



Enhanced Small and Medium Sized Enterprise Development Program

Quarterly Performance Report

July 1, 2004 to September 30, 2004

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**Winrock International
Counterpart International
Center for Investment and Support (Prognoz)
Sakhalin Association of Business People
Counterpart Enterprise Fund
The Far Eastern Chamber of Commerce
Enterprise Support Center Makon
The Far Eastern Center for Economic Development
The State Organization for Additional Education “Business School”**

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Table of Contents

1. Background 2

2. Progress Indicators..... 3

 2.1 Improving Regulatory Environment 3

 2.2 Improving Access to Credit 7

 2.3 Advanced Business and Sector-specific Training10

 2.4 Sector-specific Consultancies.....14

 2.5 Outreach and Communication15

3. Problems/Difficulties Anticipated in the Next Three Months 16

Annexes

- Table 1. ESD Quarterly Training Plan October – December 2004
- Table 2. ESD Quarterly Calendar of Events –Regulatory Reform and Access to Credit
- Table 3. Summary Results Tables for Quarterly Report (Progress Indicators)

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 Program (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 Program is demand driven, ensures women and remote people benefit, and works 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 period from July 1 to September 30, 2004. It also provides a brief summary of annual results.

Project Administration

ESD Office is changing to support its growing operations. In September 2004, we have hired a Russian consultant to facilitate the VTA process. With this resource, the ESD staff and partners have developed a more sophisticated plan for utilizing US volunteers and consultants where Russian expertise is not available.

The ESD Program Manager Natalia Bessonova has taken a maternity leave— Olga Filonenko, has joined the ESD team and will assist the Program's training components in Natalia's absence.

To facilitate the subagreements' financial reports review and approval process, ESD has included one more financial analyst to its team, Olga Kizim.

On September 21-24, ESD COP and Senior Program Manager participated at the seminar and conference held by International Program Evaluation Network in Ukraine. They learned about program evaluation tools and techniques that could be applied to ESD program's impact assessment. The initial impact evaluation has been started in October and will continue on a regular basis.

Progress Indicators

2.1. Improving Regulatory Environment

2.1.1. Activities in Regulatory Reform

Counterpart's role: Counterpart is working with each of its partners ? SABP, Prognoz and Makon ? to design regulatory reform interventions and to build their capacity to implement the ESD program. Counterpart provides the technical input and mentoring to each of our partners so that they can assess business associations; develop training and technical assistance plans to make the associations organizationally stronger; to help them plan and conduct advocacy campaigns; work with government officials; and create strong networks of associations. Then SABP, Prognoz and Makon help the target associations in each of their regions become stronger and better able to advocate. Counterpart also oversees the advocacy microgrants and all monitoring and evaluation. Counterpart is pleased to report on the following results:

SABP made assessments of their two partner associations after the first year of the ESD program and positive changes in the sustainability of the two associations were noted. Basic management skills have increased and associations are better able to understand how to become financially sustainable through a combination of membership dues and commercial services to non-members. The association in Nevelsk noted a small increase in members and a **10.5% increase in income from membership dues**. The association also created and printed a brochure explaining its work in order to attract more support. The **image of the association in Uglegorsk is shown to have improved over the past year** and this association is especially interested in more business training for the second year. Based on the assessments, plans were made for trainings for Year Two.

This quarter **three advocacy actions** were taken by partner business associations. One of these was in July the Blagoveschensk Municipal Public Organization of Private Operators "FAX" prepared a resolution to change the law "About Automobile Passenger Transportation." The resolution was developed in collaboration with Prognoz and was brought before lawmakers for a second hearing on July 10. Through the law, the lawmakers only partially solved the problems encountered by entrepreneurs. The law as it stands has some limitations that do not eliminate administrative barriers and these include: (1) the law gives all rights to develop transportation systems to government authorities (no participation of public or business); (2) the law does not consider improving the quality of public transportation when closing or opening new bus routes; (3) there is no definition of the criteria that will be employed to choose passenger carriers during competition; and (4) the law does not provide for reimbursement of private businesses that provide transportation to "deadheads" (retirees, military officials, etc that have the right to ride buses for free). Therefore, "FAX" wants to organize an advocacy campaign around this issue. They applied for an advocacy microgrant and it was approved. They are working with Prognoz on implementation of their campaign and results will be reported in the next quarterly report.

