



USAID
FROM THE AMERICAN PEOPLE

BIZPRO FINAL REPORT

DECEMBER 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI Washington.

BIZPRO FINAL REPORT

USAID Contract Number: 121-C-00-00-00831-00

Core Contract: September 27, 2000–December 31, 2006

Moldova Buy-In: June 25, 2001–September 30, 2006

Regulatory Reform Program Buy-In: April 9, 2002–March 31, 2003

Ukraine One-Stop Shop Buy-In: September 30, 2003–December 31, 2006

Belarus Buy-In: March 31, 2005–December 31, 2006

USAID Cognizant Technical Officers:

Ivan Shvets September 2000–November 2003

Andrei Mitskan December 2003–January 2004

Rick Gurley February 2004–March 2005

Kevin Sharp March 2005–December 2006

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONTENTS

ABBREVIATIONS	V
CHAPTER ONE: INTRODUCTION	1
PROJECT IDENTIFICATION	1
PROJECT CONTEXT	1
PROJECT DEMOBILIZATION	2
CHAPTER TWO: BIZPRO UKRAINE	5
OVERVIEW	5
Project Objectives and Approach	5
Project Management	6
PROJECT ACTIVITIES	7
Phase I: October 2000–February 2003	7
Phase II: February 2003–December 2006	10
RESULTS AND IMPACT	20
BIZPRO Ukraine Results (2000–2003)	20
BIZPRO Ukraine Results (2004–2006)	21
Impact	25
CHAPTER THREE: BIZPRO MOLDOVA	27
OVERVIEW	27
Project Objectives and Approach	27
Project Management	27
PROJECT ACTIVITIES	30
Phase I: Project Activities	30
Phase II: Project Activities	34
RESULTS AND IMPACT	43
Results	43
Impact	44
CHAPTER FOUR: BIZPRO BELARUS	45
OVERVIEW	45
Project Objectives and Approach	45
Project Management	48

PROJECT ACTIVITIES	48
Economic Education and Policy Dialogue.....	48
Accounting Education and Training.....	51
INSTITUTIONAL CAPACITY BUILDING.....	52
RESULTS.....	53
Impact	55
CHAPTER FIVE: FINANCIAL SUMMARY	57
ANNEX I: SUCCESS STORIES	I-1
ANNEX II: PUBLICATIONS SUBMITTED TO USAID/CDIE	II-2

TABLES AND FIGURES

TABLE

1	BIZPRO UKRAINE Sector Indicators.....	23
2	BIZPRO Belarus Results	53
3	Total Expected BIZPRO Contract Value	57

FIGURE

1	How BIZPRO Works with SMEs	11
2	Total Average Cost of Registration Procedure.....	21
3	Total Average Duration of Registration Procedure	21
4	Total Average Number of Visits of Registration Bodies by Business	21
5	Share of Businesses Who Bribed Officials When Registering Their Business Percent.....	21
6	USAID/Ukraine’s SO Framework.....	23

ABBREVIATIONS

ADS	Automated Directives System
AET	Accounting Education and Training
AO	Administering Organization
BEEP	Belarus Economic Education Project
BIZPRO	Support to Micro, Small and Medium Enterprise Development
BPAAA	Belarusian Public Association of Accountants and Auditors
BSP	business service provider
CAP	Certified Accounting Professional
CIPA	Certified International Professional Accountant
CIS	Commonwealth of Independent States
DCA	Development Credit Authority
ECCAA	Eurasian Council for Certified Accountants and Auditors
EEPD	Economic Education and Policy Development
EU	European Union
FA	financial accounting
FI	financial institution
FMCG	fast-moving consumer goods
FSU	Former Soviet Union
FSWG	Financial Services Working Group
ICB	institutional capacity building
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFR	international financial reporting standard
IPM	Institute for Privatization and Management
IR	intermediate result
ISO	International Organization for Standardization
IT	information technology

LPG	Loan Portfolio Guarantee Program
MA	managerial accounting
MEPO	Moldova Export Promotion Organization
MSME	micro, small, and medium-sized enterprises
NGO	nongovernmental organization
NWG	National Working Group
OECD	Organisation for Economic Co-operation and Development
OSS	one-stop shop
QD	Quick Deregulation
RIA	regulatory impact assessment
RRM	Regulatory Reform for Moldova
RWG	regional working group
SCA	savings and credit associations
SCRPE	State Committee on Regulatory Policy and Entrepreneurship (Ukraine)
SME	small and medium-sized enterprise
SO	strategic objective
STTA	short-term technical advisor/assistance
T&L	tax and law
UBAN	Ukrainian Business Association Network
USAID	United States Agency for International Development
VAT	value-added tax
WG	working group
WTO	World Trade Organization

CHAPTER ONE: INTRODUCTION

PROJECT IDENTIFICATION

The Support to Micro, Small and Medium Enterprise Development (BIZPRO) project was implemented by DAI in three countries: Ukraine, Moldova, and Belarus. BIZPRO's goal in Ukraine was to help enterprises compete in foreign and domestic markets by working at the enterprise, sector, and policy/legal level. BIZPRO contributed to the economic development of Moldova by providing assistance that improved the ability of small and medium-sized enterprises (SMEs) to operate and compete in local and external markets. BIZPRO worked with a broad array of local and international partners to provide assistance at the enterprise, sector, and national (policy/legal) level. In Belarus, BIZPRO implemented the Certified Accounting Professional (CAP)/Certified International Professional Accountant (CIPA) programs and engaged a local think tank to provide economic analysis designed to generate and inform public-private dialogue.

The Chief of Party and Cognizant Technical Officer for BIZPRO were located in Kyiv, Ukraine. BIZPRO's Moldova Country Director was located in Chisinau and had overall responsibility for the day-to-day management of the Moldova buy-in. This buy-in closed on September 30, 2006. The Belarus Country Director was located in Minsk and had responsibility for the Belarus buy-in, or Belarus Economic Education Project (BEEP) as it is commonly known. The Regulatory Reform Program buy-in for Ukraine closed in April 2003 and the one-stop shop (OSS) buy-in for Ukraine was merged with the core contract and closed along with the core contract and Belarus buy-in on December 31, 2006.

PROJECT CONTEXT

In 1999, as the project was being designed, the economy and society of Ukraine, Moldova, and Belarus were undergoing an agonizing transformation. Shortly after the implosion of the USSR in December 1991, the Ukrainian government liberalized most prices and erected a legal framework for privatization. Widespread resistance within the government and the legislature soon stalled reform efforts and led to some backtracking. Output from 1992 to 1998 fell to less than half the 1991 level. Loose monetary policies pushed inflation to hyperinflationary levels in late 1993. In 1998, the onset of the financial crisis in Russia led to a sharp fall in export revenue and reduced domestic demand, which dashed Ukraine's hopes for its first year of economic growth. Ukraine lagged well behind most other Eastern and Central European economies and suffered continuous, aggregate economic decline over a 10-year period.

Nonetheless, there were signs that some of the ingredients required for building the new economy may have been falling into place. There was a growing base of small and medium-sized private firms struggling against the confines of a restrictive legal framework and unaccommodating bureaucracy. High costs induced by the legal and regulatory environment caused these businesses to shift partially or fully into the informal economy as a means of survival and as the only way to obtain capital. The

U.S. Agency for International Development (USAID) believed that SMEs could make their potential contribution to the growth and transformation of the western new independent states region only if a supportive policy and regulatory environment was combined with a permanent increase in the ability of entrepreneurs to acquire the ingredients necessary for business success: practical business skills, applied technical solutions, and capital.

BIZPRO came at a critical juncture. Though the election of a new government in 1999 was an encouraging sign, the country's regulatory framework was still highly restrictive, and the macroeconomic future remained unclear. BIZPRO was intended to capitalize upon this opportunity for growth, producing results that supported and built the foundation for long-term sustainable SME development. USAID designed BIZPRO with three features in mind:

- First, it was essential that the contractor and USAID had the flexibility and capacity to respond to priorities as they arose. In practical terms, this meant the contract had a 'buy-in' feature that would allow various offices of the Mission—and even of the U.S. Government to put funds into BIZPRO for a specific scope of work. Over the life of the contract, BIZPRO had four buy-ins—two in Ukraine to add to the original scope of work of the core contract, and one each in Moldova and Belarus.
- Second, it was important that BIZPRO practice “market neutrality.” During the late 1990s, a common theme of many business development programs was to design activities that were market neutral (as opposed to market distorting) by reinforcing the development of open and competitive markets. This trend strongly influenced the design of the first phase of BIZPRO, and led to considerable emphasis on how and where to build the market for association and consulting services.
- And last, the Mission incorporated sustainability into the project design, institutionalizing the capacity and processes for continued locally driven improvements in business services. The project reflected that orientation in the volume of work orders, local subcontracts, and purchase agreements with local firms during implementation.

PROJECT DEMOBILIZATION

The BIZPRO Chief of Party, together with the Country Directors for BIZPRO Moldova and BIZPRO Belarus, developed the Demobilization Plan in close consultation with the DAI Project Quality Manager based in Bethesda, Maryland. This plan was developed in accordance with USAID regulations, DAI policies and procedures, and the requirements of the BIZPRO contract. With USAID concurrence, DAI implemented the tasks outlined and provided updates on additional tasks and completion progress as requested.

The BIZPRO Chief of Party lead the Demobilization Plan activities, with Country Directors and BIZPRO staff in each respective country contributing to all activities as required. The DAI Project Quality Manager and the Project Associate provided assistance from the DAI home office and traveled to Moldova in September 2006 and Ukraine in December 2006 to complete the final phases of closedown activities.

The Demobilization Plan approved by USAID identified the key actions required to bring BIZPRO Moldova to completion on September 30, 2006, and Ukraine and Belarus on December 31, 2006. For both technical and administrative activities, it identified specific tasks, deadlines for their completion,

and the personnel responsible for each task. In accordance with the BIZPRO contract, DAI complied with requirements for submitting all project publications to the Development Experience Clearinghouse, final invoicing and payments, and submission of this final report to USAID within 30 days of contract completion.

CHAPTER TWO: BIZPRO UKRAINE

OVERVIEW

PROJECT OBJECTIVES AND APPROACH

BIZPRO operations in Ukraine included the implementation of the core contract for Ukraine (2000–2006) with a total value of \$23,182,296; the Regulatory Reform Program buy-in for Ukraine (2002–2003) with a total value of \$1,099,269; and the OSS buy-in for Ukraine (2003–2006) with a total value of \$3,691,027.

USAID Objectives

At the outset of BIZPRO, Ukraine country activities contributed to the following results framework:

- Strategic Objective (SO) 1.3: Accelerated Development and Growth of Private Enterprises
 - SO 1.3c: Expanded Role of SMEs in National Economy
- Intermediate Result (IR) 1.3c.1: Improved access to market-driven business skills and information
 - IR 1.3c.1.1 Improved outreach and capability of business service centers and incubators
 - IR 1.3c.1.2: Increased capability of business consultants
- IR 1.3c.2: Legal, regulatory, political environment more conducive to business development
 - IR 1.3c.2.1: Business associations' advocacy capacity strengthened
 - IR 1.3c.2.3: Government reduces ad-hoc inspections on SMEs
- IR 1.3c.3: Improved access to finance
 - IR 1.3c.3.1: More microfinance options available
 - IR 1.3c.3.2: Institutional capacity of microlenders strengthened

In the new 2003 USAID/Kyiv results framework, BIZPRO contributed to SO 121-0132, Accelerated Growth of SMEs and Agriculture, and specifically to the following program elements:

- Promoting legal and regulatory reform, working in tandem with associations and advocacy coalitions, to improve the competitiveness of SMEs and agriculture;
- Improving business skills of Ukrainian entrepreneurs; and
- Strengthening the legal and regulatory environment to support and sustain competitive markets, trade and investment.

Project Objectives, Deliverables, and Goals

As defined by USAID/Kiev, the purpose of BIZPRO was to assist Belarus, Moldova, and Ukraine achieve growth through micro, small, and medium-sized enterprise (MSME) development initiatives.

Project Approach

BIZPRO in Phase I included three components:

Task 1: Business Skills Development. BIZPRO worked aggressively on several fronts to build business skills. For the segment of the business services market that can be fully commercialized, BIZPRO built demand through a diminishing subsidy voucher program. BIZPRO built the capacity of Ukrainian service providers through direct technical assistance and market-neutral work orders. For those segments of the business services market that required continued partial subsidies, BIZPRO worked at the local and regional levels to implement efficient public-private partnerships for supporting businesses, including incubators. As these interventions fostered a responsive and effective business services market, BIZPRO supported the institutionalization of these services through the application of industry performance standards and international business practices.

Task 2: SME Policy Environment. Within the SME policy environment, BIZPRO intensified previous efforts to achieve concrete reforms in tax administration, deregulation, and microcredit. Success was not measured by changes in policies and regulations exclusively, but by a belief that the policy process itself must mature, and taxation and regulation functions must be strengthened radically in implementation. Better information and analysis, an empowered political voice, and defined channels for the representation of SMEs in policy debates were essential. BIZPRO broadened its work with business associations and built links between the business community and governments at all levels.

Task 3: Financial Services to SMEs (Year 1 only). BIZPRO increased access to finance for SMEs through nongovernmental microfinance organizations. Our approach began with a concerted effort to change the legislative framework to enable lending by nonregulated financial institutions (FIs). Simultaneously, we undertook a number of activities—workshops, seminars, study tours, and web-based information dissemination—to introduce and expand knowledge of microfinance best practices among prospective implementing organizations. As in Task 1, technical assistance and training was provided with the clear goal of building local business service provider (BSP) capacity to support the microfinance industry, including accounting and audit, strategic planning, financial modeling, information technology (IT), and microfinance best practices.

PROJECT MANAGEMENT

Project Team

Throughout the history of BIZPRO operations in Ukraine the project has employed more than 40 local professional and support staff. Key personnel on the project included the following:

- Joe Welsh, Chief of Party October 2000–December 2002
- Paige Snider, SME Policy Advisor, October 2000–October 2002
- Mark Rostal, Microfinance Advisor, October 2000–January 2002

- Daniel McGrory, Legal and Regulatory Expert, January 2004–March 2004
- Andrey Astrakhan, Legal and Regulatory Expert, October 2004– December 2006
- Patrick Rader, Chief of Party, February 2003–December 2006

Subcontractors

Firms with official subcontracts (included in DAI’s contract with USAID) included the following:

- Winrock International: Provided technical assistance related to gender issues as needed, including providing training activities, executing gender impact analyses, and tapping the network of women entrepreneurs and gender-sensitive officials for advocacy activities.
- GAMA S.A.: Provided expert assistance in the establishment and management of voucher program.
- Firma 2000, LLC: Provided training and direct technical assistance in support of BSPs, gender and surveys, and management of the business incubator activity.
- Unilob, LLC: Provided specialized technical assistance in support of policy advocacy and targeted training for service providers through the Polish Advisory Network.
- Seed Capital Development Fund, Ltd.: Provided direct technical assistance in support of the creation of a capital fund for the Ukrainian microfinance industry.
- International Development Professionals, Inc.: Provided design and technical assistance in support of BIZPRO website activities.
- Jacobs and Associates: Provided a long-term regulatory reform advisor to support project activities to improve the enabling environment in Ukraine.

PROJECT ACTIVITIES

BIZPRO’s goal was to help SMEs grow by increasing their access to financial and nonfinancial services, increasing their ability to use service providers to expand their markets, and working with the public and private sector to improve the business environment. The implementation of BIZPRO in Ukraine was characterized by two distinct phases. The core activities and approach of each phase are described below.

PHASE I: OCTOBER 2000–FEBRUARY 2003

During Phase I of BIZPRO in Ukraine, the project concentrated primarily on local regulatory reform and had significant and measurable success in a number of locales. The focus on the private sector was mainly on business development services and association strengthening with an eye toward using the private sector, via associations, to drive the regulatory reform process. The project helped entrepreneurs to start new companies and helped existing companies, particularly SMEs, to find new markets, become more profitable, grow, employ more people, and make investments that led to continued expansion and economic growth. BIZPRO supported a broad range of services aimed at supporting SMEs in Ukraine, such as:

- Working to improve SME management practices by providing them with increased access to business training and business information that they need in order to develop and grow;
- Providing training and assistance to business service organizations, helping them to improve the quality and range of the services available to enterprises and increasing their capacity to meet tomorrow's needs;
- Assisting business associations through training and other technical assistance to enable them to better meet the needs of their members, especially their capacity to represent members' interests before government;
- Assisting in development and adoption of reform measures aimed at reducing regulatory burdens at the municipal and regional level and;
- Improving the ability of SMEs to access finance and credit.

Task 1: Business Skills Development

BIZPRO operations emphasized the importance business skills development through a set of core services and activities. These included:

- **Entrepreneur Hotlines.** BIZPRO established hotlines in each oblast of Ukraine during Phase I. Hotline operators fielded questions related mostly to the legal and regulatory environment, accounting, and referrals for BSPs. While implemented under Task 1, and designed to increase membership in the associations that operate them, hotlines functioned as a crosscutting product. To encourage becoming sustainable without donor subsidies, BIZPRO provided decreasing amounts of financial support through mid-FY 2005 and then supported hotlines in their development of mechanisms to continue their services without the support of BIZPRO. The associations administering hotlines pursued various methods, including being subsumed as a local government service as a OSS for business registration (or other government-supported information dissemination services), being supported by a local business association primarily as a member-based service, and becoming a fee-based service offered to the entire community.
- **Business Information Partners.** This effort, revived in FY 2004 at the request of USAID, also operated in every oblast, focusing on small municipalities, BSPs from oblast capitals conducted seminars in smaller municipalities, concentrating on general information of interest to entrepreneurs and start-ups. The BSPs were selected through open competition and then subsidized by BIZPRO.
- **Ukrainian Business Assistance Network (UBAN).** BIZPRO formed UBAN from the business associations and BSPs operating in Ukraine. UBAN grew during Phase I of BIZPRO to include 600 members and was used to disseminate key business and legal information to the business community. More importantly, UBAN was a tool for networking and exchanging information among organizations throughout the country.

Moving into Phase II, BIZPRO reinvigorated Task 1 so that it would be better positioned to create real results for local SMEs and so that it would be mutually reinforce Task 2.

Task 2: Legal and Regulatory Reform

The regional regulatory reform approach during Phase I was largely supply driven and highly structured. The methodology used a consistent approach from region to region and ensured sustainability through classroom and practical application of lessons. BIZPRO's regional regulatory reform effort in Ukraine was initiated in May 2002.

At the heart of the project, eight 22-member working groups (WGs) included representatives of the private sector, officials from the oblast government, officials from municipal government, and local representatives of national agencies. The WGs operated in eight oblasts; meetings took place every Saturday in the oblast centers. Four locally hired consultants—trained and funded by BIZPRO through a local organization in each oblast that served as an Administering Organization (AO)—supported each WG with training and consultations.

The AOs sponsored roundtable meetings and public hearings for which it was reimbursed by BIZPRO. BIZPRO separately trained and engaged a local social research firm (monitoring organization) in each oblast to conduct baseline and follow-up surveys for regulations drafted by the WGs. The monitoring organizations had direct agreements with BIZPRO and were not funded through the AO. Through the AOs, BIZPRO paid each member of the WG \$230/month to meet for six hours each Saturday to conduct research, prepare regulations, and discuss each regulation as is allowable under Automated Directives System (ADS) 202.5.15b.4. BIZPRO ended the long-term agreements with the AOs on November 30, 2003, and ceased to pay WG members. The discontinuation of payments had two effects: high-level officials devoted fewer hours to the WGs, and BIZPRO lost some measure of control it enjoyed over the process. Under the AO agreements that were in place until November 30, 2003, WG members were required to submit their monthly plans and outputs to the AO for BIZPRO review. BIZPRO reserved the right to reject regulations for BIZPRO support and provided the WG members, through the consultants, with technical assistance for each regulation not rejected for BIZPRO support.

While methodologically sound in that it used standard regulatory impact analysis techniques as used by Organisation for Economic Co-operation and Development (OECD) countries, the approach missed some opportunities:

- There were opportunities to multiply the successes in regulations nationwide simply by distributing best practices in regulations nationwide that any municipality could modify according to local conditions and adopt.
- The structure of the project did not allow for customization to fit the needs and wishes of particular communities.
- While the municipalities in which WGs operated were chosen through a competitive process, the project was not adequately demand-driven as the municipalities were forced to implement the project as designed by BIZPRO with little or no variation. In addition, the project was somewhat focused geographically in the west of the country.
- There was not a structured methodology for identifying problems, analyzing their causes, and prioritizing projects to solve them.

- BIZPRO and its predecessor, NewBizNet, built the capacity of business associations to understand the “nuts and bolts” of advocating to government (the how); as BIZPRO continued to work with them they had to begin to focus on the substance (the what.)

There were many strengths of the methodology that BIZPRO aimed to keep in place moving forward:

- A strong approach toward sustainable development that supplements training with hands-on consulting, ensuring skills transfer.
- Active participation from the community-at-large through roundtables and public hearings.
- A cadre of 48 thoroughly trained independent consultants could expand regulatory reform and continue to assist communities after the completion of the BIZPRO project.

BIZPRO initially focused on regulatory reform at the local level, with some notable exceptions. The majority of BIZPRO’s resources were devoted to training local decision makers on the processes of sound regulatory reform, but the project had success in Ukraine in building relationships at the national level, particularly with the Ministry of Economy, the Verkhovna Rada, and the Cabinet of Ministers. The new Regulatory Policy Law that came into effect in January 2004, was developed with BIZPRO assistance and can be considered an OECD best practice for regulatory reform.

While the BIZPRO focus on the regional and local levels in regulatory reform was helpful in solving problems that were caused by local and regional regulations, it originally did not help to solve national issues that could not be addressed locally. Specifically, several points were taken from an analysis of the original approach and served to guide project redesign for Phase II:

- There were no mechanisms to raise issues requiring legislative changes at the national level discovered by regional working groups (RWGs).
- Assistance to business associations’ activities took place only at the regional and local levels; this prevented their consolidation and successful lobbying on the national level.
- There were no periodic surveys to monitor the SME sector as a national whole and collect hard data, thereby missing the opportunity to link weaknesses in the legal environment with the slow development of SME sector. This could be seen in that knowledge about the importance of SME sector to the country’s economy was limited among policy makers. National decision makers were unable to undertake informed measures with long lasting positive impact to SMEs.
- BIZPRO could better facilitate cooperation between the government and representatives of business community. The distrust of decision makers among SMEs was a likely cause of the size of the shadow economy. The shadow economy harms national revenue collection and prevents businesses from expanding.

