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NOVOKUZNESK BUSINESS CENTER **Capacity to be Self-Supporting** **and Assistance Provided Through Incubator** **and Matchmaking Program**

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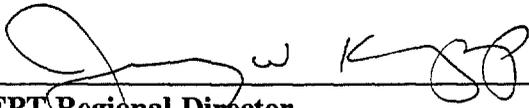


**Environmental Policy and Technology
Project Regional Field Office / Moscow**

(Managed by CH2M HILL)

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EPT Regional Director

10 September 1997
Date

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NOVOKUZNETSK BUSINESS CENTER
Capacity to be Self-Supporting
and
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This report describes how the Not-for-Profit Foundation "Center for Business Development" has carried out its mission in the city of Novokuznetsk during its two years of USAID-funded operation, its capacity to become self-supporting, and what assistance it has provided to the community through its incubator and matchmaking programs.

MISSION

The "Center for Business Development," hereinafter referred to as the "Business Center," was established as part of the Environmental Policy and Technology (EPT) Project with initial funding provided by USAID. On December 17, 1995, the Business Center was registered as a non-governmental not-for-profit organization. The Business Center Program was designed to promote and support the development of new market-oriented and environmentally beneficial small and medium-sized businesses as an alternative to the existing hazardous and polluting heavy industries. The Business Center program was established at a critical time in Novokuznetsk's development, as the emergence of a market economy requires existing large companies to adjust to international competition in order to survive. The potential consequences of such change include large-scale displacement of workers and social disturbance.

The mission of the Business Center is to promote sustainable economic development and improve the environment in the region by facilitating the start-up and development of small and medium-sized businesses through:

- training programs
- consultations and information services
- creation of a business incubator
- matchmaking in Russia and abroad
- developing public awareness of the need for entrepreneurship
- increasing environmental education and awareness

A study conducted by Business Center specialists demonstrates that demand for these services is significant in the City of Novokuznetsk. In the absence of comparable business center services in Novokuznetsk and even in Kemerovo oblast, the Center occupies a unique market niche. It alone offers comprehensive support such as training, consulting, counseling, and informational support to start-up entrepreneurs and small and medium-sized businesses.

ORGANIZATION, MANAGEMENT, AND STAFFING

The structure and management of the Business Center has gone through a series of adjustments since it was established. From May to September 1996, a Management Board consisting of three Russians from Novokuznetsk provided overall direction and guidance to the Business Center. In September 1996, the Management Board was abolished and its functions were assumed by the Board of Founders. At the present time, the Board of Founders continues to provide overall direction and guidance to the Business Center. The following organizations were Founders of the Business Center:

1. CH2M HILL International Services, Inc (USA), an international environmental consulting company (represented by Jerry Knapp)
2. The Novokuznetsk City Office of Federal Employment Service (represented by Alla Semenova)
3. City Foundation of Small Business Support (represented by Nickolai Chizh)

In August 1997, CH2M Hill International Services withdrew as a Founder, turning these responsibilities over to the Russian Founders.

After the Business Center was registered as an independent Russian legal entity in December 1995, the EPT Project became a client as well as a Founder. The Business Center provided services to EPT through a series of three-month contracts for training, counseling, and other assistance to start-up and environmental businesses and individuals (mostly unemployed). The last contract for these services was in August 1997, since EPT activities in Novokuznetsk had to be closed out by 27 September 1997. It is anticipated that the Business Center will continue to provide business support services to the Novokuznetsk community through a contract with the Federal Employment Service and the fees they generate from other clients.

Key staff positions at the Business Center include:

- General Director
- Business Consultant
- Consulting Manager
- Training Advisor
- Resource Center Manager
- Training Assistant

The EPT Project sponsored a five-week training course in the US in Business Center operations for 5 members of the Business Center staff.

FUNCTIONS PERFORMED

Training

The Business Center's training program is designed to provide assistance and guidance to start-up businesses in selecting or changing lines of business and in acquiring the professional skills and knowledge essential for productive business undertakings.