In August the Guild of Culinary Professionals and Restaurateurs started its activity on microgrant project on the resolution "Municipal Property Rent in Blagoveschensk." They have already started their promotion campaign by publishing announcements in the local newspaper and obtaining proposals per the microgrant's workplan.

The third advocacy campaign was aimed at the adoption of the Rules of Land Tenure and Construction in Yuzhno-Sakhalinsk. SABP' continued its work, started in the Year One. The Rules of Land Tenure are relatively hard to comprehend, are not in compliance with the applicable legislation, and provide for lengthy periods of legalization and allotment of land for businesses.

Absence of structured Rules of Land Tenure prolongs the period of adjustments, agreements, registration, and issuing of title deeds for lots, which is a breach of town-planning legislation. Therefore, this work to adopt the Rules will be continued with their submission to the legislative bodies and adoption of their final revision.

The ad hoc working group developed a new revision of the Rules of Land Tenure and Construction, which was submitted by SABP to the chosen associations for their revision and consideration. With their suggestions and additions the new revision was submitted to the Advisory Council and was passed late September.

Counterpart **approved one advocacy microgrant application** this quarter and it is currently being implemented by the Guild of Culinary and Restaurateurs and is on the resolution "Municipal Property Rent in Blagoveschensk". Results will be reported in the next quarterly report. Two microgrant applications were submitted from associations on Sakhalin to the ESD office but Counterpart had a number of questions on them so they were sent back for revisions. Another one application was submitted by the Blagoveschensk Municipal Public Organization of Private Operators "FAX" and is under review now.

During the quarter **three seminars were held to increase the organizational sustainability and advocacy skills of partner business associations**. SABP organized two of the training seminars in July ? one for each partner association ? on the topic of "Effective Management of the Non-profit Organization." The training covered the role of the executive manager and the management team and was important for the organizational development and sustainability of the associations. In building the capacity of these two associations SABP intends to leave behind strong, fully sustainable associations before the end of the ESD program.

The third training was held in September in Blagoveschensk. Two trainers from the Siberian Center of Public Initiative Support met with the associations that were not involved in the ESD program during the first year. They helped the associations to determine their role in the business life of the city. The trainers and Prognoz also jointly conducted a two-day seminar "Efficient Cooperation between Business and Government." The twelve participants used a case study approach to discuss the positive and negative trends affecting SME development in the Amur region. They learned tools and means of cooperation and prepared a draft of activity plan for cooperation. During the seminar a brochure "Efficient Collaboration Between Associations and Government" developed by consultants was distributed among seminar participants. The electronic version of this brochure will be available on the ESD website so other business associations can take advantage of it.

Counterpart also held **five roundtables and/or conferences to improve the regulatory environment**. The first roundtable was held on August 17 by Prognoz, along with Association of Construction Companies. The roundtable was on "Administrative Barriers in Land Use and Rent for Construction Purposes." This roundtable was focused on the issues of the residential construction industry of Blagoveschensk. These issues include an outdated general construction plan for the city; lack of adequate local and federal laws regulating the relations between construction companies and owners of the houses located on the land slated for new construction; and tax issues with land purchase for the construction. A total of 27 people took part in the roundtable including the representatives of the construction companies and officials of the City Administration Architectural and Construction Departments, the Deputy Governor of the Amur Oblast, and Administration supervising construction industry.

Participants agreed upon the following outcomes at the conclusion of the roundtable:

- (1) The lawyers of the City Administration and the Association of Construction companies will work together on legislative resolutions to address this topic.
- (2) The Association of Construction companies will take part in developing recommendations for the Resolution on the Law "Housing Policy of the Amurskaya Oblast."
- (3) The Association of Construction Companies will make amendments and bring before lawmakers a resolution "Regulation of Relocation from Ramshackle Houses to be Used for Municipal and State Construction Needs."
- (4) A Public Hearing on "The General Construction Plan in Blagoveschensk" will take place in September and suggestions to protect the interests of the construction industries will be included in the discussions.
- (5) The City Administration, in collaboration with construction companies, will develop the legal basis to allow the practice of attracting public investments (City Administration's loans, Share Funds) for development of the construction industry and building utility structures.
- (6) The Association of Construction Companies will discuss among its members the possibility of publishing an information bulletin to be distributed throughout Amur Oblast to highlight the issues of the construction business since lack of the information on the regulatory issues within this industry was made clear during the roundtable.