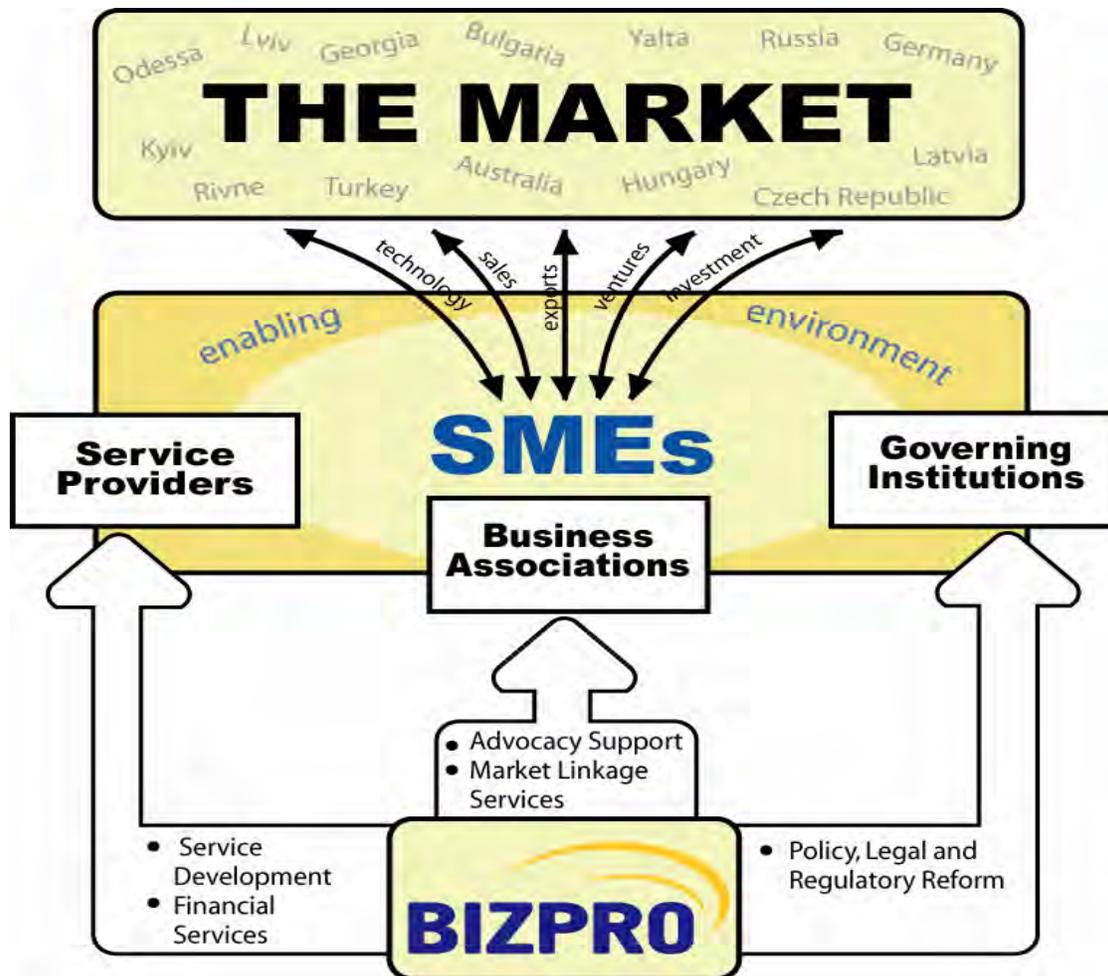
PHASE II: FEBRUARY 2003–DECEMBER 2006

To build on BIZPRO’s tradition of technical leadership in the area of SME development and to remain relevant to the changes that were occurring in the Ukrainian economy, for Phase II, BIZPRO phased out some activities (such as Business Information Partners) and modified others in response to ever changing market conditions and opportunities. In municipalities where government institutions were viewed to be more amenable to working with BIZPRO for legal and regulatory reform, BIZPRO increased its regulatory reform activities and target Task 1 interventions to a private sector that could

benefit from a municipal government that endeavored to create a growth-oriented business environment. Likewise, in these municipalities BIZPRO placed more emphasis on strengthening business associations so that they could become a more effective contributor to the regulatory reform process. To achieve greater impact, BIZPRO sought to leverage market opportunities and take advantage of political will to create a better environment for the growth of private enterprise.

Figure 1 represents the dynamics at play as businesses endeavor to reach markets and increase sales. BIZPRO’s ultimate clients were the SMEs that would benefit from a more efficient market environment. Several actors have a direct impact on the success of SMEs: service providers, associations, and administrative bodies. The level of efficiency and harmonization with target markets within this system influences SMEs’ ability to increase sales, employment, and income.

FIGURE 1: HOW BIZPRO WORKS WITH SMES



While BIZPRO had always helped to address common problems faced by SMEs, the project moved to help SMEs address industry or sector specific opportunities and challenges driven by external market standards, requirements for each industry, and other factors shown in Figure 1, which vary by region. Assisting SMEs operating within a particular industry subsector to meet market requirements

for the products or services they wish to sell was a crucial challenge for BIZPRO. BIZPRO worked through supporting entities but also directly with SMEs through its subsector methodology.

The methodology adopted by BIZPRO in Phase II addressed the local and global market issues relevant for all SMEs within each industry. Some of the key issues we discovered SMEs were facing included:

- Supporting the enabling environment of policies, laws, and regulations;
- The balance between competitiveness and cooperation within the industry and its subsectors, including SMEs, large enterprises, service providers, testing laboratories, and related institutions;
- Supply chain dynamics and the integration of SMEs into production value chains as suppliers to large companies that process, export, and purchase SME inputs; and
- Competitive requirements including industry specific skills and appropriate technology and innovations that assist SMEs to add jobs, improve production, innovate, and find new markets.

Task 1: Business Skills Development (Market Development Support)

BIZPRO moved to define Task 1, Business Skills Development, more broadly, focusing on helping Ukrainian SMEs access new markets. BIZPRO's goal was to assist the private sector to take advantage of the improved local business regulatory environment and the opportunities for business in local, cross-regional, and foreign markets.

Enterprise growth and economic growth occur when the private sector responds to an improved business environment. BIZPRO's working theory—based on survey information and expert opinion—as to why the Ukrainian environment had not responded more robustly, was that SMEs were insufficiently equipped to exploit fully new market opportunities, and existing business services were not equipped to deal with this problem. BIZPRO developed a strategic approach that helped position SMEs in industry subsectors to access new markets.

BIZPRO's market development approach focused on integrating existing and newly created SMEs into value chains, and helping SMEs access new markets. The essence of the new approach was industry subsector development. BIZPRO conducted a macro-analysis of Ukraine's economy to help select industries for project assistance. By focusing on discrete industry sectors, BIZPRO could identify enterprises of all sizes that were related through buyer-supplier relationships, common technologies, distribution channels, or labor pools. To increase economic growth, assisting SMEs operating within a particular subsector to meet market requirements for the products or services they wished to sell and to help create enterprises or launch new products that could fill a demand in these markets became a crucial goal for BIZPRO.

Given the fractured supply chains, continuing problems in finding new buyers and suppliers, and the need for Ukrainian industries to work more cooperatively to deal with common issues, the industry approach made sense for BIZPRO. In the target locales, BIZPRO:

- Built on anchor firms or firms producing similar products in a limited geographical area to help them access new markets;

- Helped extend the supply and value chain when appropriate, seeking to integrate SMEs into value chains to fill gaps, and potentially helping to create new SMEs that can meet demand in these markets;
- Engaged supporting institutions such as research institutes, BSPs, and business associations to deliver needed training and technical assistance and examine ways in which new and appropriate technology and innovations can be implemented to help SMEs grow; and
- Encouraged subsector actors to provide input to the local and regional governments related to the business environment and specific industry issues.

BIZPRO developed a roadmap for each of the subsectors, identifying gaps in value and supply chains, problems and constraints faced by SMEs, opportunities for development, and skills that SMEs needed to upgrade and integrate into productive value chains. The roadmap included solutions to meet those opportunities and solve problems and included supply chains, technology, and product development; management, organizational, and institutional development; market access and trade capacity building; investment development; and policy and advocacy skills development.

BIZPRO developed and offered services under this task based on an analysis of the value chains and SMEs operating in that value chain. Using local and expatriate short-term technical assistance (STTA) as appropriate, together with staff resources, BIZPRO developed services in the following areas:

- **Identification of and interviews with buyers.** In partnership with local BSPs, BIZPRO staff and STTA interviewed domestic and foreign buyers in related industries and determined what supply needs could be met with local suppliers and their basic requirements regarding order size, and so on. This information was then used to inform the businesses operating in the selected subsectors.
- **Buyer analyses.** BIZPRO used domestic buyers as well as foreign buyers from Europe, Russia, and the United States to analyze products that had potential for new markets. These analyses helped to identify product lines, anchor companies, or groups of companies producing the similar products to be active in the project. The foreign buyer analysis catalogued the various standards, certifications, packaging requirements, and so on. required for export. BIZPRO helped to identify reputable agents, trading companies, or consultants to help companies meet these requirements.
- **Price point checks.** Prior to or during the buyer analyses, BIZPRO worked with the companies with the new market opportunities to make sure they understood their cost of business so that they would know at an early stage whether they could meet the price points of the potential buyers. This critical step ensured that BIZPRO did not raise expectations with companies that did not have a chance of meeting market demand because their costs were too high.
- **Operational diagnostics of SMEs.** Buyers need to ensure that safety, quality, and other standards are being met not only by the product, but also in the operation of the company. Where International Organization for Standardization (ISO) and various safety certifications were a prerequisite for exporting, BIZPRO facilitated a basic diagnostic of products through partner BSPs during the buyer analysis. When more detailed diagnostics were required, BIZPRO either outsourced these to a local BSP or hired experts on a temporary basis to conduct them, sharing the cost of this service with the company.

- **Production of samples for trade shows.** When working with wholesale importers that sell via trade shows, BIZPRO encouraged domestic and foreign buyers to arrange for the production of samples for shows. The buyers, product developers, or independent consultants with ties to importers worked with Ukrainian SMEs on product changes, quality issues, and operational upgrades required to produce the sample and to reorient the production line after orders were received at a trade show.
- **Quality control for first, large, and key orders.** To ensure that orders, particularly the first one, are fulfilled correctly, BIZPRO used local agents specializing in the target industry or foreign experts to oversee the fulfillment of the order focusing on quality issues, customer requirements, packaging, and so on.
- **Identification of opportunities.** BIZPRO addressed gaps in the supply chain and sought opportunities for SMEs to redesign their product line to meet local demand.
- **Technology transfer and implementation.** In many instances, what existing SMEs needed most to upgrade their enterprise or “retool” to develop a product or service that would be responsive to market demand was appropriate technology. BIZPRO ensured that all interventions, through project staff or BSP partners, examined the SMEs’ need for new technologies.

BIZPRO also supported industry associations in order to build public-private dialogue, strengthen their ability to advocate member interests before government, and increase the member service portfolio. BIZPRO developed other business associations that united many subsector enterprises to help them understand their member needs and respond to them in timely manner.

In 2003, BIZPRO began providing specialized support to a number of industry sectors. An overview of BIZPRO’s work in each of these sectors is described below.

Furniture and home furnishings. With the objective of creating a growing, dynamic pool of highly productive enterprises that compete successfully in domestic and international markets, BIZPRO provided assistance at the enterprise, sector, and national (policy/legal) level. BIZPRO assisted enterprises to establish commercial linkages with foreign partners, wholesale buyers, and trade agents; integrate into value chains and develop distribution channels, improving design capacity and accessing international information resources; and, through its partners, introduce international standards in the area of quality control and product testing.

Tourism. The tourism sector in Ukraine (and tourism in Crimea in particular) was identified as one of competitive sectors of the economy through BIZPRO’s diagnosis *Ukraine: Competing in the Global Economy: Strategies for Success* (January 2005). Together, BIZPRO and sector stakeholders established WGs to identify and prioritize actions required to improve the sector. Some of the actions are undertaken by the stakeholders themselves and others were completed with assistance from BIZPRO. BIZPRO focused on actions that could generate measurable results in the near term, and build a solid foundation for long-term growth. Market development and improvement of the business environment were the most critical needs of the tourism cluster, and offered the greatest opportunities for generating results and benefits in the short-term while contributing significantly to building a foundation for long-term growth. Market development activities included market research, product development, and promotion and marketing for new, high-yield markets. Business environment activities focused on improving the policies and regulations affecting the tourism industry.

Fruit and vegetable processing. BIZPRO provided assistance and support to enterprises from this sector in the form of core market initiatives and policy, legal, and regulatory initiatives, including export growth and market expansion; improving product quality through seminars and workshops (ISO, HACCP); disseminating information about industry, companies, and products among foreign buyers and investors; increasing access to post-harvest/processing equipment; raising awareness of alternative sources of capital for development; simplifying the certification system for fruits and vegetables processors; introducing the OSS model for simplifying permit-issuing procedures; and enforcing mechanisms for value-added tax (VAT) reimbursement.

Construction materials. BIZPRO identified the construction materials sector as competitive in domestic markets and as having high potential for attracting investment. BIZPRO's activities targeted domestic sales and identification of companies for enterprise-level investment promotion activities. BIZPRO provided advisory support to the Ukrainian Construction Materials Corporation (a sector association) and to UkrBudMaterialy Trade Magazine.

As for market initiatives, BIZPRO helped enterprises introduce international standards, improve management and marketing skills, improve/develop distribution channels, facilitate export in subsectors, initiate export substitution, and improve information circulation and flows. On the level of policy, legal, and regulatory initiatives, BIZPRO provided assistance in simplifying mandatory certification procedures and permit-issuing procedures for the use of natural resources. BIZPRO began a training series for companies working in the construction materials sector. The training covered creation of effective market channels, management, marketing, and strategic planning.

Through BIZPRO's Trade and Investment Portal (www.UkraineTradeInvest.com), Ukrainian construction materials producers were given an opportunity to market their products outside Ukraine and find potential investors. To achieve this goal, a catalogue was developed that included a list of companies working in the sector and details about their products. The construction materials section of UkraineTradeInvest served as an information OSS for potential investors and buyers.

BIZPRO identified model companies for enterprise-level assistance. Enterprises received methodological and advisory assistance in creating more effective market channels. Through participation in the STORE WARS Program that helped create models of relationships between manufacturers and trade networks, BIZPRO facilitated the development of partnerships between construction materials manufacturers and trade networks.

Textile and apparel. BIZPRO helped enterprises with brand development; in implementing international standards in the area of quality control and product testing; to establish commercial linkages with foreign partners, wholesale buyers, and trade agents; to integrate into value chains and into distribution channels development; and to raise awareness on sources of financing for modernization and growth.

Task 2: Legal and Regulatory Reform (SME Enabling Environment)

BIZPRO redesigned Task 2, Legal and Regulatory Reform, to better address the constraints faced by SMEs. To reflect the changes, BIZPRO renamed this task SME Enabling Environment and conducted an analysis of the major legal/regulatory constraints to SME development through its own experience and a review of existing surveys/reports, such as the World Bank's *Cost of Doing Business Survey* and the International Finance Corporation's (IFC's) *Business Environment in Ukraine*. At the beginning of Phase II of BIZPRO, the IFC had identified obtaining permits/approvals as one of the

top three greatest constraint to business growth; the other two being inspections and customs procedures¹. This was consistent with BIZPRO's experience in regulatory reform in Ukraine over the prior two years and provided a good starting point for a reinvigorated effort in the area of business enabling environment.²

We discovered quickly that the permit system in Ukraine was complex and difficult to navigate. Through extensive research, we approached the problem by breaking permits into two general categories:

- A permit granted by a specific agency (which usually entails receiving preliminary approvals and/or having expert assessments performed by an administrative agency as prerequisites for the permit in question), and
- A complex of permits granted as a result of interaction among several agencies as part of a single legal procedure—that is, a set of permits granted by unrelated agencies, with each permit having equal weight in the approval process.

BIZPRO further refined its analysis and identified the top 10 permitting barriers that affect business expansion in relation to location. The most common location barriers identified at the local level included:

- Purchase/lease of communal (city) land parcels for new construction;
- Purchase/lease of communal (city) land parcels under privatized buildings;
- Permits for construction purposes (including permit for construction and permit for construction works);
- Approvals and other permitting documents in the area of construction (including obtaining architectural development task, technical specifications for development documentation, expertise and approval of the prepared development, and renovation documentation by various agencies);
- Permits to certify conformity to submitted plan that would allow operations to begin after construction is completed;
- Permits for locating small nonfixed site constructions, such as. kiosks (this includes noncapital construction not requiring infrastructure contribution);
- Permits for trade point locating (primarily a fee for locating);
- Transfers of residential premises into nonresidential for the conduct of entrepreneurial activity;
- Procedures for lease of communal property (including tenders); and
- Permits for locating public advertisements and their structures.

From this list BIZPRO decided to address barriers that related to locating and, to a certain extent, operating areas. The IFC and World Bank surveys indicated that employment issues were not

¹ IFC Business Environment in Ukraine (September 2003), p. 7.

² Ibid, p. 67.

perceived as major obstacles by Ukrainian businesses. BIZPRO focused on those barriers that the IFC study identified as the most burdensome, namely land allocation and various permits related to premises acquisition. Central-level legislation that regulated these issues is of a framework nature and gives a substantial control of the process to local self-government. The inability of local government to properly exercise their powers had led to the situation whereby many of the problems cited by surveys were due to inconsistencies and gaps in local regulations related to permits. That is why BIZPRO chose to address those barriers to investments that were created at the local level, using its unique experience of cooperation with regional and municipal authorities. BIZPRO disseminated its successes in working with the local public-private sector to reduce local barriers to investments to other Ukrainian municipalities and at the national level, thus complementing reform efforts of other donors and projects that devote much of their activities to elimination of barriers at the central level.

Based on its analysis, BIZPRO redesigned the two products that it offered under this task. The initial products that BIZPRO offered included:

Product 1a: Compliance with the Regulatory Policy Law

Objective: Provide the public and private sector with the skills necessary to comply with the new Regulatory Policy Law.

Description: Ukraine's Cabinet of Ministers approved procedures for implementing the Regulatory Policy Law that became effective in January 2004. These procedures formed the basis of BIZPRO's seminars on the Law in oblast capitals. The Law requires all bodies with regulatory authority to follow a prescribed sequence of steps when passing regulations with economic impact. Seminars were conducted by BIZPRO to teach municipality authorities the skills necessary to pass regulations in compliance with the law. The seminar included a general outline of the content and requirements of the law, and consultations on technicalities of implementing specific aspects of the Law, including Law interpretation, methodologies of regulatory impact analysis, basics of policy analysis such as regulatory impact analysis, and cost-benefit analysis. The seminar also provided instruction on selecting effectiveness indicators and conducting public hearings.

Product 1b: Support to Regional Regulatory Reform

Objective: To improve the local regulatory environment for SMEs by amending, introducing, or eliminating unnecessary regulations so that costs to SMEs are reduced and local economic development is promoted. This product was a modification of the past regulatory reform intervention that BIZPRO implemented in eight oblasts of Ukraine, promoting private-public policy partnerships and improving governmental and nongovernmental organization (NGO) analytical and problem-solving skills at the local level to maximize local economic growth. BIZPRO worked with cities of oblast significance to engage local SMEs in an open, public-private dialogue and process.

Description: BIZPRO created a list of administrative barriers that most significantly constrain the development of SMEs in Ukraine and further prioritized the barriers in each partner municipality by conducting focus groups with local SMEs and facilitating a consensus at a subsequent roundtable attended by SMEs and local government representatives. The prioritized issues set the agenda of the local WGs, which comprised representatives of local governments and SMEs. The WGs, with the assistance of BIZPRO consultants, developed, amended, or eliminated regulations related to the prioritized issues previously selected. Each regulation was subject to public discussion at a roundtable and a public hearing. BIZPRO monitored the effectiveness of each amended or new regulation

adopted by local governments on the recommendation of the WGs through an initial baseline survey of affected SMEs, which was then compared to a follow up survey. The surveys were conducted by independent monitoring organizations selected by BIZPRO.

When the private and public sectors agreed on a regulatory agenda, BIZPRO assessed the various factors that would help ensure a successful partnership and created working frameworks for cooperation between local implementing partners, other NGOs, BIZPRO consultants, and selected municipalities. Working frameworks established cost-sharing arrangements and responsibilities of parties required for BIZPRO to deliver a product. For instance, a municipality or an NGO offered their premises, while BIZPRO offered logistical or communications support. Using cost-sharing principles, local BIZPRO consultants continued to conduct roundtables and public hearings with the public-private sectors to discuss draft regulations and conduct baseline and follow-up impact evaluation surveys of adopted regulations as needed. BIZPRO disseminated all drafted and adopted regulations developed with its support. BIZPRO also maintained a database of all impact evaluations.

Product 2: OSS for Issuing Permits

Objective: Reduce the amount of time, money, and documents required to establish and operate an SME, and to improve transparency of the procedural processes for obtaining permits.

Description: BIZPRO assistance was designed to provide methodological and technical assistance to local governments and business communities in establishing OSSs. The purpose for establishing an OSS is to reduce the amount of time, money, and the number of documents needed to start a business; reduce unofficial payments, and create transparent decision-making procedures for local governments. Product delivery focused on permit-issuance procedures, since independent surveys have shown these to be one of the main barriers to businesses growth in Ukraine. Government agencies, business associations, and entrepreneurs worked together in each municipality and were assisted by BIZPRO consultants, who provided them with technical assistance.

This product assisted the public and private sector primarily in the development and implementation of the permit-issuing OSS concept, which, according to a number of surveys and BIZPRO analysis, constituted a major obstacle to business development in Ukraine. The option of setting up OSSs that combine permits issuing with business registration and post-registration procedures was also offered, if local governments were interested and were be able to provide a substantial part of logistical support for its creation.

Although BIZPRO offered this product to municipalities, extensive work to change laws related to permits was also required at the national level. BIZPRO worked closely with the USAID-funded Commercial Law Center on addressing these issues. At the local level, the implementation process was similar to Product 1b since designated regional BIZPRO consultants facilitated the formation of public/private coalitions and served as a technical resource.

