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**MOROZOV PROJECT: FINAL PERFORMANCE REPORT**  
*State University of New York Research Foundation/  
 Academy of Management and the Market  
 USAID Grant No. 110-0005-G-00-4031-00*

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**MOROZOV PROJECT: FINAL PERFORMANCE REPORT**

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| <b>Date of Report:</b>                      | May 29, 1998   |
| <b>Project Name:</b>                        | Morozov Project  |
| <b>Contractor/Grantee:</b>                  | State University of New York Research Foundation/Academy of Management and the Market  |
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| <b>Reporting Period:</b>                    | July 1, 1994 to April 30, 1998   |
| <b>Regions where you operate:</b>           | Over 60 regions of Russian Federation (67 Business Training Centers & Business Support Centers)  |
| <b>Persons Responsible for this Report:</b> | <ul style="list-style-type: none"> <li>• Anne Chetwynd, Project Director, Morozov Project, State University of New York Research Foundation</li> <li>• Miroslav Nikoruk, Co-Project Director, Morozov Project and Rector, Academy of Management and the Market</li> <li>• Halida Khusainova, Director of International Programs Centre, Academy of Management and the Market</li> <li>• Karen Glenski, Fiscal Director, Morozov Project, State University of New York Research Foundation</li> </ul> |

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## 1. Background

The Academy of Management and the Market (AMM) was established in December, 1991 as a voluntary not-for-profit association (scientific and training organization) of leading researchers and specialists in a market economy and main promoters of management and entrepreneurship in Russia.

The AMM founders are leading economic academies in Moscow and St. Petersburg: the Russian Economic Academy named after G. V. Plekhanov, Financial Academy under the Government of the Russian Federation, State Academy of Management named after Sergo Ordjonikidze, Russia Academy of State Service under the Government of the Russian Federation, St. Petersburg University of Economics and Finance, Moscow University of Economics, Statistics, and Informatics, and Institute of Youth. From the very first days of AMM's creation, Russian business and industrial circles have been supporting and taking an active part in the AMM's activities. Among the AMM co-founders there are a number of the largest commercial banks, stock exchanges, corporations, joint-stock companies, and production associations.

The main goal of AMM activities is to accumulate the intellectual power of higher education, gather economic expertise and use the capacity of federal and local authorities. Additionally, AMM has utilized the expertise of banks, financial and industrial groups, joint-stock companies, and corporations interested in creating a civilized market, turning the national economy around and ensuring its stable development.

One of the priorities of the AMM activities is the implementation of the Morozov Project - a large-scale program to organize comprehensive support of business in Russia and training personnel for a sustainable market economy.

The Morozov Project is a Russian initiative, primarily supported by the United States Agency for International Development (USAID). The Morozov Project is also actively supported by the European Bank for Reconstruction and Development (EBRD), the World Bank, other international organizations, and numerous Russian and foreign researchers and specialists.

*The Morozov Project mission and goals were formulated in 1992, when in Russia there was no clear understanding of how market mechanisms should be created and function.* The infrastructure of small business support was in an embryonic stage at that time. The role of entrepreneurship in the development of market mechanisms was not understood at either the federal or regional levels.

The goals of the Morozov Project were attained through establishing and developing a network of business training centers and business-incubators in the regions of Russia. These business centers have sufficient human and material resources to effectively train specialists and managers for a market economy, to provide consulting support to businesses, and to facilitate attraction of investors.

## **2. Mission & Strategic Tasks over Life of Project**

The mission of the Morozov Project is to foster the development of a market economy, entrepreneurship and private sector in Russia. The strategic tasks are to implement a large-scale program of personnel training for a market economy and to provide comprehensive support of entrepreneurship and small business in the regions of Russia.

### **Strategic task 1. To create a network of regional business training centers**

To create a network of regional business training centers including up to 60 Business Training Centers/Support Centers (BTC/SC). Provide organizational, personnel and scientific and methodological support of their prestige among entrepreneurs and authorities of the regions. Provide them with updated curricula and training programs, manuals of a new generation, training textbooks and methodological materials which were developed by the Academy of Management and the Market (AMM) and Morozov Project founders - schools of higher education which are up to international standards.

### **Strategic task 2. To train a "critical mass" of private initiative-oriented entrepreneurs and managers**

To train a "critical mass" of private initiative-oriented entrepreneurs and managers (up to 250,000 persons), who would be able to efficiently work under conditions of a developing market economy and secure irreversibility of economic reforms in Russia. In order to accomplish this, the Morozov Project had to train up to 6,000 trainers and consultants of regional BTCs. The training is provided within the whole range of market economy subjects and based on specially developed training programs and up-to-date educational techniques.

### **Strategic task 3. To create a system of comprehensive support of small business in the regions of Russia**

In co-operation with partner organizations and authorities to create a system of comprehensive support of small business in the regions of Russia which would include personnel training, business-consulting, business-incubation, and technical, financial and information support.

### **Strategic task 4. To develop a mechanism of investments attraction to the sphere of small and medium business**

To take part in designing and implementing a national program of active investment policy. To develop and implement a mechanism to attract investments in the sphere of small and medium business which would cover all stages of entrepreneurial projects promotion - from the selection of most promising ones to the financing and assistance in management. This will make it possible to attract resources to finance 100 projects per year within the framework of the Morozov Project network.