In September Prognoz together with the target associations organized and conducted two more roundtables. The first was titled "How to Solve Lease Agreement Problems between Businesspeople and Utility Systems of Blagoveschensk." At the roundtable the associations discussed problems with the officials and at the end of the roundtable the participants decided to establish a public committee of the town to discuss city development plans and relations between business and government officials. The second roundtable was on "Municipal Property Leases for Commercial Purposes" and was conducted by the Guild of Culinary Professionals and Restaurateurs as a part of their advocacy microgrant. The existing legislative act contains a number of factors impeding business development in Blagoveshchensk. The advocacy grant goal is to change the municipal property lease legislative base so that it would meet the SMEs interests.

Makon helped to organize the fourth roundtable in Buryatia. In July a roundtable dedicated to resolving the problems of SMEs in dealing with the codes of sanitation inspections was held.

SMEs from catering companies and restaurants met with representatives of the City Administration and sanitation inspectors. The following recommendations were developed during the roundtable:

Local administration agreed to decrease penalties for absence of trash disposal plan.

Write and publish an article in the city newspaper explaining on how sanitation inspections work and what the requirements are for the. This will inform all SMEs about what to expect during the inspections.

Research the possibility of sanitation education for leaders of affected businesses.

Hold a seminar dedicated to the work of sanitation inspections during "Entrepreneurship Week" in December (including registration, development of projects on recycling waste, system of penalties connected with violations, etc).

On September 22 Nevelsk BA with support of SABP organized and conducted roundtable on the issues of interaction with the sanitary inspection. Entrepreneurs stated that although the number of inspections decreased in the last time, some of the inspections failed to even produce a warrant. Representatives of sanitary inspections in their turn told about their requirements. Both parts agreed to follow the law. Nevelsk BA will follow up on this agreement.

There is tangible evidence that SMEs are more involved in the process of reviewing and improving regulations and that collaboration with government is an effective mechanism for change. In November 2003 SABP and local entrepreneurs involved in the construction business consulted with the Vice-mayor of Yuzhno-Sakhalinsk, and other officials to resolve problems related to land tenure. At the meeting those present decided to create a working group to study this question and government officials agreed to work with the entrepreneurs and SABP to solve the problems and to simplify access to information. Between then and now SABP and the local entrepreneurs sent a letter to local authorities about how to amend the act so that SMEs were not harmed in land tenure laws. In July 2004 the officials devoted a meeting to discussing the document and the working group developed new land tenure rules that will shorten the process of obtaining land as SMEs had requested.

In August the second edition of the reference book "**Manual on How to Conduct Business**" was released from the series "Advice to Businesspeople" and has been distributed in outlets of Ulan-Ude and the republic. In this edition Makon emphasized **relationships between the government and SMEs**, activity of various governing bodies, protection of business interests and a new part of the reference-book entirely devoted to forming a business. Copies were sent to partners of ESD program in the Far East including Prognoz and SABP. This book will help SMEs to start up more efficiently and to learn to work with government more effectively, leading to increase government – SME collaboration.

In August and September Makon conducted a **survey of all active business associations** in the region in order to identify new partners. The survey was carried out in order to find out real and actual problems of business associations and to decide which should be partner associations in the ESD project. In total nine business associations were assessed.

According to the results of the diagnostic two associations that will be partner associations are

Association of Timber Harvesters and Exporters and Association of Catering/Restaurateurs. A third partner association will be chosen in October.

The assessment revealed that the main weaknesses of the partner associations include:

BAs members do not have clear understanding about mission of their organization and there is no strategy although the members may not recognize this fact.

Staff is often not involved in decision-making and this creates problems within the management structure.

Leaders often overestimate the development level of the association.

Utilizing the results of this assessment, Makon and its association consultant think the following trainings would be most useful for the associations to build their organizational sustainability and ability to advocate for change:

Management of business associations

Strategic marketing for business associations

Applied marketing research techniques

How to organize association activities using projects and services

How to work with members and clients of business associations

Financial sustainability of business associations

Advocacy techniques and skills

The first of these seminars, "Strategic Marketing for BA" is planned for October 2-3. Others will follow.