National-Level Reforms

BIZPRO identified additional administrative barriers while delivering Products 1 and 2. For these, BIZPRO created a prioritized list of regulatory issues to be addressed by the introduction or amendment of national-level legislation. To widely disseminate BIZPRO's experience accumulated from delivering Product 1b and setting up OSSs, BIZPRO worked with the State Committee on Regulatory Policy and Entrepreneurship (SCRPE), conducted several national-level roundtables to help the Ukrainian Government and Parliament to form a regulatory reform agenda for improving the

SME enabling environment at the national level, and worked closely with the USAID-funded Commercial Law Center in this regard.

The approaches taken by BIZPRO under Task 2 included transferring regulatory reform technical assistance, facilitating effective public-private dialogue by training business-oriented NGOs to participate in the policy making process, improving the administrative skills of public servants, and disseminating best practices via seminars, workshops, and mass media.

Crosscutting Tools

Communication Strategy. As part of its ongoing efforts to help SMEs operate and compete in Ukrainian and international markets, BIZPRO revised its communications strategy and materials to further support its work and increase its influence over key audiences. BIZPRO's communications plan supported and furthered BIZPRO's work by communicating information to key audiences and motivating them to take action. The plan described how and by whom the message strategy was delivered and disseminated, provided a guide for communications activities, outlined recommended communications activities, and set up a feedback loop to ensure communications efforts were effective and continually improved. The strategy and plan supported all tasks and specifically targeted BIZPRO's audiences in the public and private sectors.

Information Hotlines for Entrepreneurs. BIZPRO continued its work with hotlines through mid-FY 2005. Since the hotlines contribute to both Task 1 and Task 2, BIZPRO used them in a crosscutting fashion. For instance, monthly reports prepared by hotlines were disseminated to WGs for Task 2, the SCRPE, local authorities, and other interested parties. The reports contained statistics (types of calls, types of callers, number of calls, and so on), frequently asked questions, and legislation barriers and constraints identified by region.

National SME Survey. To be demand-driven and identify and prioritize SME constraints, BIZPRO continued to conduct the National SME Survey, as it had done yearly since project inception. Among other issues, the survey identified:

- Internal and external factors restraining enterprise growth and development;
- Constraints SMEs face while looking for market opportunities and entering new markets;
- Ways of getting business and legal information and finding new partners, buyers, and suppliers;
- Types of business information and business skills that SMEs lack;
- SME opinions about business associations, their importance, and activity; and
- Levels of SME participation in public-private dialogue.

The representative survey sample comprised 2,000 to 2,500 SMEs in all oblasts of Ukraine, including oblast centers and smaller cities in each oblast. The survey obtained data on business perceptions and quantitative data. The resulting report included statistics, analysis of barriers, and recommendations to be presented and discussed with the business community including SMEs, BSPs, business associations, and donor-funded SME development projects.

RESULTS AND IMPACT

BIZPRO UKRAINE RESULTS (2000–2003)

Business Skills Development

The business skills development component attracted 16,221 training participants. Training was given by 68 providers.

- 22 percent of participants attended start-up training courses; 12 percent created new businesses employing an average of 4 people.
- 20 percent of trainees participated in sales training courses; 35 percent of them reported increased sales of at least 10 percent.
- 17 percent of participants participated in production and financial management courses; they reported reduced losses and lower production costs as a result.
- 18 percent of participants reported the creation of new market linkages as input suppliers for large companies.
- 3,954 start-ups participated in 176 seminars and received 1,687 professional consultations.
- 12 percent of participants reported the creation of new businesses.
- The survival rate of newly established enterprises grew by 18 percent.
- 57 percent of participants were from rural areas and received access to business information and advice that they would not be able to afford otherwise.
- 7 percent of operating enterprises increased their competitiveness by developing modern packaging to improve marketing.
- 36 participating BSPs developed 89 new courses.
- 25 percent of participants reported increases in sales and expansion of market shares.

Legal and Regulatory Reform

- Thirty business associations (serving 3,500 legal and 1,900 physical entities) increased their number of members 30 percent and increased the number of members paying dues by 20 percent.
- Three OSSs opened in Mykolaiv, Ivano-Frankivsk, and Kherson. Directly assisted in the creation of 33 additional OSSs; as of January 2004 there were 150 OSSs in operation. OSSs have improved business registration, as shown in Figures 2, 3, 4, and 5.
- Established core public-private partnerships through 22-member WGs in 8 oblasts (including 35 municipalities) to address barriers and initiate reform.
- Trained WGs and helped draft and implement 352 reform initiatives.
- Lobbying efforts and technical assistance contributed to National Law on Regulatory Policy, which was drafted and signed into law on October 1 2003, with a record 421/450 votes. The Law formalizes the procedures and methods advanced by BIZPRO.

- More than 70,000 SMEs have used hotlines to get critical information on business start-up and operation, regulatory issues, taxes, and registration.

Figure 2: Total Average Cost of Registration Procedure (UAH)

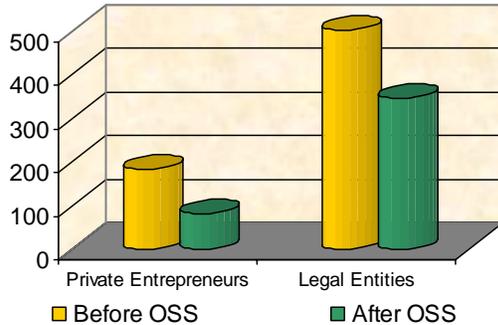


Figure 3: Total Average Duration of Registration Procedure (Days)

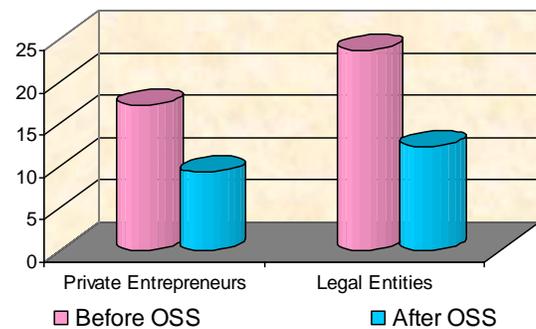


Figure 4: Total Average Number of Visits of Registration Bodies by Businesses

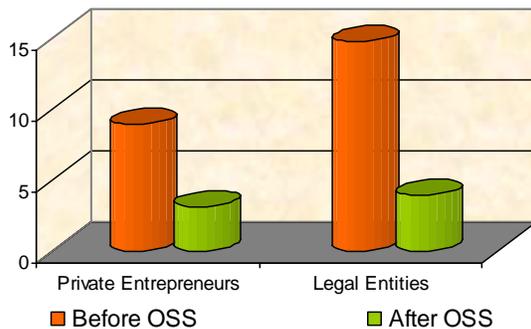
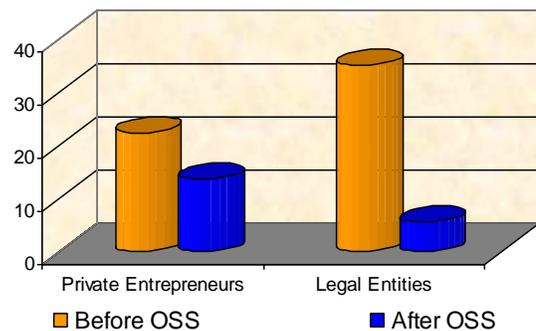


Figure 5: Share of Businesses Who Bribed Officials When Registering Their Business percent



BIZPRO UKRAINE RESULTS (2004–2006)

Quick Deregulation (the Guillotine)

In 2005, BIZPRO began assisting SCRPE on the initiating and implementing the Quick Deregulation (QD) Strategy. To push the reform at the national level, a regional QD effort was undertaken through assistance to municipalities in seven cities: Donetsk, Kharkiv, Zaporizhzhya, Lviv, Ivano-Frankivsk, Vinnytsya, and Kherson. Out of 785 regional regulations in the seven cities, 340 were abolished and 172 amended to be more market-friendly.

The QD effort in Donetsk is a good example of how the process worked in the regions. The mayor of Donetsk launched a quick review of regulations enacted by the city council and mayor by signing a resolution in April 2005. He also created a public-private sector WG that reviewed 92 regulatory acts against three criteria: 1) is it needed, 2) was it enacted legally, and 3) is it efficient and market-friendly. The WG recommended that the government abolish 17 regulations and amend 13 to be market-friendly.

The speed, popularity, and impact of the QD initiative in the seven cities did not go unnoticed by the national government. In May and June 2005, President Yushchenko signed Decree No. 779 “On Liberalization of Entrepreneurial Activity and State Support for Entrepreneurship” and Decree No.

901 “On Measures to Ensure Implementation of State Regulatory Policy,” which officially launched the quick deregulation initiative at the national level. All of Ukraine’s cities were encouraged to follow the example set by the seven pioneer cities.

By September 2005, 9,866 regulations issued by executive power authorities were reviewed and 5,599 (56.8 percent) were found to be inconsistent with the law “On Regulatory Policy in the Sphere of Economic Activity” and were subject to repeal or amendment, including: 249 acts of the Cabinet of Ministers (4.4 percent); 737 regulations of national executive power authorities (13.2 percent); 4,613 regulations of local executive power authorities (82.4 percent); and 66 presidential acts .

In the regions, 5,100 local self-government regulations were examined and almost 35 percent were scheduled for repeal or amendment.

At all levels of the Ukrainian government, the first phase of the QD initiative in 2005 resulted in the review of about 15,000 of regulations, the identification of 7,000 of those as not business-friendly and burdensome for entrepreneurs, and the repeal of more than 4,900 of them.

The deregulation process involved several central institutions of executive power: the Ministry of Agricultural Policy, the Ministry of Environmental Protection, the Ministry of Fuel and Energy, the Ministry of Tourism, the Ministry of Health Protection, the Ministry of Finances, the Ministry of Construction, the State Committee for Labor Safety, and the State Committee for Land Resources.

Reforms to the Permit Law

The new (September 2005) Permit Law should reduce the time and cost of obtaining permits for business activities. Greater transparency helps curb corruption. Obtaining permits, particularly those for land and construction, is viewed by businesses as a major obstacle to growth in Ukraine. The Permit Law introduced important principles:

- Types of permits are determined only by laws. This will dramatically reduce the number of mandatory permits required for business activity.
- All regulatory bodies were required to review their regulations and bring them in compliance with the Permit Law within six months of its publication (04/05/2006). This eliminated a large number of regulations that hurt business and abetted corruption and augments the ongoing quick deregulation initiative at the national and local level.
- Officials will face administrative and disciplinary responsibilities if they do not follow the law. This should help ensure timely and smooth issuance of permits.
- The OSS principle is recommended for permit issuance procedures. If municipalities choose this method, empirical evidence indicates that the result will be a reduction of time and cost to business and a dramatic decrease in corruption.
- Entrepreneurs are empowered to sue government authorities for violating their rights in obtaining permits and demand reimbursement of losses incurred. Greater government accountability and rule of law will be the result.

TABLE 1: BIZPRO UKRAINE SECTOR INDICATORS**SECTOR INDICATORS**

Sector	Production, thousand US\$	Export, thousand US\$			Foreign Direct Investments, thou US\$		
	Increase in production, 2005	2004	2005	Increase in exports, 2005	2004	9 months of 2005	Increase in investments, 2005
Furniture	22.4%	119,685	157,935	31.96%	11,455	16,679	45.61%
Fruits and vegetable processing	n/a	92,057	118,983	29.25%	6,595	8,567	29.91%
Textiles and apparel	2.6%	629,255	635,290	0.96%	n/a	43,149	110%
Construction materials	12%	1,087,859	1,258,473	15.68%	n/a	n/a	

Sector	Sales, in thousand US\$				Export, in thousand US\$			
	2004	2005	Dynamics	%	2004	2005	Dynamics	%
Apparel	576,728	597,512	20,784	3.6	553,992	571,010	17,017	3.1
Fruit and vegetables processing	277,998	396,323	118,325	42.6	184,115	237,966	53,851	29.2
Textiles	219,069	241,842	22,772	10.4	184,300	208,200	23,900	13.0
Furniture	343,773	455,320	111,547	32.4	119,685	157,935	38,250	32.0
Construction materials	3,006,693	3,971,861	965,168	32.1	1,036,900	1,074,409	37,510	3.6

Construction Materials Segments	Increase in production, 2005	Increase in exports, 2005	Increase in sales, 2006
- Ceramics	19%	15.00%	n/a
- Glass	n/a	0.52%	50.00%
- Cement	13%	3.00%	19.00%

SECTOR SPECIFIC TRAINING RESULTS

	Increase in sales, 2005	Increase in employment, 2005
Construction materials	22.50%	1%
Textile	5.40%	10.30%
Furniture and home furnishings	5%	n/a
Fruit and vegetable processing	38.80%	16%

SELECTED ENTERPRISE INDICATORS**CONSTRUCTION MATERIALS**

	Increase in sales, 2005	Increase in employment, 2005	Increase in exports, 2005
Aquaizol	15%	12%	10%

FURNITURE AND HOME FURNISHINGS

	Increase in sales, 2005	Increase in exports, 2005	new foreign partners
Liga Nova	10%	10%	
Kyianka, Ltd. (Diwahl)	5%	5%	Russia, Moldova
Lagoda	20%	20%	
Intercom	10%	n/a	
Popasnyansky Glass Factory	10%	15%	USA, Holland, Germany, Estonia
Svitlovodsk Glassware	10%	10%	USA
Art Metal Furniture	20%	35%	USA, Germany, UK

FRUITS AND VEGETABLE PROCESSING

	Increase in production, 2005
Novosanzharskiy Canning Plant	160%
Agrospeproect	23%

IMPACT

Annex I contains success stories that have been developed by BIZPRO and submitted to USAID that detail project impact in core areas of implementation.

CHAPTER THREE: BIZPRO MOLDOVA

OVERVIEW

On June 25, 2001, USAID executed a 27-month \$2,992,274 buy-in to the BIZPRO core contract to contribute to USAID/Moldova's SO 1.31 and its IR 1.31.2. The buy-in was eventually extended to September 30, 2006, and provided an additional \$4,662,819, for a total buy-in amount of 7,655,093.

PROJECT OBJECTIVES AND APPROACH

USAID Objectives

SO 1.31: Private Enterprise Growth Creates Jobs and Generates Income

- IR 1.31.1: Agricultural Production and Distribution Systems Improved
 - Market-Friendly Laws and Regulations Developed
- IR 1.31.2: The Role of SMEs in Economy Expanded
 - Access to Market Business Skills and Information
 - Capacity of BSPs
 - Access to Credit

Project Objectives, Deliverables, and Goals. The goal of the BIZPRO project in Moldova was defined as contributing to the economic development of Moldova by providing assistance that improved the ability of SMEs to operate and compete in local and external markets. **[mention deliverables?]**

Project Approach. The BIZPRO project worked to facilitate SMEs' growth by increasing their access to financial and non-financial services, their ability to access and use appropriate private sector business services, and their ability to access new markets, and by working with the public and private sector to improve the business environment.

PROJECT MANAGEMENT

Project Team

The Chief of Party and USAID Cognizant Technical Officer for BIZPRO were located in Kyiv, Ukraine. The Moldova Country Director for BIZPRO was located in Chisinau, Moldova, and had overall responsibility for the day-to-day management of the Moldova buy-in.

During its lifetime, BIZPRO had two Chiefs of Party: Joe Welsh (2001–2002) and Patrick Rader (2003–2006). During BIZPRO operations in Moldova, the buy-in has employed more than 40 local professional and support staff.

Key personnel for the Moldova buy-in included the following:

- *John Nielson*, Country Director, August 2001–January 2004
- *Denis Gallagher*, Country Director, March 2004–September 2006

Counterparts

BIZPRO worked with a multitude of local strategic development partners during the course of its history. Below are key partners who worked with BIZPRO during Phase II of the project, by region.

Balti

Chamber of Commerce and Industry, Balti branch
Pavel Lupacescu
(231) 2-91-54, 0-691-07594

Edinet

Chamber of Commerce and Industry, Edinet branch
Maria Uglea, Director
Tel: (246) 2-34-64, 0-693-77647

Edinagronor”Association of Agricultural Producers
Nicolae Cretu, Executive Director
Tel: (246) 2-56-29, 2-59-29, 0-691-81717

Orhei

AsProAgro Association of Agricultural Producers
Victor Negruta, Chairman and Executive Director
Tel: (235) 2-75-13, 0-691-06370

Chamber of Commerce and Industry, Orhei branch
Vitalie Boico, Director
Tel: (235) 2-04-61, 2-08-89, 0-795-20150

Soroca

Chamber of Commerce and Industry, Soroca branch
Vladimir Ceban, Director
Tel: (230) 2-31-30, 0-692-65318

Chisinau

Small Business Association
Eugen Roscovan, Chairman
Tel: 22-63-91, 0-691-04979

Chamber of Commerce and Industry, Republic of Moldova
Sergiu Harea, Head of Marketing and Consulting Department
Tel.: 24-51-48, Fax: 22-75-86

Moldavian Export Promotion Organization
Veaceslav Sterbet, General Director
Tel: 27-36-54, Fax: 22-43-10, 0-691-64820

Moldovan Banks Association
Petru Veverita, President
Tel: 23-22-26, Fax: 24-54-16, 0-691-34243

Hincesti

ProAgroIndPrivat Business Incubator
Anadela Tofilat, Director
Tel: (269) 2-34-93, 0-693-72559

Viitorul Association of Agricultural Producers
Valentin Dubceac, Executive Director
Tel: (269) 2-17-45, 2-28-76, 2-58-12

Ungheni

Uncalni Association of Agricultural Producers
Alexei Turcanu, Executive Director
Tel: (236) 2-74-16, 0-794-54205

Cahul

Chamber of Commerce and Industry, Cahul branch
Semion Platon, Director
Tel: (299) 2-21-92, 2-34-08, 0-691-20447

Ceadir-Lunga

Association for Development of Small and Medium Entrepreneurship in Gagauzia
Gheorghe Marangoz
Tel: 0-690-00378

Subcontractors

Firms that were official subcontractors under DAI's contract with USAID included the following:

Winrock International: Provided technical assistance related to gender issues as needed, including providing training activities, executing gender impact analyses, and tapping the network of women entrepreneurs and gender-sensitive officials for advocacy activities.

Firma 2000, LLC: Provided training and direct technical assistance in support of BSPs; worked on gender considerations in economic development and conducted relevant surveys; and management of the business incubator activity.

Unilob, LLC: Provided specialized technical assistance in support of policy advocacy and targeted training for service providers through the Polish Advisory Network.

Jacobs and Associates: Provided training courses in regulatory impact analysis.

PROJECT ACTIVITIES

BIZPRO's operations in Moldova are best viewed in two distinct phases: August 2001–December 2003 (Phase I) and January 2004–December 2006 (Phase II). Each of these phases is different. Detailed below is a summary of the project activities during these two phases.

PHASE I: PROJECT ACTIVITIES

During Phase I, BIZPRO emphasized the development of basic business skills—marketing, finance and accounting, generating business ideas, and legal aspects of starting and running a business. Many businesses that received BIZPRO assistance built a core foundation which enabled them to launch into activities focusing on growing their business, creating new jobs, developing meaningful networks with buyers and suppliers, and expanding their markets, whether local, regional/national, or international.

Task I: Business Development

At the outset of the project, BIZPRO viewed the enhancement of business skills in Moldova as a prerequisite for the successful development of the MSMEs. Many of the marketing, accounting, and business-planning skills necessary to operate a small business in Moldova were still lacking in rural areas. In addition, there was a lack of rural institutions to provide training, technical assistance, and business information were missing. BIZPRO worked to build this capacity in selected local areas by providing support to a broad array of BSPs, and by improving the qualifications of individual trainers and consultants.

Voucher Program. BIZPRO activities emphasized building a market for business services, using innovative tools such as vouchers and work orders. These stimulated activity between entrepreneurs and BSPs without distorting the market with subsidies and other non-market-based interventions.

BIZPRO worked with associations, BSPs, and information centers throughout Moldova to distribute vouchers for business training services. Entrepreneurs could present the voucher to any of 29 BSPs to receive training in basic business skills (marketing, finance and accounting, legal aspects of business operation). BIZPRO allowed individuals to obtain a maximum of two additional vouchers for follow-on training but at a progressively reduced level of subsidy.

The vouchers were used as a development tool to stimulate demand for business services, demonstrate the value of services to enterprises and entrepreneurs, and, through a gradual reduction in subsidies and eventual phase-out, lead to a demand-driven market for business services. The subsidies were lessened as the program moved into Phase II until the program as phased out altogether.

The results of the additional training are as follows:

- 17 percent reported an increase of up to 20 percent in personal income;
- 10 percent indicated that they had started their own business; and
- 22 percent reported increased profitability of their business.

Business Skills Development for the Moldovan IT Sector. This planned activity was designed to create linkages between U.S. IT companies and Moldovan software producers, with the ultimate goal of finding U.S. companies willing to outsource to Moldovan firms. However, discussions with IT

firms in Moldova revealed that many of the firms were not registered or were operating in the informal economy, while registered firms were not properly reporting their number of employees and revenues.

BIZPRO contracted the Moldova Export Promotion Organization (MEPO) to study and develop a report on the IT sector. Key findings confirmed that the sector had growth industry with significant export potential. However, it faced considerable regulatory constraints. In addition, the sector did not effectively bring any other enterprises into the value chain or purchase inputs or services from other businesses. Due in large part to the informal nature of most firms, the sector did not contribute its full potential to taxes, gross domestic product, etc. After a careful review of the market study conducted by MEPO, USAID advised BIZPRO to discontinue any direct support to the IT sector.

Support for Business Incubator Development. During the period 2001-2003, BIZPRO provided extensive assistance to the creation and development of Business Incubator Alfa in Chisinau. This was a joint-stock company in which the Municipality of Chisinau owned 98.5 percent of the shares, with Industrial Park Alfa and Pro-Alfa Service, Ltd. holding the other 1.5 percent shares. BIZPRO assisted in the development of a potential site for the incubator, as well as of the services that would be offered to potential clients. A study tour was conducted for the proposed operators of the incubator and STTA was provided to bring the idea to fruition.

An apparently suitable publicly owned building was found for the incubator. The Municipality of Chisinau authorized the transfer of building ownership from the city to Business Incubator Alfa, which became the sole owner of the building.

However, the building required reconstruction. Potential sales of portions of the building to private firms to raise capital for the reconstruction work required approval from the city, as it controlled 98.5 percent of the shares of the incubator. Unfortunately, although the incubator had numerous commercial firms interested in purchasing the space, the city continued to refuse to authorize the sale. As the incubator could not raise the necessary capital for reconstruction, and BIZPRO could not provide the necessary subsidies, it was agreed with USAID that support to the incubator would be discontinued.

