



Enhanced Small and Medium Sized Enterprise Development Program

Quarterly Performance Report

January 1, 2005 to March 31, 2005

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Winrock 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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1. Background

Winrock International, in partnership with , 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 January 1 to March 31, 2005. It also provides a brief summary of annual results.

Project Administration

Patrick Perner, representative of Winrock Russia, will play a more active role overseeing the ESD Program and take over some of the responsibilities of the home office. Erin Hughes will continue to support the program, but has delegated management responsibility to Patrick Perner.

Winrock is planning for the remainder of the program and has learned from USAID that life of program budget will be reduced. Winrock is in discussion with USAID regarding an amendment to our Cooperative Agreement.

The next ESD Partners meeting will be in Khabarovsk May 16-17.

2. Progress Indicators

2.1 Improving Regulatory Environment

Introduction

Counterpart's approach to regulatory reform under ESD has been to work with local associations, choosing its partners based on their credibility, a democratic organizational structure, a clear mission and objectives, and qualified staff. Partners also must represent a large number of SMEs, be involved in sectors having economic potential, and demonstrate a willingness and past experience in working on regulatory issues.

Counterpart International then conducted an in-depth assessment of each of the associations to determine their strengths and weaknesses and provided appropriate organizational development and advocacy training to strengthen their capacity to plan and conduct advocacy campaigns. Throughout the project, Counterpart International has continually mentored its partners and provided microgrants to enable them to conduct advocacy campaigns; hold roundtables with government officials; work with media to get their message across; and design and use other means to effect changes in the SME business environment.

In addition, Counterpart facilitates the development of business association networks and coalitions to achieve common goals. Bringing association leaders together periodically to share information, best practices, and lessons learned and to identify potential areas for collaboration on advocacy issues is helping to build working relationships between them and make them a power to reckon with.

2005 First Quarter Activities

The ESD Program continued building the capacity of its regulatory reform partners? SABP, Prognoz, and Makon—to overcome administrative barriers and increase SME growth in the Russian Far East. Counterpart International provided technical assistance and mentoring to its partners that enable them to assess business associations; develop training and technical assistance plans to strengthen other associations; plan and conduct advocacy campaigns; collaborate with government officials; and create strong networks. SABP, Prognoz, and Makon then help associations in their regions become stronger and more capable of advocating for an environment conducive to SME growth. Counterpart also oversaw the approval, implementation, and evaluation of the advocacy microgrants.

Roundtables During this quarter, there were two roundtables, with the first held on February 25th. Organized by Prognoz, the roundtable was entitled "How to Overcome the Administrative Barriers in the Construction Sector in Amurskaya Oblast". The roundtable aimed to bring together Association of Construction Companies members, city and regional administration executives, Blagoveschensk regulatory federal institution representatives to discuss current administrative barriers to the construction sector. In all, 28 participants (7 female) participated, including construction firm CEOs, regulatory organization managers, and city and regional administrations executives.

Discussions focused on barriers affecting apartment building construction. The law requires construction companies to obtain certification from several departments stating that buildings are up to code, but because there are no rules guiding the inspection procedure, sales are constrained by the excessive amount of time inspections often take. The length of time it takes for these inspections added to costly documentation can cause major financial losses for construction SMEs and local officials use this to their advantage to press the companies and realtors. Roundtable participants have established working groups in cooperation with city and regional administration executives to discuss contradictions in the law and to review a list of amendments and tariffs proposed during the registration of sites intended for commercial construction.

The second roundtable, held in March, concerned administrative barriers to vehicle registration in Sakhalin. Entrepreneurs often face additional requirements when registering imported vehicles

and since these requirements are not addressed in legislation, SMEs consider them illegal. SMEs, particularly those in the transportation sector, often function without legally registering their vehicles, which is very risky. These barriers also discourage some entrepreneurs from even starting up such a business. On the other side of the debate, government officials argue that these laws and actions are based on Acts of Internal Affairs that help ensure traffic safety. At the roundtable, the Sakhalin Federal Inspector, officials from the Traffic Safety Control Inspection office, the Traffic Prosecutor's Office, and Customs officials met with business association representatives to discuss the issue. Following consideration of the opinions of both parties, participants developed and submitted the following proposals to the Sakhalin Regional Duma:

- Department of Internal Affairs should follow legislation on vehicle registration and not introduce new rules and requirements. All rules and requirements should be publicized in the mass media to raise public awareness.
- The Traffic Safety Inspection Agency should bring all vehicle registration documents into compliance with federal and regional legislation and follow all related acts when registering vehicles.