2.2 Activities in Access to Credit

Counterpart's role: In the access to credit component Counterpart facilitates workshops especially for banks and leasing companies in addition to providing strategic direction and mentoring to CEF which facilitates workshops for SMEs, non-bank financial institutions, and some banks. These workshops and trainings help financial institutions learn how to lend to SMEs profitably and teach SMEs how to access financing.

Counterpart achieved tremendous results in this quarter, due in large part because we are seeing results from long-term cooperation with banks. The trainings that banks have been receiving from the ESD program have been consistently rated very highly and are beginning to affect real change. Specifically there were **914 loans worth \$10,469,036** executed between SMEs and participating banks and non-bank financial institutions. This was achieved because of the **11 training sessions** Counterpart and CEF provided over the quarter in addition to the others that were provided during Year One of the program. These help banks and non-bank financial institutions figure out how to practically and profitably lend to SMEs.

In order to evaluate the real impact of trainings conducted during the first year of the program, Counterpart compared baseline data from October and November 2003 to current figures. The analysis shows an increase in access to credit facilities by SMEs. For example according to the

assessment in 2003 credit cooperatives and funds that we are training gave only 7% of the loans they disbursed to SMEs. After one year of working with the ESD project, 25% of their entire loan portfolio is being disbursed to SMEs. Additionally, after one year of a series of training, banks in Yakutia increased the number of loans given to SME 1.6 times, while credit cooperatives increased lending to SMEs by 2.3 times compared to one year ago.

One fund illustrates dramatically the benefits of the ESD Program. The Entrepreneurial Support Fund nearly stopped its operations because of it had so many bad debts. The Fund's management was very interested in improving the situation and attended all seminars and trainings for financial institutions provided by ESD. They were able to turn the situation around after attending Counterpart's seminars and although they reported no loans in the first quarter 2004 and only 28 loans to SMEs in the second they already provided 92 loans to SMEs in the third quarter 2004.

These results were made possible due to the intensive training sessions that the ESD program provides. Both Counterpart and CEF organize these workshops. During the quarter CEF organized five workshops to promote access to credit. They were:

(1) **Training for SMEs on How to Obtain Financing.** The training was conducted by St. Petersburg Fund for SME support in Khabarovsk and covered types and sources of SME financing and how to create a business plan for a bank or other financial institution. This practical training gave SMEs hands-on experience in applying for financing and as a result of it SMEs know how to apply for financing and which financial institutions best meet their needs.

(2) **Advanced Training for Financial Institutions on Avoiding Delinquency.** The training was conducted by RMC in Yakutia and covered how to analyze costs and causes of delinquency and how to develop a policy for establishing interest rates for SMEs. Many financial institutions are afraid to loan to SMEs because they think that they have a higher rate of delinquency than large companies so this training taught them how to control defaults so that they will be more willing to lend to small businesses.

(3) **Advanced Training for Financial Institutions on Avoiding Delinquency.** The training was conducted by RMC in Vladivostok and is the same course as described above.

(4) **Training for Financial Institutions on Effective Communication with SME Clients.** The training was conducted by independent trainers in Chita and covered how to understand client motivation and how to deal with seemingly "difficult" clients professionally. This training taught financial institutions how to approach and work with smaller clients so that they can more effectively meet their needs. As a result of this training financial institutions will be more in touch with what SME clients need and how to approach them, leading to more loans taken by SMEs.

(5) **Training of Trainers for Non-bank Financial Institutions.** The training was conducted by Russian Microfinance Center in Khabarovsk. The topic was how to teach adults about SME lending. Counterpart and CEF decided to offer the course after finding a lack of financial trainers in the Russian Far East during Year One of the ESD project. Eight participants from 5 different non-bank financial institutions participated in the training. They were loan managers from Yakutia, Primorye, and Khabarovsk. They are now able to work as

trainers in the Russian Far East so the trainings that many non-bank financial institutions need will be both more accessible and more affordable. This, in turn, will lead to more loans being available for SMEs. ESD plans to involve these new resources during the seminars in February and May.

During the quarter Counterpart organized six workshops to promote access to credit. They were:

(6) Training for the Inter-regional Association of Far East and Zabaikalie Credit Unions on International Financial Analysis and Standards of Credit Cooperatives. The training was held in Khabarovsk and the association was responsible for logistics. This training gathered 21 credit cooperative representatives of the Far East and Zabaikalie to strengthen their financial analysis and management. This analysis is critically important for financial institutions to profitably lend to SMEs and this kind of training is not often offered in the RFE.