Development of Businesses in Rural Areas. BIZPRO used a tender selection process to choose five BSPs to implement a program component designed to support new businesses in rural areas. Many of these BSPs had worked with BIZPRO and its predecessor project, and were relatively strong in their capacity to deliver general business training. However, it became evident that they were less well equipped to evaluate specific enterprise value chains to determine what types of value chains exist and find the gaps in those chains. Nor were they able to encourage existing enterprises to retool to fill those gaps or assist in the development of new micro or small enterprises that could have strengthened the value chains. This program element was redesigned in Phase II to become more demand driven and to provide business services to industry value chain enterprises that could have the most impact.

Strengthening Business Services Infrastructure in Rural Areas. The centerpiece of this program was the development of a training-of-trainers manual. The manual details, in 15 chapters, how to be a better trainer, including basic tasks such as site selection, use of printed and visual materials, effective presentation skills, and interaction with an audience. BIZPRO discontinued work on training of

trainers in Phase II but made the manual available to consultants and trainers throughout Moldova so that they could use it as a demand-driven tool to further increase the capacity of business trainers.

Task 2: Regulatory Reform

In Phase I, BIZPRO's approach to improving the business enabling environment was focused on direct support to the development of business associations, with the belief that stronger functional organizations representing the private sector could be well positioned to advocate for regulatory and policy. During 2003, BIZPRO focused intensively on ten associations, working with them to strengthen their internal operations and management such that they could provide better services to members.

To a limited extent, BIZPRO assisted the Ministry of Economy and Trade and key parliamentarians in improving their capacity to reform laws and regulations hindering the growth of SMEs. BIZPRO's efforts in this area led to the creation of seven hotlines, which relay vital information to the government relating to the business issues facing small business entrepreneurs. BIZPRO assistance to business associations has resulted in dramatic institutional change for participating associations. It has boosted memberships, enriched and expanded programs and services, amplified revenue-generating initiatives, increased professional alliances, and established a national associations network and information network through the hotlines.

Building Bigger, Stronger Business Associations. The project conducted extensive formal training seminars and workshops for business associations—over 70 associations participated in such training events in FY 2003 alone. As a result, the project developed written training materials and a cadre of Moldovan association trainers who were well equipped to continue meeting demand for further training without BIZPRO assistance.

Building the Moldovan Business Association Network (Hotlines). In the course of the project BIZPRO helped to establish and support the operation of 10 hotlines. At first, the hotlines provided information on legal and regulatory issues, as requested by callers. The scope of work of hotlines was gradually expanded to provide other information, including market access data (finding buyers or suppliers, getting information on finance opportunities, and the like) and the polling of members to obtain quick, cheap access to survey data related to policy or regulatory reforms. Beginning in Phase II, the subsidies provided to the operators of the hotlines were gradually phased out as associations (the operators) sought new ways to make their operations financially sustainable.

Task 3: Increased Access to Credit

Access to finance for entrepreneurs and enterprises in Moldova when BIZPRO began operations could be characterized as a “missing middle.” Savings and credit associations (SCAs) lent very small amounts of money to individuals (not SMEs) as prescribed by Moldovan law on SCAs. This lending was not the most direct way for BIZPRO to facilitate enterprise growth, due to the restriction of the loans to individuals and the small loan size. In addition, many individuals who sought to borrow money to help develop their microenterprises faced obstacles when it came to collateral and terms of lending.

Banks and non-bank FIs were doing some SME lending, but generally for shorter time periods than those businesses needed (a year or less). They also had lending requirements that put loans out of reach for most SMEs, such as extremely high interest rates, excessive collateral requirements,

minimum loan amounts that were simply more money than most enterprises or entrepreneurs wanted or could afford to borrow, and an unwillingness to do longer-term lending. These characteristics defined the “missing middle” of enterprise finance in Moldova.

BIZPRO made good progress in addressing this missing middle by assisting banks and non-bank FIs with going “downstream” and lowering the minimum loan amounts for clients. However, the project was held back by the Moldovan laws that made it difficult for banks to go downstream and also impeded its efforts to move SCAs “upstream” by allowing them to lend to enterprises. In Phase II of the program, BIZPRO discontinued its direct technical assistance and financial assistance to SCAs and began to focus its efforts on work with commercial banks and nonbank FIs instead, largely with the support of the Development Credit Authority’s Loan Portfolio Guarantee mechanism (DCA LPG) which was added to the BIZPRO contract in FY 2003.

Strengthening SCA Operations and Lending. BIZPRO provided technical assistance to SCAs to improve their operations, work on the laws and regulations which govern SCA operations toward the goal of allowing them to lend to MSMEs, and rewarding the 10 top-performing SCAs by providing them with IT equipment and training to help them automate their operations. Technical assistance included:

- Assessment of demand for services;
- Diagnostics of microfinance institutions’ capacity to provide services;
- Surveys on current constraints;
- Developing a specific technical assistance program for each partner;
- Monitoring, collecting feedback and improving the content of technical assistance programs;
- Analysis of results and fulfilling of planned indicators;
- Developing recommendations for further activities.

Training was provided on lending, savings mobilization, risk management, business planning and financial modeling, marketing and promotion, accounting issues, and internal auditing.

Introducing International and Regional Best Practices. Two conferences on microfinance were organized with assistance from BIZPRO. The first national conference, “The Microfinance System in the Republic of Moldova: Achievements and Perspectives,” took place in May 2002. In 2003, BIZPRO organized an international conference, “Sustainable Development of Cooperative Microfinance Institutions,” for which it hosted both the local microfinance stakeholders and international guests. The overall objective of the conference was to share attendees’ experiences in establishing a sustainable cooperative financial system, as well as information about regulation and supervision in the microfinance systems in the region.

Increase Access to Credit for Young Entrepreneurs. This activity was carried out by BIZPRO in 2003. In response to a US\$6 million fund established by the World Bank and other donors, BIZPRO worked with young entrepreneurs (recent university/technical school graduates) to expose them to the range of credit options available to them in setting up businesses. BIZPRO conducted training throughout Moldova for over 150 individuals in applying for credit, developing business plans, and informing people about this new loan program.

PHASE II: PROJECT ACTIVITIES

In January 2004, BIZPRO was redesigned after a review of the first two years of operations. Certain elements were eliminated, others were improved, and new activities were introduced. Activities in the three core technical areas that were improved to use current international best practices and to be responsive to a Moldova that found itself more than 10 years on from independence and with an ever expanding European Union getting closer to its border with every passing year. While maintaining a focus on the three areas of business development, regulatory reform, and access to credit, new activities and practices were introduced to strengthen the program's delivery and impact.

Ultimately, in Phase II, BIZPRO assisted the Moldovan government and key private stakeholders in implementing an unprecedented reform agenda to improve the business environment, with the full partnership of the business community. This is one of the most significant results of the program and will affect the business environment for years to come.

In addition to the redesign of the program activities described below, BIZPRO was also requested by USAID/Moldova to undertake four key studies that have helped inform USAID's Moldova Country Strategy (2007–2013) and the discussions surrounding the proposed MCC/Moldova agreement.

Competitiveness Assessment. The competitiveness assessment was completed in July 2004. The resulting report, *Assessing Competitiveness in Moldova's Economy*, became the guiding document for orienting and designing BIZPRO activities; it provided the framework for Phase II of BIZPRO and drove the development of regulatory reform to increase the competitiveness of the overall economy. A practical outcome of the assessment was the more active participation of target groups in workshops, on the one hand giving the workshops more character, and on the other hand, giving their organizers better access to information via a more engaged clientele. Moldovan government and private sector leaders were engaged in the process to ensure that the assessment did not have the flavor of a review conducted by international experts, but was truly characterized by, and driven by, Moldovan realities.

Review of the Privatization Process in Moldova, August 2005: Status and Options. During the summer of 2005, the Government of Moldova and USAID asked BIZPRO to assemble a small group of international experts from DAI and a number of renowned Moldovan economists to undertake a highly confidential review of the privatization of state enterprise and state property. The report was accepted by the Moldovan government and greatly appreciated by the U.S. government and USAID. It also helped form the basis by which the International Monetary Fund and the Moldovan Government were able to reach a new “standby” agreement.

SME Strategic Assessment Review, August 2005. To help redesign the strategy for SME development in Moldova within the context of the recently concluded European Union (EU)/Moldova Action Plan, the Government through USAID approached BIZPRO to undertake an assessment of the policies, funding, and institutional structure of support to the SME sector. The review benchmarked Moldova's public and private sector institutional SME support to compare it with that of EU member-states, especially the newly accessioned countries of Eastern Europe and the Former Soviet Union (FSU).

The Moldovan government wholeheartedly accepted the key findings and recommendations of the review, which formed the basis of the new national strategy for SME development. This innovative

approach is attracting renewed collaboration with the EU, in a variety of forms, and has drawn bureau-wide interest within USAID.

Assessment of State Procurement Practices in Moldova–August 2006. Before the BIZPRO buy-in for Moldova closed in September 2006, USAID requested a review of the state procurement process and practices to help inform its Moldova Country Strategy (2007–2014), as well as the expected MCC Threshold and eventual Compact Agreements.

The report lays down the basis for continuing support in a problematic area of public procurement to ensure that best practices are transparently instituted and maintained for the benefit of both Moldovan and U.S. taxpayers.

Task I: Business Development

During Phase II, BIZPRO focused its business development activities on the delivery of assistance to entrepreneurs, including startups, to improve their business performance through increased capacity in organizational development, information management, and business skills. This task included analyzing the business environment, meeting training needs, and developing business opportunities for enterprises and BIZPRO's strategic development partners.

The resulting documents, *Economic Growth Areas Assessment* and *Assessing Competitiveness in Moldova's Economy*, detailed how the excessive regulatory environment led to poor business performance and a deficiency of competitive business skills. While these reports helped drive the development of BIZPRO's regulatory reform work, they also informed the structure of its work in the business development component, building on the clearly recognized need to help enterprises and entrepreneurs better understand their rights, responsibilities, and opportunities and to improve their access to markets and business skills.

This task addressed the business community's needs for information with success stories that illustrated best business practices, supported trade show participation, and trained managers in advanced business skills and application of specific tools to their industries. The program supported its strategic development partners with technical assistance designed to improve their institutional capacities to further provide skills and services to enterprises. For Moldovan enterprises, the value to be added under this component can be summarized as strategic management for more competitive positioning through information and knowledge that generates better business performance.

Improved Quality of Business Services to SMEs. The training and consulting industry has been evolving in Moldova only since independence. Any cursory review would lead one to believe that there is a market for business services, with at least 60 organizations offering consulting services at the time of this writing. However, nearly 15 years after independence, the majority of BSPs' training services are still subsidized by international donors. Given this state of affairs, BIZPRO saw an opportunity to develop a network of BSPs with the objective of developing the managerial and technical skills of these organizations, trainers, and consultants, so that they would be better positioned to provide demand-driven business services training and consulting services to private entrepreneurs and small-business representatives on a commercial basis.

BIZPRO therefore organized meetings, roundtables, and other activities to stimulate networking among these service providers. In addition, a series of training courses for BSPs was designed and delivered using international STTA, who also trained local trainers to deliver the instruction. As

subsequent training series were carried out, the best of these local instructors by took over the training of other new instructors, thus building Moldovan capacity.

Task II: Regulatory Reform

In 1991, Moldova gained its independence and began its transition toward a free market economy. With a long history of anti-business sentiment within the government, progress was slow. During the first decade of independence, numerous unwarranted business regulations and laws were passed by ministries, departments and even semi-independent state agencies, often without consultation with investors and the business community. As a result, business newcomers were fearful, foreign investors were skeptical, and Moldova's economic development was at risk.

In Phase II, the BIZPRO project in Moldova assisted the Moldovan government and key private stakeholders in implementing an unprecedented reform agenda to improve the business environment, with the full partnership of the business community. Through both national and regional level initiatives, BIZPRO facilitated the Government of Moldova's introduction of the Regulatory Guillotine (see next paragraph) as a tool for rapid reform. The project also helped draft Moldova's basic law setting out the fundamental parameters for state regulation of business and establishes the regulatory impact assessment (RIA) as a principal tool for economic governance. Paired with building capacity for business associations to advocate effectively at local and national levels, these measures promise to have a significant impact on the business community and on the process for future business regulations. These successes are the direct result of several BIZPRO interventions, including the following:

National-Level Reform Activities. In 2004, USAID worked closely with the Moldovan government to pass the revolutionary new "Guillotine Law," which cut ambiguous, redundant, and ineffective business regulations and acts impeding investment and enterprise development. The law also spurred development of public-private relationships. The private sector joined the government in WGs to review business regulations and help drive implementation of the new law.

Accordingly, the anti-business culture began to shift, with the government opening Moldova's doors for the first time to a participatory and catalyzed private sector.

The Guillotine. The Guillotine Law has helped Moldova reduce unnecessary legislation and policy directives that have weighed down investment and business development.

Passed in December 2004, the Guillotine Law chops all acts from the book that are not specifically retained, circumventing the need to repeal them individually. The legislation also requires government decisions to be made transparently, and restricts the government from conducting abusive state inspections and controls in the private sector. Also of crucial importance is that the new law demonstrates Moldova's progress in its transition toward a free market economy and eventual European integration.

The regulatory guillotine was formally erected with the publication of two governmental decisions in Moldova's *Monitorul Oficial*, the Moldovan equivalent of the Federal Register, in September and October 2005.

The Guillotine rapidly reviews regulations and eliminates those no longer needed, without the need to take lengthy and costly legal action on each. Clear, decisive, and fast, it generates a comprehensive regulatory registry, as follows:

- The government instructs all agencies to establish lists of their regulations.
- As the lists are prepared (in consultation with the private sector), unnecessary, outdated, and illegal rules are excluded.
- A central list consolidates the ministries' lists, and any regulation not on the list by a fixed deadline is cancelled without further legal action (the Guillotine “drops”).

A key activity in implementing the Guillotine was to establish a National Working Group (NWG) to reform regulations affecting the business environment. The NWG had a legally defined executive role under the new Guillotine and RIA legislation. The NWG was intended to be the primary public-private partnership that will drive the implementation of legal and regulatory reform under the frameworks and timelines established by Guillotine and RIA legislation.

The NWG's regulatory reform activities during the Guillotine exercise roughly followed the following six-month timeline, divided into three phases:

- Phase I: All public authorities present to the NWG a list of normative acts with a regulatory impact.
- Phase II: The NWG assesses and comments on each normative act and, based on principles established in law, decides whether it should be included in the Registry of Acts.
- Phase III: The NWG makes public the results of its work during Phase II and interested parties participate in revising the acts. Within 15 days, the NWG elaborates the final version of the Registry of Acts and, via the State Commission for Regulatory Reform, presents it to the government for approval.

Three critical tools for implementing the guillotine and facilitating regulatory reforms were the creation of the registry of inspection authorities, the registry of normative acts, and a regulatory reform internet portal to ensure effective participation of the private sector on the NWG.

The Registry of Control and Inspection Authorities. In August 2004, BIZPRO, jointly with the Ministry of Economy and Trade, agreed on establishing an electronic registry of authorities empowered with inspection functions to collect, process, store, update, and analyze data to be made available to public authorities and Moldovan businesses.

The registry was set up to provide a framework ensuring a more efficient operation of state inspection bodies in full compliance with the provisions of normative and legislative acts. The Registry of Control and Inspection authorities was implemented by the ANALITINFORM Informational Analytic Center under Moldova's Ministry of Economy and Trade.

The Registry of Normative Acts to Govern Business in Moldova. Upon the request of the Ministry of Economy and Trade, BIZPRO developed a Registry of Normative Acts to include all regulations which have successfully passed the Guillotine process with its three review filters. It is intended as a user-friendly Web platform that allows easy access by business community to business regulations that affect business performance. This platform was designed to ensure full compatibility with the Registry of Control and Inspection Authorities by enabling users to trace the link from a particular legislative act to the business area it regulates and the government body responsible for enforcing it and determining its scope of authority.

Regulatory Reform Portal. The NWG website is the portal for information, interaction, resources, and reporting on the regulatory reform process in Moldova. The purpose of this online channel is to promote transparency, accountability and oversight. The portal is an essential element in building the regulatory reform “brand” in that it supports the brand drivers of visibility, power, and speed. The targeted audiences in Moldova include business owners and operators, the media and public sector representatives at all levels.

Branding the Reform Effort. BIZPRO worked with government, business, and civil society reform leaders to brand reform efforts and better communicate their objectives and results, winning popular support for massive reforms. The “Fight Back” campaign stimulated public involvement in reform with posters, billboards, and other visuals carrying the distinctive Regulatory Reform for Moldova (RRM) symbol, a blue flag. These visual products display the Government of Moldova emblem, signifying official ownership as well as support for a citizen’s right to question public officials. Broadcast advertising and special events strengthen brand identification. Content, scripts, and taglines are managed to ensure consistency, and government leaders reinforce the brand’s positioning with personal appearances in various media.

The flagship of the communications strategy was a suite of billboards designed for high visual impact. By customizing each city’s billboards, the campaign reinforced the work of the RWGs and underlined the regional component of the RRM process. To reach regional and local stakeholders, the campaign placed billboards in 12 cities outside the capital. In Chisinau alone, an estimated 100,000 people see an RRM billboard every day. In the 12 regional centers combined, some 150,000 people see the billboards.

Making National Reforms EU-Compatible. The OECD launched the Investment Reform Index to monitor compliance with the Investment Compact for Southeast Europe, target technical assistance to support implementation, encourage private sector support, and strengthen the national government’s will to reform. BIZPRO advised the OECD and government officials on facilitating this initiative in Moldova.

Regional-Level Reform. BIZPRO balanced the aggressive national-level interventions with support to reformers at the local and regional level. This bottom-up approach grounded national efforts described above to stimulate a “virtuous circle” in which local demand for business climate reform feeds back to the central government.

Local authorities and local business leaders are natural partners in improving the business environment. Not only do they control and facilitate many aspects of commercial regulation and inspections that affect enterprises, but both groups are frustrated at their inability to further support business investment in their communities due to unresponsiveness at the state level.

BIZPRO established and supported the efforts of RWGs as networks with local businesses and authorities. Each RWG was responsible for:

- Serving as a forum for municipal managers and business leaders to identify business and investment impediments and reach consensus on proposed solutions within their remit;
- Acting as a coordinating body to oversee the development and operations of OSSs serving the local public administration, private sector, and communities; and

- Providing on-the-ground feedback to national reform leaders through the NWG to confirm that key regulatory reform issues have been identified and concrete reforms implemented.

OSSs are offices where different state bodies will be providing a variety of services, including those regarding starting a business (see explanation under next item, “Simplifying Regulatory Processes”). This will considerably simplify the regulatory procedures entrepreneurs must deal with. At the regional level, 15 electronic OSSs have been created.

Simplifying Regulatory Processes. BIZPRO assisted in the adoption of a number of regulatory reforms, including the creation of electronic OSSs for trade and business registration. This new facility reverses the old approach that required an entrepreneur to go to as many as 12 government offices, presenting the same information time and time again. Now, the OSSs allow business owners to deliver their basic information to a single collection point, which puts the information online and distributes it to all necessary government offices electronically. The software application, developed with BIZPRO support, allows for expansion of services to include the construction industry.

Task III: Increased Access to Credit

One of the major impediments to enterprise development in the Republic of Moldova has been limited access to financial resources and services. During Phase I, interventions under Task 3 were appropriate for a primarily agricultural-based economy with a large population of rural poor. However, the strategy was based on the premise that microfinance services for poor, rural individuals will be supported (subsidized) for the long term and emphasized individuals over businesses.

During Phase II, BIZPRO focused on three core objectives in the financial services area in Phase II:

- Objective 1: Improve the regulatory framework, allowing FIs to extend loans to SMEs;
- Objective 2: Increase FIs’ abilities to lend to SMEs through the development of new financial products and technologies and the development and implementation of a USAID Loan Guarantee Program;
- Objective 3: Facilitate information and knowledge dissemination to the business community regarding new financial products and services.

As a result of these efforts, BIZPRO successfully introduced a series of competitive financial products and facilitated the entry of major European FIs into the Moldovan market. BIZPRO’s activities to achieve specific objectives are detailed below.

Objective 1: Improve the regulatory framework to improve the ability of FIs to extend loans to SMES

At the beginning of Phase II, the regulatory environment severely limited the ability of commercial banks, and, to some extent, non-bank FIs, to deliver financial services to SMEs. Specifically, BIZPRO identified needed reform in legislation and regulations that would focus on:

- Improvement of the banking legislative framework that inhibited banks’ ability to issue long-term loans and loans of moderate size;
- Attracting long-term resources to the Moldovan financial system;
- Development of legislation that would allow the creation of credit bureaus.

BIZPRO addressed these regulatory issues through activities in Task 2: Regulatory Reform and with the cooperation of its strategic partner, the Moldovan Bank Association. Together, they initiated the Financial Services Working Group (FSWG) composed of representatives of leading FIs, SMEs, and government officials. The WG served to develop legislative proposals in the financial services area, to review and comment on legislation, and ensure that financial services issues were being addressed from the grassroots up to and through the regional and national levels and eventually within the NWG.

Credit Bureau. BIZPRO made efforts to elevate the level of understanding as to the content and value of a credit bureau and the challenges that would be faced in the creation of credit bureaus in Moldova. As a result of these efforts, the credit bureau concept has been embraced by the groups and natural persons who were interviewed, as well as by government officials and senior business leaders.

In partnership with the Moldovan Bank Association, a Credit Bureau Task Force was created as a subgroup of the FSWG. The task force's objective was to finalize the legal framework for establishing and operating credit bureaus. The WG created a draft credit bureau law and amendments to existing laws to provide a framework for the operation of a bureau.

In addition, the project hosted more than 100 people in two conferences: "Best Practices in Establishing and Operating Credit Bureaus" and "Constructing a Credit Bureau for Individuals and for SMEs in Moldova." The conferences enabled participants to gain a better understanding of credit bureaus, their value, and how they function.

Leasing. BIZPRO contributed to the development on the new leasing law, building upon DAI expertise and work already done in this area. BIZPRO organized a roundtable, "Regulations Concerning Leasing Operations in the Republic of Moldova," with the participation of representatives from local consulting firms. This event aimed at informing those present on new opportunities to finance businesses provided through the law on leasing, as well as through recently approved amendments to the tax code, customs code, etc.

