

**A COMPARATIVE ASSESSMENT
OF SPECIFIC ASPECTS OF USAID PROGRAMS
TO DEVELOP SMALL AND MEDIUM SIZE ENTERPRISES
IN BULGARIA, POLAND, RUSSIA AND UKRAINE**

**PREPARED FOR U.S. AGENCY FOR INTERNATIONAL
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MANAGEMENT SYSTEMS INTERNATIONAL

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The team members selected for this assessment came from different backgrounds and experiences. They meshed together well and provided varying insights and perspectives on the different elements of the programs studied. All six team members were closely involved in the field research, conceptual discussions, Mission presentations, and the preparation of this report. I personally thank them all for their wise counsel and guidance as well as for their patience in making this assessment come together.

This has been a very important and challenging assignment. The Assessment Team hopes that the readers of this report will find the information contained herein of value to them in designing and implementing SME programs in the ENI region and elsewhere.

Stephen C. Silcox
Assessment Team Leader
Washington, DC
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LIST OF ACRONYMS AND ABBREVIATIONS

ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance
BAP	Bulgarian Association for Partnerships
BCC	Business Collaboration Center (Russia)
BSC	Business Support Center (Ukraine)
BSI	Business Support Institution (Russia)
BSO	Business Support Organization (Poland)
BSP	Business Support Program (Poland)
BTC	Business Training Center (Morozov, Russia)
BVP	Business Volunteer Program (Russia)
CARESAC	CARE Small Business Assistance Corporation (former name for SEAF - see below)
CBSD	Center for Business Skills Development (Russia)
CCI	Center for Citizen Initiatives
CDC	Citizens Democracy Corps
CSD	Center for the Study of Democracy (Bulgaria)
DAI	Development Alternatives, Inc.
EBRD	European Bank for Reconstruction and Development
EMED	Entrepreneurial Management and Executive Development
EU PHARE	The European Union's program of assistance to Central and Eastern Europe (The acronym was adopted when the program began and stands for Poland and Hungary Assistance for the Reconstruction of the Economy.)
ENI	Europe and Newly Independent States
FLAG	Firm Level Assistance Group (Bulgaria)
FEA	Free Enterprise Association (Poland)
IESC	International Executive Service Corps
IFC	International Finance Corporation
IPC	Implementing Policy Change
LGPP	Local Government Partnership Program (Poland)
LPC	Local Privatization Center (Russia)
LPGP	Loan Portfolio Guarantee Program
MSI	Management Systems International
NARDA	National Association of Regional Development Agencies
NewBizNet	New Business Network (Ukraine)
NGO	Non-governmental Organization
PADCO	Planning and Development Collaborative
PBAN	Polish Business Advisory Network
PBAS	Polish Business Advisory Services
PBEP	Polish-British Enterprise Project
PSD	Polish acronym for PBAN (see above)
PVO	Private Voluntary Organization
RDA	Regional Development Agency (Poland)
RFA	Request for Application
RFP	Request for Proposal

RISE	Russian Initiatives for Self-Employment
RPC	Regional Privatization Center (Russia)
SME	Small and Medium Enterprise
S.O.	Strategic Objective
SEAF	Small Enterprise Assistance Fund
SUNY	State University of New York
TACIS	Technical Assistance to the Commonwealth of Independent States
TUSRIF	The U.S.-Russia Investment Fund
UD	University of Delaware
USAID	United States Agency for International Development
WestNIS	Western Newly Independent States Enterprise Fund
WOCCU	World Council of Credit Unions

Notes:

1. The four Missions in this study used various terms to refer to local organizations that provide business support to SMEs. These include Business Support Organizations (BSOs) in Poland, Business Support Centers (BSCs) in Ukraine, and Business Support Institutions (BSIs) in Russia. Although there may be some differences in the perceived functions of these different organizations, they are, in essence, very similar. We have used the local terminology to refer to the organizations in each country so that readers in each country will know exactly to which organizations we are referring. We use Business Support Organizations to refer to these organizations generically in parts of this report which apply to all existing or future Mission programs. To try to eliminate any confusion, we have spelled out the term when we have used it in a generic sense.
2. We have also used the term "Mission" to refer to all USAID field offices. We recognize that Poland and Bulgaria are technically "Offices of AID Representatives," but we felt that the use of "Mission" to refer to all USAID field offices simplified understanding and eliminated excessive wordiness in the report.
3. The term "Consultancy Industry" as used in this report refers to all types of firms and organizations providing technical assistance and training to SMEs. This includes both for-profit companies and not-for-profit organizations providing assistance in general business skills, accounting, marketing, production methodologies, etc.; it does not include educational institutions, trade or business associations, financial institutions or governmental agencies.

EXECUTIVE SUMMARY

This report is an assessment of USAID's work in small and medium enterprise (SME) development in Eastern Europe and the Newly Independent States of the Former Soviet Union. It is based on a comparative study of USAID programs in Poland, Bulgaria, Ukraine and Russia, and focuses mainly on those USAID-funded activities that are responsible for providing firm level assistance, strengthening of local business service organizations, and strengthening of business associations. Other aspects of SME development — financial services, education/human resource development, and legal reform — are also discussed in terms of their linkages to the central theme of this assessment.

The assessment was undertaken at the request of senior management in the USAID/ENI Bureau to draw some lessons learned from experiences to date, and to identify best practices that can be incorporated in ongoing and future activities. The assessment discusses both the strategic elements for successful SME program development, as well as organizational requirements for effective program management. Two specific aspects of USAID's programs are addressed:

- Collaboration among American providers of firm level technical assistance to SMEs as a means to more efficient implementation of SME development strategies.
- The development of local capacity to provide similar technical assistance services.

The four countries were selected because each has a sizeable effort in SME development, and each uses a somewhat different program management approach to implementing their activities. The report discusses strengths and weaknesses in these various approaches, and recommends three organizational models for USAID to consider in structuring future efforts.

Lessons Learned

Through document reviews and key informant interviews (which included USAID staff, contractor and grantee staff, local counterpart organizations, government officials, entrepreneurs, and experts in the field), the team identified several lessons learned. These are summarized below:

The objective of building local capacity must be more clearly stated and promoted under USAID grants and contracts. Many firm-level assistance programs in the ENI region have undergone an evolution since USAID started working in the region. This evolution is based on the recognition that, over time, SMEs need to be able to acquire services in the local marketplace that are necessary for them to grow and compete, both domestically as well as internationally. The services that they will need are similar to the services that have been provided through USAID-funded assistance — technical/managerial assistance, training, financial services, lobbying, etc. The first lesson learned — building local capacity — emphasizes the need for USAID to make more explicit the objective of having U.S. assistance providers work with local institutions and train them to provide services for SME development.

SMEs are part of a rapidly changing sector. Therefore, programs need flexibility in leveraging their resources when good opportunities arise. Although flexibility is an important issue for all

development efforts, it is especially relevant to the ENI region, where the political and economic contexts can change quickly. SME program designs and contracting agreements, therefore, must be structured such that the implementing organization can modify its approach, its delivery mechanism, and even its local partners in order to achieve the desired results and strategic objective areas for the Mission. Grant or contract agreements that are structured narrowly — for example around levels of effort, numbers of volunteers provided, number of firms assisted, or even a specific sub-sector of the economy — can distract USAID and the implementing organization from achieving results.

Standardization and simplification of reporting systems used by implementors will improve information available to Missions concerning achievements and constraints in their SME development strategy. Missions sometimes rely on the implementing organization to develop its own reporting system, resulting in many variations, even within a single portfolio of activities. Missions that have been more directive in simplifying and standardizing the reports needed from grantees and contractors at the beginning of a project have been more successful in creating useful information systems.

Utilization of one lead contractor or grantee to coordinate firm-level assistance efforts,¹ rather than separate agreements with multiple providers, leads to a more effective program of assistance. Each country studied has worked towards better coordination of its firm-level assistance efforts. In some cases, grantees were encouraged to try and work together; in others, a new Request for Proposal (RFP) or Request for Assistance (RFA) was issued which had a lead organization in the program design. The latter approach has been more successful. In addition to more effective program design, the use of a lead organization has allowed USAID to devote more staff time on strategic management issues and an overall vision for the SME development effort.

The development of SME financial services sector continues to be an area in need of assistance in most post-communist countries. The need that SMEs have for financial services — banking transaction services, loans, equity and even leasing — continues to be great. SME programs that have put linkages with financial service intermediaries — local as well as donor driven — as a top priority have been more successful in serving this need for their target group.

For the SME sector development effort to be successful, USAID Missions must put in place a management plan and the staff that will focus on overall strategy and promote linkages among individual activities and their components. SME development cuts across many issues, such as: firm-level assistance, entrepreneurship development, policy reform, privatization, strengthening of business associations, finance, and governance. Synergy among activities in each of these areas will lead to better results for SME development and overall economic growth of the country. However, Mission staff are frequently occupied full-time with day-to-day management of individual grants and contracts. Therefore, Missions need to have senior staff dedicated to overall strategic management, to foster linkages and synergy among activities — some of which cut across strategic objective (SO) areas.

¹“Firm-level assistance” is the term commonly used by USAID to describe technical assistance or management consulting services to business.

Contracts using long-term advisors are better suited to build local institutional capacity than are the services of business volunteer providers. Some US programs have utilized short-term volunteers to provide training or technical assistance to counterpart institutions — consulting firms, associations, cooperatives, and the like. In many cases, this work is done as part of an existing assignment to providing technical assistance to firms. However, these programs have been less committed to providing ongoing technical support and training to the broader range of local institutions involved in SME development. In this regard, long-term advisors dedicated to strengthening local institutions have been more effective.

Business Service Organizations cannot recover all of their costs through client fees and still serve the target group for USAID SME programs. Cost recovery is an important objective for BSOs. Not only does it make them focus on being efficient, it also directs their attention to client demand. However, full cost recovery, when serving micro and small scaled enterprises, is not a realistic goal. A combination of fees and subsidies, structured according to the local marketplace, is necessary. Also, to ensure that the marketplace for services has an opportunity to develop, donor coordination is needed to assure that different programs do not have competing subsidy structures.

Best Practice Recommendations

The following *best practices* are recommended to be included in future SME program designs:

Focus on building “legacy” to support the transition to an open market economy. Building legacy — creating the foundation for a competitive marketplace in which SMEs have a fair opportunity to open and operate their businesses — can be better facilitated if:

- Missions make building local SME services capacity and improving the enabling environment their priorities.
- Policy and regulatory reform activities and the development of business associations are linked with technical assistance, training and finance activities.
- Business Support Organizations charge fees for services provided to SMEs as soon as possible; however, other sources of funding will also be necessary to support efforts to reach small and medium enterprises with limited ability to pay.

Make greater use of long-term technical assistance for local capacity building.

Utilize one lead organization for managing volunteer business advisors.

Have an explicit plan and structure for managing overall SME development strategies, not simply individual projects.

Develop a mechanism — workshops, information systems, etc. — for sharing experiences and program ideas among USAID Missions.

I. INTRODUCTION

A. Background and Focus of The Assessment

United States Agency for International Development's (USAID) assistance to the Europe and the New Independent States (ENI) Region has undergone various changes since its initiation in the early 1990s. While early efforts concentrated on establishing an American presence in the region through quick-responding grants and contracting vehicles, in recent years there has been increasing emphasis on achievement of development objectives and defining exit strategies. The re-engineering of USAID has further prompted and reinforced this development focus.

A few months ago, ENI Bureau's senior management indicated that a comparative assessment of the different approaches used by Country Missions in the region to address Small and Medium Enterprise (SME) development would be useful to draw some lessons learned from USAID Mission experiences to date. This study is the implementation of that request. The purpose of this assessment is to assist Missions in designing new SME development strategies and programs, as well as in modifying their existing programs in accordance with best practices elsewhere.

This assessment focuses on two aspects of SME development in the ENI region:

- Collaboration among American providers of firm level technical assistance to SMEs as a means to more efficient implementation of SME development strategies.
- The development of local capacity to provide similar technical assistance services.

Although a comprehensive SME development strategy could involve other important elements, USAID/Washington limited this assessment to these two aspects in order to provide direction to Missions on SME program design and management. This assessment is intended to complement previous activities by the ENI Bureau in USAID/Washington to assist Missions in designing and developing their individual country strategies for SME.

Poland, Bulgaria, Ukraine and Russia were chosen as the four countries to study since they have sizeable SME programs and varied approaches to SME development. The Missions have used different organizational and contractual mechanisms both to provide firm-level assistance and to promote the development of local capacity to provide technical assistance. In addition, the four countries also vary in their stages of development, both in terms of the private sector and in the corresponding USAID programs to address SME development. The four countries differ considerably in size and in economic and political history.

B. Team Composition and Assessment Methodology

This assessment was conducted by a six person team. Three members, including the team leader, were supplied by Management Systems International, Inc. (MSI) and three were supplied by USAID/Washington. In addition, local USAID Mission staff accompanied the team and participated in some instances to facilitate introductions, logistics and communication.

The team spent the first week of the assessment in briefings with senior management and staff of the USAID/ENI Bureau in Washington, D.C., and in interviews with staff at the headquarters of most of the American providers of SME technical assistance in the four countries studied. In addition, the team collected and reviewed background documents.

Over the next three weeks, the field research was conducted, with team members spending one week in each country. All six members traveled first to Poland. The team then split to cover Bulgaria (two team members) and Ukraine (four team members). The team reassembled in Russia for the fourth week of the assessment. Field research was facilitated by local Mission staff. In each country, the team split into two-person teams (one from MSI and one from USAID) in order to increase the territory and number of organizations/field offices interviewed. Relevant documents were collected and reviewed in each country. At the end of each week of field research, team members held a debriefing with key USAID Mission staff to discuss findings and cross-cutting issues.

The fifth week was spent drafting the report in Moscow for submission to the four Missions for their review. This draft report was hand delivered to the USAID/Russia Mission and sent via E-mail to the USAID Missions in Ukraine, Bulgaria and Poland prior to leaving Moscow. The four USAID Missions and Washington USAID staff reviewed the draft report and provided comments for the final report.

C. Format of the Report

This report consists of five sections. The *first* section is this introduction, which presents the background, focus and methodology for the assessment. The *second* section presents a conceptual framework for the assessment; it discusses how this assessment relates to an overall Mission SME development strategy. The *third* section presents a brief description of each country's program². The *fourth* section discusses lessons learned on key topics determined during the course of the assessment. Each topic summarizes the issue addressed, gives examples of approaches from the four countries to deal with the issue, and presents suggestions for future activities. Finally, the *fifth* chapter identifies best practices to assist SMEs, discusses program design issues, and recommends a framework for guiding the design of SME programs, including three alternative organizational models.

² A detailed description of each country's program is found in Annex 4.

II. CONCEPTUAL FRAMEWORK FOR THE ASSESSMENT

This assessment concentrated on two aspects of SME development programs in the ENI region. However, it is useful to place this assessment within the context of an overall strategy for SME development in order to better understand how the two aspects studied relate to the broader strategy. This section of the report presents a concise conceptual framework for looking at the issues discussed.

There are three basic elements of an SME Development Strategy: firm level assistance, local capacity/institution building, and policy/regulatory reform. These three elements are intertwined, so progress in each often depends on gains made in the others. Although each of these elements must be addressed in an SME development strategy, USAID Missions may choose to concentrate their efforts on specific elements, because of the needs at a particular point in time, USAID's comparative strengths, or the activities of other parties/donors.

A. Firm-Level Assistance

Firm-level assistance is the first element in an SME development strategy. It involves two basic sub-elements: 1) training/technical assistance to transfer knowledge and skills, and 2) access to finance. Both are necessary to address the needs of small and medium-size firms, although the methodology for the delivery of each varies substantially in terms of the mechanisms and institutions used.

Knowledge and skills transfer is the linchpin of SME development in the ENI region, providing individuals and firms with the capacity to transform a centrally-run, command economy into a free market, consumer demand economy. Unless basic business skills are developed within SMEs, their ability to function is undermined. A common perception is that SMEs in the ENI region require assistance in improving marketing skills, responsiveness to customers, and employee relations skills. What is less recognized is that SMEs in the region need production oriented assistance to compete with Western firms in terms of modern, quality products and services. Firms in Eastern Europe are becoming acutely aware of this need as their countries approach entry into the European Union and as recently established, Western firms located in these countries demand high quality, locally produced components.

Access to finance is also a critical ingredient in the development of businesses in a free market economy. If financing for the expansion of existing businesses is not available, those businesses cannot grow, even if the individuals in the company have the requisite skills to succeed. Consequently, an effective SME development strategy must address this issue as well.

B. Capacity/Institution Building

USAID's emphasis on the second element in an SME strategy — building local capacity of institutions to support SME development — has evolved over time. Early activities in U.S. foreign assistance to the ENI region emphasized firm level assistance. This allowed USAID to establish a presence in the ENI countries quickly and to create initial linkages with entrepreneurs and government officials at different levels. However, once a U.S. presence was established, attention began to shift to the importance of building and strengthening local capacity and institutions, in

recognition of the USAID's eventual departure from these countries. As graduation dates approach, USAID Washington and country Missions place increased emphasis on this element of the SME strategy.

Five kinds of institutions or systems are needed to support SME development: the consultancy industry, trade and business associations, market information systems, educational institutions, and financial institutions.

Consultancy Industry

Building the consultancy industry involves strengthening the local capacity to provide assistance to individual firms over the long term. It requires the transfer of knowledge and skills to for-profit firms, non-profit organizations, publicly subsidized organizations, or individuals. It may require creating new organizations or strengthening existing organizations. (Unfortunately, there is often inadequate recognition that capacity building at the individual level leaves society a legacy. Too often the assumption is that capacity building requires self-sustaining formal institutions. This may be, in part, because it is easier to track and document institutional growth and survival.)

This capacity building is not achieved simply by treating consultant firms as other SMEs to be served by a volunteer program. A distinctive strategy aimed at building long-term capacity is needed. Knowledge and skills transfer requires a combination of formal training and mentoring, not only in technical skills, but also in general business management skills that enable management to assess options, make decisions, and implement change. Pairing local consultants with American business volunteers contributes significantly to building this capacity. In fact, from the capacity building perspective, every volunteer assignment that is not paired with a local consultant represents a lost opportunity to strengthen local capacity.

Trade and Business Associations

Regional or sectoral associations are important mechanisms for the dissemination of information to many SMEs. Associations are often the vehicles for training, business linkages, and identifying problems in and barriers to effective business operations. They may also serve an important function in identifying legal and regulatory barriers, communicating that information to policy makers, and advocating for changes.

Building associations requires a specific planning process and a distinctive strategy. It involves an assessment of the most critical sectors in which associations are needed or where the opportunities are greatest. It requires intensive work with a single group of SMEs over a long period of time. Targeting assistance toward those associations which have the most promise for success and impact is crucial to the accomplishment of SME development objectives.

Market Information Systems

In order for SMEs to compete in a free market, a satisfactory market information system must exist that provides SMEs with leads on public and private tenders and solicitations, information about potential collaborator or competitor firms, technical information about new and existing products

and services, and information about legislation and regulations affecting their firms. This information may come from such sources as government bulletins, business associations, universities, newspapers, the Internet, trade magazines, consulting firms, market research companies, and others. Access to information is critical to the workings of modern businesses, particularly within the global economy. Although USAID activities cannot address all of these information sources, it is important to recognize the importance of this information in a free market and to find ways to support the development of these systems.

Educational Institutions

Educational institutions play an important role in the development of good businesses in a country. Secondary schools may provide opportunities for students to learn about businesses through courses, part-time employment, and field trips. Community colleges and adult education programs can provide training in basic business and technical skills. Universities can equip potential business managers and entrepreneurs with more advanced business and technical skills. Finally, technical institutions can serve specific markets with refresher courses and technical certification in specific areas. Business incubators often are tied to educational institutions in order to have programs which are mutually reinforcing. These educational institutions are generally not designed to provide consulting services, but rather to provide valuable education and training opportunities for SMEs and entrepreneurs.

Financial Institutions

The marshaling of a system of long term financial resources for SME development is an important aspect of developing the financial sector as a whole. Grants or short-term loans provided by institutions established to promote SME finance can help infuse specific companies with capital to increase their profits. However, a longer term approach is needed to develop an effective system for the provision of finance to SMEs. The amount of money available in an economy for investment, even a former centrally controlled one, is vastly larger than the amounts of money donors are willing to provide. In order for a free market economy to prosper, a means of reforming and strengthening the system of private sector banks, as well as creating of other financial institutions to move savings to private investment must be found.

C. Legal and Regulatory Reform

Private sector development requires businesses to have an enabling political and legal environment within which to operate, and to flourish. The former political and regulatory systems within the countries of the ENI region were specifically designed to discourage private sector development. If current USAID efforts are to be successful, transforming that system is a *sine qua non*.

Reforming the policy and regulatory regime in the ENI countries requires action on various levels: 1) experts advise political leaders on how to initiate and sustain reform, drawing on the experience of other political economies in the world; 2) technical assistance is provided to draft and review new legislation; and 3) developing a means for citizen participation in the legislative and regulatory process is critical to the establishment of a sustainable enabling environment for private business.

While some of these activities can be performed by short or long-term technical assistance and training, an apparatus for developing the institutions to represent the interests of SMEs in the process is required. Trade and business associations frequently play this role in free market economies, providing the necessary information and grass roots political pressure to promote and implement changes in policy and regulations. Since trade and business associations represent the individuals and companies who will benefit from the changes, they are the most effective long-term, sustainable structures for improving the enabling environment for SMEs. Other institutions, such as educational institutions and business development centers, can play a role as well.

III. COUNTRY PROGRAM DESCRIPTIONS

The following descriptions summarize the SME programs in each country of this assessment. For a more detailed description of the country programs, refer to Annex 4.

A. Bulgaria

Bulgaria is the smallest of the four countries included in this assessment. The development of the SME sector in Bulgaria was delayed by the government's reluctance to undertake fundamental reforms. The currency fell from 60 lev/dollar in early 1996 to a low of 3,000 lev/dollar before stabilizing at about 1,700 lev/dollar. By February 1997, average wages were about \$10/month, and over 90 percent of the population fell below the poverty line. Following mass demonstrations, a reform government was elected and took office in April 1997.

The USAID Mission has a multi-tiered program that includes, among others:

- The Firm Level Assistance Group (FLAG) to strengthen firms, the consultancy industry, and trade and business associations;
- An Implementing Policy Change (IPC) project to improve the policy and legal environment for SMEs through work with a) business associations, b) executive and legislative branches of government, and c) local policy think tanks; and
- SEAF, a venture capital fund focused on the SME sector.³

The Firm Level Assistance Group (FLAG)

FLAG is a collaborative effort of seven agencies: ACDI/VOCA, CDC, IESC, Land O'Lakes, MBA Enterprise Corps, University of Delaware, and World Learning/ Entrepreneurial Management and Executive Development (EMED). The seven groups represent a variety of intervention strategies, including short-term volunteer consultants, group training, long-term (10 month) placements of American MBA graduates in firms, and individual and group educational trips to the U.S. Though the FLAG coordination mechanisms are somewhat labor intensive, cumbersome and time consuming, and organizations are a bit territorial and competitive, they have managed to work together relatively well. The coordination structure consists of a Board of Directors (composed of the representatives of the organizations), three committees (marketing, diagnosis, and evaluation), and an Operations Board (the same seven organizational representatives plus the chairs of the three committees). The Operations Board and the three committees meet weekly, and the Board of Directors meets as needed. The collaboration has resulted in a greater understanding and appreciation of the various intervention strategies and the contribution each can make to an overall impact on SMEs. The committee operations provide opportunity for staff development.

³ SEAF is also commonly known as CARESBAC.

Three of the seven organizations are located in a multi-storied downtown office building, and two others plan to move there soon. However, this co-location has not brought management efficiencies with it. Costs may have increased, since rental in the central city office building is higher than in some of the outlying offices formerly occupied by some of the organizations. However, there are some benefits to co-location, including interaction among members, access to each other, and time saved in traveling to meetings. In addition, co-residence presents a unified program image to the public.

While most of the organizations have increased their business since the collaborative arrangement began, it is not clear whether this is because of increased funding levels, the evolution of the SME sector in Bulgaria, or the collaborative structure. The organizations developed a coordinated strategy for marketing FLAG services, but FLAG does not have an annual marketing plan. Also, each agency continues to market its services individually and, for the most part, retains the clients it brings to the table. The collaboration tends to come when there are multiple interventions, for example, when other agencies provide complementary services.

FLAG serves primarily two types of clients: SMEs and trade or business associations.

- **Firms:** Giving firm level assistance is the primary focus of FLAG. Several observations can be made about this assistance. First, there is heavy use of piggy-backing — multiple assignments by each volunteer. Second, there are frequently multiple interventions in single firms. Third, services tend to focus on “gazelles,” that is, companies with a high potential for growth and job creation. The assessment team notes several points of caution:
 - There is danger that multiple interventions may result in allocation of increased resources without comparable increases in impact;
 - Focus on “gazelle” companies may result in resources going to successful companies that would have grown without intervention and in failure to discern companies not yet successful but with potential for growth with minor assistance; and
 - The lack of clear criteria for service may lead FLAG to serve companies that are too large to be considered part of the SME sector and perhaps sufficiently profitable to afford unsubsidized consulting services.
- **Business Associations:** FLAG has put an increasing amount of resources into serving trade and business associations. However, it tends to consider these as other SMEs; consequently it uses the same selection criteria and interventions utilized with other companies.

FLAG gives very little attention to the development of the consultancy industry, even though the cooperative agreements specify targets in this sector. The providers report that they have received mixed messages from the Mission about priorities for developing this sector.

The Assessment Team notes some clear disadvantages to the FLAG operation:

- The intervention strategy of almost all the providers is firm level assistance rather than local capacity-building, which means that the latter tends to get short-shrift;
- There is lack of flexibility, since the various cooperative agreements allocate specific amounts of resources to specific intervention strategies, making it difficult to direct resources in a cohesive program; and
- USAID has to administer and monitor multiple agreements.

