

Alliance Assessment for USAID/Russia

Steve Schmida, SSG Advisors

Thomas Buck, SSG Advisors

Prepared by SSG-Advisors



TABLE OF CONTENTS

I. EXECUTIVE SUMMARY.....	5
<i>KEY FINDINGS.....</i>	5
II. GDA CONTEXT IN RUSSIA – PAST & CURRENT	6
III. ASSESSMENT PURPOSE & OBJECTIVES.....	8
IV. MACRO ECONOMY & HUMAN DEVELOPMENT IN RUSSIA	9
<i>ECONOMY.....</i>	9
<i>HUMAN DEVELOPMENT & GOVERNANCE.....</i>	10
<i>RUSSIAN GOVERNMENT PRIORITIES.....</i>	11
V. MAJOR BUSINESS SECTORS & COMPANIES SELECTED	12
<i>TARGETED BUSINESS SECTORS</i>	12
<i>COMPANY IDENTIFICATION.....</i>	14
<i>INTERVIEW RESULTS.....</i>	17
VI. STRATEGIC ALLIANCE OPPORTUNITIES – THE ‘BUCKET’ APPROACH.....	19
<i>CATEGORY/BUCKET #1 – ‘HIGH RISK, HIGH REWARD’.....</i>	20
<i>CATEGORY/BUCKET #2 – ‘LOWER RISK/HIGH REWARD’.....</i>	22
<i>CATEGORY/BUCKET #3 – ENHANCING EXISTING PRACTICE.....</i>	24
<i>CATEGORY/BUCKET #4 – OTHER OPPORTUNITIES.....</i>	25
VII. REGIONAL ASSESSMENT.....	26
<i>PURPOSE.....</i>	26
<i>CRITERIA.....</i>	26
<i>CONCLUSIONS.....</i>	26
VIII. CONCLUSION	28
APPENDICES.....	29
<i>APPENDIX A: ALLIANCE MACRO INDICATOR ANALYSIS (AMIA).....</i>	29
<i>APPENDIX B: BUSINESS SECTOR & COMPANY IDENTIFICATION AND SWOT ANALYSIS.....</i>	35
<i>APPENDIX C: FULL LIST OF TARGETED COMPANIES.....</i>	51

Disclaimer

The contents of this report are the sole responsibility of SSG-Advisors and do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.

Acronym List

AMIA	Alliance Macro Indicator Analysis
APS	Annual Program Statement
BPC	U.S.-Russia Bilateral Presidential Commission
BRIC	Brazil, Russia, India and China
BTMI	Bertelsmann Transformation Index
CIA	Central Intelligence Agency
COTR	Contracting Officer's Technical Representative
CSR	Corporate Social Responsibility
DG	Democracy and Governance
DI	USAID/Russia Democracy Initiatives
EIU	The Economist Intelligence Unit
FH	Freedom House
FY	Financial Year
GC	Global Competitiveness
GDA	Global Development Alliance
GDP	Gross Domestic Product
GoR	Government of Russia
HDI	Human Development Index
IBLF	International Business Leaders Forum
ICT	Information and Communication Technologies
IFC	International Finance Corporation
IQC	Indefinite Quality Contract
IT	Information Technology
LOE	Level of Effort
LwA	Leader with Associates
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization

USAID/ Russia GDA Pilot Assessment

NSC	National Security Council
ODP/PSA	United States Agency for International Development's Office of Development Partners/Private Sector Alliances
OECD	Organization for Economic Co-operation and Development
OH	USAID/Russia Office of Health
PPA	Public-Private Alliance
PPP	Public-Private Partnership
RAB	Regional Alliance Builder
RFA	Request for Applications
RFP	Request for Proposal
SO	Strategic Objective
SOW	Statement of Work
SME	Small and Medium Size Enterprise
SUAL	Siberian-Urals Aluminum Company
TB	Tuberculosis
TD	Transformational Development
TDY	Temporary Duty assignment
TICP	Transparency International Corruption Perception Index
TO	Task Order
UNDP	United National Development Programme
USAID	United States Agency for International Development
USAID/ODP/PSA	Office of Development Partners/Private Sector Alliances
USG	United States Government
WB	World Bank
WEF	World Economic Forum
WHO	World Health Organization

I. EXECUTIVE SUMMARY

USAID has played a significant role in US-Russia engagement since 1992 when it first established a presence in Russia under the aegis of the Freedom Support Act. The Obama Administration's strategic 'reset' of US-Russia relations is enabling a critical re-examination of the bi-lateral relationship and creating opportunities for greater engagement.

Public Private Alliances (also referred to in USAID terminology as Global Development Alliances - GDAs), in which USAID and private companies jointly contribute resources to address common challenges, represent a powerful tool for USAID in Russia. The collaborative nature of alliances, where partners share risks, responsibilities and rewards ensures that host country private sector partners are engaged on an equal footing.

USAID/Russia has long recognized the value of alliances and has been a leader in developing alliances with both Russian and international firms, such as SUAL, ExxonMobil and EuroChem.

With the arrival of the 'reset,' USAID/Russia is at a critical juncture in redefining its strategic priorities for the next several years. USAID's Office of Development Partnerships (ODP/PSA) commissioned this assessment, the first of its kind in the Agency, as a means of supporting USAID/Russia efforts to integrate alliances into its new 5-year strategy. By integrating alliances as a core part of its strategy, USAID/Russia is positioning itself to focus on a few key areas where alliances can play a decisive role in achieving development impacts. In this context, the assessment should be seen as a forward-looking exercise of future opportunities, rather than a retrospective review of efforts to date.

The Russia Alliance Assessment was conducted from December 1-19, 2009 and included desk research, internal USAID stakeholder interviews, interviews with representatives of international and Russian businesses as well as leaders of business associations and USAID implementing partners. The assessment team traveled to Moscow and St Petersburg as well as Yekaterinburg, where the team conducted a regional alliance assessment focused on the Urals region.

It should be noted at the outset that this assessment is far from complete. Although the team met with representatives of nearly 3-dozen companies and organizations, the sheer size of the Russian economy as well as the difficulty in obtaining meetings due to time constraints, meant that the assessment team only explored a limited number of possibilities regarding alliance opportunities. Moreover, it is important to acknowledge that alliances represent a 'how' of doing development and not a 'what,' in terms of a technical area. Alliances are built in every USAID sector and very often work in a crosscutting manner. For example, USAID/Russia's own 'one factory town' alliance model (SUAL and Highland Gold) combine civil society, health, local government and SME development project activities in a single alliance.

Given the breadth of possible technical sectors for alliances, it is difficult for a small assessment team to possess all the sector specific technical expertise to identify all potential alliance opportunities. Therefore, the findings of this report should be seen as a limited compilation of strategic alliance opportunities rather than as an exhaustive list of potential alliances.

KEY FINDINGS

Strategic Alliance Highlights

The following table highlights some key alliance opportunities identified through the assessment. In order to facilitate prioritization, the team classified the opportunities into three categories that reflect both the opportunity, but also the relative risks. In addition, the team added a fourth category for those alliance opportunities that the team was unable to examine in any detail, but may be worth more detailed review if the Mission chooses to move in that given direction.

Category #1 – High Risk, High Impact	Category #2 – Lower Risk, High Impact
<ul style="list-style-type: none"> • Independent media • Anti-corruption • Diaspora resource mobilization for NGOs 	<ul style="list-style-type: none"> • Energy Efficiency • Innovative Small Business
Category #3 – Enhanced Existing Practice	Category #4 – Other Opportunities
<ul style="list-style-type: none"> • Aggregated One Factory Town Alliances • Civil Society for Health 	<ul style="list-style-type: none"> • Agribusiness • SME Auto Supplier Development

Each of the categories identified represents an opportunity for USAID to leverage private sector investment towards a shared development objective. A detailed description of each of these opportunities, including potential partners, business interests, etc, can be found in the body of this report. It should be noted that nearly all interview subjects, including USAID/Russia staff, stressed the need for USAID to work collaboratively with appropriate federal, regional or municipal government bodies in any partnership.

With the ‘reset,’ USAID/Russia now has the opportunity to continue to build on its successes with public-private alliances. This assessment has identified a handful of areas where USAID/Russia can achieve significant development impacts by working in partnership with the private sector and the Russian government. Going forward, USAID/Russia will need to prioritize these and other opportunities it identifies internally and then put into place the resources, human and financial, to bring about their realization.

II. GDA CONTEXT IN RUSSIA – PAST & CURRENT

USAID/Russia has long incorporated alliances and public-private partnerships as a key element in its development portfolio. Since 2004, USAID has implemented at least 25 alliances leveraging \$84 million throughout the territories of the Russian Federation and across numerous development objectives. Alliances have developed into a major element of USAID/Russia’s program portfolio, effectively representing the shift in USAID’s role in the country away from one of development assistance towards a role based on cooperation and shared goals with Russian partners. Alliances have spanned across all of the Mission’s major sectors and have included a

diverse group of partners ranging from large multi-national businesses to local and regional government agencies.

During 2009, USAID/Russia took a number of steps to ensure that alliances would be built in a strategic fashion that matched its short-, mid-, and long-term goals. Through these steps, the Mission declared a firm objective of exploring, brokering, and deepening relationships with new private sector and regional governmental authorities. The steps themselves included:

- The development of a new *5-year USAID/Russia Strategic Plan* that is to feature alliances as a core cross-cutting component
- The multi-month *GDA internships* of key USAID/Russia staff members in Washington to build capacity and skills for alliance development
- The resulting *USAID/Russia: Partnership Opportunity Mapping Report*
- The posting of a *GDA APS Addendum* for USAID/Russia in June 2009 calling for innovative alliance ideas that meet a number of development objectives
- The release in August 2009 of *Mission Order* on Mission Strategic Alliance that established procedures to develop, design, implement, manage and report on strategic alliances with the private and public sectors.
- The scheduling of a weeklong *Strategic Alliance-Building Training* designed and conducted by USAID ODP/PSA.
- The development of a number of *new GDAs for 2009 developed outside the APS mechanism* for each of USAID/Russia's three technical offices.

In addition to the optimal timing due to USAID/Russia's strategic planning cycle and general focus on alliances, there have been a number of external contextual shifts that have contributed to the value of GDAs. First, the Russian Federal Government launched a national development program in July 2008 that outlined main challenges and development priorities for the country. Among its audience, the initiative targeted business leaders to unite their efforts to tackle the country's largest challenges, initially identified as Modern Healthcare, Affordable Housing, Quality Education and Agricultural Development. President Medvedev defined each of these issues as a core component of the country's modernization efforts. In 2009, the government expanded the goals of the national development program by calling for investments in energy efficiency, and in addressing a growing youth crisis in particular regions. The government also prioritized the development of innovative sectors of the economy, defined as three key areas (national information and communication infrastructure, a scientific and technical basis for innovations, and the provision of ICT-services).

Throughout the interview process, Russia-based companies informed the alliance assessment team of their eagerness to follow the government's initiative and find ways to support progress in the identified national priority issues. These issues ranged from support to promoting healthy lifestyle to improving technical education and workforce opportunities in innovative technology sectors. A more detailed review of the Russian government's priorities and the potential alliance implications follows in Sections IV and V.

Finally, it is also worth noting one additional element of government policy that has significant implications vis-à-vis USAID alliance building – namely, official US-Russian relations. At the July

2009 Presidential Summit, Presidents Obama and Medvedev agreed that in order to further common interests and address common challenges, the U.S. and Russia needed to engage each other at all levels of government and society. Foreign assistance will play an increasingly important strategic role in rebuilding the bilateral relationship, and it will be based not on traditional principles of assistance, but on joint partnership and cooperation with Russia and its citizens. Beginning in July 2009, Secretary of State Hillary Clinton and NSC Senior Advisor Michael McFaul travelled to Russia with a goal of amplifying this major policy message. The new U.S.-Russia Bilateral Presidential Commission (BPC) and a number of working groups on which USAID has a seat have been identified as the primary forum for jointly identifying and expanding areas of cooperative work and setting priorities in new areas.

