



Enhanced Small and Medium Sized Enterprise Development Project

Quarterly Performance Report

with Summary Results Tables

August 23, 2003 to September 30, 2003

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Winrock International

Counterpart International

Center for Investment and Support (Prognoz)

Sakhalin Association of Business People

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Table of Contents

- 1. Background 2
- 2. Progress Indicators..... 3
 - 2.1 Improving Regulatory Environment3
 - 2.2 Improving Access to Credit4
 - 2.3 Training Programs Developed within your Activity 5
 - 2.4 Providing Training and Consulting to SMEs6
 - 2.5 Outreach and Communication6
- 3. Problems/Difficulties Anticipated in the Next Three Months7

1. Background

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

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

In addition, the ESD Project will be demand driven, ensure women and remote people have benefit, and will work to ensure collaboration between business support institutions and other businesses development projects with open and free information.

The project began August 1, 2003 and will continue until August 3, 2006. This report covers activities and results for the first quarter of the project August 1- September 30, 2003¹

Project Start Up

Most of the activities for the first two months have been focused on project start up. Key project **staff were hired** with the exception of the Deputy Chief of Party. The following is a list of ESD staff, their positions, employer and location:

Olga Schetinina	Chief of Party	WI	Khabarovsk
Natalya, Bessonova,	Program Manager	WI	Khabarovsk
Ludmila Khorobrykh	Contracts Manager	WI	Khabarovsk
Galina Tolstokulakova	Office Manager	WI	Khabarovsk
Marina Petrova	Program Manager	CI	Khabarovsk

In addition, through the subagreements, we will gain the expertise of our partners' staff including:

Andrey Konioshok	Program Manger	Prognoz	Blagveschensk
Aleksey Shumilov	Program Manager	CEF	Khabarovsk
Tatiana Garshenina	Program Manager	SABP	Sakhalin

Three positions are yet to be filled. Counterpart Enterprise Fund has identified one Program Manager, Tatiana Gapeka, who will start working for ESD project at the Fund at the end of

¹ This first quarterly report covers only two months of the project. We felt it was important to maintain the quarters that follow the US Government fiscal year with quarterly reports covering Oct-Dec; Jan-Mar; April-June; July Sept.

October. SABP is in the process of hiring a Program Manager and this position will be filled by the end of October.

Counterpart International is working to hire a Deputy Chief of Party and has been in communication with USAID on filling this role. Our new strategy is to hire a Program Manager II for the access to credit program and regulatory reform, thus utilize two program managers for separate regions. The position is currently being advertised throughout the RFE.

As per Russian Law the ESD Project is using existing accountants (Winrock's accountant) and bank accounts.

Though there is a grave shortage of **office space** in Khabarovsk, the ESD project found two rooms at 18 Muravieva-Amurskogo Street in Khabarovsk and is housed near two USAID funded, Winrock implemented projects: FOREST and the Trafficking Prevention Project. The office is fully equipped with computers and furniture. ESD Administrative Assistant Penny Wilson assisted in setting up the office as well as contractual procedures.

A **Partners Meeting** was conducted September 9 in Khabarovsk. Olga Schetinina led the meeting which included Tatyana Garshenina from SABP, Aleksey Shumilov from CEF, Andrei Koniushok from Prognoz, Marina Petrova and Katherine Schad from Counterpart International, Galina Tolstokulakova and Erin Hughes from Winrock International. The meeting focused on identifying ways to collaborate and share resources across the components, to meet each other and build a team. A revised workplan was one of the products of the meeting.

Katherine Schad travelled to Khabarovsk for the partner kick-off meeting and had extensive individual meetings with CEF, SABP and Prognoz to **develop year one workplans** for the access to credit and regulatory reform components. She exchanged information on Counterpart methodology and learned more about the lessons learned by each partner in previous projects in order to formulate a cohesive workplan.

Olga Schetinina and Erin Hughes travelled to Moscow for post-award meeting with Julia V. Shevchenko, Ray Lewman, and Paul Mulligan. While at the Mission they also met with Monica Stein-Olson. In Moscow, Ms. Schetinina and Ms. Hughes met with IBS Chief of Party, Neal Nathanson, CDC, Alexander Raevsky from CIPE, Mikhail Mamuta and Steve McLeod from Russian Microfinance Center, and Galina Negrustueva from Partner Foundation, to explore opportunities for collaboration and replication of lessons learned.

2. Progress Indicators

ESD will report on indicators and results as we gain the information. In the meantime, our reports will summarize inputs that will lead to the goal of the project.

