



Evaluation of the Tacis
Enterprise Restructuring
and Private Sector
Development Programme
in the Russian Federation

Main Report and Annexes

April 1999

MAIN ABBREVIATIONS AND ACRONYMS

| | |
|-------------|--|
| BCC | Business Communication Center |
| CBR | Central Bank of Russia |
| EBAS | European Banking Advisory Service |
| EBRD | European Bank for Reconstruction and Development |
| EES | European Expertise Service |
| ESC | Enterprise Support Centers (formerly TAC - Technical Assistance Centers) |
| EU | European Union |
| FCSM | Federal Commission for the Securities Market |
| FIA | Federal Insolvency Agency |
| FIDP | Financial Institutions Development Project |
| <i>GKI</i> | State Committee for the Management of State Property |
| <i>GKRP</i> | State Committee for the Support and Development of Small Business |
| IFC | International Finance Corporation (World Bank Group) |
| IFI | International financial institutions |
| IMF | International Monetary Fund |
| <i>KUGI</i> | Regional Committee for the Management of State Property |
| LC | Local consultants |
| LTE | Long term expatriate expert |
| PCA | Partnership and Cooperation Agreement |
| PSD | Private sector development |
| RPC | Russian Privatization Center |
| SCAP | State Committee for Anti-monopoly Policy |
| SEAF | Small Enterprise Assistance Funds |
| SME | Small and medium enterprises |
| SMEDA | SME Development Agency |
| STE | Short term expatriate expert |
| TA | Technical Assistance |
| TERF | Tacis Enterprise Restructuring Facility |
| TOR | Terms of Reference |
| USAID | US Agency for International Development |

SYMBOLS

| | |
|------|----------------|
| - | Nihil |
| .. | Not available |
| n.a. | Not applicable |

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EXECUTIVE SUMMARY

1. PROGRAM OVERVIEW

1.1 Size of Program and Overall Trends

- Private sector development (PSD) is Tacis' most important area of operations. Over the 1991-97 period covered by this study allocations totalled some ECU 256 million, about 27% of total Tacis funds
- The overall trend in allocations is shown in the table below

Table 1 ***Breakdown of Tacis Total Allocations - 1991-1997***
(ECU million)

| <i>Sector</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>Total</i> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| <i>Private Sector Development</i> | 27.2 | 29.8 | 54.5 | 43.4 | 40.6 | 31.3 | 28.7 | 255.5 |
| <i>Public Sector Development</i> | 46.6 | 24.6 | 44.0 | 18.9 | 52.8 | 33.8 | 27.0 | 247.7 |
| <i>Food and Agriculture</i> | 50.9 | 21.5 | 12.5 | 16.3 | 17.0 | 10.6 | 13.0 | 141.8 |
| <i>Energy</i> | 41.5 | 16.0 | 21.1 | 19.5 | 18.0 | 11.5 | 13.0 | 140.6 |
| <i>Transport and Communication</i> | 32.9 | 19.2 | 18.7 | 18.0 | 18.0 | 11.5 | 11.0 | 129.3 |
| <i>Nuclear Safety and Environment</i> | 12.9 | 0.0 | 0.0 | 0.0 | 0.0 | 5.5 | 5.0 | 23.4 |
| <i>Total</i> | 212.0 | 111.1 | 150.8 | 116.1 | 146.4 | 104.2 | 96.5 | 938.3 |

Source: Tacis Annual Report 1997

- over the 1991-97 period some 150 projects implemented or planned, ranging in size from ECU 0.5 to 12 million. Lately, trend towards larger average size (ECU 2-3 million)

1.2 Overall and Policy Objectives

- Tacis' overall objective in PSD is the assistance in the establishment of conditions conducive to private investment. This objective is explicitly mentioned in EU Regulations governing Tacis operations, that always contain references to "conditions favorable to private investment" among their recitals
- Tacis planning documents (Indicative Programs, Action Programs) further subdivide the overall objective into four policy objectives, namely:
 - re-orient the role of the state, through the privatization of state-owned assets and the establishment of an appropriate market infrastructure for private transactions;
 - restructure the existing productive base, through the conversion of military enterprises and the improvement of management structures and practices in medium sized & large privatized enterprises;
 - promote the establishment of new private initiatives, through the creation of SME support structures and the emergence of a more conducive policy & financial environment;
 - improve the interface between the financial sector and the "real" side of the economy, through the restructuring of commercial banks and the development and consolidation of other financial institutions.
- another theme frequently found in Tacis documents is that of the enhanced cooperation between EU and Russian operators. Indicated sometimes as an objective per se, sometimes as a means to achieve the other, above mentioned objectives, this theme has gradually gained importance in the last few years, in connection with the entry into force of the Partnership and Cooperation Agreement, which contains a number of provisions in the area of industrial and economic cooperation.
- in some instances Tacis' PSD activities have served as a vehicle to support the attainment of other, more specific policy goals pursued by the EU, e.g. by facilitating contacts and exchange of views among Russian and EU steel-makers during the preparation of the Steel Trade Agreement or by assisting the restructuring of former chemical weapons factories in connection with the Chemical Weapons Convention, to which Russia is expected to become one of the signatories.

1.3 Areas of Activity

- Tacis' initiatives in PSD can be grouped into six main "sectors", namely:
 - privatization & market infrastructure;
 - military conversion;
 - enterprise restructuring;

- SME development;
- bank restructuring;
- development of other financial institutions.
- The relative importance of allocations to these sectors is shown in the table below

Table 2 Sectoral Breakdown of Tacis Allocations to PSD

| Sectors | ECU million | Percentage |
|---|-------------|------------|
| Privatization & Market Infrastructure | 12.9 | 6.1 |
| Military Conversion | 35.9 | 16.9 |
| Enterprise Restructuring | 82.9 | 39.1 |
| SME Development | 27.6 | 13.0 |
| Commercial Banking | 30.7 | 14.5 |
| Development of Other Financial Institutions | 16.8 | 7.9 |
| Total* | 212.0 | 100.0 |

* Totals may not add up due to rounding.

1.4 Nature of Activities & Implementation Strategies

- Tacis activities in PSD cover a wide range of subjects and have involved the use of various forms of assistance (consulting, training, study tours, etc.). For the purpose of this evaluation, "activities" can be grouped into four main categories, namely:
 - "awareness" increasing advice, comprising consulting and training activities (diagnostic studies, profit planning exercises, study tours, etc.) designed to enhance the understanding of market economy mechanisms;
 - operational, hands-on advice, aimed at the solution of some specific problems faced by beneficiaries, be they economic operators (enterprises, banks, etc.) or public entities (e.g. handling of specific antitrust cases);
 - capacity building assistance, consisting of activities (train-the-trainers courses, managerial support, establishment of resource centers, etc.) designed to strengthen the capabilities of certain institutions which, in turn, are intended to serve a wider population of ultimate beneficiaries (e.g. training institutions for the banking sector);
 - assistance for the direct, large scale transfer of know how, such as training courses for practitioners in a certain sector (capital market operators, staff of insurance companies), the formulation of training packages for distant learning, the development and dissemination of professional best practices and codes of conduct, etc.
- Various activities have been combined in different ways (e.g. with more or less emphasis on capacity building), have been targeted to different categories of beneficiaries (e.g. new or existing institutions) and have been implemented both directly (i.e. by contractors selected by Tacis) or indirectly (via the facilitation of contacts between Russian beneficiaries and their EU counterparts), giving origin to different "implementation strategies". Five main implementation strategies can be identified, namely:
 - the strengthening of existing institutions to build up indigenous capabilities in policy advice, training, consulting services, etc.;
 - the establishment of new organizations, again with the purpose of building up capabilities in certain fields;
 - the direct provision of assistance to selected operators, be they enterprises, banks or other operational entities;
 - the direct provision of assistance to operators through "facility-type" schemes, operating on the basis of applications from potential beneficiaries and sometimes requiring their financial contribution;
 - the indirect provision of assistance to operators, through the facilitation of partnerships or "twinning" agreements with relevant EU counterparts (enterprises, banks, etc.).

1.5 Other Tacis Activities in PSD

- Tacis projects analyzed in this study are not the only form of support to PSD. Direct support to enterprises is also provided by the facilities comprising the so called Enterprise Support Group (financing for internships with EU companies, making available volunteer retired EU managers, supporting participation to Europartenariat events)
- in the area of policy and legal advice, support is provided through the European Expertise Service (EES), which makes available expertise for small scale assignments on a relatively short notice

2. ACTIVITIES IN MAIN SECTORS

2.1 Privatization & Market Infrastructure

- a low priority area, with only ECU 13 million invested (6% of total PSD budget) in some ten main projects
- Tacis had a limited involvement in privatization, which was largely carried out by the Russian government without much foreign support. Tacis actions have been primarily aimed at a few themes and institutions whose strengthening (in terms of operational capabilities, visibility) was expected to produce non transitory, discrete changes in Russia's institutional and legal framework (antitrust agency, accounting & auditing legislation, bankruptcy agency, entities responsible for registration of foreign investment)

2.2 Military Conversion

- the second largest area of activity after enterprise restructuring (see below), with allocations totalling ECU 36 million (17% of total PSD budget), subdivided into over 20 main projects
- Tacis projects have primarily consisted in the provision of direct assistance for the restructuring of individual enterprises or small groups of enterprises, with an emphasis on the development of new products. More limited efforts were deployed in institution building (establishment of "conversion advisory groups" and "technical centers")
- projects in this area often had a marked "technical" orientation (including the provision of some equipment) and were often implemented by industrial contractors rather than by consulting firms

2.3 Enterprise Restructuring

- by far Tacis' main sector of activity in PSD, with over ECU 80 million invested (39% of total allocations) in more than 30 main projects
- Tacis activities have mainly consisted in the provision of direct support to enterprises, ranging from awareness increasing TA, to business development advice to major restructuring exercises. More limited resources were devoted to the formulation of sectoral development strategies and to the strengthening of certain institutions intended to support restructuring (e.g. Russian Privatization Center and its regional offices)
- over ECU 40 million have been invested in the establishment of a network of 15 Enterprise Support Centers (ESCs), intended to provide a range of services to privatized enterprises at the regional level. The ESCs were initially conceived as fully Tacis-supported operations but lately efforts have been deployed to hand them over to local staff and to transform them into self financing consulting firms

2.4 SME Development

- an average priority sector, with allocations totalling some ECU 28 million (13% of the total PSD budget), with a dozen of main projects. Despite the comparatively limited resources invested, Tacis has accumulated a good reputation in this sector, with some bilateral donors now piggy-backing on its earlier effort
- Tacis efforts have been mainly aimed at the establishment of a network SME Development Agencies (SMEDAs) through a sequence of successive, similar projects implemented in collaboration with a strong Russian counterpart. The network now comprises over 30 SMEDAs. The initial emphasis on SMEDAs has been followed by some investment in the more sophisticate Business Communication Centers (BCCs), to add an international & IT element to the network of SME support structures
- Tacis has also been involved in SME policy advice (two projects) while additional activities (advice on SME financing, women entrepreneurship, etc.) were added by later Action Programs

2.5 Bank Restructuring

- an average priority sector, with allocations totalling ECU 31 million (about 15% of total PSD budget) and some 20 main projects
- Tacis' initial attempts to build an independent bank restructuring strategy (with some projects targeted at selected banks) were subsequently abandoned and Tacis joined forces with IFIs. Within the framework of the Financial Institutions Development Project (a US\$ 300 million operation initiated by the World Bank and the EBRD), significant Tacis funds (ECU 15 million) have been earmarked to finance bank twinning arrangements with EU banks. The operations of this scheme were suspended in November 1998 because of the bank crisis unfolding in Russia
- attempts to improve Russian banks' operating environment have been largely delegated to IFIs while Tacis invested in some major projects in bank training aimed at both existing and new institutions (Finance Academy, International Finance and Banking School, etc.)

2.6 Development of Other Financial Institutions

- a low priority sector, with only ECU 17 million invested (about 8% of total allocations) and some ten projects
- activities reflect the diversity of this "sector", with projects in insurance training, support to the establishment of investment banking capabilities (e.g. the Russian Project Finance Bank), mutual credit schemes. Lately, substantial emphasis was placed on capital market development

3. EVALUATION

3.1 Privatization & Market Infrastructure

- **relevance**: in principle, this is a very important area, but TA efforts in politically sensitive areas are structurally exposed to the vagaries of Russia's political situation. Also, Tacis displayed a limited ability in selecting the right counterparts and timing due to weaknesses in project preparation
- **effectiveness**: limited results have been achieved so far (e.g. passing of the accounting law); some projects are still on going (e.g. antitrust policy) but prospects are not exciting
- **efficiency**: successive, short term assignments of the EES-type could provide more value for money than large, mainstream projects
- **sustainability**: more than in any other area of activity, the sustainability of whatever results have been achieved is constrained by political factors beyond Tacis' control. Sustainability is also hampered by the brain drain afflicting cash starved Russian institutions, which are unable to offer decent salaries and working conditions
- **impact**: little discernible impact on the overall reform process. Tacis consultants operate with little political backing and whatever policy dialogue can be established, it is typically done with low ranking counterparts

3.2 Military Conversion

- **relevance**: the highly relevant overall objective of preserving Russia's R&D capabilities was translated into realistic specific objectives (typically, design of new products/specifications) in perhaps 50% of projects
- **effectiveness**: there were positive, tangible achievements whenever projects identified realistic objectives. Overall effectiveness was enhanced by the involvement of many industrial contractors with a strategic interest in project results
- **efficiency**: unit costs per enterprise assisted (ECU 1-1.5 million) are larger than in "generic" enterprise restructuring (see below), due to the higher technical content and the provision of some equipment
- **sustainability**: the sustainability of project achievements is limited by difficult financial conditions of some beneficiaries. In some cases EU industrial contractors are expected to assist in the industrialization and commercialization phases
- **impact**: there are some good prospects concerning the introduction of some new products but so far there has been little impact on enterprise performance

3.3 Enterprise Restructuring

- **relevance**: as long as Russian enterprises can postpone paying their bills, avoid paying taxes, etc. TA cannot precipitate any real restructuring. In addition to this structural problem, Tacis placed too much emphasis on the establishment of multipurpose entities (notably, the ESCs) as opposed to sector-oriented initiatives, which facilitate business development activities and the dissemination of results
- **effectiveness**: projects aimed at the restructuring of selected enterprises had a 25-30% success ratio, not exciting but in line with what achieved by other donors. The success ratio is lower in ESC projects (business development initiatives: 8%; credit applications: 5%). Effectiveness was affected by the limited quality at entry of participating enterprises, with low commitment due to the free of charge nature of advice. Effectiveness was higher in the case of contractors with solid industry specific experience and/or good contacts with EU business circles (useful for business promotion activities: a couple of joint ventures totalling over US\$ 2 million of real investment achieved by the "wood-processing restructuring project")
- **efficiency**: unit costs per enterprise assisted are in the ECU 300,000 - 750,000 range. Large variations in costs of ESC projects (from ECU 57,000 to 85,000 per month of operation) suggest that savings could have been made
- **sustainability**: whatever results were achieved in major restructuring exercises, they appear to be sustainable. Despite repeated efforts (extension contracts) the financial self sustainability of ESCs is doubtful
- **impact**: there are some examples of impact on enterprise performance (reduced energy costs, expanded export sales) but most assisted companies are still in dire straits. Negative "side effects" resulting from the persistent reliance on EU experts dispensing advice for free, with the ensuing crowding out of local private consultants

3.4 SME Development

- **relevance:** SMEDAs were useful to compensate for the lack of grass root entrepreneurial organizations at the beginning of the transitional process. In contrast, BCCs are probably too sophisticated for newly born Russian SMEs. Efforts in SME policy at the federal level are exposed to political instability (and the locus of policy making is shifting towards the regions)
- **effectiveness:** one third of the SMEDAs established with Tacis support are doing a good job; the others are mediocre or still in the process of reaching a mature status. Good SMEDAs serve several hundred SMEs per year. Capabilities of the Federal SME Agency were somewhat enhanced but no tangible improvements in SME operating environment
- **efficiency:** early SMEDA network projects were fairly cost effective (ECU 350,000 per SMEDA established), with an overall appropriate selection of locations. But efficiency has declined overtime due to the questionable choice of locations for new SMEDAs (Schlisselburg, population 10,000) and due to excessively high levels of staffing in some projects (2 European long termers to establish a BCC within an already established SMEDA)
- **sustainability:** unlike ESCs, the SMEDAs were established with sustainability in mind and Russian staff were responsible for running the show since the beginning. Not all the SMEDAs will survive but so far the casualty ratio has been reduced. Whatever results were achieved in SME policy are exposed to reversal in present political conditions (Federal SME Agency recently merged into a larger, multipurpose ministry with a fairly vague mandate)
- **impact:** some impact on SME formation and consolidation trends can be legitimately presumed whenever SMEDAs have reached a critical mass of clients (5-10% of SMEs in a certain area). Some SMEDAs are also actively promoting the formation of self help business associations

3.5 Bank Restructuring

- **relevance:** initiatives in bank training were very relevant, with the selection of the right counterparts & timing. On the other hand, TA restructuring efforts can achieve little tangible results in the "wrong" environment, despite the use of appropriate instruments (bank twinings)
- **effectiveness:** bank training capabilities have been effectively strengthened or established. Restructuring advice was usually formally appreciated by recipient banks but the suggested measures were only partly implemented (and the free of charge nature of the advice provided certainly did not help in suscitating high commitment)
- **efficiency:** the bank training projects have been very cost-effective, with unit costs per trainee (US\$ 800) in line with market rates. The cost effectiveness of schemes providing direct assistance to banks is less apparent
- **sustainability:** bank training institutions assisted by Tacis are well established and appear capable of staying afloat irrespective of developments in the sector at large. Sustainability of whatever results were achieved by assistance to individual banks depend on the unfolding of the present bank crisis
- **impact:** so far there has been no visible impact on bank performance. On the other hand, bank training institutions are already significantly contributing to raise the level of skills in the profession

3.6 Development of Other Financial Institutions

- **relevance:** the usefulness of efforts to support capital market development and government-sponsored investment schemes is doubtful, because of the limited ability to mobilize resources for productive investment. Insurance training and assistance to mutual credit are less fashionable but definitely more appropriate
- **effectiveness:** fairly good results were achieved in insurance training and mutual credit, partly thanks to the involvement of non commercial contractors. Achievements in other areas are mixed (some projects still ongoing)
- **efficiency:** striking contrast between some very cost effective projects (insurance & mutual credit) and some very high cost operations (Russian Project Finance Bank: TA worth ECU 7 million to support the establishment of an organization whose turnover only recently reached US\$ 7 million)
- **sustainability:** the beneficiaries of insurance training projects are well established institutions, expected to stay afloat. Sustainability of results in other areas (including the otherwise good project in mutual credit) is more uncertain
- **impact:** *the impact of insurance training (initially, mainly academically oriented) will take time to show up. There has been some improvement in indigenous investment banking capabilities. Other projects are still largely ongoing*

4. MAIN RECOMMENDATIONS

4.1 General Recommendations

- **from classical TA projects towards facility-like schemes**, which ensure more flexibility and can compensate for weaknesses in the project identification stage. This trend is already apparent in Tacis programming since 1995 (EBAS, INVAS, TERF)
- **move from free of charge TA to cost sharing mechanisms.** The problem is not to reduce project costs but to increase the quality at entry of participant Russian operators through a screening device. Somewhat belatedly Tacis has begun to move in this direction (TERF)

- increase the role of EU operators and associations. The statement "Consultants are useful, but there is no better way to learn than from a colleague" from a Russian banker neatly summarizes the case for this approach
- increase the use of local expertise. Some projects suffered from the limited use of good quality Russian consultants. To achieve this, Tacis regulations setting limitations on permissible fees for Russian experts should be modified

4.2 Recommendations - Privatization & Market Infrastructure

- low priority and emphasis on small, timely projects. Activities in this area are inevitably exposed to political instability, which justifies the low priority given to it in the past. Whenever a window of opportunity arises for expert advice, swift reaction is required and the European Expertise Service is the best suited vehicle

4.3 Enterprise Restructuring & Military Conversion

- from classical TA projects to industrial cooperation. Experience gained in military conversion with industrial contractors is going to be generalized through projects such as the new Tacis Industrial Cooperation Initiative to come on stream in 1999. Promotional efforts are required to make this initiative known in business circles
- revive the initial sectoral approach, with emphasis on demand-driven schemes and/or high profile initiatives with some "technical" content (e.g. technical centers, certification). There are signs that Tacis is already moving in this direction
- re-orient new initiatives intended to provide further support to ESCs. A new, ECU 4 million project aimed at ESCs is included in the 1998 Action Program. Although understandable, the desire to salvage as much as possible from Tacis' single largest investment is not a sufficient rationale for the commitment of additional resources. Eligibility under the project should be extended to genuinely private Russian consulting *companies, to avoid that they suffer from unfair competition from EU-supported structures*

4.4 SME Development

- from SMEDAs to business associations. Tacis should gradually extend efforts in the field of SME support structures to cover newly emerging business associations. Support could be provided through existing SMEDAs (preparation of information packages on associations, model legal documents, etc.) and through EU business associations (internships, twinnings)
- use Tacis funds as seed money for the establishment of SME financing schemes (guarantee funds, small equity funds, etc.) in a small number of regions. This would make a major impact on SMEs access to finance and give Tacis great visibility. Major efforts are likely to be required to adapt present Tacis regulations, but the substantial potential pay off seem to justify the effort

4.5 Bank Restructuring & Other Financial Institutions

- renew support to bank twinnings, as soon as the situation goes back to normal. A proactive attitude will be required to recruit good twins, with promotional efforts within the banking community at the Member State level to identify alternatives to the usual "professional twins" (who make a living out of donor-financed contracts)
- high priority to insurance and mutual credit. Tacis should reduce the recent emphasis on the development of capital markets (very fashionable, but in Russia a sort of casino largely irrelevant for the mobilization of investment money) and give high priority to the insurance industry (which also offers a good market potential for EU insurers) and mutual credit schemes (a possible alternative to traditional banking in terms of savings mobilization and lending to small businesses)

1. INTRODUCTION

1.1 Objectives

The objective of this work is to provide an independent assessment of the background, objectives, results achieved and means deployed by Tacis in the field of private sector development (hereinafter PSD) in the Russian Federation, with a view of drawing lessons that could be useful for future action. More specifically, as indicated in the Terms of Reference (TOR), "the main aims of this evaluation exercise are .. as follows:

- provide recommendations on possible policy and strategy re-orientation in the framework of the 1996-1999 indicative programming;
- suggest possible adjustments of Tacis regulations and procedures to allow for the adoption of more effective implementing instruments, more efficient program cycles and policy and strategy approach".

As all other Tacis activities, projects in PSD have been the subject of constant monitoring by the Monitoring Unit. The Tacis monitoring program is mainly intended to generate information on projects during implementation, in order to provide an early warning on potential problems and to facilitate the adoption of corrective measures. In contrast, this evaluation exercise, while largely building on the results of monitoring activities, also addresses issues such as the relevance of stated goals, the appropriateness of institutional arrangements, the comparative effectiveness and efficiency of different instruments and implementation strategies, which are largely excluded from the mandate of monitoring activities.

1.2 Scope of Work

This evaluation covers Tacis activities in six areas ("sectors") related to private sector development¹, namely:

- privatization of state-owned assets and establishment of an appropriate framework for private sector transactions ("privatization & market infrastructure");
- conversion of former defense enterprises ("military conversion");
- restructuring of privatized, medium-sized & large enterprises ("enterprise restructuring");
- development of small and medium sized enterprises ("SME development");
- restructuring of commercial banks ("bank restructuring");
- development of capital markets, insurance, and other non bank financial institutions ("development of other financial institutions").

This evaluation does not cover (a few) Tacis projects that, although included in the "PSD section" of planning documents and administratively attached to PSD (i.e. handled by the same Tacis unit), have a marked macroeconomic orientation (e.g. advice on taxation, central bank training in monetary policy, etc.). This exclusion is justified both by practical considerations (PSD as above defined being already heterogeneous enough to provide for a coherent treatment) and on logical grounds (macroeconomic stabilization being a pre condition not only for PSD but also for development in other areas, such as agriculture, social conditions, etc.).

The evaluation also does not cover (a few) Tacis initiatives that, although fitting with the above definition of PSD, were included in other parts of the Tacis program. This refers primarily to: i) a couple of projects in the financial sector (such as the EBTRA project, part of the regional program covering the whole CIS, and initiatives in mutual credit included in Tacis' "social development" program), and ii) some initiatives undertaken at the regional level (e.g. the regional development program in Voronezh, which also included some PSD-support actions). The exclusion of these initiatives is only due to practical reasons, namely the difficulties encountered in locating the required background information and materials.

¹ The expression private sector development (PSD) is our own. In Tacis documents reference is usually made to "enterprise restructuring" only, which is a misleading definition since the activities subsumed under this heading extend well beyond the notion of enterprise restructuring proper.

This evaluation is concerned essentially with Tacis PSD initiatives included in the "national" or "regional" annual Action Programs, hereinafter referred to as "mainstream projects". Tacis provides support to PSD in Russia (as well as in other CIS countries) also through other instruments, most notably:

- the so called "facilities", such as: the European Expertise Service (EES), the Joint Venture Program (JOP), the Productivity Initiative Program (PIP), the European Senior Service Network (ESSN), etc.;
- some programs supporting initiatives promoted by international financial institutions, such as the "Bangkok facility" which provides grant financing for projects managed by the EBRD.

The above instruments are the subject of separate evaluation exercises² and therefore are not dealt with in detail here. However, whenever relevant, efforts have been made to highlight the relationship between these "facilities" and Tacis' "mainstream projects" which form the main object of this evaluation.

Finally, the evaluation exercise is mainly concerned with Tacis PSD initiatives included in the 1991-1995 Action Programs. However, bearing in mind the forward looking nature of the exercise and in line with what indicated in the TOR, the analysis was also extended to the 1996 and 1997 Action Programs, primarily to gain a comprehensive view of the evolving nature of implementation strategies adopted.

1.3 Work Plan

As indicated in the TOR, the evaluation was carried out in three phases. **Phase I - Desk Study**, consisted primarily in the collection and analysis of relevant Tacis documents, both at the program level (Council Regulations, Indicative Programs, Action Programs) and at the project level (TOR, contractors' reports, etc.). This was associated with: i) a review of PSD developments in Russia, with special attention to the areas more directly concerned by the study, and ii) a review of other donors' and of international organizations' PSD activities in the country. Results of Phase I were submitted to Tacis in March and April 1998 and are partially reproduced in Annex B of this report as background papers. Phase I required some interaction with relevant Bruxelles-based Tacis staff to identify and discuss projects in PSD and, much more importantly, involved substantial efforts to physically locate (and get hold of) the relevant project documents. Due to the difficulties encountered in this preliminary document collection stage³, Phase I, originally supposed to last for 1.5 months, was extended by almost 4 months.

Phase II - Fieldwork, consisted of visits to 22 projects selected for detailed analysis, involving interviews with contractors and/or partner organizations and/or ultimate beneficiaries of Tacis activities (enterprises, banks, etc.). This was complemented by contacts with relevant Tacis counterparts based in Russia (EU Delegation, Coordinating Unit, Monitoring Unit, Technical Offices) and with other relevant interlocutors (some donors, Russian consulting firms active in regions/fields covered by Tacis activities, etc.). Fieldwork was carried out in Moscow, St. Petersburg and in 13 other *oblast*, covering in total six regions (Central, St. Petersburg-Leningradsky, North West, South West, Urals, West Siberia). All in all, some 80 meetings were held, of which 25 in Moscow and 55 elsewhere. Fieldwork was carried out as planned in the TOR over a period of 2.5 months and involved the deployment of 6 European consultants, for a total of 96 staff/days in the field, including report writing of project profiles (i.e. about 4 staff/day per project analyzed). Results of fieldwork were incorporated into project profiles which were submitted to Tacis in August 1998 and which are reproduced in an edited version in Annex C of this report.

Phase III - Synthesis, was devoted to the preparation of the final report based on results from Phase I and elements gathered during fieldwork. Because of the substantial changes occurred in Russia after fieldwork had been completed (namely: the government's August 17 default on the payment of T-bills, with the ensuing devaluation and financial crisis), during Phase III substantial (and unplanned) efforts were made to update both the general picture of PSD in the country and the information on the fate of Tacis projects in detail⁴. Thanks to this work, this report can be regarded as updated as of December 1, 1998.

² More specifically, separate evaluations are reported to be underway or in the pipeline regarding the Policy Advice Program, the Joint Venture Program, the Bangkok Facility and the so called Enterprise Support Group (which encompasses four facilities: Productivity Initiative Program, European Senior Service Network, Europartenariat, Mercure - Eurochambres).

³ This was due to two factors: i) some staff had just been appointed (or had inherited batches of projects from other staff who had just left the service) and were themselves in the process of familiarizing with the files; ii) Tacis had just moved to a new location and the project files were not accessible for several weeks. The cooperation kindly extended by Tacis staff in making project documents accessible at the earliest possible date is gratefully acknowledged.

⁴ This was particularly important in the case of: i) projects in the banking sector, severely affected by the bank crisis (and indeed, the Tacis co-financed Financial Institutions Development Project turned out to have suspended operations on November 15), and ii) Enterprise

1.4 Methodology

Evaluation Criteria. Tacis projects in PSD activities have been assessed against a set of fairly standard evaluation criteria, namely:

- **relevance:** indicating whether project/program objectives are in line with needs and priorities. The term "appropriateness" is regarded as a synonym, although it is usually referred to the choice of the partner organizations and/or to institutional arrangements adopted and/or to the timing of the operation;
- **effectiveness:** indicating the ability to reach the specific project/program objectives (and not just the delivery of planned outputs);
- **efficiency:** describing the relationship between resources used and results achieved. The expression "cost-effectiveness" is regarded as a synonym;
- **sustainability:** referred to the viability of project results after completion, the financial self sustainability of Tacis-assisted institutions being only one of the aspects to be considered;
- **impact:** indicating the ability to contribute to the attainment of the project's wider objectives, as well as any positive or negative side effect on the project environment.

A more elaborate discussion of the above criteria, together with some comments regarding their applicability in the context of this evaluation, is provided in Annex A.

Evaluation Tools. The extremely diverse nature of the projects covered by the evaluation (from institution building in commercial banking, to the provision of direct assistance to manufacturing companies in specific functional areas, to the provision of assistance in the drafting of pieces of legislation) inevitably limited the use of standardized evaluation tools. Checklists were prepared for interviews with the Enterprise Support Centers (ESC) and the SME Development Agencies (SMEDA), the only two areas where the size of the target populations (15 ESCs of which 9 interviewed; 35 SMEDAs of which 13 interviewed) allowed for the systematic collection of information. In the case of other projects a more eclectic approach had to be adopted, using as main guidance the "analytical grid" underlying the standardized format adopted for the project profiles.

Projects Analyzed in Detail. As above, the fieldwork phase was mainly aimed at the detailed analysis of a sample of projects. In agreement with the relevant Tacis Evaluation Unit staff, 22 projects were selected for in depth review, based on the following criteria:

- "sector", to reflect the distribution of allocations across the various areas of activity comprising PSD;
- project type, to ensure that different instruments and implementation strategies (institution building, direct provision of services, etc.) were adequately covered;
- financial magnitude and duration, with exclusion of very small projects (which are few anyway);
- apparent success or failure, based on whatever *a priori* information was available.

Out of the 22 projects comprising the sample: 2 are in privatization and market infrastructure, 2 in military conversion, 6 in enterprise restructuring, 6 in SME development, 3 in bank restructuring, and the remaining 3 refer to the development of other financial institutions. Allocations to the projects surveyed in detail amount to ECU 103.6 million, i.e. some 41% of total Tacis allocations to PSD activities over the period concerned. Out of the 22 projects, at the time of fieldwork 17 projects had been completed, 2 were approaching completion; 2 were at least half way and only 1 was still in the early stages (and was included to gain information on the last generation of projects). The list of projects included in the sample is in Box 1.1.

Other Projects. In order to get a better understanding of the many issues at stake, the information gathered on the sample projects was supplemented by the review of some 30 other projects. These include a few initiatives which are the follow up of projects analyzed in detail (to assess the ability to learn from past lessons) as well as other, completely independent projects. The analysis of these additional projects was based on the key project documents (TOR, contractors' reports, monitoring reports), sometimes complemented with direct or telephone interviews with the relevant counterparts.

Support Centers, whose attempts to stay afloat are supposed to be assisted by new project scheduled for 1999 (but some of them are reported to have ceased operations in the meantime).

1.5 Organization of The Study

This report consists of the main report and of three annexes, namely:

- the main report, containing the overall description and evaluation of Tacis PSD activities and the recommendations deriving for such analysis;
- Annex A, containing a presentation of the evaluation criteria;
- Annexes B and C, containing the list of main TACIS projects in the domain of Private Sector Development and the detailed description of projects evaluated during the field work.

The main report is organized as follows:

- Section 2 provides an overall description of Tacis PSD activities in Russia;
- Sections 3 through 8 are devoted to the detailed review and evaluation of Tacis PSD activities in the six sub-sectors listed above (privatization & market infrastructure, military conversion, enterprise restructuring, SME development, bank restructuring, development of other financial institutions);
- finally, Section 9 contains a summary of the main findings and offers some recommendations for future action.

Box 1.1 Projects Selected for Detailed Analysis

| Sector and Project | Action Program(s) | Budget (MECU) | Status |
|---|-------------------|---------------|---|
| Privatization & Market Infrastructure | | | |
| Hotel Privatization (St. Petersburg) | 1992 | 2.1 | Completed |
| Assistance to the State Committee for Anti-monopoly Policy (Moscow) | 1995 | 1.5 | Ongoing (halfway) |
| Military Conversion | | | |
| Assistance to Leninets (St. Petersburg) | 1995 | 1.0 | Completed |
| Certifiable Airborne Software (Moscow region) | 1995 | 1.4 | Completed (but short extension ongoing) |
| Enterprise Restructuring | | | |
| Assistance to Wood Processing Industry (countrywide) | 1992 | 2.1 | Completed |
| Restructuring of Selected Enterprises - EU 12 (countrywide) | 1993 | 8.3 | Completed |
| Review of Iron & Steel Industry (countrywide) | 1993 | 2.0 | Completed |
| Enterprise Support Centers (Urals) | 1993 | 12.3 | Completed |
| Enterprise Support Centers (West Siberia) | 1993 | 8.3 | Approaching completion |
| | 1996 | | |
| Enterprise Support Centers (South West Russia) | 1994 | 7.0 | Completed (but short extension ongoing) |
| SME Development | | | |
| SMEDA and BCC (Moscow and St. Petersburg) | 1992 | 6.2 | Completed |
| | 1995 | | |
| | 1996 | | |
| SMEDA Network I (countrywide) | 1993 | 3.8 | Completed |
| SMEDA Network II (countrywide, five regions) | 1994 | 2.3 | Completed |
| SMEDA Network III (North West Russia and Irkutsk) | 1995 | 3.0 | Approaching completion |
| SMEDA & BCC Network IV (countrywide) | 1996 | 4.5 | Just started |
| SME Development Policy (Moscow and two regions) | 1993 | 0.9 | Completed |
| Bank Restructuring | | | |
| Establishment of International Finance & Banking School (Moscow) | 1991 | 7.5 | Completed |
| European Banking Advisory Services - EBAS I (countrywide) | 1993 | 5.0 | Completed (but follow up project ongoing) |
| Financial Institutions Development Project - FIDP (countrywide) | 1994 | 14.5 | Ongoing (halfway) ⁽¹⁾ |
| | 1995 | | |
| | 1997 | | |
| Development of Other Financial Institutions | | | |
| Russian Project Finance Bank (Moscow) | 1991 | 6.7 | Completed |
| Insurance Training I (Moscow and St. Petersburg) | 1991 | 2.4 | Completed (but follow up project ongoing) |
| Development of Credit Unions (Moscow and Central Russia) | 1992 | 0.8 | Completed |

⁽¹⁾ Project activities suspended on November 15, 1998 because of the banking crisis.

2. TACIS PSD ACTIVITIES IN RUSSIA: OVERVIEW

2.1 Introduction

In this Section we provide a presentation of Tacis' private sector development (PSD) activities implemented or planned over the 1991-97 period. Section 2.2 briefly comments on the overall evolution and size of the program; Section 2.3 elaborates on the objectives guiding Tacis action in PSD; Section 2.4 provides an overview of the main sectors of activity; Section 2.5 briefly analyzes the activities typically carried out and the nature of resources used; finally, Section 2.6 comments on the implementation strategies adopted.

2.2 Evolution and Size of the Program

Activities in support to PSD have been a key component of Tacis since the early days. The 1991 Indicative Program, referred to the then still existing Soviet Union, already included "financial sector reform" among the areas deserving support from Tacis. "Enterprise support services" (a somewhat loose definition, actually encompassing the whole of PSD activities) were one of the four key areas covered by the 1992 Indicative Program. "Enterprise restructuring" (again to be considered as PSD *latu senso*), was identified as one of the two "focal sectors" in the 1993-95 Indicative Program and retained a prominent role also in the subsequent planning period (1996-99), despite the inclusion of other "priority" sectors.

Table 2.1 Sectoral Breakdown of Allocations in Tacis Action Programs - 1991-97
(ECU million)

| Sector | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | Total |
|--|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| Private Sector Development | 27.2 | 29.8 | 54.5 | 43.4 | 40.6 | 31.3 | 28.7 | 255.5 |
| Public Administration, Social Services and Education | 46.6 | 24.6 | 44.0 | 18.9 | 52.8 | 33.8 | 27.0 | 247.7 |
| Food and Agriculture | 50.9 | 21.5 | 12.5 | 16.3 | 17.0 | 10.6 | 13.0 | 141.8 |
| Energy | 41.5 | 16.0 | 21.1 | 19.5 | 18.0 | 11.5 | 13.0 | 140.6 |
| Transport and Communication | 32.9 | 19.2 | 18.7 | 18.0 | 18.0 | 11.5 | 11.0 | 129.3 |
| Nuclear Safety and Environment | 12.9 | 0.0 | 0.0 | 0.0 | 0.0 | 5.5 | 5.0 | 23.4 |
| Total | 212.0 | 111.1 | 150.8 | 116.1 | 146.4 | 104.2 | 96.5 | 938.3 |

Source: *Tacis Annual Report 1997*

The importance attached by Tacis to PSD activities is reflected in the distribution of financial allocations. Indeed, over the 1991-97 period allocations to PSD initiatives included in the national program amounted to over ECU 255 million, equivalent to some 27% of total resources devoted to technical assistance in the Russian Federation. As shown in Table 2.1, PSD stands out as Tacis' main area of activity, marginally above Public Administration Reform & Social Services (some ECU 248 million) and with allocations that are almost double the amounts devoted other sectors of activity such as Food & Agriculture, Energy, Transport & Telecommunications (with around ECU 130-140 million each). Allocations to PSD peaked in 1994 with about ECU 55 million, were above ECU 40 million per year in 1994-95 and have been around 30 million in the other years. Altogether, an estimated 130-150 projects have been implemented by Tacis (or at least budgeted) in the field of PSD⁵.

⁵ The precise number of projects could not be determined mainly because the access to some databases (namely, *Desirée*) was denied on confidentiality grounds. In any event, in the case of Tacis the notion of project ("a set of logically inter-linked actions having one objective or a coherent set of objectives") is sometimes difficult to determine unambiguously. On the one hand, some of the initiatives listed in the Action Programs are too broad to be regarded as well defined projects and indeed are implemented in stages and by different contractors. For instance, the initiative "assistance to Russian Privatization Center - RPC" included as a single entry in the 1993 Action Program actually included both an institution strengthening project directly aimed at the RPC as well as the provision of assistance to a group of selected enterprises (the so called "EU 12" project). On the other hand, Tacis' official "unit of analysis", the contract, is also not entirely

2.3 Objectives

Overall and Policy/Sectoral Objectives. The overall objective ("wider program objective", in the evaluators' parlance) of Tacis' PSD activities can be defined as the assistance to the establishment of conditions conducive to private investment. A sort of official *imprimatur* for this interpretation comes directly from the EU regulations governing Tacis operations, which always include references to "conditions favorable to private investment" in their preamble⁶.

Tacis' main policy and operational documents (Indicative Programs and Action Programs) contain a further specification of objectives to be pursued within the different planning periods, formulated in terms of policy issues to be tackled and/or of target groups to be assisted⁷. A more detailed analysis of specific objectives is provided in the subsequent Sections of this study, covering the various sectors of activity. At this juncture, and with a certain dose of *ex post* rationalization, it can be said that over the period under consideration Tacis followed a four pronged strategy, aimed at the following policy (and sectoral) objectives:

- the re-orientation of the role of the state, which in turn involves both: i) the withdrawal of the state from certain areas, namely the privatization of productive assets, and ii) a positive role in the establishment of an appropriate "market infrastructure" for private transactions (business law, antitrust, etc.);
- the restructuring of the existing productive base, involving in turn: i) the conversion of former defense enterprises to civilian production, and ii) the improvement of management structures and practices in privatized enterprises;
- the promotion of new private initiatives, through: i) the establishment of a network of SME support institutions, and ii) the formulation of public policies more conducive to SME development;
- the improvement of the interface between the "financial" and "real" sides of the economy, to be achieved through: i) the improvement of management structures in commercial banking, with special emphasis on lending-related aspects, ii) the establishment of indigenous capabilities in investment banking (in broad sense), iii) the establishment of conditions for the proper functioning and development of capital markets.

The hierarchy of objectives of Tacis PSD activities is presented in Figure 2.1.

It is worth stressing that not all the above mentioned objectives were pursued by Tacis since the very beginning. In particular, while the restructuring of the financial sector was identified as a key objective as early as in 1991, SME development, military conversion and the establishment of an appropriate market infrastructure were added in 1992. The restructuring of medium & large enterprises appeared as a declared objective only in 1993, once the privatization of large parts of the Russian industry had been completed or was well underway (and following explicit requests for donor support formulated by the Russian government at the G7 Summit in Tokyo).

Tacis and EU Policy Objectives. A theme frequently found in Tacis documents is that of the enhanced cooperation between EU and Russian operators, such as the need of "promoting the development of industrial partnerships and joint ventures with European partners" (1995 Action Program, page 5). Indicated sometimes as an objective *per se*, sometimes as a means to achieve the other, above mentioned objectives, the theme of the reinforced cooperation has gradually gained importance in the last few years. This reflects the overall development of EU-Russia relationships, marked in particular by the negotiation and entry into force of the Partnership and Cooperation Agreement, which contains a number of provisions in the area of industrial and economic cooperation.

appropriate for our purpose, since there have been several cases of separate contracts awarded to the same or different contractors but clearly having the same objective (e.g. the "EU 12" project was implemented by two consulting firms working on two separate contracts).

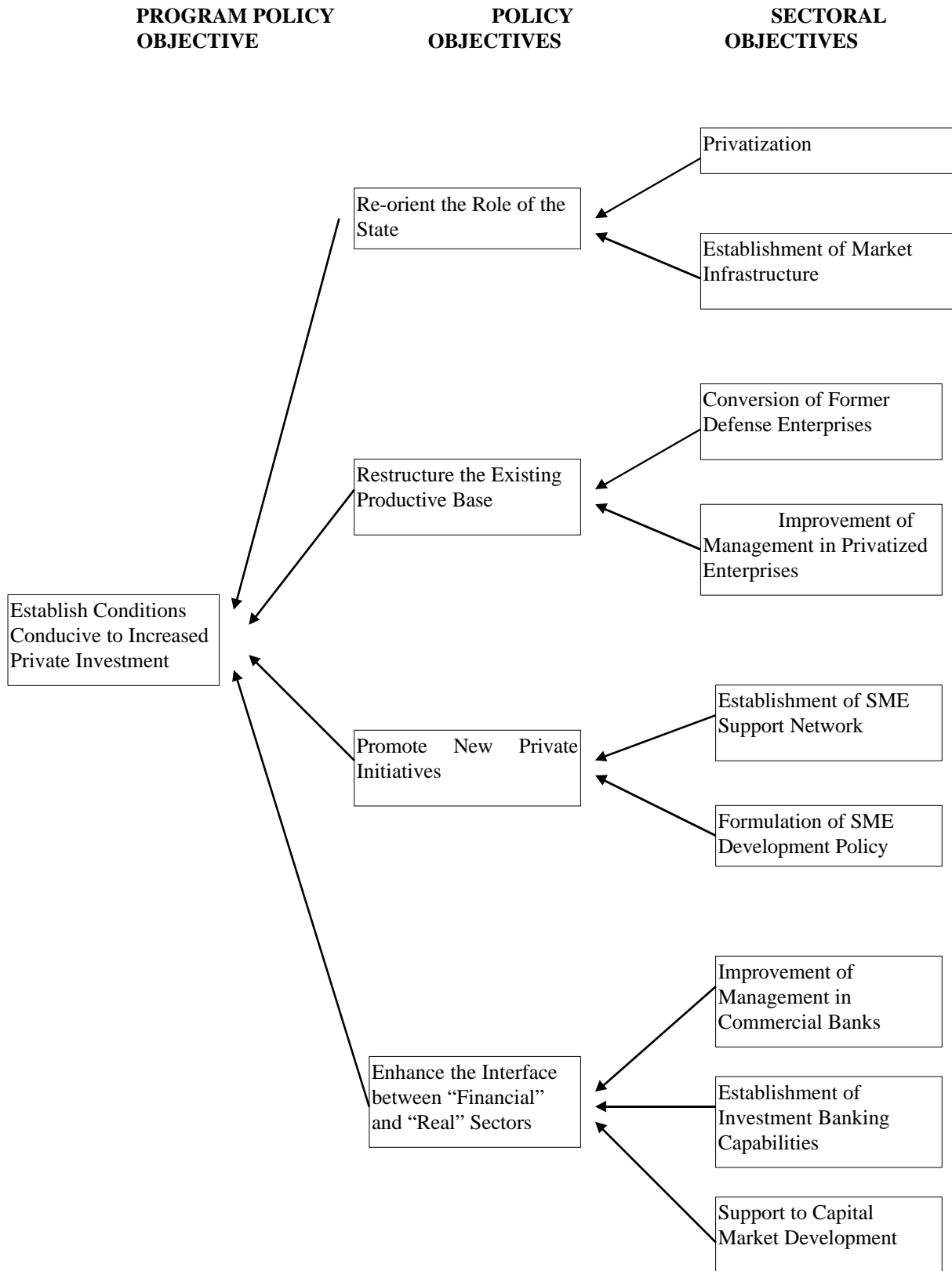
⁶ In the first Tacis regulation (Council Regulation #2157/91 of July 15, 1991) the reference to conditions favorable to private investment figures prominently as the fourth recital (out of eight). In subsequent regulations (Council Regulation #2053/93 of July 19, 1993 and Council Regulation # 1279/96 of June 25, 1996) the preamble was considerably lengthened and other recitals of similar nature (need to encourage the dialogue between social partners, need to foster infra-NIS trade links) were added.

⁷ For instance, the 1996-99 Indicative Program (page 6) indicates the following six objectives:

- "the reinforcement and better implementation of policies and legislation assisting the completion of privatization and genuine restructuring in all sectors of the economy";
- "to improve the framework for enterprise with emphasis on improving the business and investment climate" (business law, competition policy, etc.);
- "to help larger companies adjust to market conditions through deep restructuring";
- "in defence industries, to concentrate on enterprises with skills in high technology areas where civilian applications can be identified";
- "to support and stimulate SMEs in order to encourage continued development"
- the "consolidation of reforms in the financial sector .. to underpin the activities described above and to ensure its capacity to respond to need".

In some instances Tacis also served as a vehicle to support the attainment of other, more specific policy goals pursued by the EU. This was the case, for instance, of initiatives in the iron & steel sector launched with the active participation of DG III, which helped in establishing an atmosphere of mutual understanding between European and Russian steel-makers that, in turn, contributed to the finalization of the Steel Trade Agreement. In a similar vein, a recent initiative aimed at the restructuring of chemical weapons factories, follows a specific Council Declaration (May 27, 1997) in which the EU offered assistance in areas related to the Chemical Weapons Convention, to which Russia is expected to become one of the signatories.

Figure 2.1 Hierarchy of Objectives of Tacis PSD Activities



2.4 Areas of Activity

As anticipated in Section 1 above, Tacis initiatives in PSD can be grouped into six main areas of activity (or "sectors"), namely:

- privatization & market infrastructure,
- military conversion,
- enterprise restructuring,
- SME development,
- bank restructuring, and
- development of other financial institutions.

The breakdown of budgetary allocations by sector is provided in Table 2.2⁸.

Table 2.2 Sectoral Breakdown of Tacis Activities in PSD

| Sectors | Allocations (ECU million) | Allocations (%) |
|---|------------------------------|--------------------|
| Privatization & Market Infrastructure | 12.9 | 6.1 |
| Military Conversion | 35.9 | 16.9 |
| Enterprise Restructuring | 82.9 | 39.1 |
| SME Development | 27.6 | 13.0 |
| Bank Restructuring | 30.7 | 14.5 |
| Development of Other Financial Institutions | 16.8 | 7.9 |
| Total⁽¹⁾ | 212.0 | 100.0 |

⁽¹⁾ Totals may not add up due to rounding.

Enterprise restructuring, i.e. the restructuring of medium-sized and large privatized enterprises, stands out as Tacis' main area of activity in PSD, with allocations of over ECU 80 million, subdivided in some 30 main projects. Activities in this sector include the direct provision of advice to enterprises as well as the establishment/strengthening of support structures, such as the Russian Privatization Center (RPC) and the Enterprise Support Centers (ESCs). Conceptually similar to the restructuring of privatized enterprises, are the activities aimed at facilitating the conversion of military industrial complex, Tacis second most important sector in PSD. Over the 1991-97, military conversion received over ECU 35 million (17% of total allocations to PSD activities), subdivided in about 25 main projects.

Bank restructuring and SME development can both be regarded as "average priority" sectors, receiving allocations of about ECU 30 million each. Activities in bank restructuring started in 1991, with a first series projects aimed at specific banks and a major initiative in bank training (the establishment of the International Finance and banking School). In later Action Programs, allocations to bank restructuring were largely concentrated in one, large scale initiative, the Financial Institutions Development Project (FIDP). Initiatives in SME development were first introduced with the 1992 Action Plan and have received constant attention thereafter. The some 15 projects in this sector have been mainly aimed at the establishment of a network of SME support structures (the so called SME Development Agencies - SMEDAs, later followed by the Business Communication Centers - BCCs).

The "low priority" areas include: i) privatization & market infrastructure, with a dozen of policy advice and institutional strengthening projects (antitrust policy, accounting standards, etc.), accounting for some ECU 13 million (6% of total allocations to PSD), and ii) the development of non bank financial institutions (covering the insurance industry, capital markets, investment schemes, mutual credit), with some ten main projects, account for another ECU 17 million (8% of total allocations to PSD).

⁸ The total in Table 2.2 does not match with the corresponding figure in Table 2.1. The latter is taken from the *1997 Tacis Annual Report* while the former is our own elaboration based on data from the national and regional Action Programs. The discrepancy (some ECU 40 million) is at least partly accounted for by the exclusion from our Table 2.2 of: i) some projects with a macroeconomic orientation, and ii) facilities such as PIP, ESSN and the like.

2.5 Activities and Resources

Activities. Tacis activities in PSD cover a wide range of subjects and have involved the use of various forms of assistance (consulting, training, study tours, etc.). For the purpose of this evaluation, activities can be grouped into four main categories, namely:

- "awareness" increasing advice, including both consulting and training activities (diagnostic studies, basic profit planning exercises, study tours, etc.) designed to enhance the understanding of market economy mechanisms;
- operational, hands-on advice, aimed at the solution of some specific problems faced by beneficiaries, be they economic operators (enterprises, banks, etc.) or institutions (in which case it is often referred to as policy and legal advice);
- capacity building assistance, including activities (train-the-trainers courses, managerial support, establishment of resource centers, etc.) designed to strengthen the capabilities of certain institutions which, in turn, are intended to serve a wider population of ultimate beneficiaries (e.g. training institutions for the banking sector);
- assistance for the direct, large scale transfer of know how, such as training courses for practitioners in a certain sector (capital market operators, staff of insurance companies), the formulation of training packages for distant learning, the development and dissemination of professional best practices and codes of conduct, etc.

Some Tacis projects are centered around only one of the above types of activities (e.g. hands-on advice in the "Assistance to Wood-processing Industry" project, capacity building in the "SME Policy" project) but in most cases two or more types of activities coexist, giving rise to multi-component projects (e.g. awareness increasing and hands-on assistance plus capacity building in the ESCs projects).

Resources. Given the nature of Tacis, technical assistance (TA) provided by European experts is obviously the main input. European TA includes both the posting of long term experts (LTEs) in Russia (often coupling advisory and project management functions) and the involvement of short term experts (STEs), typically acting only in an advisory capacity. A peculiar form of TA is the assistance provided by staff of EU entities to their Russian counterparts within the framework of "twinning arrangements" (such as the advice provided by EU bankers under the Financial Institutions Development Program). Most Tacis projects also require the involvement of Russian personnel, although usually in an auxiliary capacity, as support to EU consultants. The involvement of local consultants (LCs) is subject to some conditions (namely, maximum acceptable fees) that, as it will be seen elsewhere in this report, are sometimes sources of problems.

In the case of initiatives with a significant institutional component, TA is typically complemented by the provision of equipment and other tangibles (usually, office and IT equipment, documentation for "resource centers", etc.). The provision of equipment is also typically included in military conversion projects, mainly in the form of advanced IT equipment and software. In some cases, institution building projects involve the provision of financial contributions towards the running costs of partner institutions (local transportation, office supplies), but with the exclusion of salaries (only exception: the project supporting the Russian Privatization Center' regional offices). Finally, resources made available under Tacis PSD projects often include allocations for study tours and other activities aimed at establishment and facilitation of international contacts.

No consolidated information seems to be available on the cost structure of Tacis PSD projects in Russia (or for that matter, of any sort of Tacis activities). Based on a small sub sample of 25 projects for which sufficient information is available, expatriate and local experts together account for an estimated 73% of total budget, followed by equipment (12%), training and study tours (5%) and other items (9%).

2.6 Implementation Strategies

Activities indicated in the previous sub-section have been combined in different ways (e.g. with more or less emphasis on institution building), have been targeted to different categories of beneficiaries (e.g. new or existing institutions) and have been implemented both directly (i.e. by contractors selected by Tacis) or indirectly (via the facilitation of contacts with EU partners), giving origin to different implementation strategies. For the purpose of defining implementation strategies, the following aspects appear to be particularly relevant:

- the presence or absence of an institution building element;
- in case institution building is present, the nature of the organization(s) involved (existing institution v new institution);
- the way in which assistance is provided (direct support v indirect assistance through, say, closer contacts with EU counterparts);
- in case of direct support, the mechanism through which beneficiaries are selected (at the project identification stage or through some demand-driven mechanism).

By combining the above elements, five main implementation strategies can be identified, namely:

- the strengthening of existing institutions to build up indigenous capabilities in policy making, training, consulting services, etc.;
- the establishment of new organizations, again with the purpose of building up capabilities in certain fields;
- the direct provision of assistance to pre-identified operators, be they enterprises, banks or other operational entities;
- the direct provision of assistance to operators through "facility-type" schemes, operating on the basis of applications from eligible banks or enterprises and sometimes requiring their financial contribution;
- the indirect provision of assistance to operators, through the facilitation of partnerships or "twinning" agreements with relevant EU counterparts.