Advocacy Microgrants Partner associations worked on overcoming administrative barriers through three advocacy microgrants. The Ulegorsk Businessmen Association continued work on their labor regulation microgrant. In Russia, SMEs need to send a labor contract for each employee to the local government and the government must register each contract and ensure that the SME follows labor regulations. The Ulegorsk District local government, however, has recently been protracting the registration period for extended time periods, claiming that all contracts are poorly written. This causes SMEs to violate the Labor Code by employing people who aren't registered. The government then requires SMEs in violation to pay fines. To regulate this problem it is necessary to have a provision in the law that lays out all the steps for registering labor contracts in accordance with the Labor Legislation.

The Ulegorsk Businessmen Association used its microgrant to form an ad hoc working group comprising SMEs municipal authority representatives. Group members, with the help of a specialist, developed a draft provision on registering labor contracts for submission to the authorities. This new law "About the Procedure of Labor Agreements Registration" corresponds to Russian Labor Code standards. It was approved by the Ulegorsk Regional Mayor on February 17, 2005. The new regulations will allow more than 500 entrepreneurs in the region to easily register labor contracts without incurring costly penalties or fees.

In addition, the association in Nevelsk is implementing an advocacy microgrant aimed at assisting SMEs in Nevelsk District obtain a legal trading license. Currently, SMEs in Sakhalin must fulfill three requirements in order to obtain a trading license, which contradicts a local law that specifies a list of requirements for acquiring a license and prohibits requests for documents not included on the list. New requirements create barriers for SMEs trying to do business in Sakhalin and the association analyzed the situation and discussed it during an Association Directorate meeting. The association worked with a local newspaper on an article entitled "Barriers for Businessmen" that described the problem and its consequences in order to raise the awareness of key stakeholders. The association then held a roundtable in March to discuss the issue and possible solutions. Nevelsk authorities and entrepreneurs participated and agreed to

discuss the issue at the Nevelsk Authority Advisory Board meeting. Preparations for this meeting are underway.

In February, the Entrepreneurs Union of Aniva Region initiated the advocacy microgrant project "Optimizing Small Business Support Fund in Aniva Region" that aims to eliminate administrative barriers and enhance transparency of the SME Support Program. This is a government program to financially support SMEs, but entrepreneurs are dissatisfied with the activity as the municipality allocates money at its own discretion without consulting businesspeople or publicizing information on loans to encourage competition. The fund lacks transparency and is a violation of the mayor's provision. The ESD microgrant will familiarize the business community and Duma with the Fund's performance and develop rules and procedures for loans to encourage SME development.

Seminars During the quarter, ESD conducted eight seminars designed to strengthen its partner associations. The training covered topics such as fundraising, working with government officials, and preparing for an inspection.

In January Prognoz organized a seminar on "Promoting the Image of the Business Association", which provided tools associations could use to promote a positive image and provide information on the role associations and businesses play in community life. To improve their ability to organize PR campaigns and produce press releases, participants developed communication and marketing plans promoting the image of a hypothetical association. They all realized that this knowledge was crucial to making their association's mission more attractive to potential members and the general public in order to strengthen their member base and financial sustainability.

Ten association members (nine women) attended the seminar "Fundraising Tools: How to Sell Your Services Effectively" to learn how to communicate with clients effectively and clearly. In addition to improving their ability to promote services, participants gained skills and knowledge in offering services designed to address the changing needs of members and potential customers and increase the financial sustainability of associations.

Both Prognoz and Center Makon held seminars to encourage cooperation between SMEs and government officials. Prognoz facilitated training in "Cooperation of Businesses and Regulatory Organizations for the Improvement of the Social and Economic Situation in Amur Region." The course was designed to deepen participants' knowledge of the tools available for both businesses and regulatory organizations desiring to improve business quality; decrease regulatory inconsistencies; and support the rights of members and SMEs. Members of agencies specializing in fire, sanitary, and standardization inspections were among the 13 seminar participants.

In February, Makon held a seminar on "Association Management: a Strategy for Successful Association Development" for regional business association leaders. Participants analyzed existing organizational structures; determined the cost of supporting association activities; and identified sources of income including taxes, fee for services, grants, and special events. Strategic planning for association success was the main theme and topics on association start-up, marketing, and mission implementation were covered. Participants worked in small groups with members of active associations to expand their understanding of association development.