Through its current programs, USAID cooperates with Russia in areas of health care, forestry and environment, community and economic development, civil society and emergency response. While encouraging Russia's leaders and institutions to adopt policies and practices consistent with its critical global role, USAID works with Russian partners as a catalyst in putting their immense untapped resources to work in the service of its citizens and the world stability.

USAID views Russia as a stable and reliable partner on the international stage. USAID and its Russian partners work in areas of transnational concern such as climate change, international disaster response, and HIV/AIDS and TB epidemics; and in areas where Russia's core capabilities are still evolving, such as combating corruption, community development, citizen access to justice, international norms for human rights, independent courts, and media freedom.

USAID's Russia programs represent a stable platform for a new era of cooperation, offering multiple deep and stable relationships with governments of all levels (Federal, regional, municipal), private sector actors and NGOs. The Agency has built a broad network of contacts in many areas of joint endeavor over the years. USAID-supported programs are successfully using innovative tools and methods predicated upon a partnership of equals in areas of mutual interest. USAID programs are now based on alliances with Russian public and private institutions, with more partnerships than in any other country where USAID works. USAID is collaborating with Federal Ministries and agencies to inform Russia's emergence as a donor nation and as a U.S. global partner. USAID and its Russian partners are working together on global HIV/AIDS challenges and emergency and disaster response. A number of self-sustaining Russian organizations that matured using USAID support now foster the exchange of best practices between U.S. and Russian specialists, work in partnerships with government bodies and have direct and positive impact on legislation and policy reform in key areas of social and economic development.

III. ASSESSMENT PURPOSE & OBJECTIVES

The principal focus of the assessment was to develop a comprehensive approach to engaging the private sector for GDA development across both priority and potential program areas for USAID in Russia. As a core element, the assessment team carefully analyzed the interests, challenges, and issues facing the private sector in order to determine potential areas of collaboration and partnership. In focusing on the business community in Russia, the Assessment Team sought to identify major opportunities for *new* partnerships and alliances focused on the private sector. To be clear, the assessment team did not explore the potential for alliances with public sector actors.

In this regard, the assessment seeks to provide the Mission with a better understanding of and recommendations for future GDA interventions. The assessment analysis includes an examination of:

- Major partnership opportunities with multinational, Russian, and local companies
- New alliance opportunities across numerous key business and economic sectors in Russia
- New opportunities in Yekaterinburg that highlighted the particular nature and types of issues at the regional and local level.

MACRO ECONOMY & HUMAN DEVELOPMENT IN RUSSIA

As indicated in the methodology review, the Alliance Macro Indicator Analysis (AMIA) analyzed a number of economic, human development, and governance indicators that shed light on the intersection of business interests/challenges and the USAID development agenda. This research is conducted prior to assessment and is meant to inform the process of business sector identification with objective data from a variety of widely cited sources. While many of the indicators used are focused on economic issues, human development, governance, and environmental factors also impact the private sector to varying degrees and, therefore, the AMIA research includes indicators from these sectors. In Russia, with its large, diverse economy and immense geography, the AMIA research was essential in narrowing down the number of sectors to be examined in the assessment process.

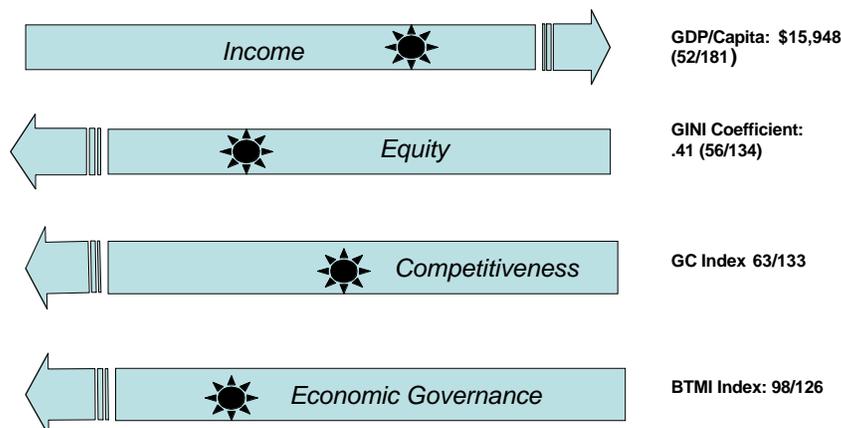
ECONOMY

According to the Economist Intelligence Unit, Russia's economy will contract approximately 6-7% in 2009. A combination of over-reliance on commodities and overseas borrowing left Russia's economy more exposed to the 2008 financial crisis than the other BRIC large emerging market economies. Growth is expected to resume in 2010, but at a fairly tepid pace of 2-3%. Unemployment is officially at 7%, but the real figure is likely substantially higher and growing as Russian firms and consumers are unable to access affordable credit. Commodities comprise more than 35% of GDP and small and medium enterprises less than 15%. Russia is the largest producer of natural gas and the second largest oil producer in the world. Outside of commodities, services are the fastest growing portion of the economy. Until the financial crisis, construction, financial services, IT and retail sectors all showed significant gains in the last several years. Manufacturing, while exhibiting signs of improvement, remains weak.

Below are illustrative indicators, which reveal some important facts about the Russian economy:

Russia GDP Composition (2007 figures)	
Industry:	21.9%
Services:	56.3%
Agriculture:	4.6%

Russia: Highlighted Economic Indicators



Sources: IMF, World Economic Forum, Bertelsmann Transformation Management Index.

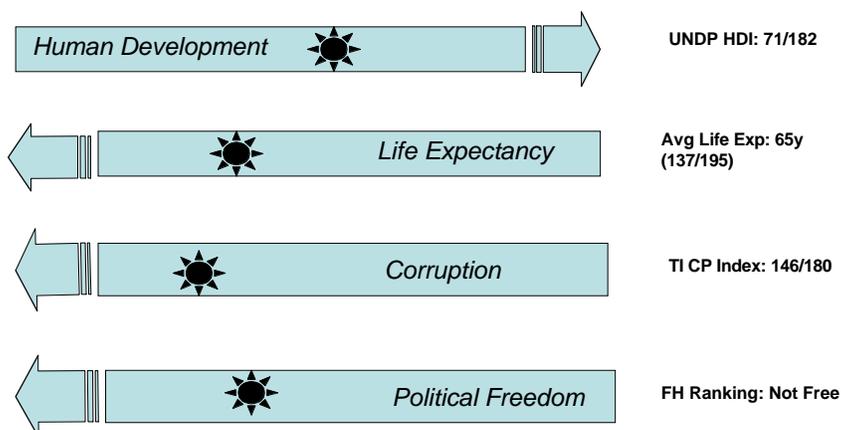
- i. According to the EIU, Russia's GDP figures can be misleading as the phenomenon of transfer pricing results in greatly understated figures from the oil/gas/metals industry. The EIU estimates these actually comprise nearly a third of Russian GDP and 80% of the country's exports. This statistical disparity with official figures only serves to highlight the dominance of commodities when compared with other industrial sectors, such as manufacturing.
- ii. Russia's comparatively high per capita GDP, rapid wage growth (averaging 15% from 2000-2007) and large population suggest that sectors such as retail, financial services and telecommunications experience comparatively high growth rates.
- iii. Conversely, Russia's high degree of inequity highlights both the importance and the challenge of a commodities based economy where relatively few benefit from the extraction of natural resources.
- iv. Russia's low scores on economic competitiveness and governance indicate there are significant constraints on private sector growth. These constraints are felt particularly strongly among small businesses. Indeed, according to the EIU, SMEs only comprise 10-15% of economic output in Russia as compared to nearly 50% in OECD countries.

HUMAN DEVELOPMENT & GOVERNANCE

Following the collapse of the Soviet Union, Russia experienced a severe demographic crisis. From near parity with western countries in the early 1970s, Russia's average life expectancy plummeted to 65 years. Preventable deaths from alcohol, smoking, drugs, poor diet and accidents are a major contributor to early mortality. As a result of high mortality and a low birthrate, Russia's population is shrinking at an annualized rate of nearly .5% (CIA Factbook).

The indicators below illustrate some key development and governance factors impacting the private sector:

Russia: Highlighted Human Development and Governance Indicators



Sources: UNDP, CIA World Fact book, Transparency International and Freedom House

- v. Over the last several years, Russia has seen some improvement in its HDI score, but it remains dismal when compared with other countries of comparable per capita income. The country's low life expectancy and birth rate means that the country is losing population at the rate of 800,000 per year even when taking into account significant immigration from former Soviet Republics in the Caucasus and Central Asia. This has a direct impact on the age and composition of the available workforce – an issue that would come up repeatedly in interviews with companies and business associations.
- vi. Corruption in Russia has worsened in recent years, presenting difficulties for both small businesses as well as western investors, which are subject to global anti-bribery laws such as Foreign Corrupt Practices Act. Weak institutions further exacerbate Russia's problems with corruption and transparency, impacting the private sector and citizens alike.

RUSSIAN GOVERNMENT PRIORITIES

Throughout the assessment process, the preeminence of the Russian state in determining key priorities for economic and social development became abundantly evident. Virtually every company spoken to highlighted the importance of aligning their own company priorities with the stated goals of the current administration. Therefore, in conducting our analysis, we would be remiss if we did not include a brief discussion of Russian government priorities. The cornerstone of President Medvedev's policy platform is the push for 'modernization' of all elements of government and the economy. The goal is to both diversify the Russian economy and improve competitiveness. While the modernization program has many elements, private sector interviewees consistently referred to a number of key components throughout the assessment process:

- i. **Innovation.** The Medvedev Administration sees innovation, particularly in the hard sciences and IT, as critical to the diversification of the economy, job creation and reducing Russia's over dependence on natural resources.

- ii. *Anticorruption.* Russian leaders are actively discussing corruption. While action, thus far, remains largely symbolic, the government rhetoric has cast a light on the issue and created space for dialog on one of Russia's most vexing development challenges.
- iii. *Energy Efficiency.* According to the power generation industry, it takes 8x the amount of energy in Russia to heat 1sq meter of residential space as it does in Europe. The government recently passed an aggressive law providing new regulations and incentives for energy efficiency. Gradual liberalization of energy prices and the break up of the RAO UES monopoly are indicators that the government takes the issue very seriously.
- iv. *Youth.* The Russian government is acutely aware of the country's demographic crisis and is making significant investments in youth policy, particularly related to healthy lifestyles and education.

V. MAJOR BUSINESS SECTORS & COMPANIES SELECTED

In terms of identifying sectors where there may be strategic opportunities to build alliances, the AMIA research and review of government priorities reveals both opportunities and challenges across an array of sectors of the economy. The team's research highlighted the importance of focusing on industries where the above-mentioned development challenges were most pertinent and that offer USAID the opportunity to utilize alliances in a strategic manner to leverage private sector resources for better results and greater scale and sustainability. The team decided to divide the business sectors into three categories:

- *Dominant.* These are the sectors that represent the 'commanding heights' of the economy, where leading companies (in terms revenues and visibility) are concentrated.
- *Promising/Emerging.* Other sectors of the economy may not yet play as significant role in the economy as dominant sectors, but hold the potential to be a source of growth for the private sector and a catalyst for achieving development objectives.
- *Problematic.* These are those sectors of the economy that are so distorted or underdeveloped that they are impeding the broader development of the private sector as a whole.