Services

The Business Center training and support staff perform the following functions:

- Develop curriculums, programs, and schedules of short business training seminars, courses, and workshops, including hand-out training materials. Areas include entrepreneurship, business technologies, and basic principles for start-up businesses
- Participate in and arrange round table discussions and conferences on issues relevant to the promotion of small business
- Maintain and utilize a database of high quality specialists, experts, trainers, and consultants in various business matters
- Render services to the unemployed in accordance with an agreement with the Novokuznetsk Federal Employment Service.

Accomplishments

Since its inception, Business Center experts have developed curriculums and conducted 114 workshops in which 1,823 persons were trained. A total of 930 packages of hand-out training materials have been prepared. The workshops covered the following topics:

1. How to Start Your Own Business
2. Legal Aspects of Entrepreneurship
3. Environmental Information and Telecommunications
4. Environmental Organization Development and Management
5. Environment and Business
6. Environment and Business--Waste Utilization
7. Environment and Business--Legal Aspects
8. Sources of Information on Legalization in the Sphere of the Environment
9. Recent Practice of Foreign Economic Activity State Regulations in the Russian Federation
10. Accounting for Start-up Businesses
11. Psychological Aspects of Business Communication
12. Conflict Resolution
13. Legal Protection and Commercialization of Scientific Products
14. Business Planning and Evaluation
15. Business Planning for Small and Medium-Sized Businesses
16. Sources of Environmental Regulatory Information
17. Company Financial Policy
18. Basics of Marketing
19. Basics of Advertising
20. Public Relations
21. Technology of Presentations and Psychological Aspects of Defending Business Plans
22. Structure of a Business Plan
23. Business Communication
24. Working with Banks for Beginning Entrepreneurs
25. Regulations for Foreign Economic Activities
26. Finance and Analysis of an Enterprise's Financial Status
27. Management Basics
28. Business Correspondence in English
29. Administrative Technologies in Management

Future Opportunities

- At present, the Business Center is investigating the possibility of arranging correspondence courses through the Moscow Statistical Institute. This opportunity would give Novokuznetsk residents access to additional higher education that could lead to a second specialty and a growth in professional opportunity.
- Marketing studies conducted by Business Center experts have revealed a strong interest in learning about the Internet. The Business Center has designed a new training course on "How to Use the Internet," which will be offered during Fall 1997.
- A Technical Environmental Training Center at the Siberian Mining and Metallurgical Academy (SMMA), established with assistance from the EPT Project, will complement Business Center training seminars by offering courses in the following areas: environmental industrial audit techniques, visible emissions observation, procedures of

hydraulic modeling, and drinking water database management.

Counseling

Business Center counselors, and experts contracted by the Business Center, provide counseling and consultations on specific business issues on an as-needed basis.

Counseling for beginning entrepreneurs and start-up businesses is provided by the Business Center's professional staff. Ordinarily, counseling is given to individuals who have participated in the Business Center's training workshops. If appropriate, they are also referred to other specific Business Center services, such as consulting or the Resource Center.

Consulting services on specific problems requiring extensive study and research are often subcontracted to an outside provider.

Services

The Business Center provides the following services:

- Counseling on general issues of establishing a new business, including assessment of business ideas, assistance in the selection of entrepreneurial activity and the appropriate legal form of the proposed company, and selection of potential founders
- Assistance in developing a business plan and proposals for prospective investors
- Comprehensive consulting: guiding the client through the process of developing a viable business and/or turning a company into a cost-effective enterprise
- Developing a turn-key product for clients, including business plans, assessment of commercial value or opportunities, contracts, estimates, market studies, policy, credit history checks, etc.
- Business plan writing and evaluation
- Feasibility study writing and evaluation
- Marketing research
- Analyses of financial viability of various businesses
- Consultations on personnel management and advertising
- Matchmaking and assistance in arranging financing

Accomplishments

- Since January 1996, the Business Center has provided 585 in-house and subcontracted consultations to the Novokuznetsk business community (336 for start-up businesses and 249 for existing businesses).