Center Makon also conducted an "Interaction between SMEs and Authorities" seminar with the purpose of establishing dialogue between business associations and local authorities. Seminar participants included active business association members and representatives of local authorities (Board of Tax Collectors, Committee on Economics in the City of Ulan-Ude, Council on Entrepreneurship, and others). The idea for conducting this seminar came out of the December 2004 roundtable devoted to interaction between business associations and authorities that occurred during the "Entrepreneurs' Days." Participants at that roundtable concluded that to more effectively overcome administrative barrier government officials must develop productive, collaborative relationships with existing business associations. The seminar included a mini-lecture on the important role of SMEs in economic development; training in negotiating and problem solving; and a role play in which participants acted out an interaction between SMEs and government authorities. The seminar also gave government authorities and SMEs an opportunity to express their grievances to each other and to solve these problems in a moderated role-play. Participants found the seminar very useful, it helped all of them understand each other better, and they requested that another one be held.

SABP conducted two training seminars on "What to Do When Faced with Inspections." The subject presented both the legal and psychological perspectives to help SMEs and associations improve their understanding of legal issues concerning inspections and expand their ability to communicate with officials. Trainers educated participants on model behavior and covered proper documentation and the appellate process. A total of 35 association members gained knowledge and skills that can protect their interests when inspectors break federal, regional, or local laws.

Due to high demand, SABP held a second fundraising seminar later in January in which 21 participants (19 women) including members of Uglegorsk Entrepreneur Association discussed topics that included increasing member services, analyzing business support needs in Ulegorkiy Region, and attracting investment. They also learned about the most effective tools to use in improving the image of business associations.

Coalition Development

In March, a working meeting of representatives from the Union of Public Catering Enterprises, the Association of Women-Entrepreneurs of Russia of the republic of Buryatia, and Center Makon was held to form a coalition. During the meeting the associations discussed possible joint projects, PR-projects for the Union, and how to work together to overcome administrative barriers. Center Makon will encourage representatives of other business associations to become involved in the coalition.

Results of Monitoring

Prognoz In January, Prognoz finished its analysis of questionnaires collected from SMEs operating for less than one year in order to gauge progress in decreasing the amount of time it takes to register an SME. Staff also analyzed the questionnaires received from enterprises operating for more than one year to determine progress in the number of inspections conducted.

The study concluded that, for SMEs operating for more than one year, the same six agencies—Tax Inspectors, Sanitation Inspectors, Trade Inspectors, Labor Protection Inspectors, and the Police Department—that had conducted the greatest number of inspections in 2003 also conducted the most in 2004. The Tax Inspectors alone did 33% of the inspections during this period and they levied 33% of the fees. These figures mean that ESD and its partner associations must work on reducing the number of tax inspections during the remainder of Year Two and all of Year Three. The survey also found that significant progress had been made in reducing the number, and increasing the transparency, of Labor Protection and Police Department inspections.

For SMEs operating for less than one year the report concluded that 84% of those surveyed spent less than five days completing their registration. However, it took some enterprises more than one month to get the licenses and some registration authorities “asked” SMEs to provide financial support for the municipality. These are priority areas on which Prognoz intends to focus during the remainder of Year Two and Year Three.

Makon In January 2005, Makon monitored existing administrative barriers for small and medium enterprises and found that there were no significant problems in registering and licensing new businesses with 50% of businesses taking one month to register, 25% more than one month, and 25% less than one month. Of those interviewed, 70% noted that the government adhered to the “one window registration” principle. While this number represents an improvement, Makon would like to see it even higher when they conduct the next round of monitoring.

In this region, the most frequent inspections for SMEs operating for more than one year were conducted by Fire Prevention Inspectors (21.25%), Tax and Labor Protection Inspectors (15.7%), and the Police Department (12.59%). There was a significant decrease in the number of Pollution Control Inspections, from 9.5% to 3.39%. Makon and its partner associations will focus their efforts on the fire, tax, labor, and police sectors during the remainder of the project.

SABP In February, SABP monitored the “one window” rule for simplifying the registration process for new SMEs, which has been in effect since January 2004. Staff interviewed managers of 30 enterprises registered in 2004 and results show that local officials follow the “one window” principle and the new legislation regulating business registration and creating the principle did indeed simplify the procedure. In fact, 93.3% of respondents answered that it had taken no more than 5 days to register their business. A person or organization can now submit documents to tax inspectors to start a business, make changes to documents, or liquidate a company and receive a document that confirms the registration within six days. Businesspeople no longer need to visit several different government agencies such as Registration, Pension Fund, Social Fund, Statistics Committee, etc. This is a major improvement in the registration process.