TARGETED BUSINESS SECTORS

Natural resources are clearly the 'elephant in the room' when it comes to the economy, comprising nearly 80% of Russia's annual export receipts. The centrality of natural resources to the Russian economy and the dominance of the companies working in the sector mean that the extractives industry must be considered a key element for any assessment of alliance building opportunities. Moreover, both in Russia and around the world, natural resources companies have historically been key alliance partners. Thus, although USAID has already worked successfully with some of the leading natural resource companies in Russia, including ExxonMobil and SUAL (now RUSAL), the team decided to include the sector for the assessment.

Although prone to corruption as a whole, interviews indicated that some parts of the natural resources sector are particularly opaque. In particular, interviewees cited fisheries and

forestry/wood products sectors as particularly prone to corruption and closed to engagement with outsiders. Accordingly, the team decided to focus its efforts on the mining, metallurgy and oil/gas sectors.

In addition to natural resources, the macro-indicator analysis suggests a number of other sectors of the Russian economy that are either rapidly growing or show potential to play a significant role in the economy and on social development in terms of employment, new business creation, investment, improved workforce skills, etc.

In a country such as Russia where the state plays a dominant role, government priorities also give some business sectors even greater importance with regard to economic and social development in the country. In particular, Russia's focus on innovation means that the *IT industry*, both Russian and international, requires special attention as it is precisely in IT where small investments can yield large-scale impacts (as opposed to other higher risk innovation areas such as nanotechnology, R&D, etc).

The government's liberalization in the *power generation* sector, though not well covered in the Western media, reflects a significant opportunity to address both global climate change challenges as well as economic competitiveness issues. It creates very significant incentives for private power generation companies to improve efficiency at the enterprise, municipal and consumer levels.

In addition to engaging with dominant and dynamic sectors of the economy, USAID often partners with companies in industries that for any number of reasons are problematic from a development standpoint. In so doing, USAID frequently seeks either to strengthen companies operating in that sector or to promote needed reforms at the company and policy levels. In Russia, the assessment team initially identified two problematic sectors where alliances could play a useful role: *construction* and *independent media*.

Until the crisis, *construction* had been one of the fastest growing segments of the economy and, as is the case in many countries including the US, a sector that was prone to corruption. Therefore, the team initially considered it as a possible priority sector. Through interviews, however, it became clear that the construction sector in general was so corrupt that we were encouraged not to engage with companies. The one exception to this conclusion occurred in Yekaterinburg, where one of the city's small business leaders in the construction sector was actively interested in social concerns (see Penetron company interview in Appendix A.) Based on this input, the team decided to refrain from further review of the construction sector.

In considering the governance indicators and long-standing US government priorities in Russia, the assessment team sought to identify economic sectors in which issues regarding democratic governance might be addressed. In this case, team chose to examine the *independent media sector* as the media segment as a whole has experienced great growth over the last decade (again until the crisis). However, independent TV, radio and newspapers have increasingly fallen under state control or simply shut down. Nevertheless, independent media outlets still exist in Russia, particularly at the regional and local levels. The team decided therefore to explore alliance opportunities with independent media with the full understanding of the difficulties facing any activity – alliance-based or not – in this sector.

Based on the indicator analysis and key informant interviews, the team came up with the following sectors as key focal points for the assessment:

Dominant	Promising/Emerging	Problematic
Oil/Gas	IT	Independent Media
Mining	Financial Services/ Investment	Construction
Forestry/Wood Products*	Retail	
Fisheries	Power Generation	
	Healthcare/ Pharmaceuticals	
	Manufacturing	
	Philanthropy	
	Telecom (Internet)	
	Telecom (Mobil Phones)	
	Agribusiness	
	Automotive Sector	
	Tourism	

* Shaded are the sectors which were initially considered but not explored further

It is important to emphasize that these represent priority sectors, but the assessment does not look for alliance opportunities in a sector-specific manner. Rather, the process is set to identify both within- and cross-sector opportunities.

COMPANY IDENTIFICATION

Having selected priority sectors, the assessment research team began the process of identifying leading international and Russian companies in each of the sectors. An initial list of companies was fashioned based on a number of factors including market share, sector influence, and regional importance. Sources ranged from major research institutions including the Economist Intelligence Unit and the World Economic Forum to online resources such as business association lists and sector review reports. Upon arrival in country, the assessment team continued the refinement process through key informant interviews with USAID and Embassy staff, business associations (notably the US Russia Business Council and IBLF) and local implementing partners, including the Fund for Sustainable Development and the New Eurasia Foundation. These framing discussions provided both insights into development challenges and issues motivating the private sector as well as additional companies and contacts for interviews. These framing interviews also illuminated a priority business sector that had not been fully identified during the research phase – namely power generation.

The short assessment timeframe, small team and a lack of awareness of USAID's activities among companies were all important challenges that the team faced in setting meetings. In addition, as alluded to in the assessment context section, a number of companies may not have been interested in discussing partnership due to their wariness of being associated with the US government.

The following list presents illustrative companies targeted by priority sector as well as the companies actually interviewed. Full lists of companies organized by business sector that were identified during the assessment can be found in Appendix C.

Business Sectors	Illustrative List of Targeted Companies	Companies Interviewed
<p style="text-align: center;">Oil & Gas</p>	<ul style="list-style-type: none"> • Gazprom • Lukoil • Resent • Total • Statoil • Tannest • Shell • TNK-BP • ExxonMobil 	<ul style="list-style-type: none"> • ExxonMobil • Schlumberger
<p style="text-align: center;">Mining/Metals</p>	<ul style="list-style-type: none"> • Eras , • Reversal • SUEK • RUSAL • ALCOA • Barrick • Schlumberger • Polyus Zoloto, • Polymetal • Kinross 	<ul style="list-style-type: none"> • Polymetal • Alcoa • Kinross • Barrick Gold
<p style="text-align: center;">Power Generation</p>	<ul style="list-style-type: none"> • Integrated Energy Systems • Siemens • GE • United Technologies • Samsung • Johnson Controls • large manufacturer/consumers 	<ul style="list-style-type: none"> • Integrated Energy Systems

IT	<ul style="list-style-type: none"> • IBS (business process outsourcing), • Rosnanotech • Kaspersky Lab • Cisco • Microsoft • Sun Microsystems • Hewlett-Packard AO • Intel 	<ul style="list-style-type: none"> • Cisco • Intel • Microsoft
Healthcare & Pharmaceuticals	<p>Pharmaceuticals: Eli Lilly, Pharmstandart, Microgen,</p> <p>Healthcare Providers: AO Meditsina</p>	<ul style="list-style-type: none"> • Eli Lilly • Global Business Coalition (NGO)
Financial Services	<p>Private Investment/ Private Equity: Baring Vostok, Fund Bortnik, Delta Capital</p> <p>Banking: Alfa Bank, Sberbank, ABN-AMRO, KMB Bank, Citibank</p>	<ul style="list-style-type: none"> • Citigroup • SKB Bank • NAMFEX • Baring Vostok
Retail & Consumer Goods	<ul style="list-style-type: none"> • IKEA • Coca Cola • Kompaniya Russki Standart 	<ul style="list-style-type: none"> • IKEA • Uralthermoplast
Construction	<p>Developers: Don Stroy</p> <p>Equipment & Materials: Caterpillar, Volvo</p>	<ul style="list-style-type: none"> • Penetron • 3M • AVS Group
Manufacturing	<ul style="list-style-type: none"> • United Aircraft Building Corporation • United Technologies • Boeing • AvtoVaz • GAZ 	<ul style="list-style-type: none"> • United Technologies

Independent Media	<ul style="list-style-type: none"> • Moscow Times • Gazeta.ru • Kommersant • CTC Media • Independent Press Center 	<ul style="list-style-type: none"> • Moy Rayon • TBN • Regional Press Institute (NGO)
Philanthropy	<ul style="list-style-type: none"> • Dynasty • Charity Club 	<ul style="list-style-type: none"> • Sinara Group
Tourism	Hotels: Marriott, Ritz	<ul style="list-style-type: none"> • Ramada
Automotive Sector	<ul style="list-style-type: none"> • Ford • GM • AvtoVAZ 	N/A
Agribusiness	<p>Agribusiness: Kraft, Miratorg, Wimm-Bill-Dann Foods (dairy)</p> <p>Equipment: John Deere</p>	N/A
Telecom (Internet)	<ul style="list-style-type: none"> • MTT • Rostelekom • Sistema 	N/A
Telecom (Mobile phones)	<ul style="list-style-type: none"> • MobileTeleSystems (MTS) • VimpelCom 	N/A

INTERVIEW RESULTS

In all, the assessment team interviewed nearly three-dozen companies and associations representing most priority business sectors during a two-week period. The goal of the interviews was to explore a company's business interests and commercial or operational challenges that might overlap with development interests. In addition, seventeen detailed interview reports are included as Appendix A. The reports present the interview results in detail. The table that follows below presents the primary findings from the sum total of interviews. Challenges and opportunities for collaboration directly mentioned by interviewees are organized according to industry sector.

A number of key conclusions are worthy of emphasis. First, certain challenges and interests proved to be inherently cross-industry in nature. The most prominent of these were energy efficiency, youth/healthy living, and small business support. Energy efficiency concerns were most prominent among energy, manufacturing, and retail businesses. Youth and healthy living

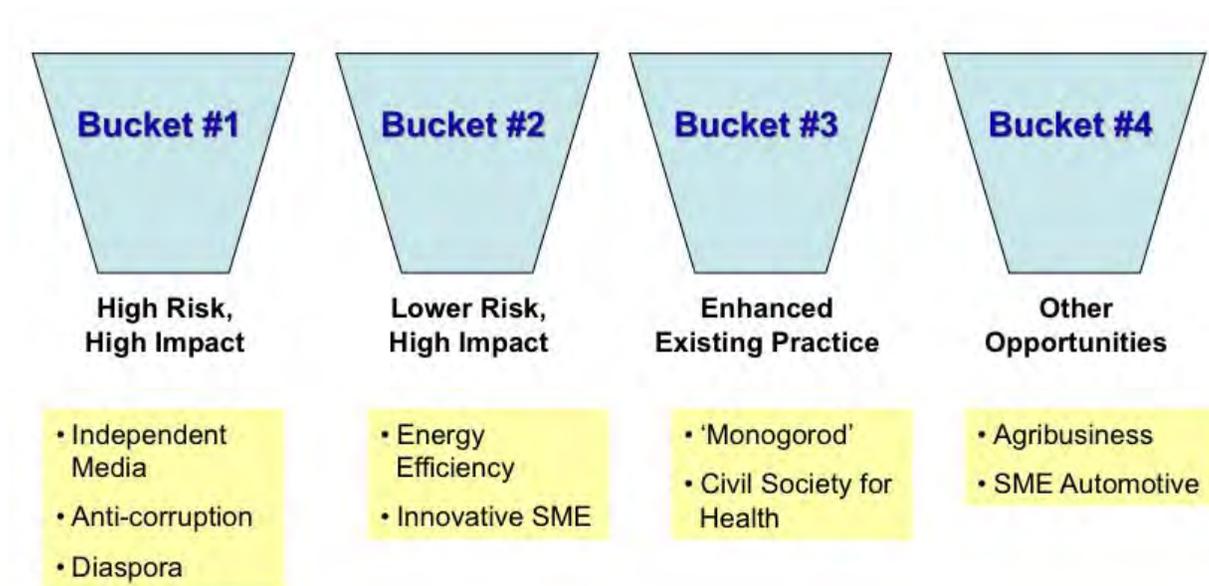
concerns dominated discussions with extractive and construction companies. Small business support was a prominent issue in interviews with financial services, certain extractive industries, and media businesses. It should be noted that many challenges were also Russian government priority issues. Chief among these were energy efficiency and youth/healthy lifestyles, which made up two of the three cross-industry themes.