Different implementation strategies have been used to a different degree in Tacis' various "sector", with some examples of mixed strategy. For instance, in the case of military conversion, the bulk of Tacis activities have involved the provision of direct assistance to pre-identified operators (in this case, enterprises), while comparatively little effort has been devoted to the development of capabilities within institutions governing the conversion process. On the contrary, Tacis activities in SME development have been largely concentrated on the establishment of supportive institutions (the already mentioned SMEDAs and BCCs), with limited resources devoted to direct assistance at the firm level. Different still, Tacis activities in bank restructuring offer an example of a diversified approach, with the coexistence of different implementation strategies: direct support to individual banks, establishment and strengthening of institutions (in bank training), and indirect support to individual banks through twinning arrangements (as part of the FIDP project).

The use of different implementation strategies has also shown some changes over time, reflecting modifications in operating conditions as well as other factors (perceived success of certain strategies, institutional constraints within the Tacis machinery). In the early days, the emphasis was largely placed on direct assistance to pre-identified beneficiaries (be they large enterprises, banks or *Duma* sub committees involved in the drafting of a certain law). In 1994-96 period this approach was largely replaced by increased attention to institution strengthening and/or building (with the score of projects establishing the SMEDAs, BCCs and Enterprise Support Centers). Finally, the most recent Action Programs seem to indicate a growing preference for "facility-type" mechanisms, with the establishment of schemes such as the European Banking Advisory Service (EBAS) or the Tacis Enterprise Restructuring Facility (TERF).

Box 2.1 - Other Tacis Instruments for PSD

Tacis PSD initiatives included in the national and regional Action Programs are complemented by a number of other instruments. These include the "facilities" comprising the so called Enterprise Support Group as well as some other special programs.

Enterprise Support Group. This includes four facilities, namely:

- the *Productivity Initiative Program* (PIP), financing internships of Russian managers with EU enterprises, and its equivalent for SMEs, the *Work Attachment Program* (WAP);
- the *European Senior Service Network* (ESSN), supporting the restructuring and development of Russian enterprises (both privatized and newly established) by making available volunteer retired EU executives;
- the *Euopartariat* and *NIS Partenariat* schemes, financing the participation of Russian enterprises and business associations to major international events to facilitate exchanges;
- the *Mercure Program*, implemented by Eurochambres (the European Association of Chambers of Commerce) and supporting the development of NIS Chambers of Commerce through training programs and internships with EU chambers of Commerce.

Total allocations for the Enterprise Support Group in the 1991-97 period are estimated at around ECU 15 million.

Bangkok Facility. Launched in 1993, the Bangkok facility provides grant financing in support to EBRD initiatives. The two main initiatives in Russia include the establishment of four *regional investment funds* (the so called Regional Venture Funds) and the *Small Business Development Fund* (providing loan financing through Russian banks). Tacis annual allocations to the Bangkok facility are in the order of ECU 20 million.

Joint Venture Program. Aimed at promoting the presence of European SMEs in Russia and other NIS countries, the Joint Venture Program (JOP) provides financing for scouting missions, feasibility studies, market surveys and training activities. A special window (presently *de facto* non operational) is intended to provide partial equity financing to for EU-NIS joint ventures. Total allocations in the 1994-97 period amount to ECU 13 million (Russia and other NIS countries).

3. TACIS PSD ACTIVITIES - PRIVATIZATION & MARKET INFRASTRUCTURE

3.1 Background

Privatization. The swift transfer in private hands of a substantial share of former state owned enterprises was one of the crucial steps in Russia's transitional process: by June 1994 some 24,000 medium and large entities had been corporatized and 15,000 privatized (plus another 90,000 small businesses privatized at the local level). This first privatization wave was based on a combination of (subsidized) management-employee buy-outs and of voucher-based mass privatization. By favoring insiders, this approach greatly contributed to defuse the political tensions inevitably associated with such a massive transfer of property and significantly speeded-up the whole process.

The second privatization wave, initially scheduled to start in 1995 and intended to cover some 7,000 enterprises, proved much more controversial. Indeed, the privatization mechanisms adopted by the government (such as the infamous "shares-for-loans scheme") turned out to be unworkable and/or opened the door to all sorts of arbitrary behavior. The widespread criticism for the "cozy deals" favoring a small group of oligarchs close to government circles eventually led to the adoption in July 1997 of a Privatization Law, requiring parliamentary approval of annual privatization plans and mandating the use of more transparent privatization procedures. Commitment to privatization has been repeatedly and, indeed, in early November 1998 the *GKI* proceeded as planned with the opening of the tender for the sale of 2.5% of *Gazprom* (one of Russia's leading concerns). However, pressure for the re-nationalization of strategic industries coming from political factions supporting the government remain high.

Basic Framework for Market Transactions. Russia entered the 1990s with an utterly inadequate legal framework and totally deprived of the myriad of norms (from accounting standards to professional codes of conduct) required for the effective functioning of a market economy. As a result, for several years both the *Duma* and the executive branch (ministries and other administrative bodies) have been busy in building from scratch a framework for private transactions. Main achievements in this area include: the passing of (parts of) the Civil Code in 1996; the new law on accounting (also adopted in 1996); the revision of antitrust legislation in 1995 (which largely innovates the "anti-monopoly law" of 1991); and a whole set of legislative acts on the protection of intellectual property (passed in 1992-93 and subsequently complemented by provisions in the Criminal Code).

Because of the vagaries of the Russian political situation, the reform process has been less than linear and significant inconsistencies between legal texts still exist. Even more important, actual implementation of important pieces of legislation has been largely lagging behind. Examples in this sense are provided by the legislation on accounting, where the principles spelled out in the law became somewhat blurred in subsequent regulations prepared by the Ministry of Finance, and by the bankruptcy law, which for years largely remained dead letter due to political opposition at the federal and, mainly, regional levels. It is not yet clear if the recent change in Russia's political climate may have an impact on the reform process. Indeed, while federal authorities remain formally committed to past reforms, signals coming from the regions seem to suggest a reversal, with the introduction of a variety of obstacles to private operators (price controls, bans to inter-regional trade, the re-establishment of some public monopolies).

3.2 Tacis Activities - Description

Overview. Privatization and market infrastructure has been a relatively low priority area for Tacis: total allocations over the 1991-97 amount to a mere ECU 13 million, subdivided among some ten main projects (see Table 3.1). However, activities undertaken in the framework of Action Plans have been complemented by some special initiatives (such as the program in the area of property rights implemented by the European Patent Office) and by short term policy advice provided through the European Expertise Service (EES), as described below.

Table 3.1 Main Tacis Initiatives in Privatization & Market Infrastructure

| Project | Action Program | Budget (MECU) | Description |
|--|----------------|---------------|---|
| Accounting and Audit Reform - I | 1991 | 0.5 | Legal advice |
| Accounting and Audit Reform - II | 1991 | 1.3 | Assistance to the International Advisory Board on Accounting and Audit. Formulation of draft legislation, training programs for practitioners and scholars, etc. |
| Assistance to Privatization - Samara | 1992 | 0.3 | Institution strengthening (establishment of procedures for valuations, training & study tours) |
| Hotel Privatization - St. Petersburg | 1992 | 2.1 | Strategic and operational assistance for the privatization of 3 hotels |
| Assistance to the Federal Insolvency Agency | 1994 | 2.0 | Assistance in formulation of draft legislation and operational guidelines. Training and other assistance (PR campaign, information system, etc.). Project not implemented |
| Assistance to the State Committee for Anti-monopoly Policy | 1995 | 1.5 | Institution strengthening (training, seminars, library); advice on legislation; hands on assistance on specific antitrust cases |
| Assistance to Second Phase Privatization | 1995 | 2.0 | Assistance in the preparation & implementation of privatizations through IPOs and trade sales (due diligence, strategic advice, etc.) |
| Accounting and Audit Reform - III | 1996 | 1.0 | Assistance in the implementation of new regulations (training materials, formulation of operational guidelines) |
| Support to Foreign Investment | 1996 | 2.5 | Institution strengthening (training, procedures, etc.), policy advice and investment promotion activities |
| Assistance to the Federal Insolvency Agency | 1997 | 1.5 | Assistance in the implementation of pilot cases of corporate recovery. Also, training and PR campaign on successful turn around cases |

Objectives and Activities: Privatization. Russia's privatization move in the early 1990s was largely implemented without any "foreign" involvement: indeed, in the early days of mass privatization only the IFC (often in collaboration with the Know How Fund) played a significant role, mainly in Nishny Novgorod and in a few other areas run by "liberal" leaders. Later, international financial institutions and bilateral donors have been indeed involved in privatization, but usually only in support of specific transactions. Under these conditions, it comes to no surprise that Tacis' involvement in privatization has been fairly marginal. In the early days (1992-1994) some support was provided to local privatization entities in Samara and St. Petersburg. Other Tacis initiatives included in the first Action Programs were initially somehow connected to privatization (such as the ECU 2.1 million "Assistance to Wood-processing Industry" project included in the 1992 Action Program) but by the time these projects became operational, the first privatization wave was largely over and enterprise restructuring became their prime focus. Attention for privatization was somehow revived in the mid-1990s, with the inclusion in the 1995 Action Program of a project on the so called "second wave privatization", largely aimed at achieving demonstration effects based on some pilot cases.

Objectives and Activities: Market Infrastructure. In this area Tacis targeted a few themes and institutions whose strengthening (in terms of operational capabilities, visibility) was deemed capable of producing non transitory, discrete changes in Russia's legal and institutional framework. The areas selected for Tacis support include:

- accounting and audit legislation, where support was provided to professional bodies, legislators and administrative entities responsible for the preparation of subordinate legislation and for enforcement;
- antitrust policy, with support provided to the State Committee for Anti-monopoly Policy (SCAP);
- enforcement of bankruptcy and enterprise re-organization regulations, with assistance extended to the Federal Insolvency Agency;
- foreign investment promotion, with assistance granted primarily to the entities responsible for the registration of foreign investors (together with some support in promotional activities).

In operational terms, Tacis projects in this area typically comprise a mixture of policy and legal advice (e.g. drafting of new legal texts) and institutional strengthening *stricto sensu* (e.g. establishment of resource centers), together with

a more limited component of hands-on assistance (e.g. advice on the handling of antitrust cases, pilot bankruptcy *cum* re-organization cases).

Coordination with Other Tacis Initiatives. As mentioned above, activities undertaken within the framework of the Action Programs have been supplemented by other Tacis initiatives. These include: i) the program on intellectual property protection entrusted to the European Patent Office and covering Russia as well as other CIS countries (worth ECU 1 million and implemented over the 1996-98 period), and ii) a series of perhaps 15-20 legal and policy advice projects implemented through the European Expertise Service (EES). EES projects were implemented in collaboration with a variety of Russian institutions (from *Duma's* sub-committees to the Ministry of Economic Affairs and from the *GKI* to the State Committee for Anti-Monopoly Policy) and sometimes spearheaded or complemented larger, mainstream projects (especially in the areas of competition policy and consumer protection).

Coordination with Other Donors. Quite predictably, almost all multilateral and bilateral donors have been active in providing their piece of advice on Russia's reform process. Data from the G7 Support Implementation Group (SIG) in Moscow show no less than 50 initiatives in the area of legal reform and privatization⁹. Under similar circumstances, some overlapping was almost unavoidable. An example in point is provided by the assistance extended to the antitrust authorities, that have been supported by no less than four donors (Tacis, OECD, Know How Fund, USAID), with projects sometimes focussing on the very same subjects (e.g. the revision of certain articles in the competition law).

3.3 Tacis Activities - Evaluation

Relevance. The privatization of state assets and the establishment of a basic legal framework for private transactions are obvious preconditions to foster the development of private sector activities. However, donors' activities in this area are exposed to the uncertainties of the Russian political situation, with shifting priorities and commitments. This is especially the case of Tacis that, being just a provider of TA, has definitely little capability to negotiate (let alone impose) policy conditionalities. In this context, the issue of relevance in practice boils down to Tacis' ability to select the right counterpart organizations (in terms of commitment and political clout) and to pick up the right timing. Here the record is (at best) mixed. The choice was obviously wrong in the case of the Federal Insolvency Agency to be assisted under the 1994 Action Program and, indeed, the project was abandoned to be re-introduced in the pipeline three years later, when the agency appeared to have reached a more acceptable level of operational capabilities and to have a somewhat stronger political backing. The "Hotel Privatization" project in St. Petersburg suffered from the divergent goals of no less than three local counterparts, who at that time could not agree on a common strategy. In the case of the competition policy project presently underway, the Russian counterpart (the State Committee for Anti-monopoly Policy) has been traditionally a staunch supporter of pro market reforms but its political clout (as well as its ability to effectively prioritize actions) is limited¹⁰.

Effectiveness. Not surprisingly, tangible achievements are not so numerous. The accounting law passed in November 1996 can to some extent be credited to the efforts deployed by Tacis consultants but, on the other hand, the law on audit was not adopted as planned and its approval seems to have become a distant goal. The "Hotel Privatization" project was not able to reach the main intended specific objective, the privatization of three hotels (although it turned out to have some useful impact later on). Due to delays in the early phases, the project on competition policy is still ongoing, but so far there are few tangible results in terms of enhanced capabilities.

Efficiency. Efficiency indicators are always difficult to calculate in the case of TA programs but the more so in the case of projects whose intended outcome consists of policy actions (what is the appropriate "price" for a good draft competition law?). In terms of comparative costs of different project configurations, it seems that a wider use of short term projects, such as those financed by the EES could have provided more value for money. An example in

⁹ The assistance provided by Ms. Susan R. Johnson (Director, G7 SIG) in the early phases of our work is gratefully acknowledged. The SIG is no longer operational and the information contained in the Donor Assistance Database is updated only through end 1997.

¹⁰ On September 22, 1998 the SCAP was merged with the SME Development Policy Committee and two other entities involved in the regulation of natural monopolies to give origin to the new Ministry for Anti-monopoly Policy and Support to Entrepreneurship. In spite of the higher political rank of the new entity, this does not seem to be a welcome development because of the totally inappropriate mixing between to enforcement role typical of antitrust policy and the promotional attitude required in the area of SME development. The new institutional setting marks a return to the situation in the early 1990's and it is not dissimilar to what found in slow reforming CIS countries.

point is provided by the antitrust policy project presently under implementation, where the nature of some of the assistance extended (legal briefs on pieces of legislation and comparative legal analyses) and the way in which such assistance is provided (requests in writing, with at least 6 weeks allowed for reply) do not seem to justify the cost of an expatriate expert permanently based in Moscow.

Sustainability. In the area of privatization & market infrastructure the sustainability of whatever results were achieved depends first and foremost on purely political factors which, now more than ever, are completely beyond the control of Tacis (and, for that matter, of other donors and international organizations). At a more operational level, the sustainability of results of capacity building projects is negatively affected by the severe budget constraints now faced by most Russian public sector organizations, which are increasingly unable to offer adequate wages and working conditions even to their best staff. An example of this problem is provided by the already mentioned competition policy project, which has already "lost" one key counterpart (the officer involved in project formulation, who left for a more prestigious and better paid job at the Central Bank) and is risking to lose others, especially among the very few trained lawyers working for the antitrust agency. So far the issue of the brain drain afflicting donor-supported institutions has been largely overlooked and deserves great attention in the future.

Impact. The impact of Tacis activities on the overall framework for private transactions appears to be limited. This is largely due to "structural" reasons, i.e. the inevitable time lag for reforms to fully deploy their effects. Indeed, it takes years for new accounting standards to produce tangible changes in the behavior of economic agents and similar considerations apply to the other reform areas where Tacis has been involved¹¹. Yet another, and more important, reason for the little impact so far discernible appears to lie in the nature of the interaction with the Russian counterparts. Since projects are implemented by consultants, with little (if any) direct participation from EU officials, the policy dialogue is typically done at the division/department head level and rarely reaches sufficiently high levels to make it possible to kick start any significant process of policy change. Under these conditions, the chances of success of TA-driven reform are intrinsically reduced.

¹¹ This is not a Russian peculiarity. For example, in the US the first landmark cases in de-monopolization (*Standard Oil*, *Dupont*, etc.) occurred some twenty years after the passing of the Sherman Act.

Box 3.1 - Projects Analyzed in Detail

Assistance to the State Committee for Anti-monopoly Policy (SCAP). An ECU 1.5 million project included in the 1995 Action Program. Started in January 1997, the project had a troublesome beginning and the Inception Report was finalized only in January 1998, after the original TOR had been largely re-drafted. In addition, the long term resident expert initially proposed by the contractor left after 4 months and had to be replaced. The project follows some earlier support provided by Tacis through the EES program as well as assistance from other donors (OECD, Know How Fund, and USAID) and is intended to coordinate with two other Tacis projects dealing with, respectively, consumer protection and state aids in the steel industry. The project includes typical institution strengthening activities (training, study tours, establishment of a resource center) complemented with: i) the provision of expert advice on pieces of legislation and other legal texts, and ii) some assistance in the handling of specific antitrust cases. The latter activity started in early 1998 and appears to consist primarily in the formulation of written comments on the cases submitted by SCAP's regional offices. The contractor (*Gide Loyrette Nouel*, France) has a permanent office in Moscow, from which project operations are effectively run. The SCAP has been traditionally one of the not so many unequivocally pro-market agents in the Russian institutional landscape but it has always lacked visibility and political clout. Indeed, enhancing the visibility of antitrust policy is one of the project objectives but, as pointed out by the Monitoring Unit in their mid-1998 report, this would require a more proactive approach and more flexibility from both the beneficiary and the contractor. Due to delays in the take off phase, in mid-1998 project completion had already been postponed to January 1999 but a further extension appeared likely. In September 1998 the SCAP was merged with other entities giving origin to the new Ministry for Anti-monopoly Policy and Support to Entrepreneurship. While the rank of antitrust policy has been formally elevated, the heterogeneous brief of the new institution (from antitrust enforcement to SME development to regulation of natural monopolies) *prima facie* does not bode well for the success of the project.

Hotel Privatization - St. Petersburg. An ECU 2.1 million project included in the 1992 "regional" Action Program for the St. Petersburg area. The project was intended to assist municipal authorities in: i) the preparation of a privatization strategy in the hotel sector, and ii) the actual privatization of three leading hotels. The contractor (Britain's *West Merchant Bank*, in consortium with the German branch of *Pannell Kerr Forster*) had to deal with three different entities in the local administration (External Affairs Committee, Committee for Tourism and Culture, and Privatization Committee) with divergent ideas about privatization, and this severely impacted on project activities. Despite a prolongation well beyond the initial time frame (from 15 to 27 months), the project could not achieve its main specific objective, i.e. the privatization of hotels. Although certainly not effective, the project seems to have had some impact: indeed, documents prepared by the contractor have been subsequently used in the privatization of other hotels and ideas formulated by the contractor reportedly inspired some amendments to privatization regulations. Given the opposition to privatization shown by some of the counterparts, the project could have been suspended after the more general tasks (privatization strategy, assessment of the hotel portfolio) had been completed, but some form of "institutional inertia" seems to have effectively prevented such course of action.

4. TACIS PSD ACTIVITIES - MILITARY CONVERSION

4.1 Background

When transition began the so-called "military industrial complex" (MIC) was deemed to account for 25% of Russia's GDP. The common view was that the MIC was organizationally and technologically separate from the rest of the economy, thus creating a sort of "dual economy". However, as revealed by some studies, the actual situation was a bit more complex. On the one hand, already in 1989 (i.e. when the conversion process had just begun) some 40% of the MIC's output was in reality of a "civilian" nature (consumer goods, various types of equipment, etc.). On the other hand, non-MIC enterprises were also subject to a number of constraints placed by the military, such as the so called "mobilization capacity" requirements, with a significant impact on their cost structures. These considerations have led some authors to question whether military conversion can be logically separated from industrial restructuring in general¹².

Whatever the initial situation, there is no doubt that in the first half of the 1990s the Russian military complex suffered one of the most severe demand shocks recorded in recent history: compared with 1991, 1994 data show a decline in output of around 60%. While a few military enterprises embarked in far reaching restructuring, most MIC enterprises merely tried to stay afloat through a more or less skillful combination of "tactical moves", ranging from the outright selling of valuable pieces of equipment, to the establishment of sub-contracting arrangements with some Western partners (often on rather unfavorable terms), to heavy lobbying with federal and regional authorities to get some orders and/or financing at preferential conditions.

More recent developments are not easy to ascertain, due to the lack of comprehensive data. Based on some anecdotal evidence, some observers have suggested that over the last two-three years the conversion process may have come to a halt and that military production could well have increased¹³. The recent changes in the Russian political leadership are also expected to have an impact. While an increase in military orders appears unlikely because of the stringent budget constraint, high ranking members of the new government have already (and repeatedly) indicated their intention to provide significant support to defense industries.

4.2 Tacis Activities - Description

Overview. A number of considerations of social, political and commercial nature have contributed in making the conversion of military enterprises one of Tacis' top priorities since the start of the program. Over the 1991-97 period budgetary allocations to this sector totalled over ECU 35 million, making military conversion the second largest item in the Tacis PSD program, after enterprise restructuring. The list of military conversion projects includes over 20 main initiatives (see Table 4.1), ranging in size from ECU 0.6 to 4.6 million and covering Moscow as well as a number of other locations (especially, St. Petersburg, whose industrial sector had always been largely geared towards the defense sector).

Objectives. As spelled out in the 1995 Action Program, "the objective of Tacis conversion assistance is to save the scientific and industrial potential of converting defence production units and R&D institutes by supporting their capitalization prospects" (page 6). In this context, particular emphasis has been placed on: i) the spinning off of viable units ("reinforcing the creation of new enterprises or autonomous subsidiaries out of the former defence production units"), and ii) the integration of Russian R&D capabilities in a wider context, through "the development of joint programs or by facilitating certification under western procedures".

Tacis documents also make explicit (and, indeed, frequent) reference to the need of "promoting the development of industrial partnerships and joint-ventures with European partners", which is seen both as a means to achieve the above mentioned objectives and as a goal *per se*. As it will be seen below, the theme of the EU-Russian

¹² On this point, see Ball N., *Adjusting to Reductions in Military Expenditure and Defence Procurement. A Symposium on Research Issues*, Washington, World Bank Discussion Paper, 185, 1992.

¹³ This view was first formulated in Gaddy C., *The Price of the Past: Russia's Struggle with the Legacy of a Militarized Economy*, Brookings, Washington, 1996. Lately, Russian military producers have been increasingly active in export markets, with some important deals finalized in 1997 and early 1998.

industrial cooperation has been effectively taken into account in the formulation of a number of initiatives, contributing to provide Tacis initiatives in military conversion with a "sense of direction" sometimes missing in other sectors of activity.

Finally, in a few instances Tacis has been called upon to support the attainment of other, intrinsically political goals. This is, for instance, the case of a recent project regarding the "Restructuring of Chemical Weapons Production Facilities". This project follows a Council Declaration (May 27, 1997) in which the EU offered assistance in the areas related to the Chemical Weapons Convention entered into force in April 1997 and to which the Russian Federation is expected to become one of the signatories.

Activities and Strategy. In the area of military conversion Tacis projects have primarily consisted in the provision of direct assistance for the restructuring of specific enterprises or small groups of enterprises. Examples of this approach include: the assistance provided to *Leninets* (a major electronics company) in the development of a new airborne weather radar; the assistance extended to some companies seeking to obtain ISO 9000 certification; and the support provided to *NIIAO* (the *Institute for Airborne Equipment*) in bringing their software design capabilities in line with EU standards.

Activities at the individual firm level have been associated with much more limited efforts in the area of institution building. In the early days, this took the form of the (attempted) establishment of the so called "conversion advisory groups" on a regional basis. Later, institution building activities were aimed at the establishment of "technical centers", such as the Urals Inter-regional Certification Center based in Ekaterinburg or the "conversion center" for the aerospace industry established in Moscow in collaboration with *Minboromprom* (the Ministry for the Defense Industry).

Tacis activities in military conversion have been characterized by a high degree of sectoral specialization: indeed, although enterprises in chemicals, mechanical engineering and other lines of business were also involved in the program, the majority of projects relate to enterprises in the aerospace industry (including many of the more famous design bureaus, such as *MiG*, *Beryev*, *Tupolev*, etc.). This reflects the strategic nature of this sector as well as the perceived likelihood of achieving successful conversion and of suscitating the interest of potential EU partners.

Often targeted at the solution of specific problems at the enterprise level, Tacis projects in military conversion usually consist in a mixture of: hands on advice on technical and commercial matters (e.g. market studies, product specification studies); training and study tours to expose Russian managers and technicians to ways of doing things in the West; and (much more than in the case of other Tacis projects) the provision of some equipment directly related to project activities (CAD/CAM equipment, design workshops, etc.). As signalled by the last element, Tacis initiatives in military conversion display a greater "technical" content than other projects in PSD. Given this background and the above mentioned objective of fostering EU-Russian industrial cooperation, it comes to no surprise that many Tacis projects in conversion have been implemented by industrial concerns. Indeed, the list of Tacis' contractors in military conversion includes many "big names", from *CSF Thompson* to *Alenia*, from *GEC Marconi* to *Aerospatiale*, to *Finmeccanica*.

Coordination with Other Donors. International financial institutions do not regard military conversion as a separate "sector" and their initiatives with former defense enterprises (not so numerous anyway) are lumped together with projects in enterprise restructuring. In contrast, bilateral donors have been very active, with the US (not surprisingly) playing a leading role. In 1994 the US Dept. of Energy launched a major "Industrial Partnering Program", worth US\$ 35 million and covering Russia as well as other CIS countries. In 1997 OPIC (the US export credit agency) launched a US\$ 50 million initiative in the re-design of rocket engines. Other projects have been financed by the Dept. of Defense and the Trade Development Agency. A number of other initiatives (but often of limited size) have been financed by Sweden, the Netherlands, Britain, and Italy. Given the commercial orientation of many of these projects (and their security implications) no significant form of cooperation seems to have emerged among donors.

Table 4.1 Main Tacis Initiatives in Military Conversion

| Project | Action Program | Budget (MECU) | Description |
|--|----------------|---------------|--|
| Conversion Support to Enterprises (Samara) | 1992 | 0.6 | Direct assistance to enterprises |
| Conversion Advisory Groups (Samara & St. Petersburg) | 1992 | 4.6 | Strengthening of regional/city conversion units and direct assistance to defense enterprises |
| Pilot Projects (St. Petersburg) | 1992 | 1.6 | Direct assistance to 4 enterprises |
| Conversion to Agricultural Equipment (various locations) | 1992 | 2.5 | Assistance in the development of new marketable equipment for agriculture and food processing |
| Conversion to Medical Equipment (Moscow) | 1992 | 0.8 | Strategic review of medical equipment sector and identification of opportunities for conversion |
| Assistance to <i>MiG</i> (Moscow) | 1992 | 1.0 | Assistance in conversion to civil products for international market |
| Assistance to <i>Lukhovitsky</i> (Moscow) | 1992 | 1.5 | Identification and development of products for commercialization in Western markets |
| Oil & Gas Equipment Certification Center (Urals) | 1993 | 2.5 | Assistance in ISO 9000 certification (certification body, direct support to enterprises, etc.) |
| Assistance to <i>Soyuz</i> (Moscow) | 1993 | 1.4 | Training and restructuring advice, including contacts with potential Western partners |
| Restructuring of <i>Progress</i> (Kemerovo) | 1993 | 1.1 | Restructuring and business development advice for various products |
| Conversion Helicopter Industry (Moscow and Ulan Ude) | 1993 | 1.7 | Assistance in certification, business planning etc. and some CAD equipment |
| Restructuring Aviation Sector (Volga region) | 1993 | 1.0 | Advisory services to 4 enterprises |
| Assistance to <i>Vympel</i> (Moscow) | 1994 | 2.0 | Technical and business advice for major telecom program |
| Development of Ecological Monitoring System (Moscow) | 1994 | 0.9 | Technical, legal and industrial support for development of atmosphere control equipment |
| Assistance to <i>Tupolev</i> (Moscow and Tomilino) | 1994 | 3.1 | Establishment of pilot facilities (CAD/CAM and CAPM) and product support organization |
| Assistance to <i>Beriev</i> (Taganrog) | 1994 | 1.1 | Assistance in the commercialization of two new aircrafts |
| Assistance to <i>Izhorsky</i> (St. Petersburg) | 1995 | 1.2 | Advisory services in various areas (energy savings, audit, etc.) |
| Assistance to <i>Leninets</i> (St. Petersburg) | 1995 | 1.0 | Development of new airborne weather radar |
| Certifiable Airborne Software (Moscow region) | 1995 | 1.4 | Development and commercialization of certifiable airborne software |
| Assistance to RECORD Program (Voronezh) | 1995 | 1.5 | Assistance in the launch of EU-Russian cooperation program on rocket engines |
| Advice on Conversion Policies and Implementation (Moscow) | 1995 | 2.3 | Establishment of conversion center, advice to 3 enterprises and a study on civil aviation sector |
| Restructuring of Former Chemical Enterprises (Moscow) | 1996 | 2.0 | Assistance to 3 potentially viable technology applications |
| European Russian Aviation Center (Moscow) | 1996 | 1.0 | Establishment of a center providing R&D to Russian aerospace companies |
| Restructuring of Chemical Weapons Production Facilities (Moscow) | 1997 | 3.0 | Restructuring plans related to implementation of Chemical Weapons Convention |

4.3 Tacis Activities - Evaluation

Relevance. In about half of the projects for which sufficient information is available, objectives were fairly well defined, realistic and fitted well with the conversion strategies formulated by the project partners. In these cases, Russian beneficiaries were usually committed to the project and determined to make the most out of it (although, sometimes, their dismal financial conditions effectively prevented them to do so). The relevance of other projects is less apparent (if not altogether dubious) because objectives were too generic or too ambitious and/or because the Russian project partners were too weak to play a useful role or to benefit in any way. For instance, there is no doubt that companies like *Izhorsky* (a completely un-reformed monster with 20,000 workers) are in need of restructuring

but the basic conditions for this to happen (an open and receptive management, an at least initial attempt to delineate the responsibilities of various business units, etc.) simply were not there.

Similar considerations apply to the (more limited) efforts in the area of institution building. Projects aimed at the establishment of "sectoral support centers" appear generally well conceived and in line with needs (again, the technical dimension being definitely a plus). On the other hand, the early efforts aimed at the establishment of multi-purpose conversion units were deployed with limited preparation and in an environment not conducive to change.

Effectiveness. Whenever objectives were sufficiently realistic, Tacis projects were largely effective in attaining them. And since the TOR were usually detailed, this judgment is based on hard facts (either a software design workshop had become operational or not) and not on a partly subjective assessment of pseudo results (a policy paper delivered on time or not). Projects with a less well defined scope (the already mentioned "Assistance to *Izhorsky*", but also "Restructuring of *Progress*" and "Conversion to Agricultural Equipment") were inevitably less effective. There were also some outright failures, and the "Conversion Advisory Group" project (included in the 1992 Action Program) was probably one of the worst Tacis projects.

In general, effectiveness was enhanced by the substantial involvement of industrial contractors, who share the beneficiaries' same industrial culture and who sometimes have a commercial interest in the results of conversion programs. There were instances in which the involvement of industrial companies in Tacis projects was somewhat in conflict with pre-existing commercial relationships (as in the case of *Leninets*, see Box 4.1) but, in general, the active participation of industrial contractors should be regarded as a positive aspect.

Efficiency. Most projects targeted at specific enterprises were in the ECU 1-1.5 million range, i.e. two to five times the cost of a "generic" enterprise restructuring (see Section 5 on Enterprise Restructuring). The difference is at least partly explained by a more intensive involvement of contractors (especially in technical matters) and, in most cases, by the provision of significant pieces of equipment. In general, from what we have seen in the field, resources were used efficiently. As mentioned above, many industrial contractors participated in Tacis projects for strategic reasons and not to make money, with little inclination to waste time.

Sustainability. Sustainability of project results is hampered by the difficult financial conditions of a number of beneficiaries. While some companies seem to be able to stand on their feet for a period of time sufficiently long to derive tangible benefits from Tacis activities (e.g. *Leninets*, *Tupolev* and some of the other main design bureaus in the aerospace sector), others are in dire straits. For instance, *VIM* (the Moscow-based institute for agricultural machinery acting as project partner for the "Conversion to Agricultural Equipment" project) was already half bankrupt when the project was started and the same applies to the other entities assisted under that project, who proved unable to mobilize the funds needed to produce prototypes. *Izhorsky* and *Progress* are both in less than brilliant financial conditions and *Vympel* was not able to mobilize funds for the purchase of some equipment required to improve product quality.

Impact. Project documents (and some experts' opinions) suggest the existence of potential markets for the new products/specifications developed with Tacis assistance but it is too early to say if they could actually sell. There are some examples of contracts already signed (e.g. *NIAO*), but these are still exceptional cases, largely related to pre-existing commercial relationships with Tacis contractors. In several cases, further development (i.e. the production of prototypes) is going to be hampered by lack of resources at beneficiary companies. Some also say that in Western countries there are significant psychological barriers in buying sophisticated equipment from Russia, and selling, say, air traffic control devices and other high tech equipment could be harder than envisaged, in spite of the cost advantages enjoyed by Russian companies. Here a strong involvement of EU companies directly involved in (or approached during) project implementation could be the key to success. In terms of managerial attitudes, in several cases the impact was high. Russian managers were exposed to new ways of doing things (project management techniques were among the most appreciated tools), and equally important in an environment where industry specific knowledge is still highly regarded, this was done by "colleagues" and not by free lance consultants.

Box 4.1 - Projects Analyzed in Detail

Restructuring of Leninets. Established in the mid-1940s, *Leninets* used to be one of Russia's leading electronics producers. The management was fairly quick in reacting to the dramatic fall in military orders: they diversified into consumer goods (vacuum cleaners, refrigerators, etc.), established a joint venture with *Gillette* (razor blades and shaving sets), and even more importantly, embarked in a major restructuring process involving the corporatization of some 40 production and R&D units placed under a holding company. The holding was privatized in July 1998, with the state retaining a mere 12%. Turnover is about US\$ 200 million, with civil avionics accounting for 40% of total sales, military electronics for 25% and consumer goods for 15%. Despite its generic title, the project had very a specific objective, namely the development of a new airborne weather radar (DUET). The project (worth ECU 1.0 million) was well designed, the contractor and the project partner worked well together and the various activities (market study, product definition, business planning) were implemented as planned, with a time-only extension made necessary by delays (beyond the control of the contractor) in the delivery of equipment. The project was implemented by a consortium led by *March Consulting* (UK) and comprising also a leading UK avionics producer, *Marconi*. Before the launching of the Tacis project, *Leninets* had developed a stable commercial collaboration with another avionics company, Italy's *FIAR*, which has a commercial interest in the DUET system. This created a strange situation, with two competing companies working with the same partner on the development of the same project. An agreement was eventually reached on the division of labor between the Tacis contractor and *Leninets'* commercial partner and this worked out pretty well. Still the project illustrates the potential risks of superimposing donor-funded TA activities on pre-existing commercial relations.

Support to the Development of Certifiable Airborne Software. The beneficiary of this project is *NIAO* (the *Institute for Airborne Equipment*), a state-owned entity established in 1982 to act as "integrator" of cockpit avionics for aircrafts, helicopters and space systems. Run by a young and imaginative management, *NIAO* somehow managed to adapt to the decline in orders. The workforce has been reduced (through attrition, because state workers cannot be laid off) from 4,000 in the early 1990s to some 1,200 but turnover is a meager US\$ 6 million. The Tacis project (worth ECU 1.0 million, later increased to 1.4 million) was well designed and involved the establishment of a software design workshop complying with EU certification standards, as well as some training on the job and the development of business plans for future lines of activity. Project activities were implemented effectively and a further phase is now envisaged. The Tacis contract was awarded to a leading French avionics company, *Sextant Avionique*, who had previous, well established relations with *NIAO* and who also, reportedly, inspired project conception. Although maybe not fully in line with formal project identification guidelines, this certainly eliminated potential conflicts between Tacis-supported TA activities and commercial interests.

5. TACIS PSD ACTIVITIES - ENTERPRISE RESTRUCTURING

5.1 Background

In the early 1990s the swift move towards privatization was paralleled by the liberalization of prices, by the opening up of the domestic market to imports, and by the dismantling of large parts of the old central planning machinery (sectoral ministries, *obedinenie*, and the like). As a result of these bold policy moves, Russian former state-owned enterprises (and their managers) almost overnight found themselves operating in an environment completely different from the one they were accustomed to.

At the outset, only a minority of particularly well endowed enterprises were able to adjust to the new situation. These were typically enterprises active in consumer goods (or other "light" sectors), with relatively young managers (sometimes with previous exposure to Western practices) and often having benefitted from the last round of centrally planned investments in the years of *Perestroika*. Overtime the number of enterprises engaged in some form of restructuring has gradually increased. However, in most cases managers of former state enterprises were simply overwhelmed by the dramatic changes taking place at an unprecedented pace and they could only resort to "survival strategies" combining some timid restructuring moves (some labor shedding, some belated attempts to shut down expensive social facilities) with attempts to "revive the good old days" through intensive lobbying for soft credits and other forms of protection from the government (tax rebates, secured orders, etc.).

Governmental attitudes towards enterprise restructuring have been mutable. The need to provide post privatization support was quickly perceived by the early reform-minded governments. This resulted in the establishment of some dedicated structures, such as the Russian Privatization Center (RPC), and in the submission of pressing requests to donors to provide support in this area. However, subsequent governments have proved unable and/or unwilling to promote the establishment of the "systemic conditions" that would have made restructuring inevitable or at least worth pursuing: bankruptcy legislation largely remained a dead letter, taxes remained uncollected, and regional governments increasingly engaged in protectionist policies, granting privileges to the "socially important" local enterprises.

The impact of the recent financial crisis on the process of enterprise restructuring is still hard to gauge, but preliminary evidence is not encouraging. On the one hand, the crisis seems to have impacted with greater severity precisely on the more dynamic and westernized enterprises, largely catering the badly hit emerging urban middle class (which is the main loser of recent events) and comparatively more dependent on the functioning of the banking sector¹⁴. On the other hand, the "slow adjusters", while certainly not thriving, have suffered comparatively less from the collapse of the financial sector (as a manager of a Siberian firm put it: "If you do 80% of your business in barter anyhow, you don't care much about what happens to Moscow banks"), while the change in the political leadership seems to offer new hopes for protective measures and greater payoffs for lobbying efforts compared to genuine restructuring.

5.2 Tacis Activities - Description

Overview. With allocations of over ECU 80 million, the restructuring of privatized enterprises is by far Tacis' main area of activity in private sector development. The first Tacis initiatives in this field were planned already under the 1991 and 1992 Action Programs but it was after the G7 Summit in Tokyo in 1993 (when requests for substantial donor support were formulated by the Russian government) that activities in enterprise restructuring gained momentum. All in all, no less 30 main projects were implemented or planned over the 1991-97 period, as summarized in Table 5.1.

¹⁴ While no systematic assessment of the effects of the recent crisis has yet appeared, press reports are rather unequivocal on this point. See for instance: "The third way", *Business Central Europe*, November 1998 (with views expressed by the innovative CEO of Lukoil); "GUM disease", *Business Central Europe*, October 1998 (on the impact on retail sales); "End of a road for Russia", *The Economist*, September 5 1998 (on immediate reactions after devaluation).

Objectives. Tacis' objective in the area of enterprise restructuring is the improvement of management structures and practices in privatized enterprises, with a view to: i) enhance the effectiveness of current operations, and ii) facilitate and encourage productive investment. In some cases this overall, "sectoral" objective has been translated into more specific objectives at the project level (as in the case of the "Negotiation Task Force" project, aimed at improving Russian managers' capabilities in dealing with Western counterparts).

The theme of industrial cooperation between EU and Russian enterprises initially attracted comparatively less attention than in military conversion, but it has gained importance with entry into force of the Partnership and Cooperation Agreement, which includes a number of provisions on industrial and economic cooperation. And indeed, as indicated in the *Tacis 1997 Annual Report* (page 23), "the development of cooperation activities between European and Russian industry" now figures prominently among Tacis' priorities in the area of enterprise restructuring. The notion of stronger EU-Russian ties also extends into the policy dialogue area, where Tacis has been sometimes used as a vehicle to facilitate the attainment of specific trade policy objectives (as in the case of the iron & steel industry - see below).

Activities and Strategy. The bulk of Tacis' activities in enterprise restructuring activities has consisted in the provision of direct support to enterprises, which in turn includes: i) generic, "awareness enhancing" training and advice, ii) hands-on assistance aimed at solving specific problems (e.g. establishment of a marketing or sale promotion department); iii) complex restructuring exercises, and iv) assistance in business development (i.e. contacts with prospective clients, suppliers and investors, often improperly referred to as "twinning"). Direct assistance to enterprises has been complemented by: v) the formulation of sectoral restructuring strategies, and vi) the strengthening or establishment of enterprise support organizations.

The various types of activities have been combined in different ways overtime, giving origin to different implementation strategies. In the early days Tacis adopted what can be *ex post* rationalized as a three pronged approach. First, the 1992 and 1993 Action Programs included a group of "sectoral" projects (in wood-processing, auto components, steel, food packaging, aluminum), combining strategic advice at the sector level with assistance to individual enterprises. This sectoral approach was complemented by a large scale initiative (worth over ECU 8 million) intended to achieve some "demonstration effects" through the effective restructuring of a dozen of selected enterprises (hence, the "EU 12" nickname given to this project). Finally, some resources were devoted to the strengthening of the newly established Russian Privatization Center and of its regional offices.

Starting in 1994 Tacis embarked on a large scale program (involving a total investment of ECU 40 million, i.e. about 50% of total allocations to enterprise restructuring) aimed at the establishment of a network of 15 Enterprise Support Centers (ESCs) operating at the regional (*oblast*) level. Staffed with a core team of European long term experts supported by a pool of short termers and by some Russian personnel, the ESCs were intended to support the restructuring of privatized enterprises in the 500 to 5,000 workers range through the provision of both basic, "awareness enhancing" training & consulting and more operationally oriented advice (business development support, "mini projects").

The 1996 and 1997 Action Programs mark yet another orientation. While still envisaging the establishment of some new ESCs (in Pskov and Tver) and the continued support to the existing ones (to "enhance their sustainability" - see below), Tacis revived the sectoral approach of the early days, with the launching of projects in the steel, textiles and furniture industries. In addition, following the example of what already done in bank restructuring (see Section 7), the notion of direct assistance to enterprises was somehow "generalized" through the establishment of the "Tacis Enterprise Restructuring Facility" (TERF), a demand-driven scheme providing support on the basis of applications submitted by Russian enterprises. An innovative feature of this scheme is the presence of a cost-sharing element, whereby participating enterprises are required to contribute 20% towards the costs of advisory services.

Table 5.1 Main Tacis Initiatives in Enterprise Restructuring

| Project | Action Program | Budget (MECU) | Description |
|---|----------------|---------------|---|
| Assistance to Association of Enterprises | 1992 | 1.1 | Originally conceived as institutional strengthening, involved provision of services to two enterprises and seminars |
| Assistance to Wood Processing Industry | 1992 | 2.1 | Assistance to 6 enterprises in the furniture and wood processing sectors |
| Negotiation Task Force | 1992 | 1.1 | Assistance to enterprises in dealing with Western counterparts (mainly covering legal matters) |
| Restructuring of Selected Enterprises (EU 12) | 1993 | 8.3 | Restructuring assistance to a dozen of enterprises countrywide |
| Support to Russian Privatization Center | 1993 | 1.6 | Institutional strengthening project (secondment of staff), connected with the previous project |
| Review of Iron & Steel Industry | 1993 | 2.0 | Sector review with business planning assistance to 4 enterprises |
| Strategic Reviews of Selected Industries | 1993 | 2.0 | Three sector studies covering pharmaceuticals, car components and food packaging. Some assistance to enterprises |
| Restructuring of Aluminum Sector | 1993 | 2.6 | Sector study and restructuring assistance to 4 aluminum smelters |
| Enterprise Support Centers in Urals | 1993 | 12.3 | Advisory services to medium & large enterprises in Ekaterinburg, Cheliabinsk and Perm |
| Enterprise Support Centers in West Siberia | 1993 1996 | 8.3 | Advisory services to medium & large enterprises in Novosibirsk, Barnaul, Kemerovo and Tomsk |
| Enterprise Support Center in Voronezh | 1994 | 2.0 | Advisory services to medium & large enterprises in Voronezh |
| Enterprise Support Centers in South West Russia | 1994 | 7.0 | Advisory services to medium & large enterprises in Rostov, Krasnodar and Stavropol. Strengthening of LPCs |
| Enterprise Support Centers in Golden Ring | 1994 | 4.5 | Advisory services to medium & large enterprises in Ivanovo and Yaroslavl. Strengthening of LPCs. To be followed up by a second phase aimed at enhancing self sustainability |
| Assistance to Pharmaceuticals Industry | 1994 | 2.5 | Restructuring assistance to 5 manufacturing & wholesale enterprises |
| Assistance to Textiles Industry | 1994 | 2.2 | Assistance to 8 enterprises, plus sector survey and advice to regional entities |
| Enterprise Support Center in Kaliningrad | 1995 | 1.1 | Advisory services to medium & large enterprises |
| Enterprise Support Centers in Baikal Region | 1995 | 1.8 | Advisory services to medium & large enterprises in Irkutsk and Buriatya and support to two major pulp & paper plants |
| Legal Task Force | 1995 | 1.0 | Legal assistance to enterprises dealing with European counterparts |
| Tacis Enterprise Restructuring Facility (TERF) | 1996 | 6.5 | Advisory services countrywide on a cost sharing basis |
| Assistance to FIGs | 1996 | 1.5 | Assistance to a group of selected FIGs |
| Assistance to Non Ferrous Metal Mining | 1996 | 2.0 | Master plan for Urals region, advisory program for zinc, and accompanying actions |
| Support to Wool & Flax-Based Textiles Industry | 1997 | 2.0 | Sector surveys coupled with hands on assistance (quality enhancements, label certification, etc.) |
| Support to the Steel Sector | 1997 | 3.0 | Assistance in establishment of benchmarking system, improvement of marketing and implementation of steel agreement |
| Enterprise Support Centers in North Russia & Golden Ring | 1997 | 3.5 | Advisory services to medium & large enterprises in Tver, Pskov, Ivanovo and Yaroslavl |
| Industrial Cooperation Center for Wood & Furniture Sector | 1997 | 1.0 | Establishment of a center to foster cooperation between Russian and EU enterprises |

Coordination with Other Donors. In the early days a sort of competition-emulation relationship seems to have developed between Tacis and the USAID: both donors invested heavily in the Russian Privatization Center, both launched pilot restructuring exercises aimed at achieving some "demonstration effects" (Tacis' "EU 12" project and USAID's "Program for Intensive Enterprise Support-PIES"), and both embarked in the establishment of networks of enterprise support structures at the regional level (Tacis' ESCs and USAID's Business Support Centers). Unfortunately, such a parallelism does not seem to have induced any exchange of experience, with both donors eventually ending up with rather modest results. As for relations with international financial institutions, Tacis has been cooperating mainly with the EBRD, by co-financing several initiatives through the "Bangkok facility". Also, EBRD's Regional Venture Funds (RVFs) and Tacis' ESCs operating in the same *oblast* were initially supposed to develop a close cooperation, through the coordinated provision of investment money and technical assistance

services. Although appealing on paper, this scheme never worked in practice, partly due to the inactivity of RVFs, partly because the EBRD fund managers regard the services offered by the ESCs not in line with their requirements.

5.3 Tacis Activities - Evaluation

Relevance. In general terms, there is little doubt about the need to improve Russian enterprises' management structures and practices, but this does not necessarily imply the relevance of technical assistance activities in this area. As a matter of fact, the usefulness of stand alone TA initiatives has been traditionally disputed by financial institutions such as the EBRD and the IFC (a bit less so by the World Bank), who tend to use TA only in connection with specific investment initiatives. Overtime, this view has become fairly popular also among the practitioners, increasingly dissatisfied with the results of their work¹⁵. The argument of these critics is that unless enterprises are really subject to external factors forcing them to adopt severe measures, TA efforts are rarely capable to precipitate any real improvement, resulting at most in cosmetic changes. Or to quote one of the consultants met during fieldwork "many Russian companies do not have to pay dividends to shareholders, can avoid taxes through privileged connections and can indefinitely postpone the payment of their bills. Why should they restructure? Under these conditions using TA to produce discrete changes in Russian managers' behavior is like fighting a bear with a Swiss Army knife".

Even without fully endorsing the above rather radical position, the relevance of some enterprise restructuring activities remains doubtful. The main criticism refers to the concept of ESCs, which stand as an example of extensive effort not supported by sufficient focus. To begin with, ESCs were given a large target population (typically, 25-30 enterprises per center) and initially time had to be spent in the selection of (sometimes, in the search for) enterprises to be assisted. Then, significant resources were devoted to the provision of fairly generic, awareness enhancing advice & training (seminars on "management of change", "strategy and organization", and the like), whose usefulness was bound to decline rapidly. Finally, ESCs were "structurally" at a disadvantage in providing business development advice, which is typically more efficiently provided within the framework of sectoral projects (and by consulting firms with industry specific expertise, whereas ESC projects were usually contracted to typical "international" consulting firms, selected primarily for their project management skills). As for the other Tacis initiatives in enterprise restructuring, sectoral projects sometimes suffered from problems associated with poor project preparation (namely, erroneous identification of Russian partner organizations), while in the case of the "EU 12" project the selection of enterprises to be assisted was definitely not always in line with the intended objective of achieving "demonstration effects" through examples of successful restructuring (e.g. *Volokolomskij Textil*, a textiles company controlled by the workers' collective and whose "democratically appointed" managers would not dare to make any decision having a "negative social impact").

Effectiveness. The diverse nature of projects and, at least in some cases, the rather elusive definition of project objectives, do not allow for any sweeping statement. In the case of "sectoral" projects and of the "EU 12" project, there were one quarter/one third of success stories, an equal number of failures and the rest being "mixed cases". While certainly not exciting, these results are not too dissimilar from what achieved by other donors (e.g. by the USAID with the above mentioned PIES project). Among the initiatives reviewed in detail during the study, the "Assistance to Wood-processing Industry" projects is by far the most successful, having promoted the establishment of a couple of joint ventures with Western companies (already in operations, with investments totalling US\$ 2.2 million) as well as some stable export relationships. In the case of ESC projects, the quantitative targets (e.g. number of seminars or "mini projects" completed) indicated in the TOR were usually met or even surpassed (although sometimes after a downward revision during implementation). But when it comes to more result-oriented indicators, achievements are much less impressive. In the case of business development activities, data for 13 ESCs covering a period of three years indicate some 50 deals concluded out of 600 contacts established with customers or suppliers (success ratio of about 8%) and only 11 loans secured out of 240 applications handled (success ratio below 5%). As for the activities in support of the Russian Privatization Center, little tangible results were achieved, since the RPC never really managed to become (both at headquarters and in the regional offices) a center of expertise for enterprise support, eventually evolving into a mainly project management entity, largely dependent on continued donor support. Finally, a very peculiar example of effectiveness is provided by the "Review of Iron & Steel Industry" project. While little was achieved in terms of enterprise restructuring proper (not surprisingly, given the huge problems afflicting

¹⁵ For a survey of opinions in this sense, see the papers presented at the USAID Conference on *Restructuring Russian Enterprises: Lessons Learned from Russian Experience since 1994*, Moscow, March 24-25, 1997.

Russian steel-makers), the project was extremely effective in promoting a better mutual understanding between EU and Russian producers, which in turn greatly facilitated the approval of the 1997 Steel Trade Agreement between Russia and the EU.

Efficiency. In "sectoral" restructuring projects the average cost per enterprise assisted ranged from ECU 300,000 to 500,000 while in the "EU 12" project the average cost was ECU 750,000. In retrospect, such a difference does not seem to be justified by the results achieved. As for the ESCs, these are typical "multi-product" operations (training seminars, mini-projects, etc.) and meaningful input-output relationships cannot be calculated. However, a crude indication of efficiency is provided by the unit cost of expatriate expertise (ECU per staff/month) and by the monthly operational costs per ESCs (all included). Data related to the three ESC projects analyzed in detail (and covering a total of nine centers) are provided in Table 5.2. The existence of significant differences across the projects clearly suggests that some savings could have been achieved.

Table 5.2 Efficiency Indicators for ESC Projects
(ECU, rounded figures)

| Project (Contractor) | Cost per Expatriate Staff/Month (1) | Monthly Cost per Center (2) |
|-----------------------------------|-------------------------------------|-----------------------------|
| Urals ESCs (<i>AT Kearney</i>) | 32,900 (3) | 85,000 (4) |
| West Siberia ESCs (<i>GTZ</i>) | n.a. | 57,200 (5) |
| South Russia ESCs (<i>GOPA</i>) | 23,800 | 75,000 |
| Average | 28,600 | 73,300 |

(1) Total project costs divided by the number of expatriate staff/months, disregarding LCs (whose cost is usually negligible)

(2) Total project costs divided by the number of months during which the ESCs have received assistance under the project

(3) First contract and addendum only

(4) All the contracts (first, addendum and second)

(5) Assuming that the Representative Unit in Tomsk is worth as 1/3 of a full fledged ESC. If Tomsk is discounted altogether, the average cost for the three ESCs is ECU 63,000.

Sustainability. In the case of "sectoral" projects and of the "EU 12" sustainability is at least acceptable, in the sense that whatever results were achieved during project implementation, they seem to have been maintained afterwards, with no examples of major reversal. As for institution building efforts, the Russian Privatization Center is now in difficult financial conditions and, as part of a major restructuring move, its regional offices supported by Tacis (at an estimated cost of US\$ 400,000 in South Russia alone) have been closed down.

In the case of ESCs, sustainability has become a major issue. The ESCs were conceived as fully donor-financed initiatives run by Tacis contractors and only during project implementation the decision was made to (try to) transform them into self financing organizations, basically private consulting firms owned by the Russian staff employed under the project. However, this move towards self sustainability is made difficult by the ESCs' limited client base (most of the companies assisted in the past are in dire straits and unable to pay for consulting services) and by the somewhat inadequate qualifications of the Russian personnel (several are former interpreters/translators, because the "EU experts were supposed to do the serious work while the Russians would do the interpreting" and never received an appropriate training). The attempt to establish the ESCs as self financing entities has been already supported by Tacis through some contract extensions but as things stand now the centers seem to have little chances of staying afloat independently (and indeed, in November 1998, a couple of centers were reported to have ceased operations upon departure of the expatriate consultants). A further (and debatable) attempt to rescue the ESCs is anticipated under the 1998 Action Program, which includes an ECU 4 million "ESC Support" project providing for training of Russian staff and for short term support from EU personnel.

Impact. The overall impact of Tacis projects on the performance of enterprises assisted is difficult to ascertain, due to the lack of baseline data. This is especially the case of ESCs, who extended assistance to dozens of companies. From the analysis of project documents and the company visits conducted during fieldwork, our best guess is that in possibly 20-30% of the some 200-220 consulting assignments implemented it is possible to establish a logical link between the provision of advice and some impact on enterprise performance. However, the overall picture is certainly not encouraging. Indeed, out of a sample of 216 enterprises in four regions (Novosibirsk, Kemerovo, Cheliabinsk and Stavropol) ranked by the ESCs local staff according to their present financial situation, in Summer 1998 no less than 69% were reported to be in disastrous or difficult financial conditions, while only 14% were in a good or excellent shape. Among the "sectoral" projects reviewed, the one in wood-processing was again the most successful (but still, one company went bankrupt) while results in textiles and iron & steel are (not

surprisingly) less impressive. As for the "lighthouse effect" explicitly sought by the "EU 12" project, this does not seem to have materialized, not least because dissemination activities were limited and not systematic.