2.1. Improving Regulatory Environment

During the first two months of project, the first steps in the regulatory reform were to refine an assessment tool to select businesses association partners, identify the partners and determine the priority issues within the Association. This component will strengthen businesses associations and work with them to address the specific issues regarding reform of regulations.

Counterpart adapted its business association monitoring tool from a previous project in Russia to use in the regulatory reform component. SABP and Prognoz will use this tool in the following quarter to conduct baseline assessments of central regulatory reform partners.

SABP selected three associations as partners under this component in Sakhalinskaya Oblast: The Union of Entrepreneurs in Ulegorsk city, Nevelsk Local Association of Entrepreneurs and the Union of Women in Kholmsk. Similarly Prognoz has identified Association of Restaurant Owners, Amur Union of Business Women, Chamber of Commerce for the Amur Region and Union of Entrepreneurs and Manufactures of Amur Region. Additional partners for Buryatia will be selected in October.

Preliminary assessments of the identified associations showed that they have training needs in organizational development, strategic planning, fundraising, advocacy and empowerment. The local associations find it critical to work on issues of overcoming administrative barriers, such as reducing the number of different inspections, their frequency, number of regulations that hinder development of businesses.

To facilitate the dialog between the local authorities and a business community, SABP has initiated creation of Advisory Council for the Sakhalin Oblast Duma. The Council consists of fifteen entrepreneurs, representatives of business associations and three deputies. The first meeting of the Council was devoted to procedures of filing for making changes to legislation on a regional level. Now entrepreneurs know how to appeal to the Duma with their needs and how to document it properly. The meetings of this Council are scheduled for every quarter.

Counterpart has begun adapting its "Grants Management Manual" from projects in Central Asia so that it is appropriate for the advocacy microgrants activity in this project. After a first draft is completed, it will be sent to Winrock, SABP and Prognoz for comments.

2.2. Improving Access to Credit

The first step to improve SME's access to credit was to assess the needs in the four Project areas. Assessments are determining the needs of SMEs, banks and non-financial institutions in the respective areas. Assessments have been conducted in Sakhalin, Vladivostok during September 2003. Initial findings show that the local banks have started to show interest in providing small size loans to SMEs. They want consider them not as individual borrowers but as a cooperative client. The banks need methodology for processing of smaller size loans, assessment of risks, and a guarantee portfolio. In Vladivostok, EBRD is very active in training of credit analysts for their partner banks – KMB Bank, Sberbank, Dalnevostochny Bank.

The **assessment** showed the growing number of non-banking institutions, such as credit cooperatives, funds, and credit unions. These institutions are relatively young, need trainings in financial management, accounting, standardization of internal procedures and sector-specific legal issues.

Main leasing companies in Vladivostok and Sakhalin are Delta Lease, SALCO, DV Leasing and state-owned structure of “Agroleasing” (leasing for big-scale agriculture). These companies are interested in expanding their micro-leasing sector, as their current average lease size begin at \$50,000. They are interested in getting information about technologies of smaller size deals (from \$10,000) but are not actively pursuing any actions.

However, SMEs operate in the environment where access to credit is problematic, plus there is little understanding of differences between credit and leasing, and no clear picture of its advantages.

Assessments in Chita and Yatkutia are scheduled for October 27, 2003.

CEF together with Russian Microfinance Center held a **training session for non-bank financial institutions** September 29-October 2 in Khabarovsk. Twenty-five credit specialists from 20 MFIs learned about cash flow analyses, risk assessment and minimization for the borrowers and lenders, etc.

CEF and ESD staff met with Association of Banks of the Asia Pacific Region to explore ways to collaborate on this project. They identified the association as practical means of collaborating to strengthen the association and ensure inter-regional ties.

2.3 Training Programs Developed

Winrock hired a consultant to work with local training providers in all the regions to conduct market assessment and pricing structure. From this assessment, we will be able to determine the training needs and necessary training modules for advanced and sector specific training. The assessments will be completed by November 30th, 2003. Training providers we are working with include the following:

Sakhalin – Russian American Educational Business Center, Sakhalin-Alaska College, Center of Quality in Yuzhno-Sakhalinsk, “Znaniye” Training Center

Khabarovsk – Russian American Educational Scientific Center, Bank School, “Megatavr” Consulting Center, Chamber of Commerce of Khabarovsky Krai, School of Managers, Russian Far East Affiliate of Academy of Science, Technical University, etc.

Primorski – ARC, LINK Business School, Delta Region, Career Forum Business School, Vladivostok State University of Economics and Service

Amur – Center Prognoz, Portland State University Business School, “Amur-Batiushka” NGO Resource Center, “Inter Training”

We have yet to identify training centers in Sakha, Buratyia, and Chita.