Other Related SME Programs

The Implementing Policy Change (IPC) project is a policy-level intervention project operated by Management Systems International (MSI) and is seen by all parties as dynamic and effective. It operates using a conceptual framework of a “triangle” with governmental bodies, business associations, and think tanks at each point. IPC’s goal is to help create a new institution of public-private sector dialogue about economic reform issues, specifically SME legal and regulatory, by strengthening the interactions between and among these three broad groups. It has already had impacts in the executive and legislative branches and building a coalition of associations. There is regular interaction between IPC and FLAG, and the associations with which FLAG works are part of the coalition of associations, known as the *SME Forum*.

B. Poland

Of the four countries included in this assessment, Poland has by far the most mature small and medium size enterprise sector. It is estimated that there are some two million SMEs in the country, which employ over 60% of the labor force and are responsible for more than 56% of Gross Domestic Product (GDP). The government recognizes the contributions of this sector to the economy, and generally has sought to build and maintain an environment favorable to SME development. (It should also be noted that many government actions in Poland have been focused on ensuring admittance to the European Union as soon as possible, which requires policies that also favor SME growth.) Because of Poland’s rapid transition from a command to a market economy USAID expects to leave the country by 2000, and will not fund any new programs after Fiscal Year 1999.

In 1994, there were eight cooperative agreements with volunteer providers of firm level assistance. This model was used until 1996, when overall funding levels for Poland began decreasing and the Mission decided that it could not support the same number of providers. In addition, USAID/Poland wanted to move away from direct assistance to firms and toward building/strengthening local capacity and institutions — building “legacy.” USAID held discussions with the existing providers to encourage them to work together in a consortium, but Mission staff eventually came to the conclusion that simply encouraging collaboration was not sufficient to achieve a more focused effort. At the same time, Mission staff wanted providers to meet some very specific goals and believed that a cooperative agreement was not the appropriate contracting vehicle to achieve that end. The choice of a single contract over several cooperative agreements was perceived by the Mission as critical to

gain greater control over the providers of technical assistance and to place greater emphasis on local capacity building/strengthening in SME programs.

Business Support Program

The USAID/Poland Mission's Strategic Objective (SO) 1.3 calls for private sector development stimulated at the firm level, with an intermediate result of improved profitability of SME enterprises. The Mission's assessment was that while various donors, including USAID, had been addressing firm level assistance, none have addressed building Polish consulting firms' institutional capacity to provide high quality, yet affordable management assistance that SMEs will need to resolve problems that ultimately limit profitability. Therefore, the Mission called for a new program to build the capacity of 30 business support organizations (BSOs) through training and technical assistance, as well as through on- the- job training pairing American business volunteers working with at least 270 SMEs. In this way firm level assistance is tied to institution-building. (Note that EU PHARE independently concluded that it should prioritize development of consulting firms as well, and has embarked on a program to assist 111 business support centers nationwide.)

The project that was put in place to accomplish these goals is known as *Projekt Firma 2000*, (Business Support Program), implemented under a contract awarded to ACDI/VOCA. Major aspects of the project are as follows:

- Thirty Polish consulting firms will be recruited as BSOs. These may be for-profit or non-profit, generalists or specialists, and are to be located outside of Warsaw. These organizations must all be business-driven, either sustainable at present or capable of becoming so.
- Each of the 30 BSOs will nominate three representatives who have strong English language skills, so that they can work with U.S. volunteer consultants and receive training. These ninety consultants will receive advanced level training from ACDI/VOCA's subcontractor, Price Waterhouse, in business management and consulting. Internships in the U.S. will also be provided.
- U.S. volunteer experts will be paired with the Polish consultants to provide technical assistance to SMEs in areas such as market research, quality control, strategic planning, and financial management. This will provide the firm level assistance traditionally given through the volunteer programs, while giving a Polish consultant the opportunity for on-the-job training. Significantly, the BSO is allowed to charge as much as it can get for the U.S. expert (i.e., the BSO can charge a fee over and above the housing and per diem costs for the volunteer) and Firma 2000 will pay the BSO \$100 per day for the Polish consultant's time.

Twenty-nine BSOs have been selected to date. While the screening process took longer than expected, both Firma 2000 and the Mission regard partner selection as critical to the success of the project. The BSOs are a good mix of for-profit and non-profit agencies located around the country. Realistically there will be dropouts among the group who will have to be replaced. (Some are struggling financially, since they did not previously focus on development of fee-based services for

sustainability. For example, one is narrowly focused on providing computer services to medium-to-large businesses.)

Firma 2000 is only counting the consultants provided by U.S. volunteers towards its target of 270 assisted SMEs, and there have only been five consultants to date. Preliminary discussions with the BSOs indicate that the typical multiple-week volunteer assignments are too great a financial burden and too time consuming for the SMEs, and that shorter consultancies might be adequate to address most problems. Accordingly, Firma 2000 is now designing expert visits so that a single consultant will visit with several companies, accompanied by the consultant who recruited the client for the BSO. More effort should also be given to identifying local consultants rather than fielding U.S. experts. This will help with both the cost-effectiveness of assistance as well as with building local services capacity.

BSOs stated that they joined the Firma 2000 network because of their access to training. Many BSOs would like training for more than just the three nominated consultants. The English language requirement is controversial: while everyone acknowledges that this is appropriate for those consultants who are paired with U.S. experts, most would like to have the training available in translation as well. In addition, participants also see that there may be opportunities for training sessions conducted by the U.S. experts.

Other Related SME Programs

The other major USAID program for SME development in Poland is commonly known as the GEMINI Project (from the activity's original buy-in to a centrally funded project by that name). The project provides technical assistance to the Polish government on SME and microenterprise development, including preparing policy papers and reviewing legislation and regulations. The prime implementor has been Development Alternatives Inc. (DAI), originally through the GEMINI contract, but now through the Private Enterprise Development Support Project. This project has also provided organizational development assistance to business associations and to the Polish Foundation for the Promotion and Development of Small and Medium-Sized Enterprises (SME Foundation), recently assisting the SME Foundation in the publication of the first annual national SME report in Poland. In addition, the project provides continuing advice to the government in drafting SME development policies for the next three years. Current activities include expanding linkages between the SME Department in the Ministry of the Economy and local consultants who can provide ongoing assistance to the SME Department after the conclusion of this project. (The project was recently extended through the end of March 1999). Although linkages between this policy reform activity and the BSP could be mutually beneficial through using Firma 2000's network of BSOs, at present there is little evidence that such linkages have yet occurred.

C. Russia

Russia is a huge country which has undergone significant economic reform since the breakup of the Soviet Union, but remains somewhat ambivalent about its continued reform. According to *The Economist* (July 1997), Russia's economy has been shrinking for eight years, leaving it at about half the size it was in 1989. Prices, unemployment, and unpaid wages have been rising. Approximately 22 percent of Russians are living below the minimum subsistence level of \$70/month. Nevertheless,

SME development appears to be on the increase as state-run enterprises disappear and the private sector moves into the void.

USAID's SME development program has a number of components, which are described below. The largest initiative is the Business Volunteer Program (BVP). The design of the BVP attempted to incorporate the lessons learned during USAID's past experience in SME development in Russia and to build on prior experience. The Mission sought out the collective wisdom of a dozen volunteer organizations during the design of the BVP and the RFA process in order to maximize the collaborative approach in the design of the BVP. Furthermore, the design was based on an evaluation of the current needs of Russian SMEs and USAID's past experience in SME development through various mechanisms.

Business Volunteer Program (BVP)

The BVP has two purposes: the primary purpose is to provide direct assistance to SMEs through the use of American business volunteers; the secondary purpose is to build and strengthen the capacity of local consulting organizations. USAID has cooperative agreements with three PVOs: ACDI/VOCA (in association with Center for Citizen Initiatives (CCI) and Winrock) is working in nine regions; International Executive Services Corps (IESC) in five (plus two satellite offices); and Citizens Democracy Corps (CDC) in four (plus four satellite offices). Each provider has used its own approach to service provision, allowing variations on the regional level in order to take into account the unique needs of each region. Once the programs had been operating for several months, the USAID Mission recognized a need for greater coordination among the providers. The USAID Mission and the three providers are currently discussing the form of this coordination.

BVP providers serve two kinds of clients:

- ***SME Firms:*** Firm level assistance is the primary focus of the BVP providers. Each provider focuses on specific sectors, such as agribusiness, light industry, banking and financial services, construction, and tourism. Privatized firms are more likely to fall into the medium or large-sized category, whereas newer businesses are more likely to be small or medium-sized firms. While "piggybacking," or multiple assignments by a single volunteer executive, is used regularly by some providers in some regions, it is less widely used in Russia than in the other countries visited by the assessment team.
- ***Consultancy Organizations:*** The concept of building and strengthening local capacity is new for all three providers, and they are struggling with how to fulfill this aspect of their program. Consideration may have to be given to increasing budgets to provide appropriate funding for this aspect of the project. The providers may choose to work with for profit or nonprofit firms, or with organizations based in educational institutions (e.g., Morozov Centers) or supported by local and regional government (e.g., local privatization centers).

IESC shows the most progress in formulating and beginning the implementation of its plan. Its preference is to partner with well-established, self-sufficient, for-profit firms. It will co-locate with

a firm, provide a longer term (six month) volunteer advisor, and then have the firm absorb IESC staff at the end of the project. While IESC's criteria for partners assure sustainability, they are likely to result in partnerships with firms which serve the upper part of the SME market, or even larger companies than SMEs. IESC's selection criteria may make it impossible to find partners in regions such as the far east, where the local economy is less well developed and there does not yet appear to be a strong private consulting sector. ACDI/VOCA and CDC have not made as much progress toward establishing criteria and identifying specific partners, but both plan to develop volunteer executive assignments with consulting groups as their primary strengthening strategy.

The strategies of all three providers represent only slight adaptations of their basic product of providing volunteer executives to SMEs. Consulting firms are treated similar to SMEs: assistance is provided by American volunteers on a short-term basis. None of the three organizations identified the pairing of local consultants with American business volunteers, such as ACDI/VOCA does in Poland, as part of their strategy for strengthening the consulting industry.

Other Related USAID-funded Programs

A number of other organizations receive USAID funding. The *Business Collaboration Center (BCC)* is most closely linked with the BVP program. The BCC is a mechanism for information sharing among USAID-funded business development programs, both through electronic systems (e.g., databases, an events calendar, and a monthly newsletter) and seminars, round-table discussions, conferences, and in-house training programs. While originally operated by Deloitte Touche Tohmatsu under a previous contract, it is now operated by CDC under a separate cooperative agreement. The BCC maintains regional and national databases of Russian companies in order to encourage and facilitate business linkages, creates and maintains cross referenced websites for local SME service providers, and it provides information on potential sources of financing. In addition, the BCC facilitates legislative review for SMEs by publishing and distributing a newsletter on pending legislation and regulations, and it encourages SMEs to respond by e-mail with their comments on proposed legislation.

Other USAID-funded programs include:

- THE SUNY/Morozov Project, a "training of trainers" project designed to develop the knowledge and skills of educators in continuing education units of academic institutions throughout Russia.
- The Center for Citizen Initiatives' Russian Initiatives for Self-Employment (RISE) in St. Petersburg, offering business training courses and running a small loan fund and an incubation center for microentrepreneurs specializing in clothing design and fabrication.
- The Volkhov Incubation Center (VIC), providing training and technical assistance, and a women's business network and support group and loan and leasing programs.

- Opportunity International, working primarily in Nizhni Novgorod through its partner organization, Vozmozhnost, which operates a credit program, a leasing program, a training program, an incubator, and an employment center.

D. Ukraine

Ukraine is the second largest of the four countries studied. While the SME sector could be a major employer of a labor force that has been unemployed or underemployed because of the restructuring and privatization of the state industries, it currently employs less than 10% of the formal workforce. Ukraine's transition to a market economy has been slow and difficult. Discussions with business owners and business support organizations characterize the greatest problem of SMEs in Ukraine as the sheer uncertainty of the legal regime, government regulations, and taxation for private sector activities. The problems of access to credit, endemic official corruption and the grey economy were also noted by business owners and BSCs as major impediments to SME growth.

USAID/Ukraine's approach to supporting the SME sector includes:

- Expert advice to government officials to address the macroeconomic problems affecting the sector;
- The creation and support of a network of Business Support Centers (BSCs) capable of providing business support services to SMEs; and
- Direct, firm level technical assistance to SMEs.

The Mission has two primary programs that target technical assistance to the SME sector:

- USAID is helping build a network of BSCs through the New Business Network (NewBizNet) — a project contracted to Development Alternatives, Inc. — and other centers being developed by International Finance Corporation (IFC). The purpose of these centers is to deliver a range of business services, including training and consulting, to Ukrainian SMEs.
- The Alliance, a grouping of four U.S. Private Voluntary Organizations (PVOs) — ACDI/VOCA, CDC, IESC and the MBA Enterprise Corps — provides a program of technical assistance directed at SMEs using American volunteer business experts.

NewBizNet

At present, NewBizNet assists three BSCs in Ukraine (Kharkiv, Lviv and Odessa) and one in Moldova (Chisinau), and will soon add another four BSCs to its network. When the program started in 1994, DAI originally planned to create completely new organizations as BSCs. After some initial implementation difficulties, DAI and the Mission decided to select existing organizations for strengthening instead and chose those organizations through a competitive RFP process.

All BSCs rely on fees from SME clients as their primary source of income, supplemented by donor support. DAI and the BSCs have recently placed greater emphasis on the objective of long-term financial viability, recognizing that USAID support will end soon. The BSCs average 10 permanent staff, supplemented by part-time consultants in training and consulting. DAI currently pays the salary of four key permanent staff positions in each BSC — the Director and the three business-area managers. The BSCs provide the following business support services: business training, consultant services, and market information.

Initially, DAI provided a number of services to the BSCs, including resident advisors at each BSC, training of trainers courses, and financial support to renovate offices. These subsidies are decreasing, and the BSCs will have to count increasingly on fees or support from other funding organizations to cover costs. Some BSCs have received program support from other donors. Interviewees mentioned problems of serving SMEs which have fewer financial resources to pay for services. The emphasis on financial sustainability has caused some creeping upward in target client size to access the financial resources of more medium sized and larger firms. Under the current extension of DAI's contract, expatriate staff will be limited to headquarters-based positions in Kiev. These will be supplemented by both MBA Enterprise Corps volunteers and Peace Corps Volunteers.

The Alliance

The Alliance was formed by the four American PVOs in response to USAID/Ukraine's wish to coordinate efforts by providers of American business volunteers for firm-level assistance to SMEs. This organization was formed in conjunction with a proposal to USAID, and IESC was proposed as the lead organization. This resulted in one cooperative agreement with IESC, but the sub-agreements with the other parties spelled out the annual budget allocations for each PVO, as well as the geographical areas and sector areas in which each would serve. This has prevented overlap among the parties and appears to have satisfied each organization's interests in maintaining a separate identity while being part of the Alliance.

Initial expectations of the Mission were that there would be synergies between the Alliance and NewBizNet. Unfortunately, there does not yet seem to be a great deal of this type of cooperation, except in Kharkiv. The Mission believes that the direct, firm level assistance provided by the Alliance should be tied to activities performed by other contractors or NGOs financed by USAID. As such, the Mission requested that the contractors or NGOs identify opportunities for complementary volunteer assignments within their areas of specialization. A report to USAID by the Alliance on April 15, 1997 revealed that during the first nine months of the cooperative agreement, 117 volunteer projects were completed in Ukraine and Moldova. Of those, 30 (26%) were developed in conjunction with other USAID contractors/PVOs. If only those projects in Ukraine are counted, seven projects (6%) involved other USAID contractors/PVOs, of which only two were in conjunction with NewBizNet.

The internal cooperation among Alliance members appears to be working well. IESC, which provides the Chief of Party, is the grantee and the other members are sub-grantees. For the two members with the greatest similarity in their programs, CDC runs the Odessa office and IESC has offices in Lviv and Kharkiv, in addition to Kiev. ACDI/VOCA is the provider of all agribusiness-related projects and the MBA Enterprise Corps serves those clients requiring a long-term volunteer.

There is a biweekly conference call between the Kiev office and the Alliance headquarters personnel in the States, which is used to clarify all questions and provide guidance to the field. Whereas at the beginning of the project, there was some feeling of Mission micro-managing the Alliance by requiring Mission approval of assignments, this appears to have been satisfactorily resolved.

Other Related USAID Financed Programs

The International Finance Corporation (IFC) has a program of creation and support of four BSCs in cities not covered by NewBizNet. This program is similar to NewBizNet, except that IFC has created new organizations as its BSCs rather than selecting existing ones. Some of the IFC-supported BSCs have experience working with Alliance volunteers, both directly as clients and for their own clients. The IFC also has a program working to provide advice specifically on the operating environment for SMEs.

The Regulatory Reform Project managed by KPMG/Barents aims to improve the commercial environment in Ukraine for private enterprises, including SMEs. It provides advice to the Government of Ukraine on policies, laws and regulations in this area.

The Eurasia Foundation works through selected Ukrainian banks, providing them with both capital for loans and training for loan officers, as a means of encouraging greater Ukrainian bank participation in loaning to SMEs

The World Council of Credit Unions (WOCCU) provides support to a local association of credit unions. The loans available through the credit unions tend to be loans for microenterprises and startups.

MSI has provided policy experts to the Government of Ukraine to draft new legislation on SME development, and to help organize business associations into a stronger lobbying voice for legal and regulatory reform. (A workshop is planned for February 1998.)

IV. LESSONS LEARNED

The Assessment Team identified several lessons that relate to USAID's SME development assistance efforts. These are described in detail below. In discussing each lesson learned, we provide some examples of how Missions have addressed the problems and issues that they face in the design and implementation of SME development activities. In Section Five, we highlight best practices and make recommendations that will help guide future SME program designs to achieve greater results and impact.

A. Local Capacity Building

The objective of building local capacity must be more clearly stated and promoted under USAID grants and contracts.

Issues

To achieve the programmatic transition from a focus on firm level assistance to building legacy requires that solicitation documents state clearly this objective. The majority of USAID's experience in SME development in former communist countries has been in funding and monitoring firm level assistance programs. USAID staff have given considerable thought to what factors make these interventions most effective. The shift of emphasis from firm level assistance to legacy is largely a result of this evolution.

However, USAID must apply this new approach more firmly in the agreements it makes with its partners. Over time, USAID Missions in the ENI region have worked with and established strong relationships with a set of providers who have developed considerable experience and expertise in the region. These providers have been delivering a particular product: American business volunteers. Shifting to a new mode of operation will require thinking about the strategies and products that are required to achieve new, legacy-driven objectives. In addition, there is some apprehension that the provider agencies may have constituencies that support their work and that shifts in providers may have political repercussions. For these reasons, there is a tendency to be less than clear about the objectives of a proposed project.

Examples

In Russia, the lack of clarity is even reflected in the name of the SME project—the Business Volunteer Program. This name reflects a specific methodology rather than the two objectives (direct assistance to firms and building the capacity of the consultancy industry). Furthermore, there is some lack of clarity among the various parties about the relative importance of the two objectives. Clearly, the providers see direct assistance to firms as their first priority and strengthening consulting organizations as a distant secondary objective that they may not be able to accomplish. In contrast, the Mission places a much higher priority on the institution building objectives.

In Bulgaria, the providers said that the Mission places a high priority on strengthening associations, but they have received mixed messages about whether strengthening the consulting industry is a priority. The Mission Director stated that building the consulting industry is a priority. However, the

providers observed that while there are two targets related to the consulting industry in the intermediate results in the current Results Framework, the draft Results Framework for 1998 does not include consulting industry targets.

In Poland, the objective of building the capacity of consulting organizations is clearly specified, while this apparent clarity is clouded by the specification of inputs as well as results. The contract with ACDI/VOCA includes a specific number of volunteer executive interventions, suggesting an emphasis on methodology rather than on objectives and expected results. The inclusion of input requirements can limit a provider's flexibility to use other methodologies which might be more effective in reaching the objectives.

Suggestions

It is clear from this assessment and others done in the ENI region that the development of local capacity — consulting services, financial services, business associations and other — to service the needs of a growing SME sector is critical to its success. This objective needs to become a more explicit component of Mission's program, from the strategic to the activity level. This includes thinking carefully about changes in program direction and the implications of those changes for the way objectives are conceptualized. Missions should consider bringing in a third party, perhaps a consultant or a person from another region, to facilitate discussions among implementors and Mission staff about these objectives. USAID should also not use project titles which reflect a specific methodology and avoid, as much as possible, including over-specific implementing methodologies in solicitations and contracting mechanisms.

B. Flexibility to Take Advantage of Opportunities

SMEs are part of a rapidly changing sector. Therefore, programs need flexibility in leveraging their resources when good opportunities arise.

Issues

During the course of a project, there are likely to be changes in external circumstances, in the understanding of what needs to be accomplished, and in knowledge about the best strategies for achieving project objectives. Therefore, it is essential to have flexibility to modify the scope of work and make shifts within the budget so that programs can achieve the best possible results. Programs are designed and funded to address problems and needs as they are identified and understood at a particular point in time. However, circumstances are often dynamic, especially in the case of the ENI region facing the transition to a market economy. Also, program implementation often leads to a more profound understanding of the issues that are being addressed and the best strategies for addressing them. In either case, parties may decide that objectives (or priorities among them) need to change or that there are more appropriate and effective methodologies for achieving the stated objectives. Consequently, flexibility is critical to the achievement of the greatest possible results.

Examples

The following are examples of how current programs could modify their approach to increase the achievement of results.

In Poland, the team recommended—and the Mission seemed responsive to—changes in the scope of work and budget to reduce the number of volunteer executive assignments and increase the funds available for longer term staff. The key objective of the program is to strengthen the consultancy industry. The ACIDI/VOCA staff, together with Mission staff, have identified and selected 29 consultant firms with whom the project will work. ACIDI's original concept of the program was that the strengthening would occur primarily through formal training, which is being conducted by subcontractor Price Waterhouse, and through pairing local consultants with volunteer experts. The work statement in the RFP specified that 270 consultancies pairing English-speaking Polish consultants with short-term U.S. advisors (based on an expected 180 trips) would be conducted over the course of the project. During the course of the first year of the project, it has become clear that, while pairing with volunteer experts may be a useful component of the strengthening process, it should not be the exclusive strategy. Other approaches, involving greater continuity of mentoring relationships, may also be important to the achievement of maximum results. A shift of resources from volunteer experts to longer term staff may be needed.

In Russia, a shift of resources may be needed to assure the achievement of one program objective. The program has two objectives: strengthening SME firms and strengthening the consultancy industry. The providers' original concept of strengthening consulting organizations was to treat them like other SMEs and assign volunteers to the consulting firms for short-term technical assistance. It is becoming clear that this approach, by itself, is not likely to achieve the objective of leaving a legacy of strong, self-sufficient consulting organizations. The approach will need to be supplemented with formal training and longer term mentoring relationships. The Mission seems quite open to discussions that would lead to shifts of resources to allow for more comprehensive approaches in achieving this objective.

In Bulgaria, there has been a change in the political context. A reform-minded government has replaced one that was reluctant to undertake fundamental reforms. This has opened up more possibilities for change at the level of policies and government structures than was previously foreseen. Perhaps the providers within FLAG should consider making a shift in the priority among program objective—to increase the emphasis placed on the development and strengthening of trade associations, so that firms have mechanisms for cooperatively identifying and communicating to policy makers the changes in policies that would benefit the development of their sectors. This presents a good opportunity for collaborating with the Implementing Policy Change Project.

Suggestions

There are two ways to achieve this flexibility: 1) focus on results and avoid specifying inputs in agreements, allowing flexibility to change the assistance methods as new insights confirm the importance of such a change, or 2) write agreements that identify the process both parties will use to negotiate shifts in objectives, workplan, or budget.

Writing agreements that accommodate changes in assistance methods as needs or opportunities arise in the SME sector is a step that requires good, ongoing communications between — and among — implementors and Mission staff about the overall Mission strategy, and the role for each contractor or grantee activity. A strong relationship requires frequent discussion about the appropriateness of the objectives and methodologies, given changes in circumstances and understanding. In the midst of implementation challenges, it is sometimes difficult to focus on having regular discussions at these conceptual levels, so they tend to occur within each organization more frequently than between funder and provider. There needs to be a plan for regular discussions between USAID and the providers as well as an openness to new ideas, strategies, and approaches. Such discussions are taking place to some extent, but need to occur on a more regular, structured basis. This will help achieve maximum results.

C. Reporting Systems

Standardization and simplification of reporting systems used by implementors will improve information available to Missions concerning achievements and constraints in their SME development strategy.

Issues

Under the re-engineered USAID, data reporting and monitoring systems for activities must be related to the results sought under the appropriate Intermediate Results. USAID depend upon the implementors of program activities to supply data and analysis necessary to feed into USAID's reporting system. The reporting techniques used in the four countries studied varied widely. However, there are many similarities in the data being collected, since all four countries are using business volunteers from the U.S. recruited and managed by a small group of providers. Under these circumstances, the data collecting and reporting issues include:

- Whether a system is in place for collecting and reporting data by the providers for USAID.
- Whether USAID is receiving the data it needs for its own reporting.
- Data accuracy.
- How the reports are being used by program managers and by USAID.

Examples

All of the organizations and Missions studied have data collection and reporting systems in place. The principal problems in some countries appear to be the consistency of data received from different organizations and the timeliness of the data. In no case were there significant problems with accuracy of the data, *per se*. The use of reports by USAID differed from country to country according to the perceived overall importance of the program by USAID personnel, and the importance attached to the data in reflecting particular program aspects in which USAID personnel were interested.

Bulgaria appears to have the most sophisticated data management and reporting system. FLAG has two full-time local staff responsible for this task.