Box 5.1 - Projects Analyzed in Detail : Enterprise Support Centers

Enterprise Support Centers in the Urals. The first in the series of ESC projects, included in the 1993 national Action Program. Activities involved the establishment of three ESCs (in Ekaterinburg, Cheliabinsk and Perm) and the provision of awareness enhancing and operationally oriented consulting services to medium-sized industrial enterprises (profit planning exercises, "mini projects", major enterprise restructuring exercises, business development advice). Started in January 1995, the project was extended twice until the Fall of 1998, first through an addendum and subsequently through a second contract awarded to the same contractor (*AT Kearney*, German branch). The total budget is estimated at ECU 12.3 million, making this initiative one of the largest Tacis projects in Russia. Efforts to transform the ESCs into fully independent, self financed entities started somewhat earlier than in other similar projects and, seemingly reflecting the contractor's corporate culture, the centers adopted a fairly high profile strategy, aimed at the provision of high quality services at high price (daily fees around US\$ 350-400). Long regarded by the monitors and by EU officials as a sort of "model" project, especially in terms of capability to attain financial self sustainability, the project started to run into problems in late 1997-early 1998, with increasing difficulties in getting paid with real money from "commercial" clients. As of end November 1998 two ESCs (Ekaterinburg, Cheliabinsk) were reported to have ceased their activities.

Enterprise Support Centers in Western Siberia. The second ESC project to see the light, included in the 1993 Action Program for Siberia. The project involved the establishment of three ESCs (Novosibirsk, Barnaul and Kemerovo) and of one representative unit (Tomsk) as well as the provision of the usual array of training and consulting services. The project had a somewhat troublesome start (with several changes in long term expatriate experts) but activities recovered in 1996 and 1997. Lately, there have been some problems in the timely mobilization of short term consultants. The first contractor (*GTZ*, Germany) was replaced in early 1998 and another consulting firm (*DFC*, Spain) was awarded the contract for the "self sustainability phase" expected to last until April 1999. Total project costs are estimated at ECU 8.3 million. The West Siberian ESCs are following a more low profile approach to sustainability than in the Urals (as signalled, *inter alia*, by the relatively modest professional rates of US\$ 100/day). However, local conditions are such (competition from private consulting firms and other TA projects, fairly depressed economic environment) that, despite continued Tacis support, financial self sustainability appears to remain a distant goal.

Enterprise Support Centers in South Russia. The third largest ESC project (total budget ECU 7 million), included in the 1994 national Action Program. In addition to the establishment of three ESCs (in Krasnodar, Rostov and Stavropol) and the provision of the usual training and consulting services, the project was also aimed at supporting the local branch of the Russian Privatization Center (the South Russian Privatization Center - SRPC). The initial phase was plagued by high turnover in both expatriate and local staff and by difficult relations with local partners. The move towards self sustainability seems to have caught by surprise the contractor (*GOPA*, Germany) and efforts to "go commercial" started only in early 1998 (a bit earlier in Krasnodar). The project was completed in August 1998 and the centers are now receiving limited support under a SSTA project implemented by the same contractor. Support to the SRPC absorbed an estimated ECU 0.4 million but, due to the general downsizing of the Russian Privatization Center's regional network, this entity is now closed.

Box 5.2 - Projects Analyzed in Detail: EU 12 and Sectoral Restructuring Projects

EU 12 Project. One of the first Tacis-financed initiatives in enterprise restructuring, aimed at restructuring a dozen (hence, the EU 12 nickname) privatized enterprises. Included in the 1993 national Action Program, the project had as local partner the Russian Privatization Center (RPC), whose institutional strengthening was pursued under a parallel project involving the secondment of key staff and training activities. The EU 12 project was implemented by two separate contractors (the German branch of *McKinsey* and the British branch of *AD Little*), with a total budget of ECU 8.3 million (second largest Tacis project in enterprise restructuring and one of the largest in general). The project was intended to attain some "lighthouse effect" by providing examples of successful restructuring and to give the RPC an opportunity to build up some capabilities in this field. Out of the 11 companies assisted, 2 or 3 can be regarded as success stories, 3 as outright failures and the rest as mixed cases. Although not exciting (and attained at a high cost: ECU 750,000 apiece) these results are not too dissimilar from those of similar operations, such as the parallel, USAID-financed PIES project. On the other hand, the demonstration effect was limited (with some dissemination carried out under another project) and the RPC proved largely unable to build upon this experience, eventually evolving into a project management entity, without much in-house restructuring expertise.

Assistance to Wood-processing Industry. An ECU 2.1 million project included in the 1992 Action Program. After a troublesome start (the local partner proved to be uncooperative and eventually had to be dropped altogether) the project was completely re-designed and implemented over a 3-year period. The contractor was a relatively unusual combination of an industrialists' association and a consulting firm with solid contacts in the business community (respectively, *Federlegno* and *CAST*, both from Italy). Project implementation broadly reflected the contractors' entrepreneurial orientation: while reports were usually not so polished a lot of emphasis was placed in facilitating business contacts between Russian companies and

their EU counterparts. Not all the restructuring exercises were a success (indeed, one of the six companies assisted "died during the surgery") but this project is one of the few Tacis initiatives to have achieved some tangible results in terms of investments from EU firms, with two joint ventures in operation totalling some US\$ 2.2 million of investment.

Review of the Iron and Steel Industry. A "mixed" sectoral restructuring project, combining a sectoral strategic review with four business planning exercises. Included in the 1993 national Action Program, this ECU 2 million project was largely politically motivated (at that time EU producers were bitterly complaining about the Russians' alleged dumping practices) and saw the active participation of DG III. The contractor (*Roland Berger*, Germany) had solid, previous sector-specific experience in Russia and was effectively supported by a competent and cooperative local project partner (the Committee for Metallurgy). Results at the enterprise level were limited (but it could not have been otherwise, given the huge problems faced by Russian steel-makers) but the project was very successful in facilitating the dialogue between the EU and Russian in a very sensitive area, which eventually resulted in the 1997 Steel Trade Agreement between the two trading blocks.

6. TACIS PSD ACTIVITIES - SME DEVELOPMENT

6.1 Background

In Russia the emergence of an SME sector is still a recent phenomenon. Indeed, the first private businesses were established only in the second half of the 1980s, when the Soviet legislation was somewhat relaxed to allow for the launching of small scale private initiatives (in the form of cooperatives, typically active in services). A major thrust in SME formation occurred in the early 1990s, following the so called "small scale privatization" (when tens of thousands of small state and municipal shops and productive & service units changed hands) and the liberalization in the trade sector.

The actual number of small businesses in operation in Russia is hard to assess. Available *Goskomstat* statistics indicate some 840,000 SMEs in operation in 1997 (with a workforce of some 6 million) but other sources suggest the existence of an additional 2-3 million unregistered undertakings¹⁶. Although certainly not trivial in absolute terms (and relative to the initial conditions), these figures are not particularly impressive if compared with achievements in other, smaller transitional economies such as Hungary (some 700,000 SMEs in operation), Poland (more than 2 million registered), and Romania (about 500,000 registered)¹⁷. Indeed, in Russia the development of regular SMEs has been hampered by a number of factors, from the unfavorable political climate in many regions (especially in the so called Red Belt), to the limited opportunities for spin offs from former state-owned enterprises (as opposed to less legitimate forms of diversion of resources, very frequent at times), to the problems posed by the widespread lack of security (extortions from organized crime and gangs). The comparatively less dynamic trend in SME formation is accompanied by significant regional imbalances: while in Moscow SMEs are reported to account for some 22% of all businesses and for some 20% of employment, there are some 30 *oblast* where the number of registered (not necessarily operating) SMEs hardly exceeds the 4,000 units (all included, from barber shops to small manufacturing units).

The need for an active public policy in support to SME development was officially recognized by federal authorities in 1995, when the State Committee for the Support and Development of Small Businesses (Russian acronym: *GKRP*) was established, with the task of formulating a comprehensive SME development policy. Other key players in the SME development scene include:

- the Russian Agency for the Development of Small Businesses (the "Russian Agency"), responsible for the promotion of SME support structures, and
- the Federal Fund for Small Business Support (the "Federal Fund"), intended to facilitate SMEs' access to financing through the provision of loans and guarantees.

While the Russian Agency has been extremely active in the establishment of a network of SME Development Agencies (SMEDAs) throughout the country (largely with Tacis support), the Federal Fund has proved a weak institution, unable to mobilize the funds officially allocated to SME development under the budget law.

As in many other sectors of Russia's public life, overtime the *locus* of SME policy making has been gradually shifting from federal authorities to regional governments, who have been increasingly busy in passing special regulations aimed at SMEs and in establishing local counterparts to the Federal Fund. However, this proactive stance has not been supported by adequate financial means (only few regional SME funds have received meaningful allocations) and, in some cases, has been accompanied by significant interference in private activities, with the inevitably associate problems in terms of favoritism and opportunistic behavior.

As for the latest developments, Russian SMEs are obviously suffering from a recent crisis, which by further depressing the demand for goods other than necessities, is hitting the sector's more modern section. On the institutional front, in September 1998 the government decided to merge the *GKRP* with the antitrust agency and two

¹⁶ EBRD, *Transition Report 1996*, London, 1997, page 170. The importance of small scale informal activities is confirmed by other studies. For instance, the results of own research on "shuttle trade" (Economisti Associati, *Russian Shuttle Traders: Main Features and Relations with the Italian Market*, February 1997) indicate that the informal international trade in consumer goods alone would involve some 100,000 - 150,000 unregistered businesses (the so called *chelnoki*).

¹⁷ For a comparative analysis in various countries, see, OECD, *Entrepreneurship and SMEs in Transition Economies*, Paris, September 1997.

other entities, thereby creating a multipurpose, larger, but not necessarily more efficient structure (Ministry for Anti-monopoly Policy and Support to Entrepreneurship).

6.2 Tacis Activities - Description

Overview. Over the 1991-1997 period Tacis' allocation to SME development initiatives included the national and regional Action Program totaled some ECU 28 million, i.e. about 13% of total allocations to PSD in Russia. These resources were subdivided among a dozen of main initiatives, listed in Table 6.1. Some additional support was provided through some of the facilities comprising the Enterprise Support Group, namely: i) the ESSN, which makes available volunteer retired EU executives, ii) the Work Attachment Program, financing internships of Russian managers and entrepreneurs with EU companies, and iii) the Europartenariat and NIS Partenariat schemes, financing the participation of Russian SMEs and business associations to international events intended to facilitate industrial and commercial cooperation.

Objectives. Tacis' activities in SME development have been first and foremost aimed at the establishment of a network of SME support structures, comprising the already mentioned SMEDAs as well as some more advanced structures, the so called Business Communication Centers (BCCs). Efforts in this direction have been complemented by actions aimed at strengthening local capabilities in the SME policy making area, to support the establishment of a more conducive legal and policy framework. Finally, starting with the 1995 Action Program, few additional and more specific objectives have been added, namely: i) the development of SME-friendly sources of financing; ii) the promotion of female entrepreneurship, and iii) the promotion of technological innovation capabilities.

Activities and Strategy. The establishment of a network of SME supportive institutions has absorbed the bulk of resources allocated for SME development (about ECU 20 million) and has been consistently pursued overtime through a series of successive projects, the so called "SMEDA Network" projects. Efforts were initially concentrated in Moscow and St. Petersburg, where Tacis invested heavily (no less than ECU 6 million) to establish the local SMEDAs and BCCs. Starting in 1994, Tacis activities have gradually expanded to other regions, reaching by end 1997 a total coverage of some 40 *oblast*. Conceived to compensate for the lack of grass roots entrepreneurial associations and of public SME entities, the SMEDAs are intended to operate as a sort of first help desk for small businesses (basic info, training for new entrepreneurs, assistance in dealing with banks, etc.) and as "agents of changes" at the local level (lobbying regional and municipal authorities on behalf of SMEs). The Business Communication Centers are a more elaborate concept, largely borrowed from the EU experience, and are intended to add an international & information technology dimension to the network of SME support structures, through the facilitation of contacts with foreign partners (customers, clients, investors) and the provision of high value added IT-based services (commercial databases, electronic trade and the like).

In the area of SME development policy, support has been provided primarily in the *GKRP*, the federal body intended "to look after" SMEs' interests within government circles. SME policy advice components are also present in projects implemented at the local level, such as the "Business Promotion" project in Vladimir and the "SME Development in Monocompany Towns" project (presently in progress). As for the additional specific objectives added since 1995 (SME financing, women entrepreneurship, technological innovation), they have been pursued through a combination of dedicated components within the wider SMEDA Network projects and of stand alone projects (the latter, in collaboration with the Federal Fund and the *Bortnik* Fund).

In retrospect, Tacis' strategy in SME development has been characterized by a high degree of consistency, although with an element of flexibility. The key element of this strategy can be summarized as follows:

- continued emphasis on the establishment and/or the strengthening of institutions. Given the size of the population of ultimate beneficiaries, the provision of direct assistance to SMEs has been only a minor element, mainly intended to provide a sort of training ground for local staff of SME support structures;
- continued reliance on a strong and politically well connected partner organization such as the Russian Agency;
- after a somewhat false start in Moscow and St. Petersburg (where the SMEDAs and BCCs were conceived as fully donor-financed structures), continued emphasis on self sustainability;
- gradual introduction of new themes (e.g. SME financing), initially as components of SMEDA Network projects and subsequently as stand alone projects.

Table 6.1 Main Tacis Initiatives in SME Development

| Project | Action Program | Budget (MECU) | Description |
|---------|----------------|---------------|-------------|
|---------|----------------|---------------|-------------|

| | | | |
|--|----------------------|-----|---|
| SMEDA & BCC in Moscow and St. Petersburg | 1992 1995 1996 | 6.2 | Establishment of a SMEDA and BCC in the two cities and further support to achieve self sustainability |
| SME Development Policy | 1993 | 0.9 | Institution building and advice on SME development policy |
| SMEDA Network I | 1993 | 3.8 | Establishment of 21 SMEDAs in five regions (Siberia, Urals, South, Volga, North) |
| SMEDA Network II | 1994 | 2.3 | Direct assistance to SMEs in selected sectors in cooperation with five "core" SMEDAs |
| Business Promotion Vladimir | 1994 | 1.9 | Institution building & policy advice to regional authorities. Direct assistance to SMEs & training of consultants |
| SMEDA Network III | 1995 | 3.0 | Establishment and/or strengthening of 4 SMEDAs in North West Russia and Siberia. Assistance to women entrepreneurs |
| Resource Center for SME Development | 1995 | 1.4 | Establishment of a "resource center" (library, database, etc.); training & policy advice to federal SME development authorities |
| SMEDA Network IV | 1996 | 4.5 | Establishment of four BCC and establishment/strengthening of four SMEDAs. Also, support to leasing and technology development |
| SMEDA Network V | 1994 ⁽¹⁾ | 1.3 | Establishment of one BCC and two SMEDAs in South Russia |
| Funds for Small Business Support | 1996 | 1.8 | Managerial support & training to federal & regional funds for small business support. Support to leasing companies |
| SME Development in Monocompany Towns | 1996 | 3.0 | Institutional and policy advice for the development of SMEs in three monocompany areas with high unemployment |
| Support to SME Innovation Audit | 1997 | 1.5 | Support to establishment & development of R&D based SMEs |

⁽¹⁾ But implemented more than three years later, in parallel with the SMEDA Network IV project

Coordination with other Donors. In the area of SME development Tacis seems to have played a sort of informal coordination role, with bi-annual meetings organized by the Delegation and attended by some donors. Some of them (e.g. Germany's *KfW*) appear to have capitalized on this experience and are presently trying to build on Tacis' initial work, by supporting some SMEDAs (e.g. Samara) with specific initiatives. The picture is less rosy in terms of coordination with initiatives in SME financing sponsored by the EBRD (the World Bank has not been active in this field so far). Indeed, SMEDAs interviewed during the study seemed to be little informed about the SME credit lines and other similar initiatives (e.g. the small equity funds implemented by the Small Enterprise Assistance Funds-SEAF in St. Petersburg). There have been also some cases of open competition, such as the recent Know How Fund SME development project in Kemerovo, which is competing for scarce clients with Tacis initiatives in the area.

6.3 Tacis Activities - Evaluation

Relevance. Institutional support is useful to foster the growth and consolidation of SMEs. The "small guys" must have a place to turn to for very simple advice (how to get registered, how to fill out tax returns, how to draft a contract, etc.) and for some basic training. In Western countries these functions are discharged by local business associations and/or by Chambers of Commerce but in Russia these institutions either are only beginning to emerge (the business associations) or have a largely different orientation (many chambers of commerce are still little more than "clubs of the big guys in town"). The SMEDAs were supposed to fill this gap and, therefore, their establishment does constitute a relevant intervention.

The above positive statement must be greatly attenuated with regard to the recent trend towards the establishment of Business Communication Centers. As mentioned above, the BCCs are intended to support Russian SMEs in their international contacts and to provide value added IT services. However, although certainly fashionable, these services do not seem in line with needs observed on the ground. Indeed, Russian SMEs' propensity for electronic commerce does not seem very high while the Russian entrepreneurs' desire for international contacts may be better served through the financing of business trips, possibly within the framework of Europartenariat or NIS Partenariat events.

Also debatable is the relevance of Tacis activities in the area of SME development policy advice. The first project in this area actually preceded the establishment of the governmental body responsible for SME development policy (i.e. the *GKRP*), which certainly indicates a poor assessment of the situation at the project preparation stage. The subsequent "SME Resource Center" project (presently ongoing) was instead correctly attached to the *GKRP*, which, however, was later merged into another entity with a less than clear mandate. As in the case of Tacis actions in privatization and market infrastructure (see Section 3 above), initiatives in the field of SME policy appear excessively exposed to the mutable Russian political climate.

As for the specific objectives introduced in various forms starting from 1995, the development of SME-friendly sources of financing stands out for its potentially crucial importance, but, again, some important qualifications are in order. On the one hand, the emphasis placed on the development of leasing was certainly correct but resources devoted to this subject appear to have been too limited to achieve tangible results¹⁸. On the other hand, the attention paid to the Federal Fund, an institution plagued by scarcity of funds and several other problems, appears only partly justified.

Effectiveness. Not all initiatives aimed at the establishment of SME support structures achieved their objectives (the "SMEDA Network II" projects is generally regarded as a failure, and rightly so) but, in general, efforts in this area appear to have been fairly successful. Based on our sample of 13 SMEDAs interviewed during fieldwork: 5 are effectively discharging their functions, 2 are brand new, 1 is not operating and 5 are average or mediocre. Overall, it would seem that at least one third of the over 30 SMEDAs established or strengthened with Tacis support are doing a good job. Good SMEDAs may serve up to several hundreds small clients per year (Ekaterinburg: 1600 contacts, of which 500 repeat visits; Perm: 1,800 clients in two years; Archangelsk: 400 permanent clients in 1997 and 1100 visitors). All good SMEDAs have largely abandoned generic business planning activities and concentrate on more focussed (although sometimes bread & butter) services, such as: the provision of inexpensive assistance in filling out tax returns during the "rush hour" before the end of April deadline for submission (Archangelsk SMEDA); the establishment of a small business incubator providing common secretarial services to start ups (Ekaterinburg SMEDA); the organizations of exhibitions and small trade fairs (in several locations).

However, there is a fundamental ambiguity in the SMEDA concept. On the one hand the agencies are requested to discharge a promotional function; on the other, they are supposed to be financially independent. Unfortunately, promotional activities typically do not pay and, unless they can mobilize some financial support from local authorities, SMEDAs have to look for commercial clients, which in turn are often not SMEs. It takes an unusual mixture of skills and commitment to be able to use proceeds from commercial activities to cross subsidize promotional work. Some SMEDA directors have so far displayed great ability in walking on such a thin rope but there is a risk that overtime even the best SMEDAs could evolve into purely commercial entities, thereby losing their focus on SMEs.

Efficiency. With the initial projects Tacis was getting good value for money. Leaving aside St. Petersburg and Moscow (which are special cases), the cost per SMEDA established is around ECU 350,000 (i.e. one seventh the cost of an ESC). The selection of locations to host the SMEDAs was also largely appropriate (usually *oblast* with a significant pool of potential clients). However, there are signs that efficiency may be declining over time: the TOR for the most recent projects prescribe fairly high levels of staffing while the selection of some locations for new SMEDAs appears debatable (2 long termers posted in Barnaul to establish a BCC within an already existing SMEDA do not seem justified; it is hard to understand the rationale of establishing a SMEDA in a place like Schlisselburg, population 10,000).

Sustainability. Unlike ESCs, SMEDAs were established with sustainability in mind (exceptions: St. Petersburg and Moscow - see Box 6.1) and since the very beginning Russian staff have been effectively responsible for running operations and for securing the financing for essential items (rent, salaries). Obviously, not all the SMEDAs will succeed in becoming self sustainable operations, but so far the casualty ratio does not seem too high (in our sample of 13 SMEDAs we had only one outright failure, in Novosibirsk). If something goes wrong, the Russian Agency has a vested interest (because they want to retain their credibility vis-à-vis Tacis and other donors) to step in and try to

¹⁸ For instance, it would seem that resources for this component made available under the ongoing SMEDA Network IV project are not sufficient to finance a feasibility study for a leasing company which, in turn, might mobilize resources from the IFC.

find a solution¹⁹. The sustainability of whatever results were achieved in the area of SME policy is more doubtful, due to Russia's intrinsic political and institutional instability (viz. the recent merger of the *GKRP*), while no meaningful statement can be made regarding other initiatives (SME financing, technological innovation), which are still largely in progress.

Impact. No overall quantitative assessment is possible because trends in SME formation and consolidation are affected by a variety of factors other than the availability of institutional support. A positive impact may be legitimately presumed in the regions where the share of small businesses served by the SMEDAs is above 10%, as in three or four cases in our sample (Barnaul, Ekaterinburg, Perm, Archangelsk). A direct, positive impact can be noticed in the case of trade promotion initiatives organized by SMEDAs (exhibitions and small fairs), with participating SMEs usually reporting significant increases in sales. Some SMEDAs also play a significant advocacy role on behalf of SMEs, either interacting directly with local authorities or through the support granted to the creation of local business associations (bakers, plumbers, etc.). Some have managed to effectively influence local governments' attitude towards small businesses and some are even involved in the management of local financing schemes (although this is not necessarily a positive aspect, given the possible interference with political considerations and vested interests).

¹⁹ This is what was happening in Novosibirsk during the 1998 Summer, where the Russian Agency was extending its assistance to local authorities in the process of restarting the defunct SMEDA.

Box 6.1 - Projects Analyzed in Detail

SMEDAs & BCCs in Moscow and St. Petersburg. Tacis' first project in SME development, included in the 1992 Action Program, with additional funding provided under the 1995 and 1996 Action Programs. The project was implemented by the *Chamber of Commerce and Industry of Amsterdam* and *KPMG* in cooperation with local authorities in the two cities. The project initially assumed the existence of a strong political will (backed with the necessary funding) to provide institutional support to small enterprises and in the beginning the SMEDAs and BCCs were conceived as quasi-public institutions. Later, additional efforts had to be deployed to support the transition towards self sustainability. It was a high cost operation (total cost ECU 6.2 million) but it provided some useful lessons for subsequent actions aimed at the development of the SMEDA network.

SMEDA Network I. Included in the 1993 Action Program, was the first operation implemented in cooperation with the Russian Agency. With a budget of ECU 3.8 million the project effectively laid the foundations for the SMEDA network, with the establishment of agencies in 21 locations throughout the country. While not all the SMEDAs achieved the same level of development, the project was largely successful thanks to the proactive attitude displayed by the contractor (Britain's *Focus Consultancy*) and the project partner alike.

SMEDA Network II. Included in the 1994 Action Program, this project was aimed at strengthening the operation capabilities of five "core" SMEDAs (i.e. agencies with a sort of a regional leadership role) through the provision of firm level support along sectoral lines. Because of problems in conception (no involvement of the Russian Agency and of beneficiary SMEDAs, partially erroneous identification of sectors) and implementation, the project (implemented by Ireland's *IDI*) effectively failed to achieve tangible results.

SMEDA Network III. Included in the 1995 Action Program, this project marks the return to a stable cooperation with the Russian Agency. With a budget of ECU 3.0 million the project combined efforts to further expand the SMEDA network (in NW Russia and Siberia) with "horizontal" activities aimed at supporting women's entrepreneurship. Implemented by *Enterprise* (UK), the project is now approaching completion without major problems.

SMEDA Network IV. The second largest operation in SME-development (total budget ECU 4.5 million) combining: i) further enlargement of the SMEDA network with the adding/strengthening of a few SMEDAs, ii) "horizontal" activities in SME financing (leasing) and technological innovation, and iii) the establishment of Business Communication Centers within some "core" SMEDAs. The emphasis placed on the BCC concept and the selection of some locations for the establishment of new SMEDAs (e.g. Schlisselburg, population 10,000, the only company in town is a defunct shipyard) appear debatable. Included in the 1996 Action Program, the project is presently being implemented by a consortium led by *Ramboll* (Denmark). It is paralleled by a similar (but smaller: ECU 1.3 million) operation specifically targeted at South Russia.

SME Development Policy. Included in the 1993 Action Program, the project was aimed at assisting Russian authorities in the design of a consistent SME development policy, largely based on the EU experience. Implemented by a leading SME research institution (*EIM*, Netherlands) the project had a troublesome start and the project partner was changed during implementation. Activities were somewhat scaled down and, while the beneficiary formally declared its appreciation, the impact appears to have been modest. It is being followed by a project aimed at establishing a "resource center" within the *GKRP*.

7. TACIS ACTIVITIES - BANK RESTRUCTURING

7.1 Background

Commercial banking was one of the first sectors of the Russian economy to undergo a massive re-organization. In the early 1990s, hundreds of regional branches of the three former specialized state banks, *Promstrojbank* (traditionally catering the industrial and construction sectors), *Agroprombank* (the agricultural development bank), and *Zhilsotzbank* (catering the service sector), were transformed into independent joint-stock companies and subsequently privatized, with shares largely conferred to their large industrial clients. The savings bank (*Sberbank*) and the former hard-currency transactions bank (*Vneshekonombank*) were also corporatized, but remained under state control.

The break up and re-organization of former state banks was paralleled by the establishment of a myriad of new private banks. The emergence of a private banking sector was induced by the growing opportunities for easy profits created by the highly inflationary environment²⁰ and made possible by the mild statutory requirements (at a certain point the minimum capital requirements for the establishment of a bank was a mere US\$ 70,000) and by an extremely liberal (with hindsight, careless) banking supervision policy. As a result of these combined factors, by early 1995 no less than 2,600 banks were in operation.

With an exceedingly small retail network (on average less than three branches per bank) and largely concentrated in the two main urban areas, the newly established Russian banks proved unable to attract significant deposits from the general public and ended up relying primarily on their shareholders' accounts (the former state owned banks) and on the interbank market (the new private banks). Activities largely concentrated on hard currency operations, transactions in government securities and very short-term lending at high interest rates to the trade sector.

The fragility of Russia's newly established banking sector was first exposed in 1995-96 when, following the adoption of a tight monetary policy by the Central Bank of Russia (CBR), the interbank market became illiquid. The ensuing, inevitable crisis resulted in a first, substantial round of consolidation: by the end of 1997 the number of banks had declined to about 1700, through a score of mergers encouraged by the CBR and a more limited number of outright bankruptcies. Most of the victims of this wave of closures were small banks in the regions although a few larger banks (such as *Tveruniversalbank* and *Natsionalnyi Kredit*) were also forced to cease operations. The crisis of the mid-1990s had an initial positive impact and indeed 1997 was generally regarded as a good year for the banking sector, with most banks posting good profits. A number of Russian banks were also able to access the international financial markets, with foreign borrowing quickly becoming a major source of financing. However, the fundamentals remained weak, with activities still largely concentrated in purely financial transactions (namely, dealings in T-bills) and with persistently low levels of lending to the enterprise sector.

A second and more severe bank crisis begun to unfold in mid-August 1998 when the Russian government defaulted on the payment of T-bills and bonds, effectively leaving banks strapped with cash. The subsequent run on bank deposits and ruble devaluation made the situation all the more dramatic, and left most banks unable to fulfil their foreign obligations. The extent of the losses incurred by Russian banks is still subject to speculation, but in mid-November the Central Bank regarded as likely the closure of some 700 out of the 1500 banks in operation before the crisis, accounting for 34% of the assets in the banking system and for 32% of all deposits²¹. Unlike in 1995-96, large and (formerly) reputable Moscow banks are among the main victims of the recent crisis (see Box 7.1). After an initial, somewhat *ad hoc* reaction (with the granting of emergency loans to a dozen or so of ailing banks), in late November 1998, Russian authorities eventually announced a rescue plan involving the establishment of a bank restructuring agency. Placed on the joint control of the *GKI* and of the CBR (and possibly benefitting from the support of international financial institutions and donors), the agency was supposed to become operational in early December 1998²².

²⁰ In a situation with negative real interest rates on deposits and central bank refinancing, banks could make money by simply keeping a significant share of their assets in hard currency. Additional hefty profits could be made by delaying payments on behalf of clients.

²¹ "Russia to Allow Half Of Its Banks to Fail", *International Herald Tribune*, November 13, 1998.

²² "EBRD says it might invest again in ailing Russian banking system", *New Europe*, November 29-December 5, 1998.

Box 7.1 - The 1998 Bank Crisis: The Impact on Moscow Banks

The recent crisis has severely affected the leading Moscow banks. The situation is illustrated by the following examples:

- **Uneximbank** (3rd largest bank in 1997, the apex of the powerful financial industrial group *Interros*) had to face a run on deposits and defaulted on several foreign loans. In the aftermath of the August crisis *Uneximbank's* boss, Vladimir Potanin, one of the "Russian oligarchs", announced plans for a merger (to take place sometimes in early 1999) involving the sister bank *MFK* as well as *Most Bank* and *Bank Menatep*. In the meantime, remaining deposits have been transferred to *Sberbank*;
- **Inkombank** (5th largest in 1997, participated by the EBRD) was badly hit by the collapse of the T-bills market which comprised a major share of its total assets. The bank was found to have taken "excessive risks" in its foreign exchange deals ahead of the August 17 devaluation and had its license revoked by the CBR at the end of October. Remaining deposits have been transferred to *Sberbank* while *Inkombank's* assets in Britain have been frozen by a court order sought by *Lehman Brothers*, one of the main foreign creditors;
- **Bank Menatep** (6th largest in 1997) defaulted on some US\$ 500 million in foreign loans. These loans were backed by shares in *Yukos*, Russia's second largest oil company, and as a result foreign creditors may well end up owning a major stake in this company. *Menatep* deposits have also been transferred to *Sberbank*;
- losses suffered by **Avtobank** (9th largest in 1997) have not been officially disclosed but are believed to be quite substantial. The bank applied for a rescue loan from the CBR and the management recently announced plans for a major restructuring involving *inter alia* a 20% cut in the workforce;
- **Alfa Bank** (18th largest in 1997, *chef de file* of the homonymous financial industrial group) lost some US\$ 100 in the collapse of the T-bills market. The bank is reportedly able to face obligations with domestic individual depositors while negotiations for the rescheduling of a defaulted US\$ 77 million loan syndicated by *Bank of America* are reportedly underway.

Source: press reports from the *International Herald Tribune*, *Financial Times*, *Business Central Europe*, *Central European Economic Review*, *New Europe*.

7.2 Tacis Activities - Description

Overview. The establishment of a modern banking system is one of the top priorities in Russia's transitional process, attracting substantial support from donors and international financial institutions. This approach has been broadly shared by Tacis, whose allocations to bank restructuring over the 1991-1997 period totalled over ECU 30 million, i.e. almost 15% of total resources devoted to PSD. The some 20 main initiatives included in the "regional" and "national" Action Programs are summarized in Table 7.1.

Objectives. Tacis' activities in the financial sector are primarily aimed at the objective of enhancing the interface between the "financial" and "real" sides of the economy, so as to facilitate the mobilization of resources for much needed productive investment. In the case of commercial banking, this overall policy objective has translated into two main sectoral objectives, namely: i) the improvement of commercial banks management structures and practices (again, with special emphasis on more directly investment-related aspects: lending policies, appraisal of investment initiatives, etc.), and ii) the enhancement of skills available to the banking sector at large, through improvements in bank training.

The introduction of improvements in the banking sector operating environment (prudential regulations, supervision instruments, accounting rules, etc.) has been a somewhat secondary objective for Tacis. Some initiatives in this area were included in the 1991 and 1992 Action Programs but, with some limited exceptions, this objective was effectively abandoned at later stages, as part of the division of labor with international financial institutions. As for the facilitation of cooperation between European and Russian economic agents, this objective has been less important than in other areas of activity, because of the persisting limitations to foreign ownership in the Russian banking sector and, concurrently, of the limited interest so far shown by EU banks in a more direct presence in Russia. Still, the objective of fostering long term cooperative relationships is somehow embedded in the "twinning" programs financed by Tacis within the framework of the Financial Institutions Development Project (see below).

Activities & Strategies. Tacis activities in support to commercial banks restructuring follow into three broad areas:

- the provision of direct assistance to bank restructuring. Under the 1991 and 1992 Action Programs Tacis financed some 15 restructuring initiatives (typically consisting of practical advice and some training) targeted at both former Soviet banks (e.g. *Sberbank*) and newly established private banks (e.g. *Inkombank*). Beginning with 1994, projects aimed at specific banks have been replaced with the establishment of the European Banking Advisory Service (EBAS), a "facility-type" operation providing short term assistance on the basis of applications submitted by Russian banks and evaluated by the project management unit;
- the support to bank training institutions and professional associations. The main initiative in this area is the establishment of the International Finance and Banking School (IFBS). Included in the 1991 Action Program covering the then still existing Soviet Union and worth over ECU 7 million, this project was aimed at the establishment of a Western-quality training institution capable of serving the needs of the banking sector at large. The IFBS project was accompanied by other initiatives in training (supporting the Finance Academy, *Sberbank*, etc.) and by some institution building assistance to banking associations at the national and regional levels (Tyumen, St. Petersburg);
- the indirect assistance to bank restructuring through the financing of twinning programs with Western banks within the framework of the Financial Institutions Development Project (FIDP). A joint World Bank-EBRD initiative supported by Tacis and some bilateral donors, the FIDP was conceived to assist the strengthening of a core group of some 40 commercial banks through: i) the modernization of IT systems, and ii) the parallel provision of hands-on managerial support by western banks (the "twinning" component). The IT component would be financed with loans jointly provided by the World Bank and the EBRD (on a two thirds/one third basis), whereas Tacis' (and other donors') grant money would be used to cover for 50% of the cost of expertise made available by Western banks.

Coordination with Other Donors. Bank restructuring is an area where donor activities have reached a considerable level of coordination and this is largely reflected in the evolution of Tacis activities. Indeed, after an initial attempt to build an independent strategy, starting from 1995 Tacis recognized the need to join forces with other donors and IFIs, with the ensuing re-orientation of priorities and re-channeling of available resources. As mentioned above, in the area of bank restructuring proper Tacis joined the World Bank and EBRD-sponsored FIDP program while the strengthening of banks' regulatory and operating environment has been supported through the financing of training and other institution building activities carried out by the IMF (with a total of ECU 4 million). At present, only the second phase of the EBAS program (due to finish soon) can be regarded as a truly Tacis project.

Table 7.1 Main Tacis Initiatives in Bank Restructuring

| Project | Action Program | Budget (MECU) | Description |
|--|----------------|--------------------|--|
| Establishment of the International Finance and Banking School (Moscow) | 1991 | 7.5 | Support to newly established IFBS (train the trainers program, equipment, etc.) and training courses to bank employees |
| Assistance on Bank Supervision and Monetary Functions | 1991 | 0.8 ⁽¹⁾ | Legal advice and consulting services to finance ministries and central banks in CIS countries |
| Restructuring of <i>Sberbank</i> (Moscow) | 1991 | 1.1 | Formulation of business plan and staff training |
| Restructuring of <i>Mosbusinessbank</i> (Moscow) | 1991 | 1.0 | Training and advisory services |
| Restructuring of Large & Medium Sized Banks (Moscow) | 1991 | 1.3 | Training and advisory services (business plan, strategic plans, etc.) |
| Development of Payments & Settlements System | 1991 | 0.5 ⁽¹⁾ | Study at the inter-republican level |
| Restructuring Needs Assessment in the Banking Sector | 1991 | 0.6 ⁽¹⁾ | Study covering four former USSR republics (Russia, Ukraine, Belarus, Armenia) |
| Advisory Services and Training (Tyumen) | 1992 | 1.0 | Training and advisory services to local banks |
| Restructuring of <i>Agrobank</i> (Samara) | 1992 | 0.3 | Advisory services and training for overall upgrading |
| Advisory Services and Training (St. Petersburg) | 1992 | 3.1 | Institutional development of local bank association. Generic and customized advice to commercial banks |
| Restructuring of Banks (Moscow) | 1992 | 1.7 | Review and/or setting up of special units (foreign exchange, information system, etc.); formulation of strategic/business plans |
| Automation Systems for Banks (Moscow) | 1992 | 0.6 | Assessment of automation requirements; development of software packages |
| Assistance to <i>Inkombank</i> (Moscow) | 1992 | 0.4 | Establishment of a model payments and settlements system |
| European Banking Advisory Services (EBAS) - I | 1993 | 5.0 | Training and advisory services in "modules" through a demand driven mechanism. Institutional strengthening of Association of Russian Banks (ARB) |
| Russian Bank Training (Moscow) | 1993 | 1.5 | Train the trainers, seminars, design of new courses |
| Financial Institutions Development Program (FIDP) - I | 1994 | 5.5 | Restructuring services through the financing of twinning arrangements with European banks |
| Financial Institutions Development Program (FIDP) - II | 1995 | 5.0 | Same as in FIDP I |
| Enterprise Monitoring Center | 1995 | 1.0 | Establishment of a sort of <i>Centrale des Bilans</i> aimed at monitoring developments in the "real" sector |
| European Banking Advisory Services (EBAS) - II | 1996 | 2.0 | Continuation of EBAS I, with focus on banks in the regions (St. Petersburg, Urals, South Russia). Further support to ARB |
| Financial Institutions Development Program (FIDP) - III | 1997 | 4.0 | Same as in FIDP I and II |

⁽¹⁾ Estimated amounts, projects covered the whole USSR.

7.3 Tacis Activities - Evaluation

Relevance. Comments under this heading are somewhat similar to those formulated in the case of Tacis activities in enterprise restructuring. On the one hand, the need to upgrade management structures and practices in Russian banks is beyond doubt and activities aimed at correcting existing deficiencies appear *a priori* as extremely relevant. On the other hand, the intrinsic limitations of TA-driven restructuring efforts in an environment not conducive to change have been made dramatically apparent by the recent bank crisis, whose victims include some of the most intensive users of donor-funded TA programs (e.g. *Tokobank*, *Inkombank*). This leaves Tacis stuck in the dilemma between total inactivity in a crucially important sector and the risk of failure of many actions. On the

positive side, one has to mention the rapid and consistent (compared with other sectors) evolution towards a more business-like approach, moving from "classical", more or less well identified TA projects, to demand-driven schemes (such as EBAS), to twinning agreements with a cost-sharing element (as in the case of FIDP). Such an approach appears to retain its validity even in retrospect and, if and when the right overall conditions will be in place, it could be usefully replicated by future actions.

Effectiveness. The picture is mixed. Bank training projects (IFBS, Russian Bank Training) have been definitely effective, both quantity and quality-wise (number of bank staff trained, establishment or enhancement of in-house training capabilities). The effectiveness of EBAS is less certain: banks assisted by the scheme formally appreciated the advice received but there are mixed signals about the actual implementation of recommendations. Effectiveness of EBAS was limited by two factors: i) the low "quality at entry" of participating banks, and ii) the limited involvement of qualified Russian staff. The first problem is often encountered in technical assistance programs entirely financed by donors, typically suffering from low commitment. While the provision of assistance on a free of charge basis was probably unavoidable in the earlier phases (when Russian banks were still largely unaccustomed to external advice), the inclusion of some cost-sharing mechanism could have been considered during the extension phase, to reduce the adverse selection bias and eliminate the less committed banks. As for the second problem, a greater involvement of Russian experts was envisaged in the original project design, but this component was dropped during implementation largely due to problems in recruiting qualified professionals at the (exceedingly low) remuneration levels allowed by Tacis regulations. Regarding the FIDP, because of the bank crisis, operations were suspended in mid-November 1998. By that time most of the twinings were still ongoing and no overall judgement can be passed. However, elements gathered during fieldwork suggest that some progress was indeed being achieved, although with significant variations across participating banks and Western twins²³. Examples of positive results offered by banks interviewed during fieldwork include improvements in treasury management (e.g. by introducing simple rules, like limits to counterpart) and in lending (especially, regarding enforcement issues).

Efficiency. The IFBS project was reasonably cost-effective, with a cost per trainee (US\$ 800), not too dissimilar from fees regularly charged by training institutions. Available qualitative evidence drawn from project documents or gathered during fieldwork also tends to confirm that resources were used efficiently. In contrast, EBAS certainly cannot be regarded as a "low cost" operation, with a cost of ECU 1,500 per day of consulting provided to participating banks (largely due to the significant overheads for project management activities). In the case of FIDP, during project implementation the question was raised of whether it would be appropriate to reduce Tacis' contribution from ECU 1.5 to 0.5 million per twinning, thereby increasing the number of participating banks and, ultimately, enhancing the value for money of Tacis funds. This position was supported by the project management unit and endorsed by independent observers conducting a mid-term operational review²⁴ but no decision was eventually made.

Sustainability. IFBS seems to be well placed in the market for bank training services and at the time of our visit (Summer 1998) was doing fairly well. The main risk is that, with the departure of some of the top trainers because of low salaries, the quality of services could deteriorate overtime but the management seemed acutely aware of the problem and ready to take corrective actions. The EBAS scheme is not sustainable by design (the idea of transforming it into a stable organization was dropped during implementation), so the issue of sustainability refers only to: i) the assistance provided to the Association of Russian Banks (which is likely to stay afloat in spite of recent developments), and ii) the results achieved at the individual bank level (which do not seem impressive anyway - see above). As for the FIDP, the sustainability of whatever changes were introduced during the implementation of twinning programs cannot be judged for the reasons given above. The FIDP project was also intended to promote sustainability through the establishment of stable relations with Western (EU) banks and, indeed, before the bank crisis there were signs that this sort of relationship could have developed in at least some cases. In the present situation, it is impossible to say if these relationships could be resumed in the future.

Impact. Bank training projects have had and will continue to have a significant impact on the banking sector: IFBS alone trained over 20,000 bank staff in a few years and this is going to have a lasting effect, irrespective of the future configuration of the bank system. For both EBAS and FIDP it is impossible to quantify the impact on banks'

²³ The effectiveness of twinings has been monitored by the FIDP project management team. As of mid 1998, at least 7 twinning arrangements (out of the 13 completed or ongoing at that time) could be regarded as successful, with high marks for both the Russian banks' receptiveness and the Western twins' capabilities. The success ratio is somewhat lower in the case of Tacis-financed twinings, with 4 successful cases out of 9 twinning arrangements completed or ongoing.

²⁴ Netherlands Economic Institute, *FIDP - Mid-term Operational Review - Final Report*, 9 February 1998.

performance either because the assistance provided typically had only a very indirect effect on key variables (in the case of EBAS) or because of the early suspension of the program (in the case of FIDP). In terms of managerial attitudes, both EBAS and FIDP certainly contributed to disseminate new ideas and approaches but this positive influence appears to have been largely offset by systemic rigidities ("hearing about western banking techniques was illuminating ... unfortunately, the Russian situation is very different").

Box 7.2 - Projects Analyzed in Detail

Financial Institutions Development Project (FIDP). A US\$ 300 million plus operation jointly financed by the World Bank and the EBRD, with contributions from Tacis and some bilateral donors. The program is aimed at reinforcing the operational capabilities of a core group of some 40 Russian banks through the upgrading of IT systems and twinning arrangements with Western banks. Tacis joined the program in 1994 and is providing grant financing to cover part of the costs of twinning arrangements, with a total of ECU 14.5 million allocated under the 1994, 1996 and 1997 Action Programs (and an additional 5 million planned under the 1998 Action Program). By mid-Summer 1998 some ten twinning agreements had been finalized but only 2 had been completed. Some of the banks included in FIDP (such as *Tokobank*, *Inkombank*, *Menatep*, etc.) have been badly hit by the recent crisis, making it impossible to pass now (and most likely also in the future) any meaningful judgement about the program. Operation were discontinued in mid-November 1998 and, pending the implementation of new initiatives to support the ailing Russian bank sector (such as the recently announced "Agency for the Restructuring of Banks"), the fate of the program is not yet clear.

European Banking Advisory Service (EBAS). A demand-driven scheme providing awareness enhancing and operational advice to medium sized commercial banks, complemented by a smaller institution strengthening component supporting the Association of Russian Banks (ARB). Worth ECU 5 million, the project was implemented over the January 1996 - September 1997 period by a consortium led by *Lloyds Bank* (UK) and comprising some financial institutions & other entities (*ING Bank*, *Commerzbank*, *Price Waterhouse*, the *British Bankers' Association*). Assistance to Russian banks was delivered based on applications processed by a project management unit and consisted of 14 standard modules, covering topics such as: Assets & Liabilities Management, Credit Department Operations, Internal Audit, etc.. Most of the banks assisted under the project were satisfied with the assistance received but in several cases recommendations formulated by EU advisors were only partially implemented. A second phase of the project (worth ECU 2 million and implemented by the same contractor) is presently underway, with greater emphasis placed on the assistance to banks outside Moscow.

International Finance and Banking School (IFBS). Possibly Tacis' most successful project in the banking sector (and one of the most successful overall). The objective of this ECU 7.5 million operation was to help establishing IFBS as a center of excellence in bank training services capable of operating on a commercial basis. This was to be achieved through a combination of institution building activities (train-the-trainers courses, trainships in Europe, delivery of equipment and teaching materials, assistance in the development of curricula, etc.) to be followed by the delivery of training courses to some 4,000 bank staff. The project was professionally implemented by the *Crown Agents* (UK) in collaboration with the *European Bank Training Network* (France) over the 1992-1996 period. By mid-Summer 1998 (when fieldwork for this study took place) IFBS was still successfully operating (with some active involvement in other Tacis projects) and had trained an estimate 20,000 Russian bank staff.

8. TACIS PSD ACTIVITIES - DEVELOPMENT OF NON BANK FINANCIAL INSTITUTIONS

8.1 Background

In Soviet times non bank financial institutions were virtually non existent, with the exception of a fairly rudimentary insurance industry. The first signs of the emergence of a more sophisticated financial system appeared in the early 1990's, when the mass privatization program prompted the establishment of the first stock markets and of the so called voucher investment funds. In the same years, a series of new financial institutions were also established, ranging from government and/or donor sponsored initiatives in investment banking and project financing to grass roots initiatives in mutual credit. The main developments in these areas are briefly summarized below.

Insurance Industry. Russia's insurance industry has some features in common with the commercial banking sector, notably: some overcrowding, but with signs of a consolidation trend underway, and a small retail network. The number of registered insurance companies increased rapidly to 1500 in 1993 and 2600 in 1996, with subsequent decline (through closures and some mergers) to some 2000 by mid 1998. The number of branches is estimated to be below 7,000 units, meaning that the average insurance company can count on just 3.5 operating units. The Russian market for insurance services is still underdeveloped and total premiums are estimated to be at a modest US\$ 5 billion, of which 50-55% refer to compulsory insurance, 15-20% to life insurance and the remaining to non-life insurance. At a certain point, the market for life-insurance was propped up as a way to avoid or reduce taxation on wages (two to three months life coverage on employees were paid by employers as a form of deferred, tax-exempt wage payment) but this loophole was subsequently closed. As all other segments of Russia's financial sector, the sector was badly hit by the August 1998 default on T-bills, which accounted for an estimated 60% of total assets of insurance companies, while the ensuing devaluation has created a huge mismatch between assets (such as they are), mostly rouble-denominated, and liabilities, which are often denominated in hard currency. While immediate prospects are certainly not bright, in the long term the market has a huge growth potential, with less than 10% of potential industrial risks and only 3% of cargo transport somehow insured. As in the case of banking, so far foreign investors have been effectively prevented from playing a major role but there were plans to gradually open up the market starting in 1999. It is not yet clear if the new political leadership will be willing to keep to the original timetable.

Capital Market. The Russian capital market began to develop in 1992 with the launching of the mass privatization program. The privatization vouchers (traded through securities exchanges) and the shares of newly privatized enterprises (traded in rapidly expanding over-the-counter markets) were the key elements fuelling this process. By the time mass privatization was completed, Russia's capital market comprised some 60 licensed exchanges, with hundreds of market participants (including over 600 voucher investment funds). These initial developments took place amidst a proliferation of regulations enforced by several agencies and only in late 1994, with establishment of the Federal Commission for the Securities Market (FCSM), a clearer institutional and legal framework started to emerge. Subsequent years saw further, significant moves towards consolidation, such as: the establishment of a National Registry Company (in 1995, with direct participation from EBRD); the passing of a new Law on Securities and the strengthening of the FCSM (in April 1996); the introduction of Unit Investment Funds, aimed at attracting individual investors (in 1997); and the emergence of a new trading platform (the Russian Trading System - RTS), linking brokers in Moscow and in many other locations. Despite these achievements, the Russian capital market continues to operate on very fragile foundations, with the rapidly increasing level of sophistication of many operators dramatically at odds with the underlying trends in the enterprise sector. These fundamental weaknesses have been unambiguously exposed over the last two years, when the 1997 unprecedented "bull run" (market capitalization rose three times in a matter of months, with daily trading volumes in the order of US\$ 200 million) was rapidly followed during 1998 by one of the world's most punishing corrections (with the RTS Index falling from 569 to about 40 and daily trading volumes reduced to a scarcely perceptible US\$ 200,000).

Specialized Financial Institutions. The emergence of a capital market was paralleled by the establishment of a number of financial institutions catering the needs of different segments of the Russian economy and society. In the area of investment banking (broadly defined), around the mid 1990's several commercial banks started to establish the so called investment departments, intended to support newly privatized enterprises in their search for investment financing (but then, more often than not, ending up being busy in T-bills trading). This was paralleled by similar

initiatives from the government and international financial institutions, with the launching of some government-sponsored schemes or institutions also intended to play a role in allocating and/or mobilizing scarce domestic investment resources and with the EBRD and the IFC investing considerable funds in the establishment of venture capital vehicles²⁵. At the other end of the spectrum of financial sophistication, efforts have been made to revive the old tradition in mutual credit. Over the last few years, an estimate 250-300 credit unions have been established, representing a first attempt to build an alternative to traditional banking services in terms of both savings mobilization and small scale credit operations.

8.2 Tacis Activities - Description

Overview. Tacis' first initiatives in the development of non bank financial institutions date back to 1991, when a few projects were included in first Action Program for the then still existing Soviet Union. Despite this early beginning, resources allocated have been limited: overall, in the 1991-97 period covered by this evaluation Tacis invested only ECU 17 million in this sector, equivalent to some 8% of total allocations to PSD. The main initiatives are briefly summarized in Table 8.1. Some additional assistance has been provided through the "Bangkok facility" and the European Expertise Service program.

Objectives. The diversity of activities and institutions encompassed by the notion of non banking financial sector is obviously reflected in Tacis' objectives. On the one hand, similarly to what done in the banking sector, activities have been aimed at enhancing the interface between the "real" and the "financial" sides of the Russian economy, in order to remove the obstacles encountered in the mobilization of investment finance. In turn, this sectoral objective, has been translated in operational terms into two more specific objectives, namely: i) the establishment of local investment banking capabilities, and ii) the improved functioning of capital markets. On the other hand, the development of the insurance industry and that of mutual credit schemes have been regarded as worthwhile objectives *per se*, in consideration of the wide potential economic and social impact of these activities.

Activities and Strategy. Tacis initiatives in support of non bank financial institutions have included a mixture of activities: hands on support to some operators, training and support to training centers, policy and legal advice to regulatory bodies. These different activities have been deployed in different combinations in the various sub-sectors. In particular:

- in the insurance industry, Tacis has been primarily involved in the strengthening of educational institutions (Finance Academy, Moscow University, etc.) providing specialized training in insurance-related topics, with some further assistance in the form of strategic advice at sector level;
- in the area of capital markets, Tacis has adopted a mixed approach, combining: i) the provision of training to market operators (brokers, fund managers, stock exchange personnel, etc.), with ii) operational assistance in the preparation of some pilot deals (which, in turn, are aimed at providing some on-the-job training to relevant institutions and at achieving some "demonstration effect"), and with iii) institution building activities for supervisory authorities;
- in the area of specialized financial institutions, Tacis projects have been largely devoted to the provision of hands on assistance in the establishment and start up of new operational entities (the Russian Project Finance Bank, the Russian Industrial Investment Foundation, etc.) or of umbrella organizations of operational units (the Russian Credit Unions League)

Most Tacis initiatives in this sector are "classical", TA projects, targeted at one (or more) specific partner organization(s). Only with the 1997 Action Program this approach was partly abandoned with the inclusion of a "facility-type" operation, the Capital Market Investment Advisory Service (INVAS), designed to operate on an on call basis in a way similar to that adopted for the EBAS scheme in the banking sector.

²⁵ The EBRD alone has committed over US\$ 300 million in 11 Regional Venture Funds established throughout Russia. Other significant resources have been invested in (or committed to) other, more commercially oriented investment funds (such as the Framlington Russian Investment Fund, the Russian Technology Fund, etc.)

Table 8.1 Main Tacis Initiatives in the Development of Non Bank Financial Institutions

| Project | Action Program | Budget (MECU) | Description |
|--|----------------|---------------|--|
| Russian Project Finance Bank | 1991 | 6.7 | Hands on managerial support, advisory services and training program for staff of this newly established, EBRD-sponsored financial institution |
| Study on Insurance Sector | 1991 | 0.3 | Sector study and identification of options for development |
| Insurance Training I | 1991 | 2.4 | Institutional support (training of teachers, resource centers); establishment of Master level courses; training for practitioners |
| Assistance to Stock Exchange | 1991 | 0.3 | Advisory services |
| Legal Assistance to Securities Market | 1991 | 0.3 | Advisory services |
| Training for Stock Exchange Operators | 1992 | 1.7 | Training courses for stock exchange operators |
| Development of Credit Unions | 1992 | 0.8 | Organizational and operational support to the Russian Credit Unions League. Assistance in the establishment of a credit insurance company |
| Support to Investment Promotion Schemes | 1993 | 1.5 | Institutional strengthening of newly established investment houses and investment departments of commercial banks |
| Training for Stock Exchange Operators and Financial Intermediaries | 1995 | 0.5 | Training courses to practitioners. Introduction of distance learning techniques |
| Capital Market Support | 1995 | 3.9 | Advisory services and training in trading systems, depository arrangements, derivatives, etc. |
| Corporate Finance & Post Privatization Support | 1995 | 3.7 | Training to practitioners (brokers, managers of investment funds, etc.). Support to 5 pilot transactions (preparation of prospectuses, trade sales, etc.) in connection with second wave privatization (Moscow, Ekaterinburg, Vladivostok, Novosibirsk, Kazan) |
| Insurance Training II | 1996 | 1.5 | Further institutional support to educational institutions (insurance research center, insurance resource center, etc.). Training to practitioners |
| Capital Market Investment Advisory Services (INVAS) | 1997 | 4.0 | Advisory services (various modules covering IPOs, custodian services, etc.) provided through demand driven mechanism. Training in Moscow and the regions |

Coordination with Other Donors. This sector provides an early example of cooperation between Tacis and the EBRD (the "Russian Project Finance Bank" project, see comments in the text below and Box 8.1). In capital markets development, the international financial institutions have clearly played a leading role, with operations totalling an estimated US\$ 200 million, leaving only a marginal role to Tacis. In contrast, in the insurance industry, Tacis has been one of the few donors to provide continued support (the Know How Fund also did something but at a much smaller scale and in a much more episodic way) and this seems to provide an opportunity for a more catalytic role in the future. The same largely applies to the development of mutual credit schemes, where Tacis early support (now continued under more socially oriented initiatives) is being followed up (but on a still limited scale) by some bilateral donors.