(7) **Training for Okhabanks' Employees on Effective Work with SME Clients.** The training was conducted in Yuzhno-Sakhalinsk. Okhabank is the regional bank of Sakhalin and since 2003, the bank has aimed to expand its work with SMEs. However, their experience in the past year has shown their employees don't have the necessary skills to work with SME clients. They identified a need for training on effective communication and client relation skills, because the bank's success depends on its employees' skill of persuasion and winning entrepreneurs' trust. The ten trained officers are going to use their new skills in their daily work with SMEs, and the bank's director expects that the event will increase the number of SME clients.

(8) **How to Perform Financial Analysis of Business Entity.** This seminar in Vladivostok covered special procedures, approaches and techniques of evaluating an SME's finances. These skills play a crucial role in the decision of a bank to give a loan to a borrower or not. The participants included 55 representatives from SMEs and six banks loan officers. After the one-day training Primotsbank asked the trainer to provide a follow-up day of consultation for their employees. This training not only gave a solid introduction to SME lending to banks and SMEs but it brought together both lenders and borrowers for an effective discussion on SME lending.

(9) **Legal Aspects and Issues for Loan Officers Dealing with SMEs.** The participants were 12 lawyers from 10 Primorsky banks and Primotsbank again asked for special consulting for its employees on the second day. Legal issues can often prevent banks from being interested in SME lending so this practical workshop taught them how to work with SMEs so that they will be more willing to lend to them.

(10) **Effective Communication with SME Clients.** Sberbank requested this seminar in Vladivostok and for two days 10 of their front officers were trained on how to more effectively deal with SME clients. See number 7 for details on impact.

(11) **Effective Communication with SME Clients.** Sberbank also requested this seminar on Sakhalin and for two days 11 staff members were trained on how to more effectively deal with SME clients. See number 7 for details on impact.

CEF finalized two modules of a new training seminar for banks. One module is devoted to the financial analysis of SMEs and the other one on how to appraise collateral. Both modules are complimented by a large number of exercises and problems for solving during the training to

practice theoretical knowledge. They will be a part of a whole series of banking trainings planned during Year Two of ESD. Some of the key reasons that banks do not lend to SMEs are lack of knowledge on how to analyze SMEs' finances and lack of knowledge on how to be flexible regarding collateral for SMEs. These seminars will teach banks these skills and lead to an increase of loans for small and medium businesses.

CEF managers put together a tool that will help to plan CEF lending model replication activities. A questionnaire for organizational assessment was created to be used to tailor a technical assistance plan to the mission and expectations of the recipient organization. CEF's Director went to Vladivostok in September and utilized the tool to finalize this plan, which can be found in the final version of the Year Two workplan. CEF also started the replication of its experience with one week on-the-job training of two Vladivostok NGO Credit Union Development Centre employees – the loan manager and chief accountant. They came to Khabarovsk and received practical detailed knowledge of working with group and individual loans. Specifically they learned about the informational system, legal aspects, monitoring, preventing delinquencies and accounting. Not only will they use this knowledge to begin lending themselves they will also be sharing this knowledge with their members to increase the reach of CEF's training and mentoring.

For leasing Counterpart provided access to 12 lease agreements worth \$248,000 this quarter. This figure is not big; due to the difficulties identifying trainers on leasing CI hasn't organized education especially for leasing companies yet. However they attend events that CI holds for other financial institutions.

Counterpart managers are currently conducting negotiations with North-West Leasing Project and North-West Leasing Association regarding trainings for Russian Far East leasing companies and entrepreneurs. Counterpart is currently also conducting a training needs assessment with leasing companies to determine which areas will be most useful for training. The lack of leasing experts who have practical experience and skills to conduct these seminars causes difficulties in scheduling the events but we hope to start activities for leasing companies not later than November. Additionally in the next quarter CEF has seminars planned for SMEs on how to access leasing.