Although the single cooperative agreement with the Alliance in Ukraine provided an institutional vehicle for the efficient collection and reporting of data from the business volunteer providers, the reports received by USAID were sporadic. Since USAID officials appeared to view the activities of the Alliance as peripheral to the Mission's core program, this may have resulted in lack of interest by either the Alliance or the Mission in the reporting system and the data reported. On the other hand, DAI is providing the Mission with regular periodic reports on its NewBizNet activities.

Although an institutional mechanism is in place in Russia to coordinate data collection and reporting, USAID/Russia has been dissatisfied with the timeliness of the reports and with the gaps in reporting by specific entities. Efforts are currently underway by the Mission and the three key PVOs involved in the BVP to redesign the system. More work is needed to rationalize this system for data collection and reporting. The Mission is aware of the problem and is working to correct it.

Suggestions

An efficient data collection and reporting system requires that: data be relatively easily defined and collected, analysis and reports performed using the data be consistent and useful, and information be readily available on a timely basis both to the organizations reporting and the organization receiving the reports. The best time to determine the data collection needs of all parties, and developed a system for reporting that data, is at the commencement of program activity. If possible, USAID program designers should address this issue in broad form during the activity design phase and be prepared to determine the details in collaboration with the partners selected to implement the activity. This can take place either at the time of the award of the contract or cooperative agreement or during the early stages of implementation of the program. Furthermore, data collection and reporting systems for USAID's purposes should be derived from the management information systems utilized by program implementors, both to assure that the USAID data are being used by program implementors for programmatic monitoring and to facilitate ease of data collection and reporting.

USAID Missions in the region should investigate other data collection and reporting systems used by other Missions, with special attention given to the Bulgarian model. Since many of the same PVOs are involved in other county programs in the region, it would be natural for this information to be shared among themselves as well.

D. Consolidation of Firm-Level Assistance Efforts

Utilization of one lead contractor or grantee to coordinate firm-level assistance efforts, rather than separate agreements with multiple providers, leads to a more effective program of assistance. In addition, it allows USAID to use more staff time to focus on strategic management issues and overall vision for the SME development effort.

Issues

The level of USAID management and oversight of the SME development projects, on both a planned and *ad hoc* basis, varies greatly among the four Missions surveyed. A Mission's involvement depends both on USAID's concept of the work to be done, and on the managerial resources available and willing to be devoted to the project.

The extent to which the SME development project is central to the Mission's core activities is also a major determinant in the level of Mission oversight and supervision. Another important element is the capability and skills of the individuals heading the projects and their ability to work well with others. This is especially true where there are several providers.

Examples

The experience of the Poland Mission is substantially different from that of the other Missions, since it opted for a single contract rather than multiple cooperative agreements. In Poland, the project was set up as the centerpiece of the Mission's SME strategy, and USAID had a very clear concept what it wanted. While the Mission is pleased with the progress of the project, because of its own great interest in the work, it continues to be quite involved in substantive project oversight. In designing this project USAID/Poland issued a Request for Proposal, rather than a Request for Application. Two factors were responsible for this choice. First, the Mission was a Country Experimental Lab as a part of USAID's re-invention and re-engineering efforts and was particularly conscious that it was responsible for achieving the Intermediate Results related to the success of the Business Support Project. The Mission believed that a contract, rather than a cooperative agreement, was a better instrument for ensuring implementer accountability. Second, the Mission had devoted many hours to trying to coordinate the activities of various voluntary organizations in then past, and did not wish to continue this in the future.

The tendency to micro-manage often occurs in a project's early stages when it is important to set parameters and guidelines for the implementer. This occurred in Ukraine, where Alliance volunteer assignments were individually approved by USAID. Although this procedure is still in place, the approval process has been relatively expeditious and has not created the potential problems initially envisioned by the providers.

Also in Ukraine, the traditional Alliance members' firm level assistance work is not considered to be a part of the core program of the Mission. Aside from the Mission wishing that all volunteer efforts were targeted to core program support, it shows little interest in Alliance activities. This seems to indicate the Mission's confidence in the Alliance structure (in no small part because of the strong leadership that has been shown by both chiefs of party) and that the Mission does not wish to devote scarce management resources to the project. It is noteworthy that the Alliance members organized themselves, then presented a completed organization to the Mission, since it seems unlikely that USAID/Ukraine would have been willing to devote the amount of time to organizing volunteer agencies that both the Bulgaria and Poland Missions did.

Bulgaria has an effective management arrangement that requires minimal USAID oversight. The principal reason, however, is that one group, the University of Delaware, came forward voluntarily to lead the consortium. Since each member of FLAG has a separate agreement, the management costs tend to be high. There are six cooperative agreements and one contract with seven different

providers in the FLAG collaboration. All of the parties have formed a voluntary group to provide a structured framework that provides effective and efficient cooperation, despite the necessity of three separate committee meetings per week and a supervisory operating committee. While the format appears awkward, despite a few glitches, it seems to work. Furthermore, the FLAG committee system is vetting projects through diagnostic and viability tests, which increases the likelihood of better quality SME assistance.

Russia has cooperative agreements with three providers of SME firm level voluntary assistance. The Mission is trying to establish a coordinating mechanism for oversight and reporting purposes. In many ways it is easier to articulate what this coordinating mechanism will not be: there will be no financial relationship among the parties (as exist in the Ukraine), nor will there be formal committees and diagnostic procedures (as set up in Bulgaria), although there is the intention to increase the coordination and “piggybacking” of assignments. Russia will likely dictate the creation of four geographically based coordination mechanisms. Overall, the process will be closest to the Bulgarian model, with significant effort and attention needed on the process before a workable arrangement emerges.

Suggestions

To improve overall coordination, effectiveness, and results of programs, Missions should bring together activities --under contract or grant agreement--that provide similar technical assistance services to firms. In addition, Missions should ensure that they have in-house staff with the seniority and skill to guide and manage USAID partners toward the strategic objective area.

Oversight requires human resources. Missions with limited resources will be more likely to limit their oversight functions than those with greater resources. Likewise, Missions nearing closeout may factor their diminishing resources into the oversight equation. Similarly, Missions that are increasing their resources can give greater attention to oversight and management of SME activities. The resource factor — both financial and human — can have a substantial impact on the attention that Missions give to the oversight and coordination functions related to their SME development programs.

E. Linkages with Financial Services

The development of SME financial services sector continues to be an area in need of assistance in most post-communist countries.

Success in financial services area requires fundamental developments in banking, financial sector reform and capital markets. USAID and its implementing partners should seek every opportunity to encourage these reforms, while at the same time linking SME clients to as many sources of financing as possible. USAID should also place a high priority on demonstrating good lending and investment practices through model loan programs, credit unions, and venture capital funds.

Issues

In developing programs to assist the countries in the ENI region in their transitions from command to market economies, credit programs have tended to be developed separately from SME development assistance programs for two reasons. First, the banking systems in these countries have required major overhauls of their own. Not only have banks not had the skills to evaluate loan requests, they have lacked management, tracking, and monitoring skills and experience. Closely related is the need to establish appropriate governmental regulatory and oversight agencies. Policy reforms are also needed, including collateral laws and lien registry procedures that permit the functioning of banks and non-bank financial institutions such as leasing companies and factoring companies. The work in this area is highly specific and has required different skills and knowledge from SME development.

Second, the creation of a lending pool requires a significant amount of money. When the ENI region opened up, Congress decided that lending and investment funding would be done --for the most part-- through the American Enterprise Funds. These nominally receive funding through USAID but their activities are not necessarily coordinated with the local mission. (It is noteworthy that reports and evaluations of the Enterprise Funds generally regard the Funds' small loan programs targeted to SMEs as their major successes, much more so than investments in large firms.) The European Bank for Reconstruction and Development (EBRD), supported by all major donors including the U.S., also has small loan programs in the region. It has provided major funding for credit programs for SMEs separate from SME technical assistance programs financed by various donors.

Despite the unique development needs for financial system infrastructure in ENI countries, the need of SMEs for credit cannot be ignored. The more successful SME development efforts in the region have promoted access to credit for SMEs as a part of their activities.

Examples

The "legacy" equivalent for the lending programs has been to simultaneously deliver credit to SMEs and train banks in lending skills. In the Ukraine, the Eurasia Foundation has a lending program in which it funds loans, but the risk is underwritten both by a partner bank and by Eurasia and the losses are borne equally. The U.S.-Russia Investment Fund (TUSRIF) has a similar program in Russia and it has a "graduation" program which gives the bank both more lending authority and credit risk.

Some of the BSOs in Poland have loan guarantee funds from the European Union that are used to introduce clients to the local banks. These BSOs find that the banks will often make loans to these SMEs without guarantees.

Banks in the region frequently pursue consumer lending before small business lending, but one leads to the other. Observers in Poland report that consumer loans are available and are often used for business investment. Credit unions developing in Ukraine are finding that they are funding small business ventures as much as consumer needs.

The NewBizNet center in Lviv is closely cooperating with the EBRD loan program to access funding for its clients. By contrast, the West NIS small loan fund specifically notes that it does not seek

clients from any of the business centers in the country, preferring to do its own marketing. In some regions of Russia, the TUSRIF fund is closely allied to the technical assistance programs in the area, with frequent client referrals back and forth.

SEAF (formerly CARESBAC) has investment funds in several of the countries surveyed. It finds that its clients need technical assistance as much as they need funding; thus, SEAF has developed a close working relationship with several of the volunteer assistance providers. The nature of the joint venture partnerships created by SEAF increases the likelihood that the SME will take better advantage of outside technical assistance. These are model partnerships for technical assistance and lending/investment providers.

Suggestions

Ideally, the link between SME technical assistance programs and small business lending programs would be made in the planning stages, as an entire country assistance program is being mapped out. For ongoing projects, the staff of the different programs should be brought together as much as possible, so that they are familiar with each other's program and so that synergies can develop. These relationships often develop better on a local level, where the individuals responsible can get to know each other in the course of their business and can be more dependent upon each other to meet performance goals.

Over the long term, donor financed lending programs should be replaced by a strong, functioning financial sector which will have far more capital and services than can be funded by donor programs. It is important for business support organizations to develop close ties to local banks and other financial institutions. Missions should also target resources to promote non-banking financial services for SMEs. In all cases, business support organizations should be positioned to facilitate their clients' access to finance, both through the provision of information on sources of finance and through direct assistance to their clients to qualify for available finance.

F. Mission Management of the SME Strategy

For the SME sector development effort to be successful, USAID Missions must put in place a management plan and staff that will focus on overall strategy, and promote linkages among individual activities and their components.

Issues

Chapter Two discusses the various elements and sub-elements of an SME development strategy. In examining linkages among SME program elements it is useful to determine whether a project targeted at one element of SME development can simultaneously meet the needs of other SME elements. In many cases involvement with other aspects of SME development can enhance a provider's core work and can create unanticipated synergies and creative solutions to problems.

Examples

In Poland, the primary client for the providers and the volunteers became the business support organizations, not the SMEs. The client need (the BSO) is a marketable product for which it can charge a fee and earn income. This turned the equation around: the service was being demand driven (what the client needed) rather than supply driven (what a voluntary agency stood ready to supply.) This approach leads to other significant outcomes:

- To pinpoint the specific technical needs, better scopes of work will be written. This will require that the business support organizations have the assessment skills needed in consulting.
- To ensure that these better defined technical needs can be met, volunteer screening will be improved.
- Since SME clients are paying for consulting, evaluations of cost-effectiveness will necessarily be conducted by both the SME and the business support organization (as well as the provider). This suggests that local, less costly, consulting will be used if possible thereby leveraging development of this services sector.
- Since the volunteer experts coming from the U.S. are likely to only be providing more complex assistance, the business support organization should be able to develop a more sophisticated set of core competencies through “pairing” consultants with the volunteers.

In Russia, students in a CDC program are paired with volunteer experts on firm assignments, with two strong outcomes. The students receive hands-on experience that they can apply elsewhere, and the expert’s work is enhanced, because there is someone along who can truly “interpret,” since the students are familiar with both the Russian circumstances and with the expert’s field.

The Ukraine Mission has called on other USAID-funded contractors to identify activities complementary to their deliverables that could be completed by volunteers. One outcome of this request is that a housing consulting firm formed by ex-project staff received startup help from a volunteer after USAID funding was eliminated. Volunteers have also been used to provide training in international accounting standards to accounting clubs around the country, as an offshoot of a Price Waterhouse accounting reform project.

In Bulgaria, FLAG providers have assisted a number of trade and business associations which are in turn providing training to their members. Through support of the Implementing Policy Change Project, the associations are also developing information and lobbying capacity, which enables them to participate and promote policy change activities, e.g., through participation in the National Forum, a recently-formed coalition of associations.

Suggestions

Missions need to put in place a management plan for ensuring that individual grantees and contractors interact on a regular basis. This includes hiring senior staff that have the skills and understanding to support each implementor towards fulfillment of the Mission SME strategy. Synergy among various USAID programs rarely occurs without direction from key USAID personnel responsible for those programs. USAID should be pro-active in developing those synergies.

Linkages should not only occur among implementing organizations, but with local partners as well. The pairing of American volunteer consultants with a local consultant or consulting firm is an example. That person can then use knowledge gained for other projects and thus increase the consulting capacity in the country. Similarly, programs can draw on the expertise and field experience of volunteers, business support organizations, and business associations to feed grassroots information to policy makers. Field information is critical to the policy reform process and to the building of advocacy programs.

G. Long-Term Advisors to Build Local Capacity

Contracts using long-term advisors are better suited to build local institutional capacity than are the services of business volunteer providers.

Issues

The business volunteer providers are well-qualified to provide short term technical assistance to small and medium-sized enterprises, and most of them have a long and proven experience with USAID in carrying out such activities. More recently, they have also shown that they can be flexible in volunteer assignments, so that some volunteers serve for as long as six months, or cover several short term assignments in a single trip. At the same time, most Missions in the ENI region are shifting their SME development efforts from firm level assistance to the strengthening of business support institutions as the host country economy moves more to a market basis, and as infrastructure develops. Business volunteer providers, however, have not demonstrated that they are able to shift their focus from firm-level assistance to developing business support institutions.

Examples

RFPs seem to have been the contracting mechanism of choice to solicit bids that solely or primarily call for developing business support centers, including the Deloitte NBDC project in Russia, the NewBizNet project in Ukraine, and the Poland Business Support Project. The Poland RFP attracted considerable attention, as the contract replaced several existing cooperative agreements that were targeted at firm level assistance.

In Russia, the recent RFA called for the voluntary agencies to align themselves with local agencies in order to create capacity and legacy. This has been interpreted in different ways. IESC has come the closest to taking on institution-strengthening as a primary task, but it has set high qualifying standards for those institutions with which it is willing to establish a partnership. While it has indicated that it intends to bend somewhat on these requirements in those parts of the country that

are less advanced economically, it regards its fallback position as just continuing its firm level assistance, rather than working with what it considers an unqualified partner.

Suggestions

The volunteer provider agencies are good at their core service, providing firm level assistance. They have demonstrated great imagination and flexibility in adapting this resource to meet SME development needs. It is not clear, however, that they can successfully manage SME development at the institution-building level. Their challenge will be either to develop new capacity and products, or to integrate their current work with that of contractors who are experienced in business support organization development. Assessment Team members are aware of programs in other parts of the world where one of the PVOs involved in the provision of American business volunteers in the ENI region has placed a paid staff person on a long-term, resident assignment giving long-term technical assistance to specific government agencies and trade associations.

H. Cost Recovery for Business Service Organization

Business Service Organizations (BSOs) cannot recover all of their costs through client fees and still serve the target group for USAID SME programs. A combination of fees and subsidies, structured according to the local marketplace, is necessary. Donor coordination is needed to assure that different programs do not have competing subsidy structures.

Issues

The issue of sustainability is difficult to address in that “sustainability” is often subject to varying definitions by different people. The Assessment Team chooses to use the word “legacy” since that concept is somewhat broader and looks at the potential results of current activities by USAID to build a strong SME sector in each country. All of the Missions have a common perception Missions that this issue should be addressed through the development of local capacity to continue training and consulting to the SME sector after USAID’s programs have phased out. The focus on the development of local capacity varies from Mission to Mission, however.

Other sub-issues include:

- The existence of a dynamic tension between the achievement of financial sustainability by a business support organization and serving SME clients at the lower end of the spectrum. This is true of development activities in many spheres. The objective of achieving financial sustainability tends to push business support organizations toward medium to large enterprises which are able to pay the level of fees required to make the organization profitable and away from the smaller SMEs that funding agencies hoped to be able to serve (but which are less likely to be able to pay the full cost of services).
- Differing opinions regarding the extent to which a business support organization financial sustainability requires that the recipients of training and consulting services pay fees to cover all costs of the organization versus the use of longer term funds

from other sources (government, donors, foundations, universities, etc.) to subsidize these services to smaller businesses.

- Greater break-even potential for training activities by business support organizations rather than for consultancy activities. Consultancies are one-on-one activities making them, by nature, more costly than training activities which can serve numerous clients simultaneously.
- The need for USAID programs to consider the effects of other donor or government financed programs on the potential for the success of USAID's efforts. For example, other funding organizations may provide greater subsidies to the SME clients or to the business support organizations, which make USAID's program less attractive and reduce the potential for business support organizations financed by USAID to become financially viable.

Examples

The Poland program is clearly the most concerned about legacy. The RFP for the Business Support Program stated that the primary objective of the program was to provide assistance to strengthen selected Polish BSOs and the secondary objective was to provide technical assistance to Polish SMEs. The fact that the Mission is slated to phase out its activities in the year 2000 has been an important factor in focusing on the legacy of their SME development activities. The Ukraine NewBizNet project also places a high priority on legacy. The contractor implementing that project places much importance on assuring that the local business support organizations it is supporting reach financial viability before the end of USAID project funding. USAID/Bulgaria is emphasizing the development of strong trade and business associations as its primary means of building legacy. USAID/Russia is focused less on legacy at this juncture because it views the need for technical assistance to SMEs in Russia as being so immense that it wants to address that need first and put less emphasis on the development of local capacity. Furthermore, an earlier USAID/Russia financed program created eight Business Services Centers. It is still too soon to know if all eight will be sustainable in the long run, but some may be.

The tension between serving smaller enterprises and the need to achieve financial viability was mentioned during the team's visit with Intmar in Odessa, the local business support center under the NewBizNet Project in Ukraine. Intmar staff stated that their first priority was to serve small and medium enterprises, but that they were also providing services to larger clients who could better afford to pay for consulting services. They said that the fees charged their larger clients could help to subsidize services to smaller clients. While this strategy has been tried in other parts of the world with some success, judgement will have to be reserved as to whether it will work in Odessa. Business support organizations in other countries also expressed this dilemma.

Both the BSP in Poland and NewBizNet in Ukraine put much emphasis on charging fees to SME clients for services from the business support organizations. In all four countries, it was clear that costs for SME training activities are more easily recovered from fees charged to SME clients than costs for consulting activities. On the other hand, some of the most lucrative consulting contracts often came from participants in training activities. One business support organization interviewed

in Poland even provides some training as a loss leader in order to capture potential consulting clients. Most local organizations recognized that training and consulting often go hand in hand. Firma 2000 in Poland is now encouraging BSOs to use American business volunteers to conduct training for SME clients around the country in order to make the services more affordable and as a marketing tool to promote consulting services of the local business support organizations. Russia and Ukraine also had examples of the coordination of training and consulting activities to make both types of services more affordable to the SMEs.

USAID/Ukraine encouraged coordination between the NewBizNet project and the IFC financed business centers and, since the Mission provided finance for four of the IFC business centers, it was in a better position to influence those activities. Other Missions studied also collaborated with other donors on specific activities and some had strong linkages to government agencies engaged in SME development activities. While the type of coordination and collaboration varied, the need for such activities was recognized by all.

Suggestions

While no single Mission had a winning formula for legacy, it was evident from the assessment that some Missions are addressing the issue more directly than others. These issues are not subject to easy answers and will require substantial thought on the part of Missions in the region designing new SME development activities.

The assessment team found that the emphasis placed on local capacity building by various providers of technical assistance to SMEs in the four countries tended to reflect the interest of the Missions in addressing these issues. In other words, if a Mission does not take the lead in addressing these issues, the providers are not likely to address them on. This makes it doubly important for Missions to formulate their own approaches to legacy and to communicate them to the service providers long before a program is implemented.

It can be argued that fees from SME clients alone may not be sufficient for these organizations to become financially viable. SME training and consulting services provided in the United States and Europe by Small Business Development Centers, local government programs, and others receive considerable financing from national and local governments, foundations, and other sources. Perhaps a mix of funding from the SMEs themselves, as well as from other sources, may be necessary to address the technical assistance needs of SMEs. In some cases, such as accounting services, small businesses are frequently prepared to pay for those services and recognize them as a cost of business. In contrast, SMEs are less likely to appreciate the value of other types of consulting services and business skills training and willing to pay the full cost of the services. If a Mission has a serious and strong interest in providing financial sustainability as a legacy of its SME assistance program, however, experience would argue for including fees for services as an integral aspect of that program. Even though the program may not become completely financially-sustaining, the principle of paying what one can afford to pay gives impetus to the aim of achieving financial sustainability in a market-based economy.

Although donor coordination and collaboration with government on a country SME development strategy are recognized to be of value, it is not always easy to do. Donors and governments often

differ on the proper approach to particular development issues. The issues of subsidies and sustainability often are a source of conflict among donors and governments. At a minimum, coordination should be sought and agreement reached on aspects of programs financed by different funding organizations to try to limit inter-program competition or conflict which could lessen the chances for success of the respective programs.

V. RECOMMENDATIONS FOR FUTURE SME PROGRAM ACTIVITIES

This section presents recommended best practices that should be incorporated into future programming of SME development activities. Several of these have been applied already in the countries reviewed; others have been formulated based on lessons learned, and on the Assessment Team's knowledge of practices in other emerging open-market economies. Section A identifies best practices that should be incorporated into future programming of SME development activities, Section B highlights issues that have influenced the design of SME programs in the ENI region, and Section C recommends a framework for guiding the design of SME programs in the future, including three alternative organizational models.

A. Best Practices

The ultimate objective of this assessment is to provide guidance to Missions in the region as they modify the design of their SME development activities or plan new SME development activities. During the course of fieldwork in the four countries studied, the Assessment Team identified what it considered to be best practices for guiding future programming decisions. Although each USAID Mission may find that certain aspects of these best practices fit program needs better than others, it is hoped that each of these suggestions is helpful.

1. Focus on Building "Legacy" to Support the Transition to an Open Market Economy

Three principal recommendations have to do with building legacy, creating the foundation for a competitive marketplace in which SMEs have a fair opportunity to open and operate their businesses. For this to happen, SMEs need access to services, an enabling environment, and representation and support by institutions that serve the interests of the business community. Missions should incorporate the following elements into their programs in order to promote these goals.

Missions should put building local SME services capacity and improving the enabling environment as top-most priorities: New SME development programs should concentrate on building local capacity of organizations and individuals to provide technical assistance, training and finance for SMEs. In addition, programs should focus on creating the institutional capacity to promote an enabling environment for SME development: the reform of laws and regulations that govern private business operations in the marketplace. Although direct firm-level technical assistance is still important, it should be secondary to building local capacity and improving the enabling environment.

Firm-level technical assistance it should be done in partnership with local experts and local consulting organizations to strengthen their ability to provide such services. The corollary of this focus on "supply" is the need to ensure that firms who receive assistance learn the value of that assistance to improving their competitiveness — the "demand" side of firm-level assistance. (See the recommendation below on charging fees.) The USAID/Poland program is the best example of how to make this approach and explicit focus of and SME strategy.

Policy and regulatory reform activities and the development of business associations should be linked with technical assistance, training and finance activities: Because of the importance of legal

and regulatory reform to the growth of SMEs, it is critical that the strengthening of firms and the strengthening of associations that represent them be linked into policy reform efforts. This is a “grassroots” approach that should utilize the experiences and resources of the providers of technical assistance, training and finance to inform decision makers, in all branches of government. Business associations and NGOs can be useful channels to link government with private sector interests.

However, the integration of technical assistance efforts (firm-level, financial sector, and business associations) with legal reform efforts is limited among countries studied, except in the case of Bulgaria, which is the most advanced level of collaboration in this regard. Ukraine is making modifications to its programs as well to enhance this integration of components in its SME development strategy.

Business Support Organizations should charge fees for services provided to SMEs as soon as possible; however, other sources of funding will also be necessary to support their efforts to reach small and microenterprises who have limited ability to pay: Charging fees for services is important both to get businesses accustomed to paying for consulting, training or financial services and to provide a demand-driven source of revenue for the organizations providing services. However, many other sources of income, such as government, private foundations and universities, should also be explored, since subsidization is consistent with reaching target groups that have limited resources to pay for such services. All of the Missions emphasized this issue with the business support organizations, but the Poland and Ukraine programs appeared to be closer to achieving this objective.

2. Make Greater Use of Long-Term Technical Assistance for Local Capacity Building

Although the Assessment Team members are aware that some of the business volunteer providers have provided long-term technical assistance on other projects around the world, this approach was not evident in the four countries studied, except for ACDI/VOCA in Poland and MBA Enterprise Corps in Ukraine. In other instances, business volunteers were provided almost exclusively for firm level assistance.

If local capacity building is to be successful, USAID must specify the type of long-term technical assistance needed and indicate the importance of capacity building in the RFP/RFA. USAID could also identify specific linkages to be made between business volunteer providers and existing or contemplated SME development activities. In addition, USAID could provide incentives to business volunteer providers to tie their business volunteers to local capacity building structures or activities by offering additional funds for doing so.

For example, the business volunteer providers could receive a certain level of core funding for standard firm level assistance, with additional funding for activities which assist in developing local capacity. They could also use program funding to cover some portion of the costs of involving local consultants in technical assistance efforts.

