Pulse” public organization (Amur region)	To decrease the number of tax inspections by raising the legal awareness of Amur Region SME representatives.	December 28, 2005 - April 15, 2006

**Poronaisk Central Library** received a grant to decrease the load and stress on business activities caused by unregulated fire, sanitation, and other inspections conducted by “controlling units”. The funds will be used to improve the legal literacy of small businesses through information seminars and similar activities. To make these activities more effective, the grantee partnered with the Poronaysk District Association of Business People to organize and conduct a two-day seminar on “Entrepreneurs’ Rights and Advocacy Opportunities”. Sixteen entrepreneurs have been trained in the legal basics of inspections and in how to behave during inspections. Inspection representatives invited to the event answered questions about their duties.

In December, the grantee published an information brochure on the legal policies that regulate controlling unit activities and the Rules of Conduct for unit inspectors. In addition, the grantee conducted surveys of participating entrepreneurs to determine their level of legal knowledge both before project started and after the training. Following analysis, the results of these surveys will be reported in the next quarterly report.

For grants that ended during this quarter, *post-grant monitoring* showed the following:

From June through August, *The Ulegorsk Entrepreneur's Union* worked with business associations, including three in other regions, to implement the advocacy grant project “Improving Tax Legislation”. Experts developed proposals designed to decrease the adjusting factor for the calculation of the imputed earnings tax and to amend the Sakhalin Oblast Law. The Union submitted proposals to the Sakhalin Regional Duma, which considered them in early September. Based on the deputies’ decision, they were then submitted to the Sakhalin Oblast Revenue Committee, which recommended that the municipalities adopt the proposals. In November Ulegorsk Duma accepted the recommendations and decreased the imputed earnings tax by more than half.

***Government decision makers engage SMEs in rule-making and implementation***

In April 2005, the ***Sakhalin Association of Business People*** (SABP) developed and conducted training on the *Interaction of Businesses and Local Government* for local government officials from 13 Sakhalin municipalities and regional administration centers. The three-day event, which included progressive legislators and business associations, highlighted ways they could work together effectively to solve common problems. In October, Yuzno-Sakhalinsk officials used the skills and knowledge gained in the training to bring together city and regional administrators for two public hearings and open discussions on *My Business, My Town and Me*. SME, NGO, local community and financial institution representatives were included in the discussions. The suggestions and proposals worked out by participants will be used to develop the Entrepreneurial Support Program for 2006-2008.

***Partner capacity and expertise strengthening***—With ESD staff assistance and advice, Prognoz and SABP regularly consulted potential grantees on the program’s goals and tasks, on writing grant applications, and on advocacy topics. They provided 67 consultations to business associations, NGOs, and other interested parties. In addition to helping grantees draft applications and design advocacy campaigns, SABP and Prognoz monitor the grant project activities and conduct follow-up activities.

***Developed networks to facilitate sharing of experience, data, and intelligence among ESD partners***—The partners shared grant applications and invited Tatiana Garshenina, SABP Director and a highly experienced regulatory issues specialist, to join the Grant Review Committee.

## **2.2 Improving Access to Credit**

Under the access to credit component, Counterpart assists the Counterpart Enterprise Fund (CEF) with strategic direction and mentoring. In addition, it facilitates CEF’s development and conduct of workshops for SMEs, banks, and non-bank financial institutions. These training activities provide the financial institutions with the tools and information they need to lend to SMEs profitably and they give SMEs valuable information on how to access financing.

**Loans**

During the quarter, SMEs received 559 loans worth \$3,245,340 from participating banks and non-bank financial institutions and signed nine leasing agreements worth \$272,700. This is a direct result of the training provided them by Counterpart and CEF project inception.