8.3 Tacis Activities - Evaluation

Relevance. Given the rudimentary nature of Russia's financial system in the beginning of the transition process, any action aimed at increasing its diversification and deepening is *a priori* relevant. This statement is however subject to some qualifications. Certainly appropriate are the initiatives in support of the insurance industry, because of its importance as a provider of services to the enterprise sector and as a future institutional investor, but also because of the strategy adopted, rightly centered on the development of local capabilities within already well established and reputable institutions. Also appropriate is the assistance provided to the mutual credit movement, that should be regarded not only as a way to diversify the range of banking services available to the population at large but also as a potentially powerful instrument to provide support to small scale business activities, as suggested by the experience of several countries.

A bit less obvious is the appropriateness of actions in support of capital market development. Certainly, the prospective strengthening of supervisory capabilities within the Federal Commission for the Securities Market can only be regarded as a favorable development, and the same applies to the upgrading of skills of market operators. Still the nature of the Russian capital market (to quote an observer: "in the stock markets there is always a gambling element but Russia's it's a real casino") makes it difficult to foresee in a not too distant future a significant role in the mobilization of resources for investment purposes²⁶. Furthermore, Tacis actions in this field are of necessity: i) of a limited scale (compare Tacis' ECU 4 million Capital Market Support project with the World Bank's US\$ 89 million Capital Market Development project), ii) limited to the provision of TA (while in some cases significant capital investment is required to develop trading platforms and related information systems), and iii) not supported by the leverage required to negotiate conditionalities on key reforms.

Effectiveness. No sweeping summary statement is possible, given the extreme diversity of projects in this sector and, equally important, because several projects are still ongoing. Among the projects analyzed, insurance training has been reasonably effective, and Russian capabilities in this area have been effectively enhanced. The same applies to the project supporting the credit unions' umbrella organization, whose operational capabilities have also been improved. In the area of investment financing schemes/organizations, the Russian Project Finance Bank is fairly active in structuring deals (in oil & mining, but also in manufacturing) but other beneficiaries of Tacis support (Russian Industrial Investment Foundation, Russian Finance Corporation, etc.) have not made themselves visible. As for initiatives in capital market development, apart from an early training project which had to be discontinued because of major problems with the beneficiary, the other initiatives are still ongoing and difficult to evaluate.

Efficiency. Tacis projects in this sector provide excellent examples of extreme situations. On the one hand, the project assisting the Russian Project Finance Bank appears as one of most expensive TA operations ever encountered in our career: indeed, Tacis' allocations of ECU 7 million were supplemented by significant contributions from other donors (USAID, Know How Fund, and Canada), bringing the total TA budget to an estimated US\$ 12 million (to be compared with RPFB's present turnover of not more than US\$ 7 million). On the other hand, the Development of Credit Unions project achieved significant results with a budget of less than ECU 1 million (a rarity, for Tacis). In a similar vein, insurance training was carried out in an efficient way by a non-commercial contractor (the *Comité Européen des Assurances*), whose commitment to the project was *inter alia* demonstrated by the low level of fees charged (basically, just a reimbursement of personnel costs).

Sustainability & Impact. Here again, the diversity of initiatives and the fact that some projects are still ongoing prevent any definite assessment. Although established at a high cost, the Russian Project Finance Bank has been regularly posting profits since 1995 and is positively contributing to the development of the indigenous investment banking profession. In the field of the mutual credit, the Tacis project seems to have had an impact on the process of formation of credit unions but the long term sustainability of the umbrella organization is still doubtful (although the probability of success was certainly enhanced by the unusual gesture of one of the contractors, who decided to donate some US\$ 300,000). In insurance training, the recipients of Tacis support are well established educational institutions and sustainability of project results does not raise concerns, while a significant impact on the level of skills in the industry will take a considerable time to materialize.

²⁶ Neither this has to be necessarily the case: after all, in some European countries significant sections of the industrial sector have been able to finance growth to very high levels without much reliance on stock markets. The best examples in this sense are Germany's *Mittelstand* and Italy's *piccole e medie imprese*, whose participation in capital markets has been extremely modest for decades.

Box 8.1 - Projects Analyzed in Detail

Insurance Training. An ECU 2.4 million project implemented by the European insurance industry association (*Comité Européen des Assurances*) in collaboration with three distinguished Russian educational institutions: The Moscow State University, The St. Petersburg University of Economics and Finance, and the Finance Academy. Aimed at strengthening indigenous capabilities in insurance training, the project included some train-the-trainers activities, the development of curricula for master level courses, the establishment of resource and research centers at the beneficiary institutions, and some training to practitioners. Thanks to the commitment shown by contractor and Russian beneficiaries alike, the project was largely successful (although the training to practitioners was not fully satisfactory). A second, follow up project is presently underway.

Russian Project Finance Bank (RPFB). An ECU 7 million project supporting the development of one of the first Russian investment houses. RPFB was established in 1992 upon initiative of the EBRD and with the participation of some large Russian shareholders (Gazprom, Aeroflot, the now defunct Tokobank, etc.). Implemented by a consortium led by the consulting arm of *ING Bank*, the project mainly consisted in the secondment of half a dozen of long termers acting as resident managers, plus some training for the Russian staff. Through these activities the RPFB's Russian staff received an early exposure to western management practices and techniques but the marginal returns from having expatriate managers in charge declined steadily during the course of the project. In early 1995 RPFB proposed a re-allocation of remaining project resources to bring in more relevant expertise but their requests remained unanswered and the project was somehow completed towards the end of 1996. In mid-1998 RPFB was alive and reasonably well, having participated in the structuring of some 40 deals over the 1993-97 period. The Tacis project followed preparatory work financed by the Know How Fund and was implemented in parallel with other assistance from the US and Canada, bringing the estimated total value of TA allocated to RPFB to the non negligible amount of ECU 10 million.

Development of Credit Unions. An ECU 850,000 project included in the 1992 Action Program and implemented by two entities active in non traditional banking, Netherlands' *Rabobank* and the *Irish League of Credit Unions* (ILCU). The project was aimed at supporting attempts to revive the Russian credit unions movement by assisting its umbrella organization, the Russian Credit Unions League (RCUL). The project was flexibly implemented adapting the largely outdated TOR to the reality found on the ground and an excellent relationship developed between the beneficiary and the Tacis contractors. In particular, ILCU was instrumental in helping RCUL to establish international contacts (with the founding of a "Russian Club", also comprising the French Canadian and the Australian credit unions) and, reportedly, is even providing financial support to RCUL while this organization is trying to become self sustainable. Another Tacis project, with a more social orientation, is presently extending some support to RCUL.

9. MAIN FINDINGS & RECOMMENDATIONS

9.1 Introduction

In this Section we summarize the results of the analysis carried out in the preceding parts of the study and formulate the relevant recommendations for future Tacis actions. The main findings are presented in Section 9.2; Section 9.3 formulates some general recommendations regarding the overall approach; finally, Section 9.4 through 9.7 contain some more specific recommendations at the "sectoral" level.

9.2 Main Findings

The main results of the evaluation of Tacis' activities in the various "sectors" are summarized in Table 9.1. Based on these findings, the following main conclusions can be drawn:

- standard restructuring advice to operators (be they banks or privatized enterprises) has achieved limited results, often at a high cost. The advice dispensed by the ESCs, EBAS, and other schemes was useful in the early phases to spread the word about "market economy fundamentals" but the marginal returns from these activities have declined rapidly. No doubt, there are plenty of Russian operators who still show little inclination towards real restructuring but this is a rational reaction to the distorted incentives mechanism they face, not the result of unawareness of the fundamental concepts of management in a market economy. In these conditions, the idea of precipitating effective restructuring through consultants' advice is largely illusory;
- still TA to enterprises was relevant and effective whenever: i) it was well targeted at specific outcomes (i.e. the development of a specific product aimed at a certain market, as opposed to the generic "restructuring" of a monster company with 20,000 plus workers), and/or ii) it was implemented by fellow industrialists in the same trade (as in most military conversion projects) or by consultants who, besides report writing abilities, displayed solid capabilities in business development. In these cases, Tacis projects may not have had a systemic impact but were still capable of yielding very useful results;
- institution strengthening activities were successful when targeted at well established organizations with a non transitory interest in the relevant subject matter, as in the case of the educational institutions involved in insurance and bank training projects. Initiatives aimed at establishing new institutions or involving organizations reflecting a certain political climate (such as the Russian Privatization Center) were much less successful. An apparent exception is represented by projects in SME development, where the relatively successful SMEDAs are indeed largely newly established entities. But in this case Tacis could rely on a strong, highly committed local counterpart such as the Russian Agency;
- assistance provided in politically sensitive matters, such as privatization and major areas of legal and policy reform, appears to be of little use if not backed, as it is in the case of Tacis, by some conditionalities. The problem in nowadays Russia is rarely the lack of knowledge about what should be done but rather the lack of political consensus²⁷. If and when a window of opportunity for expert advice arises, then timeliness is of crucial importance and this can be rarely achieved with Tacis' mainstream projects;
- relevance of Tacis activities is sometimes limited by attempts to replicate Western instruments and institutions and/or to follow the more recent, fashionable developments. The emphasis lately placed on the development of Russia's capital markets, whose sophistication already far outstretches developments in the enterprise sector, is an example in point. Another example is the emphasis placed on the establishment of Business Communication Centers to facilitate improbable exchanges between newly born Russian SMEs and their European counterparts, through the use of electronic databases, web pages, and the like;

²⁷ This point was neatly made by the Polish Prime Minister, Mr. L. Balcerowicz, in a recent interview: "The problem in Russia is not intellectual .. there are plenty of people who know what to do. The problem is how to create a political base". *International Herald Tribune*, October 27, 1998.

Tab. 9.1 Summary of Main Findings

| | Privatization and Market Infrastructure | Military Conversion | Enterprise Restructuring | SME Development | Bank Restructuring | Other Financial Institutions |
|-----------------------|--|---|--|--|---|--|
| Relevance | Very high <i>a priori</i> relevance, but TA efforts in politically sensitive areas are structurally exposed to vagaries of Russia's political situation. Also, limited ability to select the right counterpart and to pick-up the right timing | Highly relevant overall objective of preserving Russia's R&D capabilities translated into realistic specific objectives in about 50% of projects | TA-driven enterprise restructuring efforts can achieve little in the "wrong" environment. Also, too much emphasis on establishment of multipurpose entities (ESCs) as opposed to sector-oriented initiatives | SMEDAs are useful to compensate for the lack of grass root entrepreneurial organizations. BCCs are probably too sophisticated for Russian SMEs. Efforts in SME policy affected by political instability | Very relevant initiatives in bank training (right counterparts & timing) but TA-driven bank restructuring efforts can achieve little in the "wrong" environment, despite the use of appropriate instruments (bank twinings) | Usefulness of support to capital market development and government-sponsored investment schemes is doubtful. Insurance training and assistance to mutual credit definitely appropriate |
| Effectiveness | Few results achieved so far (e.g. accounting law) but several projects still on going | Positive, tangible achievements whenever projects identified realistic objectives. Effectiveness enhanced by involvement of industrial contractors with strategic interest in project results | Projects aimed at restructuring selected enterprises had a 25-30% success ratio. Success ratio is lower in ESC projects. Effectiveness enhanced by contractors with contacts in business circles | At least one third of SMEDAs established are doing a good job; others are in progress or mediocre. Modest improvements in SME policy environment | Bank training capabilities effectively established. Restructuring advice formally appreciated by banks but limited implementation of suggested measures | Best results in insurance training and mutual credit, with involvement of non commercial contractors. Achievements in other areas are mixed (some projects still ongoing) |
| Efficiency | Successive, short term assignments of the EES-type could provide more value for money than large, mainstream projects | Unit costs per enterprise assisted (MECU 1-1.5) are higher than in "generic" enterprise restructuring, due to higher technical content and provision of equipment | Unit costs per enterprise assisted in the MECU 0.3-0.7 range. Large variations in costs of ESC projects suggest that savings could have been made | Early SMEDA network projects were cost effective (ECU 350,000 per SMEDA established). Efficiency partly declined overtime (some debatable locations, excessive staffing) | Training projects very cost-effective. Moderate to low cost effectiveness of direct assistance to banks | Some very cost effective projects (insurance & mutual credit) contrast with some very high cost operations |
| Sustainability | Sustainability of projects results is constrained by political factors beyond Tacis' control and hampered by the brain drain afflicting cash starved Russian institutions | Sustainability of achievements limited by difficult financial conditions of some beneficiaries. Crucial role of EU industrial contractors in the industrialization and commercialization phases | Whatever results were achieved in major restructurings appear to be sustainable. Financial self sustainability of ESCs is doubtful | Unlike ESCs, SMEDAs were established with sustainability in mind. Not all will survive but limited casualty ratio so far. Results achieved in SME policy exposed to reversal in present political conditions | Training institutions are well established and will stay afloat. Sustainability of results achieved in individual banks will depend on developments after the bank crisis | Beneficiaries of insurance training projects are well established institutions. Sustainability of results in other areas is more debatable |
| Impact | Little discernible impact on the overall reform process largely because policy dialogue is conducted by consultants with low level counterparts | Some good prospects related to the development of new products but little impact on enterprise performance so far | Some examples of impact on enterprise performance but most assisted companies are still in dire straits. Persistent reliance on EU experts may result in crowding out of local private consultants | Some impact presumable whenever SMEDAs have reached a critical mass of clients (5-10% of SMEs in a certain area). Also some useful advocacy work and promotion of self help organizations | No visible impact on bank performance while bank training institutions have already contributed to raise level of skills in the profession | Impact of training projects will take time to materialize. Some improvement in investment banking capabilities. Other projects still largely ongoing |

- coordination with other donors and international financial institutions was attempted and achieved in a number of cases, but more could have been done. On the one hand, Tacis realistically decided to abandon its independent strategy in the field of bank restructuring and accepted to join forces with the EBRD and the World Bank within the framework of FIDP (and if things did not work as planned because of the gross underestimation of fundamental weaknesses in the Russian banking sector it is not the Tacis' fault). On the other hand, there was little exchange of information within the donor community on several topics: in particular, before venturing into its mass scale program aimed at the establishment of Enterprise Support Centers (which alone absorbed one fifth of all allocations to PSD), Tacis could have learned some useful lessons from the USAID's (largely negative) experience with the similar Business Support Centers.

9.3 Recommendations - Overall Considerations

From Classical TA Projects to Facility-Like Initiatives. Tacis capabilities in project identification and preparation are limited. In the past, these weaknesses often resulted in the wrong identification of local partners and in inadequate terms of reference (sometimes too generic, sometimes too prescriptive). In the area of assistance to operators these problems can be alleviated through an extensive use of "facility-like" projects. Tacis has become increasingly aware of this problem and indeed, starting with 1995, there has been a trend towards demand-driven schemes, with the launching of projects such as EBAS, INVAS and TERF. This approach should be maintained and generalized in future programs. Certainly, the adoption of a demand-driven approach does not automatically ensure success (EBAS, for instance, suffered from other problems) but it introduces a degree of flexibility that can compensate for weaknesses in the early phases of the project cycle and for unexpected changes in operating conditions.

From Free of Charge TA to Cost Sharing Mechanisms. Tacis projects targeted at operators (be they enterprises or financial institutions) have suffered from the adverse selection mechanism typically affecting donor-financed activities. On the one hand, since assistance was free of charge, the commitment of beneficiaries was often limited and they did not feel particularly compelled to implement recommendations. On the other hand, some of the good potential "clients" may have tended to stay away from what were sometimes perceived as "help desks for lame ducks". In the early days of Tacis the use of free of charge TA was probably unavoidable but as operators become more familiar with the concept of external support, cost sharing mechanisms should be introduced. A first move in this direction was made with the "Tacis Enterprise Restructuring Facility" (TERF) project, presently under implementation. The institutional arrangements for this scheme appear less than satisfactory, largely reflecting the typical EU obsession for *ex ante* controls (two contractors appointed: one for the delivery of the real thing, the other to supervise the first; on top of that, both the beneficiary organization and the Tacis Coordinating Unit are involved in the selection of participating companies). Still, this is a welcome development and lessons from this first experience could be used for further, similar schemes. The systematic introduction of cost sharing mechanisms would also have the additional benefit of diminishing the risk of crowding out Russian private consulting companies, who otherwise will continue to face an unfair competition from international consulting firms, whose expansion into the Russian market has been effectively subsidized by donor-funded contracts.

Increased Role of EU Operators and Business Circles. "Consultants are useful, but there is no better way to learn than from a colleague". This statement (from a Russian banker, but it can be extended to other sectors) neatly summarizes the case for a substantial role of EU operators and business associations in the implementation of Tacis projects. EU industrial enterprises have already been extensively involved in military conversion projects, some EU commercial banks have been involved in the bank twinning program, and European sectoral associations have already professionally implemented projects in insurance and mutual credit. This approach should be extended, first and foremost through the involvement of EU industrial companies in enterprise restructuring at large (see Section 9.5). Other opportunities for the participation of EU business circles could emerge in the support to newly established Russian regional and trade associations (see Section 9.6) and from a renewed thrust towards bank twinings (see Section 9.7).

Increased Use of Local Expertise. While considerable resources have been invested by Tacis in training, study tours and other human resources development activities, Tacis projects have themselves made a limited use of local expertise. Certainly, Russian personnel was involved in most projects, but preference was often given to well connected individuals, whose main function was to serve as facilitator, and/or to individuals well versed in English but often with inadequate professional and managerial capabilities. This negatively impacted on the effectiveness of some initiatives. A more substantial participation of Russian professionals (and consulting firms) should be sought in

future Tacis PSD initiatives. But this would first require a modification of regulations regarding the remuneration of local staff. Presently permissible levels of fees for Russian experts (ECU 90/day, increased to ECU 150/day in the case of employees of European companies) are below market levels in the main urban areas and for some professions (lawyers, financial specialists) and are not sufficient to secure the services of well qualified experts. Even in cases where existing fee levels do not seem to constitute a constraint (typically, projects requiring less specialized expertise implemented in the regions), formal limitations on the remuneration of Russian consultants are resented as unjustified and discriminatory.

9.4 Recommendations - Privatization & Market Infrastructure

Low Priority & Emphasis on Small, Timely Projects. Actions in privatization and market infrastructure have been a comparatively low priority for Tacis, with investments totalling a mere 6% of total allocations to PSD initiatives. Given: i) the persistent uncertainty in Russia's political situation and ii) the intrinsic difficulty in establishing an adequate policy dialogue without strong political backing (Tacis' consultants are pretty much on their own when implementing projects), this low priority appears fully justified and should be maintained in future programs. This should be coupled with a renewed emphasis on small projects implemented through special facilities, such as the European Expertise Service, to be preferred over the classical TA projects, whose preparation is cumbersome and who could well come on stream when the window of opportunity for a certain reform has passed. If anything, care should be taken that the European Expertise Service retains its original ability to quickly react to needs as they arise and that the increasing complexity of approval procedures for new EES projects does not alter the very nature of this instrument.

9.5 Recommendations - Enterprise Restructuring & Military Conversion

From Classical TA Projects to Industrial Cooperation. The limited results achieved by classical enterprise restructuring projects have recently prompted a re-orientation of Tacis activities towards the facilitation of industrial cooperation. This is signalled by the inclusion in the 1988 Action Program of the "Tacis Industrial Cooperation Initiative", a "facility-type" project specifically aimed at supporting EU-Russian industrial cooperation on a systematic base. Based on applications submitted by Russian and EU companies, this ECU 6 million initiative is intended to finance activities related to the start up of new initiatives (from market studies, to due diligence of prospective Russian partners, to legal assistance), with Tacis funding covering up to 30% of relevant costs. This is definitely a welcome development, capitalizing on the experience gained with military conversion projects and in line with the opportunities offered by the Partnership and Cooperation Agreement. Yet in order to fully exploit the potential of the instrument, additional efforts are required. First, an effective dissemination of information regarding the initiative should be envisaged, since industrial companies potentially interested in the scheme cannot be expected to regularly look at the Tacis web site or at the EU Official Journal. This would require well targeted "promotional" efforts vis-à-vis business associations at the Member State level, possibly relying on the collaboration of some well placed intermediaries (consulting firms known for their contacts with the business community, EU financial intermediaries already active in the JOP, JEV and ECIP programs). Second, the business oriented philosophy of the new instrument should also be reflected in the tendering procedures and reporting requirements, in order to avoid delays and excessive complexities that would only have the effect of discouraging the best industrial partners.

Revive the Sectoral Approach and Greater Technical Content. The 1996 and 1997 Action Programs have marked a return to the early sectoral approach, with the launching of initiatives in the textiles and furniture industry. This is again a welcomed development, since the sectoral orientation is likely to facilitate business development activities and the dissemination of results. The revived sectoral approach could be coupled with initiatives with a greater technical content, often overlooked in previous Tacis activities (with the exception of military conversion projects). In this context, particular attention should be devoted to the possibility of launching initiatives regarding:

- the establishment of sectoral "centers of excellence", which in due course could develop networking relationships with similar EU institutions;
- quality certification, possibly along the lines of the experience accumulated with similar projects (financed by Phare and other donors) in East European countries.

Re-Orient Future ESC Support Initiatives. As mentioned in Section 5, further support to enhance the chances of survival of Enterprise Support Centers is expected to come under a new ECU 4 million operation included in the

1998 Action Program. The project is intended to finance "the intensive training of the local staff", the development of an electronic network among the ESCs and, most importantly, a pool of short term European experts who would support the Russian staff in winning and implementing assignments with commercial clients. While Tacis' desire to salvage as much as possible from its single largest investment in PSD is understandable, this cannot constitute the only rationale for the investment of additional, significant resources and the project should be re-oriented. In particular, the scope of the project should be enlarged to make eligible for support not only the ESCs but also genuinely private Russian consulting companies, with assistance to be allocated through some form of tendering process. In this way, the more active and well deserving ESCs would still be able to get support, while the project would not result in yet another form of unfair competition to Russian consultants. In line with this approach, the project partner presently identified in the Action Program (the association of ESCs) should be replaced with a more neutral entity and the project should be implemented by a contractor with no previous involvement in ESCs.

9.6 Recommendations - SME Development

From SMEDAs to Business Associations. The SME Development Agencies were the answer to the lack of SME support structures in the early phases of the transition process. And indeed, although not everything is working perfectly, the SMEDAs established by Tacis have fulfilled an useful function. In the meantime, partly thanks to the efforts deployed by some SMEDAs, conditions for the establishment of grass roots entrepreneurial organizations have become somewhat more favorable and the first examples of associations genuinely representative of SME interests are beginning to emerge. This creates a new window of opportunity for Tacis to deepen and consolidate its presence in SME development. Future Action Programs could therefore include activities aimed at providing:

- support to those SMEDAs more actively involved in the establishment of self help business associations, with the financing of promotional materials and activities (model statutes of association, standard information packages for the establishment of associations, basic training for officials of newly established associations, etc.);
- support to newly established local business associations, through the provision of some direct assistance and/or the involvement of EU business associations through the financing of internships and, possibly, some form of twinning arrangements;
- assistance in the establishment of regional or national trade associations (e.g. *Chambres des Metiers*) aimed at reinforcing the professional identity of members and at establishing and enforcing professional codes of conduct, also through the involvement of relevant EU counterparts.

Possible Use of Tacis Funds for SME Financing. If there is an area where the use of limited Tacis resources for purposes other than technical assistance could be appropriate this is SME development. Lately, Tacis has been providing some TA to the Federal Fund for Small Business Development but what is really needed is some real investment money to support the SME development process. The present situation is such that in some *oblast* even limited financial resources (say, around ECU 2 million, i.e. the cost of one ESC) could make a significant impact on the development prospects of many SMEs while at the same time giving Tacis a much greater visibility (and leverage vis-à-vis local authorities) than any sort of technical assistance initiative. Several options could be explored (from the establishment of stand alone small equity funds to the topping up of resources allocated by regional authorities to the local Small Business Funds, from the participation in the capital of regional leasing companies to the establishment of public or mutual guarantee funds), each with its pros and cons, to be analyzed in detail. Such a course of action would also require a close coordination with other donors and international financial institutions to avoid overlappings and crowding out effects, but experience shows that solutions can be found (e.g. the small equity funds managed by SEAF and financed by the USAID along with IFIs). Much more important, the use of Tacis funds for investment purposes would require a modification of present procedures and operational modalities to accommodate for the needs of well functioning SME financing schemes (decentralized decision making, management by objectives, reliance on *ex post*, substantive controls rather than on *ex ante* authorization mechanisms). This is possibly the main problem, but the potentially high pay offs associated with this approach seem to justify the efforts required.

9.7 Recommendations - Bank Restructuring and Other Financial Institutions

Renewed Support to Bank Twinning. The introduction of twinning arrangements within the framework of the Financial Institutions Development Project was the most innovative step undertaken in bank restructuring in Russia.

At present, the fate of FIDP (at least as it was originally engineered) is uncertain and it is also impossible to say what will be the future configuration of the Russian banking sector. Yet, as soon as the basic conditions of stability are restored, Tacis should consider the possibility of resuming the bank twinning program. Certainly, the implementation of such a program is intrinsically complex and would require significant preparation and management efforts. First, as already demonstrated by the experience with FIDP, finding good twins is not easy. The problem cannot be addressed by making twinning arrangements more attractive in financial terms (which would only attract the attention of "professional twins", who seem to make a living out of these initiatives) but through a better dissemination of information about available opportunities among the relevant EU banking circles. This, in turn, cannot be done only out of Bruxelles but requires adequate promotional efforts at the Member State level, aimed at the national banking associations and at individual banks known for their potential interest in doing business in Eastern countries. Second, procedures governing the scheme should be conceived to allow for the flexible adaptation of twinings to real needs (not all the banks would need the same menu of activities) and, equally important given the involvement of commercial entities, for streamlined contracting procedures.

Renewed Emphasis on Insurance and Mutual Credit. The 1995-1997 Action Programs placed substantial emphasis on the development of the capital market while devoting little attention and resources to less fashionable segments of Russia's financial sector, such as the insurance industry and mutual credit. This approach does not seem justified by the potential returns of activities in the various fields and should be modified in future programs. Indeed, while the role of Russia's capital market as a source of investment financing remains very doubtful, improvements in the insurance industry could have far reaching effects (better coverage of risks, funds available for major real estate developments). In a similar vein, further developments in mutual credit could gradually lead to the establishment of a viable alternative to traditional banking, in terms of both savings mobilization and lending to SMEs. In addition, both the insurance industry and the mutual credit sector appear to offer good opportunities for the involvement of EU operators and professional associations, thereby increasing the relevance of whatever assistance Tacis could provide and helping the forging of long term cooperative relationships. A first sign of Tacis' renewed interest in the insurance sector is provided by a new initiative included in the 1998 Action Program (the "Insurance Advisory Services" project, apparently modelled after EBAS). This move should be confirmed and complemented with further initiatives in mutual credit.

ANNEX A: NOTES ON THE EVALUATION CRITERIA

A.1 Introduction

In this Annex we briefly elaborate on the evaluation criteria used in this study. An attempt is made to adapt the general concepts to the peculiarities of the task at hand, by including some examples referred to Tacis PSD activities in Russia.

A.2 Relevance

Relevance refers to the coherence of project/program objectives with identified needs and priorities and to the appropriateness and realism of the project setting. Relevance can be assessed in steps, through a sort of sequential process, by looking at: the purpose of assistance, its content, the timing, and the nature of the beneficiary organization. As for the purpose of the assistance, the key point is the possible mismatch between the objectives pursued and needs. Then, the subject matter may be relevant but the activities and/or resources provided for under the project may not be appropriate. Then, the subject and the means may be relevant but the timing could be wrong. Finally, even if everything else is appropriate, the beneficiary could be the wrong one (e.g. an institution totally deprived of political clout) or change dramatically attitude during project implementation. In practice, assessing relevance amounts to a large extent to an assessment of project design. However, relevance could be enhanced or reduced during project implementation through flexibility in adjusting to unforeseen changes in the environment or in the beneficiary.

A.3 Effectiveness

Effectiveness measures the extent to which project/program objectives have been achieved. Depending on the nature of the project (and on quality of project design) objectives may be defined more or less broadly defined. In addition, in certain situations there may be some implicit or even hidden objectives (not to be mistaken with "side effects" - see the comments below on Impact). Sometimes (actually, more often than not) objectives are mistakenly defined in terms of outputs, which instead are the necessary elements to attain a certain objective. In the case of institution building projects, the objective is typically achieved when the beneficiary has reached the capability to perform certain actions. Instead, the simple hiring and/or training of staff and the establishment of a library or resource center is not an indicator of achievement but rather an output. In the case of projects directly extending assistance to operators (enterprises, banks, etc.) effectiveness is reached when the advice, training, etc. provided by the project is actually used by the recipient organization. In other words, the preparation of a total quality manual is a mere output, whereas only the actual implementation of the procedures described in the manual indicates real achievement. In a similar vein, in a policy or legal advice project, effectiveness is measured by the actual adoption of certain measures, pieces of legislation, etc. not by the simple delivery of a learned opinion on, say, the best possible formulation of a certain article in the antitrust law. From what precedes it is clear that effectiveness should not be mistaken for a summary assessment of the performance of contractors, since it also depends upon the attitude of the beneficiary organization, as well as on external conditions beyond the control of both parties.

A.4 Efficiency

Efficiency measures the value for money of a project. Indeed, certain objectives may be achieved through different courses of actions and/or employing different resources involving, in turn, different costs. Although conceptually straightforward, relating costs to achievements may turn out to be exceedingly complex in practice. The problem is not so much with the numerator (costs, which however in the case of Tacis are not always easy to determine) but with the denominator, due to the heterogeneity of achievements. For instance, in the case of an enterprise restructuring project, achievements may range from the establishment of a well functioning marketing department to the introduction of improved cost accounting methods, and these events clearly cannot be "added up" to yield a synthetic indicator of achievement. This may lead to the adoption of some artificial unit of account, based on the notion of "successful intervention", which, however, poses the problem of the weight attributable to each item (is a successful twinning agreement with EU firm worth more or less than the re-styling of some Soviet-looking products?). Efficiency considerations are of particular interest in a comparative prospective, i.e. when comparing the "bang per buck" of two similar projects or a certain project against some accepted norm. In many cases, the achievements sought by a project may be unique and therefore no benchmark would apply (what is the right price of the adoption through different parliamentary readings of a good antitrust law?). In these cases (as well as in those where information about achievement or even outputs is not available or usable) efficiency analysis boils down to an

assessment of the cost of inputs (so many ECUs per staff day). Considerations regarding costs may be usefully complemented by a qualitative analysis, even based on casual observations. For a practitioner it is not so difficult to detect the presence of slack or of overcrowding (with too many expatriates working on the same spot) or to identify procedural bottlenecks negatively affecting the way in which resources are deployed.

A.5 Sustainability

Sustainability is usually defined as the capability of a project to continue to produce effects after its completion. Different indicators of sustainability may be used, depending on the nature of the project. In case of institution strengthening initiatives, sustainability has much to do with the attainment of inner managerial capabilities, not only to efficiently manage ongoing operations but also (and more importantly) to formulate and implement development strategies, including the capability of building up of a portfolio of products/services, of recruiting/retaining staff of adequate quality, etc. In the case of some organizations, this also translates into the credible prospects of attaining financial viability when foreign assistance would tape off (the so called financial self sustainability, very much looked after by Tacis in the case of SMEDAs and Enterprise Support Centers). In the case of projects providing direct assistance to operators (enterprises, banks, etc.) the issue of sustainability has to do with the achievement of a "critical mass" that can provide impulse for lasting changes. In other words, an increase in export sales may simply result from a one shot opportunity exploited thanks to the good connections created by an expatriate advisors (in which case sustainability is not assured) or from a change in the corporate culture, which is effectively placing emphasis on quality of products, timeliness in delivery, and the like. Sustainability can be properly assessed only after a certain period of time has elapsed but the likelihood of sustainability can often be guessed based on some crude elements (e.g. are the key people trained under the project going to stay or to go?).

A.6 Impact

Impact refers to the project contribution towards the achievement of some wider objective (direct effect) as well as to the presence of other effects on the wider project environment (indirect effects), including unintended, positive or negative, side effects. Indicators of impact vary with the nature of the project. In the case of an enterprise or bank restructuring project, one should look at the change in performance (profits, export sales, etc.) achieved by the companies directly assisted (direct effect) and, possibly, also by those not assisted but somehow exposed to the project through, say, some emulation-competition mechanism (indirect effect). In the case of projects aimed at supporting some durable policy move (say, privatization) the impact should be judged in terms of benefits accruing to the ultimate beneficiaries (are those entitled to benefit from privatization really enjoying free and unfettered property rights?). Providing an accurate, quantitative assessment of the impact is always difficult but the more so in the case of TA projects (such as those financed by Tacis). Indeed, even if some with-without (or at least before-after) comparison can be made (which is normally not the case, due to the general lack of baseline data), the performance of enterprises, banks, etc. is obviously influenced by many other forces and actions other than the TA received and unambiguously linking the latter to any variation in performance is often not possible. In these conditions, evaluators of TA projects/programs are often forced to confine themselves to more or less elaborate statements on qualitative effects, such as the impact on the process of mentality change and the like.

ANNEX B LIST OF MAIN TACIS PROJECTS IN PSD

Table B.1 Main Tacis Initiatives in Privatization and Market Infrastructure

| Project | Action Program | Budget (MECU) | Start/ Completion | Partner Organization | Contractor (Country) | Description |
|--|----------------|---------------|--------------------------------|---|---------------------------------------|--|
| Accounting and Audit Reform - I | 1991 | 0.5 | July 1993 July 1994 | Academy for the National Economy (Moscow) | Wirtschaftsprufer (Germany) | Legal advice |
| Accounting and Audit Reform - II | 1991 | 1.3 | December 1992 August 1997 | Ministry of Finance and <i>Duma</i> (Moscow) | KPMG (Germany) | Assistance to the International Advisory Board on Accounting and Audit. Formulation of draft legislation, training programs for practitioners and scholars, etc. |
| Assistance to Privatization | 1992 | 0.3 | No information | Regional Authorities (Samara) | No information | Institution strengthening (establishment of procedures & software for valuation, training and study tours) |
| Hotel Privatization | 1992 | 2.1 | May 1994 April 1997 | City Authorities (St. Petersburg) | West Merchant Bank (United Kingdom) | Strategic and operational assistance for the privatization of 3 hotels |
| Assistance to the Federal Insolvency Agency | 1994 | 2.0 | Not implemented | Federal Insolvency Agency (Moscow) | None | Assistance in formulation of draft legislation and operational guidelines. Training and other assistance (PR campaign, information system, etc.) |
| Assistance to the State Committee for Anti-monopoly Policy | 1995 | 1.5 | January 1997 January 1999 | State Committee for Anti-monopoly Policy (Moscow) | Gide Loyrette Nouel (France) | Institution strengthening (training, seminars); advice on legislation; hands on assistance on specific cases |
| Assistance to Second Phase Privatization | 1995 | 2.0 | No information (18 months) | Commission for Economic Reform (Moscow) | No information | Assistance in the preparation & implementation of privatizations through IPOs and trade sales (due diligence, strategic advice, etc.) |
| Accounting and Audit Reform - III | 1996 | 1.0 | No information (18 months) | Ministry of Finance (Moscow) | No information | Assistance in the implementation of new regulations (training materials, formulation of operational guidelines) |
| Support to Foreign Investment | 1996 | 2.5 | December 1997 December 1999 | Foreign Investment Promotion Center & State Registration Chamber (Moscow) | Asesores de Comercio Exterior (Spain) | Institution strengthening (training, procedures, etc.), policy advice and investment promotion activities |
| Assistance to the Federal Insolvency Agency | 1997 | 1.5 | Not yet started (24 months) | Federal Insolvency Agency (Moscow) | Not yet selected | Hands on assistance in implementation of pilot cases of corporate recovery. Also training and PR campaign on successful turn around cases |

Table B.2 Main Tacis Initiatives in Military Conversion

| Project | Action Program | Budget (MECU) | Start/ Completion | Partner Organization | Contractor (Country) | Description |
|--------------------------------------|-----------------------|----------------------|----------------------------------|---|---|--|
| Conversion Support to Enterprises | 1992 | 0.6 | Not known | Defense enterprises (Samara) | Not Known | Direct assistance to enterprises (marketing, general management, etc.) |
| Conversion Advisory Groups | 1992 | 4.6 | December 1993 April 1995 | Regional & City authorities (St. Petersburg, Samara) | British Aerospace Consultancy Services (UK) | Strengthening of regional/city conversion units and direct assistance to defense enterprises. project also covered Belarus and Ukraine (35% of budget) |
| Pilot Projects in Conversion | 1992 | 1.6 | 1993 1995 | Defense enterprises (St. Petersburg) | Various contractors | Direct assistance to 4 enterprises (LOMO, Arsenal, Svetlana, Krasny Oktyabr) covering marketing, strategic planning, etc. |
| Conversion to Agricultural Equipment | 1992 | 2.5 | December 1993 July 1996 | VIM - Institute for Agricultural Mechanization (Moscow) and defence enterprises | Bonifica (Italy) | Assistance in the development of new marketable equipment for agriculture and food processing. Project also covered Ukraine and Belarus. |
| Conversion to Medical Equipment | 1992 | 0.8 | September 1993 September 1994 | Ministry of Health (Moscow) | SOFRES Conseil (France) | Strategic review of medical equipment sector and identification of opportunities for conversion |
| Assistance to Arsenal | 1992 | 0.6 | September 1993 June 1994 | Arsenal (St. Petersburg) | RH&H Consult (Denmark) | |
| Assistance to MiG | 1992 | 1.0 | October 1993 October 1995 | MiG (Moscow) | Dassault Aviation (France) | Assistance in conversion to civil products for international market |
| Assistance to Lukhovitsky | 1992 | 1.5 | 1993 1996 | Lukhovitsky Machine Plant (Moscow) | AD Little (France) | Assistance identification and development of products for western market and subsequent support in commercialization |

| | | | | | | |
|--|------|-----|--------------------------------|--|----------------------------|--|
| Oil Equipment Certification Center | 1993 | 2.5 | January 1995 December 1997 | Regional authorities (Ekaterinburg) | Bechtel (UK) | Assistance in ISO 9000 certification for oil & gas equipment sector (establishment of certification body, direct support to enterprises seeking certification) |
| Assistance to Soyuz | 1993 | 1.4 | October 1994 July 1997 | Soyuz NPO (Moscow) | EXA International (France) | Training and restructuring advice, including contacts with potential Western partners |
| Restructuring of Progress | 1993 | 1.1 | November 1995 November 1997 | Progress (Kemerovo) | SGN Longinet (France) | Restructuring and business development advice for various products. |
| Conversion Helicopter Industry | 1993 | 1.7 | May 1995 December 1996 | Mil and Kamov Design Bureaus and Ulan Ude Aviation plant (Mil dropped out during project implementation) | Finmeccanica (Italy) | Technical and general business advice (certification process, organizational setting, etc.) and some equipment (CAD) |
| Restructuring and Integration of Aviation Sector | 1993 | 1.0 | January 1997 January 1998 | Enterprises in Volga region (Samara and Kazan) | TZN (Germany) | Advisory services to 4 enterprises (diagnostics, business planning, partner/investor search) |
| Assistance to Vympel | 1994 | 2.0 | September 1995 May 1997 | Vympel (Moscow) | Thompson CSF (France) | Technical and business advice for the development of a major telecom program, including partner search. Some equipment |
| Development of Ecological Monitoring System | 1994 | 0.9 | December 1995 April 1998 | Institute for Space Equipment Engineering (Moscow) | CERMA (Italy) | Technical, legal, commercial and industrial support for development of atmosphere control equipment |
| Assistance to Tupolev - I | 1994 | 2.4 | December 1995 February 1998 | Tupolev (Tomilino) | Aerospatiale (France) | Establishment of pilot facilities using CAD/CAM and CAPM technologies and related activities |
| Assistance to Tupolev - II | 1994 | 0.7 | November 1995 November 1996 | Tupolev (Moscow) | CSC Manufacturing (UK) | Assistance in the establishment of a product support organization (training, strategic business plan, etc.) |

| | | | | | | |
|---|------|-----|--------------------------------|--|--|--|
| Assistance to Beriev | 1994 | 1.1 | January 1996 April 1997 | Beryev (Taganrog) | Alenia (Italy) | Assistance in the commercialization of two new aircrafts (market study, certification, business planning) |
| Assistance to Izhorsky Zavod | 1995 | 1.2 | January 1997 September 1998 | Izhorsky Zavod (St. Petersburg) | Dresdner Management Consulting (Germany) | Advisory services in various areas (energy savings, audit, twinning, etc.) |
| Assistance to Leninet | 1995 | 1.0 | December 1996 April 1998 | Leninets (St. Petersburg) | March Consulting Group (UK) | Assistance in the development of new airborne weather radar |
| Certifiable Airborne Software | 1995 | 1.4 | January 1997 October 1998 | NIIAO - Institute for Aircraft Equipment (Moscow Region) | Sextant Avionique (France) | Assistance in the development and commercialization of certifiable airborne software (flight management system) |
| Assistance to RECORD Program | 1995 | 1.5 | Not known (18 months) | CADB (Voronezh) and Russian Space Agency (Moscow) | Not known | Assistance in the launch of EU-Russian cooperation program on rocket engines (training, market & technical studies). |
| Advice on Conversion Policies and Implementation | 1995 | 2.3 | January 1997 January 1999 | Ministry for Defense Industry (Moscow) | Tecnitas (France) | Establishment of a conversion center, direct assistance to 3 enterprises and a strategy study on civil aviation sector |
| Restructuring of Former Chemical Enterprises | 1996 | 2.0 | Not known (18 months) | Metalkim Corp. (Moscow) | Not known | Assistance (market surveys, strategic planning, etc.) to 3 potentially viable technology applications |
| European Russian Aviation Center | 1996 | 1.0 | Not known (12 months) | Ministry for Defense Industry (Moscow) | Not Known | Establishment of a center providing R&D to Russian aerospace companies |
| Restructuring of Chemical Weapons Production Facilities | 1997 | 3.0 | Not known (24 months) | Committee for Chemical & Biological Weapons (Moscow) | To be selected | Formulation of restructuring plans in connection with implementation of Chemical Weapons Convention |

Table B.3 Main Tacis Initiatives in Enterprise Restructuring

| Project | Action Program | Budget (MECU) | Start/ Completion | Partner Organization | Contractor (Country) | Description |
|---|----------------|---------------|---------------------------------|--|-------------------------------|--|
| Assistance to Association of Enterprises | 1992 | 1.1 | November 1994 April 1996 | Association of Privatized and Privately Owned Enterprises (St. Petersburg) | AT Kearney (Germany) | Originally conceived as institutional strengthening, in practice provision of services to two enterprises and seminars |
| Assistance to Wood Processing Industry | 1992 | 2.1 | March 1994 April 1997 | Roslesprom (dropped during implementation) | Federlegno Arredo (Italy) | Assistance to 6 enterprises in the furniture and wood processing sectors. |
| Negotiation Task Force | 1992 | 1.1 | June 1994 December 1995 | Russian Chamber of Commerce (country wide) | Sinclair Roche Temperley (UK) | Assistance to enterprises in dealing with Western counterparts (mainly covering legal matters) |
| EU 12 - Part I | 1993 | 4.1 | April 1994 March 1996 | Russian Privatization Center (country wide) | Arthur D Little (UK) | Restructuring advice to 5 enterprises |
| EU 12 - Part II | 1993 | 4.2 | June 1994 January 1997 | Russian Privatization Center (country wide) | McKinsey (Germany) | Restructuring advice to 6 enterprises |
| Support to Russian Privatization Center | 1993 | 1.6 | April 1994 April 1996 | Russian Privatization Center (Moscow) | Deloitte & Touche (Belgium) | Institutional strengthening project (secondment of staff), connected with the previous project. |
| Review of Iron & Steel Industry | 1993 | 2.0 | September 1994 February 1996 | Dept. for Metallurgy (Moscow and other locations) | Roland Berger (Germany) | Sector review with business planning assistance to 4 enterprises. |
| Sector Review - Pharmaceuticals | 1993 | 0.6 | February 1996 June 1997 | Ministry of Economic Affairs (Moscow) | Maxwell Stamp (UK) | Strategic review of pharmaceuticals industry and with policy advice on health care system |
| Sector Review - Car Components | 1993 | 0.8 | May 1995 October 1996 | Roskommash (Moscow) | PE International (UK) | Sector study and assistance to two enterprises (investment strategy) |
| Sector Review - Food Packaging | 1993 | 0.6 | July 1995 May 1996 | Sojuzpak (Moscow) | LDA Consulting (UK) | Sector study, symposium and assistance to enterprises |
| Restructuring of Aluminum Sector - Action I Study | 1993 | 0.3 | June 1995 January 1996 | Committee for Metallurgy (Moscow) | CRU Consultancy Group (UK) | Sector survey |

| | | | | | | |
|--|--------------|------|---|---|------------------------------|--|
| Restructuring of Aluminum Sector - Action II Urals | 1993 | 1.1 | June 1995 August 1997 | Committee for Metallurgy (Urals) | Arthur D Little (Belgium) | Restructuring assistance to two aluminum smelters (Volgograd and Ekaterinburg) |
| Restructuring of Aluminum Sector - Action II Siberia | 1993 | 1.2 | April 1996 August 1997 | Committee for Metallurgy (Siberia) | Aluminum Pechiney (France) | Restructuring assistance to two aluminum smelters (Krasnoyarsk and Bratsk) |
| Enterprise Support Centers in Urals | 1993 | 12.3 | January 1995 December 1998 | KUGI (Urals) | AT Kearney (Germany) | Advisory services to medium & large enterprises in Ekaterinburg, Cheliabinsk and Perm. |
| Enterprise Support Centers in West Siberia | 1993 1996 | 8.3 | February 1995 January 1998 April 1999 | KUGI (West Siberia) | GTZ (Germany) DFC (Spain) | Advisory services to medium & large enterprises in Novosibirsk, Barnaul, Kemerovo and Tomsk. |
| Enterprise Support Center in Voronezh | 1994 | 2.0 | December 1995 July 1999 | KUGI (Voronezh) | DFC (Spain) | Advisory services to medium & large enterprises in Voronezh. Follow up of regional initiative under the 1991 AP. |
| Enterprise Support Centers in South West Russia | 1994 | 7.0 | January 1996 August 1998 | Local Privatization Centers (South West Russia) | GOPA (Germany) | Advisory services to medium & large enterprises in Rostov, Krasnodar and Stavropol. Strengthening of LPCs |
| Enterprise Support Centers in Golden Ring | 1994 | 4.5 | April 1996 August 1998 | Local Privatization Centers (Golden Ring) | AWZ (Germany) | Advisory services to medium & large enterprises in Ivanovo and Yaroslavl. Strengthening of LPCs. To be followed up by a second phase aimed at enhancing self sustainability. |
| Assistance to Pharmaceuticals Industry | 1994 | 2.5 | January 1996 October 1997 | Russian Privatization Center (Moscow) | Boston Consulting Group (UK) | Restructuring assistance to 5 manufacturing & wholesale enterprises |
| Assistance to Textiles Industry | 1994 | 2.2 | July 1995 September 1997 | Russian Privatization Center (Moscow and other locations) | CAST (Italy) | Assistance to 8 enterprises, plus sector survey and advice to regional entities. |
| Enterprise Support Center in Kaliningrad | 1995 | 1.1 | July 1996 December 1998 | Regional Authorities (Kaliningrad) | Pohl Consulting (Germany) | Advisory services to medium & large enterprises |
| Enterprise Support Centers in Baikal Region & Assistance to Pulp & Paper | 1995 | 1.8 | Early 1998 Mid 1999 (18 months) | Regional Authorities (Siberia) | Jaakko Poyry (Finland) | Advisory services to medium & large enterprises in Irkutsk and Buriatya and support to two major pulp & paper plants |

| Industry | | | | | | |
|---|------|-----|-------------------------------------|--|--|--|
| Legal Task Force | 1995 | 1.0 | May 1997 November 1998 | Russian Privatization Center (Moscow) | Sigle, Loose, Schmidt-Dietmitz & Partners (Germany) | Legal assistance to enterprises dealing with European counterparts. |
| Tacis Enterprise Restructuring Facility (TERF) | 1996 | 6.5 | March 1998 March 2000 | Union of Industrialists and Entrepreneurs (Moscow and other locations) | IMC Consulting (UK) | Advisory services countrywide on a cost sharing basis |
| Assistance to Financial Industrial Groups | 1996 | 1.5 | End 1997 End 1999 (24 months) | Association of Financial Industrial Groups (Moscow and other locations) | CAST (Italy) | Assistance to a group of selected FIGs |
| Assistance to Non Ferrous Metal Mining | 1996 | 2.0 | Not yet started (18 months) | Department of Metallurgy (Moscow & Urals) | To be selected | Master plan for Urals region, advisory program for zinc, and accompanying actions |
| Support to Wool & Flax- Based Textiles Industry | 1997 | 2.0 | Not yet started (24 months) | Rostextil (Moscow) | To be selected | Sector surveys coupled with hands on assistance (quality enhancements, label certification, etc.) |
| Support to the Steel Sector | 1997 | 3.0 | Not yet started (36 months) | Department for Metallurgy (Moscow) | To be selected | Assistance in establishment of benchmarking system, improvement of marketing and implementation of steel agreement. |
| Enterprise Support Centers in North Russia & Golden Ring | 1997 | 3.5 | Not yet started (24 months) | KUGI & Regional authorities | To be selected | Advisory services to medium & large enterprises in Tver, Pskov, Ivanovo and Yaroslavl. |
| Industrial Cooperation Center for Wood & Furniture Sector | 1997 | 1.0 | Not yet started (12 months) | Association of Wood & Furniture Industrialists | To be selected | Establishment of a center to foster cooperation between Russian and EU enterprises. |

Table B.4 Main Tacis Initiatives in SME Development

| Project | Action Program | Budget (MECU) | Start/ Completion | Partner Organization | Contractor (Country) | Description |
|--|----------------|---------------|------------------------------|---|--|---|
| SMEDA and BCC - Moscow & St. Petersburg | 1992 | 5.3 | December 1993 June 1996 | City and regional authorities (Moscow, St. Petersburg) | Chamber of Commerce - Amsterdam & KPMG (Netherlands) | Establishment of a SMEDA and a BCC in each location |
| Further Support to SMEDA and BCC - Moscow & St. Petersburg | 1995 | 0.7 | June 1996 September 1997 | MADE (Moscow) SMEDA (St. Petersburg) | Chamber of Commerce - Amsterdam & KPMG (Netherlands) | Support to achieve self sustainability |
| Further Support to SMEDA & BCC - St. Petersburg | 1996 | 0.2 | 1997 - 1998 | St. Petersburg SMEDA | Venture International (UK) | Further support to achieve self sustainability |
| SME Development Policy | 1993 | 0.9 | November 1994 June 1997 | GKRP (Moscow) | EIM (Netherlands) | Institution building and advice on SME policy best practice. (studies, study tours, two regional pilot programs, etc.) |
| SMEDA Network I | 1993 | 3.8 | November 1994 June 1997 | Russian Agency (Moscow) | Focus Consultancy (UK) | Establishment/strengthening of 21 SMEDAs countrywide (Tomsk, Kemerovo, Novosibirsk, Barnaul, Irkutsk, Ekaterinburg, Perm, Chelyabinsk, Kurgan, Orenburg, Voronezh, Krasnodar, Samara, Penza, Murmansk, Syktyvkar, Archangelsk, Kaliningrad, Astrakhan, Nizhny Novgorod, Volgograd. Also direct assistance to SMEs and exchange program with EU counterparts |
| SMEDA Network II | 1994 | 2.3 | August 1995 December 1997 | Five SMEDAs (Barnaul, Kaliningrad, Krasnodar, Perm, St. Petersburg) | IDI (Ireland) | Direct assistance to SMEs in selected sectors in cooperation with the five "regional" SMEDAs |

| | | | | | | |
|---|------|-----|---|--|-----------------------------------|---|
| Business Promotion Vladimir | 1994 | 1.9 | October 1995 April 1998 | Regional authorities (Vladimir) | Gaulhofer & Partners (Austria) | Institution building & policy advice. Direct assistance to SMEs & training to consultants |
| SMEDA Network III | 1995 | 3.0 | January 1997 January 1999 (expected) | Russian Agency (Moscow) | Enterprise (UK) | Establishment and/or strengthening of 4 SMEDAs in North West Russia and Siberia (Petrozavodsk, Murmansk, Archangelsk, Irkutsk). Support to women entrepreneurs |
| Resource Center for SME Development | 1995 | 1.4 | February 1997 February 1999 | GKRP (Moscow) | Euroconsultants (Greece) | Establishment of a "resource center" (library, database, etc.); training, study tours and policy advice to GKRP staff |
| SMEDA & BCC Network IV | 1996 | 4.5 | November 1997 September 1999 (expected) | Russian Agency (Moscow) | Ramboll (Denmark) | Establishment of 4 BCC (Moscow, Cheboksary, Barnaul, Chelyabinsk) and establishment/strengthening of 4 SMEDAs (Reutovo, Novgorod, Orenburg, Schlisselburg). Also support to leasing and technology development |
| SMEDA & BCC Network V | 1994 | 1.3 | November 1997 March 1999 (expected) | Russian Agency (Moscow) | Gaulhofer & Partners (Austria) | Establishment of a BCC in Voronezh and establishment/strengthening of 2 SMEDAs (Lipetzsk, Kaluga) |
| Funds for Small Business Support | 1996 | 1.8 | 1997 1998 | Federal Fund for Small Business Support (Moscow) | Raiffeisen (Austria) | Managerial support & training to federal and regional funds for small business support. Support to leasing companies |
| SME Development in Monocompany Towns | 1997 | 3.0 | Not yet started (24 months) | GKRP (Moscow) | To be determined | Institutional & policy advice for the development of SMEs in 3 monocompany areas with high unemployment. |
| Support to SME Innovation Audit | 1997 | 1.5 | Not yet started (18 months) | Bortnik Fund (Moscow) | To be determined | Support to establishment & development of R&D based SMEs |

Table B.5 Main Tacis Initiatives in Banking

| Project | Action Program | Budget (MECU) | Start/ Completion | Partner Organization | Contractor (Country) | Description |
|---|----------------|---------------|---------------------------------|--|---|---|
| Establishment of International Finance and Banking School | 1991 | 7.5 | September 1992 February 1996 | International Finance and Banking School - IFBS (Moscow) | Crown Agents (United Kingdom) and EBT Network (France) | Support to newly established IFBS (train the trainers program, equipment, etc.) and training courses to bank employees |
| Restructuring of Sberbank | 1991 | 1.1 | 1992 1994 | Sberbank (Moscow) | European Savings Bank Group (Bruxelles) | Formulation of business plan and staff training |
| Restructuring of Mosbusinessbank | 1991 | 1.0 | December 1992 August 1994 | Mosbusinessbank | Deloitte & Touche (France) | Training and advisory services |
| Restructuring of Vneshtorgbank | 1991 | 0.4 | June 1993 April 1994 | Vneshtorgbank (Moscow) | Coopers & Lybrand (United Kingdom) | Formulation of business development plan |
| Restructuring of Promstroybank | 1991 | 0.3 | October 1993 January 1995 | Promstroybank (Moscow) | KPMG (Germany) | Formulation of strategic plan |
| Restructuring of Avtovazbank | 1991 | 0.3 | September 1992 1993 | Avtovazbank (Moscow) | Price Waterhouse (United Kingdom) | Training and advisory services |
| Assistance to Medium-sized banks | 1991 | 0.3 | No information | No information | No information | Advisory services |
| Advisory Services and Training in Tyumen | 1992 | 1.0 | January 1994 August 1995 | Tyumen State University (Tyumen) | GTZ (Germany) | Training and advisory services to local banks |
| Restructuring of Samara Agrobank | 1992 | 0.3 | No information | Agrobank (Samara) | No Information | Advisory services and training for overall upgrading |
| Advisory Services and Training in St. Petersburg | 1992 | 3.1 | February 1994 November 1996 | Association of Commercial Banks - ACB (St. Petersburg) | KPMG (Germany) and Deutsche Bank (Germany) | Institutional development of ACB. Generic and customized advice to commercial banks |
| Restructuring of Banks | 1992 | 1.7 | 1994 1996 | Sberbank, Vozrozhdenye Bank, Toko Bank, Promstroybank, Credo Bank (Moscow) | Deloitte & Touche (Belgium), European Savings Bank Group (Belgium), Westdeutsche Landesbank (Germany) | Review and/or setting up of special units (foreign exchange, information system, etc.); formulation of strategic/business plans |

| | | | | | | |
|---|------|-----|---|--|--|--|
| Automation Systems for Banks | 1992 | 0.6 | November 1993 November 1994 | Vneshtorgbank, Credo Bank, Lieks (Moscow) | Arthur Andersen Consulting & Informatique (France) | Assessment of automation requirements; development of software packages |
| Assistance to Inkombank | 1992 | 0.4 | No information | Inkombank (Moscow) | Arthur Andersen Consulting & Informatique (France) | Establishment of a model payments and settlements system |
| European Banking Advisory Services (EBAS) - I | 1993 | 5.0 | January 1996 September 1997 | Association of Russian Banks - ARB (Moscow) | Lloyds Bank (United Kingdom) | Training and advisory services in "modules" through a demand driven mechanism. Institutional strengthening of ARB |
| Bank Training | 1993 | 1.5 | February 1995 February 1997 | Sberbank Academy, Finance Academy, IFBS (Moscow) | CFPB (France) | Train the trainers, seminars, design of new courses |
| Financial Institutions Development Program (FIDP) - I | 1994 | 5.5 | Not applicable | Russian Banks | European Banks | Restructuring services through the financing of twinning arrangements with European banks |
| Financial Institutions Development Program (FIDP) - II | 1995 | 5.0 | Not applicable | Russian Banks | European Banks | Same as in FIDP I |
| European Banking Advisory Services (EBAS) - II | 1996 | 2.0 | September 1997 September 1998 (expected) | Association of Russian Banks - ARB (Moscow) | Lloyds Bank (United Kingdom) | Continuation of EBAS I, with focus on banks in the regions (St. Petersburg, Urals, South Russia). Further support to ARB |
| Financial Institutions Development Program (FIDP) - III | 1997 | 4.0 | No applicable | Russian Banks | European Banks | Same as in FIDP I and II |

Table B.6 Main Tacis Initiatives in the Financial Sector

| Project | Action Program | Budget (MECU) | Start/ Completion | Partner Organization | Contractor (Country) | Description |
|---|----------------|---------------|---------------------------------|---|--|---|
| Russian Project Finance Bank | 1991 | 6.7 | July 1993 July 1996 | Russian Project Finance Bank (Moscow) | ING Group (Netherlands) | Hands on managerial support, advisory services and training program for staff of this newly established, EBRD-sponsored financial institution |
| Study on Insurance Sector | 1991 | 0.3 | December 1992 May 1993 | <i>Duma</i> (Moscow) | Deloitte & Touche (Belgium) | Sector study and identification of options for development |
| Insurance Training I | 1991 | 2.4 | January 1994 July 1997 | Educational institutions (Moscow, St. Petersburg) | Comité Européen des Assurances (Belgium) | Institutional support (training of teachers, resource centers); establishment of Master level courses; training for practitioners |
| Assistance to Stock Exchange | 1991 | 0.3 | May 1994 January 1995 | Stock Exchange (St. Petersburg) | Norton Rose (UK) | Advisory services |
| Legal Assistance to Securities Market | 1991 | 0.3 | December 1992 September 1993 | Not known | Arbeirgenschaft (Germany) | Advisory services |
| Training for Stock Exchange Operators | 1992 | 1.7 | November 1993 October 1994 | IMEX (Moscow) | Aalborg Business College (Denmark) | Training courses for stock exchange operators |
| Development of Credit Unions | 1992 | 0.8 | April 1994 December 1995 | Committee for the Development of Credit Unions (Moscow) | Rabobank (Netherlands) & ILCU (Ireland) | Organizational and operational support to the Russian Credit Unions League. Assistance in the establishment of a credit insurance company |
| Investment Promotion - Rossya Bank/ICC | 1993 | 0.2 | February 1995 March 1997 | Rossya Bank ICC (Moscow) | DEG (Germany) | Advisory services |
| Investment Promotion - Russian Industrial Investment Foundation | 1993 | 0.3 | August 1994 October 1995 | Russian Industrial Investment Foundation (Moscow) | SIBI (France) | Institutional strengthening & training. |
| Investment Promotion - Krasnodar Bank | 1993 | 0.3 | February 1995 November 1996 | Krasnodar Bank (Krasnodar) | PNT (Germany) | Establishment of an investment facility |

| | | | | | | |
|--|------|-----|---|---|------------------------------------|--|
| Investment Promotion - RFC & SIC | 1993 | 0.7 | January 1995 June 1996 | Russian Financial Corporation & State Investment Corporation (Moscow) | IDI (Ireland) | Institutional strengthening (training, operational support) and assistance in identifying projects. |
| Training for Stock Exchange Operators and Financial Intermediaries | 1995 | 0.5 | April 1997 July 1998 | Federal Securities Commission (Moscow) | Aalborg Business College (Denmark) | Training courses to practitioners. Introduction of distance learning techniques |
| Capital Market Support | 1995 | 3.9 | October 1997 April 1999 (expected) | Federal Securities Commission (Moscow) | Dresdner Bank (Germany) | Advisory services and training in trading systems, depository arrangements, derivatives, etc. |
| Corporate Finance & Post Privatization Support | 1995 | 3.7 | December 1996 December 1998 (expected) | Federal Securities Commission (Moscow) | Société Generale (France) | Training to practitioners (brokers, managers of investment funds, etc.). Support to 5 pilot transactions (preparation of prospectuses, trade sales, etc.) in connection with second wave privatization (Moscow, Ekaterinburg, Vladivostok, Novosibirsk, Kazan) |
| Insurance Training II | 1996 | 1.5 | 1997 1999 (expected) | Moscow State University and other educational institutions (Moscow, St. Petersburg) | Not known | Further institutional support to educational institutions (insurance research center, insurance resource center, etc.). Training to practitioners |
| Capital Market Investment Advisory Services (INVAS) | 1997 | 4.0 | November 1998 November 2000 (expected) | Moscow Interbank Currency Exchange & IFBS (Moscow) | Raiffeisen Investment (Austria) | Advisory services (various modules covering IPOs, custodian services, etc.) provided through demand driven mechanism. Training in Moscow and the regions |

ANNEX C: PROJECTS REVIEWED

1. Introduction

In this annex we provide a detailed analysis of the 22 projects reviewed in detail during the study. Each project profile follows a standard format, with a short introduction, a descriptive part, and the evaluation proper (covering the usual five criteria: relevance, effectiveness, efficiency, sustainability, impact).