### **Strategic task 5. Capacity Building of the Academy of Management and the Market**

To build the capacity of AMM to receive and administer U.S. government funding directly.

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### 3. Performance To Date

#### Result 1. A network of regional business training centers

The Morozov Project has gone through the following stages of development:

- ⇒ Initial, incubation stage;
- ⇒ Search for resources and identification of strategic partners;
- ⇒ Consideration and selection on a competitive basis of organizations to participate in the Morozov Project and providing them with the status of regional business training centers or support centers.

In the course of the implementation of the Morozov Project the success of the current mechanism of establishment of business training centers has proven to be effective. This mechanism provides for selecting those teams of organizers, instructors, and consultants that are most prepared for and adapted to local conditions, upgrading their qualifications through using best Russian and international experience, and motivating them to collaborate at the intra- and interstate, regional, and industrial levels. **The strategic task to create jointly with local administrations and public organizations a network of Morozov regional centers covering all economic regions of Russia, has been fulfilled.**

At present in the regions of Russia there operate 67 BTC/SC and their 50 branches and departments in small towns. Because of a very active interest displayed by regional authorities the quantity of BTC/SC has exceeded the planned one. The geography of the Morozov Project presence includes 60 regions of the Russian Federation and is composed of the following economic regions:

|     | <b>Economic region</b> | <b>BTC</b> | <b>SC</b> |
|-----|------------------------|------------|-----------|
| 1.  | Northern               | 3          | 2         |
| 2.  | North-Western          | 2          |           |
| 3.  | Central                | 9          | 8         |
| 4.  | Volgo-Vyatsky          | 1          | 2         |
| 5.  | Central Chernozem      | 1          | 4         |
| 6.  | Povolzhsky             | 8          |           |
| 7.  | North Caucasian        | 2          | 4         |
| 8.  | Ural                   | 4          | 2         |
| 9.  | West Siberian          | 5          | 2         |
| 10. | East Siberian          | 4          | 2         |
| 11. | Far-Eastern            | 1          |           |
| 12. | Kaliningrad region     | 1          |           |
|     | <b>Total:</b>          | <b>41</b>  | <b>26</b> |

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Each BTC/SC has unique features and areas of specialization. Some are strong in training, others in consulting, some provide a wide range of services, and others are still in the start-up phase. For this reason, two separate types of organizations have evolved - those of a BTC and an SC. The BTC/SCs operate in various organizational forms and this has an impact on selecting a mechanism and policies of the project implementation in each of the regions and building the common network of business centers. In the course of development the components of this network enrich each other and the capabilities of the Morozov Project as a whole are increased. The Morozov Project has rendered assistance to all BTC/SCs throughout the life of the project by training their trainers and consultants, issuing relevant certificates for them, providing them with necessary software and methodological materials, as well as participant training abroad.

### **Sub-grants Initiative**

The Morozov Project also provided financial support in the early stages of the grant to the BTC's in the form of sub-grants. The sub-grants were awarded competitively to support the financial sustainability of the BTCs in amounts under \$25,000. Fifteen BTCs in Angarsk, Borovichi, Ekaterinburg, Ivanov, Kaliningrad, Nizhni Novgorod, Novocherkassk, Obninsk, Oryekhovo-Zuyevo, Petrozavodsk, Saratov, Tomsk, Tula, Vladimir, and Yaroslavl were ultimately selected to be recipients by a selection committee made up of Morozov staff. The sub-grants were closely monitored, budgets were strictly adhered to, and the sub-grants were successfully closed out. The BTCs were able to accelerate the development of services offered to their communities as a result. Many installed modern computer equipment which enabled them to link up with the Morozov information network.

### **Long Term Impact of Establishing the Network of BTCs**

During the project implementation the BTC/SCs developed their initial potential, acquired an appropriate reputation and became active components of the market infrastructure in the regions. As a result of this support, they not only successfully fulfilled the tasks assigned but also are self-financing, self-sustaining organizations. The on-going efforts of the Morozov Project headquarters made it possible to shape a team of organizers of training and consultants and create methodological resources for each BTC.

The results of the implementation of the Morozov Project throughout the regions show that the BTC/SCs' activities, aimed at providing a wide range of services and improving the quality of their services, expanding the area of their services and interacting with authorities, not only substantially facilitate development of small business support infrastructure but also have a positive impact on those who establish "rules of the game". The final result, on which the assessment of the BTC/SCs activities and the project as a whole is based, is a direct contribution to socio-economic development of the regions.

⇒ *There are hundreds of examples which demonstrate the BTC/SC impact in their regions and*

*how their businesses-clients are being strengthened. Specific cases are included in Target Tracker reports.*

## **Result 2. A "Critical Mass" of Private Initiative-Oriented Entrepreneurs and Managers.**

The "critical mass" is understood as the required and minimum sufficient number of specialists who would be able ensure coordinated and productive activities of able-bodied population of Russia on the basis of a market economy principles.