**Table 2 - Breakdown on Loans and Leases by Type of Financial Institution**

<b>Financial Institutions Reporting</b>	<b>Total Loans</b>	<b>Loans to Women</b>	<b>Amount of Loans</b>
SME Support Funds	11	4	\$78,807
Credit Cooperatives	239	170	\$946,119
Banks	310	177	\$2,220,414
Leasing Companies	9	1	\$272,700

**Training module development**

In November – December, a CEF consultant developed a training module entitled *Fundraising for Non-Bank Financial Institutions*. Lack of loan capital is a problem for these institutions and, thus, a barrier to SME lending. Completed in December, the training module includes:

- Sources of financing for Micro Finance Institutions (MFIs),
- Credit rating acquisition,
- Bank funds, and
- Successful examples of bank and MFI cooperation.

The training, which includes a PowerPoint presentation, is based on CEF's own experience. The consultant worked with CEF's manager on how best to use this training module and presentation. Next quarter CEF will conduct seminars and consultations for local credit cooperatives and provide local small business training firms with funds to pilot the training. The presentation will be made available through the ESD website.

In December 2004, the project contracted the development of the *Introduction to SME crediting for Banks: legal issues, financial analysis, collateral evaluation, SME appraisal, delinquency management and client relations* training course. Following its introduction to Sberbank senior bank managers in Khabarovsk, they recommended that the branch offices on Sakhalin and in Primorye and Yakutsk contract with ESD to conduct it for their staffs. The Magadan branch office has now requested the same training and ESD has facilitated contact with the consultant and the planning for a fee-based seminar.

**Rating Evaluation for the Counterpart Enterprise Fund**

In line with the 2005 workplan, ESD was to facilitate an objective assessment of CEF's creditworthiness as well as its strengths and weaknesses. The Counterpart manager worked with the CEF Director to contact four international rating agencies possessing work experience in Russia and to select an Italian firm, the Microfinanza Rating Agency. They signed a service agreement in December and CEF sent information data formats to Microfinanza for preliminary analysis. The study visit is scheduled for mid-February 2006.

### 2.3 Advanced Business and Sector-Specific Training

This quarter Winrock continued to work with its **six** major training partners and other regional training centers to expand availability of advanced and sector-specific training in Russia Far East. **24** training courses for **391** entrepreneurs were offered in all targeted regions in April-June 2005. See Table 3:

**Table 3 - Type of Trainings by Region and Number of participants**

Region	Trainings			Participants		
	Adv.Bus	SSpecific	Total	Adv.Bus	SSpecific	Total
Amur Oblast	5	2	7	63	34	97
Buryatia	4	2	6	57	31	88
Khabarovsk Krai	6	0	6	116	0	116
Primorye	9	0	9	170	0	170
Sakha (Yakutia)	8	0	8	133	0	133
<b>TOTAL</b>	<b>32</b>	<b>4</b>	<b>36</b>	<b>539</b>	<b>65</b>	<b>604</b>

#### 2.3.1 Advanced Business Skills Trainings Conducted

During January-March 2005, ESD supported its partners in providing **32** demand-driven advanced business skills training courses in the targeted regions for **539** entrepreneurs.

##### *Training modules*

During the total program period, **20** new training modules have been developed and placed on the ESD web site. Each module contains theoretical and practical material, case studies, samples of hand-outs for participants and recommendations to trainers on how to use the module.

**Thirteen** of these modules have been used by Partners' organizations for conducting trainings in October-December 2005.

##### *Use of local trainers*

ESD partners have significantly increased the use of RFE trainers, giving them the opportunity to get known in the region and upgrade their professional skills. Out of **36** trainings conducted in the RFE last quarter, **23** have been conducted by trainers from the region.

##### *Distant Learning*

ESD partners have been distributing distance learning courses on CDs, developed by the program. Two training courses have been published entitled *Merchandising*, and *Effective Sales Techniques* by Roman Simutkin. **Two hundred** entrepreneurs have been trained through this course in October-December 2005.

##### *Training Market Development*

December 7, 2005 ESD Partner Center Makon, based in Ulan Ude, organized five demo trainings during the “Days of Entrepreneurs” a municipality sponsored event. Demo training is an innovative promotion method that presents topics and techniques of a variety of trainings available at the training center. Demo training is an effective way to show to the potential clients how training is conducted how it can affect their businesses in a positive way. A demo training usually lasts 1-1.5 hours, free for the participants and requires minimal expenses.