The same subject was in focus at another roundtable, attended by representatives from FIs (leasing companies and commercial banks) and ministries (Ministry of Finance, Ministry of Economy and Trade), as well as the main state tax inspectorate. Participants discussed the new regulatory framework governing leasing operations in Moldova and learned about international practices in this field. The presentation of the new regulatory framework for leasing operations was made with assistance of consultants from Ernst & Young who were directly involved in developing drafts of the regulatory acts mentioned above.

Though negotiations are not yet complete, BIZPRO was able to facilitate a letter of agreement between an Italian firm, one of the biggest leasing operators in Europe, and Mobiasbanca, an innovative Moldovan bank, to create a joint venture equipment-leasing company. The reasons for selecting Mobiasbanca as a BIZPRO partner in implementing this activity were twofold. First, the SME share of the bank's loan portfolio is the highest among Moldovan FIs (around 60 percent). In addition, the Mobiasbanca's senior management showed a strong interest, willingness, and readiness to develop equipment leasing in Moldova.

Following the production of a market report on the leasing sector in Moldova, which was co-financed by BIZPRO and Mobiasbanca, BIZPRO developed a business plan for a leasing company for Mobiasbanca. BIZPRO also contacted numerous international finance institutions to gauge their

interest in investing. Several of these institutions expressed an interest, but indicated that a prerequisite would be the involvement of a technical partner—that is, an established and reputable leasing company. One of the dominant FIs in banking and leasing in Central and Eastern Europe sent a delegation to Moldova with the key objective of negotiating a “win-win” relationship with Mobiasbanca to create a joint venture equipment-leasing company. The negotiation between the Italian entity and Mobiasbanca continues.

Objective 2: Increase FIs’ abilities to lend to SMEs through the development of new financial products and technologies

Through the development of new products and services and with the DCA LPG program, BIZPRO helped banks to go “downstream,” increasing the number and value of loans made to SMEs throughout Moldova and improving the terms of lending for these loans. Because there was a significant gap between the SMEs funding needs and the portfolio of products and services offered on the local financial market, BIZPRO focused on development of new financial products and services in partnership with FIs.

Key tasks included:

- A nationwide market research study to analyze SMEs’ needs and estimate their demand for financial products and services. All of the FIs in Moldova lacked clear and reliable information on demand in the SME sector. This information problem increased the transaction costs for each bank in attempting to serve this sector.
- Assessment of products and services of bank partners and their capacity and willingness to develop new products and services. Historically, most FIs were methodology-driven rather than market-driven because they operated in markets with little competition.
- Selection of strategic partner banks to support. BIZPRO worked with senior management of the six commercial banks in Moldova to identify those institutions that were best prepared to assume the task of new product development.
- Support to selected bank partners in the development of new products and services using international STTA.

LPG Program. BIZPRO established a Guarantee Monitoring Unit under the DCA LPG within BIZPRO. USAID started to implement the LPG facility for Moldovan commercial banks in 2000, with the goal of encouraging commercial banks to extend credit to microenterprises, small businesses, and farms. Commercial banks’ risks were covered by USAID at a ratio of 50 percent of the value of the loans granted within this program.

Building on the success of the LPG, USAID extended the guarantee facility within the DCA LPG program to four new FIs. Under the DCA LPG facility, six commercial banks and one non-bank organization initiated guarantee agreements with USAID that if fully utilized could see loans in total amount of \$27 million being provided to Moldovan enterprises.

BIZPRO staff on the financial services team supported the entire DCA LPG process and acted as the monitoring unit for USAID and the DCA program. Key tasks included:

- Preparing the documentation for fulfilling the requirements of the Guarantee Agreements with USAID (Section 8.01), including the development of FIs' business plan under the LPG program;
- Identifying and selecting qualified projects, loans, and borrowers;
- Using the Credit Monitoring System software and reviewing the data incorporated in it;
- Monitoring compliance of selected projects, loans, and borrowers with the guarantee;
- Verifying the files of borrowers placed under LPG coverage providing consulting on to borrowers under LPG;
- Reviewing lists of LPG borrowers with days in arrears, providing consultations on preparing the claims, and verifying borrowers' files and post-claim recoveries from LPG borrowers; and
- Monitoring visits to FIs placed under the LPG coverage, ensuring that their activities are in compliance with the stipulations of guarantee agreements, and collecting materials for success stories featuring their borrowers' businesses.

Creation of New Financial Products—Domestic Factoring. Moldova-Agroindbank, in partnership with BIZPRO, created a domestic factoring product, a new financial product on the local market. The product yielded tangible results—a contract with a European bulk supplier. “The assistance provided by BIZPRO in developing domestic factoring was especially valuable,” said Ala Polustanova, head of Product Development and Administration at Moldova Agroindbank. “The design exercise created an innovative product, and the bank won an important contract with Metro Cash and Carry Moldova.”

Introduction of Credit Scoring. Credit scoring is an innovative banking technology allowing for initial screening of SMEs applying for credits. It assesses the applicant companies based on criteria selected individually by the beneficiary bank.

At the end of 2003 BIZPRO initiated a program to develop an internet-based credit-scoring software application for SME lending. This software permits FIs to carry out online reviews and can be adapted to each bank's specific risk parameters.

The pilot testing was conducted with. With BIZPRO assistance, Agroindbank later adjusted this software application for retail (consumer) lending as well. It was used for scoring more than 13,000 applications during the first year.

Upon request from Moldindconbank, Mobiasbanca, FinComBank, and Banca Sociala, BIZPRO helped develop a simple model of credit scoring. BIZPRO provided the software and the banks selected the criteria to be used in the scoring

Objective 3: Facilitate information and knowledge dissemination to business communities regarding new financial products and services

Given the lack of information about financial services in the Moldovan market, BIZPRO undertook a variety of activities to ensure that the business community became aware of BIZPRO's work in the financial sector and to bridge the gap between lenders and enterprise. A variety of training classes, information seminars, and individual consulting seminars were offered and covered an extended list of topics, including:

- How to get a loan/credit from Moldovan banking and non-banking institutions (two rounds);

- Roundtables on the regulation of leasing operations in Moldova; and
- Seminars on domestic factoring.

RESULTS AND IMPACT

RESULTS

- 826 managerial staff (from 247 SCAs) trained in risk management.
- 613 managerial staff (from 233 SCAs) trained in lending procedures.
- 704 Censor Committee members (from 344 SCAs) trained in internal auditing.
- 477 accountants (from 502 SCAs active at that moment) trained in accounting issues and in the new accounting standard for SCAs.
- 75 trainers (from the National Federation of SCAs, State Supervisory Body of SCA Activity, Rural Finance Corporation, Rural Development Center, and Moldova Microfinance Alliance) trained under the Training of Trainers program.
- 100 managerial staff trained under the Dedicated Technical Assistance and Development Support Program for Top-Performing SCAs.
- Seven manuals from the Microfinance Library series published and disseminated to the SCAs Network beneficiaries (*Savings Mobilization in SCAs; Some Aspects of Business Evaluation for SCAs; Business Planning for SCA Members; Basics of Marketing for SCAs; Lending Course for SCAs*, vol. 1 and 2; *Medium-Term Lending for SCAs*; and *How to Get a Loan/Credit from Banking and Non-Banking Institutions in the Republic of Moldova*).

BIZPRO also provided assistance in developing the “Microfinance Development Strategy in the Republic of Moldova,” a discussion paper submitted to government and nongovernment microfinance stakeholders.

Moldovan government officials believe that the guillotine process will substantially reduce the 300 million Moldovan lei (US\$24 million) that businesses were once required to dole out annually in government fees.

Moldovan President Vladimir Voronin gave support to the process. “The issue here is that without these reforms, without the creation of new work places, without the creation of new modes of production, this country will come to a standstill in four years,” Voronin said in a late October interview in *Komsomolskaya Pravda*.

About 40 percent of all business-related laws and regulations in Moldova were affected, with 10 percent of them cut and another 30 percent sent to a special government commission addressing regulation streamlining.

“The application of the Guillotine Law is one of the most significant events in the reform process since Moldova’s departure from the USSR,” said USAID Country Program Officer John Starnes.

IMPACT

Annex I contains success stories that have been developed by BIZPRO and submitted to USAID that detail the project's impact in core areas of implementation.

CHAPTER FOUR: BIZPRO BELARUS

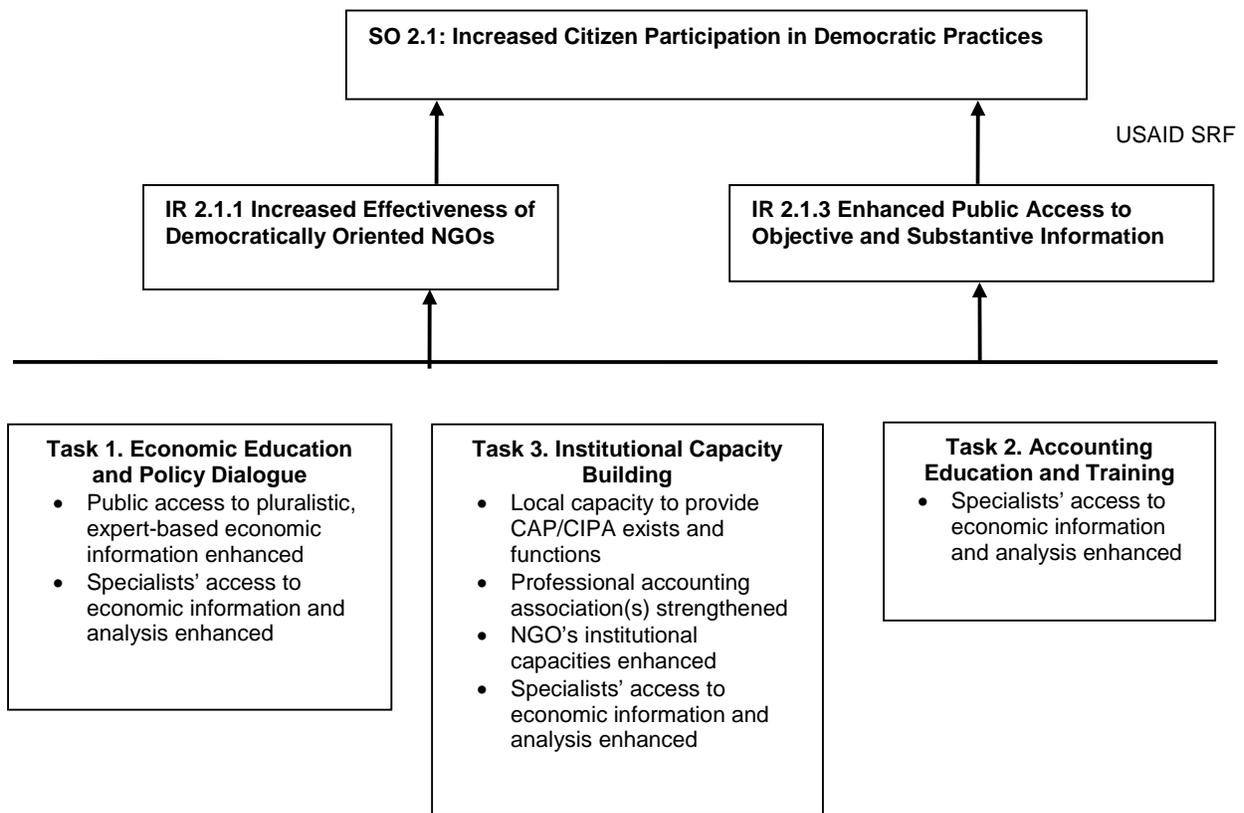
OVERVIEW

PROJECT OBJECTIVES AND APPROACH

The Belarus buy-in to the BIZPRO contract was executed in April 2005 and closed down in December 2006. The total value of the buy-in was \$1,270,447.

The purpose of the project was to further the achievement of the Mission’s SO Framework (see Figure 6):

FIGURE 6: USAID/UKRAINE’S SO FRAMEWORK



The USAID Mission for Ukraine, Moldova, and Belarus designed BEEP through a regional BIZPRO Project buy-in. The project’s goal was to provide a broad range of professionals and the general public with access to information regarding ways to improve the country’s long-term economic

growth and, specifically, foster improvement of financial reporting in Belarus to bring it into compliance with international standards.

The project was expected to:

- Provide government officials, academia, think tanks, private enterprises, and civil society at large with greater exposure to mainstream economic principles. As a result, the target groups were expected to be better informed regarding the options for economic development in Belarus.
- Inform and educate the local stakeholders about international financial reporting standards (IFRs) and existing local, regional, and global practices, as well as the benefits associated with a wider introduction of IFRs in Belarus. Additionally, the project would train select groups of Belarusian accountants in international standards, practices, principles, and ethics, leading to more financially sound Belarusian enterprises.
- Build and strengthen the capacities of selected local entities to provide economic education and training and continued post-project activities. As a result, the institutional capacities of local stakeholders would be strengthened and supporting infrastructure developed, contributing to economic transformation in Belarus.

The project was implemented from April 1, 2005 to December 31, 2006.

Project Approach

The project was divided into three components, each with a unique approach and strategy to achieving project objectives:

- Economic Education and Policy Dialogue (EPPD)
- Accounting Education and Training (AET)
- Institutional Capacity Building (ICB)

EPPD

Belarus has not yet embarked upon a comprehensive program of market economic reforms. The country managed to improve certain economic indicators over the last several years and avoid transition shocks. Yet, despite the proclaimed social landmarks ostensibly guiding the development of the country, ineffective government policies and bureaucracy stifle economic development. This significantly increases the risks of a gradual deterioration of living standards and means the country is missing opportunities other regional economies enjoy from market transformation. Belarus, with a predominantly state-owned economy operating in a largely constrained regulatory environment, remains in the group of the least reformed transition states.

USAID was engaged in the economic sector in Belarus from 1993 to 2002. But since that time USAID has not been active in Belarus's economic growth area, due in large part to the small budget for Belarus and negligible commitment on the part of the Government of Belarus to conduct significant economic reforms. Limited support was rendered through a regional USAID project to the Belarusian business community and economic professionals enabling them to take part in the regional trainings in Lithuania.

While the prospects for extensive technical assistance in the economic area were limited, there were a number of areas in which USAID was able to carry out activities to stimulate growth and reform. In particular, as also indicated on the part of the beneficiaries of the previous USAID programs in this area, there was a need and interest from numerous stakeholders to discuss, understand, and apply market-economy principles and tools in certain fields. By catalyzing a dialogue involving government officials, private business, and civil society regarding various facets of regional economic dynamics, integration, and economic reform, USAID hoped to increase the stakeholders' understanding of the benefits of reform and build support for a reform agenda.

BIZPRO's interventions took into account several challenges:

- How can Belarus optimize benefits from its location through a balanced parallel integration in two geographic directions—East and West?
- How can Belarus expand into new markets, especially in the European Union, without losing its traditional comparative advantages within Commonwealth of Independent States (CIS) markets?
- How can Belarus prepare for its integration into the European (EU/EFTA) and global (World Trade Organization, or WTO) market economies?
- How can Belarus better exploit the economic opportunities of CIS membership? From a trade policy perspective, what should be its medium-term priorities for future CIS negotiations on trade integration?
- How can Belarus diversify its trade flows and minimize its current over reliance on one dominant trade partner?

To help address the questions above, BIZPRO was designed to promote economic dialogue by conducting research on issues important for the country's economic development and discussing these issues with public and private sector specialists at major conferences and seminars. This information was also disseminated widely through publications and Internet. Additionally, participating organizations and professionals received specialized training in economic issues in Belarus and abroad.

AET

Belarusian enterprises in growth sectors, particularly those seeking to export or to attract foreign investment, must be able to demonstrate to their partners that they have appropriate financial controls and standards before trade deals will be made or investments secured. A key aspect of this is ensuring that enterprises adopt and use internationally accepted accounting practices. USAID has had great success in supporting the CIPA program in FSU countries to enhance the accuracy and credibility of financial reporting in these countries.

The CIPA program has two levels of certification. The initial level, CAP, requires that the candidate successfully pass three exams: Financial Accounting 1 (FA 1), Managerial Accounting 1 (MA 1), and Tax and Law (T&L). The upper level, CIPA, requires four more exams in addition to the CAP level: Financial Accounting 2 (FA 2), Managerial Accounting 2 (MA 2), Audit, and Finance. BEEP offered training, examination, and certification to the CAP and CIPA levels. The CAP/CIPA examinations are developed and scored by the CIPA institute, based in Moscow.

ICB

The ICB was both the means and the goal of the project. It was needed for proper implementation of the project, to ensure that the local capacity exists after the project is over. The Institute for Privatization and Management (IPM) was the major subcontractor to BIZPRO in Belarus. BIZPRO has worked to enhance IPM's organizational and technical (research) capacities.

In addition, BIZPRO worked with local accounting professional associations to meet International Federation of Accountants (IFAC) professional standards, including that of certification-based membership. BIZPRO organized a study tour for the association in St. Petersburg, Russia, to learn about their experience and practices. During the tour they were accepted with full membership into the Eurasian Council of Certified Accountants and Auditors (ECCAA).

PROJECT MANAGEMENT

Project Team

Valery Yalouskikh was the BIZPRO/Belarus Country Director, residing in Minsk. He reported to the BIZPRO Project Director for Ukraine, Moldova, and Belarus, who resided in Kyiv, Ukraine. In addition, the IPM, which is likewise based in Minsk, served as BIZPRO's primary counterpart in implementing BEEP. The IPM is one of the leading centers for business education in the country and works in close cooperation with institutions of the Government of Belarus involved in the process of formation and implementation of economic policy. Its staff greatly contributed to the success of the project by bringing in their extensive experience and outreach in Belarus. The IPM's Research Center promotes the competitiveness of the Belarusian economy through educational support of private business and creation of human resources for market reforms. For BEEP implementation, BIZPRO used the center to conduct research and present the results at seminars, regional roundtables, workshops, and conferences. BIZPRO also cooperated with other independent counterparts in Belarus who brought their expertise and local experience to the BEEP project. The research papers produced by BEEP discuss specific economic policy issues and serve as handbooks and manuals for both the public and the private sector in Belarus.

PROJECT ACTIVITIES

ECONOMIC EDUCATION AND POLICY DIALOGUE

BEEP conducted independent research to facilitate thematic seminars and conferences and to promote a robust dialogue about economic reforms and growth. The studies included surveys, econometric analysis, development of an econometric model of the Belarusian economy, and dissemination of such research through an economic journal, other print publications, and the internet.

BEEP conducted numerous studies and independent research and discussed the results with representatives of the public and private sectors and local academia to build a base for an economically sound dialogue about reform impact and growth potential.

The results are as follows:

Two surveys

- *Survey of exporters*: Interviews with 220 Belarusian enterprises that export their own goods and services were completed in all oblasts of Belarus. Results of the exporters survey help identify obstacles to competing effectively, including both administrative (regulatory) and internal difficulties, such as management challenges and issues of building relations with partners. Results of the survey were presented and discussed at all the regional roundtables and at the Problems in the Development of Belarusian Export Potential and WTO Accession Issues workshop.
- *Survey of the fast-moving consumer goods (FMCG) sector*: The aim of the survey was to study the current status of the FMCG sector in Belarus, its problems, and its opportunities for development. During the study, producers and distributors in the sector were surveyed in order to obtain the most detailed information possible. Results of the research were presented and discussed at the Competitiveness of the National Economy conference in March 2006.

Two national conferences

- Economy of Belarus: Current Situation, Main Problems, and Development Prospects
- Competitiveness of the National Economy

The total number of participants at the two conferences was 115.

Nine research projects and workshops

- These were organized jointly with the IPM:
 - Problems in the Development of Belarusian Export Potential and WTO Accession Issues
 - Problems of Monetary Policy: The Experience of Transitional Economies and Specific Belarusian Issues
 - Privatization and Attracting Foreign Direct Investment: International Experience and Opportunities for Belarus
 - Effective Management of Public Finance
 - Issues in Trade Policy
 - Issues in Pension Reform
 - Impact of Energy Price Increases on Economic Growth
- Organized with other local partners:
 - Investment in SMEs in Belarus: Barriers and Opportunities
 - Regional Differentiation of Prices, Income of People in Belarus

All workshops were conducted in Minsk. Participants represented both public and private sectors. The workshops drew 412 participants in all, including regional and national-level representatives. Results

of the discussions and participants' feedback were summarized and incorporated into the project's final book, *The Economy of Belarus: Trends and Challenges*.

Five regional roundtables (organized in Mogilev, Grodno, Vitebsk, Gomel, and Brest)

- Problems in the Development of Belarusian Export Potential and WTO Accession Issues

BIZPRO organized regional workshops to present preliminary results of the exporters survey to participants, discuss the most important problems of exporters located in each oblast and ways to solve those problems, and potential benefits and costs of future accession of Belarus to the WTO. The roundtables were organized by IPM, BIZPRO's local partner, jointly with Belarusian Science and Technology Association and local oblast organizations.

The total number of participants of the regional roundtables was 397 including regional and national level representatives.

The issues discussed at the roundtables were:

- Problems of VAT reimbursement when exporting to Russia.
- Inconsistent current legislation that causes problems for export activity.
- Lack of effective distribution networks, which negatively affects enterprises' competitiveness.
- Timing and consequences of WTO accession of Belarus.
- Potential impact of increased prices of natural gas imported from Russia on competitiveness of Belarusian enterprises.

Four issues of *ECOWEST* quarterly economic journal (electronic and print copies).

All four issues have been printed in limited numbers and distributed to specialists and organizations.

One book

The Economy of Belarus: Trends and Challenges summarized all research results, conclusions, and feedback from participants of the conferences, workshops, and roundtables conducted.

One brochure

Major Macroeconomic Relationships in the Belarusian Economy: Results of Econometric Modeling presents a macroeconomic model and forecast for Belarus based on the knowledge and skills obtained by IPM researchers during relevant study tours and trainings organized by BEEP.

Two training courses in quantitative methods of analysis

BEEP worked with local economists to improve the quality of and deliver training courses on quantitative methods of economic analysis (forecasting methods in business) for specialists from different businesses (for example, MTC and MDC— two Global System for Mobile Communication telephone system operators—as well as Milavitsa, Minsk Auto Plant, LukOil Belarus, and Lanta Bank). The total number of participants of these courses was 36.

One training session in the General Algebraic Modeling System

This training, focusing on an advanced macroeconomic modeling system, was delivered by leading international experts in this field to Belarusian economists from IPM, government institutions, and academia. Conducted in Minsk, the session drew 14 participants.