The main results as of April 30, 1998:

- ⇒ 54 innovative curricula in economics, management, and finance were developed by the Morozov Project and turned over to the BTC/SCs together with methodological materials to support them.
- ⇒ About 200,000 entrepreneurs, managers, bankers, employees of governmental organizations were trained within the Morozov Project network.
- ⇒ More than 45,000 people received consulting services in Morozov Project BTC/SCs.
- ⇒ About 6,000 instructors, consultants, coordinators of trainers, including about 2,000 higher school instructors were trained at 192 seminars under Morozov Project programs.
- ⇒ More than 1,500 representatives of local administrations received training in how to address the most critical problems of socio-economic development.
- ⇒ 229 trainers and consultants of BTC/SCs and managers from federal and regional governmental organizations were provided with internships at large educational institutions and companies in USA.

The Morozov Project training programs have the following features:

- program structure and content that meet the needs of market economy development in the regions;
- structural and logical patterns of the programs result in organized training courses that interconnect and interact in shaping professional knowledge;
- utilization of modern educational techniques, case study, business games, computer simulations and modeling;
- programs that are aimed at practice, combining theoretical and practical components;
- methods of distance learning supported by relevant methodological materials;
- system of improving the quality of programs implemented and control of the results of the training process.

The core of the training programs, carried out by the BTCs, has been short-term training courses

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(from 2 to 8 weeks) to prepare individuals for entrepreneurial and marketing activities. The training programs are targeted at entrepreneurs, managers and personnel of small businesses, unemployed who desire to start their own business, specialists of small business support infrastructure, including bank employees, experts in securities, market researchers, managers, and officials of governmental bodies. These programs include both training in theory and teaching practical skills. In addition, many BTCs provide long-term courses that would enable trainees to gain more profound knowledge of a subject and acquire better practical skills.

The effectiveness of the training of entrepreneurs can be demonstrated by the following example:

⇒ *Within one year after the training course “Basics of Entrepreneurial Activities” was held at the BTC in Tula, 48 out of 60 participants (divided into two groups), set up their own businesses and created 250 new jobs. According to the Federal Employment Agency the estimated cost of creation of a new job is \$1,000 (the estimate is based on the total amount paid in a year to one unemployed person registered with the Federal Employment Agency). In 1997 the new businesses transferred about \$700,000 in the form of tax payments to the government. The cost of training one person is only \$167. The economic gain to the community is \$950,000 (the tax revenue of \$700,000 plus savings from unemployment payments of 250 x \$1,000), while the cost to train is only \$10,020; the budget gain is 94 times higher than the expenses for training.*

What makes the Morozov Project efficient is its flexibility and ability to provide a rapid response to changing market conditions and consumer and employer needs. New programs, including those in corporate management, financial management, property evaluation, enterprise restructuring, and many others, were developed and are being actively used by the BTC. A system to train personnel in the skills needed for entrepreneurship was established. Contacts were established and strengthened with partners who have a great deal of experience in re-training military officers transferred to the reserve, preparing young people for entrepreneurial activities, and training managers of big enterprises.

Within the framework of the Federal Program to Support Small Business the Morozov Project held two **Competitions of training programs and methodological materials to prepare the population for entrepreneurial activities**. Both competitions aroused a strong interest in business education circles. **215** training programs and methodological manuals from **26** cities and towns of Russia were submitted for consideration.

Materials submitted were divided into four categories based upon their subject matter and the importance of the issues addressed:

1. *Programs of business training*
2. *Programs to train personnel of for-profit organizations*

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3. *Software, training and methodological materials*
4. *Programs of business training for innovative and high technology businesses*

The competition made it possible to evaluate the quality of methodological manuals developed in regional BTCs and to become more familiar with their experiences. The authors also benefited by establishing contacts with recognized specialists who reviewed and critiqued their material. The results of the competition were distributed at the **Conference “Methods and Practice of Entrepreneurial Activities”** (December, 1996). The book **“Entrepreneurial Training”**, which summarizes the results of the competition, was published. It contains information on methodological manuals, for which awards were given at the conference, and the best training programs.

Through continuous monitoring of regional needs the leadership of the Morozov Project developed the programs which have been in the greatest demand in the regions. At BTC Directors’ meetings a schedule of workshops and the main events for the next year were approved based upon input from the regions. According to individual plans of development of each region the participation quota for workshops was defined.

All training courses and programs within the Morozov Project enjoy great popularity in the regions. Complete information on the Morozov Project seminars and educational programs is contained in the reference books **“Training Personnel for a Market Economy (Morozov Programs)”** (Moscow, 1996) and **“Business Education: Programs and technologies of Morozov Project”** (Moscow, 1997).

The main focus of the Morozov Project and the single most important criterion for assessing the BTCs’ work is the level of knowledge gained by trainees.

***Results through April 30, 1998:***

|                        |                |
|------------------------|----------------|
| # new business created | <b>3,043</b>   |
| # new jobs created     | <b>13,437</b>  |
| # businesses sustained | <b>11,099</b>  |
| # jobs sustained       | <b>663,825</b> |

The Morozov Project methodology involves a transition from emphasis on quantitative indices of training of trainers to focusing on the individual which involves increasing the qualifications of each trainer, then motivating the trainer to use the acquired knowledge to train personnel for small business.