SUBJECTS OF CONSULTATIONS	NUMBER OF CONSULTATIONS
1. How to start your business	115
2. Business planning	104
3. Accounting	170
4. Legal matters	63
5. Marketing research	13
6. Other	<u>120</u>
Total	585

- In 1996, the Business Center provided assistance in starting up the Russian companies NECCO and EcoUgol. They will provide full energy services to the Novokuznetsk region. The Business Center provided assistance in preparing business plans and with consultations in establishing these independent companies.

- Several study tours were sponsored for Russian specialists to provide them with an opportunity to visit US organizations and establish a network of contacts and business relationships. For example, in July 1995, a study tour to Pittsburgh, PA, was organized for a group of six engineers from Novokuznetsk. A meeting was arranged for the Novokuznetsk delegation with representatives of the US energy service company ESCo, which was already doing business in Russia. The meeting and discussions between Russian and American specialists resulted in an agreement for mutual cooperation in the future.
- Another example of successful matchmaking is the relationship established with Control Techtronics International (CTI), a US company that supplies environmental equipment. Last year a representation agreement was signed between CTI and the Novokuznetsk energy company NECCO. The Russian company installs equipment imported by CTI and sells similar installations at other boiler houses.
- Managers of the Novokuznetsk Vodokanal and the Sanitary Epidemiological Service (SES) were sent to the US to visit water treatment plants, where they had several meetings with their American counterparts. In 1997, assistance was provided to Vodokanal in setting up a consulting company to assist other Vodokanals in replicating the lessons learned from the EPT Project in other regions.
- Personal contacts were made with banks and other potential sources of financing, including EBRD, Russian-American Enterprise Fund, The World Bank, REFORMUGOL, OPIC, and others.
- Letters were sent to 85 international lending and donor organizations to request descriptions of their programs and expressions of interest in Novokuznetsk projects. Responses were received from 29 organizations and this information was added to a computerized database and file containing profiles and contact information for 99 international funding sources. These database and files were made available for use by the Resource Center, business consultants, and clients of the Business Center.

Future Opportunities

Economic restructuring of the Kemerovo coal region has begun relatively recently. The Russian Government, The World Bank, and donor organizations have pledged funds to continue restructuring the coal industry. This will create demand for counseling and consulting services that can be provided by an organization like the Business Center. There are also opportunities to provide consulting services for larger companies who are restructuring or starting up new businesses in Novokuznetsk and the Kemerovo region.

Resource Center

The Resource Center provides information and office support to the professional staff of the Business Center and to its clients

Services

Specific Resource Center services include.

- Providing access to training and reference materials on business planning, law, regulations, economy, taxation, finance, foreign trade, export and import, manufacturers and suppliers, marketing, management, and other business-related material in printed and computer form

- Providing access to databases on the world's informational highways, including Internet
- Providing statistical data and analysis
- Providing office support and communication services, such as:
 - typing, copying, printing, scanning, formatting documents
 - desk-top publishing services
 - e-mail and fax communication services
 - computer usage
 - translation services
 - secretarial services
- Publishing information and materials of a promotional and marketing nature, including the Business Center newsletter, brochures, and advertisements.

Accomplishments

- During the period from January to May 1997 (5 months), the Resource Center provided the following technical services:

Service	Quantity	Revenues January-May 1997 (Rbl)
Printing	32	11,432,330
Photocopying	56	2,518,216
Faxing	19	960,280
Mock-up development	24	1,045,200
Development of presentations	6	868,000
E-mailing services	12	1,758,180
Binding	18	562,000
Training on how to use office equipment	3	300,000
Typing	14	262,100
Laser printing	<u>18</u>	<u>397,500</u>
Total	202	20,103,806

- As part of the matchmaking program, the Resource Center has introduced clients to appropriate contacts and assisted those clients with necessary administrative and logistical support, and counseling assistance. It has developed a database of businesses in the Russian Federation, to which any client of the Business Center may have access. Another database for potential sources of finance was developed and is available now for the clients of the Business Center. From January 1996 to May 1997, the Resource Center provided the following matchmaking services:

Description of Service	Number of Clients Served	Revenues (Rbl)	Comments
Identified addresses of suppliers and producers	57	456,000	Clients included 39 Russian producers 13 European and 5 American
Business correspondence	4	280,000	<ul style="list-style-type: none"> • TransSibNefit, Afton Pums and US Electrical Motors (re electric equipment supplies) • Correspondence between Sibdalmuniye and Enorm-Schmidt GmbH (re product marketing) • for Energopromtekhsnab (re furniture supplies) • for Raduga (re technology to reduce production cost of audiocassettes)
Assistance in maintaining communication (communication and translator's services)	29	897,000	
Assistance in contract negotiations	1	450,000	Developed a contract between "Michelle" (stylish clothing store) and Siegbert Hartmann
Matchmaking using electronic commercial databases (published offers of city companies, provided information about required goods and services, including price lists, terms of supplies, and addresses of suppliers)	13 offers from city companies	1,080,000	<p>The offered goods included rolled metal, food products, warehouses, coal</p> <p>Demand for equipment for meat processing industries, furniture, agricultural products</p>

- The Resource Center designed and set up a stand exhibiting materials about the work performed by the Business Center and EPT Projects
- A proposal was prepared to publish the "Small Business" bulletin jointly with the Federal Employment Service of Novokuznetsk.
- A recruiting agency for unemployed workers is being established at the Business Center. The Resource Center has developed a database of potential clients and companies who may have job openings.

Future Opportunities

The Resource Center has become a substantial source of revenue for the Business Center. The services offered by the Resource Center meet the needs of both businesses and residents of Novokuznetsk. There is no other place in the city for small businesses and individuals to go and have documents typed, copied, translated, edited, or printed. The Resource Center is evolving into a profitable enterprise for the Business Center, providing services similar to those offered by Kinko's, Copytron, and other successful franchises in the U.S. Since the prices that the Resource Center charge are reasonable, growing numbers of people are asking the Resource Center for assistance.

Business Incubator

The Business Center has established a Business Mini-Incubator. The incubator will be expanded to house up to four small start-up businesses or representative offices of foreign companies. The professional staff of the Business Center provides priority assistance and support to these clients. For start-up companies, the incubator offers an additional advantage: a legal address at which to register their business, which is a prerequisite for establishing a company under Russian law. At present, one Moscow company has requested office space and incubator services. As more companies and firms become clients of the Mini-Incubator, this area of Business Center activity is expected to become a substantial additional source of revenue.

In addition to direct incubator services, a necessary part of the Business Center's mission to support the development of small business includes activities to increase public awareness about the need to restructure the local economy by encouraging entrepreneurship. Such activities include:

- Periodic articles on business topics in the local newspaper "Kuznetsky Rabochiy," and interviews on TV and local radio.
- Periodic roundtable discussions on small business development and the environment. Business Center representatives participated in a Regional Conference on Small Business Development in 1996 where a presentation about Business Center activities was made. In 1996, the Business Center arranged two roundtables with clients of the Federal Employment Service.
- Publication of a newsletter containing information about the Business Center's programs and business development activities. Newsletters about the Business Center were distributed among the many companies and enterprises operating in the City of Novokuznetsk.
- Participation in various business and environmental associations and NGOs. The Business Center is working in close cooperation with such well-known NGOs in Novokuznetsk as "EcopressClub" and Informational Ecological Agency (INECA). The Business Center has also participated in two KUZBASS Fairs.

CURRENT AND POTENTIAL CLIENTS

Since January 1996, the following companies were among the major clients of the Business Center: EPT Project, AO TransSibNeft, Novokuznetsk Federal Employment Service, Yuks-Sibprom-Komestra, Herbalife, Siberian State Mining and Metallurgy Academy, Niva-Plus, Siberian Sugar Company, AO Avtoremzavod, Novokuznetsk Affiliate of the Moscow Institute of Economics and Law, AOZT "NPI", Wonderful World Holidays, AO Kuznetskpromtorg, and Sibprom.