Three study tours

BEEP organized cross-border exchanges and study tours, facilitated participation in major economic policy forums abroad including training events in relevant economic subjects for select individuals from the partner organizations.

Two representatives of the IPM Research Center took part in the training course on macroeconomic modeling within the EcoMod program (Washington D.C., April 3–8, 2006). The practical skills obtained during this training course were used to build a macroeconomic model of the Belarusian economy.

BIZPRO also sent IPM representatives to the 2006 annual meeting of the American Economics Association in Boston, Massachusetts, USA, and sent IPM and National Bank of Belarus representatives to participate in a course on panel time-series in London.

ACCOUNTING EDUCATION AND TRAINING

Through a subcontract with a local organization, BEEP conducted the following activities:

- Developed the Belarus Tax and Law course and the corresponding examination questions, including syllabi, textbooks, and supplemental materials.
- Conducted an information campaign to introduce the CAP/CIPA program and associated activities.
- Conducted CAP training courses, including courses in FA 1, MA 1, and T&L, as well as one series of CIPA exams, including FA 2, MA 2, Audit, and Finance.
- Established an infrastructure for the provision of CAP training and examination, ensuring that local CAP training providers were trained in offering the courses, the CAP curriculum was established, and the local capacity for administration of CAP examinations was fully functional.
- Distributed CAP/CIPA training materials and manuals among the stakeholders.

Training took place in Minsk and seven regional cities. The trainees were primarily private sector professionals, but some also came from selected universities so that they could replicate the training. Highlights of the results include the following:

- 454 people took the FA 1 exams.
- 395 people took the MA 1 exams.
- 270 people took the T&L exams.
- 601 people were tested for CAP/CIPA certification and 31 have become CAP certificate holders.

Additional results for this component and other BEEP activities can be found in Section III. Overall, efforts under this component led to the highest pass rates for CAP in 2005 in all of the New

Independent States: 84.2 percent of Belarusian test takers passed the FA 1 exam, and 87.5 percent passed the MA 1 exam.

In order to build local institutional capacity for continuing CAP/CIPA training and certification in the future, BEEP conducted training of trainers on the CAP/CIPA program for the professors of leading economic Belarusian educational institutions, enhancing their ability to use modern methodology and materials in teaching financial subjects. BEEP also supported the Belarusian Public Association of Accountants and Auditors (BPAAA) in putting together a database of members from which potential CAP/CIPA instructors might be drawn.

INSTITUTIONAL CAPACITY BUILDING

After initial discussions during April-May, the project organized a meeting in June with the participation of representatives of the Belarusian State University business school, Deloitte & Touche, IPM, BPAAA, and BIZPRO to discuss revitalization and reformation of the BPAAA. All these local stakeholders had some interest in this goal. In July, the project's efforts led to an agreement with the BPAAA's board to reform the organization to meet the ECCAA and IFAC requirements. This would entail training the members in the CAP/CIPA Program, amending its charter, and becoming an associate member of the ECCAA. In August, the BPAAA's board voted to approve these actions, and the BPAAA applied to the ECCAA for associate membership.

In September, the project sponsored the BPAAA's participation in the autumn conference of the ECCAA, where the association was granted membership (a BEEP contract deliverable). In September the project also helped the BPAAA organize a conference of its members, helped prepare amendments to the association's charter, attracted CAP/CIPA program participants as potential members of the association, and consulted with the board on association management and IFAC/ECCAA requirements.

In addition, by working closely with IPM on all the research conducted under BEEP, BPAAA members gained an understanding of quality Western research and the standards set by international consulting firms such as DAI. This understanding was reinforced by DAI's strict requirements under its subcontract with IPM.

RESULTS

TABLE 2: BIZPRO BELARUS RESULTS

	Unit of Measure	Disaggregation	BASELINE DATA		FISCAL YEAR			
			Baseline Year		Target	Actual	Target	Actual
					FY05	FY05	FY06	FY06
IR 2.1.1: Increased Effectiveness of Democratically Oriented NGOs								
IR 2.1.3: Enhanced Public Access to Objective and Substantive Information								
1.1 Thematic workshops	Workshop	None	2005	0	1	1	5	9
1.2 Major conferences	Conference	None	2005	0	0		2	2
1.3 Thematic regional round tables	Conference	None	2005	0	0		4	5
1.4 Study tour/exchanges		None	2005	0	0		3	3
1.5 Course on trends in quantitative economic analysis		None	2005	0	0		2	3
1.6 Publication of quarterly bulletin "ECOWEST"	Issue	None	2005	0	0		4	4
1.7 Enterprise survey (Exporters and FMCG)	Report	None	2005	0	0		2	2
1.8 Book, Economic Challenges and Responses for Belarus	Issue	None	2005	0	0		1	1
1.9 Research Papers	Papers	None	2005	0	4	0	8*	14
2.1. FA 1 Exams	Person-exams	None	2005	0	20	57	60	397
2.2. MA 1 Exams	Person-exams	None	2005	0	20	48	60	350
2.3. T&L Exams	Person-exams	None	2005	0	0		80	270
2.4 Regional presentations to introduce CAP/CIPA program	Presentations	None	2005	0	0		6	8
2.5 CAP/CIPA infrastructure set								
Training providers selected	Providers				2	2	1	13
Representative office established	Office				0		1	0
2.6 People (physical persons) trained for CAP/CIPA program								1061
2.7 People (physical persons) examined for CAP/CIPA program								601
2.8 CAP Certificate Holders								31
3.1 IPM satisfies ADS 303		None	2005	0	0		x	
3.2 Accountancy association becomes member of ICAA		None	2005	0	0		x	yes

IMPACT

Annex I contains success stories that have been developed by BIZPRO and submitted to USAID that detail project impact in core areas of implementation.

CHAPTER FIVE: FINANCIAL SUMMARY

Table 3 summarizes the overall total expected contract value for BIZPRO, including the buy-ins to the contract.

TABLE 3: TOTAL EXPECTED BIZPRO CONTRACT VALUE

	Ukraine (Core)	OSS Buy In	Belarus Buy In	Moldova Buy In	Regulatory Reform Buy In	TOTAL
Total Expected Contract Value	\$22,049,735	\$3,482,101	\$1,198,535	\$7,233,861	\$1,037,046	\$35,001,278
Grant Fee	\$0	\$0	\$0	\$3,200	\$0	\$3,200
Fixed Fee	\$1,132,561	\$208,926	\$71,912	\$418,032	\$62,223	\$1,198,654
TOTAL	\$23,182,296	\$3,691,027	\$1,270,447	\$7,655,093	\$1,099,269	\$36,898,132

ANNEX I: SUCCESS STORIES



USAID | UKRAINE
FROM THE AMERICAN PEOPLE



A Solid Base for the Ukrainian Fashion Industry

The first showroom for designer collections has opened in Kyiv, and Ukrainian designer apparel is already being sold in Russia.

Like every country in the former Soviet Union, Ukraine was known for dressing its people in a conformist style dictated by domestic light industry. After independence and the economic downturn that followed, the failure of many apparel manufacturers meant that people were still dressed in dull clothing. During that period, people mostly wore cheap Chinese and Turkish clothes sold by private entrepreneurs in open-air markets.

Despite Ukraine's rich culture of creating traditional folk costumes, a fashion industry in the classical sense (i.e., a combination of good designs, quality tailoring, and a well developed distribution system) did not exist in Ukraine. Now, the situation in the fashion industry is changing rapidly. With the help of the USAID-funded BIZPRO project, Ukrainian fashion designers have a chance to succeed in the domestic and Russian markets. The first positive results have already been achieved.

From 29 March through 3 April 2005, "Defile on the Neva," a seasonal *prêt-à-porter* week, took place in St. Petersburg, Russia. Ukrainian designers made the trip to St. Petersburg, where they concluded an impressive fashion week with a gala show that was assertively titled "Made in Ukraine." According to the organizers of the fashion week, the Ukrainian designers became the headliners due to their progressive attitudes and high level of professionalism. Oleksiy Zalevsky, Oksana Karavanska, Irina Karavay, Zemskova-Vorozhbyt, Kristina Gusina, and Liliya Pustovit presented their gorgeous collections and won positive reactions from the Russian press and fashion critics alike. But the most significant achievement of this trip was a business success story: an agreement with the Russian trade company Defile to sell Ukrainian collections in St. Petersburg boutiques. Under this agreement, one shipment of apparel has already been made. This agreement was signed with the Fashion Seasons showroom, a strategic partner of BIZPRO that unites leading Ukrainian designers such as those mentioned above.

There is a story behind this step in the nascent Ukrainian fashion industry's progress. BIZPRO started with a competitiveness assessment entitled *Ukraine: Competing in the Global Economy - Strategies for Success*. This assessment indicated that the Ukrainian textiles and apparel sector should be able to compete successfully in domestic and global markets. Having worked to develop the textiles and apparel sector, BIZPRO experts are aware of the fact that the fashion industry is an integral component that suffers from a lack of coordination between stakeholders. Therefore, BIZPRO's strategy of textiles and apparel sector development includes not only assistance in developing distribution and trade chains, but boosting the profitability of Ukraine's fashion design culture as well. This strategy assumes cooperation between BIZPRO and Ukrainian designers in finding partners among production and trade companies in Ukraine and abroad. Working with designers, BIZPRO uses various tools to reach these targets. Participation in "Defile on the Neva" in St. Petersburg was just one of those measures. In March 2005, the first showroom for domestic fashion designers opened in Ukraine. By 31 May, representatives of retailers from various Ukrainian oblasts visited this showroom to learn more about it and make new business contacts. In the beginning of June, the showroom launched a trade mission to large Ukrainian cities in order to establish business links with local production and trade companies.



Irina Danilevskaya, an Expert Board for the International Public Organization "Ukrainian Fashion Syndicate" is preparing for a Showroom "Fashion Seasons" opening.

Irina Danilevskaya, an Expert Board for the International Public Organization "Ukrainian Fashion Syndicate", which is one of the founders of the "Fashion Seasons" showroom, said:

Thanks to BIZPRO, we can be proud of our business success in Russia and the Ukrainian market this year. I want to emphasize that for the first time, the era of "art for art's sake" is over for us, and the epoch of a serious fashion business has begun. Before collaboration with BIZPRO, we already had a fashion culture, but only now do we have the chance to be financially successful.

These Ukrainian designers are now engaged in further cooperation with BIZPRO as they prepare to take part in the "PremierVision, September 2005" textiles exhibition in Paris, France. In addition to this, BIZPRO is active in assisting other enterprises operating in the textiles and apparel sector and working with stakeholders in order to create a business-enabling environment in Ukraine.



BIZPRO paves the way for deregulation of the Ukrainian economy

Challenge

Entrepreneurs and investors alike are confronted with a regulatory swamp, a swamp that drains time and money and serves as a breeding ground for bribery. Its pernicious effects constitute a major barrier to Ukraine's competitiveness in the global economy. There are some 50,000 legal documents regulating entrepreneurial activities in Ukraine. Various regulatory agencies issue about 1,200 types of permits. More than 20 state agencies provide entrepreneurs with over a thousand of various services. Long and complicated procedures for obtaining permits embed corruption on all levels and stifle competition. In short, the Ukrainian economy is overregulated.

Initiative

BIZPRO launched its quick deregulation initiative in early 2005 to clean up the regulatory swamp. Drawing upon the Organization for Economic Cooperation and Development (OECD) best practices and the success of the "guillotine" mechanism for quick deregulation as applied in such countries as Sweden, Korea, Mexico, and Hungary. BIZPRO launched an initiative to implement quick deregulation at both the national and regional levels. Using methodology drafted by BIZPRO, seven oblasts and their capital cities are now far along in the quick deregulation process – Donetsk, Ivano-Frankivsk, Kharkiv, Kherson, Lviv, Zaporizhzhia and Vinnytsia. A national quick deregulation process is in full swing.

The national process started with a Presidential Decree drafted by BIZPRO and SCRPE. President Yushchenko signed the Decree "On Measures to Secure the Implementation of the State Regulatory Policy" on June 1, 2005. According to the Decree, state agencies are to form working groups to review the laws regulating their relevant sectors of economy. At least half of the members of these groups are to be representatives of private business, industry associations, and research institutions. The working groups should determine whether regulations issued by the particular state agency are in compliance with the existing law, necessary, and market friendly. BIZPRO experts and stakeholders have been included as members to seven working groups on the ministerial level, created according to the Presidential decree and corresponding Prime Minister's resolution. Among them are the Ministry of Industrial Policy, the Ministry of Agriculture, the State Customs Committee, and the Ministry of Transport and Communication.

All regulations are now being split into three groups: those to keep, those to amend, and those to cancel. After the ministerial working groups complete their reviews, they submit the results of their work to the Ministry of Justice and SCRPE for the next filter review. The latter compare the lists received with the full list of legislation in force and send their comments back to the ministries advising them to cancel legal acts not covered during the first stage of review. The ministries finalize the lists of legislation to be amended and to stay in force and return them to be included into a finalized electronic database. The rest will automatically cease to be in force on August 31, 2005 – the "guillotine" will fall and business environment in Ukraine will drastically improve.

Results

Quick deregulation is squarely focused on reducing the costs of regulatory compliance, cutting red tape, and freeing up business resources to compete more effectively. The results will soon be in. Thousands of regulations will be eliminated, and thousands more will be streamlined. As shown in Korea and other countries, the impact will be increased employment, GDP, and investment. The "guillotine" is, indeed, the cutting edge of competitiveness.

For more information, please visit our Website, www.bizpro.org.ua



***Kashtan* captures domestic demand**



Kashtan CEO Grigory Kalikhman: “In-house fashion shows that BIZPRO helped us organize have become very effective: 80 percent of salesmen who attended them committed to maintaining a relationship with us into the future.”

It did not take newly appointed *Kashtan* CEO Grigory Kalikhman a lot of time to understand that his company was not fully utilizing all its potential. The Ukrainian garment-making factory was exporting 80 percent of its output to countries like France, Great Britain, and Ireland but profits were low as it worked under cut-and-make scheme; which meant that it was just selling cheap labor while the foreign firm profited the most.

Many Ukrainian garment-making factories work the same way, often because the cut-and-make scheme makes the life of the factory management easier – everything is provided by a foreign partner – there is no need to worry about fabrics, designs, distribution and sales. For firms that want to break out of the cycle and sell more than cheap labor, effective marketing has long remained the key.

BIZPRO estimates that the Ukrainian apparel market is worth over \$1.8 billion a year with an expected growth of \$400 million per annum. While Ukrainian apparel factories are subcontracted by the Westerners and thus are heavily export-oriented, cheap Chinese and Turkish “brandlets” rule the Ukrainian market. It doesn’t have to be this way.

Kalikhman, who was new to the industry, quickly grasped the situation. He was ambitious enough to try and get his company out of the cut-and-make “road to nowhere” and target the Ukrainian consumer. For a long time, the lack of buyers – wholesalers that order and buy collections from manufacturers – has been a major impediment to the work of his company. He was capable of producing a million of male and female shirts and blouses per year but did not know how to sell them locally. Kalikhman looked around for help. It came from BIZPRO, which help enterprises in competitive industry subsectors of the economy compete in foreign and domestic markets by working at the enterprise, sector, and policy/legal level. BIZPRO helps companies just like Kalikhman’s to improve their approaches to marketing with emphasis on targeted communication and promotion skills, market linkages, and brand development. BIZPRO then transfers the lessons learned from successes, and failures, to other companies working in the sector.

In January 2005, *Kashtan* became member of BIZPRO’s textile and apparel sector stakeholder group and took part in a series of round tables on industry competitiveness where enterprise, sector, and legal/regulatory constraints and advantages were discussed. Recognizing that Kalikhman was a trailblazer and eager to learn and that other companies would try to emulate his success, BIZPRO signed a cost sharing agreement with *Kashtan* and helped them launch a new advertising and promotion campaign under the “New Quality of *Kashtan*” slogan, drafted a new pricing policy for wholesalers, and found a new way to establish contacts with retailers – organizing fashion shows right at the factory and inviting representatives of trading networks and large wholesale companies to attend.

As a result, so far this year *Kashtan* has competed successfully against foreign brands and doubled domestic sales to 38.4% of total output compared with 20.8% in 2004. Dramatically, its domestic sales increased by 47%, or \$300,000! “I think the numbers will grow substantially in a year’s time”, predicts Kalikhman. He has no time to lose as other Ukrainian businesses that have seen his success are right on his heels.

For more information, please visit our Website, www.bizpro.org.ua



USAID | **UKRAINE**
FROM THE AMERICAN PEOPLE



Ukrainian apparel designers break through to the Russian and local markets

Despite Ukraine's rich culture of creating traditional folk costumes, people of Soviet Ukraine were dressed in a conformist style dictated by the Soviet domestic light industry. In the early 1990ies, due to the economic downfall and failure of many apparel manufacturers, dull clothing still prevailed. During that period, Ukrainians mostly wore cheap Chinese and Turkish clothes sold by private entrepreneurs in open-air markets. Ukrainian fashion designers created their collections for the art's sake, and a fashion industry in the classical sense, i.e., a combination of good designs, quality tailoring and a well-developed distribution system, did not exist.

Now, the situation in the fashion industry is changing rapidly. With the help of the USAID-funded BIZPRO project, Ukrainian fashion designers have a chance to succeed in the domestic and Russian markets.

A competitiveness assessment, *Ukraine: Competing in the Global Economy – Strategies for Success* conducted by BIZPRO, a USAID-supported project, revealed that Ukrainian textiles and apparel sector has a lot of potential to compete successfully in domestic and global markets. Having analyzed strengths and weaknesses of the sector, BIZPRO experts discovered a missing link – disconnect between Ukrainian fashion designers, and production and trade companies. Therefore, to increase efficiency and boost profits to Ukraine's fashion design industry, BIZPRO's strategy for textiles and apparel sector development focused on developing distribution and trade channels and optimizing the production process. The strategy foresees cooperation between BIZPRO and Ukrainian designers in finding partners among producers and trade companies in Ukraine and abroad.

In effort to enter the Russian fashion distribution market, this spring Ukrainian designers made the trip to St. Petersburg to present their collections a seasonal *prêt-a-porter* week "The Defile on the Neva." A gala show "Made in Ukraine" as part of the finale won positive critical acclaim from Russian fashion critics. According to the organizers of the fashion week, the Ukrainian designers made the news due to the refined style and genuine quality of their apparel.

But the most significant achievement of this trip was a business success story: Ukrainians sold apparel worth \$18,000 right during the show and signed an agreement with the Russian trade company *Defile* to sell Ukrainian collections in St. Petersburg's boutiques. The Ukrainian side of the agreement was represented by the Fashion Seasons showroom, a strategic partner of BIZPRO that unites leading Ukrainian designers. The initial shipment of apparel under this agreement has already been made.

Participation in "Defile on the Neva" in St. Petersburg was just one of tactics to reach out to traders. Also in March, the first showroom of Ukrainian fashion designers opened in Kyiv. Since then, dozens of retailers from around Ukraine have visited the showroom to learn more about Ukrainian designers and to sign new business contacts. In June, the showroom launched a trade mission to target large Ukrainian cities and establish business links with local producers and retailers.



FIRST PERSON

From Intern to Chief Accountant in 18 Months

While English is the international language of business, learning international reporting standards is what everyone is talking about



Photo: Konstantin Golowinski

"The owners and managers had very little familiarity with accounting. . . As the company grew, it became increasingly important to draft clear, reliable financial reports. I now sound a lot more confident. My supervisors take my recommendations and comments seriously." – Pavel Vagero, chief accountant for East European Parts, LLC and graduate of the CIPA Program.

At the young age of 26, Pavel Vagero is the chief accountant of one of Belarus' most promising enterprises. Just a few years ago, he signed up for a summer accounting internship at East European Parts (EEP), which makes parts for top retail brands, to fulfill a university requirement. As it happened, EEP began to experience rapid growth, and lacked sufficient personnel. The young accounting assistant soon found he was shouldering more and more responsibilities. At the same time, however, it was also becoming apparent to him that management had, as he puts it, "very little familiarity" with solid accounting practices.

"As the company grew, it became increasingly important to draft clear, reliable financial reports," recalls Vagero. "I had a lot to learn, and I wasn't sure if I could. But even with all my mistakes, the company supported me." Then came a godsend: he took part in the Certified Accounting Practitioner (CAP) training, testing, and certification program that USAID's BIZPRO project conducted in Belarus.

By now the 110-employee limited liability company has developed into a thriving joint venture with a Dutch firm. Expansion brought a number of challenges that could have overwhelmed the company: besides the fact that its workforce tripled, the foreign reporting and internal auditing processes became vastly more complex. Then there was the more mundane, but still complicated, question of the growing enterprise's tax liabilities. Vagero stepped up to the challenge and began to apply the international best practices he was learning at university. The CAP program allowed him to really integrate theory and practice, and gave him a chance to talk problems over with experts and fellow classmates. It "changed the way I saw accounting," he says, and "made it relevant for not only standard accounting needs, but for financial analysis as well. It became a problem-solving tool."

One step that's crucial to long-term economic growth is instituting a financial reporting system that complies with International Financial Reporting Standards (IFRS). On that front, too, Vagero became an invaluable asset to EEP. His success is a sign of the increased respect the accounting profession is attracting in the former Soviet Union.

Vagero is currently in the second stages of becoming a Certified International Professional Accountant (CIPA). Once he received his accreditation, he'll be one of the few such accountants in Belarus. "I now sound a lot more confident," he says. "My supervisors take my recommendations and comments seriously. I'm going to continue to deepen my knowledge of management and financial accounting and find ways to apply it."



CASE STUDY

Common Standards Bring Industry Together

A production and quality assurance manual helps Ukrainian textile and apparel sector to adopt common standards and boost quality



Photo by BIZPRO

Challenge: The demise of the Soviet Union left Ukrainian textile and apparel industry in disarray. As the industry plunged into depression economic ties and market linkages were severed.

Every single factory had to survive on its own. This led to adoption of a wide variety of different standards which further complicated interactions between the industry players. Some factories kept on using old Soviet standards and procedures while other strived to adopt newer Western approaches.

Different standards meant that a company placing an order with apparel factory could not be sure that it would get what it ordered: size, trim or even color could be different.

Initiative: With the objective of creating a growing, dynamic pool of highly productive enterprises that compete successfully in domestic and international markets, BIZPRO provides assistance at the enterprise, sector and policy/legal level. BIZPRO helps enterprises in brand development; implementation of international standards in the area of quality control and product testing; establishing commercial linkages with foreign partners, wholesale buyers and trade agents; integration into value chains and distribution channels development; raising awareness on sources of financing for modernization and growth.