3. Utilize One Lead Organization for Managing Volunteer Business Advisors

American business volunteers are important elements for SME development. They provide much-needed technical assistance as well as links with U.S. markets. However, in all of countries studied in this survey, Missions were concerned about the problem of coordinating and managing multiple organizations who are providing similar services to similar target groups. Mission approaches to this issue varied from country to country, but the Alliance arrangement in Ukraine is the best model for achieving this purpose. The specialized services of four business volunteer providers are managed through a single agreement, with geographic and sectoral segmentation of sub-grantees to limit duplication of efforts. Other models in the region were either too cumbersome or involved multiple agreements which made inter-provider coordination and management more difficult.

Having a lead organization also reduces project management burden on Mission staff. Headquarters staff of the sub-grantees working in the Alliance preferred this arrangement over other coordination attempts.

4. Have an Explicit Plan and Structure for Managing Overall SME Development Strategies, Not Simply Individual Projects

Integration of various activities into an overall strategy for promoting the growth of SMEs and the transition to an open-market economy requires active Mission involvement in managing at this level. Contracts and cooperative agreements can go only so far in achieving integration among projects and activities. In many cases, USAID officers may be the only ones aware of potential linkages among different activities that span a range of interventions from the firm-level to the highest levels of government.

Missions need formal mechanisms to ensure linkages among various activities. These mechanisms may take several forms. Monthly meetings or reporting systems can be designed to help all relevant contractors and NGOs share information and request assistance from other implementors. As an example of this type of activity, the U.S. Consular General in St. Petersburg, Russia organized regular monthly meetings where information was shared among USAID-financed SME support organizations.

In other cases, the collaboration among SME support organizations can be facilitated by other implementors or USAID staff. In Ukraine, for example, the Mission recently hired a Personal Services Contractor whose role is primarily to help facilitate the overall SME development strategy. In this capacity, he will serve as liaison among USAID staff, implementors, other donors, and partners in government as well as the private sector. Whether formal or informal, this is a critical role for USAID to play.

The other side of this issue is Mission micro-management. In some cases, Missions became too involved in levels of detail and decision-making that are better left to the implementing organizations — for example, decisions about individual volunteer assignments to assist firms or business associations. By focusing on management of the overall strategy, Missions will provide the vision and support necessary so that their partners can do their own jobs to fulfill that vision.

5. Develop a Mechanism for Sharing Experiences and Program Ideas Among USAID Missions

As this report has reflected, much has been learned about better ways to address local capacity building and effective use of business development volunteers in the ENI region. However, these lessons and experiences in different countries are not adequately being shared among Missions. Although technical assistance from ENI/Washington Bureau staff can help in this process, direct inter-Mission communications should be cultivated. To do this, the ENI Enterprise Development Office could establish a virtual SME Development Forum among Missions in the region with a monthly issues agenda. In addition, the Bureau could sponsor an annual or semi-annual workshop in the region for USAID Mission staff to share lessons learned in SME development programs and approaches they use. This could be a rotating series, highlighting the host-country with field trips to successful activities and meetings with local partner organizations.

B. Program Design Issues

The following sections highlight issues that have influenced the design of SME programs in the ENI region, and provide the Team's recommendations about how to address them in future.

1. Business Volunteer Providers are Best Equipped for Firm-Level Assistance, but Less so for Local Capacity Building

A common perception among the Missions is that USAID/Washington prefers American business volunteer providers to contractors in spite of the former's limitations in providing long-term assistance necessary to build local capacity. The business volunteer providers are perceived within USAID, both in headquarters and in the field, as having considerable political clout which forces Missions to accept their programs even when Mission staff question their value. Some Mission staff and Assessment Team members doubted the effectiveness of business volunteer programs as a programmatic means to build local capacity to deliver training and technical assistance to SMEs. They believe that business volunteer providers may have value in providing firm level technical assistance, but should be combined with long-term advisors to address the longer term development strategy of building local capacity.

2. Business Support Organizations Should Charge Fees for Services, but they Cannot Operate Without Some Subsidies and Still Reach the Target Sector

Although many persons involved in SME development talk about self-sustainability of institutions providing technical assistance and training to SMEs, the team is not aware of any in the world. Finance programs are more easily sustainable since most SMEs expect to pay for financial services. However, most training and technical assistance programs for SMEs require some level of subsidy from government, private foundations or universities. This is particularly true if the Business Service Organizations are going to assist micro and small businesses.

Even with subsidies, Business Service Organizations need to keep their costs in line with the marketplace. For example, one-on-one consulting services can be made available to larger clients using a revenue-generating fee structure. For pre-entrepreneurs and microentrepreneurs, the

Business Service Organizations could employ standardized classroom techniques (how-to-manuals, evening courses, video, and even self-guided computer programs) to teach the basics.

Competing subsidy structures among different donor programs can create problems in striving toward sustainable SME programs. For example, the BSOs in Poland must compete with business centers financed by the European Union which have been heavily subsidized in the past. Better donor coordination is needed to try to thwart the effects of programs sending mixed messages to SME clients and SME support organizations in terms of subsidies.

It is clear from the study that the Missions are still grappling with this problem and are not yet convinced that this is possible to achieve self-sustainability through fees alone. Even as they and their implementing organizations continue to debate this issue, it is important technical assistance and training be provided to BSOs in marketing and fund-raising, to help BSOs seek out support from other donors, local governments, and universities.

3. USAID Must Provide Incentives to Promote Collaboration Among Business Volunteer Provider Organizations and to Encourage Them to Focus on Local Capacity Building

The only two incentives available to USAID to accomplish these two objectives are money and recognition. If the Private Voluntary Agencies believe they can receive funding, using pressure from USAID Washington, without collaboration or building local capacity, it is likely that they will continue to conduct their business as usual. However, if they perceive that USAID will not fund their activities unless they collaborate and focus on local capacity building, the likelihood of achieving these objectives is greater.

In comparing the approaches used by the four Missions, Poland used a "winner takes all" approach; Bulgaria's approach was viewed by some of the Private Voluntary Organizations as a "forced marriage;" Russia decided to award separate cooperative agreements to three different Private Voluntary Organizations and to promote collaboration *ex post facto*; and Ukraine was the only Mission to require a collaborative approach from the beginning. However, Ukraine has succeeded only in providing a single point of contact with the Private Voluntary Organizations, but not in integrating their activities into those of local capacity.

To improve collaboration among Private Voluntary Organizations and increase the focus on local capacity building, USAID must make collaboration a requirement of the activity or reward the Private Voluntary Organizations for accomplishing those objectives through optional funding or recognition.

C. Recommended Framework for Guiding the Design of SME Programs in the Future with Optional Organizational Models

Taking the lessons learned and best practices into consideration, the Assessment Team developed a framework which can be used as a guideline when designing future SME programs. This framework combines the emphasis on legacy in the Poland program with the ease of the coordination and administrative arrangements of the Ukraine business volunteer program. The Team believes that

the combination of these two elements will move USAID's SME development programs in the ENI region forward to integrate both the development focus on legacy and the use of American business volunteers. This should further the development of local capacity for support to small and medium enterprises and promote American technology and market linkages in a cost effective manner.

1. Recommended Purpose Statements for SME Development Program in the ENI

- To develop the capacity of local business support organizations to provide technical services and training to SMEs;
- To transfer American business technology and management know-how to the host country businesses; and
- To create linkages between American businesses and host country businesses.

2. Summary Program Description

SME development activities will strengthen new or existing local business support organizations to provide training and technical assistance to SMEs. This will involve assistance by a firm or PVO providing long-term and short-term advisors to the selected business support organizations. It will also involve assistance to SME clients of the selected business support organization through the pairing of American business consultants with local staff from the business support organizations, whenever possible, in providing technical assistance to SME clients of the business support organizations.

The SME clients will pay most of the fees for the local consultant and some of the fees for the American business volunteer. Use of an expatriate volunteer to assist more than one SME client or to conduct courses to be attended by multiple SME clients will be encouraged, both to reduce the costs of the expatriate volunteer to the SME clients and to maximize the value of the services of that volunteer to the country program. Linkages between local and American businesses will be promoted by the American business volunteers. The impact of the activity will be evaluated based on the long-term viability of the business support organizations and the quality of services provided to the SME clients.

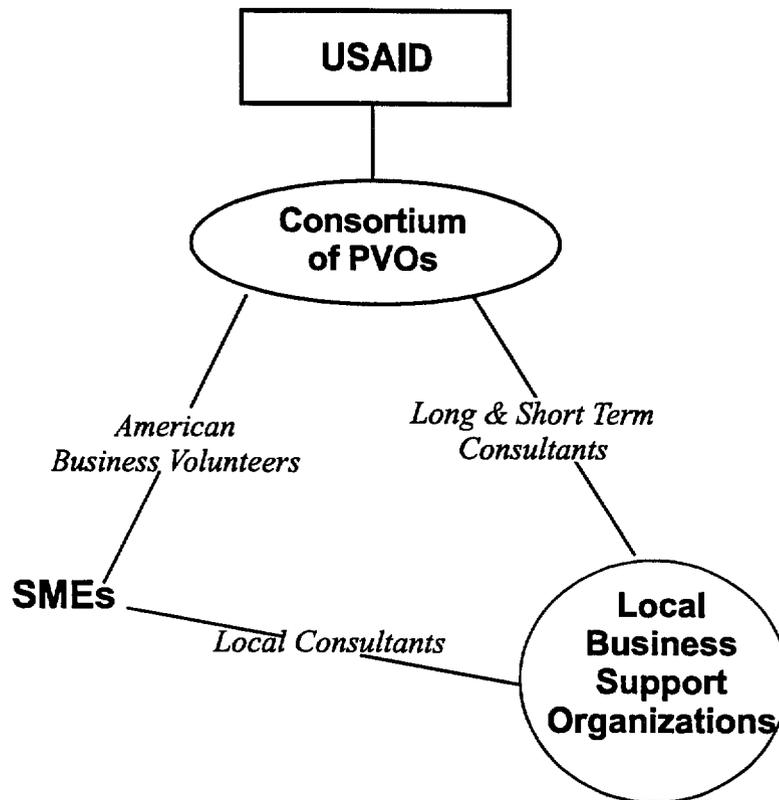
3. Organizational Structures for the SME Program

Three alternative approaches are described below and illustrated in accompanying diagrams. The Assessment Team presents these alternative structures because they will help design best practices into future programs designs. These models may need to be modified to fit the local context and local Mission management requirements.

PVO Consortium Model

This is a new model that builds on both the Poland and Ukraine approaches.

Figure 1: PVO Consortium Model



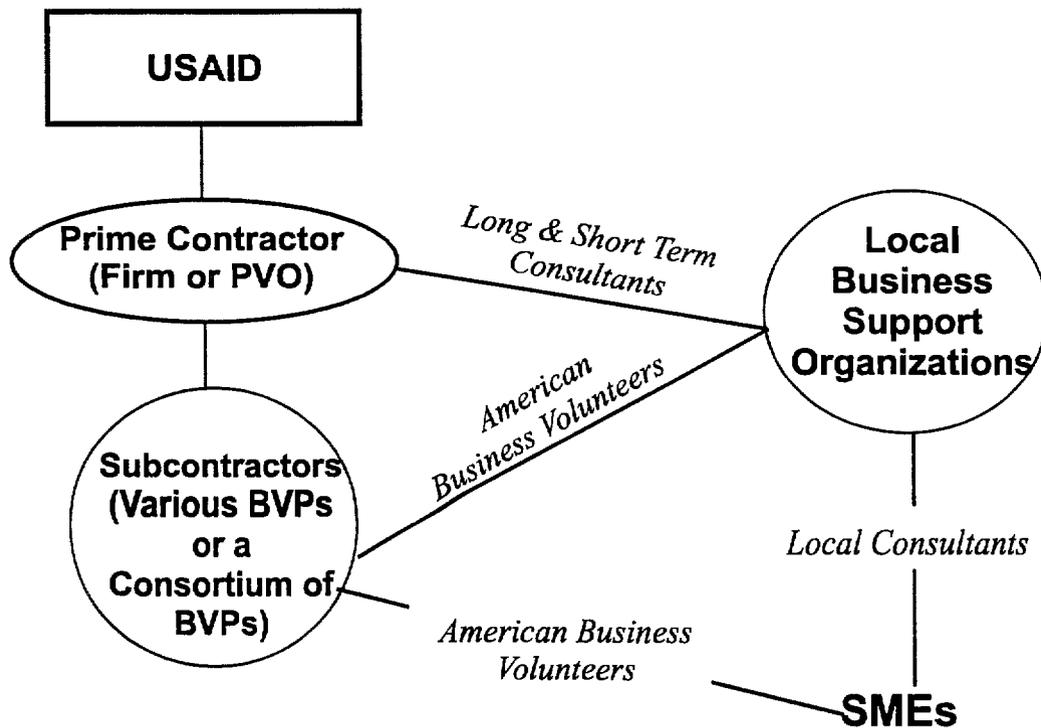
USAID would enter into a cooperative agreement with a PVO leading consortium of technical assistance providers. The consortium would provide business volunteers in specific geographical and/or sectoral areas in the country. The RFA would encourage PVOs with experience in building local institutional capacity for business support organizations to team up with business volunteer providers. Business volunteer providers would put equal focus on building local capacity and technical assistance to SME clients of the business support organizations. The point of contact for USAID would be the lead PVO which would be responsible for the management of all activities. (See Figure #1)

Lead Contractor Model

This is a modification of the Poland approach that ties in a consortium of business volunteer providers with the lead contractor.

USAID would enter into a contract with either a firm or PVO to provide long-term technical assistance to develop the local business support organizations. That firm or PVO would subcontract with various business volunteer providers to provide business volunteers in specific geographical and/or sectoral areas in the country. The RFP would encourage firms and PVOs with experience in building local institutional capacity for business support organizations to team up with a consortium

Figure 2: Lead Contractor Model



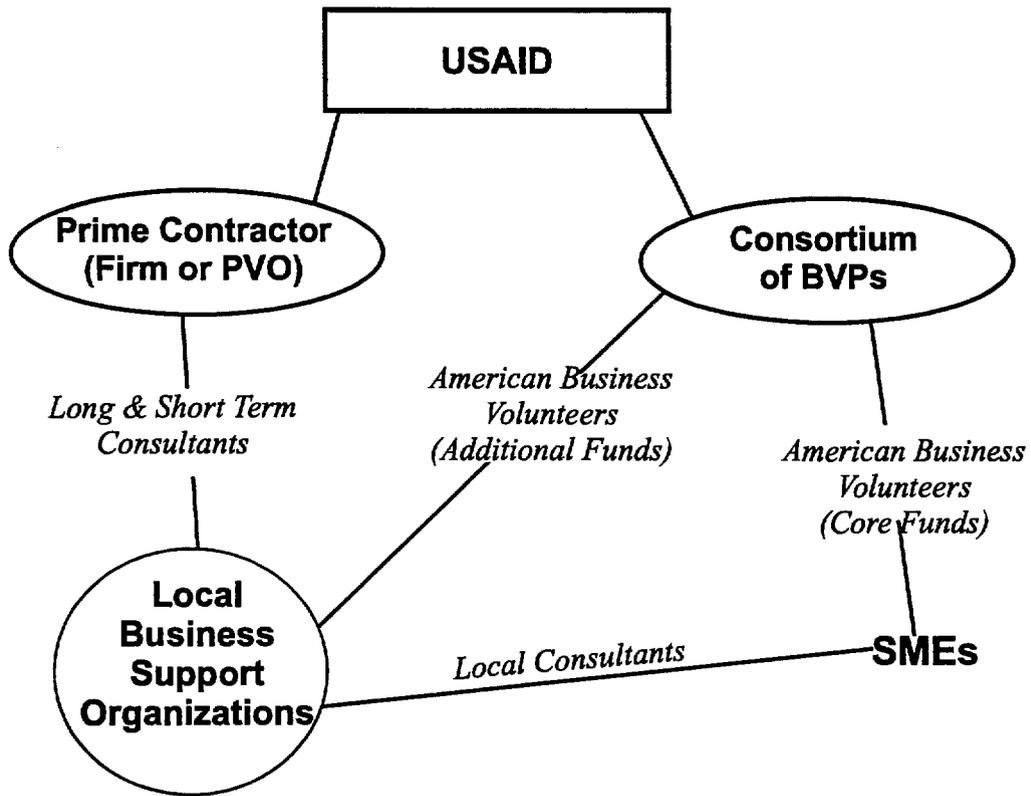
of business volunteer providers. Business volunteer providers would put equal focus on building local capacity and technical assistance to SME clients of the business support organizations. The point of contact for USAID would be the prime contractor (firm or PVO) which would be responsible for the management of all activities. (See Figure #2)

Combined Model

This is a modification of the Ukraine approach which ties additional funding for a consortium of business volunteer providers to an increased emphasis on building local capacity.

USAID would enter into a contract with a firm or PVO to provide long-term technical assistance to develop the local business support organizations. A separate cooperative agreement would be entered into with a consortium of business volunteer providers. The business volunteer providers would provide business volunteers in specific geographical and/or sectoral areas in the country. USAID would encourage business volunteer providers to put emphasis on building local capacity and providing technical assistance to SME clients of the local business support organizations by offering additional funding for such activities. USAID would manage two separate, but related activities under this scenario. (See Figure #3)

Figure 3: Combined Model



ANNEXES

ANNEX 1 - SCOPE OF WORK

SCOPE OF WORK

BACKGROUND

The Regional Analysis of Assistance Programs Supporting Private Enterprise Development in Poland, Bulgaria, Ukraine and Russia, seeks to create synergy among various private sector programs in the four countries.

TITLE

Regional Analysis of Assistance Programs Supporting Private Enterprise Development in Poland, Bulgaria, Ukraine and Russia.

OBJECTIVE

The purpose of this analysis is to assess the implementation mechanisms and methodology of current assistance programs that support private enterprise development, especially at the small and medium enterprise level. This review will concentrate on the USAID activities aimed at providing technical assistance and training directly to private enterprises and/or to the business support organizations that serve them. It will also assess the linkages between these activities and those programs supporting other areas of private sector development, e.g., policy and credit. The review will focus on the four above countries where assistance to the private sector has been a key element of the USAID program, and will document the approaches, identify common elements, best practices, and major constraints, and provide a comparative program analysis.

STATEMENT OF WORK

INTRODUCTION & PURPOSE

The four countries chosen to be included in this review have strong private sector development programs. While the four programs share the common objective of providing support for the growth and development of private enterprises, each country has chosen a different mechanism and methodology for implementing its current program. A summary of the major programs supporting development to enterprises and business support organizations follows; a list of other USAID-funded private sector programs in each country will be provided.

(1) Bulgaria -- The Firm Level Assistance Group (FLAG) is a consortium of seven USAID-funded organizations engaged in firm level assistance. It was created in 1996 by the seven organizations, already working in Bulgaria, in an effort to more effectively meet the needs of Bulgarian clients through a variety of cost-effective programs and services. The seven organizations (CDC, IESC, Land O' Lakes, MBA Enterprise Corps, PIET/World Learning, University of Delaware, and VOCA.) provide short and long-term technical and managerial assistance, market and technology information services, technical and management training, and custom-designed US

individual/group study programs. In addition, the consortium works with trade and professional associations vital to the growth of the private sector. Building on the foundation laid down in their previous programs, each of the seven organizations was awarded a new cooperative agreement or contract in fiscal year 1997 for a one to two year period.

(2) Poland -- After funding numerous programs in support of the development of private enterprises, mainly but not exclusively implemented through U.S. NGOs, OAR/Warsaw rolled its assistance into one major program through the issuance of an RFP in March 1996. The primary objective of this new Business Support Project is to strengthen the indigenous capacity to provide quality assistance to Polish SMEs, mainly by providing assistance to strengthen eance to selected SMEs to improve their planning, management, marketing, and production capabilities. This secondary objective must be carried out in a manner that will contribute to the achievement of the primary objective. The contract for implementing the Business Support Project was awarded to ACDI/VOCA, along with two subcontractors, Price Waterhouse and AMEG. The project began in October 1996, and has a three year life of project.

(3) Russia -- Russia's New Business Development Program began in 1993 and was designed to respond to key elements of Russia's economic environment. The program components, implemented through the funding of approximately twelve organizations, included direct assistance to entrepreneurs, institutional development, support for increasing access to credit, and development of micro-incubators. Support for many of these programs will be ending in 1997. Future support for private sector development will focus on the replication of models of private business ownership and modern management as well as the development of a sustainable network of business support institutions rendering services to entrepreneurs and businesses. To this end, USAID/Russia issued an RFA in November 1996 with the intent to award one or more cooperative agreements aimed at 1) providing TA and training to SMEs and 2) establishing partnerships with Russian organizations with the objective of increasing their ability to continue to provide business support services to the private sector. Unlike the Poland model, these partnerships are defined as working relationships and/or informal linkages between a U.S. NGO provider and a legal Russian entity; contractual or formal relationships need not be established. These new cooperative agreements are scheduled to be awarded in March 1997.

(4) Ukraine -- Direct assistance at the enterprise and business support level has been mainly directed through two activities: Assistance to Business Associations, implemented through a I, and firm level assian Business Volunteers, implemented through the Alliance, a group of four U.S. NGOs (IESC, VOCA, CDC, and MBA Enterprise Corps). The Alliance is funded through a three year, \$9.6 million grant to provide direct volunteer assistance to private enterprises and business support institutions. DAI's NewBizNet project is a 4 year, \$8.5 million effort to spur development and growth of private enterprises. The project comprises five components: 1) institution strengthening of business service centers; 2) BSC technical training; 3) BSC consulting; 4) dissemination of business information; and 5) advocacy and policy reform.

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SPECIFIC TASKS

1. Profile of activity. A profile of each activity reviewed will be developed and will include, but not be limited to: organizational structure, staffing, areas of focus/types of interventions, estimated level of funding, estimated life of project, contracting mechanism used, objectives and targets identified.
2. General Questions to Address
 - a) Management Structure
 - what is the management structure and style of the organization/team/group
 - how does management incorporate program planning and review; how are program adjustments identified and carried out
 - what is the level of USAID management/oversight
 - what are the perceived and/or real advantages and disadvantages of the current management structure
 - b) Implementation to date
 - what are the mechanisms and/or approaches that seem to be working the best/least well; why
 - what are the functional areas that seem to be the most/least responsive to our interventions; why
 - what are the major constraints facing the program; what can/needs to be done to respond
 - what is the program's approach to cost effectiveness/cost recovery/cost sharing; what seems to be working best/least well
 - c) Flexibility -- how flexible is the program (structure and content) in responding to changing demand, changes in the market place, changes in the economy
 - d) Results, monitoring and reporting
 - what type of system is in place (methodology)
 - what types of data/indicators are collected and reported
 - how reliable is the data being reported; what are the biggest obstacles to "good" data collection
 - how are the information and reports generated used by management (both the implementor and USAID)
 - e) Sustainability
 - what approach is the program taking toward sustainability
 - what level of sustainability is expected by the end of program
 - f) Linkages
 - what kind of linkages does the program have with other activities/areas of focus, e.g., policy, financing, advocacy, local government, information/networking

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- what difference do these linkages make to the overall program strategy and achievement of program objectives

3. Specific Country/Program Questions to Address

Because each country program is somewhat unique to both the conditions within the country and the implementation methodology chosen, there may be specific questions and issues to address for each program. Such questions, developed and submitted by each of the USAID Missions, will be incorporated into the assessment and attached to this scope of work.

METHODOLOGY

The assessment will be carried out on the basis of:

- 1) Interviews with representatives of the Home Offices of all organizations included in the review;
- 2) Interviews with the field staff of USAID, the implementing organizations, organizations implementing associated programs, and counterparts where applicable;
- 3) Site visits to a representative number of clients (primary beneficiary groups) in the four countries, including at least two areas outside of the capital.

STRUCTURE

The assessment will be carried out by a five-person team. One member of the team will assume the role of team leader. This assessment team will be supplemented by three USAID staff members. In addition, the field work may also be supplemented by USAID Mission staff when available. The team leader will be responsible for coordinating and directing the reporting effort, including preparation and submission of the draft and final report.

SCHEDULE/IMPLEMENTATION PLAN

A total of six weeks is programmed for this study; except for field work, the number of days for each team member will vary. A six-day work week is anticipated for the field work. The following work schedule is proposed, but may be modified subject to the approval of ENI/ED:

- Week 1 - Washington. Team meeting to review scope of work and finalize schedule. ENI/ED will provide general background, program and other documents. Contractors, with consultation from USAID team members, will develop survey instrument(s) and report outline. Interviews held with AID/W staff and staff from home offices of organizations (referred to hereafter as Providers) included in this survey.
- Week 2 - Poland. Interviews with USAID and Provider field staff, counterparts where applicable, and organizations implementing affiliated programs. Split into

three sub-teams and visit projects in three areas of Poland. Return to Warsaw to review methodology and refine if necessary; begin drafting report.

Week 3 - Split into two teams as follows:

Team A - Bulgaria (2 persons)

Team B - Ukraine (4 persons); further split into two sub-teams

Interviews with USAID and Provider field staff, counterparts where applicable, and organizations implementing affiliated programs. In addition to the capital, interview clients in at least two separate areas in each country.

Week 4 - Russia. Teams regroup and continue with draft report. Team conducts interviews in Moscow with USAID, Provider staff, counterparts where applicable, and organizations implementing affiliated programs. Review site visits and field visits and select sites. Split into three sub-teams each traveling to one region as follows:

Team A - The Urals -- Ekaterinburg

Team B - The Northwest -- St. Petersburg

Team C - The Russia Far East - Khabarovsk

Week 5 - Russia. Complete draft report.

Week 6 - Submit draft reports to AID/W, USAID/Russia, USAID/Ukraine, OAR/Warsaw, and OAR/Sofia. USAID comments returned to evaluation team leader. Final evaluation report submitted within one week.