A database has been developed that will be posted on the www.esdproject.ru website. The database includes more than 100 trainers from Moscow, St. Petersburg and the RFE. Trainers

can be searched by region and by expertise. We will continue to build on this registry for the life of the project.

2.4. Providing Training And Consulting To SMEs

First drafts of the training plans for advanced business skills, sector specific training and consultancies has been drafted and will be refined after the regional assessments have been conducted.

2.4.1 Advanced Business Skills Training

The assessments of the type of advanced business skills training is being conducted, and the Sector Specific Assessments will be conducted in October 2003. Initial assessments show that the needs include HR training, strategic planning, quality management, branding, marketing and sales. The assessments will be completed by November 15, and the training plan will be developed by December 15, 2003

2.4.2 Sector-Specific Training

September 4-9, 2003, ESD Project volunteer Antonina Pronina visited Chita and the nearby regions (Alhanai, Aginsky National Region) to provide sector-specific consulting to and make assessment of ecotourism sector. Under the assignment she interviewed 15 ecotourism companies and related businesses and institutions: NGOs, local and regional administration, state organizations (such as national parks), scientific research institutes. Ms. Pronina identified that key problem for the tourist companies in that region is lack of coordination between all key industry stakeholders, and nonexistence of the regional program for development of ecotourism.

At the meetings she provided direct consulting to 15 companies on how to organize recreation zone development. Additionally, Ms Pronina reported at the Round Table for Chita Tourism Conference on ecotourism development.

Another weakness identified is marketing the ecotourism activities. A few tradeshowes have been identified and ESD is exploring the idea of arranging tourism associations to attend one or two of the international tourism trade shows. Additional sector specific trainings will be identified after the assessment.

2.4.3 Sector-Specific Consultancies

ESD will conduct the focused sector specific assessments to identify sector-specific associations with whom the project shall work, especially focused in the areas where FOREST has not worked (Chita, Buryatia, Sahka and Amur Oblast). Relations between ESD and FOREST have begun with ESD Program Manager planning to attend a NTFP trade show in Tokyo Japan in October 2003.

Additional Tradeshowes in different sectors are being identified.

2.5 Outreach and Communication

The ESD Project staff met with key krai and oblast administrative representatives to increase awareness about the project and to gain local administrative support. Olga Schetinina has met with:

Alexander Levinthal, Vice Governor, Khabarovsk Krai; Alexander Shevchenko, Head of Small Business Division, Khabarovsk Krai; Elizaveta Telushkina, Director of Ministry of Economic Development, Khabarovsk Krai; Sergei Verolainen, Department of Small Business Support, Vladivostok City Administration; Vera Evtushenko, Head of the Department of Support of Entrepreneurs and Investments, Primorsky Krai Administration; Georgy Tychenok, Sakhalin Oblast Administration.

In addition, project staff have contacted potential partners and collaborators including:

Russ Howell, University of Alaska, Anchorage

Anna Kochemasova, Russian American Education Scientific Center, Khabarovsk

Margarita Chupikova, American Russian Center, Vladivostok

Alexander Raevsky, CIPE, Moscow,

Mikhail Mamuta, RMC, Moscow

Seteven McLeod, DAI, Moscow

Neil Nathanson, CDC, Moscow

Patrick Perner, FOREST Project, Khabarovsk

Kelly Quinn, TPP, Khabarovsk

Andrei Vasenev, BISNIS, Khabarovsk

Anna Lygina, ISC, Khabarovsk

Pamela Spratlen, General Consulate, Vladivostok

Irina Konstantinova, FCS, Vladivostok

Svetlana Kuzmichenko, FCS, Vladivostok,

Vera Yevtushenko, OPORA, Vladivostok

Ken Smith, Konstantin Chekhovskoi, ACDI/VOCA, Sakhalin,

Vitalina Khristoradova, FOREST, Sakhalin,

Julia Kaverzneva, Sakhalin-Alaska Group, Sakhalin,

Tatiana Khmeliyova, Sakhalin-Alaska College, Sakhalin,

Elena Gvak, EBRD, Vladivostok,

Larissa Sidiuk, Delta Lease, Vladivostok

Irina Chaika, Association of Credit Unions, Vladivostok

The domain for the project website has been secured and will be up by the end of October.

3. Problems/Difficulties Anticipated in the Next Three Months

The greatest challenge on this project has been to find a Deputy Chief of Party. We are re-advertising the position focusing more on the program objectives, rather than administrative ones. We hope to find a DCOP by the end of October.

SABP has difficulties in finding a Program Manager for the ESD program. Tatiana Garshenina has identified three potential candidates for this position and hopes to hire one at the end of October.

No other problems are anticipated in the next three months.