The Government of the Russian Federation in its Decree of 5 June 1997 approved the ***Program of Re-training and Employment*** of the retired or reserved military, and their families. This Program provided training of these individuals in their home regions. AMM and the Morozov

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Project BTCs participated in this program. For instance, the BTC in Voronezh retrained more than 400 former military personnel under the 4-month program (560 academic hours) in "Economics and Organization of Entrepreneurial Activities" and in "Management -- Business Security". The BTC in Ulyanovsk retrained 36 ex-military officers. The SC in Tambov is preparing an agreement with local military units on training and employment for retiring officers.

AMM together with its founding academies and the Morozov Project regional BTCs are currently carrying out the RF President's Decree "*On Management Training for Organizations of the National Economy of the RF*". In 25 regions of Russia, leaders of BTCs are serving on regional commissions which have considerable impact on fulfilling the provisions of the Decree. A number of regional educational institutions were assigned to train managers in their respective regions. In several regions, AMM contributed to establishing consortia to carry out this initiative. AMM joined the consortium "*Russian Economic Academy named after G. V. Plekhanov*" and in addition, the Morozov Project BTCs joined the consortium, "*Ural Manager*", with the Ural Polytechnic University.

### **Training in the U.S.**

In addition to the training taking place throughout Russia by trained Russians at the BTCs, the Morozov Project also undertook participant training in the U.S. All of the training was short-term, ranging from two to three weeks. Participants not only received classroom training, but also were able to witness first-hand the operations of relevant U.S. organizations and enterprises and interact with major players from that sector.

Two SUNY campuses, Cornell University and SUNY Morrisville, together with the University of Maryland at College Park trained 25 Russians in agribusiness, emphasizing food processing, handling, and distribution and input supplies. Participants were representatives of local governments and institutions and directors of firms and businesses from this industry sector. The participants interacted with over 20 businesses and worked in teams to prepare potential business plans relevant to their home regions in Russia.

The Foundation for Enterprise Development (FED) trained 15 Russians in business incubator management. The participants were able to visit business incubators in the U.S. The participants were all potential future directors of business incubators, most of whom succeeded in launching a business incubator in Russia after attending this seminar. For example, one of the key personnel of the Volkhov Business Incubator was a participant.

FED trained another group of 25 Russian Directors of BTCs on the US. business support system, the role of for-profit and not-for-profit economic development centers, financing small business start-up and growth, business management, and other topics.

FED trained two additional groups of 56 trainers in total, chosen from the BTCs, in how to effectively teach entrepreneurs to manage their businesses. The participants were given the opportunity to engage in short internships in leading U.S. businesses.

IBD trained 27 people in small business infrastructure development and how the regulatory,

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government-private sector initiatives, and regional promotion, as practiced in the U.S., could be applied in Russia.

IBD also provided training to 23 consultants from the BTCs on financial and investment management. Fifteen visits and presentations to investment firms, venture capital firms, government assistance program offices, small firms, and financial management services firms were included in the program as well as practical case exercises during the classroom portion of the program.

Price Waterhouse provided a training program to 28 consultants from the BTCs on the consulting process and related skills, business aspects of running a consulting firm, and developing business skills.

The International Resource Institute trained 30 governors and deputy governors from the Russian regions. The governors were able to observe the skills utilized by U.S. government officials on the federal, state, and local level to plan and implement economic development.

### **Publishing**

Course materials for the seminars that are most in demand are published for use by the BTCs, their clients, and the public at large. Training materials have been published on the following topics:

- Russian Case Studies
- Public Service: Mechanisms of Support for Entrepreneurship
- Methods of Real Estate Appraisal
- Psychology of Entrepreneurship
- Entrepreneurship and Small Business
- Market Research
- Personnel Management
- Financial Management
- How to Perfect Your Product: Production Management
- Entrepreneurship for the High Technology Sector
- Utilization of Active Methods of Instruction through Employer Preparation
- Entrepreneurship in the Tourism Industry
- Financial Management in Commercial Banking
- Financial Management in an Inflationary Environment

**Result 3. A System of Comprehensive Support of Small Business in the Regions of Russia.**

**Comprehensive support for small business is a priority of the Morozov Project.** In order to be effective, an infrastructure for small business support is necessary, not only to ensure training of personnel and consulting support but also to render assistance in establishing an enterprise, designing a business plan, providing an enterprise with necessary equipment, selecting areas of activities, and providing information support.

**The Morozov BTCs and SCs have been integrated into the common infrastructure of business support in the regions.** The relationships between participants in the Morozov Project with state organizations, regional and municipal authorities, public associations of entrepreneurs, and businesses have also been an important factor in ensuring success.