REPORTS

Upon arrival and before leaving each country, the review team will brief USAID staff on their plans, major findings, and preliminary conclusions. The team will also debrief implementor field staff before leaving country. After returning from the field, the team will submit a draft report (10 copies) to ENI/ED for review and comment by concerned USAID offices. The draft report will address each of the questions identified in the Statement of Work and any other factors the team believes have a bearing on the objectives of the assessment. The team may also be requested to brief USAID and other agency representatives on their major findings following their return to Washington.

The final report (50 copies) will be submitted to ENI/ED by the end of week 6. The format for the final report should conform to the following guidelines:

1. Cover page
2. Executive Summary (3-5 pages)
3. Main text (maximum 30 pages, single spaced)
4. Conclusions
5. Appendices:

- a. Scope of Work
- b. Description of the methodology used
- c. List of persons contacted/interviewed
- d. Others, as appropriate

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ANNEX 2 - LIST OF PERSONS CONTACTED/INTERVIEWED

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U. S.: PERSONS CONTACTED/INTERVIEWED

USAID

Donald Pressley, Acting Assistant Administrator, ENI Bureau
Richard Johnson, Director of Enterprise Development, ENI Bureau

Private Voluntary Organizations

ACDI/VOCA

James Phippard, Senior Vice-President, Global Programs
Michael Segal, Director of Training
Mark Freeman, Regional Program Officer, IS
Frederic Johnston, Regional Program Officer, Balkan Region
Lauren Hendricks, Regional Program Officer, IS
Naomi Pizarro, Project Coordinator, Training

CDC

Michael Levett, President
George Ingram, Vice-President
Diane Rosenbaum, Director of Recruitment and Matching
Doyle Girouard, Senior Advisor

IESC

Fred Hudson, Vice-President for ENI Region
Doris Mariani, Project Officer, Bulgaria
Deborah Koeppel, Project Officer, Russia
Greg Brennan, Project Officer, Ukraine

MBA Enterprise Corps,

Leigh Shamblin, Executive Director

Contractors

Development Alternatives, Inc.,

Neal Nathanson, Director, Enterprise Development Group

Management Systems International,

Russell Webster, Principal Associate

BULGARIA: PERSONS CONTACTED/INTERVIEWED

USAID/Bulgaria

John Tennant, AID Representative
William Foerderer, Chief Private Sector Officer
Nikolay Yarmov, Program Specialist

FLAG Members

Administrative Support Division (ASD)
Vanya Theodorova, Program Coordinator
Evelina Shopova, Information Specialist

ACDI/VOCA

Madonna McGuire, County Representative
Krassimir Kiriakov, Project Development Specialist
Zornitsa Roussinova, Program Assistant

CDC

Winifred Hill, Country Director
Nickolai Gerassimov, Sofia Program Manager
Daniella Bozhinova, Bourgas Program Manager
Vladimir Pavlov, Program Assistant
Vesslada Popova, Program Assistant
Iolian Marinov, Program Assistant

IESC

Ventsislav Vassilev, Country Director
Plamen Christov, Assistant Country Director
Metodi Nikolov, Varna Regional Office Director
Tzena Sarandeva, Assistant

Land O'Lakes, Inc.

Manuela Russeva, Country Coordinator
Kamelia Bogdanova, Communications Specialist
Elwin Guild, Project Advisor

MBA Enterprise Corps

Maria Prohaska, Country Director
Yana Adamichina, Assistant

University of Delaware

Stan Shumway, Program Director
Rouslan Abadjiev, Country Director
Ivan Ivanov, Business Center Director
Nadezhda Tisheva, Business Center Assistant

World Learning/EMED

Sandra McCollum, Country Director
Margarita Christova, EMED Program Manager
Christina Kyuchukova, Training Advisor
Kostadin Evstatiev, EMED Program Assistant

FLAG Boards/Committees

FLAG Operating Board
FLAG Diagnosis Committee

Bulgarian SMEs

Hemus (stationery products manufacturing), George Stoimenor, owner
Agrima (Bulgaria Pepsicola franchise), Tzvetan Koniarsky, Human Resources Director
Voluntary Pension Fund (pension insurance firm), Mr. Rakovsky, President
Intertime Continental (real estate development and construction company), Peter Nikolov, President
and owner

Bulgarian Business Associations

Association for Building Partnership (BAP)
Chavdar Selveliev, President
Maya Domiati, Office Manager/Coordinator
Meat Processors Association
Lyudmila Ivanova, Member, Board of Directors
Alexander Grozdanov, Member, Board of Directors

Other Organizations

CARESBAC-Bulgaria,
Gregory Robison, Director General
EU Phare Management Training Program
Andreas Dernbach, Project Manager
Milen Baltov, Program Manager
Local Government Initiative,
Jordan Avramov, Program Manager
MSI-Implementing Policy Change
Bill Colleti, Director
Philip Stoyanovich, Project Manager
Todor Todorov, Project Manager

POLAND: PERSONS CONTACTED/INTERVIEWED

USAID Poland Mission

William Frej, AID Representative
Peter Amato, Private Sector Officer
Rebecca Black, Regional Housing and Urban Development Officer
Deborah Prindle, Program Officer
Pawel Krzeczunowicz, Business Support Specialist
Vicki Peterson, Senior Financial Sector Development Advisor
Mikolaj Lepkowski, Financial Projects Specialist

Business Support Program

ACDI/VOCA, Business Support Program/Firma 2000,
June Lavelle, Director
Peter J. Barse, Consultant
Teresa Hulanicka, Program Technical Coordinator
Jerzy Gliniecki, Credit Specialist, Cooperative Bank Development Project
Price Waterhouse
Marianne Kurtz, Senior Trainer

Business Support Organizations

American Systems of Marketing, Kutno, Elzbieta J. Syrda, President
Centrum Wspierania Biznesu, Kielce, Maciej Ptaszynski, Staff
Centrum Wspierania Biznesu, Plock, Dariusz Grebosz, Director
Centrum Wspierania Biznesu, Swidnica
Krzysztof Brzozowski, Consultant
Michal Jarczynski, Consultant
DORADCA, Gdynia,
Marcin Pachalko, Consultant
Foundation for the Development of the Commune of Zelow
Emilia Kansy-Slowinska, President
Jan Dawicki, Director of Business Incubator
Alicja Paprocka, Manager of Enterprise Centre
Witold Dubinski, Director, Entrepreneurship Fund
Slawomir Urbaniak, Consultant
Lublin-Chelm Development Foundation
Malgorzate Lungiewiez, Director, Market Development Program
MS Consulting Co., Zabrze, Joanna Sosna, Senior Consultant
ODNOWA Regional Development Agency, Suwalki, Maria Perkowska,
Olszynska Wyzsza Szkola Zarzadzania, Olsztyn, Nela Chojnowska-Ochnik, Director Regional
Development Agency, Konin, Dariusz Kaluzny, Chairman of the Board
Regional Development Agency, Mielec, Jan Drozd, Financial Director
Ryszard Kuszleyko and Associates, Gliwice, Ryszard Kuszleyko, President
TOTAL, Poznan
Katarzyna Owczarch, Senior Associate

Piotr Szpiganowicz, Associate

Polish SME Institutions

Ministry of Economy, Department of Craft, Small and Medium Enterprises,
Mirsolaw Marek, Director

Polish Advisory Network (PSD, formerly PBAN)

Odd M. Reitevold, Senior Advisor

Izabela Sendla, Project Coordinator

Polish Foundation for Small and Medium Enterprise Promotion and Development (SME
Foundation), Andrzej Dziurdzik, Deputy Director General

Polish SMEs

Sharp-Hanmar Spolka Z.O.O., (flexible packaging),

Marcin Kowal, President

Krzysztof Miszczak, Director of Finance

Zaklad Produkcyjny M. M. s.c., (bottled mineral water), Mirosław Modlinski, President

Tega Company (knitwear), Władysław Morstin, President

Jurmark Spolka Komandytowa, (meat packaging),

Jerzy Jedrzejak, President

Bogumila Jedrzejak, Vice President

Other Organizations

CARESBAC-Polska S.A., William J. Carr, III, Portfolio Manager

CDC, Robert Zia, Country Director

GEMINI, Private Enterprise Development Support Project, Mirosław Zielinski, Vice-Director

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RUSSIA: PERSONS CONTACTED/INTERVIEWED

USAID Russia Mission

Gene George, Director, Office of Economic Reform
John Beed, Chief, Business Development Division
Erin Kinder, Private Enterprise Officer
Alexander S. Sarkisov, Program Specialist, Business Development

U.S. State Department

Jeffrey Garrison, Consul Deputy Principal Officer, St. Petersburg
Janet Speck, Consul for Political and Economic Affairs, St. Petersburg

Business Volunteer Program Providers

ACDI/VOCA.

Frederick Smith, Program Director
Frederick Harris, Program Manager, Consulting Services
Nina I. Danilyuk, Regional Program Director, Khabarovsk
Elena Prikhodyko, Assistant Regional Program Director, Khabarovsk

CCI (ACDI/VOCA) Lena Novomeiskaya, Regional Director, Ekaterinburg CDC, Business Collaboration Center

John Lyons, General Director
Vera Yuzkova, Deputy Director, St. Petersburg
Igor Brishenkov, Regional Director, Ekaterinburg
Anatoly Plotkin, Regional Representative, Ekaterinburg
John B. Owens, Volunteer

CDC, EED Program

Patric Perner, General Director
Olga Leites, Regional Director, St. Petersburg
Olga Shetinina, Regional Program Director, Khabarovsk
Marina Petrova, Regional Program Manager, Khabarovsk

IESC

Edward Morrison, Country Director
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Thomas Korolyov, Ural Regional Director, Ekaterinburg
Leonid Vorontsov, Regional Director, Nizhni Novgorod
David Kerry, Regional Director, St. Petersburg

Business Support Organizations

American Business Center, John Wise, Director, Khabarovsk
BusinessLink Consulting, St. Petersburg, Georgiy R. Sherstnev, Director
Business Support Centers Foundation
Irina Astrakhan, General Director
Elena Yanboukhtina, Deputy General Director
CCI, Apparel Innovation Center, Kimberly Carlton, Deputy Director, St. Petersburg
CCI, RISE Program



Irina Ignatieva, Business Planning and Credit Manager, St. Peterburg
Tatiana Kovaleva, Business Education Manager, St. Peterburg
Center for Business Skills Development (CBSD), Dennis Hopple, President
Morozov Project
Mikhail Shishkin, Vice-Rector and Deputy General Manager
Michael Shamolin, Director of Finance and Budget Department
Nikolay Vernon, International Institute of Distance Education, Urals State Technical
University, Ekaterinburg
Gleb Kanakov, Director of Interdepartmental Institute of Improving Qualifications,
Nizhni Novgorod Academy of Architecture and Civil Engineering
Victor Bulgakov, President, Khabarovsk State University of Technology
Pyotr Dmitrievich Shlyakhov, Pro-Rector for Auxiliary Studies, Khabarovsk State
University of Technology
KUB, Nizhni Novgorod, Aleksandr Bureev, Executive Director
New Solutions, Yekaterinburg
Ivan Bagazeev, Director
Yekaterinburg, Oksana Zelenina, Deputy Director
Russian American Education Center
Nancy Luther, Director
Victor Bolshakov, Director
Marina Shesterkina, Administrative Manager
Craig Cowles, Business Consultant (Peace Corps volunteer)
Irene Sinteff, Trainer (Peace Corps volunteer)
Russian Privatization Center, Victor Nyrov, Deputy Director
Volkhov International Business Incubator and Training Center
Igor Gruzdev, General Director, St. Petersburg
Luba Galakhova, Office Manager, St. Petersburg

Other Organizations

Opportunity International, Alla Serova, Regional Trust Banks Coordinator for Eastern Europe
Small Enterprise Equity Fund, Kristi Miller, Investment Officer, St. Petersburg
The Russian Technology Fund, Valentine Levitsky, Investment Manager, St. Petersburg
The U.S. Russia Investment Fund (TUSRIF)
Gregory Sundstrom, Associate Regional Director, Urals, Ekaterinburg
Piers Cumberlege, Senior Vice President
Derek Norberg, Vice-President and Far East Regional Director

UKRAINE: PERSONS CONTACTED/INTERVIEWED

USAID Mission

Gregory Huger, Mission Director
Stephen Hadley, Director, Business Development Division, Office of Privatization
Michael Kaiser, Deputy Director, Business Development Division, Office of Privatization
Ivan Schvets, Business Development Division, Office of Privatization
Joanna Frye, Business Development Division, Office of Privatization
Elinor Bachrach, Tax Reform
Judy Hansen, Municipal Finance & Management
Hugh R. Haworth, Privatization & Capital Markets Officer
Oltha Hoiloida, Accounting Reform, Enterprise Funds
Yaropolk Kulchyj, Municipal Finance & Management
Barbara Lippman, Housing Officer
Evgenia Malikova, Mass and Small Scale Privatization
Felix Shklyaruk, Land Reform

NewBizNet

DAI

Jeff Houghton, Chief of Party
Patrick Rader, Deputy Chief of Party
John Nielson, Regional Coordinator

Intmar Business Support Center, Odessa

Dr. Galina Prokopchuk, President
Vitaly Zamkovoy, Vice President
Anatoly Kovalev, Director of Business Consulting
Dean Caire, Consultant, MBA Enterprise Corps

Lviv Business Support Center,

Valeriy Piatak, Director
Ihor Vaidanych, Chief of Consulting Department
Olena Bey, Training Coordinator

Alliance Members

The Alliance, Laura Hoover, Executive Director
CDC, Joseph Mashkovich, Country Director
MBA Enterprise Corps, Leigh Shamblin, Executive Director
IESC

Victor H. Shmatalo, Country Director for Ukraine and Moldova
Victor M. Voitsekhovych, Regional Representative (Lviv)
Barron Gray (volunteer)

Ukrainian SMEs

Almazinstrument (diamond grinding instruments), Alexander Pirepeliak
Iceberg (ice cream production), Boris Umanetz, Director

Sava Ltd. (Boiler and heater import and installation), Leonid Yarema, Director
Svitanok (Wooden window and door manufacturer), Yuri Y. Opirsky, Director
Odessa Tea (tea packing), Viktor Belous, President
Farlep 2000 (telecommunications),
 Alexander Marakhovski, President
 Valeriy Dyukov, Chief Economist
Super (meat processor & retailer), Alexander Veksler, Director
Interior Plus (interior decorator/blinds manufacturer), Dmitri Shirshkov, Director
Princess (baby food trading company), General Manager

Other Organizations

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Eurasia Foundation, Oksanna Koval, Acting Director
International Finance Corporation, David Lawrence, Post-Privatization Project in Ukraine
Lviv Oblast Association of Small and Medium Enterprises
 Grigory Vasiltsiv, Director
 Olexander Oliynik, Director
Soros International Economic Advisory Group/KPMG Barents, Joel Turkewitz, Director,
 Regulatory Reform Project
Ukrainian National Association of Savings and Credit Unions, Petro Kozynets, President
Western IS Fund
 Andrij Boyechko, Account Manager
 Yuriy Shulhan, Account Manager
World Council of Credit Unions, Rostislav Haidayenko, Project Manager

ANNEX 3 - BIBLIOGRAPHY

BIBLIOGRAPHY

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BULGARIA

I. ORGANIZATIONS VISITED

During the week of September 28 to October 3, 1997, John F. Else of MSI and Ed Wise of USAID interviewed representatives of all seven FLAG agencies plus the Administrative Support Division; four SMEs served by FLAG; two business associations; and four related organizations.

II. FINDINGS

A. Implementing Parties

The FLAG design. Though the current cooperative agreements were not effective until April 1997, the Firm Level Assistance Group (FLAG) has, in reality, been operating for a full year. FLAG is a collaborative effort of seven agencies that already had USAID funding: ACDI/VOCA, Citizens Democracy Corps (CDC), International Executive Service Corps (IESC), Land O'Lakes, MBA Enterprise Corps, University of Delaware (UD), and World Learning/ Entrepreneurial Management and Executive Development (EMED).

FLAG came into being at the urging of USAID, which wanted to increase coordination among the groups in an attempt to create efficiencies and increase effective use of the resources. All seven organizations opted into the collaboration. Each organization had specific intervention strategies to contribute to the collaboration and each was well-equipped to provide the services related to those strategies. In fact, one of the advantages of the collaboration is that it includes many different strategies -- for example, short-term volunteer consultants, group training, long-term (10 month) MBA placements in firms, as well as individual and group educational trips to the U.S. -- and that each provider has the expertise, infrastructure, and systems to deliver its own product effectively.

Overall, the seven organizations have worked together relatively well, with better results than might have been anticipated. No one would argue, however, that the resulting design is something that they would create if they were starting from a clean slate, that is, if the organizations had not already been operating in the country and had on-going grants. The organizational mechanisms of coordination under seven separate agreements are labor intensive, cumbersome and time consuming. There continues to be a degree of territorialism and some competitiveness (though limited), based partly on the need to meet the targets in their individual agreements. (Only two of the seven groups overlap significantly in both strategy and targeted clients.)

Structure. The collaborative structure has evolved during this first year. The basic structure consists of a Board of Directors (composed of the representatives of the 7 organizations), an Operations Board (the same seven organizational representatives plus the chairs of the three committees), and three committees--marketing, diagnosis, and evaluation. The Operations Board and the three committees meet weekly, and the Board of Directors meets only as needed.

One major change that has occurred since the original design is that the University of Delaware (UD) is no longer serving as FLAG administrator. The administrative staff that coordinates FLAG has been separated into a distinctive unit which, though still paid from the UD budget, is hired by, and

accountable to, the Board of Directors and supervised by the Chairperson of the Board. A new Chairperson is elected every six months.

Mutual learning. The collaboration has resulted in a greater understanding and appreciation of the various intervention strategies and the contribution each organization can make to an overall impact on SMEs than would have been true if the structure were not in place. Also, the committee operations provide opportunity for staff development, i.e., as firms who are seeking services are analyzed and impacts are evaluated, staff learn from each other and develop their knowledge and skills. Unfortunately, we also witnessed instances where organizational differences seemed to result in negative criticism of a committee member from one organization (who may have been newer and less experienced) by other committee members rather than receiving positive encouragement and supportive assistance.

Co-location. The ease of collaboration is being increased by the co-location of offices, that is, locating organizational offices in the same downtown office building. Three of the seven organizations--ACDI/VOCA, IESC, and UD--plus the Administrative Support Division, are already located in the same building. World Learning/EMED and Land O'Lakes plan to move into the building soon. MBA Enterprise Corps does not plan to move, since it's program is operated by the Center for the Study of Democracy (CSD), and the country director is only half-time with MBA Enterprise Corps and half-time with other CSD projects. CDC decided not to make the move into the common building; this is moot point, however, since CDC's funding from USAID will be ending shortly.

The co-location has not resulted in some of the efficiencies that had been hoped for, such as shared receptionists; this is partly because the space arrangements and the opportunities for rental limited the extent of co-location--so each organization continues to have separate office space, often on different floors. In fact, the costs may have increased, since rental in the central city office building selected is probably higher than in some of the outlying offices formerly occupied by some of the organizations. The co-location has created other efficiencies, however, such as ease of interaction among members and time saved in traveling to meetings; it has also increased the image of a single program in the eyes of the public.

Marketing. There is general consensus that virtually all of the organizations have had an increase in business since the collaborative arrangement began. The reason for the increase is less clear--whether because of increased funding levels, the evolution of the SME sector in Bulgaria, or the collaborative structure.

While the marketing committee has an overall marketing strategy, which it prepared in July 1996, it does not have a marketing plan. The organizations do coordinate the marketing of FLAG services at specific trade fairs and other events. In terms of more general marketing, however, our brief observation and discussions led us to conclude that each agency continues to market its services individually, and for the most part it retains the clients it brings to the table. The collaboration tends to come when there are multiple interventions, resulting in other agencies providing complementary services.

A discussion with the chair of the marketing committee and a review of the minutes of the committee indicated that the committee's time tends to be focused on the screening of firms rather than on marketing. While our perceptions may be faulty, given the brevity of our visit, we would encourage FLAG to consider shifting the screening function to the diagnosis committee. This would sharpen the distinction between the marketing function and the firm analysis function, and would increase the emphasis on creating and implementing a marketing plan.

Disadvantages. In spite of the relative smoothness of FLAG's operation, there are clearly disadvantages. For example: (1) The intervention strategy of almost all the providers is firm level assistance rather than local capacity-building, which means that the latter tends to get short-shrift; (2) There is lack of flexibility, since the cooperative agreements allocate specific amounts of resources to specific intervention strategies, which makes it difficult to direct resources in a cohesive program; (3) USAID has to administer and monitor multiple agreements.

B. Clients

According to the basic FLAG design document, there are three types of clients for FLAG: SMEs, business associations, and consultants (firms and individuals). There are different types of objectives for each type of client.

1. Firms.

Direct firm level assistance to firms is the primary focus of FLAG. All organizations, with the exception of LoL have the provision of firm level assistance as their primary objective. Three organizations (ACDI/VOCA, CDC, and IESC) provide U.S. volunteers as short term consultants to SMEs. MBA-EC provides MBA graduates for 10 months of work in SMEs. EMED arranges for individual SME owners or staff to take short educational trips to the U.S. UD provides training on specific topics to staff from multiple firms; it also assists with individual SME business plans. LoL works exclusively with the dairy industry and its primary mandate is the development of dairy associations; those associations make referrals to consultants who provide consultancy services to individual producers. In the first three quarters of the 199-97 FY, FLAG agencies provided consultancy services to 64 firms, business development services to 34 firms, and training services to 382 firms.

Multiple interventions. There is extensive "piggybacking"--giving volunteer executives multiple assignments; in fact, some organizations have a goal of two assignments per volunteer, which increases the cost effectiveness of their programs. There is also an increase in the number of multiple interventions in single firms--sometimes repeats of the same intervention (for example, having a second visit by a voluntary consultant) and other times by multiple types of interventions (for example, a voluntary consultant, attending a training course, and arranging a visit to the U.S.). This is positive if the second and third (or fifth or sixth) interventions reinforce the earlier intervention(s) and multiply the impact of the earlier intervention(s). There is a danger, of course, that multiple interventions may represent an increase in resources delivered without a comparable increase in impact. FLAG members are aware of this danger and there is some effort to ascertain the impact of the first intervention before deciding on additional interventions. However, the need

to deliver a given number of inputs may at times press organizations to focus more on number of interventions and not await judgments on the impact.

Criteria for service. Our observation of one meeting of the FLAG diagnostic committee suggested a need to establish clear criteria for businesses to be served. For example, one of the firms approved for services had 1,600 employees and gross sales of \$18m, which would normally be considered larger than an SME. Nor was any information about the profits of the company presented so that the committee could make a judgment about whether it is capable of paying for consulting services rather than using a volunteer consultancy program. The state of the Bulgarian economy and the SME sector may justify service to SMEs that would not be eligible in other countries, but this should be a conscious decision with a clearly stated rationale.

Gazelles. FLAG has placed a priority on focusing its services on what it calls “gazelle businesses.” We were told by the AID Representative that this term was intended to refer to firms with strong potential for growth and job creation. The idea was to focus services on firms that are most likely to produce the greater results for the amount of assistance pr somewhat over time, so it is sometimes used to refer to outstanding, fast-growing firms in each sector. A potential problem to avoid with this approach is to focus on firms that are likely to grow and create jobs without any volunteer interventions rather than to serve riskier companies that have the potential to grow if they had consultancy interventions to help them over some barriers.

2. Business Associations

Legacy and efficiency. During the last six months or more, FLAG has placed an increasing emphasis on the development of business associations. This is an important strategy for two reasons. First, it is one form of legacy, that is, one way FLAG can develop and leave behind a capacity that will continue to contribute to the development and strengthening of SMEs. Second, it is an efficient means of reaching many SMEs. By intervening in a single association and using resources on the development of that association, FLAG can multiply its assistance, because the association can reach many SMEs.

Two initiatives are particularly noteworthy. Several associations in the dairy industry have been developed by Land-o-Lakes which has association development as its primary objective. Also, the BAP is a new cross-sector association that shows considerable promise and has received considerable attention and assistance from members of FLAG.

Distinct objective. The development of associations requires a different set of strategies and services, a different level of intensity and continuity of services--in short, a different type and level of resources--than direct assistance to individual SMEs. It should be treated as a distinct service, therefore, with the expectation that the level of resource allocation will be greater and the impact will be measured differently. In some ways, this is already true. There are targets and indicators specifically related to development of associations.

Need for strategic plan. It is less clear, however, that development of associations is treated as a distinct product. Different screening and diagnosis forms are used, but some of the same criteria used for firms are applied to associations (for example, the criteria of having been in existence for

one year) and they are entered into the database as if they were the same as firms. In fact, we were told that FLAG does not develop associations, but only assists associations that have emerged. This may be the best strategy, but it should be examined in light of the objectives of the legacy dimension of the project rather than on the basis of criteria for firm level assistance to firms. We did not hear any indication that there is strategic plan for the development of associations, for example, which are the priority sectors for development of associations, and which providers are going to take responsibility for developing associations.

3. Consultant Industry

FLAG gives very little attention to the development of the consultancy industry with the goal of leaving, as a legacy, a significant number of Bulgarians with knowledge and skills in providing individual technical assistance to firms. There are specific indicators and targets for developing business consultants. We were told that USAID even suggested that funds be set aside for paying local consultants to pair with volunteer executives. Some people said their understanding was that USAID was going to allocate a pool of \$50,000 for this purpose. Others said their understanding was that each agency was supposed to include a line item of \$50,000 in their budget for this purpose which reinforced that perception. We received two messages during our interviews--one, that USAID wants to leave behind a consulting community and the other, that there is little hope of developing a consultancy industry. This latter message has been reinforced by the omission of consultancy capacity building from the Intermediate Results (IRS) for 1.3.1 in the August 8, 1997 draft of the S.O. 1.3 ENI Program Objective Chart for the upcoming year.