Business Sectors	Challenges Identified	Opportunities or Collaboration Mentioned
Mining, Oil, & Gas	<ul style="list-style-type: none"> • Workforce development • Infrastructure • Government intervention • Remote location of operations • Community relations • Food supply 	<ul style="list-style-type: none"> • Healthy Lifestyles • Youth • Workforce development
Power Generation	<ul style="list-style-type: none"> • Wasted or inefficient energy consumption in regions • Lack of payment by individual and municipal consumers • Delayed liberalization of energy prices 	<ul style="list-style-type: none"> • Municipal/consumer energy efficiency projects • Consumer education
IT	<ul style="list-style-type: none"> • Higher education training not synched with industry needs • Encryption law prevents import of technologies • Internet penetration in regions still low 	<ul style="list-style-type: none"> • IT small business ecosystems • IT workforce development through training • Regional internet access
Healthcare & Pharmaceuticals	<ul style="list-style-type: none"> • Pressure to move manufacturing and R&D capabilities to Russia • Russian quality, cost control and intellectual property weak 	<ul style="list-style-type: none"> • Manufacturer mentoring • Consumer education • NGO advocacy • Infectious disease prevention
Financial Services	<ul style="list-style-type: none"> • Small business lending by banks is strangled by high interest rates and lack of institutional interest 	<ul style="list-style-type: none"> • Commercial development of MFI sector for small businesses

Business Sectors	Challenges Identified	Opportunities or Collaboration Mentioned
Consumer Goods & Retail	<ul style="list-style-type: none"> • Energy usage laws not favorable to promoting efficiency • Environmental improvements not encouraged by laws or local government 	<ul style="list-style-type: none"> • Energy efficiency • Sustainable forestry • Recycling
Construction	<ul style="list-style-type: none"> • Poor quality of basement construction (water flooding) • Water piping infrastructure deteriorating • Youth crisis in regional cities 	<ul style="list-style-type: none"> • Youth organization development through reconstructed basements
Manufacturing	<ul style="list-style-type: none"> • New law on energy efficiency has not clarified role for manufacturing and construction • Administrative barriers to energy efficiency 	<ul style="list-style-type: none"> • Energy efficiency (general)
Media	<ul style="list-style-type: none"> • Declining advertising • Government control of information • Business start-up & development constraints • Lack of information about positive development in Russia 	<ul style="list-style-type: none"> • Small business support for media - teaching business skills • Civil society development - TBN diaspora funding for Russian NGOs
Philanthropy	<ul style="list-style-type: none"> • Community organization skills & development still poor in regions • Citizens cannot access philanthropy funding 	<ul style="list-style-type: none"> • Civil society strengthening
Tourism	<ul style="list-style-type: none"> • Lack of tourist infrastructure • Lack of government support for tourism (difficult to get visas) 	<ul style="list-style-type: none"> • Ecotourism

STRATEGIC ALLIANCE OPPORTUNITIES – THE ‘BUCKET’ APPROACH

USAID faces a constant series of challenges when approaching alliance building. These challenges are central to the decision-making process on whether to go forward in brokering and developing partnership opportunities. They range from internal issues such as Mission resources and staff time needed to develop an opportunity to the political risks entailed in going forward with a particular alliance. With this in mind, the assessment provides a series of alliance opportunity findings that are organized according to different potential strategies, or ‘buckets,’ for alliance development.



CATEGORY/BUCKET #1 – ‘HIGH RISK, HIGH REWARD’

In Russia, issues of governance have a tremendous impact on the private sector and are also a key priority for broader US-Russia engagement. Any successful collaboration in this space, particularly if it can involve the Russian government (at the federal, regional or municipal levels), would have significant symbolic and development impact value. The assessment team, therefore, decided to highlight these opportunities in the high-risk/high reward category. While the alliance opportunities are significant, so too are the risks. Questions regarding independent media, corruption and NGOs are also amongst the most sensitive for the Russian government. Building successful alliances in this space will require patience and tact. However, in putting these forward, the team believes that USAID/Russia should not shy away from examining one or more of these opportunities as they may present the Mission a unique opportunity to work with the private sector on issues that reflect priorities within the broader US-Russian relationship.

Opportunity	Independent Media
Sector(s)	Print media publishers
USAID Priority Area	Democracy & Governance (DG)
Leading Companies	Moy Rayon, Association of Independent Regional Publishers, TBN (?)
Business Interest/ Dev.	Though there are relatively few truly independent media outlets, companies such as Moy Rayon (My Neighborhood) have flourished,

Challenges	reaching more than 800,000 readers each week. The AIRP, of which Moy Rayon is a leading member, reaches more than 6 million. The publisher has expressed a strong interest in including USAID-related content, particularly related to NGOs and small business start-up as this could be of strong interest to readers, particularly as Moy Rayon expands outside of Moscow and St Petersburg
Potential Leverage	6 million+ readers
USAID Value	Socially relevant content. Ability to engage in a potentially sensitive space.
Constraints/Risks	Moy Rayon and AIRP can be counted as USAID/Russia success stories (the founders of the company and the organization have benefited from numerous USAID-funded training programs). Now, USAID does have an opportunity to continue its relationship with these organizations as a partner rather than a donor.

Opportunity	Anti-corruption
Sector(s)	Medical devices, Pharma
USAID Priority Area	Democracy & Governance (DG)
Leading Companies	Med device importers, Big Pharma, IBLF, Center for Business Ethics
Business Interest/ Dev. Challenges	Importers of medical devices and other specialized equipment face significant corruption in their independent distribution chains. With increased scrutiny from western and the Russian government, importers are looking for opportunities to clean up their distributor networks. IBLF is currently experimenting with this approach and it could be scaled and applied to other sectors.
Potential Leverage	Market Power. In certain industries, such as medical devices, a small number of western importing companies can represent more than 95% of the market. If these companies act in unison to address corruption in their distribution networks, they can force their distributors to adopt transparent business practices.
USAID Value	Expertise and Convening. USAID has more than 2 decades experience in developing effective anti-corruption methodologies. Moreover, USAID and implementing partners may represent neutral convening bodies, capable of bringing together fierce competitors towards a shared goal.
Constraints/Risks	This approach can only work in cases where a small number of suppliers have a large portion of the market and are willing to act in unison. In addition, tacit Russian government buy-in is essential as this process will likely impact low and mid-level government officials and state enterprise employees.

Opportunity	Diaspora Mobilization
Sector(s)	Russian Satellite TV, Internet firms, Russian NGOs, Municipalities
USAID Priority Area	Cross-cutting (DG, Health, Regional)
Leading Companies	TBN, Russian Life, Yandex.ru, Rambler, etc,
Business Interest/ Dev. Challenges	Media outlets that target the Russian diaspora communities want to provide more social message related content that informs viewers of some of the positive developments at the grassroots level in Russia.
Potential Leverage	Reach 142 Million Russian speakers living outside of Russia, including more than 15 million in the US, Western Europe and Israel. Huge potential to mobilize diaspora charitable and investment resources.
USAID Value	Network of NGOs and municipalities. USAID partners with an extensive network of Russian NGOS and municipalities outside of Moscow that are engaged in innovative community development activities.
Constraints/Risks	TBN is a faith-based institution. CO expressed concerns about 'fundraising' for NGOs. More sensitive areas, such as human rights, may be contentious

CATEGORY/BUCKET #2 – 'LOWER RISK/HIGH REWARD'

If the above-mentioned alliance priorities represent high risk/high reward, the following opportunities are far lower risk, but also offer USAID/Russia an opportunity to use alliances to have significant development impacts. These opportunities represent the true 'sweet spot' where alliances can be used to maximum effect in advance of development goals.

Opportunity	Energy Efficiency
Sector(s)	Power Generation, Manufacturing, Equipment Producers, MFIs, Municipalities
USAID Priority Area	Regional
Leading Companies	IES, Siemens, E.ON, United Technologies, Samsung, Johnson Controls, GE, large industrial consumers
Business Interest/ Dev. Challenges	Reform of the power generation sector is creating substantial incentives for improved energy efficiency at all levels: power generation and users (industrial, government, consumers). These incentives overlap with development objectives regarding global climate change as well as community/municipal development.

Potential Leverage	Funding for energy efficiency investments, equipment, technical expertise, engineering support, market reach. In addition, the Russian government may be able to provide substantive support for scaling solutions. The savings accrued through these projects can enhance municipal revenues substantially and reduce Russia's carbon emissions.
USAID Value	Successful previous experience in energy efficiency sector in Russia, particularly at the municipal and consumer levels. Energy efficiency represents an opportunity for USAID to achieve scale on a key cross-cutting issue that overlaps with climate change, municipal governance, SME development and even NGO development.
Constraints/Risks	Given the strong market incentives put into place by government, USAID needs to focus on playing a catalytic role, introducing new approaches and methodologies that can be scaled by the private sector and/or Russian government.

Opportunity	Small Innovative Business
Sector(s)	IT, risk capital, education,
USAID Priority Area	Regional
Leading Companies	Intel, Microsoft, IBS, Cisco, Baring Vostok, Angel investors, National Microfinance Exchange, universities and vocational training centers etc
Business Interest/ Dev. Challenges	Large IT companies face 2 significant constraints in Russia: attracting qualified workers and building an IT ecosystem of small innovative firms to promulgate the use of technologies. As an industry, IT also offers relatively prompt returns with comparatively modest investments (when compared with other innovative sectors such as nano-tech, bio-tech, etc). For USAID, the sector presents an opportunity to support efforts to improve Russia's competitiveness in a key sector at both the workforce and firm levels.
Potential Leverage	Technology, training, equipment, risk capital funding
USAID Value	Globally, USAID has considerable experience in workforce development and SME IT clusters. In Russia, USAID may also be able to leverage earlier investments in microfinance as a source of start-up capital. USAID can combine its expertise in finance and workforce development with rapidly expanding Russian and international IT firms to ensure that Russia's IT sector employs a broad swath of the population, particularly outside of Moscow and St Petersburg.
Constraints/Risks	Equity investment in small firms is still risky in Russia. In addition, it may be hard to work in a coalition of companies where competing technologies and platforms may run into conflict.

CATEGORY/ BUCKET #3 – ENHANCING EXISTING PRACTICE

This category consists of opportunities where USAID can continue or extend existing alliance-related activities. The assessment team has included the second opportunity at the request of USAID’s Office of Health. Although the team believes the opportunity has potential to achieve significant impact, it remains unclear at this time if it should be considered full strategic for the Mission.

Opportunity	Aggregated One Factory Towns
Sector(s)	Mining/Oil/Gas, Metallurgy, Oil Services Firms
USAID Priority Area	Regional
Leading Companies	Resent, Gazprom, Lukoil, ExxonMobil, Total, Statoil, Shell, TNK-BP, RUSAL, ALCOA, SeverStal, Eras, Polyus, Polymetal, Kinross Gold, Peter Hambro, Schlumberger, Halliburton, Parker Drilling
Business Interest/ Dev. Challenges	Large extractive firms often work in remote communities that face significant development challenges – governance, economic, environmental and health. However, these companies tend to operate in remote communities and have little interest in supporting efforts beyond their immediate footprint. Several companies interviewed expressed a willingness to address these challenges as a group, particularly those related to health and healthy lifestyles. By aggregating across several companies, USAID can better achieve scale and impact for its investments.
Potential Leverage	Funding, reach.
USAID Value	USAID has considerable success in Russia working multi-sector one-factory town projects with SUAL.
Constraints/Risks	Aggregating these companies will require time. According to those interviewed, there are no obvious industry associations that are well-positioned to bring these companies together. One alternative could be to work through oil field services companies such as Schlumberger where the services firm serves as the aggregation point, introducing the USAID alliance across its client portfolio, allowing the alliance to become active in multiple communities simultaneously.