- The Morozov Project with its BTCs and SCs took an active role in preparing and conducting the **First All-Russian Congress of Small Business Representatives**. The Morozov Project was one of the main organizers of a panel discussion “**Training Personnel for Small Business**” held within the Congress. The recommendations of the panel were used as the basis of the resolution adopted by the Congress and were integral to the strategies for small business development which were set for the period ending in the year **2000**.
- On 25 July 1997 the Board of the CIS Interstate Economic Committee approved the Agreement between the Committee and the AMM on cooperation in the support and development of small business and investment activities. As a result of this Agreement, a Morozov Project BTC was established at the Commercial College in Bishkek. The Morozov Project and specific proposals regarding the implementation of the agreement were presented at the meeting of the CIS Consultative Council that took place in October 1997 in Minsk.
- The Academy of Management and the Market/Morozov Project established the following training institutions to support small business:

⇒ **Institute of Professional Valuation**

The privatization of Russian enterprises, development of mortgage crediting, stock market and insurance system all create a need for property assessment by specialists. Property assessment is necessary for a new taxation system which will meet the market economy requirements. It also affects federal and local budgets. Assessment activity contributes to the uniformity amongst Russian enterprises and banks and will improve the social and economic situation in the country. Therefore, in October 1996 the AMM/Morozov Project and Financial Academy under the Government of Russia established a new educational organization -- *Institute of Professional Valuation*.

⇒ **Institute of Entrepreneurship and Investments**

This private educational organization was established in November 1996 by the AMM/Morozov Project. The urgency of its creation was brought on by the expansion of the services offered to entrepreneurs by the Morozov Project: training and re-training in the field of business and investments; development, expertise and promotion of concrete investment projects and programs to investors; consulting on entrepreneurial and investment activities; provision of information services; and organization of exhibitions, etc. The Institute's activities are the following: education; research; consulting; establishment of a system of business investment support; contribution to the development of business support infrastructure; information and analytical activities, including the creation of databases on business and investments.

⇒ **Institute of Financial Management**

The objectives of this institute are to contribute to the establishment of a school of financial management in Russia which would utilize the most current Russian and foreign contributions to the field in its programs. The Institute provides training and professional retraining in the area of financial management to a wide variety of organizations such as banks, insurance companies, and investment houses, as well as to individuals such as scientists and pedagogues.

- USAID funding enabled AMM to compete successfully for outside funding, which also contributes to the sustainability of the Morozov Project. The AMM/Morozov Project together with the Plekhanov Economic Academy established the **Training Center of Information Technologies in Accounting, Audit And Finance (TCIT)**. To carry out this project a partially repayable grant in the amount of **\$350,000** was given by the World Bank through the Moscow Training Foundation. The TCIT concept and ideas on shaping team of specialists have been developed. The first software tools have already been designed. In particular, the electronic version of "Handbook to Develop Business Plans for Small Businesses". This software enables small enterprises to develop high quality investment projects at a moderate price which meet the requirements of Russian and foreign investors.

**Development of a Network of Morozov Project Consulting Groups and Firms:**

Business consulting is one of the priority areas of Morozov Project activities because it ensures a connection between knowledge acquired by entrepreneurs and real problems they encounter in their activities. It contributes to the further development of their businesses and assists them in becoming self-sustainable and profitable. Most Morozov Project BTCs offer professional assistance to entrepreneurs as well as managers and specialists of enterprises. The goal is for all to be capable of offering such services.

- In response to regional needs, a **Network of Morozov Project Consulting Groups and Firms** was created.
- An **Inter-regional Partnership "Business Consulting"** was established to systematically

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address a wide spectrum of problems faced by entrepreneurs. As a result of this consulting assistance, entrepreneurs are given the tools they need to successfully compete with other manufacturers of goods and providers of services and to ensure their survival under various conditions.

- **42** BTC/SCs already have consulting groups for small business support. The number of people who received practical consulting services is about **22,000**.
- **50** managers of BTC/SC consulting departments were trained, including **28** who were provided with internships at “Price Waterhouse” in the US;
- Consultants for the network of Morozov Project consulting groups and firms were trained in the following areas of consulting:
  - ✓ *strategic management;*
  - ✓ *corporate management;*
  - ✓ *marketing;*
  - ✓ *financial management;*
  - ✓ *development of business plans and investment projects;*
  - ✓ *accounting, taxation, and audit;*
  - ✓ *business and real property appraisal;*
  - ✓ *anti-crisis management;*
  - ✓ *personnel management;*
  - ✓ *psychological aspects of business; and*
  - ✓ *public relations and advertising.*
- Jointly with a consulting firm “Carana”, seminars on financial management for heads of BTC/SC consulting departments were conducted.
- A corporate workshop for consultants entitled “***Individual Activity of a Citizen***” was conducted by leading specialists of the BTC in Angarsk.
- A new area of activity called **technical consulting**, is now being developed, contributing to the sustainability of the Morozov Project. The Morozov Project central office recently completed arrangements for technical assistance to small, high technology businesses. “***Universal Methods for Solving Complex Technical Problems***” was requested by the Federal Fund to Support Development of Small Business in the Sphere of Research and Technology. Consulting at eight small high tech enterprises was conducted. The specialists of these enterprises who were trained at the seminar are now able to quickly and efficiently solve arising technical problems to improve the competitiveness of their manufactured goods - the production costs have been cut while the quality of goods has been improved. The profit earned by “Ghipsolit”, “Kenel”, “Magri”, “Composit”, “Bioprogressor”, “INBI” enterprises has been increased by 20-30% on average.