In the last quarterly report, SABP reported that 64.3% of inspections carried out in Sakhalin were scheduled, a 2.34% reduction in the number of unscheduled inspections (baseline December 2003). The number of inspections conducted by specific agencies also fell—tax inspections by 4.22%, fire department inspections by 4.50%, labor safety inspections by 7.43%, and militia inspections by 4.44%. These results demonstrate that entrepreneurs are having fewer problems

with certification authorities and most survey respondents also believe that since December 2003 the inspection process has become clearer and more predictable.

Results to Date

Growth of Business Associations and Their Members The number of entrepreneurs interested in advocacy increased following ESD seminars, roundtables, conferences and public hearings. ESD participants are starting to positively affect the business climate in the region by making it more suitable for SME growth and development. For instance, at the beginning of the ESD program there were 18 business associations and unions registered in the Amur region, but only two of them were actively advocating for change. With Counterpart's support and guidance, Prognoz has helped other associations become more active by providing them with institutional training and technical assistance. Fifteen are now involved in improving the regulatory environment and participation rates of associations in the other two regions have also risen. In another example, the Business Women's Association developed and introduced new, chargeable services for members and non-members that have provided it with additional funds for operations; increased its level of sustainability; and allowed it to continue its advocacy work.

Strengthened Collaboration between Business and Local Government During this quarter, business associations in all regions invited local government and state inspection agencies to participate in roundtables on administrative barriers. An important outcome was an increased understanding of the importance of cooperation by participants on both sides of the table. Additionally, all partners planned follow-up activities, including technical seminars on how to cooperate more effectively. As a direct result of these roundtables, SMEs are becoming more influential in developing and changing laws to encourage business development.

Business Associations Begin Forming Coalitions Associations that have actively participated in ESD and attended roundtables and seminars have begun forming coalitions. In the past this did not occur because members saw all the other associations and enterprises as competitors, not collaborators. ESD has been instrumental in bringing them together, and providing them with an opportunity to learn association management and advocacy skills, and ways to work with each other and with local government. After attending the "Business Association Management Seminar", participants united several small catering service provider organizations into a single Association of Restaurateurs to represent the interests of more businesses and have greater influence on the government.

Another example of association collaboration was the Association of Businesswomen, which organized a conference on socially responsible business. When the newly created Association of Restaurateurs decided to help with the conference, it also asked the more experienced businesswomen's association for assistance with some of its management issues.

2.2 Improving Access to Credit

Under the access to credit component, Counterpart International facilitates workshops for banks and leasing companies. It also offers strategic direction and mentoring to the Counterpart Enterprise Fund (CEF), which provides logistic support to workshops for SMEs, non-bank financial institutions, and some banks. These training activities provide financial institutions with

the tools and information they need to lend to SMEs profitably and provide SMEs with information on how to access financing.

Loans During the quarter, SMEs received **527 loans worth \$6,672,030** from participating banks and non-bank financial institutions. This is a direct result of the training sessions that Counterpart International and CEF have provided these institutions since project inception (9 workshops this quarter).

Leasing Counterpart also provided access to **39** lease agreements worth a total of **\$1,779,536** this quarter (see Table 1). Again, these leasing agreements occurred as a direct result of CEF training for SMEs in how lease agreements work and how to apply. In addition, leasing companies in Yakutia (Sakhalin) and Vladivostok sent employees to ESD seminars on management and client relations and Counterpart International provided consulting services to leasing companies in Sakhalin. Counterpart International and Delta-Lease are also exploring the potential benefits of working together on a range of activities.

Table 1 - Breakdown on loans and leases by type of financial institution

Financial Institutions Reporting	Total Loans	Loans to Women	Amount of Loans
SME Support Funds	26	11	\$116,071.40
Credit Cooperatives	328	223	\$1,463,989.50
Banks	173	80	\$5,091,969.00
Leasing Companies	39	14	\$1,779,536.40

CEF Credit Workshops In January, CEF's ESD manager, Elena Vasilieva, conducted a training—organized with the Vladivostok ESD partner organization Far East Center of Economic Development—for SMEs on “Cash Flow as an Instrument for Forecasting Financial Needs.” Twenty-three SME representatives in the region participated in the training and all received individual training on cash flow analysis, loan application processing, interest rates, and other lending and leasing topics. When Far Eastern Sberbank offered to lead a future seminar on lending terms and conditions for SMEs at the bank, all of the participants said they would be very interested in attending.