Opportunity	Civil Society for Health
Sector(s)	Pharma
USAID Priority Area	Democracy & Governance (DG), Health
Leading Companies	Eli Lilly, other pharmaceuticals
Business Interest/ Dev. Challenges	Pharmaceutical companies see patients' lack of access to treatment and information about treatment options as a major bottleneck on market growth. Eli Lilly has implemented and funded a significant program called 'Know Your Rights' that aims to address these business and development goals. The company has developed an NGO training methodology but could benefit from USAID's vast experience in strengthening advocacy and civil society organizations. USAID could work to expand this initiative by providing expertise, access to key local implementing partners, and bringing in additional resource partners including other pharmaceutical companies.
Potential Leverage	Funding, networking, access to health institutions and practitioners.
USAID Value	Expertise. USAID has more than 2 decades experience in strengthening civil society organizations and developing effective advocacy campaigns.
Constraints/Risks	It is unclear if Eli Lilly's commitment is long-term or if other pharmaceutical companies would see this challenge as a core business interest.

CATEGORY/BUCKET #4 – OTHER OPPORTUNITIES

In an economy as large as Russia's, the opportunities to forge alliances are nearly endless. The team wants to highlight two potential opportunities that we were unable to examine, but believe could offer potential if they fall within future USAID programming priorities:

- *Agribusiness.* Although agriculture is a relatively small part of the Russian economy, its role in generating income and employment, particularly in southern parts of the country is very significant. Given USAID's focus on the North Caucasus, it may be possible to develop alliances with Russian and international agri-businesses aimed at bolstering production and, consequently incomes, in the North Caucasus republics.
- *Automotive Supply Chain.* While historically the automotive industry in Russia has been centered in the Volga region, particularly Samara oblast, Leningrad Oblast has emerged as a major automotive powerhouse in the last decade. Manufacturers such as Ford, Toyota,

Hyundai and others all have assembly plants in the region and are under obligation to bolster their use of local suppliers. In other large emerging markets, notably South Africa, USAID has used alliances with manufacturers to bolster the capabilities of local SME suppliers. USAID could play a catalytic role in promoting the development of high-quality Russian SME automotive suppliers.

VII. REGIONAL ASSESSMENT

PURPOSE

Despite Russia’s vast geography, its economy is highly centralized with wealth localized in a few regions. The Moscow region alone accounts for over a quarter of the GDP according to AMIA research results (see Appendix B). For this reason and because of its limited time in country, the assessment team had originally planned to focus its efforts on Moscow and St. Petersburg, another key corporate center. However, early negotiations with USAID/Russia on the assessment scope of work revealed a strong desire on the Mission’s part to add a regional component to the assessment. This request was primarily based in the reasoning that many of Russia’s most pressing development challenges and much of USAID’s resulting efforts and investments occur in the regions far from Moscow and St. Petersburg. The alliance assessment team therefore agreed to choose one regional location that would serve as a model for future regional alliance assessments should the Mission opt to conduct others.

CRITERIA

The shortlist of criteria for the regional assessment included the following:

- The locale needed to be a regional economic center
- It needed to be relatively economically diverse (i.e. not a Russian ‘mono-city’ in which one industry or factory dominates)
- The locale needed to be outside of USAID’s primary zones of influence and effort, particularly with its prior GDA investments

After some deliberation, USAID/Russia and the alliance assessment team agreed to conduct a regional assessment in Yekaterinburg. The assessment lasted two days and was organized in collaboration with the US Embassy’s Consular Office in Yekaterinburg.

CONCLUSIONS

A number of significant opportunities emerged during the assessment team’s meetings with leading regional businesses and entrepreneurs. One such identified opportunity resulted directly from a roundtable organized around environmental concerns and challenges facing companies. Other issues surfaced during individual consultations with businesses. The following are the two most promising opportunities, which can both be categorized as regional versions of Category/ Bucket #2, or ‘Lower Risk/High Reward.’

Opportunity	Energy Efficiency, Waste Separation, and Recycling
--------------------	---

Sector(s)	Manufacturers, Retail,
USAID Priority Area	Regional
Leading Companies	IKEA, 3M, Uralthermoplast
Business Interest/ Dev. Challenges	IKEA is currently focused on applying its global sustainability plan to its Russian outlets, including many environmental concerns. IKEA spends huge amounts on water treatment plants on its grounds, on waste separation, on purchasing compactor trucks (because municipal governments don't have them), on teaching staff (3000+) its core sustainability philosophy. The biggest single challenge and cost is energy – the company is investing heavily in trying to find more efficient ways of operating. 3M offers technology that can help restore Russia's damaged water pipeline infrastructure, which is in dire straits. Uralthermoplast is a Russian company that recycles plastics to create products such as chairs.
Potential Leverage	Major market access, large volumes of waste for recycling projects/companies, broad geographic scale, cash, technology
USAID Value	Expertise and Convening. Although less active in recent years, USAID has over ten years of experience in addressing environmental issues ranging from recycling to municipal energy efficiency projects. Moreover, USAID and implementing partners can bring additional development benefits to energy efficiency, waste issues or recycling, ranging from community and civil society involvement to municipal services and governance strengthening initiatives.
Constraints/Risks	Current municipal laws can act as serious constraints to a company's environmental practice. Companies could be penalized under some current laws for reducing their energy consumption. IKEA has recently declared its intention not to continue its market expansion due to corruption concerns. USAID is currently restricted from engaging in environmental programming, although the Mission plans to explore this area as part of the new strategy development process.

Opportunity	Youth Mobilization & Civil Society Building
Sector(s)	Construction
USAID Priority Area	Democracy and Governance
Leading Companies	Penetron
Business Interest/ Dev. Challenges	A huge percentage of basements in Russia are flooded or wet (60%). The company offers a very effective technology that is relatively cheap, easy to apply, and does not require major construction. The company is also interested in encouraging youth mobilization and organizational development to help address the youth crisis in the

	regions (a government priority).
Potential Leverage	Construction technology, countrywide distribution network, in kind, cash, government relations and potential government funding
USAID Value	Network of NGOs and community development specialists. USAID can bring its high level of organizational strengthening experience to bear in helping mobilize youth organizations and initiatives
Constraints/Risks	An alliance would likely need government funding. Product application is relatively cheap compared to full basement reconstruction, but a large basement application would likely cost \$100,000

VIII. CONCLUSION

The principal focus of the Alliance Assessment was to explore the development of public-private alliances for USAID/Russia across its priority program areas. As a core element, the Assessment Team analyzed the interests, challenges, and issues facing the private sector and other potential alliance partners in Russia in order to determine areas for collaboration and partnership.

Each of these interests, challenges, and issues provides the Mission with excellent opportunities to engage the private sector in a meaningful way at the outset of the design process. The findings of the assessment will contribute to the development of a Mission-wide strategy from 2011 onwards with the substantive engagement of public-private alliances to accomplish Mission objectives.

The Team interviewed over thirty companies and industry associations that represented 11 priority business sectors. The team also interviewed a large number of donors, USAID implementers, and other organizations to explore issues, bottlenecks, and opportunities facing the private sector. In all, the team identified 9 major opportunities that could provide a basis for partnership with USAID.

As it enters a strategic planning phase, USAID/Russia now has the opportunity to continue to build on its successes with public-private alliances by effectively integrating alliance-building into its strategic vision. This assessment has identified a number of areas in which USAID/Russia can achieve significant development impacts by working in partnership with the private sector and the Russian government. USAID/Russia will need to prioritize these and other opportunities it identifies internally and then put into place the resources, human and financial, to bring about their realization.

APPENDICES

APPENDIX A: ALLIANCE MACRO INDICATOR ANALYSIS (AMIA)

The matrix that follows represents the key indicator findings as determined by the Alliance Assessment Team prior to its departure to Russia. The indicators were used as a pre-departure starting point for understanding how development factors intersected with the interests of the private sector in Russia. The data collected was divided into 3 primary categories (Economic Indicators, Human Development Indicators and Governance Indicators) that have been presented in Section IV of this report.

1) Economy Indicators

<u>Indicator Description</u>	<u>Private Sector Relevance</u>	<u>Indicator</u>	<u>Development Sector Relevance</u>	<u>Links to other Indicators</u>
<p>1. GDP</p> <p>2. GDP/Capita</p> <p>3. GDP Change</p> <p>4. GDP Composition</p>	<p>- Huge part of GDP comes from natural resource extraction (at least 40%)</p> <p>- 2009 contraction due to contracting oil prices and falling capital inflows (fall has stabilized due to recovered prices)</p> <p>- Fear of banking collapse still ripe due to credit crisis</p> <p>- Pre-crisis high growth rate due to extractives has meant weaker global competitiveness for most other business sectors</p> <p>- Agriculture much smaller % than in USSR; has not recovered from post-</p>	<p>1. \$2.271 Trillion (2008)</p> <p>2. \$16,139 US @ PPP (1/2009)¹</p> <p>3. -6.5% (2009), 5.6% (2008), 8.1% (2007)</p> <p>4. Agriculture 4.6%, Industry 39.1%, Services 56.3% (Oil & Gas est. 40%)</p>	<p>While the prevalence of extractives in the economy has led to consistent year-to-year GDP growth in the decade prior to the economic collapse, it has also had high negative impacts including high corruption, an overvalued currency leading to high cost of living and a growing poverty rate, especially in the regions.</p>	

¹ <http://www.tradingeconomics.com>

<u>Indicator Description</u>	<u>Private Sector Relevance</u>	<u>Indicator</u>	<u>Development Sector Relevance</u>	<u>Links to other Indicators</u>
	Soviet collapse			
FDI Profile ²	FDI was growing significantly until the crisis, but overwhelmingly tied to capital repatriation (32% of flows come from Netherlands, Cyprus, & Luxembourg; 22% from UK). Poor corp governance & uncertain PSA regulation/frameworks have hurt natural resources investment.	Grew to US \$55bn or 4.5% of GDP in 2007 (from 1% of GDP in 2001)	Significant Diaspora percentage of capital inflow (until credit crisis)	
Gini Coefficient ³	Low level and high level corruption	.41 (2008) - 56 th most unequal of 134 countries	Growth in inequality (from .3 in 1992) has contributed to higher rates of crime, infectious diseases, etc	
Unemployment rate	Unemployment has spiked since the crisis to a high of 9.4% in 3/09, but has since subsided in part due to the recovery of petroleum and key natural resource commodity prices. Year-to-year unemployment has increased in all major sectors of the economy.	7.7% (as of 11/09) ⁴	Job insecurity and loss of living standards gained in the last 10 years is a real fear among Russian people. Poverty	
Export earnings/composition	Consists mainly of raw materials (oil/gas, minerals & gold, timber, fisheries and fertilizers).	8.7% of GDP (in 2007)	High demand for raw materials	

² EIU 2008 Russia Report, p. 49.

³ EIU 2008 Russia Report, p. 38.