In our interviews, we found that there is a foundation for a consultancy industry in the country. Some local consultant firms are used by FLAG organizations to carry out specific functions, such as sectoral surveys. There is a national association of management consultants. There are university professors and institute staff with technical skills that could and have been applied to business problems. On the other hand, there are areas such as marketing, where there is little experience developing expertise in areas such as this will require tutoring and experience, but there seems to be agreement that there are well-educated people who are capable of learning this quickly.

It is true in Bulgaria, as in most emerging economies, that experts from outside the country have more credibility than those from inside. One aspect of building a legacy is helping both consultants and SMEs to change this perception.

If legacy is seen as a fundamental goal of development, then every intervention should include a legacy component. From this perspective, every U.S. volunteer who comes to Bulgaria to provide services to an SME without being paired with a local consultant represents a lost opportunity for local capacity building.

C. Linkages with Other USAID Programs

1. CARESBAC

CARESBAC commenced business in Bulgaria in 1994. During the first two years of operations, it made investments of \$2.3m in 14 companies. The Bulgarian government blocked its operations for

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the next two years through actions of government representatives who served on the CARESBAC Board of Directors. CARESBAC was able to resume operations in 1997 and now has another 10 potential investments at various stages of review.

CARESBAC has an active and mutually beneficial relationship with FLAG. A CARESBAC official characterized FLAG as “adding value” to CARESBAC investments by providing needed technical services to these companies. Four FLAG organizations have provided a total of 16 interventions to 12 of the 14 companies in which CARESBAC has investments.

CARESBAC has been one of the few financial institutions serving the SME community in Bulgaria. The Bulgarian American Enterprise Fund has, in the past, arranged a guarantee program for lending to SME companies through commercial banks. The banks were evidently not very responsive, however, and the program was discontinued during the period following monetary devaluation.

2. Local Government Initiative (LGI)

An LGI project funded by USAID has just gotten underway. It is being implemented under contract with MTK Consultants, a Bulgarian firm. The project will develop agreements with municipalities for the development of specific projects and capabilities. Among the institutions likely to be developed are Regional Development Agencies (RDAs). Already there are RDAs that have been established as nongovernmental organizations that will be charged with economic development functions. It is likely that some of these RDAs will include in their mission statements the provision of business assistance to SMEs. In these regions, the RDAs may be one of the potential mechanisms for FLAG to use in building Bulgarian consultancy capacity.

3. Management Systems International (MSI): Implementing Policy Change

MSI's policy change project was initiated in January 1997. The project focuses on laws, policies, and regulation which foster competition and private sector growth. MSI is working at several levels--government ministries, the legislature, and trade and business associations--to facilitate policy dialogue, develop a policy agenda, stimulate policy advocacy, and facilitate the development and passage of legislation and regulations.

Prior to April 1997 such activity was not feasible, because of the resistance of the government to reform. As a result of mass demonstrations that led to new elections, a reform government came to power and the potential for policy change increased significantly.

MSI also worked to assist in the creation of the National Forum, a coalition of a wide range of trade and business associations, including a number of those being assisted by FLAG. The National Forum is holding workshops and community forums and is building an information and lobbying capacity to represent SME interests in the legislative and executive branches. Nine regional town meetings will soon be held to promote discussions among government officials, legislative representatives, and local business and government representatives.

D. Linkages with Other Donor Programs or Key National SME Institutions

1. EU Phare

EU Phare recently closed its program to assist SME development. It was closed soon after the creation of the SME Agency within the Ministry of Industry, when it seemed apparent that the previous government would not allow the SME Agency to function. However, EU Phare has a number of other programs throughout Bulgaria that indirectly benefit SMEs. In particular, it has financed a program to improve the quality of management training institutions and trainers in academic institutions.

2. Others

A FLAG document presenting its marketing strategy identifies a number of other donor programs assisting SME companies. The British Know How Fund, IBRD, the British Expert Services Overseas, the Japan International Agency Cooperative, and the German Senior Experts Service all provide services similar to FLAG's. Phare, Interassist of Switzerland and Germany all provide some form of financial assistance, though the Swiss program is limited to the dairy industry. The Know How Fund also pays for consultants to train Bulgarians. NMCP of the Netherlands provides a management consultant program, and the Japanese Overseas Cooperative Association provides technical assistance in the area of cooperatives.

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III. CROSS-CUTTING ISSUES

A. Legacy

Legacy is central to the concept of development. In the SME sector, legacy requires strong SMEs, strong trade and business associations, and a strong consultancy industry. All three components are critical to the future success of small and medium sized businesses. Each plays a distinctive role. To achieve a legacy in Bulgaria will require providers to redesign their products, which were appropriate for the early stages of intervention in the ENI region, but less appropriate for this later stage. The providers will need to do some basic rethinking about their products to integrate the legacy dimension more effectively; a retreat with an outside facilitator or resource person might help this rethinking process.

B. Access to Finance for SMEs

It is no secret that credit is probably the biggest single gap in the tools for SME development in Bulgaria at this point in time. It is important to develop a strategy for addressing this issue, even on an interim basis. Perhaps if the Bulgarian-American Enterprise Fund reactivates its guarantee program for SMEs or creates a direct loan program, it can begin to fill some of the needs. It is likely, however, to require multiple strategies and mechanisms.

C. Coordination with Activities of Other Donors

We found that many SME support activities are receiving funding from other donors, and there seems to be little awareness of them or coordination with them by FLAG. It might be helpful to create some mechanism, perhaps as simple as a monthly meeting of donors, in which USAID and FLAG could be represented, to inform and update each donor on activities in the sector.

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POLAND

I. ORGANIZATIONS VISITED

In the week of September 22 - 26, the entire team interviewed USAID Mission/Poland representatives, as well as the chief of party and other staff of the implementing contractor, ACDI/VOCA, representatives of other USAID assistance projects, other donor projects, and government officials. Through field visits to Gdansk, Lublin, the Lodz and Plock areas, and to a project training at a training center in Mietne, the team interviewed representatives from twelve of the Business Support Organizations (BSOs) being assisted by the project, as well as SME clients of the BSOs.

II. FINDINGS

A. Implementing Parties and Clients

The prime contractor for the Business Support Program (BSP) in Poland is ACDI/VOCA. Historically, several U. S. PVOs which provided American business volunteer consultants for SME development had been operating in Poland under grants or cooperative agreements, including IESC, CDC, MBA Enterprise Corps, and VOCA. Prior to the existing project, the Mission had devoted considerable time to efforts to encourage more coordination among the various PVOs, but found these efforts to be less than successful. Thus, the Mission was looking for a means to design a new program which would have greater coordination of firm level assistance built into the program from the start.

Mission staff expressed the following strong views on this point (These comments were paraphrased to put the observations in the third person). :

In 1994, there were about eight cooperative agreements with volunteer providers of firm level assistance. This model was used until 1996 when overall funding levels for Poland started decreasing and the Mission decided that it could not support the same number of providers. As importantly, USAID/Poland wanted to move away from direct assistance to firms toward building/strengthening local capacity and institutions. USAID held discussions with the existing providers to try to work together in some form of consortium to achieve this objective, but Mission staff eventually came to the conclusion that this was not possible. At the same time, Mission staff wanted the providers to meet some very specific goals and believed that a cooperative agreement was not the appropriate contracting vehicle to achieve that end. The choice of a single contract over several cooperative agreements was critical in the eyes of the Mission in gaining greater control over the providers of technical assistance and to place greater focus on the capacity building/strengthening goal of the BSP.

This change in focus and approach resulted in a strong emphasis in the BSP for building the capacity of Polish consulting organizations (either for-profit firms or not-for-profit NGOs) to provide technical assistance to SMEs in a cost effective manner which would also address the long term

financial viability of the Polish consulting organizations. This emphasis on legacy was reinforced by the recognition that the USAID program in Poland would phase out in the year 2000.

A third factor which affected the modalities of the new Business Support Program was the fact that USAID/Poland had volunteered to serve as a Country Experimental Lab as a part of USAID's re-invention and re-engineering efforts. This helped the Mission to focus on the performance objectives and Intermediate Results requirements of the Strategic Objectives. In order to assure better compliance with the objectives and results of the BSP, and to improve project oversight, the Mission opted for a contract with a single entity as the prime contractor rather than using one or more cooperative agreements with U.S. PVOs as in the past.

The name given to the BSP is "Projekt Firma 2000" (Firma 2000) which emphasizes the need for Polish firms to improve their skills to compete with other European firms when Poland joins the European Union.

Firma 2000 has two closely linked objectives — to build and strengthen the long term viability of the consulting industry for SMEs in Poland while providing firm level assistance to improve the profitability of SMEs. Firma 2000 is in the process of establishing operating relationships with thirty BSOs throughout the country and will provide them with institution-building assistance, as well as technical assistance to assist in SME development, and other training. Much of the formal course work training for BSO consultants is conducted in Poland by Price Waterhouse under a sub-contract. Firma 2000 is also providing firm level technical assistance by American volunteer experts, although local consultants will be paired with the volunteers to get on-the-job training. The decision by the Mission to focus on sustainability has led to the decision to train BSO staff consultants as opposed to free-lance consultants, fearing that these independent consultants could become "renegade" consultants who would compete directly with BSOs for clients.

Although the first project implementation activities commenced in January 1997, most of the project efforts to date have been devoted to interviewing and selecting the 30 BSOs. By the end of September, agreements for 29 of the agencies had been signed. The mix of BSO clients appears to be good, with both nonprofit and for-profit organizations. Geographical spread also appears reasonable.

The requirement for sustainability, coupled with the use of American volunteer advisors, influences the choice of BSOs and SMEs, since only the top of the small and medium-sized SMEs can make use of American advisors. There are problems in assuring a control on the quality of volunteer advisors, especially in their ability to teach others. (Firma 2000 has reached an agreement with the Society of Manufacturing Engineers to check on the qualifications of some of the volunteers). This is important both for assisting the SME and for on-the-job training for Polish consultants. Of equal importance for good results of volunteer projects is the preparation of well written and clear statements of work. This is a topic of training for the Polish consultants, and it has slowed down the number of advisor projects somewhat.

Firma 2000 has chosen to follow a sector approach in order to make the best use of volunteers and to decrease costs to the SMEs. The costs to the SMEs for utilizing an American business volunteer remains an important issue, even though Firma 2000 provides for a subsidy for the Polish consultant.

By concentrating on a narrower range of "products" where foreign consultants are needed (such as operational costing) and which cut across industry sectors, the costs per SME are reduced (through piggy-backing) and it becomes easier to market the service. It also allows more training in "bread & butter" services for the BSOs. Since many of the BSOs have not previously utilized American business volunteers in conjunction with their own consulting services, there is a need for marketing assistance to the BSOs as well. This new approach used by ACDI/VOCA allows more Polish consultants to receive training, since the volunteers serve more than one BSO. Long-term, specific high-tech assistance to an SME will be more an exception than the rule. It is important that the volunteer assignments meet the requirements of the BSO, since this project is concentrating on linking the American business volunteer to the BSO and its consultants rather than linking the volunteer directly with the SME, as in the past.

ACDI believes that its use of Price Waterhouse for training has had a very positive effect, since Price Waterhouse's reputation seems to attract candidates for the training. It also seems to help increase the credibility of the Polish consultants who have received such training. There are two different types of training involved: one for the BSO managers in how to run a self-sustaining BSO, and one for the consultants in consulting skills. One question that has arisen is the limiting effect of the project requirement that all participating local consultants speak English. The formal training might be able to increase its impact on BSO staff by offering courses in Polish. Training could also be offered in flexible modules, to make it easier for the BSOs to schedule staff attendance.

Reaching sustainability will be challenging. Some BSOs are presently profitable or self-sustaining, but most are not yet there. There will be a need for them to gradually increase their fees. Because of past practices under USAID and EU PHARE programs which provided various subsidies to the BSOs, there is a great deal of resistance to fees by SMEs which received free training in the past as well as by BSOs who did not have to worry about long-term financial sustainability.

B. Business Support Organizations (BSOs)

The following is a compilation of observations drawn from interviews with the business support organizations that attended the Mietne training, supplemented with information from meetings at four BSO locations. The list of the BSOs interviewed is included in the appendix of persons interviewed for this study.

The BSOs vary in their legal structures and their organizational affiliations, and include:

- Support organizations formed and/or developed by the EC/EU Phare project (either the early project that started in 1991 or the later project that started in 1994). Some of these are affiliated with Regional Development Agencies (RDAs) or Chambers of Commerce, and others are independent (often because the affiliate organization such as a Chamber of Commerce ceased to exist). Most of these are NGOs, and some are foundations; this does not seem to prohibit them from charging fees.
- Private firms, one of which is a sole proprietorship. These firms tend to have a specialized product such as market research or computer services.
- One is the "extension division" of a higher school of management.

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The BSOs provide diverse services and they have different levels of sophistication. Some are exclusively business consulting organizations. Others are organizations with a broader range of services, including, for example, incubator, employment skills training, employment placement, regional business incentive programs, and regional economic development and privatization studies.

BSO staff vary considerably in the depth of their business consultancy knowledge and skills. A couple of them characterized themselves as having medium-level skills, and were looking for Firma 2000 specialty consultancies to enhance their product range and train their consultants. Analytical skills seem to exist more than might be assumed, but continued development is clearly needed. There is a tendency among some Polish consultants to think that they are supposed to have "THE ANSWER" to the firm's problems rather than be able to help the firm clarify the issues and explore optional solutions. There is also much awareness of the importance of trust and long-term relationships to gain the confidence required to achieve change in firms.

BSOs generally like the idea of using U.S. volunteers and learning from them. They believe, however, that U.S. volunteers should be used selectively for specialized technical advice.

BSOs vary in their entrepreneurial orientation. Some are very entrepreneurial and conscious of the marketing and pricing structures necessary to be self-sufficient. Others have an "on-budget agency" mentality which does not seem to be correlated with the type of legal structure, i.e., some NGOs are very clear about the need to generate income and operate like a business.

The BSOs had diverse reasons for their participation in Firma 2000:

- Interest in the training provided
- Increased competence as consultants
- Assisting with marketing and attracting clients
- Access to specialized expertise of volunteers
- Increased credibility by linkage with volunteer experts
- Income that will result from co-consulting projects
- Increased profitability of the BSO
- Increased networking with U.S. markets, equipment, and other resources
- Increased English language competency

One firm president noted that, in her experience, anything associated with USAID has at least some value, and this provided sufficient incentive to participate in the program. The timing of Firma 2000 seems particularly appropriate. Numerous people indicated that many Polish firms were not ready for business consultancy 3-5 years ago, but are now.

The Price Waterhouse training seems to have a high level of credibility and generally appeared to be of high quality. One of the young participants said it contained nothing new to him, and he said he had all of this information, though he found the style of presentation and the application exercises helpful. One problem for the training is that there is a tremendous diversity of types of consultants and levels of expertise among the participants. While it would be ideal to offer courses at different levels, it is not clear that this would be feasible. It was also noteworthy that three firms (not counting

the sole proprietorship) sent junior staff to the course and evidently view the Price Waterhouse training as a way to train new employees.

There is confusion about the status of nonprofit organizations. Some charge fees and others believe that they cannot charge fees. Since the majority of BSOs are not-for-profit organizations, ACDI/VOCA needs to help clarify the implications of legal structure on the ability to charge fees. There is a corresponding lack of clarity among BSOs about how to price their services to firms and how to present the pricing issue. For example, one BSO described presenting a cost proposal to a firm in terms of the firm paying the American volunteer's airfare, and the volunteer would not only assist the firm, but also train the BSO staff in the process. This could give the impression to the SME client receiving the assistance that he/she is paying to subsidize the training of the BSO consultant.

The concept of using American volunteers for multiple assignments (as presented during the meeting with ACDI/VOCA) does not yet appear to have filtered down to the BSOs; a number of BSOs were still talking about using volunteers on multi-week assignments with a single company. BSOs have not yet developed sufficient skills in making diagnosis and screening so that type and level of service is appropriate for the level of sophistication of the SME.

Access to bank financing and other credit and investment resources is widely acknowledged by the BSOs as a major problem for their SME clients. Developing bank contacts and funding sources is a major task for the BSOs. To some degree, this is an opportunity for the BSOs, since they can earn fees by preparing business plans for clients for submission to banks. At least two of the BSOs have direct loan funds and guarantee loan funds that are used to partially collateralize loans for clients at local banks. One BSO with a guarantee fund indicated that its clients were subsequently able to get short term working capital loans from the bank. Certainly any assistance that Firma 2000 can give to the BSOs concerning access to credit for their SME clients would enhance the project's importance with the BSOs.

Several of the BSOs in the Firma 2000 project also participate in a consultancy support project that was simultaneously developed by EU PHARE. One BSO commented that it felt that the PHARE project was targeting a bit lower range of firm size and experience than Firma 2000.

C. Small and Medium Business Enterprises

The target group for the Business Support Program are SMEs with a sufficient track record and potential for growth. They should also be of sufficient size that they can reasonably be expected to pay for consulting services, either now or in the near future. ACDI/VOCA staff stated that Firma 2000 has assisted only five SME firms to date, although this figure should increase drastically as the project redirects its volunteer resources to shorter consultancies.

Four of the five Firma 2000 clients were interviewed for this assessment. These were mostly pre-existing clients of either a predecessor VOCA project, or of CARESBAC. Common threads of these interviews included the following:

- Finance is a major problem, both for startup and for continuing operations, and may be needed prior to getting any other consulting services. This suggests that introductions and referrals to banks are a major service that the BSOs can provide (and which many are already doing).
- Firms do not like the idea of fees for service, and indicated that they would only want to pay for consulting services if some increase in revenue or other concrete benefit resulted, e.g., the receipt of a bank loan based on a business plan written by a consultant. (It is important to note that many of these firms received prior American business volunteer assistance on a "free" basis and thus are not accustomed to paying fees for these services.)
- The quality of the assistance received from American volunteers has been regarded favorably.
- Some firms have the perception that domestically-developed consulting capacity will not be of high quality. This suggests that Firma 2000's task is not only to help build consulting capacity, but to work on marketing to change these perceptions as well.

D. Linkages with Other USAID Programs

1. SME Policy Reform Activity (also known as GEMINI)

An SME policy reform activity was established in Poland after the first elections through a buy-in to a centrally funded microenterprise development project called GEMINI. Its purpose was to provide technical assistance to the Polish government on policies regarding the SME and microenterprise sectors. The prime implementor has been Development Alternatives Inc. (DAI), originally through GEMINI but now through the Private Enterprise Development Support Project. DAI has over time provided assistance to the Polish government's principal institution dealing with SME affairs, which over time has moved from the Ministry of Entrepreneurship, via the Ministry of Industry and Trade, to the SME Department at the Ministry of the Economy. This assistance has involved preparing policy papers, reviewing legislation and regulations, drafting publications dealing with policy issues *vis-a-vis* the SME sector, and provided organizational development assistance to business associations and the Polish Foundation for the Promotion and Development of Small and Medium-Sized Enterprises (SME Foundation).

DAI's work is highly valued by the Director of the SME Department in the Ministry of the Economy and DAI recently received an extension to its contract to continue work on the project. It helped to create the "G-24 Task Force" after the 1993 elections which investigated the constraints to SME development in Poland and assisted in the preparation of the report, "Investing in the Future." This led to the first SME Policy document which was drafted and adopted by the Government in June 1995. It recently assisted the SME Foundation in the publication of the first annual national SME report in Poland and continues to advise the government in drafting SME development policies for the next three years. DAI has held conferences and seminars for various parties in lobbying and government policy on the SME sector. It drafted and published a document entitled, "The Art of Lobbying in Poland," in 1995. Current activities include creating more linkages between the SME Department in the Ministry of the Economy and local consultants who could provide ongoing assistance to the SME Department after the conclusion of this project.

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Although linkages between this policy reform activity and the BSP could be mutually beneficial through using Firma 2000's network of BSOs, there is little evidence that such linkages have occurred to date.

2. SEAF (CARESBAC)

SEAF (CARESBAC) has invested in 39 companies in Poland, the site of its first investment fund. Its investments range from \$50,000 to \$400,000, typically for a 25 - 49% share of company equity, for clients who can be characterized as being at the high end of the SME market. Firma 2000 stands ready to provide volunteers to CARESBAC to serve client needs, usually in specialized technical areas. Because CARESBAC has a long standing relationship with several of the voluntary agencies, it does continue to call on CDC and IESC to provide volunteer experts as well. Many of the MBA Enterprise Corps volunteers were placed with companies in which CARESBAC invested (up until 30 September 1997). Overall, it is accumulating a good roster of experienced volunteers through these assignments.

While CARESBAC and Firma 2000 do have a good relationship, CARESBAC does have its own contacts in the Polish market for both services and referrals. Further, CARESBAC cannot be the financial solution to most BSO client needs; as an investment fund, it is not a substitute for a strong banking infrastructure, and its limited funds and equity requirements are inappropriate for most SME financing needs.

3. Local Government Partnership Program (LGPP)

The purpose of this program is to develop strategies, methodologies, and tools to improve the quality of services developed and delivered by local governments by increasing their capacities to address housing, infrastructure, financial, economic development, and other responsibilities of local government. The role of Firma 2000 in the LGPP is seen primarily as developing the capacity of BSOs to assist local governments in the process of privatizing publicly owned firms and to operate municipal-owned companies efficiently. BSOs may also assist private SMEs in the targeted areas.

E. Linkages with Other Donor Programs/Key National SME Institutions

1. EU PHARE

The EU PHARE SME project started in 1991. Its goal was to create new Business Services Centers (BSCs). It was successful in creating over 30 BSCs. Although some people estimate that as many as 50% of these did not survive, the project nonetheless left a strong base of BSCs, many of which are participants in Firma 2000.

The EU PHARE program initially required that BSCs be affiliated with other organizations, initially Chambers of Commerce. However, they learned that organizations such as the Chambers of Commerce were not always the best location for BSCs, and this arrangement created a number of problems. The program shifted to affiliating with regional development agencies (RDAs) and other

organizations which had staff and whose mission was more closely aligned with that of the BSC. The staff of the BSCs created a national organization, the Free Enterprise Association (FEA), and many BSCs eventually separated from their original affiliate organization and became semi-autonomous organizations affiliated with the FEA.

There was intense, high quality training for the BSC staff, who, during a two year period, spent about one week per month in training. Most of this training was delivered by a Danish firm.

For the first two years, the project prohibited charging fees. The rationale for this may have been that the skill level was not such that it would be appropriate to charge fees. However, it was soon recognized that this was a weakness in the project, and so BSCs were encouraged to begin to charge fees. The program began stressing that the BSCs begin generating their own revenues in 1995. At the end of 1995, all the BSCs received only 50% of their 1996 budget and had to earn the remainder of their income elsewhere.

EU PHARE continues to fund a project which issues tenders to its "short list" of 111 BSOs, which bid on giving services to firms in specific sectors. The BSO can propose to provide services to a specific number of firms, but only receives subsidized funding for actual services delivered.

2. IFC/PSD

The IFC, with financing from various donors including USAID, sponsored the creation of the Polish Business Advisory Services (PBAS), a local consultancy network. It has subsequently evolved into the Polish Business Advisory Network (PBAN) and now uses only its Polish initials, PSD. PSD is a nonprofit, joint stock company, whose majority stockholder is the SME Foundation. Other stockholders include the National Chamber of Commerce, the Association of Small Business and Craftsmen, the National Association of RDAs (NARDA), the Association of Business Consultants, and the Association of Employers. Training is conducted on the development of basic consultancy skills, as well as on specialized and advanced consulting topics such as integrating technology into SMEs.

PSD is currently introducing an accreditation program for consultants. The accreditation is for specific skill areas (16 categories). Applicants must submit three references, plus two case studies for each skill area in which they seek accreditation. The case studies will be reviewed and sent to the clients to assess their accuracy. The accreditation fee is PLN 600 (about US\$175). This fee would be paid annually to continue accreditation, and two case studies must be submitted each subsequent year. All accredited consultants will be placed on a database that is to be shared with banks, chambers of commerce, RDAs, accountants, and other organizations likely to need consultants or come into contact with SMEs that need consultants. This accreditation program is designed to market the services of the consultants and contribute to the creation of a "consultant industry." While the Firma 2000 chief of party has some concern that there may be a conflict of interest in the same organization providing both a certification and training for that certification, she believes that the accreditation process is beneficial to the consultancy industry overall.

3. British Know How Fund

The Know-How Fund is operating in only two Voivodships, Lublin and Bialystok. Their program is called the Polish-British Enterprise Project (PBEP) and the Lublin-Chelm Development Foundation was set up as the umbrella organization for PBEP in the Lublin Vovoidship and other regional development work. Their mission is to support SMEs through consulting assistance and promotional efforts. They also work with gminas (municipalities) and help them to promote investment in the gminas. They cooperate with NARDA and the Association of Chambers of Commerce (KIG), as well as the SME Foundation. PBEP works in four areas: market development, business development for BSOs (which includes incubators and training for SMEs), a Loan Guarantee Fund (LGF), and an Equity Fund. The latter two are run separately, but the SME Foundation both brings clients to them and assists their clients. PBEP pays the salaries for 35 employees of the LCDF — eight professionals for market development, six for business development (plus 10 employees of gminas), five for the Loan Guarantee Fund and four for the Equity Fund. The use of Polish consultants is subsidized from 30-50%, depending on size of firm and whether it is a first time consultancy. Subsidies will be reduced to 10% in the next year and funding is to end as soon as 1999. The fact that 50% of their clients turn to them for help in obtaining financing means that their access to the LGF is important. The LGF offers loans up to 70 percent of the project costs for a maximum of \$50,000. The maximum Equity Fund investments go up to \$150,000, but Polish SMEs are hesitant to give up any control over their firms.

PBEP gives training to BSOs and their staffs. All the BSOs are nonprofit and charge no fees. Their costs are covered by the gminas and PBEP. Money for the incubators comes from the Ministry of Labor and PBEP.