In two cases, the project profiles refer to groups of similar projects, namely:

- Profile #8 combines the analysis of three Enterprise Support Center projects in West Siberia, Urals and South Russia. The profile proper is supplemented by a series of appendices covering the individual centers;
- Profile #9 combines the description of five SMEDA Network projects. Here again, the profile proper is supplemented by some appendices devoted to the description of individual SMEDAs.

The information presented in the profiles usually reflects the situation found during field work in Summer 1998. Whenever relevant, efforts were made to update this information as of November 1998.

2. Privatization and Market Infrastructure

Profile #1

Assistance to the State Antimonopoly Committee

| | |
|-----------------------------|--|
| Official Title: | Technical Assistance to the Russian Federation State Antimonopoly Committee |
| Reference Number: | FINRUS9502 |
| Contract Number: | 96-5573.00 |
| Location: | Moscow (also Ekaterinburg and Rostov-on-Don) |
| Main Contractor: | Gide Loyrette Nouel (France) |
| Other Contractor: | Bruckhaus Westrick Heller Lober (Germany) and Allen & Overy (Great Britain) |
| Partner Institution: | State Antimonopoly Committee (SAC) |
| Start Date: | January 1997 |
| Completion Date: | January 1999 (expected) |
| Budget: | 1,500,000 ECU |
| Manpower: | long term experts: 37 man/months short term experts: 32 man/months local staff: 83 man/months backstopping: 21 man/months |

1. INTRODUCTION

The project is aimed at assisting the State Antimonopoly Committee (SAC), Russia's antitrust agency, at both the federal and regional levels. The project was included in the 1995 Action Program, after the passing of a new (and improved) competition law. The project started in January 1997 and was initially expected to end in July 1998. Because of delays in the inception phase, the project has already been extended until January 1999, but further extensions appear likely. Since the project is still underway, the evaluation concentrates only on a few aspects. The contractor is a French law firm (Gide Loyrette Nouel), with a permanent office in Moscow and previous experience in antitrust policy advice in Eastern countries (Poland).

2. DESCRIPTION

2.1 Objectives

The objectives indicated in the 1995 Action Program were rather generic, as the need to assist the SAC was something totally obvious and taken for granted. Reference was made to the fact that "a lot remains to be done in a country essentially built on State monopolies" and that the Committee had "already requested assistance from several donors, among them Tacis, initially through DGIV". The TOR to a large extent stayed tuned to this tone by re-stating the key points as follows:

- "to assist the SAC in strengthening its expertise and technical competence, and in furthering the cause of competition;
- to help the SAC develop into a mature institution, apt to fully play its policy role alongside other relevant Governmental bodies;
- to assist selected regional agencies in the concrete, hands-on treatment of real-life cases."

Apart from the latter point, such wording seems to mean that the "assistance to the partner institution" is *per se* "the objective" of the project. More specific and identifiable objectives are thus *de facto* delegated to the partner institution. This is not necessarily wrong, but involves some considerations in terms of effectiveness which will be discussed in Section 3.

During inception the contractor partly re-elaborated its mandate in the light of provisions included in the Russia-EU Partnership and Cooperation Agreement, by adding to project objectives the alignment of Russian competition law to EU standards “as part of the ultimate goal of establishing a free-trade area between the EU and Russia” as well as the promotion of co-operation between the Russian antitrust and its EU and member states’ counterparts.

2.2 Activities

In the TOR activities are grouped under two broad categories, emphasizing the “center-periphery” character of the project: (i) training and institution-building assistance at the SAC headquarters in Moscow and (ii) pilot assistance in two selected regions (later indicated as Ekaterinburg and Rostov-on-Don). Irrespective of geographical considerations, project activities can be summarized as follows:

- assistance in the formulation of legal texts;
- assistance in the handling of concrete antitrust cases (mainly at the legal level);
- training of SAC staff (both in-house and through traineeships with EU antitrust authorities);
- training of judges;
- establishment of a library/resource center;
- actions intended to increase SAC’s visibility (conferences, support to the journal *Konkurrent*)

2.3 Implementation

This project had a rather troublesome start and the first inception report was produced only in January 1998, i.e. exactly one year after the official starting date. According to the contractor when they got in touch with the partner institution they realized that the “TOR were completely wrong” and had to be amended on several points. Changes did not refer so much to conceptual aspects (after all, the TOR were prepared by a real expert, a high ranking official of the Polish antitrust authority) but rather to operational issues such as the need to provide financing for the SAC officers’ travel and accommodation expenses also for domestic seminars. Other significant changes involved a substantial cut in the resources devoted to economic analysis to the benefit of legal advice and the substitution of the EU librarian with a local staff to be trained on the same subject. Also, it was decided that support to the journal *Konkurrent* would be provided in form of articles rather than of editorial policy advice and diffusion improvement. Finally, there were also changes in staffing, with the initial long-term expert leaving his post after only four months.

Apart from training sessions and traineeships with EU antitrust authorities and law firms²⁸, so far activities have largely concentrated on the formulation of comments on legal texts and comparative legal analysis. The assistance on concrete antitrust cases seems to have started only in early 1998. In order to ensure an orderly development of activities, an agreement has been reached between contractor and beneficiary whereby all requests of assistance are formulated in writing, with the relevant accompanying documents. For instance, in the case of assistance on concrete cases: “the Consortium would ... expect that the selection of documents by each regional office for each case (i) does not exceed one or two pages for the summary of the relevant case and (ii) is strictly limited to prime importance documents ... these documents should be forwarded for translation [to the Moscow offices of Gide Loyrette Nouel or Allen & Overy] at least six weeks before the date of each planned visit”.

2.4 Relations Contractor/Organization

Relations between the contractor and the SAC appear good. The SAC operational staff met during our visit were quite happy with the traineeships in Europe and the workshops. Only in one case a legal opinion was reportedly formulated with some delay and therefore could not be used in court. At a more general level, the SAC (i.e. the Deputy Chairman) would like to receive more support from Russian lawyers “who are knowledgeable about the local situation”, but this is made difficult by the ECU 90/day limit adopted by Tacis.

2.5 Coordination with Other Initiatives

A number of other donors (the World Bank, USAID, the British Know-How Fund, the OECD just to mention a few) have been providing support to the Committee. This was noted by the contractor who tried to avoid possible overlapping by emphasizing the EU character of their courses. On the other hand the contractor seemed totally unaware of previous Tacis assistance to the Committee through the EES. The partner institution is expected to benefit from other Tacis initiatives in the field of supervision of state aid in the steel sector (one EES project and a component of the second steel sector project) and of consumer protection.

²⁸ The traineeships with German and British antitrust authorities, although included in the project proposal, had not been previously agreed with the relevant institutions and had to be replaced with training sessions at the consortium partners’ headquarters offices. The Task Manager tried to arrange a traineeship with the Swedish antitrust agency but without success.

3. EVALUATION

3.1 Overall Assessment

The project is relevant, although with some important qualifications regarding the beneficiary's capabilities. Being still underway, no definite judgment can be passed on other aspects but there are some doubts about its effectiveness, efficiency and, possibly, sustainability.

3.2 Relevance

Russia inherited a highly concentrated productive structure and well entrenched habits of collusion. In recent years, the establishment of powerful financial industrial groups and the emergence of autarkic tendencies at the regional level have significantly added to the original problems. The promotion of competition has always been one of Tacis' main objectives and the support to SAC is consistent with this vision. Furthermore, the project was included in the 1995 Action Program after significant improvements in competition legislation had been introduced by the Duma. Therefore, given its content and timing, the project is, *prima facie*, highly relevant.

The above favorable judgment is, however, tempered by some important qualifications:

- the SAC appears to have limited political weight. So far they have not been able to influence the course of events in a significant way (no landmark cases, to the best of our knowledge) and key issues are still the subject of political decisions at the Government/President level. One could argue that the Tacis project, by providing *inter alia* resources to increase SAC's visibility (and therefore its political weight), is precisely intended to correct the present situation. But then, a very pro active attitude from the SCA would be required;
- the Committee also seems unable to effectively prioritize activities, with the tangible risk of overstressing its limited capabilities.²⁹ For instance, while experiencing serious financial difficulties, they are also following an "expansionist" strategy. Not only are they already responsible for "standard" antitrust activities (cartels, abuses of dominant position) but they are also involved in consumer protection, advertising, regulation of commodity markets and want to be involved in the supervision of financial markets (legislation still pending before the *Duma*). Definitely much more than they can chew;
- similar considerations apply to their ability to effectively use donor support. For instance, we were surprised to learn that SAC had requested legal advice on the very same subject (possible modification to article 6 of the existing competition law) to the OECD, the EU contractor and, possibly, also to the RPC, in a matter of few months (and, for their own admission, changes to the existing law are unlikely to be approved by the present parliament).

Given the importance of promoting competition, in our opinion the above considerations do not disqualify SAC for Tacis support, but certainly pose a number of questions about the need for a close and effective supervision of project activities.

3.3 Effectiveness and Impact

The project is still on-going (roughly half-way, judging from the utilization of resources) and, quite obviously no firm conclusion can be reached. There are, however, some doubts about the usefulness of some activities (comparative analyses of Russian and EU legislation; drafting of amendments to existing antitrust legislation) to achieve project objectives. Indeed, as pointed out by the Monitoring Unit: "the original idea of the contractor was to make the program very flexible in order to respond to the emerging needs of the project partner ... however project partner is hesitant whether they are in a position to request an assistance on newly-appeared issues. Project partner is advised to adopt a more pro-active approach and contractor is recommended to return to the original intention and provide expertise for emerging issues, if necessary, by replacing some less important themes"³⁰.

3.4 Efficiency

Similar considerations apply to the use of resources. Unless Tacis consultants play a pro-active role and are involved in day-to-day activities, it is difficult to understand the usefulness of having a long term expert permanently

²⁹ This point was first noted in a special report on competition policy in Russia included in the last OECD's economic survey (OECD, *Russian Federation - 1997*, Paris, 1997). The SAC's Deputy Chairman qualified the report as "inaccurate, to say the least" but elements gathered during fieldwork tend to confirm the view provided by the OECD.

³⁰ *Monitoring Report # 1 - Comments on the Inception Phase*, 8 April 1998.

sitting in Moscow. Advice on specific pieces of legislation could be more efficiently provided by other instruments, such as the EES.

3.5 Sustainability

The project is still on-going and therefore no assessment regarding sustainability is presently possible. However, the project provides an opportunity to comment on an often overlooked problem affecting all donor-financed institution-building initiatives which: the level of wages in recipient institutions. If efforts from donors are not accompanied by a coherent wage policy in the recipient institution, results are likely to be short-lived, especially those achieved through major traineeship programs. Those staff who are exposed to long and valuable training in the West (like antitrust authorities or well-renowned law firms) often tend to put this experience to a profit by shifting to better-paid and more prestigious jobs, so that sustainability of results in terms of human capital is irreparably compromised. The Antimonopoly Committee offers a good example of this problem, since the former head of the legal department, who under a previous Tacis project was given the opportunity of a traineeship in Brussels, has left the SCA for a “more prestigious” (and better paid) job in the Central Bank.

Profile #2

Hotel Privatization – St. Petersburg

| | |
|-----------------------------|--|
| Official Title: | Hotel Privatization – Support to the Property Management Committee |
| Reference Number: | PR-RU-02 |
| Contract Number: | Not Available |
| Location: | Saint-Petersburg |
| Contractor: | West Merchant Bank (Germany) |
| Other partners: | PKF (Germany) |
| Partner Institution: | City Authorities |
| Start Date: | May 1994 |
| Completion Date: | April 1997 |
| Budget: | ECU 1.043.650 |
| Manpower: | Not available |

1. INTRODUCTION

One of the few Tacis projects in privatization, intended to support the City of Saint-Petersburg in the privatization of a group of hotels. Due to disagreements within the City administration and despite prolonged efforts the project could not achieve its objectives (although it left behind some valuable materials partly put to good use at later stage).

2. DESCRIPTION

2.1 Objectives

As the Monitoring Unit put it, “the project aimed to assist the City of Saint-Petersburg in developing a strategy for the future ownership of the principal hotels within its portfolio, including defining a role for its ownership and management functions, and assisting with introducing private sector investment into a small number of selected local hotels”. In other words, it was clear that the contractor had to go beyond mere technical assistance, and produce achievements with actual privatization.

2.2 Implementation

The contractor produced a full initial analysis of the local hotel sector, and recommended a strategy presented in a two-volume Strategy Report in December 1994. This was definitely a high quality report, containing an overview of the hotel market in Saint-Petersburg, an assessment of the City hotel portfolio with recommendation for future development and an analysis of technical and strategic issues (restatement of accounts, organizational

structures, privatization methods, labor relations and other legal issues). In this report, hotels were assessed and ranked according to their location, standard, refurbishment needs, etc. This led to the selection of the three hotels to be privatized: *Moskva*, *Pribaltiskaya* and *Pulkovskaya*. Successful training was also carried out.

For the actual privatization of the hotels *Pribaltiskaya* and *Pulkovskaya*, the contractor prepared information memoranda, recommendations and valuations, and got involved in attracting potential investors (reportedly more than 300). The External Affairs Committee emphasized the fact that the presentation to foreign investors was carried out in an outstanding way by the contractor. In spite of all this amount of work, no decision was made on how to privatize the hotels, what structure the post-privatization ownership should be, what tender procedure to follow. The project was extended by 12 months (total project duration 27 months) precisely to assist in real privatization (as well as in the establishment of a municipal holding company for remaining participations in the hotel sector) but concrete results were not achieved.

Still, the contractor's input has enabled the City to gain considerable know-how, and the officers we met explained that now only 12 hotels remain in the portfolio with more than 50% City ownership, which means that more than half of the initial portfolio has been privatized. At the time of our visit, the *Moskva* was expected to be privatized through tender in October 1998. *Pribaltiskaya* and *Pulkovskaya* should be "privatized" soon through a management contract. The City officers made it clear that this withdrawal of the City from the hotel sector is to be put on credit of what they learned from the contractor, in particular privatization process and contact with investors. Even the Monitoring Unit recognized this fact, despite its very negative overall evaluation: "the project successfully met the objective of producing a strategy for the sector in Saint-Petersburg, and even though the recommendations of the strategy have not been followed to the letter by the project partner, both the process and the product have provided a useful tool for formulating future policy. The project partner claimed that the project had directly helped the city with the development of two other hotels, the *Saint-Petersburg* and the *Karelia*, although these were not directly included in the transaction part of the project. Although the concrete objectives of actually restructuring the city's equity participation in the hotel sector, and of carrying out a limited number of privatizations, have not been met, the process has been important, and the methodical preparatory steps taken or advised upon have been very important learning processes for the three committees involved, and have provided essential exposure to western methods. Moreover, the preparation of the documentation on the two hotels, and the work undertaken with potential investors, has made the city confident that privatization can take place when a decision has been taken".

A fairly surprising aspect in this story is that a dozen hotels were privatized, but not the three selected by the contractor. This is a rather strange result, for which nobody could give a clear answer. One reason may be that the three selected hotels were on the top end of the range, whereas those privatized were rather middle range. But the presence of particularly strong vested interests certainly cannot be ruled out.

2.3 Relations with Partner Organization

Relationships with the counterparts were reportedly good. But the contractor had to deal with three counterparts, which is the main cause for the lack of commitment of the City to actual privatization. The analysis of the contribution of the project partner by the Monitoring Unit is absolutely right: "It is symptomatic of the implementation that the main result achieved, i.e. the strategy, the memoranda, and the various other recommendations made by the contractor, are all outputs which could be produced more or less independently by the contractor, and did not require any commitment on the part of the project partner. This reflects the major impediment to the success of the project, which has been the difficulty in securing agreement by the city, represented by the three different organizations involved, on any definite approach to the privatization of the hotels. The contractor noted in the reports, in the opinion of the monitors not unreasonably, that the interests of the three Saint-Petersburg institutions involved in the project, the External Affairs Committee, the Committee on Tourism and Culture, and the *KUGI* (Privatization Committee), were not identical, and led to some confusion over what basis decisions could be taken on".

As a result of this tripartite supervision by the City, no actual decision was made. And even though relationships with the contractor were good, problems with information and collecting data (from the management of the hotels) had to be coped with. The best example being that the contractor had not been informed that work had already started on the *Moskva* hotel with a Finnish company, whereas this hotel was among the three selected by the contractor for the actual privatization phase.

The reason why the project was stopped is not clear either. Of course, it had reached the end of the contract, and this is the explanation given to us at the External Affairs Committee. Another explanation refers to the fact that

the (then) newly appointed head of *KUGI* was reportedly unsatisfied with some recommendations formulated by the contractor (most notably in the area of management contracts) and therefore the assignment³¹.

3. EVALUATION

3.1 Overall Assessment

Strange case. The subject was clearly relevant but the timing and/or selection of counterparts was not appropriate. Also, the project was *stricto sensu* not effective but its outputs proved useful overtime and eventually had a significant impact.

3.2 Relevance

On the one hand, relevance of the project is obvious. As the second Russian City, Saint-Petersburg badly needs a good level hotel infrastructure for business and tourism. This infrastructure was very poor when the project started, and is still well below similar standards for comparable cities: early privatization of key hotel could have helped. On the other hand, the timing of the project was not appropriate because the counterpart was not yet ready to go ahead with privatization (or at least, with a transparent privatization).

3.3 Effectiveness & Impact

This is one case where the distinction between effectiveness (ability to achieve specific objectives) and impact (contribution to achieve the wider objective) is somewhat blurred. On the one hand, the objectives stipulated in the TOR were not achieved within the given timeframe. On the other hand, although “nothing had happened” at the end of the project, subsequent privatizations are clearly an outcome of the Contractor’s assignment. The City has gained a thorough know-how in hotel privatization, and has been supplied with very professional strategy and market study. Also, the Chairman of *KUGI* reportedly prepared proposals for amendments to the Russian Privatization Law, based on the lessons learned from the project, in particular the issue of management contracts.

3.4 Efficiency

The project was not cost-effective. It was useless to continue to finance a long-termer and a heavy structure in the field while the city administration was obviously not committed to privatization. Since the main outcome was a methodology, the financing of a market and strategy study plus some seminars on privatization methods, would have been more than enough. This does not require a ECU 1 million project with a duration of more than two years. Part of the budget could have been saved for financing the search for investors on a case by case basis when the City finally decided to go ahead with privatization.

3.5 Sustainability

Since project objectives were not achieved, strictly speaking there is no sustainability to speak about. However, the advice provided under the project was somehow used in the privatization of other hotels. Also, officers involved in the project are still working with the city administration, which somehow reinforces the long term effect of the project.

³¹ This could not be confirmed because the head of *KUGI*, in spite of our faxes and phone calls, could not be reached during fieldwork. In this connection it is worth mentioning that, though *KUGI* could indeed have had a negative reaction, one of the members of the consortium implementing the project PKF, has been involved further with hotel privatization for the City of St. Petersburg and recently prepared a development plan for the *Pribaltiskaya Hotel*. This means that either the City Officers have short memory, or that, after all, the contractor’s output was not so bad!

3. Military Conversion

Profile #3

Assistance to Leninet

| | |
|-----------------------------|---|
| Official Title: | Restructuring of the Leninet Company |
| Reference Number: | CRUS-9502 |
| Contract Number: | 96-5598.00 |
| Location: | St. Petersburg |
| Contractor: | March Consulting Group (UK) |
| Other Partners: | GEC-Marconi Radar & Defence Systems (UK), and Econa Consulting (Russia) |
| Partner Institution: | Leninet Company |
| Start Date: | December 1996 |
| Completion Date: | April 1998 |
| Budget: | 997,000 ECU |
| Manpower: | LTEs 8 staff/months STEs 31 staff/months LCs 14 staff/months |

1. INTRODUCTION

Established in the mid-1940s, Leninet used to be one of Russia's leading avionics producers. The management was fairly quick in reacting to the dramatic fall in military orders: they diversified into consumer goods (vacuum cleaners, refrigerators, etc.), established a joint venture with Gillette (razor blades and shaving sets), and even more importantly, embarked in a major restructuring process involving the corporatization of some 40 production and R&D units placed under a holding company. The holding was privatized in July 1998, with the state retaining a mere 12%. Turnover is about US\$ 200 million, with civil avionics accounting for 40% of total sales, military electronics for 25% and consumer goods for 15%.

Despite its generic title, the project had very a specific objective, namely the development of a new airborne weather radar (DUET). Although primarily targeted at two of Leninet's subsidiaries, the NIIREK design institute and the Novator production plant, the project was connected with broader restructuring plans and intended to eventually lead to the establishment of a Civil Avionics Business Unit.

2. DESCRIPTION

2.1 Objectives

As presented in the Terms of Reference (TOR), the project's overall objective was "to assist the Leninet company to bring a new range of airborne weather radar products for civil aircraft to market". The specific project objectives were

- "to provide support to marketing, definition and planning activities for the development of the family of weather radar products, including assistance and training in the fields of quality systems, avionics certification and computer simulation techniques to meet accepted western standards;
- to produce a realistic business plan and progress the design and development activity up to the product definition phase".

During implementation the TOR underwent two changes suggested by the contractor, but these did impact on the above objectives.

2.2 Activities

Project activities covered five main areas, namely:

1. Product and market analysis, involving

- technical characteristics of the proposed family of weather radars
- critical technical, operational and safety aspects

- benefits against costs for additional functions like landing aid and taxiing mode
 - home market analysis
 - export market analysis, including Central Europe where many airlines operate Russian aircrafts and Egypt
 - competitor analysis, covering company details, current products and prices, market shares, new systems in development, and joint ventures
2. Analysis of the product development process and assessment of resource needs based on
- a preliminary ISO 9000.1 audit considering the quality of outputs and processes
 - an audit of engineering and manufacturing facilities
 - the identification of the organizational, technical and procedural changes required to comply with international regulations and standards
3. Development of implementation and business plans
4. Product definition, comprising:
- review of the technical definition of the weather radar system and its major components (dual-band antenna, receivers, transmitters, systems definition, simulation, integration and testing)
 - review of proposed design for certification
 - generation of a descriptive documentation package intended for preliminary commercial promotion of the system
 - drawing up of a Risk Register (which is a risk management tool to identify, anticipate and avoid the most likely risks to the successful product development)
5. Equipment supplies, involving the specification and purchase of development software and hardware (Sun stations, simulation software for radar, etc.).

2.3 Implementation

Overall, project implementation was rather smooth, with two main problem areas: i) delays in the delivery of equipment, and ii) overlapping of project activities with a pre-existing commercial relationship involving a company in competition with the contractor.

Delays in Delivery of Equipment. This was the main problem. Quite probable that if the equipment had been delivered in time no project extension would have been necessary. The project partner timely expressed concerns about the delays, which was reflected in monitors' reports. According to Leninets, delays in the equipment procurement happened mainly due to a too long period (3-4 months) to obtain approval from Tacis for the equipment specification. At the same time they mentioned a positive role of the contractor, who managed to speed up the process. Another month was lost at the Russian customs while waiting for a special permission to import a color laser printer. Also Leninets expressed disagreement with the share of funds for equipment in the project budget (20%), which was sufficient only for the hardware. Eventually, they had to agree to some compromise mix of hardware and software.

Project Overlapping with Previous Commercial Relationships. Leninets has a long standing relationship with an Italian company, FIAR, which is commercially interested in the development of the DUET system. FIAR also participated in the tender for the Tacis project but the British consortium (including GEC Marconi, a competitor) was preferred. This created a strange situation, with two competing companies working with the same partner on the development of the same project. An agreement was reached in order to reduce the risk of conflict (with an ensuing apportioning of tasks between the contractor and FIAR) and it seems to have worked pretty well, although at a certain point FIAR declined to release some data on the avionics market on confidentiality grounds. The strange situation was noted by the monitors who expressed their concern about the fact that "the relationship with FIAR has complicated the allocation of responsibility and project schedule", while at the same time recognizing that "sustainability will be largely determined by the ability of FIAR [together with Leninets] to develop and sell the product into the market". In the end, there was an overall convergence between the project and commercial interests and things seem to have worked out decently. However, this project illustrates the inappropriateness of using tendering procedures in the case of industrial cooperation programs, which may well conflict with normal commercial relations.

2.4 Coordination with Other Initiatives

The development of DUET is included in the Federal Program "Conversion". The interviewed managers would not elaborate on the support received (which is also not mentioned in the business plan).

3. EVALUATION

3.1 Relevance

The project was well-designed, because focusing on a specific program (radar design) instead of adopting a global, titanic approach marketing/foreign contacts/accounting (like in Izhorsky Zavod) which usually results in not much. Here, the result is the development of a product. Besides, Leninets was probably the right enterprise to assist: it has a relatively sound financial situation (its joint-venture with Gillette more or less guarantees that it will never close down), is quite transparent (income statements and balance sheets are on the wall in the show room, a quite unusual attitude in Russia, where the cult of secrecy still prevails) and is fully private (unlike NIIAO, see profile #4).

3.2 Effectiveness

The project reached its objectives, since the radar development is running ahead. The delays experienced are due to factors beyond the control of both contractor and project partner and do not seem to affect viability.

3.3 Efficiency

Resources made available under the project seem to have been used efficiently and Leninets' top management was quite happy about the contractor's performance: "everything was at the highest level". Total project costs were in line with those of other Tacis initiatives in military conversion (the "usual" ECU 1 million project) but it is difficult to make comparisons due to the different nature of activities.

3.4 Sustainability

Sustainability depends on i) the ability to finance the industrial development stage, and ii) the ability to sell. As for the first point, Leninets is determined to go ahead and find the money required (contacts with EBRD, Russian ministries and banks). As for the second point, much will depend on the continued collaboration with FIAR.

3.5 Impact

In terms of tangible effects, too early to say. If everything goes well, sales for the DUET system could amount to several million dollars annually, a meaningful contribution even for a large company like Leninets. At a different level, the project definitely contributed to broaden the management perspectives and contacts in the aerospace industry ("After meeting with our Western partners and visiting their premises our way of thinking has radically changed").

Profile #4

Certifiable Airborne Software

| | |
|-----------------------------|--|
| Official Title: | NIIAO – Support for Developing of a Certifiable Airborne Software |
| Reference Number: | CRUS9503 |
| Contract Number: | 96-5560.00 |
| Location: | Zhukovsky (Moscow) |
| Contractor: | Sextant Avionique (France) |
| Other Partners: | Kema (Netherlands) and SRTI-System (France) |
| Partner Institution: | NIIAO – Institute of Aircraft Equipment |
| Start Date: | January 1997 |
| Completion Date: | October 1998 (after 9 months extension) |
| Budget: | 1,000,000 ECU + 400,000 ECU (extension) |
| Manpower: | foreign experts 54 man/months, foreign support staff 7 man/months, local experts 51 man/months |

1. INTRODUCTION

The beneficiary of this project is NIIAO (Institute for Airborne Equipment), a state-owned entity established in 1982 to act as "integrator" of cockpit avionics for aircrafts, helicopters and space systems. As a subcontractor of

major design bureaus, NIIAO was involved in the development of avionics systems for military aircrafts but even in the late 1980s “civilian” production far outweighed military applications. The project was implemented by Sextant Avionique, a leading French avionics producer with previous contacts with NIIAO and significant experience in the production of upgraded avionics systems for Russian-made military aircrafts (MiG 29, MiG 21, etc.). Included in the 1995 Action Program, the project started in January 1997 and was formally completed as planned 12 months later, but an extension of about 9 months through end of 1998 has been granted.

2. DESCRIPTION

2.1 Objectives

The project was aimed at enhancing NIIAO’s capabilities in the development of airborne software meeting international standards. This would be achieved through the “design, planning and operational set up of a software production workshop” which would embody “the latest Western working methods and procedures”. As in the case of Leninets (profile #3), a very specific, well defined objective.

2.2 Activities

The project had three main components:

1. establishment of an avionics software development workshop complying with EU certification standards;
2. provision of on-the-job training and verification of this workshop’s capabilities through the design and certification of a typical software application, such as a flight management system (FMS);
3. development of three strategic business plans for future lines of activity.

The contract extension is mainly concerned with the implementation of the actions described in the business plans and, to a smaller extent, with further technical support in the field of software development standards. After discarding power and nuclear plants three lines of business are under exploration: i) software subcontracting for Western firms, ii) upgraded integrated avionics for civilian Russian aircrafts (the world market of integrated avionics for Tupolev Tu 154 and Ilyushin Il 76 alone is estimated to be worth some US\$ 200-250 million), and iii) control systems in the oil and gas industry.

2.3 Implementation

Implementation was rather smooth and certainly facilitated by the contractor (Sextant Avionique) and the partner organization sharing the same industrial culture. Main problems related to the military-sensitive status of NIIAO, such as its being located in a restricted area or being subject to particular customs restrictions. Other minor issues arose because of NIIAO’s less than brilliant financial conditions³². Minor problems in technicalities (software licenses, computer standards, etc.) were solved without any particular difficulty. NIIAO never felt the need for a long-term expatriate expert on their premises. On the contrary, they think that a three-week exposure to Western advice followed by a period of assimilation of the lessons learned is the best way to manage a technical assistance project.

2.4 Relations Contractor/Partner Organization

NIIAO appears to be fully satisfied with the contents and the quality of the assistance received so far. They collaborated in the drafting of TOR and shared the project’s rationale so that what they received is in line or sometimes outweighs their expectations. In particular, they appreciate the contractor’s approach of “tutoring” them rather than taking the lead, therefore leaving NIIAO feel the “owner” of the project. As one NIIAO staff put it: “Sextant Avionique has allowed us to manage the project: they have taught us management organization techniques and a systematic approach to project management that we badly needed, but let us free to make our trials and errors and to learn on our own”.

3. EVALUATION

3.1 Relevance

The project was well designed and realistic. The main problem preventing NIIAO’s access to international markets (or, for that matter, to any future market), i.e. comparability with Western standards, was correctly singled out

³² For instance, in its inception report Sextant Avionique noted that “because of the proximity to the city of Moscow, English-speaking secretaries go and work in business companies where they can have good incomes. Therefore it is not possible to find an English-speaking secretary within NIIAO” and that “the last French to Russian translator left NIIAO last year (in 1996) for the same fundamental reason as above”.

and consistently addressed. Also, the project had the right blending of technically-oriented assistance, on-the-job training and applied management tools.

There are, however, some reservations regarding the partner organization. NIIAO is run by a young and imaginative management but they are still state owned (they are part of the Ministry of Aviation) and their financial conditions are less than brilliant. The workforce has been cut from 4,000 in the early 1990s to some 1,200 but total turnover is still a meager US\$ 6 million, i.e. a mere US\$ 5,000 odd per capita, most likely too little to allow for depreciation, investments, etc. There is no doubt that the company needed the assistance provided nor that they deserved it: the only problem is that under present very difficult conditions they may not have enough time to put the advice to good use.

3.2 Effectiveness

Outputs were produced as planned and the project achieved the intended objective. Although some additional equipment is required (to be procured by NIIAO, and this could pose problems), the software workshop has the potential to generate revenue in a short period of time.

3.3 Efficiency

The fairly unique character of the project does not allow for meaningful comparisons with other initiatives. The cost of resources employed appears to have been reasonable (especially if adjusted for the quality). The relatively large amount of resources devoted to backstopping is also justified taking into account the organizational burden associate with the large number of trips between France and Russia.

3.4 Sustainability

The same considerations expressed under relevance apply. Again, problems do not refer to the fact that project activities are not sustainable *per se*, but to the chances of long-term survival of NIIAO. A privatization process started back in 1995, but was stopped due to general political uncertainty. During the interview the management was frank in admitting that they are not particularly eager to get privatized as they cannot foresee any external investor willing to put substantial financial resources into the company, which is not a particularly encouraging indicator.

3.5 Impact

We are certainly at too an early stage to assess the project's impact on NIIAO's performance. Some first results are encouraging. As for the first line of activity indicated in the business plan (subcontracting for foreign firms), in Spring 1998 NIIAO was awarded by Sextant Avionique a first US\$ 30,000 trial order and this was accomplished without major problems. By the time of our visit negotiations were on going for a much larger contract, which seemed very likely. As for the upgrading of aircraft avionics a bit of skepticism was shown by NIIAO management themselves on the possibility that the large and powerful design-bureaus (Tupolev, Ilyushin, etc.) really accept to be by-passed in this potentially rich market. However, contacts have already been established with Algeria to upgrade the avionics of nine Ilyushin airplanes. In the oil and gas field because of licensing and certification problems NIIAO is considering acting as a subcontractor for foreign firms and negotiations are under way.

Box 1 - The Monitoring Unit's Opinion

The project is regarded as successful by the monitors with correspondingly high marks in the end of project assessment report (A = excellent; B = good; C = adequate, some good aspects; D = adequate, some poor aspects; E = poor):

| | |
|--------------------------------------|---|
| Overall Contractor Performance: | B |
| Contribution of Project Partner: | B |
| Results (against agreed outputs): | B |
| Appropriateness for Project Partner: | B |
| Expected Sustainability: | B |
| Achievement of Specific Objectives: | B |

The monitors also proposed the project "for wider dissemination as an example of support to enterprises requiring additional sources of funding after a decline of expenditure for military purposes".

4. Enterprise Restructuring

Profile #5

Enterprise Restructuring in Wood Processing Industry

| | | |
|-----------------------------|--|---------------|
| Official Title: | Assistance with the Privatization of the Russian Wood Industry | |
| Reference Number: | PRRU9201 | |
| Contract Number: | 94-0150.00 | |
| Location: | Moscow, St. Petersburg, Novosibirsk | |
| Main Contractor: | Federlegno Arredo (Italy) | |
| Other Contractors: | Cast (Italy), Cerna (France), Clinvest (France) | |
| Partner Institution: | None (initially Roslesprom, but then dropped) | |
| Start Date: | March 1994 | |
| Completion Date: | April 1997 | |
| Budget: | 2,050,000 ECU | |
| Manpower: | foreign short-term experts | 73 man/months |
| | local short-term experts | 8 man/months |
| | local backstopping | 18 man/months |

1. INTRODUCTION

One of the few Tacis projects which has achieved direct tangible results in terms of program's wider objective, i.e. increasing the amount of total private investment in the country. This project has many features that make it an almost unique experience among other similar initiatives. First of all it was the only sectoral-oriented project without a "partner institution" acting as an intermediary between the contractor and the Russian companies. Then it was implemented by a business association of Western woodworking and furniture-making industrialists in collaboration with a consulting firm with a strong sectoral orientation. This not only allowed for a provision of a right blending of management and specifically technical-related assistance, but above all greatly facilitated the search-for-partner phase. Included in the 1992 action plan with a totally different objective, the project effectively started at the beginning of 1994. After several extensions the project finally ended in April 1997.

2. DESCRIPTION

2.1 Objectives

When the TOR were written at the end of 1992 the main need of the then project partner, *Roslesprom*, was receiving assistance in the definition of privatization procedures to be applied in the Russian woodworking industry. In 1994 when the project started most of the privatization process had already been accomplished and priorities had changed. Accordingly the TOR were rewritten during the inception phase. The project objective was defined as the formulation (and related assistance in implementation) of a "viable restructuring strategy" for 6 pilot enterprises with a special emphasis on the search for potential partners ("and assist them in the search for foreign or Russian investors"). Another objective was to provide some sort of strategic support to the partner organization and its regional branches, but this was eventually dropped together with the counterpart.

2.2 Activities

Project activities originally included three main components:

- 1) a sectoral survey for the selection of the pilot companies to be assisted;
- 2) the provision of management consulting services to these companies, inclusive of assistance in the initial implementation of recommendations and in the search for possible partners;
- 3) the provision of training on sectoral restructuring to *Roslesprom* staff.

Since the original partner institution was eventually dropped, the third component was redirected to managers of the selected companies, so that it became hardly distinguishable from activities conducted under

component 2). During project implementation, once the quality of results had become apparent, a fourth component was added, namely dissemination of results.

2.3 Implementation

This project had a rather difficult inception phase. As already mentioned, the TOR first had to be redrafted, then for almost six months all activities were suspended because of major problems with the partner institution. At the end of August 1994 the project finally re-started and after the screening of some 30 potentially interesting companies, nine of them were selected for further scrutiny and first assistance. An in-depth review of these candidates' strengths and weaknesses as well as of perspectives for partnership was carried out over five months until the companies were presented in May 1995 in a two-day workshop attended by EU woodworking and furniture-making industrialists. Based on the interest raised by participants at that meeting (request for further information or personal meetings) the final six pilot companies were selected and then assisted both in their restructuring efforts and in their search for a partner.

2.4 Relations Contractor/Partner Organization

This is at same time the most critical point of this project and one of the reasons for its success. The original partner institution was *Roslesprom*, an organization responsible for the management of State property in the wood-processing sector³³. After privatization the partner institution found itself without a well-definite role and unlike its counterparts in more concentrated industry (e.g. steel), also its "moral suasion" power *vis-à-vis* the some 34,000 previously-controlled enterprises was almost inexistent. Therefore they first reportedly tried to "force" the contractor to provide support to "friend companies" and then started making references to their necessity of being directly "financed" by Tacis. The contractor stopped the project until the partner organization was eventually dropped in agreement with the Task Manager.

2.5 Coordination with Other Initiatives

As indicated in the documents, this project should have theoretically benefited of synergies with the *Negotiation Task Force* project, but in our understanding no such collaboration eventually took place. On the contrary an unintended synergy was found with the EU 12 project managed by the Russian Privatization Center, as *Shatura* almost simultaneously received assistance by the two projects. In the project dissemination phase the contractor proposed the creation of a wood-industry cooperation center conceptually similar to those existing in the EU. This proposal was accepted by Tacis and a new project in this area (*Creation of an industrial cooperation center for wood and furniture sectors*) was included in 1997 Action Program. The partner organization will be in this case the *Russian Association of Wood and Furniture Industrialists*, which replaced *Roslesprom* as the sector business organization.

3. EVALUATION

3.1 Overall Assessment

One of the most successful undertakings of Tacis in Russia in the field of enterprise restructuring so far. The contractors were lucky enough to find themselves in a very favorable position (without a bureaucratic partner institution and with strong support from Tacis headquarters), but it was then their ability to put this position to a good use. Incidentally, it can be noted that the quality of project reporting (in our opinion fairly low) deeply contrasts with actual achievements "in the field" and one is left to wonder whether there is a trade-off between these two aspects. Some features of this project (the direct involvement of a EU business association, the organization of a presentation workshop in Europe, the direct assistance from the contractor in the partnership negotiation phase) should be carefully considered in the definition of future restructuring projects.

3.2 Relevance

The project was highly relevant: the wood industry is a crucially important sector in Russia; with a great potential for export (plywood and other commodity-like products) and substantial pent-up domestic demand for decent quality furniture. The sector also offers significant opportunities for partnership with EU companies and the (revised) TOR rightly placed substantial emphasis on investment promotion. The initial selection of the partner organization was totally inappropriate, but this problem was fixed during project implementation thanks to support from the Task Manager.

³³ *Roslesprom* was born in 1992 from the ashes of the Forest, Pulp, Paper and Woodworking Activities Department of the Ministry of Industry which, in the socialist system, managed all wood-related industries in the Soviet Union.

3.3 Effectiveness

Available information on the 6 companies assisted under the project is reported in Box 1. The project led to the establishment of two “real” joint ventures with investments totaling US\$ 2.2 mn. Another two partnerships were about to be finalized, but then stopped because of “external” factors affecting the EU counterparts (one company went bankrupt and the other one withdrew because of changes in ownership). One company has established long-term trading agreements with EU importers. Finally, another company went bankrupt during project implementation (or, as the project manager put it, “died during the surgery”)³⁴. These are good results, above the average for enterprise restructuring projects (see EU 12). They are partly due to the very pragmatic approach in selecting the companies to be assisted. Instead of relying on extensive surveys, with questionnaires and the like, the contractor started targeting companies which had visited fairs for woodworking machinery in the EU. Also, given the emphasis on investment, the final selection of companies was partly based on reactions from EU industrialists who had been in contact with possible Russian partners at workshop convened for the purpose.

Box 1 - Summary of Information Available on the Six Companies Assisted

- *Shatura* has established two joint ventures with EU companies now totaling US\$ 2.2 mn investments; a third joint venture failed because in the meantime the EU entrepreneur went bankrupt because of investments unrelated to the woodworking industry;
- *UIFK* management had established a commercial partnership with a EU company for the supply of plywood on a permanent basis. Reportedly because of interferences from some shareholders (among whom local *Lesprokhoz*) and local politicians the agreement was eventually rebuked. There are rumors that plywood trade in that area is a “monopoly” of a trading company. However *UIFK* is still alive and profitable.
- *Bolshevik*. In spite of its distant location (Novosibirsk) the company had reached a preliminary agreement with a EU window-frame manufacturer who can certify production for temperatures as low as -50°C . This manufacturer also supplied window-frames to the Kremlin. Unfortunately the EU company, family-owned, did not follow up the agreement because of internal rows on company management between the founder and the heir.
- *Sevzapmebel* established three long-term trading agreements with EU companies. In all likelihood some of these agreements will be turned into proper joint-ventures some time in the future. *Sevzapmebel* is reportedly making profits and is generally considered a company with brilliant market prospects.
- *Podmoskovije* was taken over by a local bank during project implementation because of their pre-existent dramatic financial problems. When half the work was already done the new owners declined all invitations to further collaborate with “Western consultants”.
- *Tasharanskij Leskombinat* was assisted in their search for a second-hand drying chamber and during the workshop established contacts with several EU companies interested in importing their products.

3.4 Efficiency

So far a ECU 2.0 mn project has yielded foreign direct investments worth US\$ 2.2 mn (with plans to reach twice this figure in the next few years) and an unknown, but significant amount of exports. The cost per company assisted, on average ECU 340,000, is below comparable figures for other Tacis projects analyzed in this study (EU 12, Iron and Steel). Resources available were used efficiently and quickly redirected towards companies offering the best chances³⁵. So *Shatura* and *Sevzapmebel* absorbed some 30% of resources each, *Bolshevik* another 15% and the remaining 25% was distributed in equal parts among *Tasharanski Leskombinat*, *UIFK* and *Podmoskovije*. According to the monitors, the contractor “contributed with own resources” to the project latter phases (dissemination of results). Italian industrialists taking part to the project advisory committee and providing their external assistance in the company screening phase did it free of charge.

3.5 Impact

This is a special case because the project main output coincides with the Tacis program wider objective. The project may also have had some impact at the sectoral level. Results achieved were disseminated through a number of seminars in Russian main cities (Moscow, St. Petersburg, Ekaterinburg, Novosibirsk, Petrozavodsk) attended by

³⁴ We have conflicting information on one company: *Bolshevik*. According to the contractor this should be regarded at least as a half-successful case with discussions for a JV well advanced. We contacted the company during field work in Western Siberia. We could not meet the director, but the general impression we retained from that meeting was not very positive. It seemed that little had changed in their mentality (“we have problems because the local government is not making investments”).

³⁵ Having dropped the partner organization, the contractor was reasonably free in the selection of companies, but an adequate geographical representation has to be assured. This led to the selection of two companies based in Western Siberia.

several dozens of Russian wood companies³⁶. One of the manager assisted under the project, after exposure to work with Western business associations, is now the president of the *Russian Association of Wood and Furniture Industrialists*.

3.6 Sustainability

The *Russian Association of Wood and Furniture Industrialists* has plans to set up (with initial Tacis assistance) a permanent cooperation center between EU and Russian wood and furniture companies to facilitate trade relations and partnership agreements. At the company level the joint-ventures have just started operations while trade relations are still on-going. Project results are on the whole sustainable.

3.7 Other Aspects

It is often debated whether in multiple company restructuring exercise the best strategy is to group firms along sectoral lines, regional criteria or on a national basis like in the EU 12 project. Based on a summary comparison of this case with other Tacis experiences we tentatively conclude that for dissemination purposes in the long run it is most expedient to act with a sectoral strategy rather than on a regional or “generic tender” basis. In the Russian case it seems more likely that the “word” spreads among colleagues in the same industry than among managers based in the same region or, worst of all cases, from “champion” companies selected nationwide.

Box 2 - The Monitoring Unit's Opinion

Like all other EU institutions in Moscow also the monitors were fairly enthusiastic about this project as can be seen by their following summary assessment (A = excellent, B = good, C = adequate, some good aspects; D = adequate, some poor aspects, E = poor).

| | |
|-------------------------------------|---|
| Overall contractor performance: | A |
| Contribution of project partner: | B |
| Results as agreed outputs: | B |
| Appropriateness of project: | B |
| Expected sustainability: | A |
| Achievement of specific objectives: | B |

In particular they remarked that “the contractor’s performance throughout the project since re-starting till completion was outstanding with respect to the new TOR. The restructuring method is imaginative, effective, particularly well-adapted to the Russian situation ... and has been provided with greater resources than budgeted”. Moreover they observe “contractor’s team is well qualified about the wood processing sector knowledge and enterprise restructuring, as well as in project management. This is one of the main reason for the successful project implementation”.

³⁶ This has been one of the few Tacis projects whose results were subsequently disseminated. A Tacis-funded brochure *Restructuring and industrial cooperation - The wood processing industry example* was published and a number of seminars were conducted reportedly under a 100,000 ECU SSCP grant.

Profile #6

Restructuring of Selected Enterprises (“EU 12”)

| | | |
|-----------------------------|--|--|
| Official Title: | Support to the Russian Privatization Center | |
| Reference Number: | PRRU9301 | |
| Contract Number: | 94-0447.00 | 94-0363.00 |
| Location: | Moscow and other locations | |
| Contractor: | McKinsey and Co. (Germany) | Arthur D.Little (UK) |
| Sub-contractor: | Treuhandanstalt OB (Germany) | CFIP, IDOM, Warburg |
| Partner Institution: | Russian Privatization Center | |
| Start Date: | June 1994 | May 1994 |
| Completion Date: | January 1997 | May 1996 |
| Budget: | 4.200.000 ECU | 4.115.000 ECU |
| Manpower: | senior experts 131 man/months local analysts 169 man/months short t. experts 10 man/months | long t. experts 88 man/months short t. experts 87 man/months support staff 36 man/months |

1. INTRODUCTION

One of the first Tacis-financed initiatives in enterprise restructuring aimed at restructuring a dozen (hence, the EU 12 nickname) privatized enterprises. Included in the 1993 national Action Program, the project was one of the first responses to Russia's requests for assistance in post privatization support formulated at the G7 Summit in Tokyo the same year. The project had as local partner the Russian Privatization Center (RPC), an organization established in 1993 and close to Mr. A. Chubais, then head of the GKI and one of Russia's leading political figures. The project was implemented by two different contractors (McKinsey and AD Little, each responsible for the assistance to 5-6 enterprises) and had unusually short (by Tacis standards) preparation period. Indeed, one of the two contractors started working in the field as early as May 1994 while the other followed in June. After one extension, the first contract was completed in May 1996, while the second was extended twice and lasted until January 1997.

2. DESCRIPTION

2.1 Objectives

EU 12 was implemented in parallel with another project specifically aimed at strengthening RPC's capabilities, through the secondment of key staff and training activities. The two projects shared the same wider objective of providing support “to the RPC at the federal level in the area of post privatization assistance in a manner (i) to achieve the broadest impact; (ii) to promote assistance infrastructures which will be available to a growing number of companies; (iii) to promote duplicable pilot experiences likely to enhance the visibility of privatization”. In more operational terms, the EU 12 project was assigned the specific objective of assisting the “successful restructuring” of 10 to 12 privatized enterprises.

2.2 Implementation

Project activities consisted in the provision of management consulting services directly to the selected enterprises. Project documents were largely silent about the specifics of services to be provided and output indicators were also absent. This was partly remedied by the contractors, who indicated in their proposals a set of possible assistance modules to be provided. In practice, each enterprise assisted under the project received a customized package directly negotiated between the management and the contractors

The selection of enterprises to be assisted was based on a sort of tendering procedure and notices inviting applications were published in major Russian newspapers. The RPC reportedly received over 100 applications. Our understanding is that the contractors, the RPC and Tacis representatives were all somehow involved in the selection process and that a sort of “multiple criteria” approach was adopted, based on factors such as: location (the enterprises selected span from Moscow to Kamtchatka), perceived attitude towards outside support, “social importance”, etc.

The contractors interpreted their mandate as a typical management consulting assignment and this led to some misunderstandings. Initially, they plainly refused to report to Brussels on grounds that companies being assisted were “their clients” and that therefore they were bound to confidentiality. Also, resources made available under the project were allocated to different tasks and enterprises without the typical constraints faced by Tacis contractors. While this ensured flexibility, some complaints were also voiced (most notably when AD Little refused to assist its sixth enterprise on grounds that Uralmash was so big that it would count for two).