⁴ <http://www.tradingeconomics.com>

<u>Indicator Description</u>	<u>Private Sector Relevance</u>	<u>Indicator</u>	<u>Development Sector Relevance</u>	<u>Links to other Indicators</u>
Major Trading Partners	Oil and gas dominate trade to Europe, which has a strong reliance on Russian exports. Largest companies in Russia are therefore extractive and extractive-related (pipelines).	EU (52.9%), Netherlands (11.2%), Italy (8.1%), Germany (8%), Turkey (6%), Ukraine (5.1%), Poland (4.5%), China (4.3%); Total US-Russian trade was relatively low at \$36 Billion in 2008 ⁵	Small business suffers due to Europe-generated oil and gas exports. This also leads to unequal regional development favoring mineral-rich areas.	
Global Competitiveness Index	Competitiveness in Russia is trending negatively for the private sector. In the annual survey, top three challenges among respondents were corruption (19%), access to financing (16.9%), and tax regulations (11.9%)	63rd out of 133 countries in 2009-2010 (a fall from 51st of 133 in 2008-2009)	Clear development-related challenges include corruption mitigation, banking reform, and strengthening of legal processes and regulations related to taxes.	
Major Business Sector and Companies	<i>See Business Sector Matrix</i>	Extractives, Healthcare (including Drugs & Pharmaceuticals), IT (Computers, Services, & Software), Telecommunications (Mobile phones, Internet), Transportation, Automotive Sector, Fast Moving Consumer Goods, Electronics & General Retail, Financial Services, Agriculture & Agribusiness	Business sector development relevance includes improved health (healthcare), regional local economic development (multiple), higher and vocational education (IT)	

⁵ See Moscow Times, "Creating a Smart Economy," <http://www.themoscowtimes.com/opinion/article/creating-a-smart-economy/390979.html>

2) Human Development Indicators

<p>Education enrollment</p>	<p>Because of the crisis, there is currently an over-supply of qualified workers across many sectors, in particular IT⁶</p>	<p>81.9%⁷ (51st of 177 countries in 2004).⁸</p>	<p>Enrollment is not problematic in Russia; one issue is quality and curricula. IT-oriented companies are concerned that they will not have adequately trained skilled professionals, especially in higher end outsourcing and other highly specialized subsectors.</p>	
<p>Major infectious diseases</p>	<p>One method of transmission of HIV/AIDS has been along trucking routes.</p>	<p>1.1% HIV/AIDS infection rate (2007); others include tuberculosis, food or waterborne diseases: bacterial diarrhea vectorborne disease: tickborne encephalitis</p>	<p>Other than HIV/AIDSs, non-infectious diseases like and other medical issues including alcoholism remain more immediate development problems for Russia.</p>	
<p>Internet Hosts/Teledensity</p>	<p>Internet penetration has grown significantly, leading to rapid growth of internet-oriented service and manufacturing companies.</p>	<p>7.663 million hosts (13th of 232 countries)⁹</p>	<p>Despite rapid growth, usage is still only 18 per 100 people, far fewer than comparable countries.¹⁰ Usage is heavily concentrated in Moscow and St. Petersburg, although there is a rapid increase in all major cities.</p>	

⁶ AmCham News, Issue 88, "The IT Labor Market in Russia," p. 22.

⁷ Combined primary, secondary and tertiary gross enrolment ratio

⁸ UNDP Human Development Report 2009

⁹ CIA World Factbook

¹⁰ EIU 2008 Russia Report, p. 26.

3) Governance Indicators

<p>TI Corruption Perception Index</p>	<p>Corruption is the #1 concern of all businesses in Russia (according to the World Economic Forum)</p>	<p>146th of 180</p>	<p>2008 package of anti-corruption legislation initiated and promoted by the President has yet to have an effect. The president recently admitted publicly that corruption is endemic in Russia. The excessive role of government in the economy and business sector, which spurs the supply side of corruption, aggravates the problem.</p>	
<p>Freedom House Ranking</p>	<p>Companies involved in politically-related or interpreted issues or markets can be harassed or worse by the government</p>	<p>Political Rights Score: 6 Civil Liberties Score: 5 Status: Not Free</p>	<p>All DG areas and indicators continue to deteriorate in Russia, including the media, political parties, the judiciary system, and governance.</p>	
<p>Conflict Trends</p>	<p>The agriculture-oriented economy of the North Caucasus has been severely damaged during the regions long period of conflict and insecurity.</p>	<p>Russia has severely disabled a Chechen rebel movement, although violence still occurs throughout the North Caucasus.</p>	<p>Although southern Russia is a priority development zone for both the Russian government and USAID, the North Caucasus are increasingly insecure and very hard to work in generally.</p>	<p>Note: <i>Russia is not an ICG-covered country</i></p>
<p>EIU Regional Trends¹¹</p>	<p>A vast majority of companies are based in Moscow. Some state-owned or -oriented companies have moved offices to St. Petersburg, which remains a Putin power center</p>	<p>Moscow = 22% of GDP Moscow region = 4% St. Pete = 4% Tyumen (oil) = 12%</p>	<p>Given the geographic nature of capital flows, many of the country's most pressing development problems are in the most remote regions away from the largest cities and petroleum-oriented regions.</p>	

¹¹ EIU 2008 Russia Report, p. 38.

Governance Implication for Economy	Poor governance issues (corruption, legal, regulation & taxation issues, etc.) continue to cause difficulties for businesses.	98th of 125 countries in Bertelsmann Transformation Management Index.	Poor governance has effected improvement for almost all human development indicators in Russia, ranging from high corruption, to deteriorated public healthcare, to high regional economic disparities.	
---	---	---	---	--

APPENDIX B: BUSINESS SECTOR & COMPANY IDENTIFICATION AND SWOT ANALYSIS

In conducting the AMIA research presented in Section IV and Appendix B, the assessment team highlighted the importance of focusing on industries in which important development challenges were most pertinent and that offer USAID the opportunity to utilize alliances in a strategic manner to leverage private sector resources for better results and greater scale and sustainability. The team initially identified 14 primary business sectors through its research that might have key intersections with human and economic development goals. These were:

- Extractives (Mining, Oil, & Gas)
- Power Generation
- IT
- Healthcare & Pharmaceuticals
- Financial Services
- Retail & Consumer Goods
- Construction
- Media
- Agriculture & Agribusiness
- Transport/ Transport Manufacturing
- Tourism
- Automotive Sector
- Telecommunications (Internet)
- Telecommunications (Mobile phones)

Once identified, the team conducted a desk-based SWOT analysis to probe for key intersections between business interests and development goals for each identified sector.¹² The ‘strengths’ of a sector referred to its comparative advantages, while ‘weaknesses’ focused on comparative disadvantages. ‘Opportunities’ should be seen as specific highlighted areas that could be ripe for partnership. ‘Threats’ were those external or sector-based issues that jeopardized success. The analysis revealed the nature of the sector itself (Established, Emerging, or Problematic), and began to pinpoint leading companies to approach for interviews. The tables that follow present an initial analysis of strengths, weaknesses, opportunities and threats for each sector. The sectors are loosely organized in terms of anticipated relevance to the field assessment work and interview process, starting with most relevant.

¹² A SWOT analysis is a strategic planning approach used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves analyzing the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. For more information, see http://en.wikipedia.org/wiki/SWOT_analysis

Business Sector	Extractives (Mining, Oil, & Gas)	
Sector Category	Established	
Strengths (Competitive Advantage)		Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> • Huge part of Russian economy (40% of GDP) • Resulting significant impacts on the overall health of the economy, FDI, and regional economic development & employment (in remote locales) • Russia now #2 oil producer after Saudi Arabia (11% of world oil production) • Russia produces: <ul style="list-style-type: none"> ○ - 25% of world’s natural gas ○ - 20% of nickel/cobalt ○ - 25% of diamonds ○ - 13% of aluminum 		<ul style="list-style-type: none"> • Commodity price fluctuations threaten exploration and production across extractive sectors • Oil output growth has been slowing (EIU) • Production Sharing Agreements (PSAs) are out of favor with the Russian government – government stance towards foreign companies “remains ambiguous” (EIU) • 51% of “strategic” extractive projects must be Russian-owned • Continued dominance of extractives has impacted diversification and development of SME sector negatively
Opportunities (Positive Trends)		Threats (Challenges)
<ul style="list-style-type: none"> • General: infrastructure development, local SME/services & supplier development (estimated at \$18 billion), workforce development (education). • Petroleum projects: 1) Shtokman Gas Field in North Sea (GAPROM with Total & StatoilHydro); 2) Sakhalin (ExxonMobil); 3) Kovytkta gas field (TNK-BP), 4) Timan-Pechora; 5) Yamal peninsula • Pipeline project: East-Siberia Pacific Ocean pipeline (ESPO) 		<ul style="list-style-type: none"> • Production Sharing Agreements (PSAs) are out of favor with the Russian government – government stance towards foreign companies “remains ambiguous” (EIU) • 51% of “strategic” extractive projects must be Russian-owned • Continued dominance of extractives has impacted diversification and development of SME sector negatively
Other Issues	<ul style="list-style-type: none"> • USAID has developed GDAs and projects in partnership with extractive companies – notably SUAL, TNK-BP, among others • 90% of all Russian exports to the US are natural resources (including timber) 	
Leading Companies	<u>Oil & Gas</u> <ul style="list-style-type: none"> • Gazprom • Lukoil • Resent • Total • Statoil • Tannest 	

	<ul style="list-style-type: none"> • Shell • TNK-BP • Surgutneftegaz • ExxonMobil • StatoilHydro (Norway) • Royal Dutch Shell <p><u>Mining</u></p> <ul style="list-style-type: none"> • Eras • Reversal • SUEK • RUSAL • ALCOA • Barrick • Schlumberger • Polyus Zoloto • Polymetal • Kinross • Nornikel, • Severstal • ALROSA Company Limited (diamonds) • Almaz Rossii-Sakha (diamonds) • Mechel (steel & related mining)

Business Sector	Power Generation	
Sector Category	Emerging	
Strengths (Competitive Advantage)		Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> • Recent privatized break-up of Russian energy monopoly into a number of fully private, market-oriented companies, combined with reform of energy pricing, has led to a new interest in energy efficiency from companies. 		<ul style="list-style-type: none"> • Municipalities used to fully subsidize to little cost for energy.
Opportunities (Positive Trends)		Threats (Challenges)

<ul style="list-style-type: none"> • Companies increasingly understand they can make more if consumers are paid less; they will pay if they feel they can afford it. • Energy efficiency programming with municipal governments and individual consumers. 	<ul style="list-style-type: none"> • Production Sharing Agreements (PSAs) are out of favor with the Russian government – government stance towards foreign companies “remains ambiguous” (EIU) • 51% of “strategic” extractive projects must be Russian-owned • Continued dominance of extractives has impacted diversification and development of SME sector negatively
Other Issues	<ul style="list-style-type: none"> • USAID worked on energy efficiency through the first generation GDA
Leading Companies	<ul style="list-style-type: none"> • Integrated Energy Systems Siemens • GE • United Technologies • Samsung • Johnson Controls • Large manufacturer/consumers

Business Sector	IT	
Sector Category	Emerging	
Strengths (Competitive Advantage)		Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> • Growing competitiveness, specialization, and potential for select “high end” IT subsectors including algorithm design, microelectronics (nanotechnology), and outsourced software development (Russia is #3 globally after India & China in outsourced software); Huge part of Russian economy (40% of GDP) • Rapid market growth for hardware & software (from \$120 million in 2000 to \$1.5 billion in 2006); • Outsourced software development reached \$1.8 billion in 2006 and (before the crisis) was expected to increase 1000% by 2010 		<ul style="list-style-type: none"> • Software piracy (although enforcement is improving);