BIZPRO identified the need for adoption of common standards conducting trainings for representatives of Ukrainian apparel factories. A highly regarded textiles and apparel expert was invited to help develop a production and quality assurance manual. An arduous process of working in close contact with factory managers and ongoing negotiations with sector players resulted in a document enthusiastically met by the industry.

Results: Currently BIZPRO helps its stakeholders at the textile and apparel sector to adopt new practices and improve cooperation with their subcontractors. “Once we witnessed two production managers working at different lines of the same apparel factory debating how to measure a shirt’s sleeve right,” – says Khrystyna Patyk of Lviv-based SENSUS – “If things like that can happen inside one factory, imagine discrepancies existing among different enterprises. There has definitely been a need for us to work out common standards. With BIZPRO’s production and quality manual I feel we are now on the right track. Such a manual helps increase the predictability of the order process tenfold.”



FIRST PERSON

Crimea's Tourist Guides Boost Their Skills

A training program helps guides serve the growing number of foreigners visiting Ukraine's sunny peninsula



Photo: Konstantin Golowinski

– “It was a great stimulus for me, a reason to refresh my skills and study new material. Of course, all of us were really inspired!” – Natalia Delvig, tourist guide in Crimea, on BIZPRO-organized training seminars

A positive tourism experience depends on the quality of the services you receive, whether we're talking about a clean hotel, good food, an interesting program or a knowledgeable tourist guide who speaks *your* language and knows *your* culture.

In the Soviet Union, the Intourist state monopoly ruled the tourism business. Guides were meticulously drilled to take care of those few foreigners who came to get a glimpse of communism in action. True, the guides' presentations were heavily biased ideologically, and there was always a KGB guy around - but the guides were well-trained indeed.

After the Soviet Union's demise, the old system, good or bad, ceased to exist, and nothing replaced it. These days, tourism guides are supposed to obtain a state license, but little is done to train them or develop their skills. Intourist-era veterans tend to keep doing what they've always done, while younger guides lack experience and, often, the right sort of knowledge.

BIZPRO recently addressed this problem by organizing a series of training seminars for guides in the Crimean port cities of Yalta and Sevastopol. The seminars were part of the action plan with Crimea's tourism sector to boost the cluster and strengthen sector's competitiveness. The sessions were led by an experienced foreign trainer and concentrated on imparting practical guiding techniques and skills. At each event, a two-day intensive communications skills seminar featuring video recoding and interactive brainstorming sessions was followed by three days during which students practiced their skills - on foot, on site and in moving vehicles. Then came sessions on customer care; cross-cultural sensitivity and awareness; dealing with emergencies and security difficulties; and airport transfers and hotel check-ins/outs.

For many participants, it was the first training they'd undergone in years. “It was very useful for us,” says Natalia Delvig, who has been in the guiding business for eleven years. “It was great to improve our skills and pick up some foreign experience – stuff that we knew very little about. That was the first seminar of its kind in Sevastopol, and we'd be happy to have such events before the beginning of each tourist season.”

BIZPRO experts were even able to identify guides with the potential to become trainers themselves. The stage is set, then, for fresh knowledge to spread even more widely throughout the tourism community. Guides will receive better training, and foreign tourists will have a better time in Crimea, and will want to return to spend their money there again. When they do, they'll be most welcome.



USAID
FROM THE AMERICAN PEOPLE

BIZPRO

CASE STUDY

Crimean Tourism Industry Unites and Wins

Tourism sector works together to improve competitiveness



Photo by Southern Tour

Larissa Kazachenko, successful business woman and 'Southern Tour' owner (center). Success of her tourist agency led to an increase in sales at more than 50 value chain members.

Tourism has been vital for the Crimean economy – and for the livelihood of its people – for over a century. During Soviet times, Crimean hotels were guaranteed full occupancy despite neglected infrastructure, poor service, and unreasonably high prices. For people who wanted a “sun and sea” vacation there were very few options – the borders were shut after all.

With the lifting of the iron curtain, the world opened to Ukrainians and they took advantage by exploring countries such as Turkey, Egypt, and Spain, where they learned to appreciate better service, reasonable prices, and vacation options beyond sunbathing on the overcrowded, poorly kept beaches to which they had become accustomed. To compete in this “new world”, the Crimea tourist industry knew that it had to improve service, develop infrastructure, diversify offerings, eliminate the traditional dead season between October and April, protect its interests at the national level, and attract investments.

BIZPRO has provided the Crimean tourism sector with much needed technical assistance in this regard. BIZPRO started with assisting individual businesses through training and marketing advice, but quickly moved to sector-level initiatives by facilitating the creation of the Crimean tourism cluster and helping it embark on a multifaceted sector development program.

As part of the program, BIZPRO helped the tourist agency *Southern Tour* prepare for and participate in ITB Berlin 2005, a major international tourism fair. *Southern Tour* increased its annual sales by 160% from new contracts with foreign tour operators attending the fair, which then led to increases in sales for more than 50 value chain members (partner hotels, travel agents, tourism bureaus, transportation and logistics companies etc). Through another initiative, the cruise tour operator *Select Black Sea* increased its foreign cruise tour clients by 62% by developing an advanced marketing campaign, improving its presence in foreign markets, enhancing client services, and developing linkages with new foreign partners. These are just some of the successes that led to a 11.5% increase in the number of tourists visiting Crimea in 2005.

Success with enterprise level initiatives has earned BIZPRO the sector's confidence, which has propelled them to unite to tackle their common problems. For example, with BIZPRO's guidance stakeholders rallied to advocate for the elimination of VAT for inbound tourism services and saved the industry \$16 million in 2005. Currently, BIZPRO is helping the Crimean Ministry of Health Resorts and Tourism organize the *Crimean Tourism Investment Forum*. The forum is being designed to promote investment opportunities in Crimea to foreign investors and will be held in the fall of 2006.



USAID
FROM THE AMERICAN PEOPLE

BIZPRO

CASE STUDY

Cruise Ship Tourism Returns to Ukraine

BIZPRO helps Crimea rejoin the cruise ship tourism big leagues



Photo by Oleg Sereida

The Select Black Sea team negotiates with potential business partners at Ukraine's booth at the recent Seatrade Cruise Shipping Convention in Miami.

CHALLENGE: When a cruise ship visits a port, it means money. The boat's passengers spend their cash in the port in question, and its owners buy local port services. So it's not surprising that coastal cities all over the Mediterranean and Black Sea regions compete to lure cruise ships to their harbors. The competition is all the more intense because if cruise ship passengers like a particular port town, they might come back on their own to visit it in the future.

During the Soviet era, Crimea used to welcome over 300 cruise ships a year. Just after Ukraine gained independence, however, they mostly disappeared, and in some years Crimea was lucky to attract 20. The situation got better, but even that lackluster recovery was hit hard by the fallout from the September 11 terrorist attacks, which damaged the global tourist trade. But Crimea has a lot to offer. It's culturally rich, situated as it is at the historical crossroads of the Slavic, Ottoman, and Greek cultures. Its geography and climate are comparable to those of California, Turkey, and other desirable destinations. However, poor infrastructure, an ineffective regulatory environment and a lack of a coherent promotion strategy are holding back the development of a promising sector.

INITIATIVE: In its analysis *Ukraine: Competing in the Global Economy – Strategies for Success*, the USAID-funded BIZPRO project identified tourism as a sector in which Ukraine could be a strong international player. Broadening Crimea's appeal to visitors is one thing that can be done to make it so. With the goal of making the Black Sea peninsula again a major part of the Mediterranean cruise market (which accounts for 60% of all cruises worldwide), BIZPRO and its stakeholders helped send a Ukrainian delegation to the 22nd International Seatrade Cruise Shipping Convention in Miami, Florida. This marked the first time that Ukraine was represented at the world's biggest international cruise industry event. Crimea's delegation included representatives of Crimea's ports and of cruise tourism companies. Ukraine's on-site information booth highlighted tourism companies and agencies and sketched out development possibilities for Crimean port towns. Stress was laid on the Black Sea region's recent improvement in fortunes after more than a decade of decline. The "destination concept" grounded the Ukrainians' work at the convention; Ukraine's strengths as a tourist destination were presented using contemporary and internationally-recognized methods developed in conjunction with international experts.

RESULTS: Agreements were reached and several memoranda of intent were signed. Joint initiatives for 2007 were discussed with cruise industry leaders like Royal Caribbean, Celebrity International, and NCL. Large companies indicated interest in expanding their cruise operations in the Black Sea region. These developments have facilitated the extension of the cruise season in the biggest Black Sea ports (Odessa, Yalta) by two months—it now runs from March through November. Kerch, which overlooks the largest archeological dig in Russia, just across the Cimmerian Bosphorus, is hosting an unprecedented four cruises this year. Ten to 15 more per year are expected in the near future, as the city of Feodosiya opens to cruise tourism. Yalta will have seen 70 cruise ship calls by the end of 2006 (a 32% increase from 2005), and with American cruise companies scheduled to return next year for the first time since September 2001, expectations are high for robust growth.



USAID
FROM THE AMERICAN PEOPLE

BIZPRO

CASE STUDY

Building On a Solid Foundation

Developing the Necessary Basis for Expansion



Photo by Tatiana Peklun

"After taking part in STOREWARS, management made some fast changes...Sales growth in the region reached 15%. Operational time decreased. [We] started receiving business offers from dealers that had earlier worked with our competitors."
-- Ramazan Kadiev, director of Edelweiss, LLC

Challenge: In Ukraine's construction rapidly expanding materials sector, the market can be inelastic, consumers can be capricious, and sellers have limited knowledge about their products. In addition, a lot of participants have been paying more attention to short-term profits than to developing companies that can evolve into mature, lucrative concerns. Solid business methods, strategic thinking, and motivated personnel are sometimes lacking. But in a maturing market, the competitive advantage will go to ventures that better utilize their human capital.

As the market has grown, many of the country's developers and builders have complained about weak management, underdeveloped sales systems, and a lack of critical thinking skills on the part of subsidiary and support companies. Even as Ukraine's higher education system develops and becomes more effective, there is a need for more hands-on arenas in which businesspeople can learn and practice different methods, explore new ideas, and see how old ideas work in new contexts.

Initiative: In 2005, the USAID-funded BIZPRO Project in close cooperation with the Ukrbudmaterialy Corporation launched a multi-level training program to help companies in Ukraine's construction materials sector become more competitive. The program was geared toward increasing management effectiveness, improving distribution channels, and -- most importantly-- teaching managers new ways of thinking. Theory was combined with hands-on practice that allowed participants to polish their skills. During the program's second stage, using the STOREWARS business simulation, participants had to develop strategies and solutions to certain problems, and then test them --- in laboratory conditions, of course, without the risk of actually losing money.

A company that participated with particular enthusiasm in the training program was the roofing-materials producer AQUAIZOL, one of the three leaders in its field. The 200-plus employee outfit has a nationwide dealer network and exports its products to Kazakhstan, Georgia, Bulgaria, and Moldova. After working with the BIZPRO-supported training program, AQUAIZOL (represented in Kyiv by Edelweiss, LLC) was invited to take part in STOREWARS. AQUAIZOL's management understood the need to make changes both to its plant and its distribution system. The firm was committed to improving its leading market position by applying up-to-the-minute management strategies, and it wanted to put the knowledge gained at the training program into practice.

Results: Current projections indicate that by year's end, AQUAIZOL will become number two in its sector. According to Ramazan Kadiev, director of Edelweiss, "After taking part in STOREWARS, management made some fast changes to the company's organizational structure and to its relations with dealers. As far as organizational changes went, we rearranged managers' tasks, proposed several bonus schemes, conducted an audit, and cut operational expenses. As for our dealer relations, Edelweiss undertook partial responsibility for dealers' current expenses, insured dealers from potential financial risk, reconsidered supply conditions, suggested a new discount and logistical cost compensation system, as well as proposed joint participation in advertising and promotion in order to boost sales... Sales growth in the region reached 15%. Operational time decreased. Edelweiss started receiving business offers from dealers that had earlier worked with our competitors."

Buy More, Save More

Ukrainian Associations Help Their Members Grow Amid Fierce Competition

The successful operation of any enterprise is impossible without continual access to different services: communication and Internet connections (needed in order to operate), advertising and web design (promoting products and services), training and consulting (improving management practices), and business information (such as subscriptions to business media, access to databases, and so on). All of these services are available on the market. Many of them can be accessed at a lower cost by large enterprises and corporations due to the volume of purchases, while small and medium-sized enterprises (SMEs) cannot afford them and use these services on a limited basis. On the other hand, many SMEs are service providers seeking to expand their clientele and ready to use various marketing techniques, including corporate discounts.

To respond to this challenge, the BIZPRO Project has developed a program for business associations to equip them with tools that allow members to access the products and services they need at discount rates - and help service providers in turn by bringing in new clients.



The BIZPRO Discount Program equipped seven business associations with practical knowledge of discount program development and implementation strategies along with assessment and marketing tools, and give presentations regarding previous successful international experiences in discount program development and

implementation as well as the legal aspects of program implementation in Ukraine.

The immediate objective of the program was to increase business associations' competitiveness by adding a discount service to their portfolio of services - thus expanding their membership, improving sustainability, and increasing participating SMEs' revenues and savings.

The program's results were prompt and significant.

Olexiy Ivanenko, Head of the Kherson Konsolidatsiya Trade Union: *Implementation of the BIZPRO Discount Program drew attention to our trade union. In only a year we were able to attract 285 new members - almost three times more than planned - and increase our income by five times.*

Other associations have joined in and now enjoy the opportunity to attract new members, increase membership fees, improve the managerial skills of key staff in implementing discount systems, and help members find business development opportunities and survive amid fierce competition.



Olexiy Ivanenko,
Head of the Kherson
Konsolidatsiya Trade Union



The BIZPRO Project is funded by the United States Agency for International Development (USAID) and implemented by Development Alternatives, Inc. (DAI). BIZPRO works with the objective of providing enterprises with the necessary support to facilitate their growth and development.



The Head of the Zaporizhzhya branch of the Ukrainian Taxpayers Association, Nataly Bernaga, shares her satisfaction:

Training sessions offered by BIZPRO in designing discount programs were of key importance to us. Together with BIZPRO's experts, we scrutinized the relevant experiences of other organizations (such as the American Chamber of Commerce in Ukraine, or Kozyrna Karta - the restaurant industry network), which helped us develop and implement our own discount programs that target the specific characteristics and needs of our members and avoid the usual mistakes of beginners.



Nataly Bernaga of
the Ukrainian Taxpayers
Association

Associations presented the concept of discount programs to their members and helped them launch their own discount systems. Service providers now enjoy the opportunity to enhance their financial stability, increase turnover, connect with new customers, and disseminate information about their products. Buyers save their time and money when purchasing necessary products and services.

Petro Krechik, the director of the “Uyut” (Comfort) redecoration and repair service company, speaks of his company’s experience:

Eleven participants in the discount program received high quality services from us at lower rates. This is good for us since we got new clients. It is also good for other association members since they saved their money. I believe that the discount program is necessary for both vendors and individual customers. This is an effective way to create a network of regular clients.

With BIZPRO’s assistance, these business associations took another step in helping their members develop and grow, strengthening the underpinning of Ukraine’s economic progress.

The BIZPRO Project implements programs and activities which directly translate into enlarging the Ukrainian private sector by increasing Ukrainian entrepreneurs' profits and budget payments and decreasing their losses, changes that help them grow, develop, and create new jobs.

By assisting business associations, companies, and individual entrepreneurs, BIZPRO is making a positive contribution to the economic growth of Ukraine.



USAID | UKRAINE

FROM THE AMERICAN PEOPLE

SUCCESS STORY

Ukrainian Glass Sparkles at the Premier Home Furnishings Show



Photo:

Yaroslav Dzumalo, Svitlovodsk SKLO Glass Factory Director with the new vase collection

“The American home furnishings market is very challenging and extremely competitive. With BIZPRO assistance we were able to demonstrate the quality of our products and production capabilities of the factory at High Point in October 2004.” – Yaroslav Dzumalo, Svitlovodsk SKLO Glass Factory director

For more information on USAID programs in Ukraine, call the Program Office at (044) 462-5678 or visit www.usaid.kiev.ua

While the glass-making tradition in Ukraine does not compare to the Czech Republic, where the Czechs have practiced the craft since at least the 12th century, Ukraine also has a long history and strong capabilities in this manufacturing area.

Recently, the country’s exposure to global markets has been limited, due mainly to a lack of access to external market knowledge, market demands, and market intermediaries. However, for Ukraine’s glass industry, that is all changing. With assistance from a BIZPRO project, funded through the U.S. Agency for International Development (USAID), Ukrainian glass producers have recently had one of their first opportunities to highlight their products to global buyers. And the response was positive.

At the most recent *International Home Furnishings Market*, held in April 2005 in High Point, N.C. glass products from three Ukrainian producers (Popasnaya Glass Factory, Svitlovodsk SKLO Glass Factory, and Lviv Ceramic Sculptural Factory) displayed their wares for the first time. The American firms, Phillips Collection, Cheyenne Home Furnishings and Wildwood Lamps, showcased the artistic glass produced in Ukraine at the international market. The American-based firms source the products they exhibit from around the world, focusing on finding high-value, artistic, and marketable products to satisfy a large cadre of global buyers who rely on them for world-class products. Buyer interest was high: two of the American firms received seven separate orders for the three Ukrainian glass-makers. Now Ukraine’s glass factories are working on fulfilling those orders.

The Sklo Glass Factory designers worked with American home furnishings designer Ernie Owens on developing new products targeting American customers specifically, and received help in redesigning its packaging. “Finally – (we) made our first sales and increased our confidence in our ability to sustain a long-term relationship with our new American partners,” explained Mr. Dzumalo, Svitlovodsk SKLO Glass Factory Director.

What’s even more impressive, it took less than a year for the USAID-sponsored project to move from its initial industry diagnosis to actual sales. The process of getting a product ready for market is lengthy and arduous – involving assessment; production, design, and promotion consultation; market intermediary interactions; and finally – if it all works out – sales. To do so, BIZPRO needed to identify producers with the most potential, improve their production capacity, assist in production efficiency, and work with the factories to design products with appeal to specific markets outside their traditional regional reach.

This is just the beginning. The successful Ukrainian glass manufacturers already have started producing orders acquired from the High Point Market; preparing for this year’s October 2005 High Point market, where their products will be in even more showrooms; and getting ready for their European trade show debut at Europe’s biggest home furnishings exhibition, Tendence Lifestyle, to be held Frankfurt in August.



SUCCESS STORY

One-Stop Shop For Permits Cuts Red Tape

New streamlined permit process creates new jobs and helps small business to grow



Serhiy Snehiryov, private entrepreneur, the city of Kupiansk, Kharkiv Oblast

“In the past I had to go to as many as 16 different permit agencies to get all the documents I needed to start construction of a small retail outlet for a client. Now imagine that permit offices had unpredictable times of operations, were located in different parts of the city, or even in the oblast center 200 km away. Now I just go to the one-stop shop, file a request, and get all the permits several days later signed and verified by appropriate authorities. It leaves me much more time for supervising the construction itself and getting new clients.”

[Made by K. Golowinski]

Serhiy Snehiryov is a private entrepreneur. He runs a construction firm. Serhiy knows well what it means to waste time getting all the permits one needs to run a business. He started back in 1999. Six years later he still remembers five weeks he had to spend to register his start-up and obtain all the permits he needed to run it. The worst thing was that he had to pass the permit procedure every time he needed to plan and build anything for his clients.

One of Serhiy's specialties is designing and building small retail outlets (kiosks). Such kiosks are a stepping stone for many small entrepreneurs as they expand their business and move from selling on the street to owning their own retail space. One thing is to have such a kiosk built, another is to get all the permits to build it and get business operational. Serhiy's firm could design and erect a kiosk in a week but he and his client had to spend two months getting all the required permits. Naturally, Serhiy was losing potential clients as many of them were scared off by the long permit procedures and preferred selling their goods on the street.

When BIZPRO, part of the U.S. Agency for International Development's effort to improve the economic development of Ukraine, Moldova, and Belarus, helped to open the one-stop shop for permits in his city, Serhiy says, the situation changed. Now Serhiy can find representatives of all the permit agencies in one place. When he needs to get a permit, he comes to the OSS, fills a simple request form and leaves. A couple of days later he comes back and collects his permits.

Serhiy, a seasoned entrepreneur, says that before the OSS's launch in February 2005, many people didn't even know what permits to obtain. Now everything is clearly explained and all the relevant information is readily available at the OSS.

After the OSS was opened, it became much easier to get the permits to build kiosks and demand for them expanded greatly as a result. Serhiy witnessed an immediate rise in orders. He already hired ten more workers, now employs 40, and plans to expand his production facilities as the OSS made more clients coming to his office.

BIZPRO helped to open 39 one-stop shops all over Ukraine. In Kupiansk the OSS started in February 2005. Half a year later the cost of the permit procedure decreased by half and the time it takes decreased by four. Moreover, before the OSS was opened, a depressing 50% of respondents reported that they had to resort to bribery to obtain permits in a timely manner. Now this number fell to 6.4%.



SUCCESS STORY

Ukraine's Regulatory Policy Law Helps Entrepreneurs

The Regulatory Policy Law stipulates that no law can take effect in Ukraine unless its impact on business is considered and it's debated publically.



Ukraine remains a country in which various bureaucracies wield massive power. Given the murky legal environment here, that means that honest entrepreneurs often find themselves at the mercy of bureaucrats. Officials subject businesspeople to extortion and other forms of corruption, and in general too often abuse their power.

But things are changing. Not long ago, BIZPRO participated in the drafting of the Law of Ukraine on “General Principles of State Regulatory Policy in the Sphere of Economic Activity” – what’s more conveniently known as the Regulatory Policy Law. That law took effect in January 2004, and stipulates two things that will make doing business in Ukraine much easier. First, the government can no longer make any law that’s not accompanied by a regulatory impact analysis (RIA): that is, a study that makes clear what effect the law will have on the private sector. Second, laws and their accompanying RIAs have to be published before they are passed, so that the public can debate them. These are crucial steps in the direction of making Ukraine’s business and legal culture fair and transparent.

This groundbreaking law has already had a positive impact. Recently, for example, a L’viv businessman filed suit against the L’viv City Council’s Executive Committee, accusing it of violating the new law when it imposed water service taxes without either an RIA or public discussion. That businessman won, and the taxes were struck down. An important precedent for other Ukrainian courts was established.