2.3 Relations Contractor/Partner Organization

Apart from its participation in the selection phase, RPC's role as a partner institution was not entirely clear. They provided the contractors with "general information", tried to make sure that the selected companies fulfilled their obligations and in 1996 carried out a review of project results in 9 companies. The monitors noted that "the status of the RPC within Tacis projects needs to be revised: instead of being the formal project partner with rather specific responsibilities of a guiding and monitoring nature, which are surely not intrinsic to a genuine project partner, the RPC might efficiently be a subcontracted local counterpart working on behalf of contractor in". In another point they observed that "this is a complex situation ... as the RPC is the official recipient but the selected companies are the actual recipients of the assistance. This created issues of "over" management especially at the beginning...".

The RPC is generally satisfied with the contractors' performance. According to the RPC staff interviewed, as there was no previous experience in similar exercises in Russia, this project was bound to be a learning experience for both them and the consultants. For the same reason, they do not have anything to complain about the project preparation phase either. They still deem it appropriate that the TOR left to them, to the enterprises, and to the contractors a large room of maneuver.

2.4 Coordination with Other Initiatives

The EU 12 project ran in parallel with an almost identical USAID-financed initiative, the *Program for Intensive Enterprise Support (PIES)*, which also was agreed at the 1993 G7 Summit in Tokyo. The two project schemes are very similar. Indeed, PIES provided post-privatization restructuring support to 15 companies selected out of a pool of 350 applicants. It was implemented by three different American consulting companies (Bain Link, Arthur D.Little/Carana and Deloitte and Touche) with whom USAID had established general framework contracts for the provision of technical assistance in Russia. It is not clear whether the two projects were "under a common coordination" or actually "in competition".

3. EVALUATION

3.1 Relevance

When the project was conceived, Russian enterprises had just entered the post-privatization phase and the need for restructuring was obviously great. At the same time it was already apparent that only a minimal part of the industrial sector would be in a position to receive direct support: hence the idea of some "pilot cases" which could both serve as a training ground and provide for a "lighthouse effect". On these grounds, the project had a reasonable justification.

The selection of the partner organization was at that time appropriate. Indeed, in the mid 1990s the RPC was a rising star in the Russian political landscape and all donors were "scrambling" to assist them. Unfortunately, the RPC turned out to be a much weaker institution than expected, both in political terms (being very close to Chubais they came under fire when their sponsor started losing ground) and in operational terms (they were never able to transform into a fully-fledged "restructuring entity"). But, back in 1993, it would have been difficult to guess such a development.

3.2 Effectiveness

Available information on the companies assisted under the project is presented in Box 1. Out of the 11 companies supported two (possibly three) cases were successful, three were outright failures, while for the other companies we have mixed evidence. The project definitely missed the objective of a dozen of successful restructurings but, on the other hand, overall results are not too dissimilar from those achieved by the USAID-funded PIES initiative for which, out of 15 companies receiving support, four are reportedly considered as success cases, 7 as only partial successes and four as failures.

Box 1 - Summary of Available Information on Assisted Companies

- **Beryusa** (a refrigerators factory in Krasnoyarsk assisted by Arthur D. Little) The company started to implement some of the recommendations formulated under the project and invested some US\$ 100 mn in a plant to be established as an autonomous legal entity. However this plant needed some more US\$ 20 mn to start operations. Their main EU commercial partner went bankrupt and Beryusa's financial situation deteriorated. The latest news are that the Beryusa has suspended all activities and has gone bankrupt.
 - **Rekord** (a radio and TV set producer in the Moscow region assisted by Arthur D. Little) The color TV-set factory went bankrupt, but other lines of business are still alive even though their legal status is unclear. Recommendations formulated by EU consultants were never implemented and, according to the RPC, in all likelihood the consultants were never shown the company's real situation. They thanked for the "assistance" received and that is all.
 - **Efremov** (one of the few artificial rubber producers in the World, based in Tula and assisted by Arthur D. Little) Successful project. They have received a US\$ 20 mn loan from EBRD and additional US\$ 15 mn from export credit lines. Most recommendations were implemented and proved useful although it is likely that the company would have performed well even without Tacis assistance. *Efremov* was interested in receiving further consulting services and now they have applied for assistance under TERF.
 - **Nika Knitting** (an apparel factory in Orenburg assisted by Arthur D. Little) The textiles industry is widely regarded as the most difficult sector in Russia. According to RPC they seemed to be "over-dependent" on external assistance and incapable of working out solutions on their own. "They simply thought that consulting was *per se* a magic recipe". They partly implemented received recommendations and actually asked for further "more specific" assistance. Unclear what happened after. We understand that they are performing poorly.
 - **Uralmash** (a large mechanical engineering company in Ekaterinburg assisted by Arthur D. Little) The company is reportedly not that bad even if it has serious liquidity problems (70% plus in barter). Due to their size, they received a huge amount of assistance in many areas, which at that time was mostly implemented. The company is a "symbol" in the region and enjoys support from local authorities.
 - **Shatura** (a furniture-making plant in the Moscow region assisted by McKinsey) Another successful project. The company received general management consulting from McKinsey and this was later followed by more specific industry-related assistance from CAST (see *Woodworking Industry* project) especially in their search for partners.
- Lesogorskiy Zavod** (a plastic bag and plastic film producer in the Leningrad *oblast* assisted by McKinsey) In this case we have conflicting information: the RPC believes that they are doing poorly. From other sources we came to know about much more encouraging indicators: increase in sales, a new marketing structure, customers like Pepsi-Cola and Baltic-Bottling. Telephone contacts to find out directly were not successful.
- **Vladimir Tractor** (the largest tractor producing plant in Russia assisted by McKinsey) The market for domestic-produced tractors is commonly perceived as hopeless in Russia. The present performance is far from outstanding and although recommendations were partially implemented a real market spirit has never taken place. Last winter, before regional elections, this huge company (some 10,000 employees) was awarded a large loan from the local "Fund for the Promotion of Small Entrepreneurship" to pay for wage arrears.
 - **UTRF** (a fish canning factory in Kamchatka assisted by McKinsey). No accurate information on the fishery sector in Kamchatka is available as fleet operations are out of the control of local authorities. The company is reported to have implemented the recommendations received especially as regards financial control, but their present performance is unknown.
 - **Volokolamskiy Textil** (a cotton-working factory in the Moscow region assisted by McKinsey) The company is in very difficult financial conditions, almost bankrupt. They implemented a minimal part of recommendations received and refused to take more drastic actions because of "social reasons". Still they would like to receive further Tacis assistance in their hopeless search for a "foreign investor".
 - **Karelia Mining** (a mining company in Karelia assisted by McKinsey) They share the difficulties of the steel sector. The company started implementing the recommendations formulated by Consultants until they were acquired by the huge Cherepovetz-based *Severstal* steel *kombinat*, that was also their previous main client. From that point onwards it is impossible to assess the impact of the project on performance.

The project could have been more successful if the selection of enterprises had been more in line with the intended objective. We still cannot understand why *Volokolamskiy Textil* (where the working collective controlling 100% of shares held total sway) was selected. Also *Vladimir Tractor* and *Beryusa* appear as unlikely candidates for a project supposed to pick winners.

3.3 Efficiency

EU 12 was an expensive operation. The average cost per enterprise assisted was high, some ECU 700,000 for McKinsey and over ECU 800,000 for AD Little, much higher than in other Tacis restructuring operations with a sectoral orientation (ECU 350-400,000 – see project profiles #5 and #7). If the outright failures are excluded, the unit cost per successful or moderately successful cases is around ECU 1 million, similar to the cost of a typical military conversion project (which however, usually include some training and the delivery of some equipment). On all accounts, it was not a very efficient project.

3.4 Sustainability

In the (few) cases where recommendations were fully implemented, project results appear to be sustainable: in Summer 1998 both *Shatura* and *Efremov* were doing well and further development was in sight (but *Shatura* may suffer from the recent crisis). As for other cases, whenever we could get a reaction, the impression was that the work of Tacis consultants was still remembered, but the critical mass to generate continued change had not been achieved.

3.5 Impact

If the project was intended to provide a “lighthouse effect” to influence other Russian companies’ attitudes towards restructuring, then its impact appears to have been rather modest. Once the core activities were completed, there were little resources left for dissemination of results. This activity was made possible by a subsequent Tacis SSTA grant and resulted in 12 seminars in various locations attended by an average 15 companies. RPC does not seem to have made significant use of project results: for instance, while in their 1996 annual report they extensively elaborated on the PIES experience and other Tacis-financed initiatives such as the *Textile Industry* project or the *Pharmaceutical Industry* project, they simply never mentioned this project.

The impact on RPC’s ability to assist companies in the area of restructuring is also modest. Despite the initial declared intentions, the RPC has mainly assumed a coordinating role in donor-funded projects rather than a direct involvement in enterprise restructuring activities. As a matter of fact a commercially oriented subsidiary (RPC-Consult) was recently established to provide consulting services to Russian companies, but this seems more part of the RPC’s struggle for survival rather than result of this (or of any other) project.

Box 2 - The Monitoring Unit’s and the Court of Auditors’ Opinion

Monitoring activities for this project were sub-standard as contractors never fully complied with Tacis reporting regulations. We managed to get only one “almost final” (February 1996) monitoring report on the Arthur D.Little contract. The average score was C (standard) and main observations related to poor sustainability in three out of five of the selected companies. Additional remarks were made on poorly conceived TOR which provided no target or even output criteria to be monitored and on insufficient reporting from the contractors. This project was also reviewed by the Court of Auditors who mainly remarked the pilot nature of this initiative and its high cost. As a partial justification for this, they mentioned the fact that there was no Tacis fee standard at that time and that the general level of fees was higher.

Profile #7

Iron and Steel Industry

| | |
|-----------------------------|---|
| Official Title: | The Russian Steel Industry: Review and Assistance |
| Reference Number: | PRRU07 |
| Contract Number: | 94-0590.00 |
| Location: | Moscow and other locations |
| Main Contractor: | Roland Berger and Partners (Germany) |
| Other Contractor: | Sofres Conseil (France) |
| Partner Institution: | State Committee on Metallurgy |
| Start Date: | September 1994 |
| Completion Date: | February 1996 |
| Budget: | 2,000,000 ECU |
| Manpower: | foreign short-term experts 57.5 man/months foreign support staff 7.5 man/months local experts 80 man/months |

1. INTRODUCTION

A mixed sectoral restructuring project combining a strategic review of the Russian iron and steel industry with four business plan exercises in selected companies. Over the last decade the Russian iron and steel industry has faced a dramatic decrease in domestic demand to which companies have reacted with a combination of curtailed production and increase in exports³⁷. Although protected by a system of quotas, EU steel producers have become increasingly alarmed of their Russian colleagues charging dumping prices in the world market. This also explains why not only DG1A but also DG III (which, having a long-standing relationship with the partner organization, actually was the original proponent of this initiative) was so keenly interested in this largely politically-motivated project. The idea for this initiative dates back to the 1993 Action Program. Implementation started in Fall 1994 and was extended till February 1996.

2. DESCRIPTION

2.1 Objectives

In the 1993 Action Program the original project objective was indicated in laying “the groundwork for an orderly process of restructuring within the Russian iron and steel industry”, a formulation open to many interpretations. The TOR shed little light on the subject, by mixing up a little bit activities and objectives as reported hereinafter:

- “to fully understand the characteristics, problems and functioning of a sector which is key for the Russian economy;
- similarly to acquire concrete experience and knowledge of how privatization and restructuring of a major segment of industry is (and should be) conducted in-the-field, and to determine how best to support it;
- on the basis of that knowledge, help develop and implement solutions to remedy key problem areas and to improve the situation of enterprises in the industry”

As a matter of fact the project had two wider objectives. The “official” one was to help the Russian iron and steel industry restructure while the “hidden” (but not less important) one was to facilitate the dialogue between EU and Russian producers. The official wider objective was to be achieved through the following specific objectives:

1. assist the State Committee on Metallurgy in defining its public intervention strategy in the industry;
2. build-up consensus on this strategy among industry key-players;
3. provide successful applied examples of how this strategy could be made compatible with concrete actions of individual companies;

2.2 Activities

The project comprised five main components:

³⁷ Domestic production of crude steel slumped from 90 million tons/year to some 50 million tons/year, at the same time exports rose to cover over 50% of total production (25 million tons/year).

- i. a strategic review of the Russian steel sector (basically an industrial survey);
- ii. the preparation of proposals for restructuring the whole industry (a policy document)
- iii. the application of these proposals to four selected companies (i.e. the provision of management consulting services);
- iv. the provision of training and advise to the Committee staff and companies' management (again consulting services)
- v. the organization of several dissemination seminars with the participation of all main CEOs from Russian and EU steelworks (partly a public relations exercise).

2.3 Implementation

The project proceeded without major problems to its natural end largely thanks to the establishment of an authoritative steering committee grouping representatives from the EU (both DG1A and DG III), the project partner and all interested companies. This meant that every decision did not have to wait for Brussels' approval before being implemented. The survey, originally envisaged to cover 30-40 plants, was reduced to about half that size. Figures on production costs were collected and reclassified according to Western accounting standards. Also data on plants were analyzed in a systematic way, especially for the assessment of investment needs and of the current level of environmental harm. This information served as a basis for the subsequent drafting of the main industry strategy and reorientation document. In May 1995 this study was presented at a seminar in Brussels attended by all major Russian and EU steel producers. Other presentations were made at the contractor's headquarters in Munich, in several workshops in Moscow and in the main steelworks. Then the project entered its second phase. Four companies were selected for direct assistance. In these companies the contractor carried-out a thorough business audit aimed at preparing four business plans which were largely well accepted by the enterprises concerned³⁸. Some assistance was then provided also in the preliminary stages of the implementation of recommendations.

2.4 Relations Contractor/Partner Organization

Formally speaking the partner organization does not exist any more. In March 1997 the Committee was disbanded and its responsibilities transferred to the Metallurgy Department within the Ministry of Economy. However the key staff in both organizations remained almost the same. They are still very satisfied with this initiative. In particular, they have appreciated the professionalism of the Western consultants³⁹. The degree of collaboration with the contractor was fairly high and no confidentiality problem was ever raised in the collection of data. The Committee fully collaborated with the consultant responsible for drafting the TOR. They did not feel the need for any long-term expert and still consider that a series of three-week short term missions is the most appropriate way to carry out a technical assistance project.

2.5 Coordination with Other Initiatives

Indirectly this project paved the way for a couple of other Tacis initiatives in the steel sector, and namely the EES project with the Antimonopoly Committee for supervising the Steel Trade Agreement⁴⁰ and the soon-to-be-started project on *Support to the Steel Sector* which will provide support in the following areas:

- implementation of international accounting standards and the establishment of a benchmarking system in the industry;
- training in marketing and sales promotion of steel products in the EU;
- technical assistance in the fields of competition, state aid and environmental protection as envisaged in the Steel Trade Agreement.

³⁸ However, the business plan for Asha reportedly had to be re-drafted three times because the first version was "rejected" by the Committee, the second by the company itself until a third "compromise" solution was reached.

³⁹ In the director's words "the EU consultants broadly confirmed our vision of the industry problems, but what was really new for us was prioritization of issues and a better comprehension of market dynamics".

⁴⁰ Steel and textiles are both excluded from the general framework partnership agreement between Russia and the EU. Steel is regulated by an ad hoc agreement stipulated with Russia, Ukraine and Kazakhstan. The last one was signed in 1997 and is to cover the 1997-2001 period. Under the agreement import quotas in the EU are to be gradually relaxed in function of the application of appropriate competition, state aid and environmental protection norms in the three countries concerned.

3. EVALUATION

3.1 Relevance

By the time the project reached implementation phase the Russian steel industry had been largely privatized and one may question the relevance of attempting to implement a sectoral restructuring strategy “from above”. The Committee certainly retained some influence over parts of the industry and its capabilities of exerting some degree of “moral suasion” should not be discounted too lightly, but its capability of mobilizing resources was limited. On the other hand, the idea of creating a forum to facilitate contacts between Russian and EU industrialists at a time of conflict was largely appropriate.

3.2 Effectiveness

Project findings reportedly influenced the strategy of Russian policymakers, but this is not backed by money (the official *Indicative Program for the Restructuring of the Metallurgical Industry* supposed to channel some US\$ 12 mn worth of State investments into the industry till 2005 is currently suspended because of lack of financing). The four business plans were in general well accepted but there are doubts about their actual implementation because all the companies’ are reportedly in a very difficult financial situation (we were kindly advised not to visit both *Asha* and *Krasnij Sulin* because of the “tense social climate” there).

On the other hand the project was very effective in bringing together EU and Russian industrialists. As the Committee chairman put it: “it was of paramount importance having for the first time both EU and Russian top steel producers to meet each other in Brussels. Such an event would have been unimaginable without this project. Actually, after deep quarreling in the morning, in the afternoon they found a compromise and a common ground of mutual understanding⁴¹”.

3.3 Efficiency

Assuming that at least 20-30% of resources were devoted to the industry study, the average cost per assisted enterprise is around 350,000-400,000 ECU which does not compare too unfavorably with other Tacis projects. One may wonder whether the policy dialogue aspects could have been handled more efficiently under some facility such as the EES, but in all likelihood the task of winning confidence and building up consensus required a longer time frame than that allowed by a facility.

Box 1 - Summary Information on the Four Assisted Companies

- *Asha* has improved its marketing capabilities and its products (pots, pressure cookers, etc.) now compete on the Moscow market both in price and quality with the Western-made ones. The company is considering a major investment initiative for which is seeking assistance from TERF.
- *Krasnij Sulin* has been the object of interest from several Western potential investors (German, Austrian and American). The company now seems inclined to buy second-hand plant in Austria to update its equipment in view of establishing a future partnership with the Austrian supplier. Banking arrangements for the deal would be at an advanced stage.
- *Nosta*’s corporate strategies are decided within the larger *Nosta-Trubigas* financial industrial group. This FIG was retained as a promising pilot case by the consultants presently working on the Tacis *Assistance to FIG* project.
- *Serp i Molot* is reportedly doing very poorly.

3.4 Sustainability

Results achieved in the area of policy dialogue facilitation are sustainable. The industry study and the related policy documents can be of use until fundamental variables in the industry radically change (for instance as a result of a world-wide recession or of a major technological innovation). Unclear whether after the Asian crisis these documents are still workable or have to be updated. The same broadly applies to the four business plans.

⁴¹ As mentioned above, the main reason for the “quarreling” was Russia’s alleged dumping. As a matter of fact, average sale prices of Russian steel have grown from US\$ 300 (alleged dumping) at the time the project to US\$ 650 in 1996/1997, but we are hesitant to give credit to the project for this.

3.5 Impact

The project's main impact is in the improved policy dialogue between EU and Russia. After the major misunderstandings between EU and Russian producers were removed, and, following a visit to Brussels of the Russian prime minister, in 1996 the Commission was given the green light to start negotiations with their Russian counterparts on a new Steel Trade Agreement and this process successfully ended in 1997.

As for the industrial restructuring, the impact has been, predictably, minimal⁴². Russian steelworks do not need only "intelligence" support to be able to survive in the world market in the long run, but also a huge amount of resources. According to the Committee, to get in line with world standards in the next few years the Russian steel industry would need a constant flow of US\$ 33 worth of investment for every ton produced (i.e. a total US\$ 1.65 bn per year). In 1997 total investments were reportedly as low as US\$ 600 mn and about half that sum was provided through EBRD financing. However, also the scope for a "lighthouse effect" from the four pilot cases was limited. All but one (the exception being *Nosta*) steelworks selected are rather small in size and above all are active in market niches, so that their experience is not easily replicable from larger concerns representing the bulk of the industry.

Box 2 - The Monitoring Unit's Opinion

In this case we do not have the monitoring unit's last assessment. However three months before the project's end (monitoring report #2) the monitors evaluated the project as follows (A = excellent, B = good, C = standard (to plane); D = problems, need for action, E = urgent review to assess continuation.):

| | |
|---------------------------------|---|
| Implementation of activities: | B |
| Achievement of outputs to date: | B |
| Appropriateness of workplan: | D |
| Ability to achieve objectives: | B |
| Potential Sustainability: | C |

According to the monitors "the contractor ... proved its ability to achieve the specific objectives ... by the very effective job and the high caliber documents which were highly appreciated by the Russian partners"; moreover "all project activities were implemented ... in close collaboration with the project partner institution and steel industry enterprises, who contributed effectively, with detailed information relevant to the industry/specific steelworks and with valuable comments on the documents produced"; finally "the strategic documents contain a sound potential to provide sustainable actions through all interested parties".

⁴² The overall situation of the Russian steel industry remains critical, and all the more so after the big recent crisis in Asian countries which alone absorbed a significant share of all Russian exports. Capacity utilization at steel plants is still very low and pipemaking facilities work at a reportedly even lower regime. Although we have no detailed information on this "hot" issue the level of environmental hazard seems substantial, not to speak of air and water pollution.

Profile #8

Enterprise Support Centers in Urals, South Russia and West Siberia

1. INTRODUCTION

In this profile we provide a description and evaluation of three enterprise support centers (ESCs) projects implemented in three Russian regions: Urals, West Siberia and South West. These projects are part of a major program targeted at supporting the restructuring of medium-sized privatized enterprises agreed upon during the G7 Tokyo Summit (the so called G7 Initiative). As part of this initiative, other similar ESCs projects were (or are in the process of being) implemented in other Russian regions, namely: the Golden Ring, Kaliningrad, the Baikal and the North West.

The three projects analyzed in this profile were implemented under different contracts and by different contractors. However, the size and nature of the projects and the issues confronted are broadly similar and therefore allow for a common treatment. The basic data on the three projects are presented in Table 1 on the next page. The project profile proper is supplemented by a series of Appendices (A through F) providing a description of the ESCs visited during the evaluation study⁴³.

2. DESCRIPTION

2.1 Objectives

The projects analyzed in this profile provide a good example of mutable objectives, with significant differences between the “initial phase” (1995-96) and the subsequent “self sustainability phase”.

The Initial Phase. In the 1995-96 period the main objective was to “provide post privatization support to Russian medium sized enterprises” (defined as those having 500 to 5000 workers). This would be achieved through the establishment of Enterprise Support Centers (ESCs, formerly known as Technical Assistance Centers – TACs) operating at the *oblast* level. These centers, in turn, would serve as a base for the provision of a wide range of training and consulting services. In the case of the South Russian ESC project a second objective was added, namely the strengthening of the local branch of the Russian Privatization Center (the South Russian Privatization Center – SRPC), which was supposed to gradually evolve into a self financing institution.

⁴³ The ESCs analyzed in detail in the Appendices are: Stavropol, Rostov, Krasnodor, Penn, Tomsk and Kemerovo. During field work we also visited some other ESCs, namely: Novosibirsk, Ekaterinburg, Chelyabinsk. While no detailed description of these centers is provided here, elements gathered during these additional visits are incorporated into the main text of the project profile.

Table 1 Basic Information

| Project | ESCs in the Urals | ESCs in South West Russia | ESCs West Siberia | |
|--------------------------------|--|--|---|-------------------------------|
| Official Name | Post Privatization Enterprises in the Urals | Support Centers for Enterprises in Rostov, Krasnodar and Stavropol | Post Privatization Assistance to Enterprises in Western Siberia | |
| Reference Number(s) | PRRUS 9302 | PRRUS 9402 | PRSIB 9301 | PRRUS 9601 |
| Contract Number(s) | 94-1291 first contract | 95-2093 | 95-0133 | 97-0694 |
| Location(s) | Ekaterinburg, Perm, Chelyabinsk | Rostov, Krasnodar, Stavropol | Novosibirsk, Kemerovo, Barnaul, Tomsk | |
| Contractor | AT Kearney (German branch) | GOPA Consultants (Germany) | GTZ (Germany) | DFC (Spain) |
| Sub-contractor(s) | Ernst & Young (Belgian branch), DTI (Denmark) and others | Svennerstål & Partners (Sweden) and others | SEMA Group (Belgium) | IMC Consulting Ltd (UK) |
| Partner Institution(s) | Local GKI | South Russian Privatization Center | Local GKIs | |
| Start Date | January 1995 | January 1996 | January 1995 | January 1998 |
| Completion Date | December 1998 (after an initial extension and second contract) | August 1998 (after a time only extension) | January 1998 (after a 12-month extension) | April 1999 (expected) |
| Budget | First contract: ECU 9,000,000 Addendum: ECU 1,810,406 Second contract: ECU 1,500,000 | ECU 6,972,700 | ECU 6,800,000 | ECU 1,500,000 |
| Manpower (staff/months) | First contract & addendum only LTes 150 STEs 179 Lcs 80 | LTes 148 STEs 145 Lcs 144 | Not available | LTes 15 STEs 32 LCs 135 |

The Self Sustainability Phase. The TOR for the three projects were largely silent about the fate of the ESCs after project completion. Only the TOR for the West Siberian project contained a vague reference to the fact that “it is not excluded that [the ESCs] may continue operation after EC funding is complete” (page 12). Starting in mid-late 1996 the idea of transforming the ESCs into self sustainable independent entities (basically, into private consulting companies) was aired and gradually begun to gain ground. As a result, the objective of assisting the ESC’s to become sustainable was first *de facto* incorporated into the brief of existing contractors and subsequently prominently included in the TOR for project extensions (e.g. “strengthening of the ESCs with a view to achieving maximal sustainability” West Siberian ESCs extension contract, page 2). This involved a shift from the provision of services free of charge as mandated by the TOR for the initial phase (“services will be provided to local companies free of charge” – South Russia, page 12) to a policy of “progressive introduction of payments for certain types of services” (West Siberia, extension contract, page 5).

Summing Up. Based on the above and leaving aside some terminological variations found in project documents, the objectives of the three ESC projects analyzed here (and, indeed, of all ESC projects) can be reformulated as follows:

1. the provision of enterprise restructuring and, to a lesser extent, business development support to a certain number of medium sized enterprises (typically in the 500 to 5000 workers range) through a variety of training and/or consulting activities;
2. the establishment of indigenous consulting capabilities through the establishment of autonomous, self financing consulting units (the ESCs and the SRPC).

2.2 Activities

Project documents refer to a wide range of activities grouped into several (usually not so intelligibly labeled) components. For instance, project documents for the Urals project refer to two components: the first involving the establishment of ESCs and the provision “core TA activities”, the second comprising three pilot restructuring exercises. In a more analytical way, the projects analyzed here may be regarded as including the following types of actions:

- institution building, through the establishment of three ESCs and (in South Russia only) the strengthening of the SRPC;
- introductory training and consulting activities, designed to increase Russian managers’ awareness of the issues confronting firms in a market economy (hereinafter referred to as “awareness enhancing” activities);
- hands-on problem solving consulting advice, which in practice resulted in a battery of so called “mini projects” opposed to the major restructurings;
- business development activities, basically consisting in the assistance in contacting prospective customers, suppliers and (much less frequent) investors (these activities being inappropriately referred to as “twinning activities”);
- consulting activities for major enterprise restructuring exercises (only in the Urals).

2.3 Implementation

Project implementation followed a staged approach. The first step consisted in the deployment of some expatriates in each *oblast* covered by the projects to recruit LCs and establish the centers. This was followed by the identification of enterprises to be assisted, the organization of basic training activities (often referred to as Modular Advice Program – MAP), the provision of hands-on consulting advice (be it in the form of “mini projects” or of “major restructurings”) and, finally, the assistance for “twinning activities”. The projects involved the deployment of a combination of both long term expatriate experts (LTEs) and short term expatriate experts (STEs), roughly on a 1:1 basis, with the LTEs responsible for basic training & consulting and for project management activities and the STEs (mobilized on an individual basis or “in waves”) responsible for more specialized training and the hands-on consulting assistance. Local staff were intended to progressively associate with expatriates in the delivery of training and consulting activities. During the “sustainability phase” the project configuration remained largely the same although sometimes with a minor input from LTEs (e.g. reduced from 4 to 2 in West Siberia) and more attention devoted to the training of local consultants (LCs).

All the projects (although at varying degrees and in different phases) encountered some problems in implementation. The two main, common problems are listed below:

- initially, contractors encountered problems in recruiting enterprises to be assisted under the project, due to a combination of mistrust in more backward areas/companies and consultants’ fatigue in areas/companies having already received donor support. The latter was certainly not alleviated by the very systematic approach

adopted in some cases, with projects activities inevitably starting with a request to potential beneficiaries “to fill out yet another questionnaire”;

- all projects suffered from high turnover in expatriate personnel and/or in local staff. For instance: in Kemerovo (West Siberia), the center had five different LTEs in three years and the position was not manned for long periods; during the first year or so of operations the Krasnodar ESC (South Russia) experienced the loss of half a dozen local staff. High turnover in local staff was due to a variety of factors, from the better conditions found elsewhere to protracted uncertainty about the fate of the project to disagreements with key expatriate personnel.

2.4 Relations Contractors/Partner Organizations

In the Urals and West Siberia contractors implemented projects with a high degree of autonomy, largely thanks to a fairly distant relationship with the local KUGIs. In general, the project partners, were reasonably cooperative and assisted as they could throughout project implementation. Signs of fatigue and/or dissatisfaction emerged only towards the end of projects⁴⁴. In South Russia the relationship with the beneficiary (the SRPC) was closer (with Tacis providing financing for personnel and running costs to the tune of some US\$ 15,000/month) and at the same time more problematic, especially during the early stages. In this case, personal factors combined with the increasingly apparent weakness (and therefore nervousness) of the SRPC, which as part of the major restructuring undertaken by the RPC, was eventually disbanded.

3. EVALUATION

3.1 Relevance

Relevance of Technical Assistance to Russian Enterprises. There is little doubt that management techniques and style in Russian privatized enterprises need to be significantly improved. This is still the case today and it was certainly more so in 1993-94 when the ESC program was conceived. The benefits associated with Western technical assistance (especially if provided in isolation and not as part of package including investments and/or business development activities) has been probably overemphasized⁴⁵ and, at any rate, many former state owned companies simply do not have a future. However, it is reasonable to say that Russian companies must be given at least a chance to “shape up” and to adapt to the new market conditions and in the initial phase the ESCs were precisely in this business: the provisions of fairly bread and butter TA. In this context, the initial decision to provide services free of charge also appears appropriate. Fee-based technical assistance schemes (often referred to as “matching-grant schemes”) are obviously more efficient and often more effective (because of the built-in self selection mechanism). However, their implementation requires that managers of beneficiary enterprises are reasonably familiar with some key concepts and, most importantly, with the use of consultants, which was largely not the case when the ESCs program was conceived (although things have now changed).

The Move Towards Self Sustainability. The above, overall positive, assessment has to be completely reversed when it comes to evaluate the relevance of Tacis support extended under the “self sustainability phase”. Indeed, the decision to (try to) transform the ESCs from a sort of missionaries’ outposts spreading the word about managerial best practices into fully commercial, private consulting entities can be disputed on several grounds. To begin with, no attempt was seemingly made to assess the market for consulting services in the areas covered by Tacis projects. If an however rough survey had been carried out, it would have revealed that, at least in some *oblast*, the presence of Russian consulting companies delivering good quality services is now far from being negligible⁴⁶. Second, the support provided to the ESCs while in the process of becoming self sustainable introduces significant distortions in the market for consulting services. Indeed, the ESCs’ main competitive advantage over local consulting firms seems to consist in the access to European short term expertise, around which ESCs’ consulting services are packaged and sold. Since the cost of STEs is obviously not included in price

⁴⁴ During fieldwork we were informed about recent complaints regarding two ESCs in the Urals voiced by the regional administrations. This was confirmed during a meeting we had with representatives of the Chelyabinsk administration, although complaints about the ESC also reflected a more general dissatisfaction about Tacis.

⁴⁵ Issues related to enterprise restructuring were discussed at a conference on “Restructuring Russian Enterprises: Lessons Learned from Russian Experience since 1994” (Moscow, March 24-25, 1997). The proceedings are available on the net at www.bcc.ru/lessons_learned.

⁴⁶ During our survey we found evidence of well developed consulting services in at least three areas (Novosibirsk, Ekaterinburg and Rostov). Two other areas (Perm, Krasnodar) appear to have a moderately developed consulting sector, while in the other *oblast* visited the market for consulting services is still largely undeveloped. However, even in relatively backward areas, such as Stavropol, it is usually possible to find at least one or two accounting/audit & consulting companies providing services of an acceptable quality.

calculations, this results in a form of unfair competition vis-à-vis local consultants, with possible long term negative impact on the development and consolidation of an indigenous consulting industry⁴⁷. Finally, in their move towards self sustainability, the ESCs no longer feel bound (neither could be realistically asked to do so) to the old target population of medium-sized, privatized, industrial enterprises afflicted by all sort of problems: “now we are after solvent clients: that’s what counts!”. In a similar vein, the ESCs are free (indeed, actively encouraged by their EU advisors) to enter new areas of activity (e.g. accounting, training for waiters and maids, business English). This could lead to some overlapping with activities carried out by other Tacis supported initiatives (such as the SMEDAs) and, at any rate, greatly reduces the justification for Tacis intervention (what is the purpose of providing support to a center providing services on a commercial basis to foreign owned companies or to trading companies?).

3.2 Effectiveness

3.2.1 Assistance to Russian Enterprises

Quantitative Assessment. Usually, project documents stipulated quantitative targets. For instance, the contractor responsible for the West Siberian project (first contract) was requested “i) to supply business advisory services to a significant number of enterprises (about 105, i.e. 35 per oblast) ... and ii) to carry out a twinning exercise for ... 21 of these enterprises”. Whenever the indicators selected to measure achievement were primarily related to the ability to deploy resources and to win acceptance from participating enterprises (for instance: number of mini-projects completed) targets were usually achieved and sometimes surpassed (although, in some cases, after a downward revision of the initial targets during the course of projects). The situation is a bit more problematic in the case of result-oriented indicators, such as the number of successful “twinning”, where targets either were not achieved or were achieved only thanks to a relaxation of the concept (i.e. at a certain point, “twinning” became synonym for almost any sort of distant relation with Western – or even CIS – partner, including the supply of equipment).

Qualitative Assessment. Two aspects appear relevant: i) the nature of the delivery mechanism adopted to implement the TA and ii) the intrinsic quality of the advice provided. As for the delivery mechanism, the ESCs typically adopted a gradual approach. For instance, in the Urals the sequence of activities started with training seminars followed by the so called profit planning exercises, by the mini-projects (and a handful of major restructuring exercises) and, finally, by twinning activities. Such gradualism seems to have allowed for a better identification of problems and a better assimilation of advice from the Russian companies⁴⁸. Sometimes the process may have been a bit too rigid and slow for the more open and receptive companies, but on average it was well received and yielded adequate results. As for the quality of advice provided, available evidence suggests that it was, on the whole, at least acceptable. Instances of advice which was plainly wrong are obviously not easy to detect⁴⁹ but, based on the elements gathered in the field and the analysis of several reports prepared by contractors, these cases should not be too frequent. A potentially more serious problem (which, however seems to afflict all Western technical assistance, not just that extended by ESCs) refers to the limited implementability of advice. As pointed out by the representative of a leading Russian consulting firm: “advice provided to companies usually has to be implemented in stages. In the case of Western advice the first one or two steps are usually OK but at a certain point there is a break in the logical sequence of activities: in other words, between step 2 and 3 there are indeed many other steps, not considered by Western consultants and related to the peculiarities of the Russian situation”.

Quality of Beneficiary Enterprises. No matter how good, the advice dispensed by the ESCs can hardly be successfully implemented by a moribund company. The impression is that the ESCs suffered from the adverse selection bias typically affecting donor-funded operations. As a Russian interviewee put it: “real entrepreneurs don’t need donor support: they [the ESCs] only get lame ducks”. While such a statement largely reflects the

⁴⁷ The nature of the problem is ironically illustrated by the difficulties encountered by the Kemerovo ESC. Having entered the self sustainability phase the center is now trying hard to provide services on a commercial basis but it reportedly facing “unfair” competition from a Know How Fund operation offering consulting services free of charge.

⁴⁸ This point is borrowed from Tsantis [1998], page 36.

⁴⁹ We were told of a case in which a Russian metalworking company producing high volume and low value items was actively encouraged to establish subcontracting relationships with potential clients located 5000 Kms away (!), but we could not get confirmation.

typical bullish attitude of a self-made entrepreneur, the data presented in Table 2 on the (present) financial conditions of ESC-assisted companies seem to confirm that, indeed, the number of “lame ducks” served by ESCs was quite substantial. Given the time available and the scale of operations, the ESCs performed the selection process as best as they could. The fact that enterprises were sometimes (or even often) not among “the best in town” is intrinsically related to the mission assigned to the centers.

Table 2 Ranking of “Old” Clients by Present Financial Conditions

| Ranking (1) | Kemerovo | Novosibirsk | Stavropol | Cheliabinsk | Total |
|---------------------------------|-----------------|--------------------|------------------|--------------------|--------------|
| Bankrupt or almost bankrupt (2) | 15 | 15 | 5 | 18 | 53 |
| Difficult conditions | 50 | 24 | 11 | 11 | 96 |
| Decent situation | 9 | 15 | 6 | 7 | 37 |
| Good conditions | 7 | 7 | 0 | 8 | 22 |
| Excellent conditions | 0 | 0 | 0 | 8 | 8 |
| Total | 81 | 61 | 22 | 52 | 216 |

(1) Interviewees were asked to provide a numerical ranking from 1 (bankrupt) to 5 (excellent conditions). In many cases we got intermediate answers (e.g. “between 1 and 2”). Since during the interviews a rather pessimistic mood was prevalent, in these cases we opted for including these enterprises in the higher category.

(2) The expression “bankrupt” should not be taken literally: in most cases it means “desperate situation”

3.2.2 Establishment of Indigenous Professional Capabilities

While during the study it was obviously impossible to get a comprehensive picture of the Russian staff’s qualifications, achievements in this area appear less than impressive. For instance, the “self sustainability plans” prepared by the centers sometimes have an overly academic/formalistic character. Sale estimates are often largely supply-driven, in the best Soviet tradition (“we can sell so many staff hours per month at this price; hence our estimated sales are this much”); sometimes relevant cost items are not included (e.g. advertising and promotional activities) and there is a generalized tendency to underestimate competition. Also, with few exceptions, presentation skills (a fundamental item in the consultant’s tool kit) are not impressive, although the difficulty of having to deal with an (however benevolent) evaluating team at a difficult time for their projects (and, often, of their lives) should not be discounted lightly.

Apart from the different performance of contractors and, even more importantly, of different LTEs (and in this area some differences can indeed be noticed), the less than impressive results achieved in building local consulting capabilities appear due to two fundamental factors: i) the limited attention paid to the training of Russian personnel and ii) the intrinsic characteristics of individuals hired as local staff by some contractors. As for the first point, the TOR basically did not call for any formal training for local staff, be it in Russia or abroad. Training was only on-the-job, and as pointed out by a local consultant: “all we learned we had to grasp it while assisting the expatriate experts”. Regarding the “quality at entry” of Russian staff, in some cases there was a marked bias towards the hiring of personnel with linguistic and communication skills, while candidates with a background in economics or business administration were sometimes neglected (“Of course, if you just want a facilitator for the EU guy responsible for the “serious work” you are going to hire nice ladies with good English”; “Two professional consultants with relevant education were rejected by the LTE on grounds that their English was weak. Later they were picked up by a Know How Fund project”). The somewhat inadequate (not for their fault) human capital now available to the centers, poses serious problems for the future self sustainability of ESCs.

3.3 Efficiency

The ESCs projects are typical multi-product operations, whose outputs (mini-projects, twinnings, training seminars, etc.) cannot be added up so as to provide a meaningful denominator for the calculation of input-output relationships. On the other hand, relating project costs to just some category of “output” (not necessarily corresponding to “results”) would inevitably yield biased results. Under these conditions, efficiency considerations are inevitably crude. Some indicators on the unit cost of expatriate expertise (ECU per staff/month) and on monthly operational costs per ESCs (all included) are provided in Table 3. While these data are too rough to allow for definite conclusions, the differences across projects and contractors appear significant. It would seem that in some cases (Urals) the cost of resources was well above prevailing rates while elsewhere there could have been instances of over-manning (in South Russia at a certain point there were no less than three LTEs working in one center, “which also created a lot of confusion”).

Table 3 Efficiency Indicators
(ECU, rounded figures)

| Project (Contractor) | Cost per Expatriate Staff/Month (1) | Monthly Cost per Center (2) |
|-----------------------------|--|------------------------------------|
| Urals ESCs (AT Kearney) | 32,900 (3) | 85,000 (4) |
| West Siberia ESCs (GTZ) | n.a. | 57,200 (5) |
| South Russia ESCs (GOPA) | 23,800 | 75,000 |
| Average | 28,600 | 73,300 |

(1) Total project costs divided by the number of expatriate staff/months, disregarding LCs (whose cost is usually negligible)

(2) Total project costs divided by the number of months during which the ESCs have received assistance under the project

(3) First contract and addendum only

(4) All the contracts (first, addendum and second)

(5) Assuming that the Representative Unit in Tomsk is worth as 1/3 of a full fledged ESC. If Tomsk is discounted altogether, the average cost for the three ESCs is ECU 63,000.

3.4 Sustainability

Sustainability of Project Results. Project results are only partially sustainable. Some of the principles hammered by EU consultants during project implementation have been absorbed and are now part of the *formamentis* of many Russian managers, but good progress has been achieved only in some functional areas/types of actions (the need for a dedicated marketing dept. and/or a sale promotion unit; the need to perform some cost calculations before accepting an order; the need to improve the presentation of goods displayed in company shops and to address clients in a decent way). Tougher changes (such as the sale of assets and/or the dismissal of redundant workers) are hard to swallow and, at any rate, often have to be accompanied by some investments, which are hard to finance.

“Financial” Sustainability of the Centers. Initially, the ESCs were conceived to provide services free of charge for a certain period of time and were not engineered to become self financing organizations. This was not the only option available to Tacis but, for the reasons presented above (see relevance), it was on the whole a legitimate choice. Then, a decision was made to try to transform the centers into self sustainable organizations. This does not seem an attainable (and desirable) objective. All the ESCs visited during fieldwork are presently financially not sustainable and, as things stand now, few (if any) have any chance of becoming self financing in the foreseeable future. Indeed, two of the ESCs in the Urals, long regarded by Tacis as a model in this and other respects, have reportedly ceased operations in October 1998.

Given these difficulties, Tacis is planning to provide additional support through further project extensions, bridging contracts and, most importantly, another large scale project worth ECU 4 million (ESC Support project), which is expected to come on stream sometime in early 1999⁵⁰. These additional resources (possibly associated with the guarantee of some captive market under other Tacis projects) may well succeed in balancing the books of some of the ESCs for sometime, but the justification for such an intervention appears debatable. In particular, in the case of future ESC Support project:

- the provision of support in term of EU experts for short term missions would simply perpetuate the ambiguity of supposedly self financing centers not bearing (or bearing only partially) the cost of their most valuable “resource”;
- the additional support provided by Tacis to entities that have become fully private would introduce an element of distortion in the market for consulting services, with a negative impact on the development and consolidation of Russian private consulting firms;
- the selection as beneficiary organization of an association established with the active participation of some Tacis contractors may confer to these contractors an unfair advantage over other consultants.

3.5 Impact

Impact of Enterprise Performance. The overall impact on the performance of enterprises assisted by the ESCs cannot be evaluated. Certainly, figures like those presented in Table 2 above, do not convey a very

⁵⁰ The ESC Support Project was recently included in the 1998 Action Program. The partner organization is going to be the “Euro-Russian Consulting Group”, an association grouping the various ESCs and established under Tacis projects created with support from the contractors. The project is supposed to finance the following: i) training for ESCs staff, ii) establishment of an electronic network connecting the centers, iii) support the beneficiary organization and, most importantly, iv) a pool of EU experts for short term assignments. Pending the preparation of TOR, a summary project description is available on the net.

positive impression but no strong conclusion can be drawn from these data because no comparable information is available for the “before” situation and because the counter-factual (i.e. the “without” situation) cannot be established. From the analysis of project documents and the company visits conducted during field work, our best guess is that in possibly 20-30% of the some 200-220 “mini projects” and restructuring exercises it is possible to establish a logical link between consulting services provided by the ESCs and some tangible change in the performance of individual enterprises (some examples are provided in Box 1).

Impact on Attitudes. As all other activities with a substantial educational content, ESCs projects also brought significant intangible results. The training seminars and profit planning/business diagnostic exercises may have not determined directly discrete changes in strategies, organizational structures and product ranges but they certainly contributed to create an atmosphere more conducive to change. This is particularly the case of activities involving exposure to the “outside world”, such as the study tours and the participation to fairs, which contributed to broaden Russian managers’ perspectives in business as well as in other areas.

Box 1 - Examples of Impact in Selected Enterprises

Furniture Maker (South Russia). The company was assisted by a STE in marketing and sales promotion. The STE also helped with contacts with a EU importer and now the company is implementing a US\$ 1.2 million export contract covering a 18-month period. Assuming a 15% net margin on the contract, the value of consulting services could be paid back in 4-5 months.

Ice Cream Company (Urals). As a result of a sales promotion plan prepared by an ESC, sales of ice creams increased by 28% in six months. It was calculated by the ESC that the “investment” in consulting services had a pay back period of 2 months.

Brick Producer (South Russia). An energy saving program suggested by an ESC resulted in a 7% reduction in energy consumption. Combined with other savings due to a decline in the number of defective products, this led to a 13% reduction in production costs.

APPENDIX A: Enterprise Support Center - Stavropol

A. DESCRIPTION

1. Origins and Overall Developments

The ESC in Stavropol was established in January, 1996, as a part of the PRRUS 9403 project, contracted to GOPA Consultants (Germany). The project had three major components:

- a) strengthening the South Russian Privatization Center (SRPC), the official beneficiary;
- b) establishment of the ESCs;
- c) assistance to enterprises, namely: modular advice programs (MAP), core TA, and twinning activities.

In addition to Stavropol, under this project similar ESCs were established in Rostov and Krasnodar (described, respectively, in appendices B and C).

In the beginning, the project was lagging behind the schedule, and performance was evaluated as problematic (D marks) by the monitors, but in Summer and Fall of 1997 a significant effort was undertaken by the contractor to catch up. The project was scheduled to end in February 1998 but it was extended until August 6, 1998. The project is being followed up by a small (ECU 100,000) small scale technical assistance (SSTA) project also awarded to GOPA to further support the ESCs during their transition towards sustainability until December 1998.

2. Legal Status

On June 24, 1998, the Stavropol ESC was registered as a non-governmental educational institution for supplementary education. A certain delay in registration was caused by the internal approval procedures at the *kraj* KUGI, which was invited to become one of the founders. The other founders are 5 individuals (all working in the center) and one trading company. ESC staff believe that having the KUGI among the founders would ease the gate opening with many potential clients in Stavropol *kraj*, which is regarded as a very conservative area.

3. Structure

Personnel. The long term expatriate expert (LTE) had left just before our visit (July 18, 1998) and was expected to come back in the beginning of August for closing arrangements. At the time of our visit the ESC had a local staff of 10 (mainly female), including:

- 1 director (recently promoted from a consultant's position)
- 2 senior consultants
- 4 consultants
- 1 office manager
- 1 driver
- 1 accountant

The director is aged 23 and graduated in 1996 from the law department of the local university. During our visit he was out at a conference in the Pyatigorsk resort area, making a presentation. Of the 6 consultants, only one has a sound economic education (a candidate's degree in economics). During the visit she most actively participated in the discussion regarding future developments. A second consultant holds a candidate's degree in engineering and has an academic background. A third (junior) consultant is currently studying business at the university. The other three consultants, all have a "philological" background, because in the beginning of the project significant emphasis was given to recruiting locals with solid English proficiency in order to support the short term expatriate experts (STEs) who were the ones responsible for the "serious" work with enterprises.

Training of local consultants (LCs) was basically on-the-job: they participated in the presentation of certain topics in the seminars, and in mini-projects, developed and managed by the STEs. We were not informed of any specific professional training delivered to LCs to strengthen their operational and managerial capabilities after the project.

During our visit, different views on various subjects were observed, with our interlocutors broadly falling into two categories: the "professionals" and the "translators". During the project, local staff with linguistic background had a higher degree of involvement than the ones with professional education, but once the objective

of sustainability was announced, the importance of the professionals increased. Such a situation could lead to potential conflicts in the future.

In the past Stavropol ESC was heavily staffed with LTEs. In the initial phase no less than three LTEs were working simultaneously at the center, which reportedly caused some problems in coordination. From comments made by LCs and details contained in the monitoring reports, one is tempted to conclude that efficiency increased significantly as the number of LTEs declined.

Facilities. At the time of our visit the ESC was located in an office building not far from the downtown area and comprising a front desk room, a training room, and rooms for the staff. Nice office, well kept. The center had two cars, one of which to remain the property of the center, and the other one to be sold, with proceeds to be reportedly distributed equally among the three South Russian ESCs. The issue of title to equipment and furniture had not yet been solved: at project completion, the contractor was supposed to transfer all assets to the ESC but this would require some form of agreement with the SRPC (the official project partner and intended beneficiary of “all the goodies”).

4. Services - The Past

Before the issue of sustainability came into play, the ESC provided free of charge assistance to privatized enterprises in the area. The activities of the ESC were built along two lines of assistance: training and “core TA”.

Training. Training was provided within the framework of modular advice programs (MAP), which are short term seminars for selected enterprises. The MAP was organized in two stages. During the first stage (MAP I), which lasted till April 1997, managers of participating companies were provided with basic elements of “management in a market economy”. Starting from August till November 1997, the second stage training (MAP II) was delivered to a limited range of companies “in more specific areas”. The subjects of MAP I and MAP II were as follows:

MAP I

- Strategy and organization
- Marketing, distribution and sales,
- Costing and controlling
- Finance and investment
- Human resources management
- Total quality in manufacturing and services

MAP II

- Management of change
- Tools for managing change
- Marketing tools to increase sales
- Successful business through partnership
- Managerial accounting
- Production planning
- Maintenance and resource conservation

From elements collected in the field and from project documents, one is left with the impression that some training, especially during MAP II, was somewhat too generic (“management of change” and the like). During field work, our impression (in Stavropol as well as in other areas) was that Russian enterprises had become largely “fed up with learning fundamentals” and expected more sector-specific advice (e.g. “hotel management” instead of management in general).

Core TA. Core TA activities were delivered to enterprises on an individual basis, and included mini-projects and twinning exercises. Large scale restructuring initiatives were not offered, in line with the TOR.

5. Services - The Future

In December 1997, ESC Stavropol conducted a market study to identify its prospective clients. According to the economist, the center was planning to concentrate in two market niches:

- a) training in marketing and sales for industrial and commercial companies;
- b) analysis of credit applications for banks.

While the Center has some experience in training, the second line of business appears as a long-term perspective only. At the time of our visit the ESC was negotiating with Stavropol Sberbank for the provision of services to the newly established bank training division. This was seen as a starting point to get business from Sberbank's credit division for the evaluation of incoming credit applications. In discussing the future range of services, the difference between the "professionals" and the "translators" became once more apparent, with the latter mentioning the possibility of delivering courses in Business English or training for secretaries (definitely more down to earth, but what has this to do with "enterprise restructuring" and Tacis?). As mentioned above, we could not meet with the newly appointed director but our impression was that a clear strategy in terms of products/markets had not yet emerged.

6. Involvement in Other Tacis Initiatives

In 1998, Stavropol ESC provided some services (reportedly free of charge) to the Krasnodar and Rostov ESCs. In Krasnodar it was a course for secretaries; in Rostov a training seminar for participants in trade fairs. The consultants met during fieldwork were not extensively informed about other Tacis programs, like Bistro, TERF or PIP, and would not elaborate on past or potential actions of the ESC in regards to these initiatives.

7. Clients

Old Clients. ESC staff were asked to rank their old clients (defined as those who at least participated in MAP I) according to present financial conditions. As shown in Table A.1 below, companies served under the project can hardly be regarded as a pool of solvent clients.

Table A.1 Ranking of "Old" Clients by Present Financial Conditions
(as of July 1998)

| Ranking (1) | Number | Percentage |
|---------------------------------|---------------|-------------------|
| Bankrupt or almost bankrupt (2) | 5 | 23% |
| Difficult conditions | 11 | 50% |
| Decent situation | 6 | 27% |
| Good conditions | 0 | 0% |
| Excellent conditions | 0 | 0% |
| Total | 22 | 100% |

(1) Interviewees were asked to provide a numerical ranking from 1 (bankrupt) to 5 (excellent conditions).

(2) The expression "bankrupt" should not be taken literally: in most cases it means "desperate situation"

New Commercial Clients. In the Summer of 1998 the center had "just started to prepare for sustainability" and the number of commercial clients was still limited, with only two contracts signed. A sort of "retainer contract" was signed with a medium sized (80 workers) trading company which started to participate in the late MAP II activities and then asked for individual services. The company had agreed to buy six "products", of which 2 seminars and 2 mini-projects for a value of US\$ 2000 each had already been delivered and 1 seminar and 1 workshop (for US\$ 1000 each) were in the pipeline. Also a contract for a sales training seminar had been signed with another trading company for US\$ 1800. Two more companies (ceramics and confectionery factories) were considered to be interested in ESC's services, but negotiations had not yet been held. Another client had recently turned down the center on grounds that fares were "8 to 10 times higher" than those offered by a competitor.

As already mentioned above, the provision of services to financial institutions in investment appraisal appears as a very distant opportunity. During the survey conducted to determine their market positioning, ESC staff visited various investment companies and the typical, diplomatic reply was that "these services are certainly necessary, but we may consider them only in the future".

8. Competitors

The city of Stavropol (population 400,000) is a fairly underdeveloped market for consulting services. As usual, auditing and accompanying financial advice is the most widespread type of activity, *Stavropol Audit* being one of the most prominent local companies. In the training business, competition comes from a local private university, whose charges are said to be much lower than ESC's (most likely they only charge for labor, with overheads paid for from other sources). There are no visible competitors in the area of marketing consulting and business plan preparation, as well as no presence of international or Moscow-based firms.

9. Financial Aspects & Self Sustainability

LCs first heard about sustainability from the November 1996 monitoring report, but “the notion was very vague”. In August 1997, a LTE involved in MAP II seminars “suddenly announced: now we have to package some of these seminars and try to sell them as a product. At that point we [i.e. the LCs] were still laughing”. According to the people interviewed, a serious attempt to do things on a commercial basis only begun in early 1998 (and indeed, the Stavropol ESC was the last one among the centers visited to register as a legal entity).

Financial data and revenue/cost projections are presented in the consolidated business plan for all three ESCs, developed jointly with LTEs⁵¹. Data presented in this appendix are largely based on this document. As indicated in Table A.2 below, monthly operating costs are estimated at some US\$ 8,500. The salaries of local consultants are set at US\$ 400-600/month. The ESC is planning to cover costs by selling four types of products: seminars (US\$ 2000 apiece), 2-week training courses (US\$ 2000), mini-projects (i.e. consulting services, at US\$ 1500 apiece), SWOT analyses (US\$ 500). According to the business plan, the management hopes to reach the level of 1 SWOT, 1 mini-project, one training course and 2.6 seminars per month, which would still yield a loss of about US\$ 400.

Table A.2 Monthly Running Costs – Stavropol ESC

| | US\$ | % |
|-------------------|------|-------|
| Consultants | 3100 | 36.6 |
| Other staff | 750 | 8.8 |
| Social security | 1521 | 17.9 |
| Rent | 1000 | 11.8 |
| Other costs | 2088 | 24.6 |
| Total fixed costs | 8459 | 100.0 |

In summer 1998, the center was expected to receive some financial support (reportedly US\$ 11,000) under the new SSTA contract supporting South Russian ESCs. This financial support was meant to serve as working capital for the first period of “self sustainability”. However, given the difficult financial conditions of prospective clients, the impression was that this money would dry up quickly, leaving the center with little if any cash by the end of 1998.

10. Other

A specific project objective was to support the SRPC, one of 11 local branches of the Russian Privatization Center. From 1996 till mid-1997 the relationships with the SRPC were problematic⁵². Then a new SRPC director was appointed and things improved. During the project, attempts were made to provide training to SRPC staff. They were always invited to participate in the MAP seminars but, according to the contractor, they were often busy with day-to-day operations. However, they showed selective interest in some activities (such as a one-week seminar in the Sochi resort area, and in providing their own clients with opportunities to meet potential Western partners in the framework of twinning activities).