Opportunities (Positive Trends)		Threats (Challenges)	
<ul style="list-style-type: none"> Services are the fastest growing segment in IT market (30% growth in 2007); Expanding services include consulting (60% growth), deployment & customization (29%), outsourcing (24%), deployment & support (23%), and integration (35%). Software in conjunction with services also trending very positively: specialized productivity products (60% growth), enterprise resourcing planning (51% growth), business intelligence (45% growth), and security 40%) Laptops have the biggest growth potential for hardware 		<ul style="list-style-type: none"> Continued software piracy Economic crisis Credit crisis Reduced FDI 	
Other Issues		<ul style="list-style-type: none"> Market segments include hardware (64%), software (11%), and services (25%) 	
Leading Companies		<p><u>Manufacturing</u></p> <ul style="list-style-type: none"> Acer Hewlett-Packard AO Asus Kraftway <p><u>Software & Services</u></p> <ul style="list-style-type: none"> IBS (business process outsourcing) Intel Nortel Kaspersky Lab Cisco Samsung Microsoft Sun Microsystems Hewlett-Packard AO 	
Business Sector	Healthcare & Pharmaceuticals		
Sector Category	Emerging		
Strengths (Competitive Advantage)		Weaknesses (Competitive Disadvantage)	

<ul style="list-style-type: none"> • General: High number of medical professionals (49 doctors per 10K people, compared to 30 per 10K in US) • Private Healthcare: paid medical service sector is estimated at \$6.5 billion (20% of all financial resources spent on healthcare) and is growing by 20%-30% a year • Pharma: The subsector has consistently exhibited high growth that mirrors the rise in living standards; sector grew 11% in 2008 (down from 15% in 2007). 	<ul style="list-style-type: none"> • Traditional high dependency on government spending • Growth in commercial sector fueled by increase in consumption & pricing • Public healthcare has been “chronically starved of funds” (EIU 2008) • Poor and still degrading public facilities and infrastructure, especially in regions •
<p style="text-align: center;">Opportunities (Positive Trends)</p>	<p style="text-align: center;">Threats (Challenges)</p>
<ul style="list-style-type: none"> • General: Significant room and need for growth given the general lack of healthcare coverage (only 20% of population has access to quality services and care) • Improved healthcare is “priority #1” for Putin’s national renewal projects, according to the Russian government • Driving forces in the last three years were the implementation of the federal reimbursement program (DLO) and the introduction, in January 2006, of the Health National Project “Zdorovie”. • The Health National Project “Zdorovie” involves a significant investment into primary care and maternity care, the training of doctors and paramedics, re-equipping existing clinics and hospitals, building brand new medical centers, and developing high technology medical assistance. 	<ul style="list-style-type: none"> • Lack of transparency in the registration and certification systems • Time required for registration; inadequate IPR protection and a large percentage of counterfeit medicines (7% to 12% of the market) • Economic crisis (ability of population to afford services and products)
<p style="text-align: center;">Other Issues</p>	<ul style="list-style-type: none"> • Fastest sector growth in the world in 2009. • For HIV/AIDs, there is a possible link to transportation as fastest growth of infection occurs along highways
<p style="text-align: center;">Leading Companies</p>	<p><u>Russian Manufacturers</u></p> <ul style="list-style-type: none"> • Pharmstandart • Microgen • Valenta • Velopharm • Nizhpharm • PharmFirma Soteks • Pharm-Centr • Otechestvennye Lekarstva • Materia Medica Holding NPF • BiosynteZ

	<ul style="list-style-type: none"> • Akrikhin <p><u>International Pharma</u></p> <ul style="list-style-type: none"> • Eli Lilly <p><u>Healthcare Providers</u></p> <ul style="list-style-type: none"> • AO Meditsina • The Center for Endosurgery and Shock Wave Therapy • The European Medical Center • The American Medical Center
--	--

Business Sector	Financial Services	
Sector Category	Emerging	
	Strengths (Competitive Advantage)	Weaknesses (Competitive Disadvantage)
	<ul style="list-style-type: none"> • Insurance: The '98 crash weeded out many insurance companies (nearly half) but the remaining (around 1000) are doing much better. • Stock markets are increasingly important for Russian companies – the RTS index rose 65% in 2006 	<ul style="list-style-type: none"> • Banking: Highly concentrated and controlled by the state • Small banks are mostly severely undercapitalized • Foreign banks have only recently started to show increased interest in Russian acquisitions • Loans to private sector are low at 38% (compared with 100% in developed markets) • The insurance sector remains underdeveloped, with foreign companies providing only 4.5% of the sector capital
	Opportunities (Positive Trends)	Threats (Challenges)
	<ul style="list-style-type: none"> • Need for increased loans to private sector and medium businesses 	<ul style="list-style-type: none"> • Most banks uninterested in consumer-oriented business model
Leading Companies	<p><u>Private Investment/ Private Equity</u></p> <ul style="list-style-type: none"> • Baring Vostok • Fund Bortnik • Delta Capital • Allianz ROSNO Asset Management • Alfa Group Consortium 	

	<ul style="list-style-type: none"> • Renaissance Capital • SUN Capital <p><u>Banking</u></p> <ul style="list-style-type: none"> • Alfa Bank • Sberbank • ABN-AMRO • KMB Bank • Citibank • Deutsche Bank • Raiffeisen Bank • Vneshtorgbank • MDM Bank Lilly <p><u>Insurance</u></p> <ul style="list-style-type: none"> • Allianz ROSNO Life • ZAO Citibank
--	--

Business Sector	Retail & Consumer Goods	
Sector Category	Established	
Strengths (Competitive Advantage)	Weaknesses (Competitive Disadvantage)	
<ul style="list-style-type: none"> • One of the fastest growing sectors prior to the economic crisis • Fueling a new middle class, euphemistically known as the “IKEA generation” 	<ul style="list-style-type: none"> • Sector is prone to corruption • 2 of IKEA’s top managers were recently fired for corrupt practices.¹³ 	
Opportunities (Positive Trends)	Threats (Challenges)	
<ul style="list-style-type: none"> • Russians will continue to be voracious consumers (if the economy rebounds) 	<ul style="list-style-type: none"> • Crisis severely impacted consumerism in Russia 	
Leading Companies	<ul style="list-style-type: none"> • IKEA • Coca Cola • Kompaniya Russki Standart 	

¹³ See “IKEA Case Exposes Bribe Culture in Russia,” *Moscow Times*, available at <http://www.mn.ru/news/20100223/55414629.html>.

Business Sector	Construction	
Sector Category	Problematic	
Strengths (Competitive Advantage)		Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> Market grew 10%-15% in 2008 2001 land code should allow for the development of functioning real estate market (with land freely sold, leased, and used as collateral) 		<ul style="list-style-type: none"> Real estate market remains underdeveloped, especially for residential housing Growth mostly limited to Moscow and (increasingly) St. Pete regions; 30% of population lacks water and/or electricity High dependency on credit
Opportunities (Positive Trends)		Threats (Challenges)
<ul style="list-style-type: none"> Despite crisis, there is a great need for more residential housing (as evident by pricing) – New Eurasia Foundation has some experience exploring this space. There is an increasing use of public private partnerships as a financing mechanism of infrastructure. Socchi Olympics will boost the sector and lead to a rise in demand for cement from 6.6% in 2009 to 11.1% in 2010. Energy efficiency has not entered the construction culture and is estimated as showing a savings potential of 45% on the country's current energy consumption 		<ul style="list-style-type: none"> Corruption is legendarily all-pervasive Credit collapse paralyzed development Weakness of banking sector will continue to affect the sector FDI restricted due to corruption, lack of transparency, and image problems
Other Issues	<ul style="list-style-type: none"> Crisis slowed market growth from 30% to just 5% from 2007 to 2008 The Obama Administration has announced \$1.2 billion of new US funding for climate change initiatives around the world; this could be applied to energy efficiency-oriented construction projects The Chinese are aggressively entering the market 	
Leading Companies	<p><u>Developers</u></p> <ul style="list-style-type: none"> Barkly Don Story PIK Group (real estate development) <p><u>Equipment</u></p> <ul style="list-style-type: none"> Caterpillar 	

	<ul style="list-style-type: none"> • Volvo • JCB • Komatsu
--	---

Business Sector	Independent Media	
Sector Category	Problematic	
	Strengths (Competitive Advantage)	Weaknesses (Competitive Disadvantage)
	<ul style="list-style-type: none"> • Many journalists are capable and well-trained • Readership levels are comparatively high (compared to many countries in the West) • Emerging Internet media outlets are growing in popularity 	<ul style="list-style-type: none"> • Government crackdown has severely limited the independence of mainstream print and multi-media journalism • The sector will continue to be highly sensitive for the government in the foreseeable future • Business skills (like marketing) strongly lagging in print media
	Opportunities (Positive Trends)	Threats (Challenges)
	<ul style="list-style-type: none"> • The sector will continue to commercialize and will be looking for • New venues and outlets as readership migrates to the internet • Internet will have positive effects on media freedoms • Business-oriented skills training needed and desired by media outlets (traditional and new) 	<ul style="list-style-type: none"> • Government crackdown is the single biggest threat to media sector • Migration to the internet will increasingly hamper and threaten traditional media institutions
Leading Companies	<p><u>Multimedia</u></p> <ul style="list-style-type: none"> • CTC Media, Inc. • Gazeta.ru <p><u>Print Media</u></p> <ul style="list-style-type: none"> • Moscow Times • Kommersant • CTC Media • Deovoi Petersburg • The Independent Press Center 	

--	--

Business Sector	Agriculture & Agribusiness	
Sector Category	Established	
Strengths (Competitive Advantage)	Weaknesses (Competitive Disadvantage)	
<ul style="list-style-type: none"> • General: Solid but unspectacular growth (3% a year) since 2000 after a catastrophic 1990s (Market growth may be more about recovery than expansion) • Food Retailers: One of fastest growing sectors in the Russian economy before crisis, rising 500% since 2000. Food and beverages made up 44% of all retail sales in 2007. • Equipment: The total Market increased 50% in 2008, reaching \$6 billion 	<ul style="list-style-type: none"> • Extremely slow restructuring of state farms & collectives has hampered business growth • Only 32% of Russia’s total land is used for agriculture (due to numerous factors including three-year drought cycle, pollution, over-intensive cultivation, in appropriate crop choice) 	
Opportunities (Positive Trends)	Threats (Challenges)	
<ul style="list-style-type: none"> • General: Sector is a national government priority • Equipment: Russian government has a 25 billion ruble program to help local agricultural companies by replacing 40% of tractors and 55% of combines 	<ul style="list-style-type: none"> • Retailers have shifted from “expansion” to “survival” • Key threats include: <ul style="list-style-type: none"> ○ Market fragmentation ○ Liquidity crisis ○ Ruble devaluation ○ Lack of consumer confidence 	
Other Issues	<ul style="list-style-type: none"> • St. Petersburg is the Russian leader for hypermarkets and modern format food retailing (22% of all city sales) 	
Leading Companies	<p><u>Agribusiness</u></p> <ul style="list-style-type: none"> • Miratorg • Wimm-Bill-Dann Foods (dairy) <p><u>Food Retailers</u></p> <ul style="list-style-type: none"> • Victoria • Magnit 	

	<p><u>Equipment</u></p> <ul style="list-style-type: none"> • John Deere
--	---

Business Sector	Transport/ Transport Manufacturing	
Sector Category	Established/Emerging (<i>depending on sub-sector</i>)	
	<p>Strengths (Competitive Advantage)</p>	<p>Weaknesses (Competitive Disadvantage)</p>
	<ul style="list-style-type: none"> • The air transport sector has been growing with many new private companies emerging • Commercial aircraft manufacturing has been targeted as a key sector by the Russian government • Both air transport & manufacturing are facing increasing foreign and domestic competition • Russian aerospace engineering traditionally strong 	<ul style="list-style-type: none"> • Roads & trains have suffered from longstanding general neglect (only 2K km of new roads built in 2005); • Restructuring of Russian Railroads (RZhD) has been limited though promised since 2001. • Mortality rate from road accidents still very high (24 per 100K people, vs 5 per 100K in UK)
	<p>Opportunities (Positive Trends)</p>	<p>Threats (Challenges)</p>
	<ul style="list-style-type: none"> • Sochi Olympics development will dominate road and transport infrastructure in coming years • Projects: new roads like the Moscow-St. Pete link are increasingly financed with traditional public-private partnerships (such as BOT mechanism) • If properly developed & marketed, Russian commercial airplane manufacturing could be competitive in the regional jet market 	<ul style="list-style-type: none"> • Credit crisis has weakened likelihood of major road & rail projects outside Sochi-oriented projects
Leading Companies	<p><u>Commercial Aircraft</u></p> <ul style="list-style-type: none"> • United Technologies • United Aircraft Building Corporation (UABC) – 51% owned by state <p><u>Airlines</u></p> <ul style="list-style-type: none"> • Aeroflot • TransAero • Rossiya • S7 Airlines 	