The LCDF was drawn to the program of Firma 2000 due to the opportunities for training, the Newsletter published by Firma 2000, but which can be adapted by running local articles and used as a marketing tool, and by the American business volunteer assistance program. They anticipate difficulty marketing the volunteer program, however, because of the general reputation of foreign consultants and the higher costs. The marketing director understood that the costs for a American business volunteer for 2-3 weeks could be as high as \$8,000.

4. The Polish Foundation for Small and Medium Enterprise Promotion and Development (SME Foundation)

The SME Foundation was created with EU PHARE financing, but that funding is ending soon. The Program Management Unit forms the base of the foundation. The SME Division of the Ministry of the Economy directs the program and must approve expenditures. It is governed by an advisory council with both public sector and private sector members, including banks.

The SME Foundation has two main functions: It provides policy guidance on the SME sector to the government and direct assistance for the development of SMEs through support for local service providers. These are still largely regional, but moving toward national coverage. The SME Foundation works with RDAs, foundations, associations, as well as BSOs from former EU PHARE programs.

At the moment a key issue is how to get the SMEs to avail themselves of the services provided by the BSOs. They are assisting in subsidizing the use of the BSOs by SMEs through the EU PHARE

program, paying up to 80% of costs. This is a heavy subsidy, but it is approved on a case-by-case basis to the BSOs. Some BSOs are working in depth with a few clients and others are offering more general assistance to a large number of SMEs.

The Foundation is also co-financing some of PSD's activities (approximately \$62,500). These activities include the POL-BUNT training program and BC Net. The Foundation is trying to play a coordinating role for other donors, such as for the British Know-How Fund and for a new Dutch financed program.

The SME Foundation felt that there was good cooperation with the two principal USAID financed SME development projects, BSP and GEMINI. The Foundation believes that the most important work that needs to be done in the SME sector is preparation for Poland's joining the EU, especially at the policy and legislative levels, where it sees an advocacy role for itself.

5. Ministry of Economy/SME Division

The Polish government recognizes the importance of the SME sector to the economy since SMEs account for more than 50% of employment and GDP. The Polish government therefore has tried to develop a comprehensive policy toward the sector. The government is currently operating under a 1995-1997 SME Policy Paper and is in the process of drafting a 1998-2000 Policy Paper. The Director of the SME Division believes that there is much work to do in the field, especially in terms of advocacy for a better enabling environment for SMEs.

The SME Division reviews and drafts legislation dealing with the SME sector, but has limited resources to perform this task. The Director would like to have greater public funds to support SME training activities and he has hopes that such funds may be forthcoming next year. The Director also expressed the need to gear up the SME sector to compete with other European countries once Poland joins the EU. There is a perceived need to find better mechanisms to introduce new technologies and to help in export promotion. (The name adapted by the USAID Business Support Program — Firma 2000 — reflects this preoccupation of the Polish private sector and government with joining the EU.)

III. CROSS-CUTTING ISSUES

A. Appropriateness and Cost Effectiveness of American Volunteer Consultants

One of the measurements of performance of Firma 2000 is the number of SMEs to which it is providing American business volunteers. This has encouraged the program to seek out American experts who have specific knowledge that can be widely applied, and the Firma 2000 strategy is to be developing some twenty areas of sophisticated expertise that the BSOs can master and regularly offer. Overall, this seems to be a good strategy for developing the BSOs as recognized technical assistance providers, and for assisting in the financial development of the BSOs.

There is a need to have a good diagnostic process that adequately analyzes the SME's need for the technical assistance, and the sophistication of the TA needed. Firma 2000 appears to recognize this,

and plans to train consultants in firm diagnostics and in drafting clear statements of work for consultants/experts.

The idea that American assistance is good and should be taken if available, whether or not it is immediately useful, seems to exist. For instance, a bottling company received assistance from an American pricing expert, even though its need for such assistance was not clear. The BSO working with the firm resented this technical assistance because the client was spending money on a foreign consultant, even though the client was past due on loan payments. In another case Firma 2000 prepared a business plan to support an investment application to CARESBAC which the BSO felt that it could have done itself if CARESBAC's requirements had been explained. These incidents and others gleaned during interviews are indicative of the following issues that need to be addressed by Firma 2000:

- The BSO and Firma 2000 should agree on the need for assistance to the BSO client.
- Cost effectiveness: In general the diagnostic needs to consider whether (and/or how quickly) the TA will pay for itself. Polish firms who previously received free TA often do not now want to pay for it, so there is an education problem to show firms that good advice is worth paying for.
- The consultation between the BSO and Firma 2000 needs to consider whether there is local consulting capacity to accomplish the same task.

Finally, there should be consideration of how much technical assistance should be directed to any one SME. One of the firms interviewed indicated that the firm had received two MBA Corps volunteers, two CDC volunteers, eight to ten VOCA volunteers, an investment by CARESBAC, and the president had been on a study tour in the U.S. Given that the firm level assistance provided by American business volunteers includes considerable built-in subsidies, the benefits should be spread more widely among various companies.

B. Communication Among Contractors, BSOs, and SMEs

There seem to be some glitches resulting from imperfect communications. While Firma 2000's recently instituted newsletter is a valued tool, the more direct communications appear to need improvement. Many BSOs do not appear to understand fully the Firma 2000 program, and have not always received information on a timely basis. For instance, one BSO described receiving information on the program on a piecemeal basis, and discovered some aspects only at the moment of signing the agreement. The specific information on the Mietne training session came only a few days before it was to start. Thus, the BSO was not able to free anyone to attend with such short notice. Also, the SME clients apparently have had a difficult time understanding the business advisory services, creating a marketing problem for the BSOs. These may only be start-up problems, but if they persist, they could well hinder or undermine the program.

C. Flexibility in Meeting Performance Indicators, i.e., How Volunteer Consultants and SME Clients are Counted

The performance indicators for this contract are to enlist thirty consulting organizations as BSOs, and to assist 270 SMEs, over the life of the three year contract. The latter requirement in particular

is driving certain behavior in the project: for instance, the volunteer agencies traditionally have provided volunteers for a several week period to a single SME client. By getting a single consultant to meet for shorter periods with several companies, ACDI/VOCA is nominally doing a better job of meeting its performance targets.

The basic issue is, though, that the performance of the project should be measured by its outcomes (e.g., the increased performance of the BSOs and the SMEs) rather than by inputs (e.g., the number of volunteers provided). The contract with ACDI/VOCA includes a specific number of volunteer executive assignments, which suggests an emphasis on methodology rather than on objectives and expected results. The inclusion of input requirements can limit the flexibility of the provider to use other methodologies which might be more effective in reaching the objectives.

D. English Language Requirement for BSO Contractors vis-a-vis American Volunteer Consultants and In-Country Training by Price Waterhouse

One of the primary qualifying selection criteria that the BSOs were required to meet was one of language, i.e., that consultants from the BSO participating in Firma 2000 activities needed to be able to work in English. The BSOs seem to regard this as a reasonable requirement for those consultants who would be working directly with U.S. volunteers, but this seems to be a limiting provision with respect to training. Many of the BSOs cited the training to be received as a primary reason that they wanted to join the Firma 2000 network. If training is offered only in English, some consultants who might not require English are being barred from this benefit.

E. Choice of Contracting Mechanism and Management Oversight

The reasons for choosing a contract rather than a cooperative agreement have been discussed above. Overall, a contract gives USAID more control over a project, and the Mission expects to be more involved in project management. Even so, the Mission appears to be devoting a great many hours to this project. For instance, Mission representatives were present through interviews with some 100 consulting firms that eventually filled 29 of the 30 BSO slots. The team was informed that in the future the Mission expects to be more, rather than less, involved. Mission staff expect to be traveling to view BSO operations on site. Significantly, the Firma 2000 Chief of Party stated that the Mission involvement has been welcome, and that the Mission's oversight has been substantive, rather than exercises in micro-management. Certainly it is worth noting that the Mission considers this as a constructive use of staff time, unlike the hours devoted to trying to get the predecessor volunteer agencies to collaborate.

RUSSIA

I. ORGANIZATIONS VISITED

During the week of October 6 -11, the team visited a number of organizations in Russia. The team interviewed the three PVOs—ACDI/VOCA, CDC, and IESC—awarded cooperative agreements in spring 1997 to provide technical assistance to SME firms in 10 regions of Russia. They also interviewed other USAID-funded providers whose programs support the development of the SME sector, including the Business Collaboration Center (BCC) operated by CDC, the Center for Business Skill Development (CBSD), the Morozov Project, The US-Russian Investment Fund (TUSRIF) and the Business Support Center Foundation.

The team divided into smaller groups of two for field visits to three regions: St. Petersburg in the northwest, Nizhny Novgorod and Yekaterinburg in the south central, and Khabarovsk in the far east. During these field trips, the team met with staff in regional offices of all three PVO providers, regional offices of TUSRIF, local affiliates of the Morozov Project in various educational institutions, Opportunity International, the Russian American Educational Center in Khabarovsk, the American Business Center in Khabarovsk, the Volkhov International Business Incubator and Training Center (near St. Petersburg), and the Russian Initiative for Self-Employment (RISE) in St. Petersburg and SME clients of the various programs. The St. Petersburg team also participated in a meeting of USAID financed SME providers at the U.S. Consulate.

II. FINDINGS

A. Implementing Parties

In fall 1996, the Moscow Mission issued an RFA for a Business Volunteer Program (BVP) to assist in the development of the SME sector. Two distinct features of the RFA were (1) to provide direct assistance to SMEs through the use of volunteer executives, integrating what had been separate initiatives, that is, post-privatization assistance and new business development; and (2) to build and strengthen the local capacity for providing assistance to the SME sector. The RFA invited each proposer to serve 3-8 of 12 designated regions, with the understanding that the Mission would make final determinations to identify the specific sectors in which it intended to focus its work, and to describe its strategy for strengthening the Business Support Institutions (BSIs). Proposals from three PVOs were accepted, all of whom had previous programs in Russia funded by USAID. ACDI/VOCA. (in association with CCI and Winrock) proposed to cover nine regions, IESC five (plus two satellite offices), and CDC four (plus four satellite offices).

The Mission emphasized that it sought out the collective wisdom of a dozen volunteer organizations during the design of the BVP and the RFA process in order to maximize the collaborative approach in the design of the BVP. Furthermore, the design of the BVP was based on an evaluation of the current needs of Russian SMEs and USAID's past experience in SME development through various mechanisms. In other words, the design of the BVP attempted to incorporate the lessons learned during USAID's past experience in SME development in Russia and to build on this prior

experience. While the BVP is currently experiencing some startup problems and growing pains, these are currently being addressed by the Mission.

All of the programs include the provision of American volunteers with specific business expertise to advise SME client firms and an approach to strengthening BSIs. Each provider used its own approach to providing services, allowing variations on the regional level in order to take into account the unique needs of each region.

After the programs had been operating for several months, the Mission felt the need for greater coordination among the providers and a single interface for some reporting purposes. It proposed to the three PVOs the establishment of a “secretariat” to perform this function. The Mission and the three providers are still discussing the concept and its implementation.

B. Clients

According to the program descriptions, the implementers are to strengthen both individual firms through the provision of volunteer advisors and to strengthen their Russian BSI partners. Although the approaches to these tasks vary among the implementers, the goals are common to all programs.

1. Firms

Size of firms. SME client firms are to be assisted through the traditional technical assistance programs of each implementer. Each provider is focusing on specific sectors, such as agribusiness, light industry, banking and financial services, construction, and tourism. Although most, if not all, clients are expected to be established firms, they can vary greatly in size. Privatized firms are more likely to fall into the medium- or large-sized category. Newer businesses are more likely to be small or medium-sized firms. In general, it appears that IESC will continue to serve more of the medium and large-medium sized firms and CDC will serve small and smaller-medium size firms. Since ACIDI/VOCA is new to this service strategy in Russia, no established pattern exists for it.

Multiple assignments of a volunteer. Unlike other countries visited as part of this study, many of the providers in Russia seem to use volunteer executives in only one firm. “Piggybacking,” that is, giving a volunteer executive a second (or even third or fourth) assignment, is used by some providers in some regions, but largely limited to piggybacking within the same organization rather than with another BVP provider. The regional offices that do not use multiple assignments say it is not feasible, since the volunteers are needed for the full length of time in a single assignment. The USAID Mission staff believe that piggybacking is an important strategy for increasing the cost effectiveness of the volunteer programs.

2. Business Support Institutions (BSIs)

USAID’s expectation is that each provider will identify specific BSIs and assist them to strengthen their capacities to provide services to SMEs. In this way, the BVP will leave a legacy—a consultancy industry equipped to continue to provide quality services to the SME sector after USAID programs no longer exist. The concept of building/strengthening local capacity is new for all three

providers. Since it is not part of the product they are accustomed to providing, they are struggling with how to fulfill this aspect of their program. They have questioned whether their budgets were structured to provide appropriate funding for this aspect of the project.

There are several kinds of BSIs with which the providers might choose to work. (1) Existing for-profit firm of which some of these may be large and sophisticated, while others may be small and relatively inexperienced. (2) Business Support Centers (BSCs) that were created and subsidized under the earlier New Business Development Program implemented by Deloitte Touche Tohmatsu. Eight of these BSCs existed when the funding for that program ceased and some may have made the transition to self-sufficiency or be capable of making that transition. (3) Business assistance programs supported by local or regional governments, such as the Local Privatization Centers (LPCs), which have assisted in the development of businesses through the privatization process. Some of these centers are already committed to self-sufficiency and have taken steps to create separate for-profit or nonprofit organizations to achieve that end. (4) Morozov projects, which are connected to local academic institutions and focus primarily on business training. Some of these projects also offer consulting services to individual businesses, provided either by staff or by faculty members. (5) Other organizations, such as the Association of Women Entrepreneurs in Khabarovsk.

The choice of partners and the strategy for building/strengthening capacity will vary among the providers. The set of criteria used and the strategy adopted will have implications for the kinds of services that will be available and the size of firms that will be served.

IESC has moved the furthest in defining its strategy, but its selection criteria for partner organizations seems to be so high that the preferred firms are likely to focus only on large enterprises and the high end of the SME sector. IESC plans to identify specific consulting firms in each region. The firms must have consulting experience, be self-supporting, and have a plan for the future. IESC hopes to make formal agreements with these firms which would include the provision by IESC of a "resident advisor," a volunteer executive with consulting expertise who would spend six months working with the firm. IESC would also co-locate with the firm, the firm would integrate IESC services into its consultancy services, and, hopefully, absorb IESC staff at the end of the project. IESC's partner selection criteria is likely to result in linkages with consulting firms that have a high probability of survival, but also are likely to serve the upper part of the SME market, or even larger companies than SMEs. For example, the IESC partner firm in St. Petersburg and one of its potential partners in Nizhni Novgorod are relatively large and strong for-profit firms which serve predominantly medium and large Russian firms. On the other hand, regional IESC offices had also identified one fairly new consulting firm owned by recent university graduates and a local privatization center as potential partners. IESC is less likely to find firms that meet their criteria in regions such as the far east, where the local economy is less well developed and there does not yet appear to be a strong private consulting sector.

ACDI/VOCA and CDC have not made as much progress toward establishing criteria and identifying specific partners, but both plan to develop volunteer executive assignments with consulting groups as their primary strengthening strategy. They also tend to see the partnerships largely as a source of referrals for volunteer assignments. The CCI office in Yekaterinburg (an ACDI/VOCA subcontractor) described three strategies for strengthening local capacity: one was to identify 2-5

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people in each company assisted who could provide consultancy to others in the company; a second was to conduct seminars on consultancy; a third was to strengthen organizations and associations such as the association of manufacturers, an association of homeowners (condominium owners), an energy trade association, and a women's support center. The strategies of these two providers are likely to result in linkages with less sophisticated consulting organizations (nonprofit, as well as for-profit) that will more likely serve the lower part of the SME sector.

The strategies of all three providers represent only slight adaptations of their basic product of providing volunteer executives to SMEs. Consulting firms are essentially treated similar to SMEs, in that assistance is provided by American volunteers on a short-term basis. IESC's strategy contemplates longer term placements, but it is uncertain whether this is feasible. None of the three organizations identified the pairing of local consultants with American business volunteers, such as ACDI/VOCA does in Poland, as part of their strategy for strengthening the consulting industry.

3. Associations

Only the CCI office in Yekaterinburg included associations as part of the strengthening strategy. Associations have a definite role in strengthening SMEs, but their role is more in the areas of training and industry-specific information rather than consultancy with individual firms.

C. Linkages With Other USAID Programs

1. Business Collaboration Center (BCC)

The BCC is a program run by CDC under a separate cooperative agreement. The award was made to CDC when the Mission decided that the information and networking components of the Deloitte Touche Tohmatsu contract was not meeting expectations. The BCC was intended as a mechanism for the sharing of information among USAID-funded business development programs, both through electronic systems such as databases, an events calendar, and a monthly newsletter, and through seminars, round-table discussions, conferences, and in-house training programs. Its objective was to increase the degree of collaboration among providers.

The BCC has created a network of 800 "customers." It creates regional and national databases of Russian companies in order to encourage and facilitate business linkages. It creates and maintains cross referenced websites for local SME service providers. It provides information on potential sources of financing. The BCC also facilitates legislative review for SMEs by publishing and distributing through its network a newsletter on pending legislation and regulations and encouraging SMEs to respond by e-mail with their comments on proposed legislation.

The BCC also facilitates conferences and workshops. For example, the BCC organized the last two annual USAID conferences: Sochi II and Valдай. The latter focused on the question of financing for SMEs in Russia. The BCC also organizes workshops with its partner organizations to teach skills such as financial management and accounting. The partner organization picks up the costs and charges fees. The BCC has representatives in St. Petersburg, Yekaterinburg and Khabarovsk (vacant at present). Its role appears to be a natural one of connecting diverse players and offering a platform for greater collaboration. While the implementers seem satisfied with both the role of the BCC and

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its performance, the Mission's proposal for a secretariat suggests that it does not currently regard the BCC as an adequate vehicle for the kinds of collaboration it seeks to promote.

2. Center for Business Skills Development (CBSD)

The CBSD was created by USWEST to provide training for Russian management. It was originally intended to establish a number of centers around Russia offering business skills training to the management staff of Russian companies. However, this strategy was dependent on continuing USAID financing. As it became clear that this funding would not continue, CBSD began to focus on a strategy of long-term viability. At the same time, USWEST decided that it was not interested in a long-term commitment to a training function. Consequently, USWEST entered into an agreement with the Thunderbird School of Business Management in Arizona to take over management.

CBSD is now focused almost entirely on training the management of the Russian subsidiaries of multi-national corporations. These firms are able to pay the fees needed to reach profitability and sustainability. Russian firms able to pay the fees in advance also use CBSD, but these are relatively few. There are also open courses which both companies' employees and individuals can take. For the most part, CBSD survives from contracts to conduct custom-designed courses for companies such as Coca-Cola. At present it is operating under a no-cost extension from USAID, but that will soon end and it will be completely independent. While most firms in the SME sector cannot take advantage of this training opportunity, the more prosperous ones can; as more firms reach a level of sufficient profitability, they may decide to use CBSD to improve the skills of their management staff, especially middle managers.

3. SUNY/Morozov Project

This is a "training of trainers" project designed to develop the knowledge and skills of educators in continuing education units of academic institutions throughout Russia. The project provides training in the basics of the free market economy and how to operate a business in that economy. It has received USAID funding through SUNY since 1994.

Morozov forms affiliations with academic units that agree to create Business Training Centers (BTCs). The number of BTCs has grown from 12 in 1994 to 65 at present. The Moscow office trains the BTC staff with courses it has developed. It certifies its trainees as trainers and provides them with its curriculum. The BTCs in turn offer training courses to individuals and firms in their areas. Much of the training offered by the BTCs is basic entrepreneurship and business plan development intended for new entrepreneurs. The Ministry of Labor often funds training for unemployed people or those threatened with unemployment. Other courses focus on specific aspects of business operations, such as financial and personnel management, and individual firms sometimes contract with BTCs to conduct courses on these modules for their employees.

Some BTCs also offer consulting services, which are provided either by center staff or by faculty members. However, the consultancy services seem to be primarily a response to requests growing out of the training and tend to focus on business plan development. The consultancy service does not seem to be well-developed. While the BTCs are potential partners for the BVP organizations,

they are not known in the community for this service, and do not seem to be focusing on consultancy as a product for building a sustainable institution.

The Morozov headquarters claims that the BTCs are self-sustaining. While it is true that they conduct training courses that may pay for themselves, it also appears that the centers are subsidized by the academic institutions in which they are housed. Morozov headquarters has not yet reached self-sustainability, but it believes that it can do so shortly.

4. The US-Russia Investment Fund (TUSRIF)

TUSRIF operates two programs: direct investments and small loan funds. For its direct investments it ideally will invest \$3-8 million in a firm for a 15-30 percent ownership control. Occasionally BVP clients are potential direct investment candidates, but the small loan program more generally fits the needs of the target SME sector. TUSRIF offices for both programs are located in St. Petersburg, Yekaterinburg, Vladivostok, Moscow, Rostov-on-Don, and Khabarovsk.

The small loan fund is a joint lending program with seventeen Russian banks which operate both regionally and nationally. The aims of the program are to get funding to firms, as well as to teach credit skills to the banks and to enable banks to see that a well-managed, small loan portfolio can be profitable. In order for a bank to participate, it must be scrutinized through a due diligence process and must assign two credit officers to the project. TUSRIF said that it expects the bank ultimately to have at least one active staff member in each location where the bank is operating the program. The bank must be committed to advertising and promoting the program and is expected to process at least two loans per month. In turn, the banks and credit officers are given training in both lending and marketing.

The loans granted under the TUSRIF small loan program are for a maximum two year term, dollar denominated, for \$5,000 to \$100,000, with annual interest rates of 12-18 percent per annum. Loan requests are analyzed by both the bank and TUSRIF and are approved by both credit committees. Normally, the bank makes a first level of approval, then TUSRIF reviews the approval, culminating with a joint interview and site visit before the final decision is made. TUSRIF funds these loans with its own capital through the bank, but the interest income and the risk is split equally. Once a loan has been successfully repaid, the business is eligible for another loan for up to \$150,000. Thus far none of the small loan program clients have grown or have become candidates for investment, although there are candidates on the horizon.

TUSRIF has instituted a bank "graduation" program in which it devolves the credit decision, and 100 percent of the lending risk, to the bank (although TUSRIF continues to provide the loan capital). Baltisky Bank is the only participant in this advanced program. TUSRIF is currently disbursing almost \$1 million per month nationwide in loans for the small loan program.

While the BVPs in Moscow and the Mission reported little interaction with TUSRIF, it appears that relations in the regions are frequently far more cordial. The TUSRIF representative in Khabarovsk is an active participant in local provider meetings and frequently calls on CDC locally to provide technical assistance to clients. The graduates of the ARC training program are introduced to TUSRIF, and a number become clients. CDC also provides some loan client referrals. While

TUSRIF tries to maintain its portfolio at no more than 25% new businesses, the Khabarovsk representative indicated that he was pleased with the quality of his startup clients. In contrast, the Yekaterinburg office indicated that there have been some referrals from BVP organizations, but these organizations are not the sources of their best projects. The cooperation with BVPs sometimes takes the form of a TUSRIF referral of a borrower to a BVP for technical assistance.

In the Russian Far East, TUE in Khabarovsk with another pending, as well as participating in community loan programs in Petropavlosk-Kamchatsky. The TUSRIF regional office in Yekaterinburg has made \$1.7 million in loans in 1997 and expects to reach \$2 million by the end of the year. The director indicates that he is covering his costs, expects to be profitable next year, and plans to open branch offices in other cities. The Yekaterinburg director is also considering consumer loans, which he claims are already being done by banks. He hopes to make mortgage loans in the more distant future.

5. Business Support Center (BSC) Foundation

The BSC Foundation is led by the Russian staff of the former Deloitte Touche Tohmatsu New Business Development Project. The Foundation received a small transition grant from USAID, and now receives most of its funding from the Russian Privatization Center (RPC), which is funded largely by the World Bank. It retains contact with the former BSCs and provides an information network for them. The RPC grant is to provide training for SME support in the regions. It conducts training for both local authorities and associations. The BSC Foundation also conducts research on how to restructure one-company towns. While the BSC Foundation would not appear to be a likely candidate for a partnership with the BVPs, it is a useful contact point for concerns related to the policy and legal environment for SMEs.

6. Center for Citizen Initiatives/Russian Initiative for Self-Employment

The Russian Initiative for Self-Employment (RISE) is located in St. Petersburg and is financed through a grant from USAID through the Center for Citizen Initiatives (CCI). It offers training courses on various topics of business management and runs a business incubation center, the Apparel Innovation Center, which provides space for mostly startup microentrepreneurs specializing in clothing design and fabrication. It also has a small scale microlending program offering loans between \$100 and \$1500 for up to one year. The lending program started in September 95 and has only given 35 loans to date. RISE does charge for training at a rate of Rubles 10,000/hr. When they began in 1994, they worked exclusively with women, but now about 70% of their clients are women.

7. SUNY/The Alliance of American and Russian Women (AARW)

The Volkov Incubation Center (VIC) is located in Volkov, an industrial town north of St. Petersburg. This facility was established two years ago with assistance of the AARW, which provided finance, and the City of Volkov, which provided an unused factory building with 1600 square meters space to VIC through a 49 year lease. According to the grant conditions with USAID, 60% of the clients must be women. VIC has organized a women's business network and support group. VIC serves both as a small and microenterprise incubation center and as a training center. It is registered as an educational institution, so it can charge fees for its training. It currently offers courses with charges

ranging between R100,000 and R400,000. Most of the courses are for two days and charges are at the lower end. They also offer a course in business planning which runs for six weeks with classes twice a week. This course costs participants R400,000 and is highly subscribed. VIC has a full-time business consultant at the incubator who provides consulting services both to incubator tenants and other entrepreneur clients of VIC. The city refers unemployed persons to VIC for training and pays one half of the training costs for clients whom they refer. Teenagers receive a 50% discount off the regular price of the course.