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- Professional assessors received training throughout the regions. The Institute of Professional Valuation, Federal Fund of Assessment, and Russian Society of Assessors worked with the Morozov Project to establish regional associations for professional assessors.

**Network Information Center**

The Network Information Center was designed to facilitate free market activities and reform at the local and regional levels by providing equal access to international and domestic sources of information, and by promoting interaction and cooperation between the regional centers. It is an essential component for Russia's engagement in the global economy. The Network Information Center provides the following services:

- Provide SMEs with equal access to domestic and international sources of information on current legislation, markets, suppliers, and potential partners to promote a level playing field;
- Facilitate the revision and the updating of training and methodological materials developed by the Morozov Project and used by the BTCs;
- Serve as a management and quality control tool for all of the Project's activities;
- Store and exchange educational, consulting, commercial, statistical, and other information among BTCs;
- Provide connection to global information networks via Internet;
- Provide an access to Morozov Project internal, proprietary, and third party databases;
- Facilitate communications and coordination between the central management office of the Morozov Project and the BTCs;
- Promote transparency in the information and training environment for SMEs; and
- Publish information on training, and consulting programs.

Prior to the installation of equipment in the Tula BTC, for instance, all Morozov Project training curricula had to be copied by hand. Now the Tula BTC is utilizing Morozov Project computer simulations and providing software to clients developing business plans for InvestProject.

The network consists of a Network Information Center in Moscow, six Information Centers located in the founding institutions of AMM, and Information Centers located in about 50 BTCs. Each BTC has e-mail connection. Twenty BTCs have access to the Internet. Seven BTC Information Centers were equipped with modern PCs and telecommunications hardware and software. Four centers (Krasnoyarsk, Perm, Samara, and Vladivostok) were equipped through EBRD financing and three centers (Tula, Voronezh, and Yekaterinburg) were equipped through USAID financing. Six Curricula Development Centers (CDCs) in the six AMM founding institutions were equipped by financing from USAID. The Morozov Project staff coordinated the equipping of the network after evaluating current BTC capabilities to prevent duplication. They

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“Leasing”.

**Business incubators**

The Morozov Project has provided support in the establishment of 14 business incubators. The business incubator development program “BINK” was initiated by the project in 1995 by launching a competition among regional organizations interested in starting a business incubator. During 1995 six selected organizations established business incubators with training, consulting, and methodological support from the Morozov Project. An additional eight business incubators were established in 1996-1997. All of the business incubators were created with the cooperation and support of local administrations, which provided space, financial, and in-kind contributions and made commitments to subsidize operations of the business incubators for the first three years. Local administrations project that the future tax revenue from small businesses created and sustained by the incubators will fully return the initial investment in the second three years of operations. Business incubators established through the “BINK” program are primarily low-tech due to current local demands.

The following is a list of the incubators where Morozov Project provided support:

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| <b>Incubator location</b> | <b>Tenants</b> | <b>Employees</b> |
|---------------------------|----------------|------------------|
| Borovichi                 | 6              | 80               |
| Bryansk                   | 6              | 45               |
| Irkutsk                   | 8              | 62               |
| Obninsk                   | 5              | 48               |
| Omsk                      | 4              | 32               |
| Penza                     | 5              | 51               |
| Perm                      | 6              | 58               |
| Petrozavodsk              | 6              | 44               |
| Rostov                    | 7              | 58               |
| Samara                    | 8              | 52               |
| Saratov                   | 6              | 71               |
| Tula                      | 6              | 49               |

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|              |           |            |
|--------------|-----------|------------|
| Ulyanovsk    | 8         | 58         |
| Voronezh     | 7         | 57         |
| <hr/>        |           |            |
| <b>Total</b> | <b>88</b> | <b>765</b> |

- **10** BTCs are working toward establishing their own business incubators in the near future. Some of these will focus on high-tech businesses. Several techno-parks and “virtual incubators” are also being planned.
- A not-for-profit partnership **National Association of Business Incubators** was established. Its members render help not only to incubated enterprises but also to each other. Eleven of the business incubators assisted by the Morozov Project network were among the NABI founders. The NABI have the following goals: to create conditions conducive to business incubator development in Russia, render assistance to the association members in their activities, develop business and partnership connections between business incubators, cooperate with similar organizations in other countries.
- The Morozov Project worked with the State Committee for Small Business Support and Development of the RF to implement the program “**Creation of a network of techno-parks, business-incubators, and small businesses production and technological centers**” for the years 1996-1997. As part of the program, the Morozov Project developed a mechanism of interaction between state organizations and business incubators and provided a model for business incubators development in the regions, and assisted in the preliminary stages to establish incubators in regions determined by the Russian government as a high priority.

**Support and development of high technology businesses**

- The Morozov Project joined with the Russian Financial Corporation to hold competitions of innovative investment projects, “**Venture-96**” and “**Venture-97**”, in the course of which prospective innovative small businesses were selected and various means to support them were implemented.
- In August, 1997 the Ministry of Science and Technologies of the Russian Federation and the Ministry of General Education of the Russian Federation made the decision to finance the project “**Establishment of a system of personnel training and retraining for work in the area of innovations and technologies**”. The AMM/Morozov Project was one of the contractors, contributing to its sustainability, conducting seminars on investment management and organizing a competition of training programs and methodological materials. The AMM/Morozov Project also assisted in setting up 12 high technology centers in the regions of Russia with the participation of Morozov Project BTCs in Ekaterinburg, Kazan, Nizhni Novgorod, Novossibirsk, Samara, Ulyanovsk, Yaroslavl, and other cities.