2.3 Advanced Business and Sector-specific Training

This quarter Winrock continued to work with its **five** major training partners and other regional training centers to expand availability of advanced and sector-specific training in Russia Far East. **79** training courses for **1323** entrepreneurs have been offered in all targeted regions in July-September 2004:

Region	Trainings			Participants		
	Adv.Bus	SSpecific	Total	Adv.Bus	SSpecific	Total
Amur Oblast	12	4	16	201	62	263
Buryatia	15	1	16	255	14	269
Chita Oblast	2	1	3	39	13	52
Khabarovsk Krai	8	15	23	131	229	360

Primorye	4	2	6	51	38	89
Sakha (Yakutia)	3	2	5	60	51	111
Sakhalin	10	0	10	179	0	179
TOTAL	54	25	79	916	407	1323

In order to reach its goals, the ESD Program has enhanced its efforts in **strengthening ESD partner organizations**. In September, Elena Kharchenkova, a training manager from center Prognoz (Blagoveschensk) participated at the TOT seminar and a conference organized by *Intertraining* – an inter-regional public organization of trainers and consultants. Elena has shared the ESD Program information with her fellow participants, received a Certificate on professional development and recruited **21** new trainers into the ESD trainers database.

In August 2004, ESD handed over its **database of trainers** to its partner Prognoz for administration and expansion. During the last quarter, **42** new trainers were included into the database; **eight** of them have already been engaged in ESD trainings.

ESD supports partners in strengthening local resources and increasing the number of local trainers in the region through providing **training of trainers** seminars. September 27-29, the Moscow trainer Mark Kukushkin delivered the second session of the training for trainers *Principles of Group Management: Set of Training Tools* in Ulan-Ude. During the training, **17** participants learnt how to compose training and develop case study method, and how to adjust training materials according to particular needs of an enterprise and particular audience. ESD partner Makon plans to use at least three of the trained people as trainers for their seminars.

Another training session for trainers was provided to the Union of RFE Training and Consulting Companies in July in Khabarovsk. Ten participants from different RFE training providers received consultations on development and marketing of the association's services, analyzed results of the market research and created a detailed plan for the next quarter's period. As one of the results of this session, the Union has started to distribute information about its activities through the weekly mailing list.

ESD helps its partners to **promote the training services** in the regions. On September 27-28, ESC Makon organized the First Regional Fair *Business Education 2004* for participants in the Republic of Buryatia. The goal of this event was to introduce the managers of enterprises and entrepreneurs to centers within the region that provide business education; give them an opportunity to learn about various training and seminar programs and stimulate the demand for such education.

About **200** entrepreneurs attended the Fair; most of them expressed their desire to cooperate with Makon and other training centers. In the Fair's framework, **five** demo-trainings on different subjects were conducted. These trainings introduced the entrepreneurs to the specifics of each training; the trainers demonstrated their skills and knowledge, and recruited participants to the full-scale sessions.

It must be noted that the process of forming the business education market in Buryatia and other RFE regions is going very slow. This Fair was designed to speed up this process and help to form a civilized market of short-term business education. According to Ms. Bulygina, a leading specialist of the SME department of the Committee on Social and Economic Development in Ulan-Ude, this event managed “to break barriers that prevented the development of this market” and bring together the demand and supply in this sector.

2.3.1 Advanced Business Trainings Conducted

During July-September 2004, ESD supported its partners in providing **54** demand-driven advanced business skills training courses in the targeted regions for **916** entrepreneurs. The ESD partners in Khabarovsk, Ulan-Ude, Vladivostok, Yakutsk and Blagoveschensk report that their capacity to provide quality trainings is growing, they have formed a stable base of clients and their image in the region has been strengthened.

ESD Program is expanding its market, and has started to provide more trainings outside the regional capitals. Business people in **remote areas**, such as Komsomolsk-on-Amur, Birobidzhan, Svobodny, Ussuriisk, obtained new business skills in sales, marketing and strategic management.

While ESD supports the stable demand for training in sales technologies, we encourage development and conduct of **new courses**. Thus, in September ESD together with the Russian American Educational Center of Business organized training for Yuzhno-Sakhalinsk companies that want to participate in Sakhalin oil tenders *Certification Requirements for ISO 9001-2000 Standards*. **Twenty-four** participants have increased their understanding of international standards and requirements, and ESD will follow-up on this training in the next quarter to learn how many of the trained companies succeeded in getting new contracts.