VIC also administers a small credit program providing loans up to \$10,000 for 2 years. They received grant funds of \$70,000 which have been completely disbursed on 14 loans averaging about \$4-5,000. Staff claimed that two of those loans have been fully repaid and the rest are current. They initiated a leasing program last year with \$200,000 in funds from USAID through the AARW. VIC is licensed as a leasing agent under the Ministry of the Economy. It provides loans for equipment purchases up to \$25,000. It has used these grant funds to leverage an additional \$250,00 in capital from TUSRIF and the Director stated that USAID has plans to provide additional funds up to \$150,000 if the program progresses well. VIC currently has 14 leasing clients. Visits were made to a number of VIC clients both in the center and in the community.

VIC used three volunteers from CDC this past summer: one was a designer of sweaters, another was a specialist in mushroom growing, and a third was a specialist in finance who helped to design a loan guarantee fund for tenants of the incubator.

8. Opportunity International

Opportunity International's work is primarily in Nizhni Novgorod and the surrounding rural area. Its strategy is to form a local organization which can serve as a local partner. In Nizhni Novgorod its partner organization, Vozmozhnost, has 40 staff currently, but expects to reduce staff substantially when USAID funding ends. Vozmozhnost operates a credit program which has a total of \$950,000 in loan funds; it makes small loans at 40% interest to microentrepreneurs. In addition, Vozmozhnost operates (1) a leasing company, which operates on a \$500,000, 5 year loan from TUSRIF; (2) a consumer society, which serves the functions of a credit union; (3) a 200 member Women's credit cooperative, which receives funding from USAID's Women in Development program; (4) a training program, which includes business plan training that is a prerequisite for loans, as well as skill training programs secretarial skills, accounting, and office management; (5) an incubator, which has 10 tenants; and (6) an employment center. Vozmozhnost is registered as a Foundation with a training function.

D. Linkages with Other Donor Programs/Key National SME Institutions

1. European Bank for Reconstruction and Development (EBRD)

EBRD has established the \$300 million Russia Small Business Fund (which includes \$30 million of funding from the United States) for small business credit and microlending. Small business loans are made through banks and, like the TUSRIF small lending program, this fund serves to both channel credit to the SME sector and to develop bank lending skills. The program was designed by

IPC, a German development firm, and Shorebank, although the latter pulled out in September. Thus far the program has made 10,000 loans, reportedly with good repayment rates. According to sources in Moscow this program has been a good referral source for the BVP programs.

2. Local Government SME Programs

Russia remains a highly centralized government by US standards, but both regional (Oblast, Krai) and municipal governments have some opportunities, if limited, to influence the local SME business climate and provide business services. The most obvious is the issue of business registration. But local tax policy can also be important, if piling in comparison to the importance of national tax policy. Some municipal governments have undertaken efforts to promote the development of SMEs. Where such efforts are being made, there is an opportunity for the BVP to contribute to them. Also, some government-supported BSIs are being considered as potential partners with BVP implementers. For example, in Khabarovsk, CDC works with the Krai Fund for Enterprise Support and in Yekaterinburg, the local privatization center is being considered by IESC as a potential BSI partner.

III. CROSS-CUTTING ISSUES

A. Coordination

All three BVP providers are experienced PVOs using business volunteers to provide technical assistance at the firm level in Russia and in the ENI region. The three providers believe that they already coordinate effectively among themselves. They seem to think that the geographical spread, plus the different emphases of their programs in the various regions, obviate a need for any closer collaboration.

USAID/Moscow would like to see more coordination among the providers, especially coordinated reporting and increased piggybacking of volunteers to improve cost effectiveness. The Mission has identified several potential benefits of coordination and proposed a "secretariat" to serve the coordination function. Some of the proposed goals are shared by the providers and others are not.

The Mission says that its first priority is coordinated reporting. It wants a common reporting format, a single point for collection and compilation of reporting data, and the production and dissemination of reports for public relations and information purposes. The directors of the three provider organizations, in collaboration with each other and with USAID, are in the process of developing a mutually acceptable reporting format. The compilation would then be done by one organization in each of four regions. Some of the providers have suggested that the Business Collaboration Center (BCC), which already has that mandate for collaboration, serve this function. Though the BCC is operated by CDC, which is also one of the BVP providers, it is a relatively independent operation which is intended to provide services to all three providers.

A Mission memorandum indicated that it wants to "streamline USAID's interaction with the BVPs" and "create a single interface between USAID and the BVPs..." Providers are understandably uneasy about this language, since they each have their own cooperative agreement with USAID and

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are reluctant to give up direct communication with USAID to --that they were only referring to a single interface for reporting purposes.

The Mission also wants to “eliminate redundancy,...increase referrals, realize efficiencies...” The specifics listed in the memorandum include monthly roundtables; coordination of volunteer assignments and client assessments, including referrals and piggy-back assignments; a common orientation program; and a common debriefing program. The roundtables already occur in some regions, and the providers support initiating them in all other regions. While the other forms of collaboration are reasonable from conceptual point of view, each needs to be assessed in the Russia context, and a discussion is underway between the Mission and the providers to explore these issues. Regarding coordination of assessments and assignments to maximize the use of volunteer executives, the BVP agencies do not seem to use multiple assignments by volunteer experts (piggybacking) as frequently as their own organizations use them in some other countries; the Mission believes this practice should be more prevalent and would like to win the providers’ support of this practice.

Since the level of coordination proposed by USAID was not explicitly foreseen in the RFA, the implementers have resisted what they initially perceived as a fundamental change in the agreement. It may well prove easier for the Mission to persuade all of the BVP players to accept a somewhat enhanced role for the BCC as a “conduit of information” than to create an entirely new instrument. The key question for the Mission to answer is whether USAID staff believe that the BCC has the capacity to assume this role effectively. The development of what may be perceived to be a parallel coordinating structure could pose more problems than it solves.

B. Legacy

While the BVP does address the question of legacy, including enhancing the capabilities of Russian BSIs, there is a wide gap between the theory and the actual importance attributed to this aspect of the program. In fact, interviews with field staff revealed that its importance often appears not to be well understood. For instance, one field officer thought that BSIs referred to organizations such as CDC and TUSRIF. While this may be an extreme case, it was very clear that all organizations consider that their major legacy will be at the firm level, i.e., Russian firms whose viability and sustainability is enhanced through their traditional volunteer advisor programs.

IESC has developed the most coherent strategy for building local consultancy capacity. They have even built into their concept the opportunity for the continued employment of their own staff through their incorporation into the partner organization. IESC has chosen to ensure survivability by selecting primarily, if not exclusively, institutions that are already viable and are therefore devoted primarily to serving those clients presently able to pay. This means, for all practical purposes, assisting medium to large firms.

The other implementers appear to have less clear goals. In fact, it would seem that their field staffs outside of Moscow interpret this aspect of the program as working primarily on a referral basis, not one of consciously planning and devoting resources to strengthen the consulting and other SME support capabilities of the partner. If there is to be a legacy of an SME consultancy industry, the

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providers and the Mission will need to devote considerably more time to designing strategies to accomplish this aspect of the project.

C. Access to Finance for SMEs

Access to affordable credit remains a major question for most SMEs. There are major programs operated by EBRD and TUSRIF both to provide credit and to train banks in credit skills and portfolio management. Most significantly, the underlying purpose of this training is to change attitudes so that the banks will recognize that small and medium business lending can be a profitable market segment. However, it takes time for the lessons to be institutionalized. Observers of the banking system note that banks are becoming more interested in small business lending. Based on this interest, USAID has recently introduced its global Loan Portfolio Guarantee program in Russia. It will be interesting to see whether this program can encourage the banks to lend their own capital. Both the TUSRIF and the EBRD programs are lending their own capital through the banks, although the EBRD program does charge the banks interest.

Fortunately, unlike Bulgaria and Ukraine, the Russian banking system is fairly strong so it is likely that a typical progression from consumer lending, which the banks are already doing, to small business lending will occur. The continued development of the banking system, in addition to other sources of finance such as investment funds and leasing, will be critical to the ultimate prosperity of the SME sector. No temporary credit programs, such as those described above, nor investment programs such as SEAF, can ever hope to match the full financial resources that are available through banks and other private lending vehicles in a well-functioning market economy.

D. Policy and Regulatory Reform for the SME Sector

There does not seem to be an major effort in the arena of SME-related policy and regulatory reform, although USAID activities dealing with policy reform of the private sector do touch on SME concerns. For example, a booklet entitled, "Small Business Taxation in 1996" was prepared for SMEs under the Business Development Program funded by the Mission. Since policy and regulatory reform is a core element of a comprehensive SME development strategy, existing program deficiencies may limit the impact of the other initiatives. The BCC's newsletter on legal and regulatory proposals is one small step in this direction, but much more is needed. Also, there is little indication of a priority on the development and support of trade and business associations, which could result in the training of business owners to be a source of legislative information and lobbying, as well as a source of information on improved practices for firms.

E. Variation Among Regions

Russia is a huge country with great variations among its regions. These differences obviously require SME development strategies that address specific conditions in each region. The Russia Mission and the providers are very cognizant of these differences and have adapted their programs accordingly.

UKRAINE

I. ORGANIZATIONS VISITED

During the week of September 29 - Oct 4, Steve Silcox, Mary Miller, Jim May and Bob Hansen visited a number of organizations in Kiev and during field trips to Lviv, by Mary Miller and Jim May, and Odessa, by Steve Silcox and Bob Hansen, met with both implementers and clients in those cities. In addition to briefings by activity managers in the Mission, the team visited the Eurasia Foundation, the International Finance Corporation (IFC), the Alliance and the NewBizNet. The latter two organizations are the principal implementers of USAID-funded direct and indirect technical assistance to SMEs. IFC, however, has also received USAID funding for a program of technical assistance to four Business Support Centers (BSCs). Eurasia provides small business loans.

In Lviv the local NewBizNet BSC and one of its clients were visited, as well as the Lviv ESC office and several of its client firms. In Odessa the team visited the CDC office, the local NewBizNet BSC and several client firms.

II. FINDINGS

A. Implementing Parties

The Mission approach to supporting the SME sector has been threefold:

- Expert advice to government officials to address the macroeconomic problems affecting the sector
- The creation and support of a network of Business Support Centers (BSCs) capable of providing business support services to SMEs
- Direct, firm level technical assistance to SMEs

USAID/Ukraine has two primary programs to provide technical assistance to the SME sector:

- 1) The New Business Network (NewBizNet) is a program aimed at creating a network of sustainable BSCs that can deliver a range of business services, including training and consulting, to Ukrainian SMEs. The prime contractor implementing this program is Development Alternatives, Inc. (DAI).
- 2) The Alliance, a grouping of four U.S. Private Voluntary Organizations (PVOs) -- ACDI/VOCA, CDC, IESC and the MBA Enterprise Corps -- provides a program of technical assistance directed at SMEs using American volunteer business experts.

1. NewBizNet

NewBizNet is presently involved in assisting three BSCs in Ukraine (Kharkiv, Lviv and Odessa) and one in Moldova (Chisinau), and will soon add another four BSCs to its network. When the program had started in 1994, DAI originally planned to create completely new organizations as BSCs. After some initial implementation difficulties, DAI and the Mission decided to select existing organizations for strengthening instead and chose those organizations through a competitive RFP process.

All BSCs rely on fees from SME clients as their primary source of income, supplemented by donor support. DAI and the BSCs have recently placed greater emphasis on the objective of long-term financial viability, recognizing that USAID support will end soon. The BSCs has an average 10 permanent staff, supplemented by part-time consultants in training and consulting. DAI currently pays the salary of four key permanent staff positions in each BSC -- the Director and the three business-area managers. The BSCs provide business support activities in three areas -- business training, consultant services, and market information.

Initially, DAI provided a number of services to the BSCs, including resident advisors at each BSC, training of trainer courses, and financial support to renovate offices. These subsidies are decreasing and the BSCs will have to count increasingly on fees or support from other funding organizations to cover costs. Some BSCs have received program support from other donors. Interviewees mentioned problems of serving SMEs which have fewer financial resources to pay for services. The emphasis on financial sustainability has caused some creeping upward in the size of target firms to access the financial resources of more medium sized and larger firms. Under the current extension of DAI's contract, expatriate staff will be limited to headquarters-based positions in Kiev. These will be supplemented by both MBA Enterprise Corps volunteers and Peace Corps Volunteers.

2. The Alliance

The Alliance was formed by the four American PVOs in response to USAID/Ukraine's wish to coordinate efforts by providers of American business volunteers for firm-level assistance to SMEs. This organization was formed in conjunction with a proposal to USAID, and IESC was proposed as the lead organization. This resulted in one cooperative agreement with IESC, but the sub-agreements with the other parties spelled out the annual budget allocations for each PVO, as well as the geographical areas and sector areas in which each would serve. This has prevented overlap among the parties and appears to have satisfied each organization's interests in maintaining a separate identity while being part of the Alliance.

Initial expectations of the Mission were that there would be synergies between the Alliance and NewBizNet. Unfortunately, there does not yet seem to be a great deal of this type of cooperation going on except in Kharkiv. The Mission believes that the direct, firm level assistance provided by the Alliance should be tied to activities performed by other contractors or NGOs financed by USAID. In accord with this position, the Mission requested that the contractors or NGOs identify opportunities for complementary volunteer assignments within their areas of specialization. A report to USAID by the Alliance on April 15, 1997 revealed that during the first nine months of the cooperative agreement, 117 volunteer projects were completed in Ukraine and Moldova. Of those, 30 (26%) were developed in conjunction with other USAID contractors/PVOs.

The internal cooperation among Alliance members appears to be working smoothly. For the two members with the greatest similarity in their programs, CDC runs the Odessa office and IESC has offices in Lviv and Kharkiv, in addition to Kiev. ACDI/VOCA is the provider of all agribusiness-related projects and the MBA Enterprise Corps serves those clients requiring a long-term volunteer. There is a biweekly conference call between the Kiev office and the Alliance headquarters personnel in the States, which is used to clarify all questions and provide guidance to the field. Whereas at the beginning of the project there was some feeling of Mission micro-managing the Alliance by requiring Mission approval of assignments, this appears to have been satisfactorily resolved.

B. Clients

1. Firms

SME client firms are served by two business support service providers: the Alliance through its volunteers, and the NewBizNet BSCs through their training programs, consultancies and information programs. Although the Alliance could and should find at least some part of its clientele through the BSCs, this does not appear to be occurring, except to a limited extent in Kharkiv. In Lviv there appears to be some desire to re-establish a working relationship, whereas in Odessa there appears to be some lack of communication and confidence between the CDC office and the local BSC, Intmar. The result is that the overwhelming majority of Alliance clients are recruited and served directly by the Alliance offices. In only one case viewed by the team was this not so -- in Lviv IESC assisted a client firm of the Western IS Enterprise Fund. In this case, the Fund paid all costs.

Other SME client firms, especially start-ups and small businesses, have been assisted through the BSCs. These include training needs (a successful Lviv firm had used the BSC to train its entire management staff) and assistance in the preparation of business plans and finding financing (once more in Lviv five to six BSC clients had recently successfully accessed a German-supported small credit program). The team interviewed three clients of Intmar who had all used a combination of training courses and consultancy services and were very pleased with the relationship and results for their businesses. Intmar has also assisted a number of clients to prepare business plans and to obtain loans from the local branch of Aval Bank.

2. BSCs and other Business Support Organizations

The BSCs receive direct assistance, including training, through NewBizNet. Four other BSCs have received similar assistance through USAID funding of an IFC program. After an uncertain start to the program, it now appears to be working well and was recently extended by USAID. The aspect most highly appreciated by the BSCs appears uniformly to be the training for their staff. The BSCs view this training as enhancing their skills and thus their ability to attract the clients able to pay fees which will enable them to survive after the end of subsidization. However, as financial viability comes more and more to the front, the importance of improving their consultancy capabilities looms large. They will have to market themselves increasingly to medium-sized and even large firms, who are better capable of paying the larger fees. This was the case with the Lviv BSC, and for that reason they were now quite interested in creating closer ties with the Alliance. They saw the potential of using American volunteers both to market themselves to such clients and to deepen the knowledge and skills of their consultants to assist them to provide better consulting services in the future. In

Odessa, Intmar strongly viewed its mission as serving SMEs. It will provide services to larger enterprises only to be able to cross-subsidize operational costs in order to serve SMEs. Until now there has been no real pairing of BSC consultants and Alliance volunteers.

Other types of business support organizations could also be assisted by the Alliance. For example, trade and business associations have received assistance from some of the members of the Alliance in other countries. This could be done in Ukraine as well. Apparently, at least some NewBizNet BSCs are starting to work with associations, although this is a relatively new phenomenon. In Lviv, for instance, the BSC was building relations not only with local financial institutions, but also to the Lviv Regional Fund for Private Entrepreneurship and the Lviv Oblast Association of Small and Medium Enterprises.

3. Contractors

The Mission would like to see the Alliance provide short-term assistance through its volunteers to non-SME clients who are receiving technical assistance from USAID contractors. There is at least once example of such cooperation working well. This is the project run by Price-Waterhouse to assist the Association of Accountants to provide training to its members in International Accounting Standards (IAS) and the conversion of Ukrainian standards to IAS. The Alliance has provided volunteers with strong accounting/financial management backgrounds to assist this process. Another example of such collaboration involved assistance from an Alliance business volunteer to assist the staff of a formerly USAID financed housing program to establish a consulting company. That for-profit company would continue the work that the staff did for PADCO to train local contractors to provide various services to newly formed condominium associations and housing maintenance/service organizations. Nevertheless, the number of such collaborations has been below Mission expectations.

C. Linkages with Other Related USAID Programs

1. Eurasia Foundation

Eurasia has a small business loan program in Ukraine, which it runs in conjunction with selected Ukrainian banks. The program, which started in 1995, got off to a slow start since the original bank chosen as a partner, Aval Bank, did not work out. Ukrainian banks have not been very interested in lending to small businesses. The Eurasia program is designed both to help overcome the problem of access by providing credit and to help overcome the reluctance of Ukrainian banks to lend to this sector. Eurasia has chosen a replacement bank, Adzhio Bank, and will soon start to work with them. The second bank originally selected, Ukrainian Credit Bank, has become problematic, since they have lost all but the manager from their credit department.

Eurasia's program is designed to provide loans to SMEs of up to \$150,000 for a maximum of 25 months at an APR of 18%. The loan capital comes from Eurasia, but the risk is shared 50/50 with the bank. The bank and Eurasia approve the loan jointly. Although Eurasia is not presently working closely with NewBizNet and the Alliance, it has worked with some of the IFC BSCs. There is an

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obvious opportunity for cooperation between the programs once Eurasia has its banking network up and running.

2. IFC/Post-Privatization Project

As already mentioned, USAID funded an IFC project to provide support to four BSCs in cities in which the NewBizNet is not active. Whereas a similar former IFC project funded by the British Know-How Fund had no sustainability element, this one does. It is designed to assist the BSCs to reach sustainability through fees paid for their market research, consulting, and seminar services. Two expatriate consultants are stationed in Kiev and travel to provide technical assistance to the BSCs on the delivery of services to their clients. The expatriate consultants are paired with a local staff consultant. The market research specialist is in especially high demand. Although the income to the BSCs from the IFC is fixed in advance, IFC will pay the salaries of the staff fully during the life of the project. The subsidization of client fees, however, will diminish over the life of the project, from 40% to 15%, to provide an incentive to the BSC to increase its revenues from fees. Although the IFC project is similar to NewBizNet, it differs in one significant aspect--it creates the BSCs from scratch. There is informal cooperation with NewBizNet, but they are in separate regions. The IFC BSCs have used some Alliance volunteers, e.g., ESC has provided two volunteers to assist the Zhitomir BSC and another to help the Dniprpetrovsk BSC in designing a curriculum and materials for new training courses.

3. WOCCU/Ukrainian National Association of Savings and Credit Unions

There is an active credit union movement in Ukraine, with some 200 credit unions created, of which 100 are active. The Ukrainian National Association of Savings and Credit Unions has 58 members at present, with another 20 soon to join. Its members have \$1.5 million in assets and have provided \$1 million in loans over the past four years. Approximately 30 out of the present 58 members provide loans to SMEs, typically loans ranging from \$5,000 to \$15,000. The Association has been assisted by the World Council of Credit Unions (WOCCU) in providing training to its members. Most of its members are small or micro-enterprises and there has been no cooperation with the Alliance.

4. KPMG/BARENTS: Regulatory Reform Project

The technical advisor for this project is working with the Ukrainian Government to improve the commercial environment in business registration, licensing, financial resources, investment activities, labor mobility, municipal real estate, international trade, and tax rules. This involves working with a close advisor to the President as well as others. IFC and DAI also have plans to work with this project on SME-related issues. Progress in providing transparency and clarification of regulations affecting SMEs is, of course, extremely important to their development and growth.

5. Western IS Enterprise Fund

The Western IS Enterprise Fund (WestNIS) recently introduced a new small loan program for grant dollar denominated loans of \$10,000 - \$100,000. These are for a maximum of two years, with interest at 25% per annum, and may be used for either working capital or fixed asset purchases. The

focus of the program is production and service companies (but not trading businesses). At present there are some 50 - 60 loans outstanding for a total of about \$1.2 million. The average original loan amount is typically \$30,000. Loans are granted directly by WestNIS. Thus, bank development is not a focus of the program. There is no crossover to the Fund's investment program, and many of the loans are made to startup businesses.

The program is staffed by eight account managers/loan officers, and support staff. While the executive director of the program is an American with lending experience, all of the account managers are local, including some who have had U.S. business training. The program does not provide formal training for staff, but relies on on-the-job training. At present loans are granted within the 200-kilometer radius each of Kiev and Lviv, and an office will be opening in Kharkiv shortly. The program relies on word of mouth and presentations to get publicize the product, and staff regularly check with the new companies business registration office. The program does not appear to network with any of the business assistance centers even though WestNIS shares office space with the Lviv BSC.

III. CROSS-CUTTING ISSUES

A. Core Program Support

The major thrust of the Mission's program of support for the SME sector is aimed at providing assistance at the macroeconomic level. The Mission views the need to create a legal and regulatory framework that allows and encourages the development and growth of the private sector as the principal focus of its activities. It is working with the Government of Ukraine to create a free market, commercial environment through changes in tax, regulatory, and other legal statutes. Without such changes SMEs will continue to face substantial obstacles to their growth. The Mission has chosen to utilize long-term contractors as the primary vehicle for this assistance, but it would also like to see the Alliance provide short-term volunteers with expertise germane to these issues. So far such Alliance participation has been limited to a small number of volunteers in areas more closely allied to its traditional fields of assistance, such as accounting expertise, real estate, capital markets, etc. There may be other opportunities, but perhaps not on the scale originally envisaged.

One area in which there is considerable potential for closer collaboration between the Alliance and what the Mission perceives as its core program is in Alliance support to the NewBizNet program. Except for the placement of long term volunteers from the MBA Enterprise Corps, this cooperation to date has been limited. MBA Enterprise Corps volunteers appear to be well appreciated by both DAI headquarters staff in Kiev as well as by Intmar in Odessa. Training or even seminars provided by Alliance short-term volunteers on assignment to client firms could be helpful in extending this cooperation. Another possibility not yet explored is the pairing of volunteers with BSC consultants in providing assistance to BSC client firms, such as is currently being done in Poland.

Another area where the Alliance has the potential to provide greater support is in the area of strengthening associations and similar business support organizations. While associations can provide some of the same services as the BSCs, such as training opportunities and information networks, they can also serve to articulate the needs of their members and increase the weight of the voice of the SMEs with regard to Government actions affecting them. There may be some future opportunities for volunteers with association experience to assist associations with a clear potential to play these roles, especially as the market economy and the SME sector in Ukraine mature.

B. USAID Management

The Mission has some very good tools for delivering support to the SME sector in Ukraine. These tools, or programs, address various aspects of the problems facing the development and growth of SMEs in Ukraine. Each of these tools appears to be functioning well within its own main sphere of activity. What is not yet occurring to the extent desirable is the interaction between the major programs and their implementers. It is understandable that the Mission, which has up to the present been faced with major problems of under-staffing, has not been able to take action to correct this. However, since it will soon achieve a significant increase in its personnel resources, the Mission now has the opportunity to prod the players to reach a new level of collaboration and enhance the impact of all three approaches on the SME sector. A clear vision of the possibilities and the means to achieve them provided by Mission leadership could assist the service providers to meet this challenge.

C. Management within the Alliance

The Alliance appears to be functioning well, with a high level of cooperation between its members. The fact that each member has a clear niche and understanding of its role undoubtedly facilitates this result. A key to its smooth functioning is the role of the Chief of Party (COP) and finding the right person to fill this role. The Alliance was fortunate in the choice of the first COP, who worked hard to make sure that there was internal cohesion and close collaboration with the Mission. The present Chief of Party also appears to be successful in that role. The biweekly conference calls with all of the head offices participating also contributes to the internal cohesion of the Alliance. The challenges facing the Alliance are to increase its capacity to take on non-traditional assignments, such as technical assistance to BSCs and associations and to pair its volunteers with Ukrainian consultants. This will require that all of its members be fully committed to this change.

D. DAI and the Management of NewBizNet

The management of the NewBizNet project has been plagued by changes in personnel, as well as challenged by some fundamental changes in approach. The recent extension includes the challenge of adding additional BSCs to the network and assisting them with fewer personnel resources than in the past. But the management of the project now appears solid. They are now experienced in the early phases of strengthening BSCs. They should be quite open to some of the opportunities for enhancing impact and meeting the changing needs of their present BSCs which have been outlined above. The new contract foresees a new sphere of activity for DAI in the role of influencing the policy, regulatory and legal environment for SMEs. Since it appears that the IFC and KPMG/BARENTS are presently engaged in similar work, DAI management will also be challenged to find room for effective collaboration in this sphere as well.

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