The Business Center plans to increase its efforts to attract new clients through a strong advertising campaign in the city and the region in late 1997.

EPT Project

The EPT Project has been a client of the Business Center for two years. As a Founder of the Business Center, the EPT Project, has provided office equipment and training for Business Center staff. As a client, the EPT Project has employed the services of the Business Center to assist in project implementation. Through its start-up period and initial operations, the Business Center was completely dependent upon EPT funding. Following its registration as an independent institution, the Business Center began to charge fees for training, counseling, consulting, and Resource Center services. These revenues were directed towards the further development of the Business Center and hiring of additional staff (e.g., an additional training consultant and business consultant was hired on a part-time basis). In order to maintain its effort to achieve financial self-sufficiency, the Business Center has continuously adjusted its fees for services toward true market value. Each year the Pricing Policy of the Business Center is reviewed and approved by the Board of Founders.

Federal Employment Service of the City of Novokuznetsk

The Federal Employment Service (FES) is a founder and a client of the Business Center. The initial effort of the FES to support Business Center establishment was a contribution of 250 million rubles for the renovation of the Business Center's office space. In June 1996, the Business Center signed a contract with the FES to provide training and consulting services for clients they referred to the Business Center. The total amount of the contract is about \$100,000.

Under an Agreement on Cooperation between the Business Center and the FES, a *Program of Training "Basics of Entrepreneurship and Business Planning"* has been developed. This program includes workshops (16 hours), individual counseling (4.5 hours per person), assistance to each individual in drafting a business plan, consultant reviews of each business plan, and public defense of the business plans (before a Commission that includes representatives from FES, Business Center, two commercial banks "Kuznetskbusinessbank and "Business-Service-Trust Bank", and the Foundation of Small Business Support).

Training is conducted in several stages with a complex of services:

1. The FES provides an unemployed person with a twelve-month subsidy to open his/her own business.
2. Initial testing of an unemployed person takes place at FES and subsequent psychological testing at the Business Center.
3. A group of 10-15 persons is sent for training to the Business Center
4. Training includes 8 workshops and lasts for 8 days.
5. Each individual receives consulting assistance over a period of 5 days.
6. The Business Center works with each individual over a period of 4 days to prepare a draft business plan and a printed version.
7. Business Center experts review the business plans
8. The Business Center presents the workshop "Public Presentation of Business Plans" during which participants learn methodologies of business plan presentation.
9. A public presentation of the business plans takes place.
10. The Commission comes to a decision on whether to provide each participant with an additional subsidy.

By July 14, 1997 four groups of unemployed people were trained under this Program. The Federal Employment Service has expressed its satisfaction with the results of services provided by the Business Center and is extremely interested to continue joint programs in the future.

City of Novokuznetsk

The City Administration provided the Business Center with office space at a low rent of \$100 per month for 220 square meters for the past year. Recently, as an indication of the importance of the Business Center to the City, the newly elected mayor of Novokuznetsk, Mr. Martin, agreed to provide the office space at no charge. He also has announced plans to start a new program of small business development in the City and has expressed his expectation that the Business Center will be very useful in this regard. Because of the experience of Business Center experts in assisting companies and entrepreneurs to write business plans, the City has invited the Business Center to participate in its new Project for Small Business Development. As a result, the City is expected to become a client of the Business Center in the near future.

ReformUgol/The World Bank

In 1996, The World Bank provided a \$500 million loan to the Russian Federation to restructure the coal industry. This coal program is administered in part by an entity created by The World Bank called ReformUgol. The loan will have a significant impact on Novokuznetsk and the surrounding Kuzbass region, the largest coal mining area in Russia. Discussions were held with representatives of ReformUgol regarding the use of World Bank funds to establish a credit program for community development at the Novokuznetsk Business Center. The ReformUgol representatives were favorably impressed by the infrastructure provided by the Business Center and expressed an interest in making funding (\$200,000) available to establish a revolving fund credit program in Novokuznetsk. A credit program model description and proposal was prepared and submitted to ReformUgol. A response to the proposal is expected in October 1997.