To ensure **collaboration between program components**, ESD has signed an agreement on cooperation with Sberbank in August 2004. ESD will provide trainings to the bank’s employees in Khabarovsk, Primorye and Sakhalin. This agreement will help Sberbank to improve their relations with SME clients and help the program’s Credit Component to reach its goals. ESD has already provided two trainings for Khabarovsk Sberbank – *Investment Forecast and Business Financing* and *Effective Sales Management* within the advanced business skills component, plus two trainings were conducted last quarter for Sberbank in Sakhalin and Vladivostok, as described in Section 2.2 of this report.

Two new training modules have been developed with ESD support in the reported quarter. A Khabarovsk trainer, Anna Kochemasova, has developed materials for training on Logistics. This material has been ordered and later evaluated by Makon, and is currently available for any trainer from the ESD web site. Makon plans to use this module at the training in November 2004 utilizing a local trainer.

Another module, called “*Effective Organization of Retail Sales*”, has been created by a Vladivostok specialist, Dostovalov. The Far Eastern Center for Economic Development has been closely involved in its testing and fine-tuning, and plans to field-test it in October. The

module contains case studies, exercises and suggestions for trainers, so it is ready to be offered to the ESD and non-ESD training centers.

After one year of its operations, ESD started to evaluate impact of the trainings conducted in the region. Our partners report on the following achievements:

Buryatia – In July-September 2004, Makon has trained 233 entrepreneurs, 30% of them introduced new positive changes into their companies as a result of participation in trainings; out of 150 trained companies, 40% increased their production efficiency, and 8 companies increased their clients base.

Amursk Oblast – 72% of the companies trained in the last quarter increased their production efficiency, 68% increased the clientele, and 76% increased sales.

Yakutia – in the last five months 16 companies (35% of respondents) reported increase in production, 28 companies (62%) increased their clients base, and 15 companies increased sales.

The ESD Program plans to improve the process of evaluating the program's efficiency and create a system for its partners to track the program's results regularly. The next Partners' Meeting in December will be devoted to these issues.

2.3.2 Sector-specific Trainings Conducted

The ESD Partners continued to support key RFE industries, and in July-September 2004, the Program provided **25** sector-specific training sessions to **407** business people. ESD addressed needs of tourism, restaurant, food and fish processing industries through sector associations.

Tourism: The Far Eastern Chamber of Commerce and Industry from Khabarovsk has taken the lead in providing training and consulting to this sector in Khabarovsky Krai. A US volunteer Aaltje Van Zoelen has taught tourism companies how to plan an eco-tour, develop effective marketing materials, research the tourist market and create partnerships.

In Yakutsk, the ESD Partner Business-School continued to work with the local tourism association and organized two sessions for tour guides on development of effective communication skills. The training was conducted by a Khabarovsk trainer Svetlana Gritsenko. One session was for guides that work with foreign tourists, and another – for those who serve Russian clients.

In Buryatia, Makon worked with two sector associations – The Great Baikal Path and Association of Zabaikalie Crafts' Revival. Based on the associations' needs, Makon provided seminars about the world experience in eco-tourism and about marketing techniques in souvenir business.

The ESD Program will provide continuous support to this sector, and plans to support participation of at least four RFE companies at the world trade show in Chicago in February 2005. By participating at this show, the RFE companies will have a unique opportunity to gain new clients and sell their products to international companies. To ensure this, ESD will

facilitate development of new products, new tours and new marketing materials for these companies through providing technical assistance to them.

Restaurants: The restaurant guild in Blagoveschensk has become a long-term client for the ESD Program and Center Prognoz. In summer 2004, the Guild established a School for Restaurants Managers. The curriculum, strategic plan and training modules for this school have been developed with the help of US volunteers John Marenik and Firooz Taleghani. In September, another WI volunteer Eric Erlandsen continued to work with this sector and provided training to **24** restaurant managers. The training was followed-up with consultations.

Eric Erlandsen consulted the Khabarovsk restaurants as well. As an example of impact, we can report that the Cream-Café La-Vita has included a couple of new cocktails into its menu after Erick Erlandsen’s seminars and consultations. They are developing a better menu that will help to decrease the wastes while preparing meals and to increase the quality of dishes.

Food Sector: This is a fast growing sector in the RFE, and ESD has continued to provide assistance to this industry. Trainings on *Marketing in Fish-processing and Meat-packaging* were conducted in Blagoveschensk and Ussuriisk, *Strategic Management in Food Industry* was taught in Vladivostok, *Merchandising of Food Products* seminar was held in Vladivostok.