**Development of the Concept of Leasing**

- The Morozov Project sponsored a workshop together with the Russian Association of Leasing Companies and other partners on the issues and problems of leasing. There were 80 participants in the workshop including BTC consultants, representatives of regional administrations, and specialists from leasing companies.
- The BTCs in Bryansk, Saratov, and Ulyanovsk are establishing leasing companies.
- **A Support Leasing Company within the System of Business-Incubators of Youth** was established. Its founders include the Institute for Entrepreneurship and Investments, Russian Center for Facilitating Development of Entrepreneurship of Youth, State Committee for Youth of the RF, and a number of regional governmental bodies.

**Result 4. A Mechanism of Investments Attraction to Small and Medium Business.**

To ensure the efficiency of investment activities, leading Russian specialists and their foreign colleagues must be given the opportunity to exchange opinions on a regular basis. Also, the latest information on investment activities must be available. This helps create conditions that are favorable for the establishment of new contacts, conducting negotiations, and signing agreements on promotion of specific projects. The Morozov Project worked with the State Investment Corporation and other partner organizations to work out the **Comprehensive Program to Facilitate Investments**, which involves many initiatives such as training personnel, selecting prospective projects for investment, and rendering management assistance. Specific initiatives of the Comprehensive Program to Facilitate Investments are detailed below:

**Training**

A system of training of BTC/SC consultants, entrepreneurs, leading specialists of regional administrations for investment management and investment project development was created. About **1,000** people were trained.

**Consulting**

**963** business men and women received consulting services from the Morozov Project central office. As a result, the entrepreneurs learned how to develop and promote investment projects.

**InvestProject**

The InvestProject competition was started in 1995 and has been successfully implemented by the Morozov Project central office staff and the investment consultants trained by the project for the BTCs. BTCs collect and pre-screen business plans in the regions, assist in enhancing the business plans to meet international standards, and promote the best plans for investment. BTC consultants work with local banks and investment institutions (training and consulting) to facilitate small business lending. Plans that cannot be financed locally are sent to Moscow, where the Morozov Project investment committee reviews the plans and selects winners. The Morozov Project staff together with investment and banking experts then work with the winners, matching them with lenders and investors, facilitating the investment process. Upon the receipt of a loan, the Morozov Project and its BTCs provide consulting services to the recipient to assure sustainability of the business and to decrease the default rate for the financial institutions. Three all-Russian competitions "**Investproject-95**", "**Investproject-96**", and "**Investproject-97**" were conducted in which a total of **7,110** projects and business proposals were considered and **218** were selected, further developed to meet international standards, and financed. The financing ranged from \$1,000-\$2,000,000, with a total amount of about **\$ 20 million**.

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Examples of recipients of financing include a "Biomed" company, which received \$956,670 to expand its chemical engineering production. Financing was obtained with the direct participation of the Perm BTC. Another example is the city of Bratsk which raised \$32,143 to produce shutoff safety valves for chemical pipelines. "VIP", a private enterprise in Moscow, received \$4,000 to establish a trade and production outlet for foodstuffs. The financing was obtained from "Akropol" trading bank with the direct participation of the Morozov Project central office. Under the InvestProject initiative, the local BTC facilitated the financing of each project by designing the investment project business plan and providing consulting in all the stages of development and promotion of the investment project, including searching for potential investors and negotiating terms.

### **Agroproject**

A competition "**Agroproject**" was established by the Morozov Project, the International Agri-industrial Fund ("Inter-agrifund" joint-stock company), the State Investment Corporation ("Gosincor"), the "Inkombank", and regional administrations of the RF. The purpose of the competition is to attract Russian and foreign investors in the agribusiness sector of Russia with the backing of the Inter-agrifund security. 153 projects are already being considered by experts. Mainly, these are projects for processing of private or collective farms produce. There are also a number of projects on the production of semi-processed foodstuffs and prepared food as well as small farm machinery.

### **Conference**

The conference "**Investments in Russia: New Horizons**" (October 1996), conducted jointly with the Russian Financial Corporation, was a significant event among other investment forums and aroused the active interest of governmental authorities (former Prime-Minister Victor Chernomyrdin, Leader of Federal Assembly Federation Council Egor Stroyev, and Mayor of Moscow Yuri Luzhkov sent their messages of welcome to the conference).

### **Panel Discussion**

The Morozov Project, in partnership with "Mobile" information agency and the Ministry of Industry of the RF, conducted a panel discussion on the subject "**Objective information on bank activities and development of investments in Russia**" (December 1996). More than 40 managers from banks, subdivisions of the government, Presidential staff, and directors of large industrial enterprises took part in the discussion. A constructive exchange of opinions took place regarding the environment in which industrial enterprises operate in Russia are, the necessity of unifying the approach to developing investment projects, and methods of banking analysis.