In February, ESD and the St. Petersburg Fund for Business Development conducted a training of trainers (TOT) course on “Investment Planning and Forms of Business Financing” in Khabarovsk. Prior to ESD, it was impossible for financial institutions to find trainers knowledgeable in this topic in the Far East. Due to this ESD activity, there are now seven local trainers in Khabarovsk and Vladivostok able to conduct such seminars.

Also in February, RMC conducted training in Khabarovsk for non-bank financial institution loan managers on "How to Reach Your SME Clients." Participants included three new trainers from CEF for a total of 12 trainees. In addition, CEF organized training for employees of the Sakhalin Branch of Sberbank that included work on efficient communication with SME clients, taxation and documentation for SMEs, financial analysis of SMEs, and Sberbank's instructions and requirements to obtain a loan.

In March, CEF facilitated a seminar on accounting for rural credit cooperatives in the Chita Region. Twenty-two participants from 16 organizations participated. And, in collaboration with the Vladivostok City and Krai Administrations, CEF organized a seminar for SMEs in Ussuryisk on “Leasing as a Form of Financing and Cash Flow as an Instrument of Assessing the Need for Financing.” Thirty-two participants from 27 organizations attended the training and three leasing companies presented their services and during the final session, CEF provided entrepreneurs with individual consultations on leasing topics.

Also in March, 16 employees from 15 non-bank financial institutions participated in training on “Marketing for Microfinance Organizations” conducted by the Russian Microfinance Center in Vladivostok. This training helps MFIs reach out to SMEs more effectively.

Trainings In March Counterpart International conducted a seminar for Sberbank on client-oriented service and educated 15 credit cooperative managers in Vladivostok on working with a database developed specifically for credit cooperatives.

Other Activities In February, CEF and the Primorye Administration Department for Entrepreneurship and Investment Support jointly conducted a roundtable entitled “Cooperation between Microfinance Organizations and Banks.” Forty-four participants attended the roundtable, which discussed cooperation between banks and MFIs by presenting the examples of the Counterpart Enterprise Fund and ACDI/VOCA. Representatives of 7 local banks participated in the roundtable. As a result, the Dalcombank branch in Vladivostok invited credit cooperatives to negotiate and use its resources to expand their loan portfolio for SMEs.

During the quarter, CEF continued working in Vladivostok with Counterpart International’s partner, the “Pacific Center for Development of Credit Cooperatives” (ANO). In January they collaborated on developing a business plan for lending and a credit policies and procedures handbook. They also began distributing loans and searching for an investor to help expand their portfolio.

2.3 Advanced Business and Sector-Specific Training

This quarter Winrock continued to work with its **seven** major training partners and other regional training centers to expand availability of advanced and sector-specific training in Russia Far East. **Forty-Nine** training courses for **918** entrepreneurs were offered in all targeted regions in March-January 2005 (see Table 2):

Table 2 - Type of Trainings by Region and Number of participants

Region	Trainings			Participants		
	Adv.Bus	SSpecific	Total	Adv.Bus	SSpecific	Total
Amur Oblast	5	4	9	91	94	185
Buryatia	6	3	9	98	63	161
Primorye	7	5	12	125	101	226

Khabarovsk Krai	5	1	6	99	24	123
Sakha (Yakutia)	4	1	5	84	21	105
Chita Oblast	2	2	4	44	26	70
Sakhalin	2	2	4	32	16	48
TOTAL	31	18	49	573	345	918

2.3.1 Advanced Business Skills Trainings Conducted

During January-March 2005, ESD supported its partners in providing **31** demand-driven advanced business skills training courses in the targeted regions for **573** entrepreneurs (see Table 2). 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. While ESD supports training centers to continue successful proven training courses, we encourage development and conduct of **new training courses**.

Three new training modules have been developed with ESD support:

1. “Merchandizing”, author Roman Simutkin, Moscow
2. “Effective Sales Technologies”, author Roman Simutkin, Moscow
3. “Budgeting and Financial Management”, author Vladimir Komarov, Novosibirsk
4. “Cash Flow Analysis”, author Elena Vasilieva, Khabarovsk

The first two modules have been published on a CD-disc, and 1,000 copies of it will be handed over to partners for distribution. The disc will be sold at trainings, major SME conferences and other events, and distributed through business associations. This will increase the number of people trained in regions.

Contributing to the sustainability of the program, ESD partners have been using predominantly local trainers regions for advanced trainings during the last quarter. **Five** trainings have been conducted using the ESD-developed training materials. **Six** more training modules are being developed now, and will be ready by July 2005. These are posted on ESD web site and available to all training partners and other training centers.