B. OVERALL ASSESSMENT

Negative impression. The Stavropol market is relatively weak and, in addition, the not so many potential clients are scattered across the *kraj*, which makes operations time consuming and difficult. The ESC is left with a largely insolvent client base and has limited time to develop a new one. Worst still (and discounting for the fact that we could not meet with the newly appointed director), the local staff capabilities appear limited. The situation is fairly dramatic, but during our discussion the attitude of the personnel was rather calm. Our feeling is that most of the personnel would leave center at the first liquidity crisis.

⁵¹ *Consolidated Business Plan for the Year of 1998 – Rostov-on-Don, Krasnodar, Stavropol*. January, 1998.

⁵² See, for instance, *Support Centers for Enterprises in Rostov, Krasnodar and Stavropol – Progress Report No. 2*, July 1997. p. 7

APPENDIX B: Enterprise Support Center - Rostov

A. DESCRIPTION

1. Origins and Overall Developments

The Rostov ESC was established in 1996. In the first year not much was done. In 1997 a new LTE director was appointed and activities started picking up. By the end of the project (originally scheduled for February 1998) the monitors had at least partially modified their previous negative assessment. The center entered the “sustainability phase” in 1998 and, as in the case of the other ESCs in South Russia, it is supposed to receive some support under a SSTA contract until December 1998.

2. Legal Status

The ESC was registered on May 7, 1998 as a non-profit non-governmental institution. Founders include four consultants working for the center and a private company (*Informatika*). The latter appears to be interested in the services offered by the Center and is regarded by the management as a potential customer.

3. Structure

Personnel. At the time of our visit (July 17, 1998) the ESC had the following staff:

1 LTE (on holidays, due to come back for closing arrangements in August)

1 director

2 consultants, one being the deputy director

1 secretary

1 driver

In the course of a project, three people left for personal reasons, such as an interpreter getting married to an LTE. The management regarded the center is somewhat short of manpower (“we cannot carry out two projects simultaneously”) and they hoped to hire two additional consultants.

Past recruitment policy is regarded as utterly inappropriate by present management. In the early days the emphasis was heavily on linguistic capabilities and only those who could provide expatriates with adequate personal support (interpretation/translation and secretarial services) were hired. For instance, “two professional consultants with relevant education were rejected on the grounds that their English was weak. Later they were picked up by a Know-How Fund project and are now regularly involved in the provision of consulting services to local enterprises”, thus competing with the ESC.

Management. The center is run by a dynamic and energetic lady, who has a degree in finance/economics and traces her career from *Potrebsoyuz* (the consumers’ union). She is assisted by a deputy, also a lady, who has an information systems background. The relationship between the two can be characterized as a partnership rather than subordination of one to the other. Both appeared determined to make their best to keep the center alive (“we could work for free for a few months while we develop our client base”) and their commitment seemed credible.

Facilities. The ESC is located on the ground floor of an office building in semi-central area. Initially, the ESC was sitting next to the SRPC “but the rent became too expensive”. Upon departure of the LTE, his room and the secretary’s room would be combined to provide for a large classroom, to be used for seminars. The staff would seat in another room.

4. Services

In the past the center provided (free of charge) the usual range of modular advice programs (MAPs), “mini-projects” and “twinning” activities. The methodology was standard for the three centers (see project profile and Appendix A for a more detailed description).

In the area of training, the ESC inherited a portfolio of products consisting of a dozen of standard workshops covering a wide range of topics (management of change, quality management, marketing, sales, financial management, investment, business planning, financial law, management accounting, management information systems, finding a partner in the West, etc.). All seminars are designed according to a fairly standard

format (1-1.5 days) and include lectures, group discussions and individual counseling. Seminars and mini-projects are supposed to be delivered largely by the staff, with some support from part-time consultants. LCs received in-house training by assisting the LTEs/STEs in the previous seminars together with delivering parts of the curricula on their own, under supervision from expats. Their task is to try to replicate what they have learnt this way.

Seminars can be supplemented by consulting activities, modeled after the “mini projects” and “twinning” activities implemented in the first phase of the project. However, in this case the participation of expatriate STEs is regarded as a crucial factor in winning contracts. In this respect Rostov ESC is counting on the future ESC Support project included in the 1998 Action Program, which is supposed to provide ESCs with a certain amount of EU short term resources around which the LCs could build “attractive packages”.

5. Involvement in Other Tacis Initiatives

The management are fully aware of various Tacis programs and of opportunities available through them. The ESSN program is regarded as potentially useful but inferior to comparable bilateral schemes, such as the Dutch senior managers program. The PIP was counted as only moderately interesting, since “it is doubtful that serious managers would leave their companies for a period longer than two weeks”. They are also aware of the Bistro facility, but have not tried to use it. Finally, Rostov ESC supported one local enterprise to submit an application under the TERF project. Reportedly, the enterprise was tentatively retained by the selection committee and was awaiting for further progress.

6. Clients

In the past the Rostov ESC addressed medium to large privatized enterprises active in various industrial sectors. Although no precise data are available, many of these old clients are in dire straits and cannot be regarded as solvent clients. Hence, a strong emphasis in finding new customers. The management seem to have an extensive network of contacts with local authorities and they are now busy in reviving these contacts. In particular, the Rostov Chamber of Commerce and the city administration of Taganrog, another industrial center in Rostov *oblast*, are considered as good sources of referrals for future clients.

7. Competitors

During a meeting at the regional administration it was mentioned that some 20 entities (consulting companies but also NGOs) are providing services to enterprises in Rostov *oblast*. These include some auditing companies, such as the sizable Rostov-based *AUDI* (ranking 27th countrywide). *Unicon* also has a local branch (opened in connection with a World Bank project) together with a few other Moscow-based consultants (e.g. *Pro-invest*). Over the last few years, Rostov received a substantial amount of technical assistance from various international organizations. A Know-How Fund project has been operating for about two years and in mid-1998 they had started to provide services on a commercial basis. USAID International Executive program is reportedly still in operation and a UNDP project targeted at SMEs. Despite such a high density of consulting firms, NGOs and donor initiatives, the management of Rostov ESC seemed to believe that they could effectively beat others on both price and quality.

8. Financial Aspects & Self Sustainability

The idea of sustainability was first aired in April 1997, during the first project-wide “team building exercise” but only in early 1998 the center started treating their customers “in a commercial way”. As a result of their initial marketing efforts, by mid-July 1998 the following contracts had been secured:

- a multi-client seminar for 8 new clients at US\$ 300 each (US\$ 2400). The seminar was delivered and 5 clients were able to pay on the spot;
- one contract with an old client (stockings) for 7 seminars at US\$ 300 each (US\$ 2100), not yet paid;
- one mini-project worth US\$ 3800 for a new client (plastics). The work had been done but not yet paid for;
- one mini-project in HRD (motivation, corporate culture, etc.) worth US\$ 4000, for a new client (pumps). By the time of our visit, the contract had not been signed yet, but “the client had already unequivocally indicated its agreement”.

Based on the above and barring major bad surprises (i.e. defaults on payments), revenues related to the first six months of operations were expected to total around US\$ 13,000.

As indicated in Table B.1 below, monthly running costs are estimated at about US\$ 7,500, of which almost US\$ 4,500 refer to personnel costs. ESC’s products seem to offer a good margin: variable costs for conducting one seminar are estimated at US\$ 250, while the selling price is US\$ 300 per company, with a

standard group comprising 3-4 companies (i.e. a gross margin of 70-80%). Gross margins for mini-projects and SWOT analyses are estimated at 70% and 40% of the price respectively.

Table B.1 Monthly Running Costs – Rostov ESC

| Item | Amount (US\$) | Percentage |
|------------------------------------|----------------------|-------------------|
| Staff salaries with social charges | 4387 | 57.3 |
| Office rent | 1000 | 13.0 |
| Other costs (car, telecom, etc.) | 2266 | 29.7 |
| Total | 7652 | 100.0 |

According to the business plan prepared at the beginning of the “sustainability phase”, the idea was to break even by the end of 1998. As other South Russian ESCs, Rostov ESC is receiving a contribution of reportedly US\$ 11,000 within the framework of the SSTA contract given to GOPA but by the time of our visit it was not clear how and when this sum would be transferred (as well as what tax regime would be applicable). The management were aware of the potential working capital problems and, as mentioned above, they were prepared to work for some months without getting paid (“first we have to cover office costs and other costs related to building up a client base”).

9. Other

During project implementation, at least US\$ 5000 monthly were provided to cover running costs of the SRPC branch in Rostov. This included the rent (US\$ 900), salaries for half a dozen people (director, 3 specialists, a driver and a secretary) and other running costs (e.g. gasoline for car). Besides, attempts were made to provide extensive training to the SRPC staff who, however, were often not able/willing to attend. As part of the general restructuring of the Russian Privatization Center, the Rostov branch was expected to close down on 1/8/1998. Basically, this money was just wasted (an estimated US\$ 400,000 for the whole project).

B. ASSESSMENT

Impressed by the enthusiasm and energy of the director and deputy director but their professional capabilities as consultants are still largely untested. To develop a client base they count largely on good relations with local authorities but seem to discount too lightly the impact of competition. Also, it is not clear if their limited financial resources would allow them to hire good consultants to strengthen the team. These people would most likely make good use of the support to be provided under the future ESC Support project and, on fairness grounds, they would deserve it. On the other hand, Rostov is already fairly well endowed with local consulting firms and donor-financed projects and the justification for this ESC project is not apparent.

APPENDIX C: Enterprise Support Center - Krasnodar

A. DESCRIPTION

1. Origins and Overall Developments

The ESC in Krasnodar was established in January 1996. In the early stages, the center experienced a high turnover in both LTEs and LCs and activities were lagging behind schedule. In 1997 performance improved. As in the case of other South Russian ESCs, the center is receiving further, limited support until the end of 1998 under an SSTA contract awarded to the same contractor (GOPA).

2. Legal Status

The ESC was registered in May 1998 as a non-profit non-governmental institution by five consultants working at the center. The KUGI is not involved: "their participation would have slowed down the registration process and, at any rate, given the nature of our target clients [see below], their participation would bring little".

3. Structure

Personnel. Krasnodar ESC is the center with the highest turnover among the South Russian ESCs. During project implementation, more than half a dozen of LCs left the Center. One of the LTEs also resigned in the early phases. The current director was appointed in early 1997. He has a background in private industrial companies (degree in electrical engineering) and, having applied for a Tacis position directly to Brussels, was suggested to GOPA directly by the Task Manager. He has remained in the area also under the new SSTA contract and is providing support to the three South Russian ESCs on a rotating base.

At the time of our visit (18/7/1998) the ESC had the following staff:

1 expatriate director

6 consultants

4 administrative employees

Out of 6 consultants, only one, hired in June 1998, has a degree in economics. Two have industrial degrees and three have a linguistic education. The director confirmed that in the early days recruitment policy was mainly aimed at finding assistants to LTEs and STEs. This inevitably impacted on subsequent developments in the self sustainability phase: "when the idea of making the centers self sustainable was put forward we had two alternatives: either fire them all [i.e. the existing staff] and recruit other people or try to make the best out of what was available. We adopted the second course of action and designed our strategy accordingly: we are mainly in the business of training, with strong emphasis on behavioral rather than on technical aspects".

Management. Until July 1998 the center had been run by the LTE and the first Russian director was expected to be appointed a few days after our visit. Due to the lack of strong personalities among the local staff, in the LTE's view, the new director should be a sort of *primus inter pares* ("this center can only be run as a partnership, in which everybody must have a real interest"). Throughout the first half of 1998 the LTE tried to reduce his involvement in operational activities (most negotiations reportedly conducted by LCs who are also responsible for delivering the training courses). Still, his influence remained substantial and this could also be perceived by clients (contracts and some correspondence signed by the LTE, which at any rate was a legal requirement until project completion).

Facilities. The center is now located at a 15-minute driving distance from downtown. They moved into this new location a few months ago to save on the rent. Another advantage is that some LCs and the director reside in the nearby area. The 145 sq.m. office is located in a separate section of an office building, and has adequate, recently renovated, well kept facilities and equipment. The back yard garden is sometimes used for group discussions and role playing business games in the open air.

4. Services and Strategy

The Past. In line with TOR, in the past the ESC Krasnodar provided local enterprises with i) training organized in modular advice programs (MAPs) and ii) the so called "core technical assistance", comprising small consulting assignments (mini-projects) and finding partners in the West (twinning projects). The methodology

was standard for all the ESCs (see the project profile and the Appendix A on ESC Stavropol) and services were strictly free of charge.

Present & Future. When the ESC entered the self sustainability phase, they decided to concentrate on training and twinning activities and developed a set of three basic products offered at standard prices:

- multi-client training, delivered to groups comprising some 5 companies (up to 15 people in total) on the premises of the Center, offered at US\$ 300 per company (US\$ 1500 total);
- in-company training, provided to specific groups of staff (usually, middle managers) at the client's premises, with customized design and follow-up with consulting advice, sold at US\$ 2000 a piece;
- twinning support, i.e. assistance in establishing contacts with potential partners in the West, offered at US\$ 2000.

As can be seen, prices for individual projects are set around US\$ 2000, which the management believes is a "reasonable amount" for the enterprises to pay. Daily rates officially quoted are set at fairly high levels (training: US\$ 500; consulting: US\$ 200), in line with the high profile strategy adopted by the center.

As mentioned above, in line with LCs' educational and professional background, the seminars offered by Krasnodar ESC mainly focus on "behavioral aspects", with a relatively limited "technical" content. Subjects include:

- Negotiations skills
- Conducting a meeting
- Decision making tools
- Personnel management
- Writing reports and proposals
- Project management
- The art of selling
- Idea presentation

A special line of services is targeted at the hotel sector, highly developed in Krasnodar *oblast*. In this case topics include training for hotel maids, waiters, administrative staff and sales promotion.

5. Involvement in other Tacis Initiatives

ESC Krasnodar is aware of various Tacis-financed facilities but so far their involvement has been limited. The ESSN could provide some opportunities in the future (reference was made to cooks and *maitres d'hotel*). Kuban Electrosvyaz (a prospective client) is considered by the ESC as a candidate for a TERF project which might see the light in 1999. For another client, who wants to find a Western partner, they plan to use the services of the Voronezh BCC which is being established under the SMEDA & BCC V project.

6. Clients

Old Clients. The old clients consist of two groups of entities: some hotels located along the coast and industrial companies in Krasnodar proper and throughout the *kraj*. Overall, Krasnodar ESC's old clients seem to be in a comparatively better shape than those of other centers in the region (no bankrupt or quasi bankrupt company among them). Nevertheless, only one of the old clients (Kossak Mebel) was listed by the director among the new/prospective clients to be served on a commercial basis.

New Clients. In the period March-July 1998, the ESC managed to sign contracts worth a total of US\$ 28,300 with 12 clients (list in the project file). Only one client (the above mentioned furniture company) previously participated in the ESC's activities. Six other clients were media companies, participating in a sales training course. Some 70% of sales were received in barter, mainly in advertising space and media coverage of the ESC. To a large extent, this high proportion of barter is explained by the ESC's late registration (there was no bank account to transfer the money into and "we couldn't get paid in a proper way"). Still, some US\$ 8,600 on a barter basis (30% of total sales) was regarded by the director as unavoidable, due to the poor financial conditions of customers.

In July 1998 the ESC was hoping to sell an additional US\$ 40,000 worth of services in the second half of 1998. A non exhaustive list of target clients (including some good names: e.g. Tetrapak, Abrau Durso) is presented in Table C.1 below. In most cases, the chances of securing firm orders appeared to be good: the day we visited the center some staff were busy in preparing for visits to a couple of clients while a meeting with a third client had taken place at the center in the first half of the morning. Unfortunately, some of the prospective clients

(e.g. the GSM company) have been badly hit by the recent crisis, with an obvious negative impact on expected sales.

7. Competitors

Since the Krasnodar ESC is only marginally in the consulting business, they do not feel the competition from other local consulting/audit companies. According to the director, only some educational institutions located in Krasnodar can be regarded as direct competitors, but the quality of their services is considered as very low.

8. Financial Aspects & Self Sustainability

Of the three South Russian ESCs, the Krasnodar center was the first one to start providing services on a commercial basis, even before they were properly registered (“We realized we were on our own in November 1997, when a project extension was ruled out. Since then, selling has become our credo”). Yet in July 1998 reaching the break-even point was still a distant goal. Monthly running costs for the center were the highest in the region, at some US\$ 11,300 (see Table C.2), far above monthly revenues, especially taking into account the cash-nature of running costs.

Table C.1 Potential Clients of Krasnodar ESC
(as of mid-July 1998)

| Name | Sector | Forecasted sales (US\$) | Services |
|---|-----------------|-------------------------|--|
| Kuban Electrosvyaz | telecom | no data | Training (to be specified: some way of complementing the technical training provided in house with activities in HRD) |
| GSM | telecom | 2000 | Training for front desk staff |
| Tetrapak Kuban | packaging | 2000 | Assessment of training needs, to be followed (hopefully) by implementation of training courses |
| Armavir KIP | footwear | 2000 | Partner search in Western countries |
| Nadezhda | hotel | 3000 | Training for waiters. The idea of a major event for Russian CEOs wishing to combine a stay in pleasant environment with some enlightening activities being developed in collaboration with this hotel. |
| Abrau Durso | wine | 2000 | Finding an importer (referral from GOPA) |
| Sochi Cannery | food processing | 5000 | Business plan for prospective investors |
| Subsidiary of UK company (confidential) | agri-food | no data | Training (to be specified) |

Table C.2 Monthly Running Costs – Krasnodar ESC

| Item | US\$ | Percentage |
|------------------------------------|-------|------------|
| Staff salaries with social charges | 5700 | 51% |
| Office rent | 1200 | 11% |
| Other office expenses | 3300 | 29% |
| Sales promotion | 1100 | 9% |
| Total | 11300 | 100% |

According to the business plan prepared in early 1998, the ESC was supposed to break even in November 1998, when monthly sales were expected to reach US\$ 11,300 (equivalent to: one multi-client training course, 4 in-company training seminars, and one twinning project). Losses in the previous months were expected to be at least partially covered by some ECU 10,000 lump sum grant provided under the SSTA project. Unfortunately, in the last few months some prospective clients have run into troubles, making the attainment of self sufficiency increasingly difficult

B. ASSESSMENT

The visit provided a sense of activism and commitment, with things getting done. The quality of the products appears to be good. The strategy is in line with available skills but, being centered on relatively “modern”

businesses, may leave the center over-exposed to recent, unfavorable developments. The other weakness refers to the lack of a strong local leadership, which still has to emerge.

APPENDIX D: Enterprise Support Center - Perm

A. DESCRIPTION

1. Origins and Overall Developments

The ESC Perm was established in early 1995, within the framework of the Urals ESC project implemented by AT Kearney. Initially, simply a local operational unit established by the contractor in accordance with the TOR, at the end of 1996 the Center was the first Tacis-supported ESC in Russia to register as a legal entity (see below). In the first years of operations all costs were covered by the project. The move towards self-sustainability began in 1997, when the Center started to provide some services on a commercial basis. Since January 1998 the Center has received little financial support from the project, apart from the salary of the expatriate director and related costs, and by the time of our visit it was striving to become financially self-sufficient.

2. Legal Status

The Center was registered as a non profit organization (educational foundation) on December 31, 1996. This legal form was suggested by Tacis and adopted for two main reasons:

- it could provide some tax privileges, subject to the granting of a special license for educational activities;
- it could facilitate the transfer of the equipment supplied under the project from the initial beneficiary (the KUGIs) to the Center.

During the visit the management expressed some doubts about the legal status: although they were indeed successful in getting the license for educational activities (one of the few cases among ESCs), they remain exposed to taxation for consulting activities; in addition, operations with banks are reportedly made more difficult, and they “cannot build a proper capital base”. Therefore, as part of their drive towards full sustainability, the establishment of a parallel, fully commercial entity was envisaged in a more or less near future. The transfer of equipment from the KUGI still had to materialize (“no decree issued by local authorities or, for that matter, even asked for”).

3. Structure

Personnel. At the time of the interview (July 3, 1998) the Center had a staff of 17, comprising:

- 1 director (the only expatriate)
- 1 deputy director
- 11 consultants
- 1 office manager
- 1 interpreter
- 1 chief accountant
- 2 drivers

The two managers and 4 consultants (out of 11) were from the initial group (hired in early 1995); several other consultants joined in 1997, with the second wave of recruits. The serious financial situation (see below), and the inevitable tensions associated with the need to “shape up” to quickly achieve self financing, had a significant impact on both staff numbers and personnel policy. Indeed:

- in the first months of 1998, 4 staff had been fired while 2 other had left for other, more secure and/or better paid jobs;
- the remaining staff were paid only a minimal basic salary while the bulk of their remuneration was linked to performance.

Despite the difficult financial situation and in line with the Center’s overall philosophy (“the range and quality of services we want to deliver requires a large internal team ... we cannot rely on free lancers”), the management was considering the recruitment of additional staff to compensate for the recent losses.

Management. Perm ESC has enjoyed a significant continuity in management: indeed, both the expatriate director and the Russian deputy director have been with the Center since the early days. In spite of the present difficult situation the expatriate director displays a significant commitment to the Center (no attempt to distance himself from the local staff; continued, direct involvement in operations). The deputy director appears to share a significant part of managerial responsibilities and since the start of the “self sustainability phase” he has been given the crucially important task of collecting overdue fees from clients.

Facilities. A nice, open space-type office located in down town Perm, not far from the river. During our visit everything looked orderly. Office space was somewhat reduced in early 1998 as part of the self sustainability efforts but seemed adequate for the existing work load.

4. Services Offered

According to the management, “the Center is capable of providing a wide range of consulting services”, their distinctive feature being the capability of delivering “European quality”. The main areas of activity include: logistics, financial management, marketing. Confronted with the pressing need to generate turnover, they could also provide services in more traditional areas (by Russian standards), such as tax counseling, accounting and audit, although this option was certainly not a favored one (“...but, yes, three or four of our people could do some work in this area”). Another area where they could do some work, but requiring some investment “to develop a good methodology”, is that of MIS.

In general, the Center seemed to be following a “high profile” strategy, as reflected *inter alia* in their daily fees of US\$ 375/day, the highest among the ESCs and similar structures covered by our survey.

5. Involvement in Other Initiatives

Perm ESC has been trying to promote the PIP: some managers from companies assisted in the past had already spent some time abroad and the Center was trying to recruit new candidates. In the days following our visit the Center was to carry out (on a fee basis) a psychological testing exercise for some 30 candidates. Involvement in other “facilities” has been limited: as a Tacis-financed entity the Center is not eligible for Bistro; the ESSN program “is not particularly appealing” and, at any rate, seems to be the preserve of the local Chamber of Commerce; the Center was not involved in any JOP initiative either.

6. Market - Clients

“Old” Clients. Since establishment, the Center has worked with over 130 enterprises (list in the project file), mostly industrial enterprises in the 500 to 5000 workers range. Services provided were in line with what indicated in the TOR, i.e. training, profit planning exercises, twinning actions, etc. At least until mid-1998 the economic situation in Perm *oblast* was regarded as more favorable than elsewhere and (although the subject was not discussed in detail during the interview) the proportion of “lame ducks” among the old clients could be lower than in other regions.

Commercial Clients. By the time of our visit the Center had signed 25 contracts (13 in 1997 and 12 in 1998 through June) with 20 different clients. The 20 commercial clients included: 8 old clients (accounting for 12 contracts) and 12 new ones (accounting for the remaining 13 contracts). Contracts vary in size, with an average of some US\$ 15,000.

7. Market - Competitors

The main locally-based competitors are briefly described in the Table D.1. According to the management, these firms are not capable of providing the same high quality of service which is seen as the Perm ESC’s distinctive feature. Therefore, they are not perceived as a major threat to the Center.

Some Moscow-based companies are also active in Perm: contracts with the local subsidiaries of large companies (Lukoil, Rosenergo) were mentioned during the interview. These assignments are awarded based on high level connections in Moscow and are effectively out of reach for the ESC. Moscow-based consulting & audit firms active in the area are said to charge US\$ 400 to 800/day, plus expenses.

Table D.1 Consulting Companies Active in Perm
(situation as of mid 1998)

| Name | Business Focus | Clients | Staff |
|--------------------------------------|--|---|-------|
| <i>Consulting</i> | Marketing research, audit | Mainly working with small businesses | 5 |
| <i>Stoik</i> | Financial analysis, enterprise restructuring, investment projects | Mainly involved in the restructuring of coal mining, on behalf of the regional administration | 11 |
| <i>Management Consulting Service</i> | Restructuring, legal counseling, strategic planning, human resources development | No special niche: working with companies of different size in various sectors | 10 |
| <i>Business Partner</i> | Marketing research, legal counseling | No special niche: working with companies of different size in various | 8 |

| | | | |
|---------------------------------|-----------------------------|---|---|
| | | sectors | |
| <i>Ural Business Consulting</i> | Human resources development | Medium sized enterprises, mainly in the food industry | 3 |

8. Financial Aspects & Self Sustainability

During the visit, monthly running costs for the Center were estimated between US\$ 20,000 and 30,000, excluding the cost of the expatriate director and related expenses (tickets, accommodation, etc.)

The Center was one the first ESCs to start the move towards self sustainability and it had been long regarded as a sort of model case⁵³, posting some good indicators. As mentioned above, in about 12 months the Center had been able to secure 25 contracts with 20 commercial clients, which is by far the largest number of commercial contracts signed by all the Tacis-supported ESCs visited during the study. Also, according to the figures prepared for the Monitoring Team, the self sustainability ratio (i.e. revenues/running costs) was over 80% for four months in a row (February through May 1998) and had reached 57% over the July 1997-May 1998 period.

However, the above indicators must be complemented with other elements, namely:

- during the interview it became apparent that a significant share of contracts (possibly up to 50%) had been secured largely (if not primarily) thanks to the availability of expatriate personnel. It is reasonable to expect that once the expatriate director is gone, it would be more difficult to sell services, at least to some clients. On the other hand, if the cost of the expatriate (say US\$ 15,000/month all included) is properly factored in, the self financing ratio would decline significantly even in the best months (March 1998: 56%; May 1998: 63%);
- some clients are not solvent and this was creating significant liquidity problems. A first rude awakening was in February 1998, when the Center was not able to pay salaries and eventually had to change its compensation scheme. The Center ran again into serious problems in June 1998 when they were able to cash in only US\$ 19,000 compared with the some 45,000 originally included in financial plans: this led to temporary default on rent payments, with the ensuing cutting off of electricity from the landlord and the associate, easily imaginable problems (both practical and psychological). The problem was fixed thanks to some support from the contractor. By the time of our visit the Center had not yet accepted to work on a barter basis but in one case they had to accept a *veksel* (reportedly from a good bank, and therefore with a negligible discount). Two more cases involving promissory notes were under discussion at that time (and these would entail a 30% discount).

9. Impact

During the first years of operations the Center was mainly involved in “awareness increasing” training & consulting activities targeted at the management of privatized enterprises. In the case of these activities, project impact can only be described in qualitative terms such as: a better understanding of modern management techniques, the emergence of a more market oriented approach (sometimes resulting in the establishment or strengthening of marketing departments), the establishment of at least rudimentary cost accounting systems.

Having embarked in the self sustainability drive, lately the Center was paying significant attention to the demonstration of tangible benefits achievable through consulting activities. An example of somehow measurable impact was offered with reference to a marketing research conducted for an ice cream producer in 1997: the US\$ 25,000 consulting assignment led to a 28% increase in sales in six months and was effectively repaid in just a couple of months.

B. ASSESSMENT

Long regarded as one of the best ESCs, this center also had the benefit of operating in a not too unfavorable environment. The move towards self sustainability was seemingly well accepted by the contractor and the staff alike and implemented with determination by the LTE. Still, the difficult financial situation is a clear demonstration of the serious weaknesses in very concept of sustainable ESCs.

⁵³ For instance, see the comments in the *Monitoring Report #6*, dated June 9, 1998

APPENDIX E: Prominvest Consulting - Tomsk

A. DESCRIPTION

1. Origins & Status

Prominvest Consulting (hereinafter also referred to as the center) is (going to be) the successor of a Representative Unit (RU) established in January 1996 within the framework of the West Siberia ESCs project implemented by GTZ. The center is a small unit which never reached a level of activity comparable with that of other ESCs established in West Siberia. Within the framework of a new contract designed to prepare the West Siberian ESCs for self sustainability, the center was expected to register as independent legal entity (a non governmental organization) by the end of July 1998. The founders would include:

- Tomsk Brick Plant (one of the old clients, reportedly well connected with the Regional Administration);
- Tomsk Housing & Investment Company (a financial organization also doing some consulting work);
- the two individuals working at the center.

Reportedly, Tomsk Promstroybank was also interested in participating, but at the moment of our visit it was not yet clear whether they could actually join the other founders (registration was to be completed in two weeks and it could take longer for the bank to make a decision).

2. Structure

Staff. At the moment of our visit only two people were working at the center. These are young people (about 25 years old), with degrees in economics and some experience in working for an American company or directly with Tacis. They are both fluent in English and appeared fairly determined in their undertaking. No enlargement in staff was foreseen in the immediate future.

Expatriate Support. The center is getting some support from expatriate personnel employed under the project. During our visit we also met with the LTE based in Kemerovo and also responsible for Tomsk *oblast*. He is delivering some on-the-job training and coaching the LCs when providing consulting services to clients. Within the framework of the present contract the center also hopes to receive some support from STEs. This would help in securing and implementing contracts and, at any rate, would “increase the credibility of LCs in the eyes of Russian managers”.

Facilities. The center is using two rooms in Tomsk’s “scientific area” (Akadem Gorodok), some twenty minutes from downtown. The premises and the equipment available (computer, printer, etc.) appear adequate to the work load.

3. Services

Past Activity. In the past the level of activity was quite limited. According to the information provided by the contractor, Tomsk RU implemented only a handful of seminars (one in 1996 and two in 1997) involving a total of some 60 participants. The so called “mini-projects” (i.e. short consulting assignments addressing specific needs) were not implemented in Tomsk while the RU was involved in conducting some market surveys and extended some assistance to local companies in developing business contacts (“twinning”, in the project’s jargon).

Future. They envisage to concentrate mainly in business development activities with a “foreign element”, i.e. support to foreign investment and international trade deals. This strategy was selected based on a number of considerations related to: i) their own capabilities (e.g. excellent English) and a certain exposure to international contacts, ii) the interest reportedly shown by some Western companies for activities in Tomsk *oblast*, iii) the concurrent absence of other consulting companies capable of providing similar services, and, perhaps most importantly, iv) the local enterprises’ limited interest in (and inability to pay for) “standard consulting services”. As for the latter point, the director pointed out that marketing research, restructuring plan and business plans are certainly important but it is not easy for local managers to understand their real value. Besides, it is difficult to get paid with “real money” rather than through barter. That’s why “it is better to work on investment projects or foreign trade deals involving some capital inflow from Western countries”.

4. Clients

They expect to sell their services to foreign companies as well as to medium/large enterprises, the latter to be identified among the “old clients” or among those with investment projects supported by the Regional Administration. At the time of our visit, they had already secured one contract from a Turkish company interested

in contacting producers of wood slabs to be used for pencils. The center identified two potential local partners and organized two missions for the Turkish managers. As a result of this scouting work, the Turkish company subscribed an agreement with Prominvest Consulting for a fixed fee (US\$ 10,000, of which 2,000 already paid) plus a success fee of 3% on the transaction's total value (expected to be around US\$ 5 million). As for other projects, the center was discussing with the Regional Administration about a feasibility study for a "gazification" project in the town of Kolpashevo. Finally, one of the prospective founders, Tomsk Brick Plant, was reportedly interested in receiving some assistance for the implementation of a market study aimed at identifying potential partners for the production of polyurethane and polystyrene-based thermo-insulating products.

5. Competitors

Competition appears to be limited. Interviewees mentioned some consulting companies (including the above mentioned Housing and Investment Company, one of the shareholders) providing advise on legal, accounting and auditing matters but he remarked that those companies "work in completely different market segments", with no overlapping with Prominvest Consulting.

6. Networking

Prominvest Consulting has good contacts with the other ESCs established by Tacis in the region (now grouped in the Siberian Consulting Group) and with Interconsult-Kemerovo in particular. In case of need (e.g. large restructuring projects), they could rely on these entities for support.

7. Income Generation & Sustainability

Apart from the few data regarding the contract with the Turkish company, no other figures were discussed during the interview. They did not have a proper business plan because "the situation is changing so fast that forecasts may turn out meaningless". The center is (and will remain for some time) a lean structure, and fixed costs are likely to be at a very low level.

B. ASSESSMENT

Prominvest Consulting is a small, young and still weak organization. Their expectations about the possibility of doing business with foreign enterprises wishing to set up shop in Tomsk are most likely exaggerated. At the same time, they seem flexible enough to adjust to other business opportunities whenever they arise (e.g. the feasibility study on "gazification"). Their professional capabilities are still largely untested and it is not clear if they have (or could establish) the network of contacts typically required to provide business development services at the international level. The low level of fixed costs appears as their best guarantee for survival.

APPENDIX F: Interconsult - Kemerovo

A. DESCRIPTION

1. Origins and Overall Developments

Interconsult (here below also referred to as “the Center”) is the successor of the Technical Assistance Center Kemerovo established in early 1995 within the framework of the West Siberia ESC project implemented initially by GTZ and then by DFC. During the first three years the Center was involved in the provision of the standard training and consulting services free of charge. The move towards self-sustainability started in late 1997 but the new “regime” became really effective only in 1998 when DFC took over from GTZ.

2. Legal Status

The Center is registered as a non profit educational foundation, the legal form suggested by Tacis for all the ESCs active in Russia. The founders include:

- Kuzbassprombank (a regional bank, ranking around 30th at the national level);
- the insurance company Ola;
- the pension fund Stimul Fund;
- two individuals working for the Center.

The GUKI, which is the official partner organization for the project, did not participate in the founding due to “the extremely volatile political situation”: the Center was registered just before the local elections and “at that time nobody would dare to make any decision”. For the same reason, no formal agreement regarding the transfer of the equipment provided under the project to the newly established entity has been reached. They are unlikely to receive the special license for educational institutions that would allow them some tax privileges (“it would cost us some US\$ 1,000 and we wouldn’t get it anyhow”).

3. Structure

Personnel. At the time of the interview (June 29, 1998) the Center had a staff of 7, comprising:

- 1 expatriate LT (based in Kemerovo but also working in Tomsk)
- 1 director
- 2 consultants (one based in Novokuznetsk; a third one was expected to start working on July 1)
- 1 office manager
- 1 interpreter
- 1 driver

Interconsult has also reached an agreement with half a dozen of local consultants who get a modest retainer fee and could be mobilized for specific assignments. In mid 1998 the Center lost one of the senior local consultants who went to work for the Know How Fund; in return the Center got an LT expatriate advisor who used to work for the very same Know How Fund project.

Management. The present director has been with the Center for about three years. Together with his colleagues he looks determined to do his best to keep the Center afloat. In the past the Kemerovo ESC suffered from an exceedingly high turnover in the LT experts: the first LTE left in October 1995 to become the project director; the second was relieved after 10 months in August 1996; two other LTEs worked just a few months each, until the present LTE (the fifth in three years) took over in early 1998⁵⁴.

Facilities. The Center is renting some 80-100 sq.m. in a government building, a bit far away from down town. Certainly not luxurious but adequate for the purpose. Office space was significantly reduced early in 1998 in order to cut costs.

⁵⁴ See Project Completion Report, March 3, 1997 (page 4) and comments formulated in the various Monitoring Reports.

4. Services & Strategy

During the first phase of the project, the Center has been involved in the delivery of the “standard” package of services: business diagnostics, “twinning” exercises, problem solving consultancy and training. At present, the range of services as officially defined⁵⁵ includes:

- consulting & training in the area of “financial management” (cost accounting and the like);
- assessment and/or preparation of investment plans;
- consulting and training in marketing (market surveys, preparation of operational marketing plans, establishment/re-organization of marketing dept., etc.);
- complex enterprise restructuring exercises (regarded, however, as not so easy to get and, in case, to be carried out preferably in collaboration with other West Siberian ESCs).

Forced to redefine their activities in order to achieve financial sustainability, Interconsult seems to have adopted a strategy centered around three key elements:

- the ST European experts made available under the project. Through this crucially important resource (if and when actually available..., see below), Interconsult is in a position to attract potential clients for consulting assignments involving i) the establishment and development of contacts with potential foreign partners (buyers as well as suppliers) and/or ii) an “expert second opinion” in specialized fields (e.g. the establishment of a distribution system for pharmaceutical products);
- their good relations with Kuzbassprombank. So far this privileged relationship has yielded a small contract for the preparation of a business plan but “as soon as the situation stabilizes” they expect more referrals from the bank;
- the good relations established (or in the process of being established) with the bankruptcy agency and with individuals likely to be appointed as external managers of companies put in receivership or declared bankrupt. At the time of the interview they expected a wave of bankruptcies in the coming months and “the external managers appointed by the court would need a lot of support to sort out the mess”.

Another element in their strategy is sensible pricing. As in the case of the other West Siberian ESCs, the daily rate has been set at US\$ 100, but in practice discounts may apply. A standard business plan is sold for US\$ 1,000 compared with the some US\$ 10,000 charged by Moscow-based consulting firms.

5. Clients

In the 1995-97 period ESC Kemerovo worked with some 100 enterprises (list in the project file), mostly industrial enterprises in the 200 to 5000 workers range, as per the (revised) TOR for the project. These “old” clients represent only a modest starting point for Interconsult’s new commercial activities. During the visit our interlocutors were asked to rank the old clients according to their financial conditions; as indicated in Table F.1 below, out of the 81 enterprises for which the exercise was feasible, 15 are bankrupt or almost bankrupt and another 50 are in a difficult situation. With such a percentage of “lame ducks” no wonder that Interconsult is now looking for new clients, especially outside the initial target group (“now we have no further restrictions in selecting clients ... the crucial point is whether their are solvent or not”).

Table F.1 Ranking of “Old” Clients by Present Financial Conditions
(as of June 1998)

| Ranking (1) | Number | Percentage |
|---------------------------------|--------|------------|
| Bankrupt or almost bankrupt (2) | 15 | 19% |
| Difficult conditions | 50 | 62% |
| Decent situation | 9 | 11% |
| Good conditions | 7 | 9% |
| Excellent conditions | 0 | 0% |
| Total | 81 | 100% (3) |

(1) Interviewees were asked to provide a numerical ranking from 1 (bankrupt) to 5 (excellent conditions). In many cases we got intermediate answers (e.g. “between 1 and 2”). Since during the interview a rather pessimistic mood was prevalent, in these cases we opted for including these enterprises in the higher category.

(2) The expression “bankrupt” should not be taken literally: in most cases it means “desperate situation”

(3) Total may not add up due to rounding

⁵⁵ See the *Summary of Sustainability Plan for Interconsult Kemerovo*, circa February 1998.

6. Competitors

During the interview, two main local competitors were mentioned: the Chamber of Commerce (mentioned as being very active also by the local SMEDA) and a Know How Fund project. The latter is attracting substantial criticism from Interconsult because of their policy of providing free of charge consulting services, which “is going to destroy the market for consulting services”. Needless to say, our interlocutors tended to overlook the fact that they have been doing precisely the same for two years and that they are still receiving subsidies from Tacis (either in cash or in nature – the much valued ST experts). Moscow-based consulting companies were also mentioned (*Unikon* is said to have won a US\$ 300,000 contract in Kemerovo) although they do not have a stable presence in the region. At the opposite end of the market are the small, low cost consulting firms offering services in accounting, taxation and, in general, financial matters.

7. Financial Aspects & Self Sustainability

In the business plan prepared in November 1997 annual operating costs for 1998 were estimated at some US\$ 234,000. In the revised “sustainability plan” prepared early this year, the budget was cut by more than 50% and total costs for year 1998 were brought down to little more than US\$ 100,000. During the interview, we were told by the director that there was still some room of maneuver to reduce total costs to some US\$ 75-80,000. All these figures do not include the cost of the LT expatriate and that of ST experts made available under the Tacis project.

Information on the pipeline of consulting assignments as of end June 1998 is presented in Table F.2. The 15 assignments listed refer to 12 clients, of which 6 are new and 6 come from the list of some 100 old clients. The importance of having access to EU short term experts is confirmed by the fact that 6 assignments (worth some US\$ 20,000) involve the participation of a foreign expert. The 15 contracts in the pipeline total some US\$ 54,000, *prima facie* not too bad. However:

- the fees on a contract worth US\$ 3,000 were eventually waived by the Center because the STE involved in the assignment could not be mobilized on time (see below);
- two contracts worth US\$ 12,000 were regarded as unlikely to materialize in the near future (if ever);
- another two contracts worth in total US\$ 6,500 still had to be finalized, pending confirmation of availability of the EU experts.

This leaves 10 contracts completed or reasonably secure, worth a total of US\$ 32,000.

At the time of the interview, the Center had completed work for almost US\$ 11,000 and received payments for about US\$ 6,600. Assuming that annual operating costs could be actually contained at some US\$ 80,000, in the first half of 1998 the self financing ratio was at 28% if reference is made to work done and at a mere 17% on a cash basis. If the cost of EU experts were to be taken into account, self financing ratios would be more than halved.

Table F.2 Pipeline of Consulting Assignments
(as of end of June 1998)

| Client | Client | Foreign STE | Amount (Rubles) (1) | Status/Comments |
|-------------------------------|--------|-------------|---------------------|--|
| Kuzbass Olympic Committee | New | No | 60,000 | Signed but implementation greatly delayed; likely to be dropped |
| MZhKspetroi (construction) | Old | No | 7,000 | Signed, ongoing |
| Fund Migration | New | No | 7,000 | Signed, ongoing |
| NooCenter | New | No | 7,000 | Signed, ongoing |
| MZhKspetroi (construction) | Old | No | 2,000/quarterly | Signed, ongoing |
| Greenhouse Sukhovski | Old | No | 2,000/monthly | Signed, ongoing |
| Association Sibir | Old | No | 2,000/monthly | Not yet signed, likely to be dropped |
| Sibtentzopribor | Old | Yes | 18,000 | Negotiations ongoing; waiting for EU expert |
| Siberian Ball Bearing Company | Old | Yes | 21,000 | Negotiations ongoing; waiting for EU expert |
| KORMZ | Old | Yes | 24,000 | Completed; had to relinquish payment due to problems due to delay in getting EU expert |
| Interregional Fuel Company | New | Yes | 24,000 | Signed, just begun |
| Interregional Fuel | New | Yes | 24,000 | Signed, just begun |

| | | | | |
|----------------------|-----|-----|--------|--------------------|
| Company | | | | |
| PharCenter (2) | New | Yes | 24,000 | Signed, just begun |
| Salaigok | New | No | 60,000 | Signed, ongoing |
| Translation services | New | No | 24,000 | Completed |

(1) Pre-devaluation value (US\$ 1 = RUR 6)

(2) In practice, same client as the Interregional Fuel Company

8. Other

As elsewhere in West Siberia, operations have been negatively affected by the change in the contractor. The STE experts requested by the Center (and by their “old” clients) are usually consultants who worked on contract with GTZ. Quite obviously, these experts were not included in DFC’s pool of ST experts and therefore they are not immediately available. Clearance of CVs from Brussels and/or negotiations over fees between the new contractor and the consultants have taken a considerable amount of time, resulting in significant problems with clients. In one case, this led to the cancellation of a business trip at the very last minute (“our client was about to board the plane when we received a fax from the expert who was supposed to assist them in Germany informing us that no agreement had been reached with DFC and that he could not assist the delegation from our client company”). Eventually, the STE was mobilized and the assignment completed but, in order to retain good contacts with the client (one of the few “old” clients regarded as reasonably solvent), the Center decided to waive its fee. In other words, not only the objective of transforming the ESCs in financially self sustainable organizations is debatable (see project profile) but tactical mistakes (such as changing the contractor *en route* or not making sure that experts could be mobilized quickly) were made.

B. ASSESSMENT

Mixed feelings. Figures for the first 6 months of 1998 are certainly not impressive and Kernerovo is not a thriving region. On the other hand, the management appears determined (they managed the Center for long periods without much support from LTEs), they have limited fixed costs and the strategy adopted seems sensible.

5. SME Development

Profile #9

SME DEVELOPMENT AGENCIES AND BUSINESS COMMUNICATION CENTERS

(SMEDA & BCC in Moscow and St. Petersburg, SMEDA Networks I, II, III, IV)

1. INTRODUCTION

In this profile we analyze five SME Development Agencies (SMEDA) projects: the first experience in Moscow and St. Petersburg and the subsequent so-called SMEDA Network projects I through IV. Although implemented by different contractors, these projects are part of a common strategy, so that the related issues are largely similar and deserve a common treatment. The basic data on each project are presented in Table 1 on the next page. The project profile proper is supplemented by a series of Appendices (A through E) providing a detailed description of five SMEDAs visited during this evaluation exercise: St. Petersburg, Barnaul, Archangelsk, Schlisselburg and Ekaterinburg⁵⁶.

2. DESCRIPTION

2.1 Objectives

The establishment of a network SMEDAs (augmented through the establishment of some Business Communication Centers –BCCs) is the core part of a wider Tacis strategy for SME development in Russia. Based on the replication of similar experiences in Western countries, SMEDAs and BCCs have been conceived as support centers to SME in their day-to-day activities, thus complementing the institutional support provided by Tacis at the Government level (see profile #10) and other initiatives regarding SME-friendly sources of financing. The rationale for this specific part of the program was to compensate for both the perceived limited political support to SME at the local level and for the barriers faced by SMEs in obtaining appropriate consulting services. The SMEDAs are therefore called to act partly as small business promotion entities in a transition environment (a task never experimented before) and partly as providers of first-help services to small and medium entrepreneurs (a task broadly in line with what had been done in a number of countries by a variety of public or quasi-public institutions).

To achieve these aims SMEDA should eventually rely only on proceedings from their own services and/or on the resources mobilized locally (contributions from local governments, association fees, etc.). In fact, after a false start in 1992 with the Moscow and St. Petersburg agencies, SMEDAs established under Tacis projects have been made self-sustainable “by design”. All of them know that when Tacis assistance stops they have to stay afloat on their own. Their management has therefore a deep interest in going commercial since the very beginning of operations, as well as in lobbying local governments to secure various forms of support. However, as it will be explained in more detail below, the objective of financial self-sustainability may conflict, at least in part, with the other overall objectives.

⁵⁶ During fieldwork the evaluation team also visited: Petrozavodsk, Moscow, Kemerovo, Tomsk, Cheliabinsk, Perm, Novosibirsk and Krasnodar. While no detailed description of these agencies is provided here, elements of these visits are incorporated into the main text of the project profile.

Table 1 Basic Information

| PROJECT | SMEDA & BCC in Moscow and St. Petersburg | SMEDA Network I | SMEDA Network II | SMEDA Network III | SMEDA Network IV |
|-----------------------------|--|--|---|--|---|
| OFFICIAL NAME | Establishment of SMEDA/ BCCs in Moscow and St. Petersburg | Technical Assistance to Develop a Network of SMEDA | Strengthening the SMEDA network in the Russian Federation | Support to the Network of SMEDA | Support to SMEDA and BCCs in the Russian Federation |
| REFERENCE NUMBER | SME 9203/9204 SME 9501 (ext.) | SME 9301 | SME 9401 | SME 9502 | SME 9602 |
| CONTRACT NUMBER | 93-0888 (first contract) 96-5105 (extension) | 93-0831 | 95-1201 | 96-5610 | 97-0684 |
| LOCATIONS | Moscow, St. Petersburg | Countrywide (over 20 locations including Ekaterinburg) | Barnaul, Kaliningrad, St. Petersburg, Perm, Krasnodar. | Petrozavodsk, Irkutsk, Murmansk, Archangelsk | Moscow and other locations (but <u>not</u> in South West) |
| CONTRACTOR(S) | Amsterdam Chamber of Commerce and Industry, <i>de facto</i> KPMG (NL) | Focus Consultancy (UK) | IDI (Ireland) | Enterprise Plc (UK) | Ramboll (Denmark) |
| SUB-CONTRACTORS | EIM (Netherlands), ING-EWIC (Netherlands) and others | Benavent Serre Asociados (Spain) and others | none | DTI (Denmark) and others | CNA-Veneto (Italy) Euro-in Consulting (Italy-UK) |
| PARTNER INSTITUTIONS | Consortium for the establishment of SMEDA (Moscow) City Hall (St. Petersburg) | Russian Agency | SMEDAs in various areas | Russian Agency | Russian Agency (main), International Business and Technology Incubator (IBTI) |
| START DATE | September 1993 | September 1994 | August 1995 | January 1997 | November 1997 |
| COMPLETION DATE | September 1997 (after extension and second contract) | June 1997 | December 1997 | January 1999 | September 1999 |
| BUDGET | I contract ECU 5,335,000 extension ECU 695,000 | ECU 3,767,000 | ECU 1,954,000 | ECU 2,998,000 | ECU 4,500,000 |
| MANPOWER | LTE 200 staff/month STE 183 staff/month LC 432 staff/month | LTE 94 staff/month STE 133 staff/month | LTE 52.5 staff/month STE 63 staff/month LC 15 staff/month | n.a. | n.a. |

2.2 Implementation

The first SMEDA project was conceived back in 1992 and targeted the two main Russian cities of Moscow and St. Petersburg. Apart from a specific focus on SME, in its conception there was no substantial difference between that project and the subsequent ESC experiment. Indeed, Tacis was supposed to cover a large share of both fixed and running costs and little consideration was initially given to the issue of self-sustainability. As explicitly indicated in the TOR the partner institutions were chosen among public entities and other non-governmental organizations. Private firms and banks were excluded in order to allow for the greatest freedom of action.

It soon became clear that such a scheme was not sustainable in the long run, as it would be too expensive to replicate on a national scale. Therefore, in 1994 Tacis completely reviewed this approach. It entered a partnership with the Russian Agency for the Development of Small Businesses (hereinafter Russian Agency) to develop a network of SMEDAs all over the country. Tacis was mainly to provide start-up support through equipment, training, coaching and short-term expertise on specific issues. It was envisaged since the beginning that after project completion SMEDAs should continue their operations on a financially-independent and self-sustainable basis. A larger degree of freedom was allowed in the selection of possible partners allowing the participation of private firms. Through extension projects implemented between 1996 and 1997, also the Moscow and St. Petersburg SMEDAs were brought in line with the new philosophy of self-sustainability.

The network was built and refined through five successive Tacis projects, the so-called SMEDA Networks I-V covering a total some thirty locations countrywide. The main effort was made with the SMEDA Network I initiative which contributed to establish SMEDAs in over 20 locations. The SMEDA Network project II focused on direct assistance to SMEs on a sectoral basis in five selected SMEDA, without adding any agency to the network. The SMEDA Network III project established/strengthened some SMEDAs in North West Russia and Siberia while providing support to woman entrepreneurship. Finally, the SMEDA Network IV and V projects presently under implementation, envisage a further expansion of the SMEDA network, provide specific support on leasing and technological development, but above all focus on the issue of internationalization through the establishment of BCCs attached to some “core” SMEDAs.

2.3 SMEDAs: Structure & Activities

SMEDAs are typically incorporated as joint stock companies. The structure of ownership varies greatly: while the Russian Agency is always present (but usually with a limited participation, 5% to 10%) other shareholders may include banks, investment funds, the regional administration, universities, commercial entities, consulting firms as well as the individuals working at the SMEDA. Some SMEDAs are very close to the regional administrations and, irrespective of their legal status, may be regarded as semi-public entities. Other not only are fully privately-owned but also tend to distance themselves from local authorities “to avoid political interference with [their] activities”.

The bulk of SMEDA activities is concentrated in the provision of first-help services to small and medium enterprises. Examples include: provision of basic information on enterprise registration, training courses on business basics, assistance in locating suppliers of equipment, assistance in dealing with banks, etc. The composition of these core activities varies greatly across the SMEDAs depending on a number of factors (nature of the client bases, relations with the local administration, competition from private consulting firms or other donor initiatives).

In more recent times a certain emphasis has been given to support SME’s internationalization. To this aim a network of BCC is being created within core SMEDA. The BCCs should be specifically responsible for facilitating contacts with foreign partners, be they customers, suppliers or potential investors. SMEDAs also act as local contact points for other Tacis initiatives such as BISTRO, the productivity initiative, JOP, and other twinning programs. Finally, the more proactive SMEDAs perform a number of “institutional duties”, such as lobbying for SME interests, promoting business associations, and organizing events to promote the idea of entrepreneurship among the local population and political *élites*.

2.4 Relations with Partner Organizations

The turning point in Tacis’ overall SME strategy was in 1994, with the emergence of the Russian Agency as a key partner to the scheme. Over time, the Russian Agency has proved a committed and reliable partner, with good operational capabilities and, even more important, a network of high level connections spanning across the whole country. These connections proved instrumental during the implementation of the SMEDA Network I project, when the constituent elements of the network had to be established from scratch. Lately, the Russian Agency’s increasing ambitions (for instance, the idea of building a major proprietary internet network perceived by some as an attempt to strengthen the influence over individual SMEDAs) have generated some frictions, but overall the relationship has been very positive.

Similar considerations apply to most of the SMEDAs. There were problems during the implementation of the SMEDA Network II project, but this was due to the poor design of the project, which was dumped upon the SMEDAs without any preparation. Also, some SMEDAs were not always satisfied with the quality of individual EU experts, but this is almost unavoidable in such a large program, and does not alter a fundamentally positive picture.

3. EVALUATION

3.1 Relevance

Initial Project Design. The development of a sizable and healthy SME sector remains a crucial factor in ensuring a successful transition to a market economy and in laying the basis for a sound democratic society. Therefore, generally speaking, the establishment of a network of support institutions to SME development at the local level can be seen as a highly relevant part of the broader Tacis assistance strategy in Russia. In Western countries, the SME support activities performed by the SMEDAs are carried out by local business associations (that in Russia are only now in the process of being established) and/or by Chambers of Commerce (that in Russia often resemble “club of entrepreneurs”). As the natural process leading to the establishment of such institutions would have taken too much time, the decision to proceed with the establishment of a brand new institution such as the SMEDA.

3.2 Effectiveness

Based on our sample of 13 SMEDAs interviewed: 5 are definitely OK, 2 are brand new, 1 is not operating and 5 are average or mediocre. Overall, at least one third (possibly 40%) of the some 35 SMEDAs now in operation are doing a good job.

However, there is a fundamental ambiguity in the SMEDA concept. On the one hand they are requested to do promotional work, on the other they are supposed to be financially independent. But promotional activities do no pay (nowhere in the world) and, unless local authorities are sufficiently (and tangibly) supportive, SMEDAs have to look for commercial clients, which are often not SMEs. It takes an unusual mixture of skills and commitment to be able to operate commercially without losing focus on SMEs (and, on the contrary, to use proceeds from commercial activities to cross subsidize promotional work). This aspect must be taken into account for future actions.

3.3 Efficiency

There were mistakes (the SMEDA Network II is generally regarded as a failure, and rightly so), but with the initial projects Tacis was getting good value for money. Leaving aside St. Petersburg and Moscow (which are special cases), the cost per SMEDA established is around ECU 350,000 (i.e. one seventh the cost of an ESC). Unfortunately, there are signs that efficiency may be declining with the last batch of projects (2 long termers posted in place like Cheboksary and Barnaul to establish a BCC within an already existing SMEDA are not justifiable; it is hard to understand the rationale of establishing a SMEDA in a place like Schlisselburg, population 10,000).