### **Support for Consortium**

A consortium "**Business Project**" was established by the Morozov Project, the information

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agency "Mobile", the Ministry of Industry of the RF, and several business associations. The primary goal of the consortium is to render assistance to industrial enterprises of Russia in searching for investors and establishing and maintaining contacts with them. The Morozov Project provided methodological and consulting support to investment projects.

### **Workshops**

The Morozov Project, together with the Russian Financial Corporation, the International Incubator of Technologies, and the Federal Fund to Support Development of Small Business in the Sphere of Research and Technology conducted a series of workshops based upon the demands of researchers and technical specialists on **development and promotion of new ventures in the high technology sector**. Participant in the workshops presented a number of innovative projects on behalf of several small businesses, and some of the projects were further developed in the course of the workshops.

### **Manual on developing business plans**

In cooperation with the "**Pro-Invest-Consulting**" consulting firm, the methodology for developing business plans for investment projects was designed and published, in a manual entitled ***Investment Project Business Plan: Entrepreneur's Sketchbook for Business Plan Elaboration***. The manual provides detailed instructions on preparing investment projects according to investors' requirements. An electronic version of the manual was also developed. The availability of such valuable information in book form and on-line greatly increases its accessibility to entrepreneurs. There is a strong demand for this manual from entrepreneurs who develop business plans on their own, as well as from consulting firms and other organizations, in particular, regional foundations for business support.

### **Support for small business lending**

The Morozov Project cooperated with "Inkcombank" and the State Committee for Small Business Support and Development of the RF to develop an efficient mechanism of small businesses lending using EBRD's lines of credit and with the involvement of some of the Morozov BTCs (St. Petersburg, Samara, Nizhni Novgorod, Obninsk, Togliatti, and Dubna). The Morozov Project and the Inkcombank Training Center, with Inkcombank's experts, conducted a one-day seminar to train BTC consultants specializing in this program. BTC consultants trained by the Morozov Project provide training and consulting to entrepreneurs in their respective regions and select business plans for further development. Regional foundations for small business support provide guarantees against which credits are granted to small businesses. Funds are lent by the "Inkcombank" regional branches.

### **Investexpo**

Two exhibition-fairs-"**Investexpo-95**" and "**Investexpo-96**" were organized and held. The

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Morozov Project together with the Russian Economic Academy, the State Committee for Small Business Support and Development, the Federal Fund for Small Business Support, joint-stock bank “Inkombank”, and other partners organized a specialized on-going exhibition of investment projects and programs “**Expo-Invest on Zatsepa 41**”. This exhibition is an “investment conveyor”; i.e., participants (enterprises, investors, consulting firms) not only have the opportunity to display their products and services, but also receive consultation with a qualified consultant, receive access to relevant databases, and have the opportunity to identify a partner without expending a prohibitive amount of time and resources.

“**Expo-Invest on Zatsepa, 41**” was highlighted at the following events:

- ⇒ Chamber of Commerce and Industry
- ⇒ Moscow State University of Economics, Statistics and Information
- ⇒ “Spiritual basis of policy and principles of international cooperation” international conference
- ⇒ 1st international trade show “Best goods and services on Russia’s markets”
- ⇒ International Economic Forum
- ⇒ International symposium on project management “Project management in the economy in transition: investments, innovations, management”
- ⇒ Leipzig Innovation Fair

## **Result 5. Capacity Building of AMM**

One of the first initiatives of the Morozov Project was to build the capacity of AMM to receive and administer US Government funding as well as to bring it into compliance with international accounting standards.

This effort began with examining the AMM's policies and procedures and working with AMM staff and management to revise and create processes, and document those processes, so that the AMM was in compliance with federal governing principles Circular A-21; A-110; A-133; and in particular USAID grant and contract regulations. Written policies and procedures were established within the Russian laws and regulations. Periodic oversight and reviews were conducted to ensure that these policies and procedures were followed by the AMM over the course of the three and one half years of the Morozov Project.

The second task under capacity building was to analyze the organizational and management structure of the AMM to ensure proper controls and separation of duties to administer U.S. federal funding. Organizational charts were completed and appropriate staff were hired to carry out the business and accounting functions in accordance with the policies and procedures that were developed for the AMM.

The third major effort in this initiative was to computerize the accounting operations of the AMM. A search for a computer system which was multi-language, multi-currency, and multi-company and compliant with GAAP and RAP accounting rules resulted in licensing the Cogent *Ideas Accounting System*. The AMM's financial records were adapted to the *Ideas* system and historical data was entered into the system for the year beginning 1995. All subsequent data and transactions were entered as part of the accounting function at the AMM. For fiscal years ended 1995 and 1996, a U.S. CPA firm conducted an audit that met A-133 criteria and found the AMM to be in compliance with U.S. federal and international financial standards. These audits found no material weaknesses in the controls and procedures of the AMM.

The last step in the capacity building effort was to develop an indirect cost rate for the AMM which would allow it to receive and administer U.S. Government funding without the award document having to be run through a Western organization. This analysis was prepared and approved by the cognizant organization for the AMM.

The capacity building effort was considered a success in that it was completed within the proposed budget and timeframe, and the AMM was brought into compliance with international accounting standards and U.S. government regulations.