2.3.2 Sector-Specific Trainings Conducted

The ESD Partners continued to support key sectors in the RFE that support SMEs such as ecotourism, hospitality sector (hotels and restaurants), construction, fish processing and construction. In January-March 2005, the Program provided **18** sector-specific training sessions to **345** entrepreneurs to strengthen their businesses (see Table 2).

Tourism: Tourism greatly impacts SMEs from souvenir kiosks to ground transportation and often supports SMEs in remote areas where there are few other economic opportunities. ESD works with the tourism sector in Khabarovsk, Chita and Ulan Ude. In March two sector-specific seminars were conducted in Ulan-Ude and Chita on eco-tourist product development and marketing. A Russian trainer, Blizniukova, and a US volunteer Rinder helped 55 entrepreneurs develop new market-oriented trips, trails and eco-tours. This is expected to attract new Russian and international customers to these regions.

Restaurants: The ESD Program has been working on a regular basis with the Restaurants Association in Ulan-Ude since the start of the ESD Program. Assistance to this sector has included: training for managers improved client services, improved menus, furnishing cafes and restaurants, etc. Alexander Zatulivetrov, a consultant and owner of a restaurant in St.-Petersburg, held a seminar on conflict management in Buryatia in January. According to Makon's assessment in March 2005, since restaurants and cafes have improved the quality of services there has been an increased number of visitors, especially tourists, resulting in a 20% increase in profit for companies-participants of the ESD trainings within the last 12 months.

Construction: On March 29-30 "*Air Conditioning and Ventilation Systems*" training was conducted by Russian volunteer Vassily Polturaus in Blagoveschensk. The aim was to teach building designers, installation engineers and construction and ventilation equipment providers how to design and plan before constructing, and how to install ventilations systems. Polturaus provided technical information and Center Prognoz made copies on CD for **17** participants of the training.

Fish processing: The US volunteer Dr. Criddle's provided training to a variety of fishery enterprises in Vladivostok, including: "Salmon Aquaculture Technologies", "Quota regulation rules, determining allocation criteria in Fisheries of Primorsky Region", "Traceability and Assurance in Seafood Markets", "Marketing for Fish-Processing Companies", "Introduction to Bioeconomics" for more than **80** representatives of the Association of fishing and fish-processing enterprises. As a result, the trained companies have received new vision of Pacific Rim market and can adjust their products according to it demands.

2.4 Sector-Specific Consultancies

During the reported period ESD has increased the number of sector-specific consultations to RFE companies. Consultations are tailored according to individual companies' needs to ensure better results (see Table 3)

Table 3 - Sector-specific consultancies provided in January-March 2005:

Date	Location	Theme	Consultant	# Of People	# Of SMEs
January 19	Ulan-Ude	Client Service Techniques In Restaurants	Zatulivetrov	10	1
February 24	Yakutsk	Innovation Ideas Management in Ecotourist Business	Sokolova	4	4
March 1	Vladivostok	Development of Business Plan on Expansion of Production Activity	Abramov	6	1
March 9	Vladivostok	Salmon Aquaculture Technologies	Criddle	6	4
March 9	Khabarovsk	Marketing Research in	Popov	3	1

		Outside Financing for Construction Firms			
March 10	Vladivostok	Processing Center for Fisheries SMEs of Primorye	Criddle	18	9
March 10	Vladivostok	Quota Regulation Rules Determining Allocation Criteria	Criddle	12	6
March 11	Vladivostok	Traceability and Assurance in Seafoods	Criddle	4	2
March 11	Khabarovsk	Marketing Research in Outside Financing for Fish-Processing Industry	Popov	3	1
March 12	Vladivostok	Effective Development of International Fisheries Trade Show	Criddle	6	2
March 12	Khabarovsk	Marketing for Fish Processing Companies: From Commodity to Niche	Criddle	12	6
March 13	Vladivostok	Sea Farming in Primorsky Coastal Area: Competitiveness and Technologies	Criddle	1	1
March 14	Vladivostok	Business Planning for Fisheries	Criddle	5	3
March 15	Khabarovsk	Opportunities and Perspectives of Fish-Processing Industry in the Khabarovsky Krai	Criddle	7	2
March 22	Ulan-Ude	Development of Ecotourism: Fundraising and Ways of Entering the International Markets for Buryatia Ecotourism	Rinder	7	5
March 22	Ulan-Ude	Effective Attracting of Foreign Tourists	Bliznyukova	7	5
March 27	Yakutsk	Marketing for Furniture Production	Imshinetskaya	10	1
March 28	Ulan-Ude	Opportunities of Ecotourism Development in the Chita Region	Rinder	13	3
March 28	Ulan-Ude	Opportunities of Ecotourism Development in the Chita	Bliznyukova	13	1