ROLL Program

The Replication of Lessons Learned (ROLL) Program is designed as a mechanism for replicating and disseminating the successes of the Russian/American demonstration programs initiated under the EPT Project. It is funded by the U.S. Agency for International Development (USAID). The ROLL Program is a potential source of funding for replicating lessons learned in the EPT demonstration programs conducted in Novokuznetsk and through the services provided by the Business Center. Business Center representatives have attended ROLL conferences and are actively seeking a grant from this program.

City Foundation for Small Business Support

In January 1997, the Novokuznetsk City Foundation for Small Business Support became a Founder of the Business Center. This Foundation was established to serve as a clearing house for financial assistance from the Russian federal budget for the development of small and medium-sized businesses. It is expected that the services of the Business Center will be used in providing this assistance.

Other Potential Clients/Donors

Recognizing the importance of establishing a credit line to small businesses as a service of the Business Center, preliminary negotiations have been held with Kuzbassotsbank of Novokuznetsk. The Director of Kuzbassotsbank has indicated an interest in this proposal and agreed to serve on the Board of Trustees of the Business Center.

The Business Center continues its efforts to identify additional potential clients and donors. To this end, it has submitted applications to 26 different foundations, from which 5 responses have been received to date, including indications of interest from the Rockefeller Brothers Fund and the Charles Stewart Mott Foundation.

POTENTIAL FOR SUSTAINABILITY

The potential for sustainability of the Novokuznetsk Business Center as EPT funding ends is very good. The City of Novokuznetsk is providing office space free of rent. The Federal Employment Service has paid for the renovation of this space and has become a major client. As a Founder of the Business Center, the Federal Employment Service also has assumed a leadership role in providing policy and management guidance to the Business Center. The office equipment necessary to perform the Business Center services has been donated by EPT/USAID. More importantly, the EPT Project has provided the vision and training necessary for the successful start-up of the Business Center. Thus, the essential ingredients and major costs of establishing the Business Center are covered. The remaining substantial

cost of operating the Business Center is the salaries of the staff. To be sustainable, it will be necessary to generate enough revenues from services or grants to cover salary costs. The prospects of this happening are good, based on the revenues anticipated from current and potential clients.

As the EPT Project withdrew as a Founder and client, the Business Center began undergoing a process of reorganization, which will refocus its efforts toward concerns of employment and business creation under the guidance of the Federal Employment Service. The practical effect will be a redirection of resources to support training programs for the unemployed and for start-up businesses. The interests of the City Administration, Russian Federal Government, and ReformUgol/The World Bank also will tend to draw the demand for Business Center services in this direction.

In summary, there are several upcoming opportunities for the Business Center to attract new clients and expand its services. As mentioned above, in order to implement the City's program of Small Business Development Support, it is anticipated that the City Administration will also become a client of the Business Center and will use the Business Center's services to prepare business plans and provide training for entrepreneurs. In addition, the first tranche of World Bank funding intended for the creation of a business incubator in the Kemerovo Region is expected to be distributed through the Federal Employment Service of Novokuznetsk in the fall of 1997. A decision about the second tranche of that funding, to be directed towards community development, also is expected to be made by "REFORMUGOL" in late 1997. The Business Center will be a strong contender for some of that funding because of its proven ability to provide the training and business development services required to implement the coal sector restructuring programs. Finally, strong support from the City and Kemerovo oblast administration will assist the Business Center in establishing a credit-line with "Kuzbassotsbank."

CONCLUSION

It is evident that the Business Center has become an integral part of the business community in the City of Novokuznetsk. No other business center on the territory of the Russian Federation has established a client relationship with the Federal Employment Service, nor has any other business center received such strong support from a local City Administration. The Novokuznetsk City Administration and Federal Employment Service, on the one hand, and the Novokuznetsk business community, on the other, have strong incentives to support the Novokuznetsk Business Center and the services it currently provides. The main mission of the Business Center--to promote sustainable, environmentally friendly, economic development in the region--will continue to be its focus. The Business Center is in a strong position to meet this need.