One of the ESD clients, the Khabarovsk Fish Processing and Trading Company, has reported that their sales increased in 2004 from \$300,000 to \$1 million. During the year, ESD provided this company with sector trainings and consultations, plus supported their participation at the *Inrybprom-2004* trade show in St. Petersburg in July 2004.

2.4 Sector-specific Consultancies

Most sector-specific trainings are followed by individual consulting to participating companies. Here is the list of sector-specific consultancies provided in July-Sept. 2004:

Date	Location	Theme	Consultant	# of People	# of SMEs
August 26	Khabarovsk	Marketing in fish-processing industry	Tamara Parfenova	7	7
July 21	Ulan-Ude	Marketing technology in handcraft souvenir business	Elvira Garifulina	3	3
July 20	Blagoveschensk	Curriculum and training modules for restaurants management school	John Marenik	14	12
July 20-23	Blagoveschensk	Organization and marketing of restaurant services.	Firooz Taleghani	14	12
September 17-18	Komsomolsk	Ecotourism Sector Consulting	Aaltje van Zoelen	24	12
September 23	Khabarovsk	Ecotourism Sector Consulting	Aaltje van Zoelen	18	10
September 20	Blagoveschensk	Hotel Management Consulting	Eric Erlandsen	6	5
September 21	Blagoveschensk	Restaurant Management Consulting	Eric Erlandsen	16	10
September 17	Komsomolsk	Hotel and Restaurant	Eric Erlandsen	12	6

		Management Consulting			
TOTAL				114	77

After the seminar and consulting of Aaltje Van Zoelen, the Unitravel and Dalreo Tourist Companies from Khabarovsk created new brochures to attract international audience. The Komsomolsk National Park has created three new eco-tours.

Eric Erlandsen, an expert in hotels and restaurants business, has made the following recommendations to hotels in Khabarovsk:

- The Vostok Express Hotel has started to change the design of the hall and opening a small restaurant at the hotel by Erick’s sketches. It will help the hotel to develop new services for hotel guests and to attract more guests to the restaurant, so to increase the profit of the company. They have put the lamps in the rooms differently. It has created more comfortable and better functioning conditions for guests.
- The Amethyst Hotel will introduce some new breakfast menu to satisfy guests of different nationalities (Oriental, European, American and Russian). They plan to invite a specialist for lights at the restaurant and the hotel. They will put some hotel amenities for traveling women in the rooms. It will help to increase the quality of serving guests, and so to attract more customers and more profit of the company.
- Erlandsen suggested that the Sea Gifts Company develop a fish restaurant and advised the company to hire a cook to create the menu and to train the personnel. This will help the company to start a unique restaurant in the downtown Khabarovsk and to increase the profit of the company that already has a store.
- The system of developing the room price was offered to the Zaria Hotel. Such system will help to increase the profit and to keep the price they have today.

ESD will get back to these companies in the next quarter to learn what recommendations have been implemented, and how it affected their businesses.

2.5 Outreach and Communication

The ESD Program successfully **collaborates** with other USAID and donor projects in the region, as well as draws upon lessons learned from other project in other regions of Russia. For example, in July ESD COP participated at the CIPE conference in Moscow, where the two projects exchanged information on programs’ activities and successes. Experts from the Institute for Sustainable Communities have been invited for the ESD grants panel for micro-grants for business associations managed by Counterpart. Russian Microfinance Center has been providing regular trainings to ESD clients in the Far East. BISNIS has published the ESD Report on assessment of training needs in the region. ESD makes use of existing research papers, studies, tools, lessons learned and resources of other projects.

The ESD Program **website** continues to be updated. We publish training schedules, calendars of events, training materials and other resources on the web to ensure information exchange and collaboration between the project’s partners. The new section appeared on the ESD website in August 2004. The section is called *SME Resources* and contains information about RFE

administrations, SME support organizations, references to electronic libraries of SME legislation.

The fourth issue of **ESD Newsletter** has been published and placed on the web in September. It contains information about ESD events and partners, summary of ESD results in Year 1, and includes attachment with leasing information.

2. Problems/Difficulties Anticipated in the Next Three Months

N/A