		Development in the Chita Region			
March 31	Blagoveschensk	Air Conditioning Projection Methods	Poltaraus	21	2
TOTAL		20		168	60

Tourism:

- The ESD Program co-funded the participation of tourist companies from Khabarovsk (“Bon Voyage”), Vladivostok (“Dalintourist” and “Mirabel”), Kamchatka (“Kamchatintour”) and Yakutsk (“Tourservice Center”) in the **Chicago Travel Show** on January 19 – 23, 2005. Prior to the trip, participating companies prepared for the show by developing appropriate marketing materials and learning how to make use of an international trade show with the ESD Program support. This marked the first time Russian Far East (RFE) tourist companies presented at US tourism trade show. About 50,000 people visited the booth during the Show. The RFE participants made successful presentations to potential clients. They exchanged information with 23 tour operators from the USA, Canada, India, and Argentina. All these tour operators work in the Pacific Rim and are much interested in expanding their activities to new areas. As a first result of the show, the “Dalintourist” company signed a long-term contract with one of the largest US tour operator MIR Corporation, and in March 2005 provided services for a group of international tourist for more than \$50,000.
- In addition to sector seminars, volunteers Blizniukova and Rinder worked with eco- and ethno-tourism companies in the Chita Region and Buryatia. They helped the local tour operators develop business plans. The plans were aimed to increase the companies’ profit margins by 10% through expanding the activities of the local tourism services providers. Companies plan to involve local population into tourism sector through creation of B&B and home-stay facilities in the local districts. Based on this assistance, ESD expects to help reduce unemployment by creating new jobs, and improving the remote, underserved regions.
- During February 2005, Aytalina Sokolova, Director of Business School, Yakutsk, provided a number of consultancies to the tourist company “Lena-Tour” and three private entrepreneurs involved in tourist business. Based on this, “Lena-Tour” created a business plan to create an Ecological Centre “Wood Fairy Tail.” This expects to increase’s the company’s profit by at least 10%. Private entrepreneur Mr. Mukhin has developed a business plan for organization of a tourist resort “Odykh-Tour.” To implement the project, an investment application for 100,000 rubles was prepared and submitted to the Credit Fund of the Sakha Republic. Another business plan was created for a private entrepreneur to develop “Keberghe-Tour” resort, which would attract investments in amount of 1 million rubles. Aytalina Sokolova also helped Mr. Levin, a private entrepreneur from a remote village, develop a business plan for creation of a floating hotel in Kobyaisky Ulus. The business plan was forwarded to the Moscow credit organizations for approval. ESD will be in constant touch with these companies to find out when these dealings are signed.

Construction:

- Mr. Poltoraus, a Russian Volunteer from St. Petersburg based DAIKIN company, provided consultation with two Blagoveschensk construction companies on mounting, operating and servicing air conditioning and heating equipment. Based on the recommendations, the companies will increase efficiency of this equipment by 20%, reduce their operations costs, and save energy.
- Alexey Popov completed the ESD course for trainers (TOT) on Investment Planning in February 2005 and then applied what he learned in a consultation to Teploterm Construction Company in Khabarovsk to help them lease equipment, which will cost more than US\$8 million. To implement the project, the company applied to Alfa-Leasing in Moscow to lease \$5.5 million in equipment to produce insulation materials, PVC pipes and wall panels.

Fish processing:

- Alexey Popov also helped a long-term ESD client the Khabarovsk Fish Processing Company (KhPTRK), to identify suppliers for a smoking chamber, a thermal vacuum packaging line, a labeling and weighing systems. He also helped the company to complete the application for equipment leasing for \$317,000, which was submitted to Delta-Leasing Company in Vladivostok.
- US volunteer Criddle held sector-specific consultations for 70 representatives of 34 fisheries in Khabarovsk and Vladivostok. As a result of the assignment, the Association of Fishing and Fish-Processing and its members (enterprises), as well as the industry as a whole, developed a strategic vision and methodology for the sector. They defined how to increase the value-added production in domestic shore-based facilities, and how to develop a regional marketing strategy with the intent of expanding sales in the emerging domestic market. The strategy addressed requirements for traceability in compliance with international norms and fostering cooperation among companies involved in seafood aquaculture, patterned after the cluster model. The strategy included addressing environmental and social issues by discussing efficient quota allocation mechanism that allows for sustainable development of enterprises and the community as a whole; the involvement of international expertise and cooperation for SME fisheries activities to promote the region economy's development. Ten companies who met with Dr. Criddle have started developing their business plans. Another five enterprises anticipate that because of quality improvements, certification and refocusing their marketing will lead to substantial ($\approx 10\%$) increases in profitability during 2005-2006.