The new law also recently helped the Teatralny Hotel, a private concern in Zaporizhzhia, stand up for itself against the Zaporizhzhia City Council. The Council, which controls the building the hotel occupies, suddenly raised the hotel’s rent. No warning about the possible rent hike had been published; no one gave any thought to how the hike might damage the private sector. The hotel took its case to the Zaporizhzhia Commercial Court, and won.

Is Ukraine entering a new era of transparency and private sector rights? It’s at least getting closer to it, thanks in part to legislation like the Regulatory Policy Law.



SUCCESS STORY

Regulatory Policy Law Protects Local Business

Can truly transparent governance be on the horizon in Ukraine?



The Regulatory Policy Law establishes the important principle that no regulation can be adopted unless it is published for public discussion and accompanied by an impact analysis.

Historically, Ukrainian bureaucrats have wielded considerable power and are notorious for using this one-sided relationship as a means to extract “salary supplements” from businesses. Ukraine’s murky regulatory environment puts entrepreneurs at the mercy of local authorities and the unclear division of power between local and national government exacerbates corruption, nepotism, and arbitrary interpretation of existing legislation.

But changes are coming! At the request of the Ukrainian Government, BIZPRO helped the private sector and government draft the Law of Ukraine on “General Principles of the State Regulatory Policy in the Sphere of Economic Activity”. The Regulatory Policy Law became effective in January 2004 and introduced the important requirement that no regulation can be adopted or approved unless it is accompanied by a regulatory impact analysis (RIA) to determine the effect of the regulation on the private sector. The law also requires that every regulation and its RIA are published for public discussion, a giant step forward for a country consistently at the bottom of Transparency International’s annual ranking of countries.

Soon after the law came into effect, a local businessman from L’viv filed a suit against the Executive Committee of the L’viv City Council. He claimed that the Executive Committee violated the law when it enacted a regulation for new tariffs for water services. Openly challenging the government took a great deal of bravery, and businesses around the country anxiously anticipated the outcome of a classic David vs. Goliath battle.

After two appeals, the brave entrepreneur secured an important legal victory. The High Arbitration Court of Ukraine upheld the decisions of two appellate courts. The Court’s final resolution states that a regulation cannot be adopted or approved by local government unless an RIA is conducted and the draft regulation is published for public discussion.

This important “first” has emboldened Ukrainian entrepreneurs since any lower court reviewing similar cases will now consider the High Court’s decision. Surely, a transparent and balanced relationship between government and business must be on the horizon? Time will tell.



Saving the 2005 Tourist Season in Ukraine

In March 2005, Ukrainian tour operators and tour agents were astonished to learn that the latest amendments to the State Budget law would introduce VAT (value added tax) on inbound tourism services in Ukraine for the first time ever. As their long-term contracts for the upcoming season had already been signed, tour operators faced two options: to increase the price of each contract by up to 26 percent, or pay the VAT out of their own pockets. The first option would most likely lead to termination of contracts, making Ukraine far less attractive for tourists from abroad; the second option would drive many operators and agents out of business. Ukraine's reputation as a tourist destination was at stake.

Experts of the USAID-supported project BIZPRO tackled the issue as part of the project's efforts to increase the overall competitiveness of the Ukrainian economy. They identified introduction of VAT on inbound tourism services as a serious threat to the competitiveness of the Ukrainian tourism sector. Subsequently, VAT elimination was defined as the most urgent regulatory problem facing the sector in a stakeholder working group meeting on April 26, 2005, as part of BIZPRO's conference *Enhancing the Competitiveness of the Ukrainian Tourism Sector* in the Crimean city of Yalta. BIZPRO helped the stakeholders draft and send letters to President Viktor Yushchenko and Prime Minister Yulia Tymoshenko to draw their attention to the problem and place a moratorium on VAT for the upcoming tourist season.

BIZPRO and the stakeholders then presented their comments and suggestions to the European Business Association (EBA) and the American Chamber of Commerce. They also met with First Deputy Head of the State Tourism Administration of Ukraine, Mr. Anatoliy T. Matvienko. These efforts initiated a much-needed discussion of this issue between entrepreneurs and state officials.

As a result, a law was passed in the Verkhovna Rada on June 3, 2005, which addressed many of the issues raised by BIZPRO and the Tourist Sector Working Group.

The Ukrainian law now stipulates that all contracts signed before March 31, 2005, will be taxed according to legislation that was in force prior to that date. The new norms regarding taxation of tourism services will come into effect starting September 1, 2005. This prevents a surge in prices during the summer season and allows tour operators and agents to honor their contracts. The Law of Ukraine *On Amendments to Some Laws of Ukraine* (Regarding Taxpayers) was signed by the President of Ukraine on June 25, 2005, and came into effect on June 30, 2005.

Ukraine has saved its reputation as a popular and affordable tourist destination, and Ukrainian tour operators and agents have learned how to effectively maintain a dialogue with government authorities and protect their interests.



SUCCESS STORY

Say Goodbye to the Dead Season

A strategic move to congress tourism transforms a Crimean agency's business



Photo by Southern Tour

Larissa Kazachenko with her new foreign partners

– “We used to get six months out of the year that is shoulder season and dead season. We tried to change this but were getting only mixed results. Congress tourism became a solution we were looking for. Our profits increased 160 percent”.

Larissa Kazachenko is not new to the tourism business. After all she runs one of the most successful tourist agencies in Crimea. Her company has excellent experience in the field of cultural and historic tourism and individual exclusive programs. During the summer her business fared traditionally well, but everything stopped as winter approached.

Winter has always been a dead season in Crimea. Businesses large and small ran idle waiting for summer tourists to return., which significantly undermined Crimea's competitiveness in the fiercely competitive global tourism market.

BIZPRO addressed this problem by assisting Crimean tour operators in identifying opportunities in new product development. The project's experts identified congress tourism as one of the solutions. BIZPRO assisted tour operators in marketing plan and promotional campaign development and provided market entry support. Larissa Kazachenko and several of her colleagues in the tourism industry received a unique opportunity to visit the International Tourism Exchange ITB Berlin 2005. In Berlin, they learned more about congress tourism, found new partners, and attracted international congress tourists to Ukraine.

BIZPRO is helping the tourism sector in the Crimea to improve stakeholders' operations, establish new partnerships, increase sales, as well as to promote the Crimean brand and help tourism in Ukraine develop and grow. At the same time, BIZPRO is working with sector stakeholders to help them engage government to improve the investment climate. BIZPRO's efforts in the tourism sector are part of its goal to increase Ukraine's global competitiveness in targeted sectors of the economy.

The move into congress tourism transformed Larissa's business. With BIZPRO's assistance, she says, her agency has forgotten what “dead season” means. “We are now busy even as the winter comes closer. I hired extra staff and we increased our profits. Congress tourism did become a solution for us”. Southern Tour was recently selected to be the official tour operator of the 2nd European Congress of Rural Tourism and the International Conference of TACIS Managers. More conferences are being planned for Crimea and Larissa is actively negotiating with new foreign partners.

Elimination of the dead season means that more money will come to Crimea to be reinvested into building up the region's tourist infrastructure. It means more services, more opportunities for doing business, and, in the long run, more jobs and better salaries.



CASE STUDY

Ukrainian Clothing Brand Success Paves the Way to Russia

SENSUS has entered into over \$400,000 worth of contracts with Russian wholesalers



Photo:

A Sensus shop displays the 2005 spring-summer collection.

“As of now, we have signed contracts for almost a half-million dollars’ worth of shipments of SENSUS brand clothes to Russia. This is something no Ukrainian apparel manufacturer has ever done before.” – Khrystyna Patyk, SENSUS Director

For more information on USAID programs in Ukraine, call the Program Office at (044) 462-5678 or visit www.usaid.kiev.ua

Challenge: On average, a Ukrainian clothing manufacturer works under a “cut-and-make scheme,” earning about 30 cents for each piece of clothing it produces. According to the scheme, the manufacturer provides only the cheap labor, while everything else, the fabric, design and accessories comes from abroad. Assembled goods are shipped back abroad the moment they are finished, taking the lion’s share of profits with them.

SENSUS, a Lviv-based women’s apparel manufacturer, became one of the first Ukrainian companies to challenge the *status quo*. To become competitive in today’s markets, the company needed outside expertise to deal with the company’s major problems, such as the lack of a clear marketing focus, poor targeting and ineffective positioning.

Initiative: BIZPRO, a USAID-funded technical assistance project, identified SENSUS’ potential and selected the apparel manufacturer to participate in its enterprise-level market development program. BIZPRO experts quickly identified solutions to the company’s major problems.

In January 2005, BIZPRO and SENSUS signed a joint action plan aimed at increasing the company’s competitiveness in Ukraine and exploring ways to penetrate foreign markets. BIZPRO and SENSUS shared the cost of implementing the plan, with SENSUS contributing the majority of the funds. The plan stipulated development of new branding and positioning campaigns, trainings and consulting sessions for SENSUS salespeople and production managers, and business trips in search of new partners. The plan also addressed fundamental issues of creating new designs and selecting fabrics.

A highly regarded textiles and apparel expert was invited to help the company’s managers better understand the need for upgrading existing production facilities and increasing operational efficiency. He also provided recommendations for building export capacity, and specific advice on buying new equipment to enhance quality. New operation systems were introduced to improve cooperation with the company’s subcontractors (six fairly large enterprises, employing about 3,000 workers in total). Furthermore, SENSUS was able to attend an international textile industry exhibition in Paris, where the company made deals for the supply of high-quality fabrics directly from some of the world’s leading producers, thus allowing them to obtain high-quality materials at very attractive prices.

Results: After first six months of cooperation with BIZPRO, SENSUS showed a 30 percent increase in revenue growth compared to the same period last year. By the end of 2005, the rate of revenue growth is expected to reach 100 percent. The share of exports in the company’s total output increased to 28 percent during the first six months of this year, and is expected to rise to 60 percent by the end of the year.

Moreover, SENSUS not only expanded its presence in Ukraine but also successfully ventured abroad. One of their BIZPRO-led trips to Moscow in search of potential partners resulted in the signing of an agreement with a well-known showroom, which supplies some of the trendiest Moscow boutiques and clothing stores. SENSUS also had the opportunity to present its latest line of women’s business and casual clothes to demanding Moscow wholesalers. These high-quality and contemporary designs soon found buyers. At present, the company has already signed contracts worth an estimated \$400,000 for goods to be delivered to its new Russian clients by mid-September.



USAID
FROM THE AMERICAN PEOPLE

BIZPRO

CASE STUDY

Textile Sector Reaps Benefits of Cooperation

**“We Should Be Heard”
campaign unites textile
and apparel sector and
saves the industry over
\$12 million a year!**



KASHTAN to continue increase its sales

For many Ukrainian apparel manufacturers assembling clothes for foreign companies (the “cut-and-make” scheme) is a way to survive while their own brands are still not strong enough to compete in Ukraine with established western brands or cheap Chinese and Turkish imports. The scheme depends on manufacturers importing clothes and accessories for assembly and signing a financial obligation to export the finished goods no later than 90 days later. Otherwise, the manufacturer has to pay import duties and VAT to the Tax Administration.

On March 25, 2005 the Law of Ukraine “On Amendments to the State Budget of Ukraine” became effective and one article thrust an intermediary – commercial banks – between apparel manufacturers and the Tax Administration. The article made banks the guarantors for the enterprises – and allowed banks to charge up to 10% commission to provide this “service”. The law was passed without consulting with the struggling enterprises that it was to affect, and low profit margins associated with the cut-and-make scheme were threatened by the government-imposed expense.

BIZPRO uses the experience of working with individual enterprises in competitive sectors of the economy to organize sector specific training. An impact evaluation of its training program for the sector showed a 10.3% increase in the number of employees for training participants and a 5.4% increase in sales. These results have earned BIZPRO the sector’s confidence and are key to BIZPRO’s ability to mobilize sector stakeholders to partner with government and help create a better regulatory environment for business.

Kashtan, Kyiv-based apparel manufacturer and BIZPRO sector stakeholder, was not happy at all with the new law but realize that it was powerless alone so asked BIZPRO to help. BIZPRO rallied sector stakeholders to organize the “We Should Be Heard” campaign that culminated in December 2005 at a roundtable attended by 48 sector stakeholders, including the Ministry of Industrial Policy and the Ministry of Economy. Senior policy-makers were finally engaging in constructive discussion with the private sector.

As a result, the Cabinet of Ministers adopted resolution on January 21, 2006 that cancelled the amendments made on March 25, 2005. By acting together the sector stakeholders saved the apparel industry over \$12 million a year.



SUCCESS STORY

Ukrainian Frozen Produce Can Compete!

Production increase from 350 to 600 tons allowed Arti retain local market share and employ more people



Photo: Natalia Dyomina

Aggressive advertising and distribution allowed Arti (Artika™) – a producer of frozen fruits and vegetables from Kharkiv – to compete effectively with foreign producers.

Fruit and vegetable processing should be a lucrative business in a country like Ukraine, where millions of tons of produce are harvested annually. BIZPRO's analysis *Ukraine: Competing in the Global Economy – Strategies for Success* (January 2005) identified fruit and vegetable processing as one of the most promising sectors of the economy. However, a lack of investment and marketing expertise has plagued the sector and Ukrainian fruit and vegetable processors struggle to compete with their foreign rivals.

Recent economic stabilization and an increase in personal income have noticeably raised the demand for frozen fruits and vegetables in Ukraine. Unfortunately, most Ukrainian producers have been unable to take advantage as they compete with foreign companies. Imported frozen fruits and vegetables have come to dominate the market due to better packaging, more effective distribution, and superior access to finance.

Kharkiv-based Arti LLC (Artika™) became one of the first Ukrainian producers to make a serious attempt to retain its market share in the face of aggressive foreign competition. In order to stay competitive in a rapidly expanding market, Arti was determined to improve its operations to compete effectively with foreign companies. Arti determined that it had the capacity to increase production from 350 tons in 2004 to 600 tons of produce in 2005. An aggressive marketing campaign was required, but the company lacked expertise to develop and implement one. Arti's new marketing manager, Natalia Dyomina, asked BIZPRO for assistance in developing an effective marketing strategy.

BIZPRO together with its regional implementing partner, Kharkiv Technologies, conducted marketing research, developed a marketing strategy, recommended changes to its organizational structure, and assisted Arti in crafting an advertising campaign. In addition, Arti expanded its knowledge of international markets and the International System of Food Safety and Quality (HACCP). According to Natalia Dyomina, these efforts allowed Arti to achieve its goals.

BIZPRO uses the experience of working with individual enterprises in competitive sectors of the economy to organize sector specific training. An impact evaluation of its training program showed that for almost half of the surveyed companies, application of the knowledge and skills received resulted in increased sales. The most significant increase in sales was recorded in the fruit and vegetable processing sector – 39%. The largest increase in the number of employees was also in this sector. Arti not only met its production goals, but also increased its number of employees from 85 to 100.

The improvements made by Arti will allow it to continue to grow, increase local market share, and employ more people from the local community.



SUCCESS STORY

Say Goodbye to the Dead Season

A strategic move to congress tourism transforms a woman-led Crimean agency's business



Photo by Southern Tour

Larissa Kazachenko, successful business woman, a tourist agency owner (center): "Tourism is the industry of hospitality. You should love people you invite to visit your country. One should be sincere, and if you are not, it is like being a school teacher while hating children – there is no way to succeed. And it is not only your company's success at stake – the image of the whole country is".

Larissa Kazachenko is a successful business woman who is not new to the tourism business. After all she runs one of the most successful tourist agencies in Crimea. Her company has excellent experience in the field of cultural and historic tourism and individual exclusive programs. During the summer her business fared traditionally well, but everything stopped as winter approached.

Winter has always been a dead season in Crimea. Businesses large and small ran idle waiting for summer tourists to return which significantly undermined Crimea's competitiveness in the fiercely competitive global tourism market.

BIZPRO addressed this problem by assisting Crimean tour operators in identifying opportunities in new product development. The project's experts identified congress tourism as one of the solutions. BIZPRO assisted tour operators in marketing plan and promotional campaign development and provided market entry support. Larissa Kazachenko and several of her colleagues in the tourism industry received a unique opportunity to visit the International Tourism Exchange ITB Berlin 2005. In Berlin, they learned more about congress tourism, found new partners, and attracted international congress tourists to Ukraine.

BIZPRO is helping the tourism sector in the Crimea to improve stakeholders' operations, establish new partnerships, increase sales, as well as to promote the Crimean brand and help tourism in Ukraine develop and grow. At the same time, BIZPRO is working with sector stakeholders to help them engage government to improve the investment climate. BIZPRO's efforts in the tourism sector are part of its goal to increase Ukraine's global competitiveness in targeted sectors of the economy.

The move into congress tourism transformed Larissa's business. With BIZPRO's assistance, she says, her agency has forgotten what "dead season" means. "We are now busy even as the winter comes closer. I hired extra staff and we increased our profits. Congress tourism did become a solution for us". Southern Tour was recently selected to be the official tour operator of the 2nd European Congress of Rural Tourism and the International Conference of TACIS Managers. More conferences are being planned for Crimea and Larissa is actively negotiating with new foreign partners.

Elimination of the dead season means that more money will come to Crimea to be reinvested into building up the region's tourist infrastructure. It means more services, more opportunities for doing business, and, in the long run, more jobs and better salaries.

ANNEX II: PUBLICATIONS SUBMITTED TO USAID/CDIE

BIZPRO PUBLICATIONS (2001–2006)

UKRAINE

Business Association Needs Assessment (2001)

Business Association Practices Manual, Part I of II (2001)

Business Association Practices Manual, Part II of II (2001)

Business Start-up & One-Stop Shops: Principles for Success from Ukraine and Abroad (2002)

Competitiveness Messenger (February 2006)

Diagnostics of the Furniture Sector (2005)

Diagnostics of the Textiles and Apparel Sector (2005)

Export Activities of Ukrainian Companies Survey (2005)

Franchising Road Map (2001)

Impact Evaluation of Permit-Issuing One-Stop Shops Opened with USAID Assistance in 21 Cities of Ukraine (2006)

Jumping Through Regulatory Hoops, Or What Makes Entrepreneurs' Lives Difficult: Regulatory Barriers and Regional Focus Group Findings (2004)

BIZPRO Newsletters # 1-9 (September 2000–April 2003)

Odessa Wholesale Market Pre-Feasibility Study (May 2006)

Performance of SMEs in the Fruits and Vegetables Processing Sector vs. all Ukrainian SMEs (2004)

QUARTERLY REPORTS

Results of Impact Evaluation of Permit-Issuing One Stop Shops in Ukraine (2006)

Results of the National Survey of Small and Medium-Sized Enterprises (2003)

Sector Diagnostics: Apparel (November 2006)

Sector Diagnostics: Confectionary (November 2006)

Sector Diagnostics: Construction Materials (November 2006)

Sector Diagnostics: Fruit & Vegetables (November 2006)

Sector Diagnostics: Furniture (October 2006)

Sector Diagnostics: Meat (November 2006)

Sector Diagnostics: Milk (November 2006)

Sector Diagnostics: Textiles (November 2006)

SMEs in Ukraine: Performance Indicators and Strategies for Development (2004)

SMEs in Ukraine: Performance Indicators and Strategies for Development (2005)

Ukraine and Russia: SME Development Policy - Analytical Survey (2002)

Ukraine Investor Roadmap (2005)

Ukraine: Competing in the Global Economy - Strategies for Success (Highlights of the Report, February 2004)

Ukraine: Competing in the Global Economy - Strategies for Success (Main Report, February 2004)

Voucher Program Manual (2001)

Regulatory Impact Analysis Manual for Ukraine (2006)

BELARUS

Competitiveness of Republic of Belarus after Entering the Energy Resources Global Market (2006)

Impact of CAP/CIPA Training in Belarus on Business Decision-making (2006)

Regional Differentiation of Prices and Income in Belarus (2006)

Investment Activity of Belarusian SMEs (2006)

Operating Environment, Performance Indicators, and Development Problems of Exporters in Belarus (2005)

Competitiveness of FMCG Sector in Belarus (2006)

MOLDOVA

Assessing Competitiveness In Moldova's Economy (2004)

Baseline Survey: "The Network of Savings and Credit Associations and Their Clientele" (2002)

Basics of Marketing in Saving and Credit Associations (2002)

Business Plan for Saving and Credit Associations Members (2002)

Business Planning Guide (2003)

Crediting Course for Saving and Credit Associations (2002)

Developing the Legal Framework for Establishment and Operation of the First Credit Bureau in Moldova (2004)

Diagnostic Reports on Saving and Credit Associations (2003)

Finances and Business Accounting Guide (2003)

Franchising (2002)

Hot Line Program - half-yearly report (July 2002)

How to Get a Credit/Loan from Banking and Non-banking Institutions (2003)

Leasing in Moldova (2002)

Legal Aspects of Entrepreneurship Manual (2003)

LPG Impact Assessment Study (2004)

Market Research on Leasing Product (2005)

Market Study of the Informational Software Technology Sector in Moldova (2004)

Marketing Manual (2003)

Medium Term Crediting for Savings and Credit Associations (SCAs) Manual (2002)

Microfinance Development Strategy for the Republic of Moldova (2003)

Optimal Business Ideas from the very beginning: a manual for small businesses (2003)

Our Success Stories (2003)

Preparing and Applying for Loans from Banking and Non-banking Institutions of the Republic of Moldova (2003)

Report on “Domestic Factoring” Concept’s Assessment (2004)

Savings Mobilization in Saving and Credit Associations (2002)

Small Business 2005 Forum Exhibition Survey (May 2005)

SME Messenger (#1) (September 2004)

SME Messenger (#2) (December 2004)

SME Messenger (#3) (March-April 2005)

SME Messenger (#4) (July 2005)

SME Messenger (#5) (October 2005)

SME Messenger (#6) (December 2005)

SME Messenger (Special Edition) (May 2005)

Some Aspects of Business Evaluation in Saving and Credit Associations (2002)

Strategic Plan for the Best Business Prospective Development in Corlateni Village (2003-2007) (April 2003)

Strategic Plan for the Best Business Prospective Development in Zaicani Village (2003-2007) (April 2003)

Study on Financial Institution's Best Practice in Microlending to SME's (2002)

Taxation and Fiscal Privileges for Small Business (2003)

The Assessments of the Economic Growth Areas (2004)

The Cost of Doing Business Survey (2004)

The Leasing Industry in Moldova (2006)

The Survey on Feasibility of Establishing Savings and Credit Cooperatives in the Republic of Moldova (February 2005)