**Two hundred fifteen** participants from businesses and local governments from Ulan-Ude and other remote areas of Buryatia attended these demo trainings. Three local trainers from Makon and one trainer from Moscow conducted these sessions. This greatly increased Makon’s visibility as a popular educational center in the business community and they were able to sign service agreements with 30 companies – including new clients and recruited participants for all ESD trainings up to April, 2006.

### **2.3.2 Sector-Specific Trainings Conducted**

ESD Partners continued to support key RFE industries that support SMEs, and in October-December 2005, the Program provided **four** sector-specific training sessions to **65** business people (See Table 3). ESD addressed needs of tourism, restaurant and food processing industries through sector associations.

Here are some examples of the ESD **sector trainings** impact on the business development in the regions:

**Buryatia** -- December 16-17, 2005 a trainer from Ulan-Ude Arzhena Bazarova conducted a sector seminar entitled “Marketing in Tourism.” She focused on inbound tourism and shared the latest research made in this field. Bazarova trained the participants on how to create marketing strategies. **Fifteen** participants learned the principles of effective marketing, methods of tourists’ attraction and marketing concepts assumed in other countries.

**Amur Oblast** -- November 2-3, training “Quality control in food industry” was conducted in Blagoveschensk by a Vladivostok trainer Elena Gafforova who developed this module last summer with the ESD support. The participants, mostly women – 13 out of 15, had a unique chance to learn about new methods for production and systematization of quality control in food processing industry. The participants paid close attention to the process of cost and monitoring procedures in their companies.

### **2.4 Sector-Specific Consultancies**

As part of the strategy for sustainability, the ESD Program is supporting our partners with technical assistance. ESD partner organizations would like to become successful consulting centers to ensure an income stream for the future, after ESD closes. During our ESD Partners’ Meeting in May 2005, five ESD partner organizations requested training on how to develop consulting services at their organizations.

In October 2005, ESD staff conducted a training on how to manage and promote business consulting services. ESD invited the Director of Marketing Center “Megatavr”, Mr. Evgeny Nigei and the Director of the Training Center “Socrat”, Mrs. Diana Zaborovskaya to conduct this

training. Both trainers successfully consult for local business. They spoke on how to organize consulting activity, revealed frequent problems and advised on how to deal with them. During the previous reported period Makon, Prognoz, FECED, Business School and SABP had identified possible consulting opportunities to be later fulfilled by their staff. During the training, they had a chance to discuss these projects with trainers and colleagues to find the best possible solutions to companies' problems.

As an immediate result of the training, two ESD partners implemented new skills and knowledge and conducted business consulting sessions for local clients. Regina Sviridova from Makon (Ulan-Ude) consulted a souvenirs production enterprise "Beleg Co." on how to improve work with personnel and how to make successful company presentations. In addition, Managers of Prognoz, Andrei Konushok and Elena Kharchenkova consulted a tourist center "Mukhinka" on marketing improvement; and hotels "Amur" and "Zeya" on development of income increase strategy. Elena Kharchenkova also consulted two local stores "Bukvitsa" and "Wool Street" on merchandising.

ESD is confident that providing consulting services in addition to training will help its partners reach self-sustainability.

#### **2.4.1 Trade Shows**

##### ***"INWETEX-CIS Travel Market 2005"***

October 12-14, 2005 three tour companies each from Vladivostok, Ulan-Ude and Khabarovsk participated in "INWETEX-CIS Travel Market 2005" in St.-Petersburg due to ESD support. These companies attend the ESD partner organizations trainings on a regular basis. The Travel Show hosted more than 400 tour companies from 33 countries and 9,600 visitors.

As a result of participation "DalInvestTour," "Mirabel-Tour" and "Sibir-Tour" signed **twelve** agent agreements and a number of letters of intention with Russian and Australian tour operators for tours for Finn, Korean, German, Austrian tourists. New tour programs have been created for Australian tourists with Russian ancestry (whose families emigrated from Russia in the beginning of last century), and for tours created for foreign tourists traveling to China, Mongolia and Korea. Thus the companies are very enthusiastic in upcoming tourist season.