As a result of sector-specific consultancies, **eight** companies increased their productivity, and **six** companies increased their profits by at least 10% by March 2005. **ESD consultants have developed twelve business plans and three investment proposals** in the reported period.

2.5 ESD Partners Institutional Development

ESD is committed to develop its local partners to increase their sustainability and ensure their viability after the program closes. ESD partners report that participation at the ESD project has

improved their organizations' image, increased clients base, brought in new skills and knowledge to their personnel and strengthened financial stability of their companies.

ESD supports partners in strengthening local resources and increasing the number of local trainers in the region through providing **training of trainers** seminars. **Three** TOT sessions have been conducted in the last quarter in Khabarovsk, Vladivostok and Blagoveschensk. As highlighted above, ESD partners have already started to use the trained experts for their courses – **19** local trainers conducted trainings in the region during the last quarter. Each ESD partner has developed their own pool of trainers. The newly trained cadre of local trainers practice their materials and techniques in remote areas, thus gaining skills and reputation within the local communities.

Over the last quarter, 57 people, and 38 of them – local trainers from Russia Far East, increased the ESD trainers database. A new feature has been added to the database – to see the trainers who have conducted trainings under the ESD program, one can select “ESD” in the “City” menu. Now this category contains **88** people, out of total **423** trainers.

ESD supports creation of new **training modules** that are available to ESD and non-ESD trainers. ESD partners, to meet the need of local business communities, identify the themes for these modules. The modules contain theory, practical materials, handouts, and also recommendations to trainers on how to use them. All modules are inspected by ESD partners and tested in their organizations. The modules are posted on the ESD web site for public use.

All training partners have improved and diversified their **services**. For example, Makon doubled the number of business trainings in 2004 as opposed to previous years; Prognoz now holds 4-5 trainings each month, while before ESD they used to conduct one training every two months; Business School in Yakutsk now offers seven types of seminars and trainings, as compared to two kinds in previous years. All partners have introduced a new and unique service to their regions – sector specific seminars and consultations. CEF has started a new direction of its activity – replication of their lending method to other organizations.

ESD partners have significantly increased their **client base** – due to trainings, the Far Eastern Chamber of Commerce enlarged its membership by 10%; Prognoz has taught about 1,000 people at its trainings, and most companies have become their constant clients; FECED's mailing list has grown 4 times.

Partner organizations' **personnel** have acquired new skills knowledge – managers from Makon, Prognoz, CEF, Business School and FECED have become trainers and provide courses and consultations to their clients. All partners have learned techniques of marketing their services, recruiting and keeping clients, evaluation of program results and writing success stories. They have learned to identify the clients' needs and price their services according to the market demand.

Most partners declare increase of their **financial sustainability**. The most financially successful organizations are Prognoz, Makon and Business School. They have been not only constantly increasing the number of training courses but also managed to create a growing market that is

ready to pay an appropriate price for quality services. This generates program income that allows them to cover 30% of the training expenses (room rent, copying of training materials, coffee breaks), and leaves funds for improving the companies' operations. Starting February 2005, ESD partners cover for the trainers' lodging expenses, thus increasing their contribution to the training costs to 50%. In ESD Program Year 3, partners will pick up the travel expenses for trainers, and by March 2006 partners out of their program income will pay all training-related expenses. This way they will demonstrate their financial maturity.

2.6 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 projects in other regions of Russia. During January-March 2005, ESD COP met with government representatives from Khabarovsk Krai, Primorsky Krai, and Amur Oblast to update on recent program developments and gain information about the SME development in these regions. Local governments in these meetings express high opinions of the ESD Program and recognize the grown reputation of business associations' activities in Amur Oblast, increased level of education among business people, and enlarged amount of taxes paid by SMEs to the budget. They attribute this success to the program activities in their regions.

ESD staff and partners have been in constant communication with Russian American Education Center in Khabarovsk, BISNIS, ISC, Eurasia Foundation, Russian Microfinance Center, and CIPE. We share information, resources, exchange ideas and ensure collaboration with these and other organizations.

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 "Success Stories" section has been updated in March; new stories have been added for the period from December 2004 to March 2005.

3. Problems/Difficulties Anticipated in the Next Three Months