	<ul style="list-style-type: none"> • Komatsu
--	---

Business Sector	Tourism	
Sector Category	Emerging	
Strengths (Competitive Advantage)		Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> • Growth potential continues to be high with demand outpacing supply (with big city hotels) 		<ul style="list-style-type: none"> • Tourism infrastructure weak – hotels in cities oriented towards business not tourism • Mid-range and budget tourism market highly underdeveloped • Regional tourism development next to non-existent for international travelers
Opportunities (Positive Trends)		Threats (Challenges)
<ul style="list-style-type: none"> • Sochi Winter Olympics will lead to renewed government effort at promoting tourism • Dri • The Health National Project “Zdorovie” involves a significant investment into primary care and maternity care, the training of doctors and paramedics, re-equipping existing clinics and hospitals, building brand new medical centers, and developing high technology medical assistance. 		<ul style="list-style-type: none"> • There is a persistent lack of government interest and counter-productivity in promoting tourism • Visas are still very expensive and bureaucratic to procure for international would-be visitors • Regions are very much lagging in tourism development
Leading Companies	<ul style="list-style-type: none"> • Marriott • Ritz • Delta Airlines • United Airlines 	

Business Sector	Automotive
Sector Category	Established

Strengths (Competitive Advantage)	Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> • Fastest growing market in Europe over last 5 years (average of 20-25%) • Surpassed Germany in 2008 and is predicted to be third largest in 2012 in world (after US and China) 	<ul style="list-style-type: none"> • Car ownership still only 180 in 1000 (25% US rate) • Russian vehicle assembly and component manufacturing plagued by outdated equipment, lack of modern technology, inadequate management
Opportunities (Positive Trends)	Threats (Challenges)
<ul style="list-style-type: none"> • Federally mandated increase in local content will lead to opportunities for upgraded local suppliers (especially components) • Companies and government looking for opportunities with JVs, transfers of new technologies & equipment 	<ul style="list-style-type: none"> • Main obstacle to successful development of assembly projects remains poor quality of local component suppliers
<p style="text-align: center;">Leading Companies</p>	<p><u>Car Assembly</u></p> <ul style="list-style-type: none"> • Ford (St. Pete – Focus is a sales leader) • GM (JV with AvtoVAZ in Togliatti & a new plant in St. Pete) • Toyota • VW • Renault • GAZ Group • Sollers • AvtoVAZ • SOK Group • Mercedes-Benz Russia SAO <p><u>Car Sales</u></p> <ul style="list-style-type: none"> • Rolf

Business Sector	Telecommunications (Internet)
Sector Category	Emerging
Strengths (Competitive Advantage)	Weaknesses (Competitive Disadvantage)
<ul style="list-style-type: none"> • The Market is still small and underserved • A rapid growth of subscribers is expected, especially with broadband (15% in 2008 to 40 million subscribers). • Digital lines have been improved in cities, and lines now cross the country from St. Petersburg to Khabarovsk 	<ul style="list-style-type: none"> • Regions trail far behind major cities in development • Cost is decreasing but still prohibitive for average consumer
Opportunities (Positive Trends)	Threats (Challenges)
<ul style="list-style-type: none"> • Demand for broadband remains strong (especially residential) despite economic crisis • The market is expected to rise 130% in 2008 • Wireless broadband (like WIMAX) potential is significant • Distance learning and online education is a component within Federal Special Program of the Education Development for 2006-2010 	<ul style="list-style-type: none"> • Main obstacles to successful development include: <ul style="list-style-type: none"> ○ Infrastructure limitations ○ Regional disparity ○ Economic crisis ○ Corruption
Other Issues	<ul style="list-style-type: none"> • Market worth is \$2.5 billion (2008) • No national broadband network (as of 2007)
Leading Companies	<ul style="list-style-type: none"> • MTT • Rostelekom (state-owned) • Golden Telecom (subsidiary of VimpelCom) • Sistema Telecom

Business Sector	Telecommunications (Mobil Phones)	
Sector Category	Emerging	
	<p style="text-align: center;">Strengths (Competitive Advantage)</p> <ul style="list-style-type: none"> • Rapid growth (20% a year in 2004-2008); • Market penetration is deep and growing • Levels increased over 100% from 1% mobile phone ownership in '99 to well over 169 million subscribers in 2008 • GSM covers 90% of the market 	<p style="text-align: center;">Weaknesses (Competitive Disadvantage)</p> <ul style="list-style-type: none"> • Regions trail far behind major cities in coverage
	<p style="text-align: center;">Opportunities (Positive Trends)</p> <ul style="list-style-type: none"> • Revenue per user (ARPU) increased 40% in 2008, creating comparative demand for new technology & value added services 	<p style="text-align: center;">Threats (Challenges)</p> <ul style="list-style-type: none"> • Deep investment needs for infrastructure upgrading – up to \$40 billion according to EIU; • Main obstacles to successful development include: <ul style="list-style-type: none"> ○ Corruption ○ Economic crisis ○ A strong US dollar (for imports) ○ Market saturation
Other Issues	<ul style="list-style-type: none"> • One of largest subsectors is equipment market 	
Leading Companies	<ul style="list-style-type: none"> • MobileTeleSystems (MTS) • VimpelCom • Sistema Telecom • MegaFon • Motorola 	

APPENDIX C: FULL LIST OF TARGETED COMPANIES

Business Sectors	Full List of Targeted Companies
Oil & Gas	<p><u>Oil & Gas</u></p> <ul style="list-style-type: none"> • Gazprom • Lukoil • Resent • Total • Statoil • Tannest • Shell • TNK-BP • Surgutneftegaz • ExxonMobil • StatoilHydro (Norway) • Royal Dutch Shell <p><u>Extractive Services</u></p> <ul style="list-style-type: none"> • Schlumberger
Mining/Metals	<ul style="list-style-type: none"> • Eras • Reversal • SUEK • RUSAL • ALCOA • Barrick • Schlumberger • Polyus Zoloto • Polymetal • Kinross • Nornikel, • Severstal • ALROSA Company Limited (diamonds) • Almazy Rossii-Sakha (diamonds) • Mechel (steel & related mining) <p><u>Extractive Services</u></p> <ul style="list-style-type: none"> • Schlumberger

<p>Power Generation</p>	<ul style="list-style-type: none"> • Integrated Energy Systems Siemens • GE • United Technologies • Samsung • Johnson Controls • Large manufacturer/consumers
<p>IT</p>	<p><u>Manufacturing</u></p> <ul style="list-style-type: none"> • Acer • Hewlett-Packard AO • Asus • Kraftway <p><u>Software & Services</u></p> <ul style="list-style-type: none"> • IBS (business process outsourcing) • Intel • Nortel • Kaspersky Lab • Cisco • Samsung • Microsoft • Sun Microsystems • Hewlett-Packard AO

<p style="text-align: center;">Healthcare & Pharmaceuticals</p>	<p><u>Russian Manufacturers</u></p> <ul style="list-style-type: none">• Pharmstandart• Microgen• Valenta• Velopharm• Nizhpharm• PharmFirma Soteks• Pharm-Centr• Otechestvennye Lekarstva• Materia Medica Holding NPF• BiosynteZ• Akrikhin
	<p><u>International Pharma</u></p> <ul style="list-style-type: none">• Eli Lilly
	<p><u>Healthcare Providers</u></p> <ul style="list-style-type: none">• AO Meditsina• The Center for Endosurgery and Shock Wave Therapy• The European Medical Center• The American Medical Center
	<p><u>Healthcare Organizations</u></p> <ul style="list-style-type: none">• Global Business Coalition (NGO)

<p>Financial Services</p>	<p><u>Private Investment/ Private Equity</u></p> <ul style="list-style-type: none"> • Baring Vostok • Fund Bortnik • Delta Capital • Allianz ROSNO Asset Management • Alfa Group Consortium • Renaissance Capital • SUN Capital • NAMFEX <p><u>Banking</u></p> <ul style="list-style-type: none"> • Alfa Bank • Sberbank • ABN-AMRO • KMB Bank • Citibank/Citigroup • Deutsche Bank • Raiffeisen Bank • Vneshtorgbank • MDM Bank Lilly • SKB Bank <p><u>Insurance</u></p> <ul style="list-style-type: none"> • Allianz ROSNO Life • ZAO Citibank
<p>Retail & Consumer Goods</p>	<ul style="list-style-type: none"> • IKEA • Coca Cola • Kompaniya Russki Standart • Uralthermoplast
<p>Construction</p>	<p><u>Developers</u></p> <ul style="list-style-type: none"> • Barkly • Don Story • PIK Group (real estate development) <p><u>Equipment & Materials</u></p> <ul style="list-style-type: none"> • Caterpillar • 3M • Volvo • JCB • Komatsu • Penetron

<p>Independent Media</p>	<p><u>Multimedia</u></p> <ul style="list-style-type: none"> • CTC Media, Inc. • Gazeta.ru • TBN <p><u>Print Media</u></p> <ul style="list-style-type: none"> • Moscow Times • Moy Rayon • Kommersant • CTC Media • Deovoi Petersburg <p><u>Media Organizations</u></p> <ul style="list-style-type: none"> • The Independent Press Center • Regional Press Institute
<p>Agriculture/ Agribusiness</p>	<p><u>Agribusiness</u></p> <ul style="list-style-type: none"> • Miratorg • Wimm-Bill-Dann Foods (dairy) <p><u>Food Retailers</u></p> <ul style="list-style-type: none"> • Victoria • Magnit <p><u>Equipment</u></p> <ul style="list-style-type: none"> • John Deere
<p>Transport/ Transport Manufacturing</p>	<p><u>Commercial Aircraft</u></p> <ul style="list-style-type: none"> • United Technologies • United Aircraft Building Corporation (UABC) – 51% owned by state <p><u>Airlines</u></p> <ul style="list-style-type: none"> • Aeroflot • TransAero • Rossiya • S7 Airlines • Komatsu

<p>Tourism</p>	<ul style="list-style-type: none"> • Marriott • Ritz • Ramada • Delta Airlines • United Airlines
<p>Automotive</p>	<p><u>Car Assembly</u></p> <ul style="list-style-type: none"> • Ford (St. Pete – Focus is a sales leader) • GM (JV with AvtoVAZ in Togliatti & a new plant in St. Pete) • Toyota • VW • Renault • GAZ Group • Sollers • AvtoVAZ • SOK Group • Mercedes-Benz Russia SAO <p><u>Car Sales</u></p> <ul style="list-style-type: none"> • Rolf
<p>Telecom (Internet)</p>	<ul style="list-style-type: none"> • MTT • Rostelekom (state-owned) • Golden Telecom (subsidiary of VimpelCom) • Sistema Telecom
<p>Telecom (Mobile phones)</p>	<ul style="list-style-type: none"> • MobileTeleSystems (MTS) • VimpelCom • Sistema Telecom • MegaFon • Motorola
<p>Philanthropy</p>	<ul style="list-style-type: none"> • Dynasty • Charity Club • Sinara Group