"DalInvestTours" expects the increase of tourist flow by 25 per cent, "Mirabel-Tour" – by 30 per cent and "Sibir-Tour" – by 15 per cent.

##### ***"Hotel and Restaurant Business 2005" and "PIR 2005"***

In October 25-28, two directors from hotels in Khabarovsk and a restaurant owner from Ulan-Ude visited two trade shows in Moscow – "Hotel and Restaurant Business 2005" and "PIR 2005". Over 27,000 specialists have visited these exhibitions during four days of its work. These trade shows covered all aspects of the restaurant and hotel business and represented in the following sectors: equipment and technologies for restaurant business, food products, and equipment and services for hotels.

Russia Far East participants took advantage to met with the leading Russian and international companies in the industry, and concluded **thirteen** contracts for restaurant and hotel equipment,

security devices and cleansing for the total sum of **\$26,568**. In addition, they purchased training materials for hotels for the sum of 5,389 rubles.

Upon return to Buryatia, Irina Manturova together with the Guild of Restaurant Owners organized the first professional trade show of Ulan-Ude caterers to restaurant industry. **Thirty** companies displayed furniture, equipment, dishware, sales registers, etc. This trade show promoted local companies and facilitated development of better quality services in Ulan-Ude restaurants.

## 2.5 ESD Program Impact

ESD partners report the program's success through monitoring the impact that the program activities make on the business environment of their regions.

### 2.5.1 Impact from Business and Sector Trainings

ESD partner FECED has developed a questionnaire to measure the program impact on the companies that have been trained under ESD. The questionnaire assess whether the general impact from trainings is positive and useful, whether the enterprise's client base and sales have increased as a result of acquiring new skills and knowledge at ESD trainings. The results of the questioning are presented in the following table:

**Table 4 -- Results of the Impact Questionnaire**

<b>Regions</b>	<b>Number of Respondents</b>	<b>Positive General Impact on Companies, %</b>	<b>Increase of Clients Base, %</b>	<b>Increase of Sales, %</b>
Khabarovsk Region	32	100	100	100
Primorsky Region	60	80	55	63
Sakha (Yakutia)	28	100	87	91
Buryatia	37	86	70	73
Amur Oblast	60	88	72	70

In addition, companies commented that short-term business education had the following effect on their operations:

- New approach to business has been developed;
- Quality control has been improved;
- New businesses have been opened and new jobs created;
- Companies started to allocate separate budget for training of employees.

## 2.6 Outreach and Communication

ESD COP, staff and partners have been in constant communication with other international projects, such as Russian American Education Center in Khabarovsk, BISNIS, ISC, New Eurasia Foundation, Russian Microfinance Center, and CIPE. We share information, resources, exchange ideas and ensure collaboration with these and other organizations.

The ESD partner organizations have become very visible in their regions, and their staff is considered as experts in SME issues. December 8, Andrey Konushok, president of Center Prognoz, participated at the roundtable “Problems in Access to Credit for SMEs” organized by the Amur oblast administration and Central Bank of RF. Mr. Konushok made a report at this event, and suggested creation of an inter-bank school for entrepreneurs. The administration supported this idea and allocated budget for Prognoz to conduct at least three business courses for sixty entrepreneurs in Amur oblast in 2006.

Alexander Abramov, director of the Far Eastern Center for Economic Development, gave an interview to the newspaper *Vladivostok* (circulation – 35,000) about prospects for Primorye businesses in view of Russia entering WTO. This publication raised a serious discussion about advantages and disadvantages of this process to local SMEs, and forecast changes that it would lead to. The full text of the interview can be found on the website:  
[http://www.vladnews.ru/magazin.php?id=8&idnews=38655&current\\_magazin=1833](http://www.vladnews.ru/magazin.php?id=8&idnews=38655&current_magazin=1833) .

The ESD Program **website** continues to be updated. We publish training schedules, calendars of events, training materials and other resources on the web to ensure information exchange and collaboration between the project’s partners. It provides information about the program's activities, findings and results to date.

### **1. Problems/Difficulties Anticipated in the Next Three Months**

N/A