3.4 Sustainability

SMEDAs are “sustainable by design”, since they know what after the initial period they will have to stay afloat on their own. Obviously, not all of them succeed, but so far the casualty ratio does not seem too high (in our sample we had only one outright failure, in Novosibirsk). If something goes wrong, the RA has a vested interest (because they want to retain their credibility vis-à-vis Tacis and other donors) to step in and try to sort out the mess (this is happening right now in Novosibirsk, where they are in the process of restarting the defunct SMEDA).

3.5 Impact

No overall quantitative assessment is possible (numbers of SMEs actually in operation in the various regions are known only with a degree of approximation) but there is an impact. Good SMEDAs serve several hundreds small clients per year (Ekaterinburg: 1600 contacts, of which 500 repeat visits; Perm: 1,800 clients in two years). Some SMEDAs play a significant advocacy role (creation of business associations: bakers, plumbers, etc.). Others are involved in the management of local SME financing schemes (but this is not necessarily a good thing: there could be some political games and vested interests there).

Saint Petersburg Foundation for SME Development – St. Petersburg

A. DESCRIPTION

1. Origins and Overall Developments

The Foundation was established in 1994 within the framework of the “SMEDA and BCC in Moscow and St. Petersburg” project. In St. Petersburg, the main sponsor of the initiative was the Antimonopoly Committee, which had created a specific SME Department in charge of SME promotion activities, subsequently transformed into the SME Committee. The Foundation received further support through a 1996 extension under the same contractor. In 1998 another Tacis-funded seven-month short-term mission was dispatched to the Foundation in order to provide further assistance in reaching self-sustainability. Total Tacis funding devoted to this organization can be estimated at about ECU 3 mn.

So far, support from other donors has been limited to a few seminars sponsored by the Eurasia Foundation, while founders have contributed only through some equipment “inherited” from the Russian Information and Analytical Center and a little discount on rents granted by the Leontief Center. Although, initially very interested in the project, the local authorities never provided any direct financing. In fact, the city administration appears to be much more interested in medium and large enterprises conversion (70% of the industrial sector in former Leningrad was involved in military production). Therefore the Foundation seems to be at the same time relatively independent but also somehow isolated. It is worth noting that, though not directly contributing to financing, many donors are clients of the Foundation. In 1997 donor funded initiatives accounted for almost 50% of sales. This can be considered as a kind of indirect support, but also as a significant achievement for the Foundation, which is being recognized as a “full-fledged” consulting service by donors, and not merely as a recipient of subsidies.

2. Legal Status

In March 1995 the Foundation was formally registered as a non-profit organization. This is a rather unusual legal status for a SMEDA, because most of them are incorporated as JSC. The official explanation is that such a status makes it easier to have access to donors’ funding and to other administrative advantages (for instance, the Foundation was granted from the Saint-Petersburg Education Committee the license for delivering business training courses). In all likelihood there are also tax-related considerations for this choice.

The original founders, all with an even participation in the Foundation, are:

- the Russian Agency;
- the Federal Fund for SME Support;
- the Russian Information and Analytical Center;
- the St. Petersburg Government, through the Leontief Center;
- the Youth Labor Exchange;
- the St. Petersburg Union for the Development and Support of Entrepreneurship.

As recommended in the TOR for the initial Tacis project, all founding partners are institutional entities with no participation from private enterprises or banks. The main reason for this was to strengthen the Foundation’s independence. Of course, this does not prevent the Agency from cooperating, for instance, with the local Association of Commercial Banks.

3. Structure

Personnel. This Agency has presently a permanent staff of 12: the director (an MBA from St. Petersburg’s University), 2 senior consultants, 2 consultants, 2 junior consultants and 5 support staff. All consultants have a Russian technical or financial background and have received a four-to-five month training period abroad. In addition, the agency subcontracts some work to seven free-lance consultants, a few University professors and some small consulting firms. Because of financial constraints the Foundation does not plan to further increase its staff. Personnel turnover is quite high and reportedly only a couple of consultants remain from the original team manning the agency in early 1995. This turnover is partly explained by the success of the Foundation (which has become a good “landmark” on a CV) and partly by its inability to pay salaries as high as those of the “Big Six” (which are, reportedly, at least two – three times higher).

Facilities. The agency is located in a 300 sq. mt. flat in the city center within the same building of the Leontief Center. Actually their premises are rented from the Center at a subsidized rate. Offices are well maintained and well equipped: there are 12 computers connected through a network with a server (with Internet connection), 3 printers (1 color), four telephone lines (including fax and modem) and several copy machines.

4. Services

As shown in the table below which reports client figures from 1996 to 1998, activities are mainly concentrated in the supply of training and internationalization-related services (information, partner search, organization of trips abroad). The agency also offers assistance in a number of practical matters, including word processing, translation of documents and

of technical projects, secretarial and interpretation services, and renting of meeting rooms, for which no precise figures are available.

| SERVICES | Nb. of clients | % |
|----------------------|----------------|------|
| Consulting | 252 | 13% |
| Training | 855 | 44% |
| Internationalization | 846 | 43% |
| TOTAL | 1.953 | 100% |

Training. The Foundation designed and implemented several training modules on business-related matters. For local clients subjects range from company registration to international marketing and from business planning to financial analysis. For foreigners the usual items include company registration in Russia and negotiations with Russian partners.

According to the Director, though finance and marketing remain areas where training is necessary, new subjects now need to be developed (“the so-called 2nd level training”), in particular: human resources management and production planning. As a promotional activity it is worth mentioning that in May 1996 the agency shot the training movie “*It is my business*”. In this movie various businessmen share their experience on how to start and run a business. Through the City Committee for Employment, the Foundation is also involved in training to the unemployed.

Consulting. In the provision of *core* consulting services the Foundation has not been able to reach a significant market share yet. In the agency’s brochure only two cases are reported of clients who have received credit thanks to the agency’s services, not an exciting achievement when compared to the means provided to the Foundation.

Internationalization. The Foundation hosts a state-of-the-art communication center. It is part of the NIS BCC network giving access to international trade information, such as market reports and business partner search schemes. In June 1995 the SMEDA was the first entity in St. Petersburg to create its own site on the Internet. They now get some 8,000 connections per year. The Foundation described its approach to internationalization services as “market research, market scanning and partner identification”. The whole package includes visits and direct contacts, partner reliability assessment, in-depth feasibility study and support to access to financing. However, in pursuing its internationalization-services strategy the Foundation almost inevitably targets medium-large enterprises and experienced entrepreneurs, rather than small businesses or greenfield initiatives.

Box 1 - How the Foundation Perceives Itself

In this box we report a matrix-table about how the Foundation perceives and describes itself. The matrix comes from the Foundation presentation brochure. In this document it is emphasized that the St. Petersburg SMEDA has widened its range of activities, and is now involved in the provision of a whole range of private sector development services, including foreign investment promotion. The brochure also states that shifting to activities different from small business TA is the Foundation’s strategy: “originally a small enterprise support agency, the Foundation has rapidly transformed into an established professional organization”.

| | Training | Consulting | Business Information |
|-----------------|--|--|---|
| Local Clients | <ul style="list-style-type: none"> • Business orientation • Company registration • Business planning • Market research • Financial analysis • Strategy • International marketing and negotiations | <ul style="list-style-type: none"> • General business assessment • Market research • Business plan • Marketing & strategy • Search of investment source, investment promotion | Access to: <ul style="list-style-type: none"> • Company information (EU, CEEC, USA) • Main EU foreign trade regulations • Promotion through European information networks (e.g. BRE) |
| Mixed | | | On-line round-the-clock access to: <ul style="list-style-type: none"> • Company information in St. Petersburg, Russia & CIS • Legislation and taxation in Russia • Commercial offers “buy and sell” all over the CIS • Information on currency, stock exchange and property markets |
| Foreign Clients | <ul style="list-style-type: none"> • St. Petersburg business orientation seminar • Registering your company in St. Petersburg • Negotiations with Russian partners • Various options for local staff business training | <ul style="list-style-type: none"> • Market research in Russia • Development of marketing strategy • Search of investment projects and development of investment schemes • General legal and tax advice • Assistance in export-import transactions • Business-planning and financial | |

5. Involvement in Other Initiatives

The Foundation has already been involved in other EU-financed programs: the Productivity Initiative, ESSN and JOP, but not Bistro. This involvement is on a case-by-case basis. However it seems that recipients of these programs receive assistance on a “cumulative” basis (say starting with ESSN and then moving to JOP). The SMEDA does not seem to have close contacts with financing sources. It has never been involved in leasing, though there is a CCI (US) Project in this sector. It has also had very limited contacts with the EBRD Russian Small Business Fund⁵⁷ (US\$ 13 million channeled through local banks).

6. Clients

The Foundation operates in St. Petersburg City only and does not have any antenna in neighboring Leningrad *oblast*, nor plans to have one in the future⁵⁸. When requested, the Foundation provides its services to other SMEDAs on a fee basis⁵⁹. According to the Foundation, in St. Petersburg City the potential client base is made of approximately 110,000 registered enterprises, of which 50-60,000 are really operating, plus another 95,000 sole entrepreneurs. They presently have some 2,000 clients, but this figure is somewhat inflated by training (one participant = one client) and very small assignments on information supply.

The breakdown of sales by client type is as follows:

- 11% comes from foreign companies, mainly consulting firms under contract with donors (Greater London, IDI, etc.);
- 14% from Russian SMEs;
- 27% from Russian institutions, mainly the City Employment Committee, on behalf of which the Foundation carries out training courses for the unemployed;
- and 48% directly from donors, whether bilateral (Switzerland, Italy, etc.) or multilateral (Tacis, Eurasia, Unido, etc.).

Main marketing channels are represented by the donor community and local government agencies (in particular thanks to the Foundation’s connections with the Leontief Center) and, to a lesser extent, press articles and the Internet homepage. However, the Foundation is reportedly not always short-listed for consulting services by the City agencies. This is a rather strange attitude from local authorities, for which we could find no explanation.

7. Competitors

Strangely enough, the Foundation seems to know little about their competitors. They assess the quality of their services as somehow below that of the “Big Six” and other similar mainstream consulting firms, but much higher than those provided by small firms or independent consultant. Strong points are reputed to be the equipment, the information center and the cumulated experience. When compared to others SMEDAs in more remote areas, the St. Petersburg SMEDA appears to operate in a relatively large and solvent market. However, competition from large Western consulting firms and small companies and independent consultants is also fiercer. On the contrary, there is limited competition from other “institutional” support structures. There is no ESC in the city. The Morozov Center attached to the Financial and Economical Institute is reportedly no longer in operations.

8. Financial Aspects & Self-Sustainability

In 1997 sales were at US\$ 167,000. In 1998, they are expected to reach US\$ 230,000. The break-even point is at US\$ 250,000. Tacis now covers approximately 25% of the running cost, in particular wages. This calculations do not take into account that premises are rented from the Leontief Center at a discount price (US\$ 120/m²/year as against a market standard of 300-500). The fact that self-sustainability is almost reached should not conceal the following facts:

- nearly half of the income comes from donors, usually at low daily rates (ECU 90 for Tacis, well below market price in Saint-Petersburg) and another 11% from international clients under contract from donors;
- another 27% comes from Russian institutional clients, mainly the Employment Committee, also at low unit fees;
- only 14% is generated through activities for Russian SMEs, that should represent the Foundation’s “core” market, and some of them are done through donors’ indirect support.

⁵⁷ The Fund has some 300 clients in the city and lends as low as US\$ 50,000 to US\$ 125,000 per project. Other Funds tend to be more targeted to larger enterprise: the US Russia Investment Fund (TUSRIF) lends from US\$ 100,000 to 150,000, the Russian Technology Fund (RTF) in a US\$ 200,000-1 million range, the EBRD Equity Fund requires a minimum investment of US\$ 300,000.

⁵⁸ In fact, a new SMEDA responsible for that territory and supported by the *oblast* government is located in nearby Schliisselburg (see the attached profile in Appendix D)

⁵⁹ For example, at the time of our visit, it was running a seminar in Petrozavodsk in the field of making business contacts and partner search.

9. Other

Relations with Local Authorities. The City Government simply lacks the funding to support SME. However, the SMEDA is not even shortlisted in all municipal projects. The oblast administration is slightly more supportive to SMEs, though its budget is also limited and absorbed by its own SME support structures (co-financed in particular by the British Know-How Fund).

Relations with the Russian Agency. The Russian Agency was merely mentioned as a participant and the Director only remarked that they “interact” with the GKRP through the Russian Agency (without elaborating further). Connections with other SMEDAs seem limited to training and acting as a consultant for a fee.

Management. The present General Director has been working with the Agency since 1994 (though not as Director in the beginning). He is very professional and committed to his task. However, in this particular case we had the impression that the identification of the Foundation with its director in some occasions (e.g. relationship with banks or Government officials) may cause problems rather than bringing benefits .

B. OVERALL ASSESSMENT

The Foundation is very professional, committed, provides high-level services and is miles ahead of other North Western SMEDAs such as those in Petrozavodsk, Murmansk, Arkhangelsk and Schlisselburg. Of course, this is partly due to the cumulated experience of the agency (established two to three years before the other SMEDAs), to the level of assistance received from Tacis (approximately 20 times more than the other SMEDAs, except Moscow), and to St. Petersburg’s economic environment. The Foundation has nearly reached its break-even point and therefore, direct Tacis support can now be stopped. However, this is likely to involve a loss of focus on SMEs, since the Foundation will increasingly target large enterprises and foreign investors, who can afford to pay consulting fees. If confirmed, this would be an unwelcome development since, as highlighted by the City SME Development Department, the Foundation is at present the only kind of support available to small businesses.

APPENDIX B : Altai Regional Small and Medium Business Agency – Barnaul

A. DESCRIPTION

1. Origins and Overall Developments

The Altai Regional Small and Medium Business Agency was established in 1995 upon initiative of the Regional Administration. So far, it has received support under three different Tacis projects (SMEDA Network I, II and IV). It was originally included in the SMEDA Network I project, but in particular was selected as one of the five SMEDAs to take part to the controversial SMEDA Network II sectoral initiative. Within the framework of the SMEDA Network IV project it has recently been selected to host one of the newly-established BCCs. No other donor but Tacis has contributed to the agency's activities.

2. Legal Status

The Agency has been incorporated as a closed JSC. Shareholders include:

- The Russian Agency, with a 5% participation;
- Local public entities (*kray*, city, etc.) with 15%;
- Management and staff (basically, the director) with 20%;
- Three private companies, with 60%.

According to the director, this legal form is appropriate because in his words, “despite the tax advantages of non profit organizations, it better assures independence from political influences”. During our visit, we had the impression that the director could somehow be connected with some of the three private companies.

3. Structure

Personnel. As of end June 1998, the staff included: the director, some 12 consultants (working on as needed basis), 7 support staff and 2 LTEs (just arrived in Barnaul, where they work on the BCC project). The SMEDA relies extensively on independent professionals and university professors for its consulting and training activities. It is envisaged to enlarge the staff through the recruitment of 3-4 new local experts for the BCC.

Facilities. The SMEDA is located in the center of Barnaul and sits in a four-room flat totaling about 100 sq.m. The premises are in good conditions. The office looks a bit crowded, and it is unlikely that there will be enough space for a larger staff. The equipment delivered under the first SMEDA project is still in good order and was supplemented with computers and other equipment bought by the SMEDA with own resources, at a cost of some US\$ 25,000. Additional, substantial equipment will be bought for the needs of the BCC.

4. Services

The SMEDA is mainly active in the provision of consulting services in the field of marketing/sales promotion (50% of activities). The preparation of business plans accounts for perhaps 25-30% of activities, the other main lines of business being tax advice (10%) and provision of information services (5%). Although the Barnaul SMEDA has a strong commercial orientation they also carry out some activities for would-be entrepreneurs. This is done on behalf of the local Employment Fund. Given the Fund's limited financial resources this activity does not contribute to their financing.

5. Involvement in other Tacis Initiatives

The Agency is aware of opportunities offered by other Tacis initiatives in Russia. JOP and ESSN are, of course, those of special interest to them and they plan to become more involved in these activities in the future.

6. Clients

In 1997 the SMEDA offered services to about 160 enterprises. There are 8-10 main (“constant”) clients and another 20-30 “semi-permanent” clients. Since there are some 1,500 enterprises in operation in Altai *kray*, the SMEDA's client base is about 10% of the target population.

7. Competitors

There are not strong competitors to the SMEDA. The Barnaul ESC (known locally with the old name of Technical Assistance Center - TAC) is working with different clients; the Russian Privatization Center is now less efficient, since a key manager left; the Morozov Center is only delivering training.

8. Financial Aspects & Self-Sustainability

We were not given official figures, but annual turnover should be around US\$ 100,000. The Director indicated that in 1997 they suffered a small loss (“around US\$ 1000”), but this “is being settled now”. It is expected (hoped) that the new services offered by the BCC will have a significant impact on the level of activity. Rent (“at market rates”) and salaries of staff are paid with own resources.

9. Other

Relations with Local Authorities. One of the SMEDA’s strong points. The Director is extremely well connected with the Regional Administration. He is sitting in the advisory committee on SME development and is also member of the supervisory board of the local SME Development Fund which is administering two windows, one for small loans (Rubles 150-250,000 range) and one for micro credits (up to rubles 30,000). So far there have been some 40 loans extended to enterprises. The regional administration is now in the process of approving a package of measures (tax rebates, possibly something in leasing) to support small businesses and the SMEDA (its director) actively contributed to its preparation.

Relations with Russian Agency. Good relations. Being one of the veterans in the network, the director is also sitting in the steering committee for the Tacis SMEDA Network III project.

Relations with Tacis. The opinion on the support received from Tacis is generally positive but with some remarks. While the first project was a positive one, implemented with the participation of the Administration and of the Agency, the SMEDA Network II project was “parachuted” in Barnaul, without any serious discussion of what to do and how: therefore “the impact of that project was limited”. The Director is convinced that “Tacis is learning” and underlines that now there is a general consensus on projects to be implemented.

B. OVERALL ASSESSMENT

An average SMEDA, very much commercially oriented and with a strong director. The SMEDA Network II project left little and the *modus operandi* was clearly resented by the Director. The good relations with local authorities are a strong point, but the participation in the administration of SME lending schemes raises some doubts (some other SMEDAs – e.g. Perm – prefer to “stay away from these games”). Doubts are also raised by the presence of two long term expatriates for the establishment of the BCC: 30 staff months of LTE over two years seems a bit too much, especially taking into account the fairly advanced level of the agency.

APPENDIX C: Small Business Support Agency “Binar” – Arkhangelsk

A. DESCRIPTION

1. Origins and Overall Developments

The Arkhangelsk’s SMEDA (Binar) is a kind of spin-off of the Regional Small Business Fund “Forpost” from which they inherited staff, equipment, working experience and clients. As a matter of fact, both entities presently coexist and it is still “difficult to say where one ends and the other begins”⁶⁰. For instance, the director of Binar is the director of Forpost, as well. He believes that this partial overlapping between the Agency and the Fund is useful, as they can “legally manage finance transfers through the Fund”. Binar received very little support from the SMEDA Network I project and was *de facto* established as a full-fledged SMEDA only in July 1997 within the framework of the SMEDA Network III project. This delay was apparently due to the fact that “the oblast administration decided to wait until the 1997 program, under which Arkhangelsk would receive full support, before creating an agency.”⁶¹ Until 1997 SME development in Arkhangelsk was the direct responsibility of “Forpost” who received support from USAID and the Eurasia Foundation.

Binar has been provided from Tacis with equipment (TV, VCR, stationery, screen and overhead projector, etc.), short-term expertise and one long-term expert who has been working with them since August 1997, but was abroad at the time of our visit. Before the SMEDA Network III project, Forpost received support from other donors, in particular:

- the MTC company (Norway) drafted their first Business Development Program (1994) – trained 20 local entrepreneurs on business plan development and organized meetings with potential partners in Norway
- USAID (1995-96) supplied them with computers and organized four seminars⁶²
- The Eurasia Foundation (1996-1997) gave them a \$20,000 grant to pay for local consultants.

2. Legal Status

Binar is a closed joint-stock company. Their shareholding structure is reported in the following table. As can be noted, there are no local government agencies among shareholders. However, the *oblast* administration indirectly participates in Binar through Forpost. The management considers this ownership structure and their legal status as fully appropriate for their needs. Their “only” concern was that by June 1998 the only shareholder who had paid up its contribution was the Russian Agency.

| Shareholders | % | Comments |
|--|----|---|
| Public | | |
| Forpost MP | 50 | Arkhangelsk Region Fund for Development and Support of Small Business |
| Arkhangelsk Public Association of Entrepreneurs “Razvitie” | 10 | |
| Russian Agency (Moscow) | 5 | |
| Federal Fund for SME Support | 5 | |
| Private | | |
| Arikon Ltd. | 10 | Construction design company whose director is also the director of the Center of Science and Technology Information which owns the building where the Arkhangelsk SMEDA rents office place. |
| Masters Ltd. | 10 | Publishing house which prints advertising brochures for the Agency |
| Local consultant of the Agency | 5 | |
| Local legal consultant of the Agency | 5 | Left for Moscow and will withdraw from the shareholders |

3. Structure

Personnel. The Agency has staff of 22 (5 full-time and 17 part-time). The permanent staff includes: 1 director, 2 senior consultants⁶³, 1 junior local consultant and 1 secretary. In fact, real staffing is higher because six “part-time”

⁶⁰ See, Inception Report by Enterprise PLC.

⁶¹ Final Report by Focus Consultancy on SMEDA Network I.

⁶² “Way to success”, “Securities underwriting”, “Attraction of capitals to Russia”, “Advertising and Promotion” all conducted by Deloitte & Touche

⁶³ One of these consultants is reputed to be one of the most experienced SME experts in the city (invited to conduct seminars as far as Karelia). A former military, he received his second degree in economics and has been working in the city tax inspection for four years. The other is Mr. Alexander Ivanov, Another consultant who was part of the first wave in the “cooperative movement” – and headed, in the early 1990s, the *oblast* Association of Cooperators. Later he became Chairman of the City Assembly and currently he is Chairman of the

consultants work on an almost permanent basis. Most Binar staff have been working together already in Forpost and form a well-oiled team. So far turnover in personnel has been negligible: only one lawyer left to work in Moscow. All consultants are well experienced and usually have two university degrees – economics or engineering, law or pedagogical sciences. Over and above this good academic background, the main strength of the Agency’s staff is probably that all consultants are practitioners, and some of them even have their own businesses.

Facilities. The Agency is located in a nicely furnished office in downtown Arkhangelsk. Formally, half of the space, 60 sq. m, is rented by Forpost and the other half by Binar. They regard this location as adequate for present needs. However, they would have extended their premises, if the rent had not been recently increased. Office equipment, largely inherited from Forpost, is also considered appropriate and they even occasionally rent it to earn some additional cash.

4. Services

The Agency mainly focuses on counseling start-ups and sole entrepreneurs. Main areas of activity include:

- fiscal assistance (reportedly, they filled in 183 tax declarations in March 1998, during the “rush hour” before the April 1 deadline),
- accountancy and book-keeping,
- labor law,
- patents and trademarks,
- use of cash-registers,
- joint ventures.

The agency also provides secretarial services including translations from English, German and French.

They have a policy of not developing credit applications (“business plans”) on behalf of applicants, but to provide “real” consulting only. The reason for this is that business-plans are of no use in receiving a credit, as banks require guarantees anyway. Moreover, business-plan drafting is an expensive service that usually SMEs cannot pay for. Finally, they believe that businessmen must draw up business-plans themselves because it is up to them to “defend” their credit applications to the banks. A very popular service provided by Binar is the organization of exhibitions of SME’s products⁶⁴. All the SMEs interviewed during our visit in Arkhangelsk confirmed that participation in exhibitions brought them new clients. A good indirect indicator of the success of this activity is that SMEs are willing to pay rather significant fees for participation in an exhibition (from US\$ 135 to 300).

5. Involvement in Other Tacis Activities

The Agency directly participated in ESSN only. They are somewhat informed that the Bistro program assisted an energy company in the town of Severodvinsk, but did not play any role in that project. They do not consider the ESSN experience as particularly successful. Besides consulting individual SMEs, the two EU senior experts (from Finland and Germany) conducted two 3-day seminars attended by 22 companies. According to Binar, “a common opinion was that our businessmen already knew everything, nothing new. Grannies are grannies.”

6. Clients

According to official figures, there are some 3,500 SMEs operating in the oblast, 40% of which based in Arkhangelsk and 25% in Severodvinsk. Main sector of activities are wholesale and retail trade, autoservice, bakeries, small dairies. It is worth noting that very few companies operate in one single line of business. At present, the Agency provides regular consulting and training services only in Arkhangelsk. A few seminars have been conducted in the nearby towns of Novodvinsk and Severodvinsk (30 km from Arkhangelsk) where a rapid growth of sole entrepreneurship has been observed. This is partially connected with the conversion process taking place in Severodvinsk where a major Russian navy base is located. In general, the Agency believes that setting up an antenna in the oblast would have a significant impact. However, it would require too much financing to establish even a minimal infrastructure.

The Agency’s client base is mainly made by start-ups and “old” clients inherited from Forpost. They report 400 “permanent” clients in 1997, with the same expectation for 1998, and approximately 1100 visitors. “Rich companies can afford hiring their own lawyer and an experienced book-keeper”. A trend of increasing demand from established SMEs has been observed – “as soon as a client has reached some positive practical result he is eager to learn more”. The Agency

Budget Commission of the Oblast Assembly. One of the two full time senior consultants speaks good English and can work as an interpreter, if need be.

⁶⁴ In the period May 1997 – June 1998 the following exhibitions were held:

- Information and Advertising (twice) (27 and 21 participating companies),
- Training and Information (16 participants),
- Energy in the North (18),
- Computer Technologies (17),
- Construction and Design (18),
- Cars and Autoservice (14).

charges clients at very competitive prices. Consultations for start-ups are free, for the rest it is one ruble per minute (US\$ 10 per hour).

7. Competitors

The only competitor is the Arkhangelsk State Technical University. However, the consulting unit of the University and Binar work with different clusters of clients (established SMEs vs. start-ups) and thus can hardly be considered as “real” competitors. According to the director, “start-ups counseling is still a greenfield”. There is no local branch of the Russian Privatization Center. The Morozov Project has an official representative in Arkhangelsk, but apparently “nobody hears about them”. Based on participants to the Round Table on SME development held by the oblast administration in April 1998, there are very few SME consultancies in the region. Entrepreneurs interviewed during our field trip as well as the president of the local Business Women Union reported that Binar is the only consulting company where SMEs and particularly beginners can receive comprehensive competent advice.

8. Financial Aspects & Self-Sustainability

The main investment costs (equipment, furniture) were incurred before the SMEDA proper was established. Total annual proceedings are about US\$ 72,000, of which US\$ 50,000 come from the local authorities through Forpost, US\$ 20,000 from fees paid by participants in the exhibitions organized by the Agency and, about US\$ 2,000 from consultations, secretarial services and renting equipment.

9. Other

Relations with Tacis. At Binar they are not particularly enthusiast about short term assistance provided by Tacis. They even found it difficult to recollect how many consultants “studied our needs at the beginning of the SMERUS95 program – three or five”. Later on, there were no short-term experts – “only short-term inspectors”. On the other hand, the Agency is more than satisfied with the work of the long-term Tacis consultant. They describe him as an extremely motivated, enthusiastic and competent person. “Without him we would be in an information vacuum because all news [on Tacis programs and other business opportunities] coming from Moscow often resemble a poor-connection telephone line. The Petrozavodsk SMEDA is envying us because this gentleman is based in our region.”

Relations with the Russian Agency and Other SMEDAs. Relations with the Russian Agency are generally considered good, even if “they could be better”. In particular, Binar credit the RA for having a “helpful long-term consultant”, but complained that none of the RA experts visited the Agency. Another complain concerned the high price for participation in RA workshops in Moscow – US\$ 350-400 for a two-day seminar plus travel plus accommodation – a price that they cannot afford. As to SMEDAs in neighboring areas, Binar has established good relations with Petrozavodsk, no links with the new agency in Syktyvkar and “mother and daughter” relations with the St. Petersburg Foundation (“they are head and shoulders above us”).

B. OVERALL ASSESSMENT

A well-equipped agency with highly professional staff, including creative and committed part time consultants. They are very much customer-oriented and have differentiated their activities to suit local needs. They charge fairly low fees and have a flexible consultation schedule. A wise personnel management policy (hiring practitioners as consultants and allowing them to have a flexible work schedule) is among the Agency’s strong points. Their idea of organizing exhibitions of SMEs products and services is an efficient way of supporting SMEs and sole entrepreneurs. They are well-renowned in town and enjoy a very good reputation. However, continuing support from the local administration through Forpost seems a key point in ensuring the sustainability of such achievements.

APPENDIX D: Leningrad Regional Agency for Small and Medium Enterprise Support – Schlüsselburg

A. DESCRIPTION

1. Origins and Overall Developments

The Agency was founded in July 1997, based on the Social Business Centre (SBC) previously set up by the current Director of the SMEDA, with strong support from local authorities. Upon initiative of the Russian Agency, this SBC was turned into a member of the SMEDA Network and registered as a joint-stock company (the SBC actually is one of the shareholders of the Agency). In February 1998, the Agency was selected as one of the four new SMEDAs to be supported through the Tacis SMEDA Network IV Project. A EU long-term expert is expected to work with the agency till October 1999 and during that period of time Tacis will also pay the wages of two local experts. The agency should receive further support from Tacis in terms of equipment for training (chairs, tables, etc.). Other equipment was previously financed by the shareholders. Reportedly, the Russian Agency provided them with Rbl 20,000 and some equipment (computer, printer, fax) and the Federal Fund supplied Rbl 275,000 for computers, copy machine and working capital. The Agency also benefited from some training from the Eurasia Foundation and the Russian Agency (seminars on business planning).

2. Legal Status

The shareholding structure is as reported in the following table. The Agency apparently knows little about their shareholders. In particular, they pretend to have no idea whatsoever about what the Research Center on Problems of City Development is, or why the two private partners got involved. Reportedly, these shareholders were brought in by the Russian Agency and local Authorities without further explanations.

| Shareholders | % |
|---|----|
| <i>Private</i> | |
| Trading House Partner Ltd | 10 |
| Medicine Technology Service (sole entrepreneur) | 5 |
| <i>Public</i> | |
| Russian Agency (Moscow) | 5 |
| Social Business Centre (city owned) | 10 |
| KUGI | 10 |
| Federal Fund for the Support of SME | 10 |
| Retsept (Local Fund for SME support) | 40 |
| Research Center on Problems of City Development | 10 |

3. Structure

Personnel. In addition to the foreign long-term expert posted for 18 months by Tacis, the Agency has a permanent staff of 4: the director, 2 senior consultants and 1 bookkeeper, also acting as a consultant for accounting and tax issues. The director and one of the senior consultants are engineers (graduated from the Leningrad Shipbuilding Institute). The other senior consultant is a pedagogue. The agency found it hard to find consultants in the Schlüsselburg area with a decent knowledge of English. One of the senior consultants is actually the director's husband, formerly working at Retsept, the local Fund for SME support. The only real English-speaking staff is the pedagogue. The present director was formerly the SBC director. Unfortunately, we could not meet her on the day we visited the agency.

Facilities. The Agency is located in a small 200 sq. mt building rented by the local administration. This location is shared with a small marketplace. The Agency is involved in developing this marketplace (stalls, small cafés, etc.) as a way to get small fees to pay for the rent. Offices are very well equipped, with four computers (with E-mail), two printers, one copy machine and fax. However, the SMEDA still misses an equipped training room. They have no antenna in the oblast, but are currently trying to develop ties with similar SME agencies reportedly developed by the Know-How Fund in neighboring areas.

4. Services

So far the SMEDA has not carried out any real consulting assignment, and was only involved in the preparation of business plans (i.e. credit applications) for three startups (which eventually never led to any financing). It is not clear whether the former Social Business Centre was involved in "real" consulting, but it is sure that its services, whatever they were, were for free (reportedly, it was ran "like a charity" and was mainly involved in woman entrepreneurship issues). However, the agency now has a certain know-how in training, as the Tacis long-term expert was formerly working in this field with the St. Petersburg's Foundation for SME. They have ambitious plans for the future and would like to provide a wide variety of services, as indicated by the following list of "planned" activities:

- support to individuals wishing to start their own business;
- assistance to SMEs wishing to develop their business;
- development and orientation of new technologies for market commercialization based on the existing technical and innovative platform;
- support to new SME entrepreneurs and innovations in the Region;
- project evaluation and formulation of business plans;
- management, organization development, sales and marketing;
- support to prepare investment proposals, financing of projects and financial management;
- selection and training of staff and future managers;
- search for market information;
- financial and economic assessment of investment projects;
- development of business plans in accordance with criteria and standards adopted in international investment practice, taking into consideration Russian conditions and management;
- project optimization through the development of various financial and economic models for investment projects;
- risk analyses and SWOT analysis of investment projects; lowering commercial risks and credit risk;
- development of financial plan for project presentation; conclusions for project presentations;
- expert and consulting support and control of all stages of an investment project fulfillment;
- training activity.

5. Involvement in Other Initiatives

Given their recent establishment, so far the Agency has not been involved in other Tacis initiatives. They have good contacts with the Eurasia Foundation and EBRD-funded support schemes. They are also trying to develop contacts with other SME support structures financed by the British Know-How Fund in the oblast. In the private sector, through personnel relationship of the Director and her husband, the Agency has some connections with banks.

6. Clients

So far the agency has not had any client properly speaking. They have established contacts with 12 start-ups and 3 existing small businesses to possibly draft project profiles. They also contacted the local shipyard (viewed as a possible “source” of spin-offs) and one entrepreneur for a large US\$ 9 million project. None of these contacts seems likely to provide any income in the short run. Schlisselburg is a small mono-company town (the shipyard, which is not operating now), with only 10,000 inhabitants. Therefore, the Agency expects mainly to be active with start-ups and spin-offs from the shipyard. It is worth noting the emphasis always placed by our counterparts on the “innovation” concept, which most likely depended both on the perception of spin-off opportunities and on their engineering background.

7. Competitors

Schlisselburg is a very small town and there is definitely no competition at the local level. In theory, competition may come from St. Petersburg, but at this business development stage (small business start-ups) this seems very unlikely.

8. Financial Aspects & Self Sustainability

So far, sales of consulting or training services are nil. Present sources of income include: i) Tacis, which is covering staff costs; ii) proceedings from the marketplace; and iii) contributions from sponsors (namely, Rbl 65,000 for “working capital” contributed by the Federal Fund for SME Development). As for the future, they hope to be able to charge fees for successful credit applications and for acting as intermediary in business development activities (e.g. with foreign partners). The marketplace is expected to continue to be a source of revenue and some financial support from local authorities is also expected.

9. Other

Relations with Russian Counterparts. The Oblast Government is officially supportive. It was supposed to contribute Rbl 500,000 which, however, never materialized. Generally speaking, the Agency, though rather isolated in a small town, has good institutional connections. The Russian Agency and the Federal Fund played a major role in its creation. As for the GKRP, they regard themselves as “subordinate to this structure although legally independent”.

Relations with Tacis. Since the Agency is still heavily supported, the staff are naturally very satisfied with Tacis’ assistance. They only regret that Tacis’ bureaucracy sometimes slows down the process. For example, they complained that it took one month and a half for Tacis to approve the local experts’ CVs and “such a lapse of time may sound short in Brussels, but is desperately long in Schlisselburg where the agency’s staff has to cope with everyday’s survival”.

SMEDA's Expectations. According to the SMEDA, the three main measures to support SME development are: i) create a guarantee fund; ii) improve the tax & legal framework; iii) develop the information system, in particular within the SMEDA network. Regarding the more desirable forms of support, they indicate the following:

| | |
|--|---|
| | Additional training to SMEDA staff |
| | Long Term Experts |
| | Short Term Experts |
| | Additional equipment |
| | Direct Assistance to SMEs in establishing contacts with EU Partners |

These choices largely reflect the state of the agency. As a recent structure, it still relies heavily on the Tacis long-term expert, for both capacity building and attracting clients, but also for his “psychological support”. Additional equipment is not really deemed necessary. The reason why direct assistance to SMEs is disregarded is that it is “often a waste of money, since study tours abroad and partner search rarely result in actual achievements, but is more related to tourism”.

B. OVERALL ASSESSMENT

This Agency is only about to get started and therefore is miles away from self-sustainability. The choice of Schlüsselburg (a small town, only 40 kms away from St. Petersburg) appeared debatable *a priori* and what we saw in the field support our initial feelings.

APPENDIX E: Sverdlosk Regional Small Business Support Agency – Ekaterinburg

A. DESCRIPTION

1. Origins and Overall Developments

The Agency was established in June 1995 based on an already existing organization of the Ekaterinburg Chamber of Consumer Goods Producers (now its most important shareholder). So far it has received assistance from a number of Tacis projects, including SMEDA Network I and SMEDA Network III. The Agency also took part to NMCP initiatives, Assistance to Russian Women adapting to Labor Market Conditions in the Transition Period, and hosted some of the Short Term Experts that were working for the Ekaterinburg Enterprise Support Center. The SMEDA also collaborated with other donors such as British Know How Fund (co-ordination of sub-project, assistance in establishing connection to the internet) and USAID (joint organization of seminars, and stage for two SMEDA staff in USA).

2. Legal Status

The Agency is incorporated as a joint stock company. At present there are ten shareholders whose shares are subdivided as follows:

- Chamber of Consumer Goods Producers 10%
- Russian Agency 5%
- UralPromstrojbank 7% (originally 14%)
- Association of SMEs 5%
- Two Educational Institutions 10% (5% each)
- Consulting/auditing company 5%
- 3 SMEs 30% (10% each)

3. Structure

Personnel. As summarized in the following table, staff comprises 10 full time consultants, 4-5 part time trainers/consultants working on an as-needed basis, and six support personnel. So far, turnover of personnel has been negligible. Only three persons have left (of whom, only one was a consultant). In 1997 they hired three new staff and in 1998 they plan to employ 1-2 more persons. The Agency's workforce policy, as explained by its director, is to hire promising staff and let them "grow" professionally rather than directly employ high-profile professionals.

| Category | Full Time | Part Time |
|---------------|-----------|------------|
| Manager | 1 | |
| Consultants | 9 | 4-5 |
| Support Staff | 6 | |
| Total | 16 | 4-5 |

Facilities. The SMEDA is located in a large office at the ground floor of a building easily reachable from the center. The general impression is fairly positive: premises are Western-style, clean and well-organized and the available equipment seems adequate to the work-load. Part of the available space is occupied by shelves where, for a moderate fee, products of client SMEs are exhibited.

4. Services

The Agency offers a wide range of services. The most important ones are training and consulting that together account for 60% of total turnover. Marketing services (organization of fairs, presentations, etc.) account for another 20%, while the provision of information and secretarial services (they include under such item: photocopying, translations, access to databases, use of internet, etc.) covers some 15% of proceeds. They do not provide any longer assistance in accounting and auditing matters, nor prepare "Business Plans" (*de facto* credit applications). In particular, the market for business plans has shrunk, because in Ekaterinburg banks are reportedly no more interested in these documents, as they increasingly prefer to work directly with clients ("they look at the person").

5. Involvement in Other Tacis Initiatives

They are fully aware of all Tacis initiatives. The Agency has benefited from the ESSN program. They have even submitted some six applications for Bistro projects (with the support of Focus Consultancy, the contractor responsible for the SMEDA Network I project), but so far without positive results.

6. Clients

In 1997 the SMEDA had 1580 clients, out of which one third received services more than twice. They serve SMEs of different sectors, but in particular companies active in wholesale and retail trade that account for about half of the overall number of clients. SMEs active in service sector account for 30% of clients and small manufacturing firms for the remaining 20%. The SMEDA contacts clients mainly using advertising materials, articles on local newspapers and directories. The SMEDA works also for start-ups, primarily within the framework of an agreement with the City Administration and the Employment Fund. They also serve would-be entrepreneurs on an individual basis (in this case they provide 20 minutes of consultancy free-of-charge).

7. Competitors

According to the director there are no strong competitors in Ekaterinburg in the field of support services to SMEs. The SMEDA is one of the first four consulting companies in town and possibly the leader of SME-support public organizations. In order to further limit the consequences of competition they have established a co-operation agreement with the main competitor, the Association of SMEs, that has therefore become a sort of strategic partner.

8. Financial Aspects & Self-Sustainability

In 1997 the SMEDA's annual turnover was at about 150,000 US\$. The main source of income (about 80% of the turnover) was generated by services provided to SMEs. Large private companies account for 5-7% of the turnover whereas donors account for a mere 5% (Taxis for about 3%). Apart from the minimal fees for the work with start-ups, the Agency does not receive any ordinary financing from the local government and other public entities.

9. Other

Relations with the Russian Agency and Other SMEDAs. They ranked the quality of their relations with the Russian Agency as good. The same can be said in general of relations with other SMEDAs and the Ekaterinburg ESC.

Relations with Taxis. According to the director, the assistance provided by Taxis can be ranked as good. In his opinion an advantage of Taxis when compared to USAID is that USAID projects are too formalized without enough attention to results. On the contrary Taxis scores worse than the British Know How Fund because its projects are too centralized and cover large geographical areas, whereas they should be on-site. He suggests that "recipients should be let to participate in decisions" and that the decision-making process should be made "more transparent". On this point he particularly stresses the fact that applications for Bistro were rejected without indicating any reasons.

A Case of Favorable Impact - The Business Incubator

An interesting initiative refers to the establishment of a Business Incubator. The incubator is located in three different buildings for a total area of 410 sq.m. The main location is in on the ground floor of a building some 100 mt. far from the SMEDA and occupies 13 rooms for an overall area of 250 sq.m. The project started in 1996 and the first enterprises moved in August 1997. Now the incubator hosts 8 companies. The incubator is appealing for SMEs because, thanks to the support from the local administration, rents are considered as cheaper and the environment as "safer". Moreover, in the incubator the companies have access to photocopying and internet services. As a matter of fact, the interest and support of the administration to the Incubator project is an important indicator of the impact on attitudes in the public sector. Civil servants took part in the project since the beginning and such participation, in the director's opinion, was a key point in letting them better understand the overall importance of the incubator and the subsequent decision of supporting its future enlargement.

B. OVERALL ASSESSMENT

A very good SMEDA, very much SME-oriented and with a capable director. The agency is already fully self-sustainable, and they still provide consultancy for free to start-ups. They have managed to build good relations with the local government, which eventually resulted in a visible change of attitudes among civil servants. The business incubator project is a good example of this process.

Profile #10

SME Institution Building

| | |
|----------------------|---|
| Official Title: | Technical Assistance for Institution/Capacity Building |
| Reference Number: | SME9303 |
| Contract Number: | 94-0892.00 – 94-0892.01 |
| Location: | Moscow |
| Main Contractor: | EIM (Netherlands) |
| Partner Institution: | First the State Committee for Industrial Policy Goskomprom). Then the State Committee for the Support and Development of Small Business (GKPR). |
| Start Date: | November 1994 |
| Completion Date: | June 1997 |
| Budget: | 1,000,000 ECU |
| Manpower: | foreign short-term experts 43.5 man/months foreign support staff 19 man/months local experts 43.5 man/months |

1. INTRODUCTION

One of the first institution building exercises in Russia, this project was characterized during implementation by a number of serious problems, which in turn mainly stemmed from major flaws in the project preparation phase. Just to mention the main one the project partner had to be changed on track after a rather chaotic phase in which the contractor was not able to find a proper counterpart. The final partner organization was the State Committee for the Support and Development of Small Business (GKRP) established as an “independent federal body” in Summer 1995 when the law for State Support of Small Entrepreneurship was promulgated. At that time the Committee was expressly made responsible for relations with donor organizations in the field of SME policy⁶⁵. The idea for this project dates back to the 1993 Action Program. Implementation started in Fall 1994 and was supposed to last 15 months. In fact, after a very troublesome course the project finally ended in June 1997, i.e. almost three years after its starting date.

2. DESCRIPTION

2.1 Objectives

In the wording of the 1993 Action Program the original project rationale was “to help federal and regional officials charged with creating a new framework for SME development, by acquiring knowledge as well as direct experience of best practice in Western Europe”. This would be achieved by assisting “those Russian who are responsible for the design of programs to promote SME development ...through the transfer of best practice from the EU countries”. More specifically the project had the two following objectives:

- i) the build-up of indigenous capacity in SME policy formulation in Russia most notably through transfer of European “know-how” on SME policy-making;
- ii) the development of two regional pilot programs for SME development which could be the subject of further dissemination efforts.

2.2 Activities

In order to achieve to proposed objectives the project was organized along five main components:

- i) technical assistance from experts in the field of SME research, support and policy development, including the preparation and dissemination of a document on SME policy best practices in EU countries;
- ii) study tour visit program in the EU for policy decision-makers, key administrators at both the federal and the regional level, SMEDA directors, private entrepreneurs and representatives of business associations;
- iii) the preparation of two regional pilot programs aimed at recommending changes in the legal infrastructure and promoting active policies in SME development by identifying key organizations in the implementation process, major constraints and the likely sources of funding;
- iv) the drafting of a strategy document outlining recommendations for best practice for SME development in Russia;
- v) the organization of a seminar where Russian high-level decision makers (ministers, deputy ministers, governors, mayors, etc.) would have the opportunity to discuss the contents of the strategy document

⁶⁵ On September 22, 1998 the Committee was merged with the anti trust agency and two other entities to give origin to the Ministry for Anti-Monopoly Policy and Entrepreneurship Support. The implications of this further change in the institutional setting are not yet clear.

2.3 Implementation and Relations Contractor/Partner Organization

When the contractor first came into the field they found that the person in Goskomprom who had agreed with the EU consultant the details of the TOR had left (for Australia) and nobody knew when he would come back. Other key staff in Goskomprom turned out to be totally unfamiliar with the project and did not feel any “sense of ownership” for it.

So the consultants were basically left on their own with little, if any, support from Goskomprom. In the inception phase the contractor (EIM, Netherlands), after consulting with local experts, also decided that the two originally-agreed locations of Safonovo and Zelenograd were both unsuitable for the project. Following a mail survey of some 50 local administrations it was decided to replace them with Udmurtia and Krasnodar, apparently based on the criterion that both of them seemed “interested” into the project.

By mid-1995 the newly-established GGRP emerged as the “natural” official partner institution for this project and replaced Goskomprom. They obviously knew nothing about the project contents and, at least at the beginning, showed a limited endorsement. The contractor had to overcome non negligible resistances for the organization of a seminar in Moscow and had to scale down the SME strategy document to a mere review of the existing Federal Program of Support to Small Businesses.

2.4 Coordination with Other Initiatives

During project implementation EIM liaised with the Moscow SMEDA for the selection of pilot regions. Tacis assistance to GGRP was continued by the SME Resource Center project, presently under implementation, and by the Monocompany Towns project due to start soon.

3. EVALUATION

3.1 Overall Assessment

Key policy-making positions are, especially in Russia, highly volatile. So either a project manages to achieve some tangible results while it is being implemented or the possibilities of this happening later drastically decrease as soon as the consultant leaves the country. Timeliness in delivery and a capability to influence key decision-makers are both crucial elements in determining a policy-advice project success. Unfortunately, both elements lacked in this project, not so much because of the contractor’s fault, but because of problems in project design. The project was conceived when there was no obvious counterpart in the Russian government responsible for SME policy and no clear regulatory framework for assistance to SME either. The TOR were also too generic. As the contractor observed, a policy-advice project has to be clear in scope and focus and “to deal with SME-policy in all its aspects both on a federal and regional level in one project is ... extremely difficult in a country like Russia”.

3.2 Relevance

The relevance of providing assistance for the development of a more conducive policy framework for SME development is beyond doubt. A bit more doubtful is the usefulness of insisting too much on the transfer of EU experience in the Russian context. Indeed, the development of SMEs in Russia is largely related to the solution of problems (exposure to arbitrary decision-making, poor enforcement of contracts), which, irrespective of complaints raised by European business associations, were never present in the EU! But the major problem was with the selection of the initial partner organization, which displayed a total lack of commitment. A positive feature in project design is the inclusion of a regional element. Indeed, in nowadays Russia SME development largely depends on policy measures and, more in general, attitudes prevailing at the regional level.

3.3 Effectiveness

The project was only moderately effective. The SME-policy strategy document was scaled down to a mere ex post critical review of the Federal Program on State Support for SMEs already in force. The public events attracted some publicity but “did not get a sustained follow-up ... probably for political reasons”. A separate problem is posed by the study tours to EU countries. Predictably, these were cherished by participants, but were also deemed largely irrelevant for practical purposes. There are also elements to believe that the technical assistance provided was a bit too academic in nature.

3.4 Efficiency

Based on available information, a significant part of resources (possibly up to ECU 600,000) were devoted to study tours which, as mentioned above, proved not terribly effective. According to the monitors, work could have been organized more efficiently if there had been a long term position within the contractor team. This view is shared in general terms by the beneficiary (who value the presence of expatriate experts on the spot). Although we tend to be skeptical about the usefulness of long-term experts in policy advice projects, in this particular case the presence of an experienced project manager

permanently based in the field could have proved of some use. This is particularly true as the contractor seemed rather unprepared in doing business in an unfamiliar environment⁶⁶.

Viewed in hindsight the GKRP staff now assess that the optimal distribution of resources in a similar project should be: 5-20% policy advice, 40-60% training and 35-40% study tours. Training should be delivered by SME development practitioners on the basis of their actual experiences, while academic training should be given only a very limited amount of resources.

3.5 Sustainability

According to the beneficiary, project results are still valid and documents produced are still used as a reference. Since the interlocutor making this statement seemed to be one of the few people within the Committee to remember the project and was at any rate unable to elaborate on the specifics, this seems to be an overstatement.

3.6 Impact

Despite the above shortcomings, the project was useful in kickstarting a process of analysis and reflections on SME development policy that is still on-going. However it is difficult to link the project to any specific policy move supporting SME development.

Box 1 - The Monitoring Unit's and the Court of Auditors' Opinion

As indicated below, the monitoring unit finally assessed this project as generally adequate (A = excellent, B = good, C = adequate, some good aspects, D = adequate, some poor aspects, E = poor):

| | |
|--------------------------------------|---|
| Overall Contractor Performance: | C |
| Contribution of Project Partner: | C |
| Results (against agreed outputs): | C |
| Appropriateness for Project Partner: | C |
| Expected Sustainability: | C |
| Achievement of Specific Objectives: | C |

This project underwent also the scrutiny of the Court of Auditors. The Court acknowledged that project activities had been performed in line with the TOR requirements and highlighted the difficulties in evaluating the project impact, as it depended on the partner organization's willingness to adopt the received advice. The Court's main criticisms focused on the lack of correspondence between the project's time scheduling and the Russian political agenda and on the vagueness of the TOR which failed since the beginning to single out a clear partner organization.

⁶⁶ For instance, they seemed genuinely surprised by the fact that their counterparts in Goskomprom had little or no knowledge of English and that all documents and reports had to be translated in Russian. As they put it in their inception report: "it is the opinion of the counterpart that it is a custom and tradition of the Tacis program that work is done in the language of the receiving party".

6. Bank Restructuring

Profile #11

European Bank Advisory Service (EBAS)

| | |
|-----------------------------|--|
| Official Title: | European Bank Advisory Service I |
| Reference Number: | FRU9301 |
| Contract Number: | 95-0016.00 |
| Location: | Moscow |
| Contractor: | Lloyds Bank (UK) |
| Sub-contractors: | Price Waterhouse (UK), The British Bankers' Association (UK), ING Bank (Netherlands) and Commerzbank (Germany) |
| Partner Institution: | Association of Russian Banks (ARB) |
| Start Date: | January 22, 1996 |
| Completion Date: | September 19, 1997 |
| Budget: | 5,000,000 ECU |
| Manpower: | foreign experts: 205 man/months |

1. INTRODUCTION

In late 1993, when the project was designed, the Russian banking industry was still in its infancy and most of the 2,000 commercial banks in operations had been established in the previous three years, lacked extensive branch networks and had a very narrow core banking business, based mostly on currency trading and short term transactions. The partner institution, the Association of Russian Banks (ARB), was selected because of its access to the Russian banking community and its potential role in perpetuating the consultancy role of EBAS. The initial project was completed in late 1997 but the contractor was awarded a second contract, with partly modified TOR, to extend operations until the end of 1998.

2. DESCRIPTION

2.1 Objectives

The rationale for EBAS was to assist smaller banks that are potentially healthy and could have a worthwhile future if they could strengthen their banking capabilities. The official wider and specific objectives as stated in project documents are presented in Table 1 below.

Table 1 EBAS' Wider and Specific Project Objectives

| Wider Objective | Specific Project Objectives |
|---|---|
| To upgrade commercial banks' activities with a view to reinforcing and attracting public confidence by means of sound and efficient banking practices | 1. to provide banking advisory services to the banking community in the Russian Federation, focusing on providing knowledge and expertise in a range of core banking activities |
| | 2. to make the service available on an impartial basis to eligible banks in the Moscow region and other concentration areas of European TA |
| | 3. where possible, to integrate with and reinforce initiatives undertaken by other donor agencies |
| | 4. to provide assistance to the Association of Russian Banks (ARB) on the preparation of a comprehensive strategy and a business plan to implement it |
| | 5. to establish the ARB as a channel for assistance under subsequent TACIS programs. |

The five specific objectives can be simplified into two: i) provide advisory services to the Russian banking community, and ii) strengthen the ARB. Compared with the original terms of reference, one objective was dropped (and replaced with no. 4 in the table): "to develop a sustainable advisory facility by encouraging the involvement of Russian staff

through the use of mixed advisory teams, thus laying the groundwork for the possible autonomous extension of the banking consultancy service.” The negative implications of this decision in terms of sustainability are discussed below.

2.2 Activities

Assistance to Commercial Banks. EBAS worked on the basis of applications from banks. Banks that could benefit from EBAS assistance were selected on the basis of potential for long-term viability. They were then offered a menu of advisory services comprising the following fourteen modules:

| | |
|-------------------------------------|--|
| Senior Management Issues | <ul style="list-style-type: none">• Strategy and planning• Asset & Liability Management• Risk Management• Organizational Structures |
| Business Development Issues | <ul style="list-style-type: none">• Product Development and Marketing• Relations with Foreign Banks• Capital Markets |
| Operations Management Issues | <ul style="list-style-type: none">• Credit Department Operations• Management of Treasury Operations• Branch Management |
| Control Systems Issues | <ul style="list-style-type: none">• Internal Audit/Inspection• Financial & Management Accounting• Human Resources Management |
| Support Systems Issues | <ul style="list-style-type: none">• Management Information Systems |

Advisory services were delivered free of charge by a team of long term experts based in Moscow, backed by a pool of short term experts used on an as needed basis.

Support to ARB. A parallel component of EBAS concerned instead the institutional strengthening of EBAS’ Russian Partner, the Association of Russian Banks (ARB). ARB received assistance from the British Bankers’ Association through a sort of “twinning” arrangement, involving a combination of training (both in Moscow and in London), exchanges of views, and advisory services on a wide range of topics.

2.3 Implementation

The implementation of EBAS suffered from two problems. First, the possibility of a conflict of interest emerged when one of the members of the consortium implementing the project was a twinning contract under FIDP with a bank previously assisted by EBAS. This point was raised by the Monitoring Unit and the problem was eventually resolved by the Task Manager. Second, and more importantly, there were no clear rules on the division of labor between EBAS and FIDP-Twinning (profile #13), and these were clearly defined only after the project had started.

The transition from EBAS I, which was supposed to finish in July 1997, to EBAS II, which started in September 1997, was eased by a two-month extension of the EBAS I contract. In the case of EBAS II, Tacis decided to derogate from the standard rules for restricted tendering and invited only the incumbent contractor to submit a proposal.

2.4 Relations Contractor/Partner Organization

The relations between the contractor and the Association of Russian Banks have been excellent. ARB received effective assistance from the British Bankers’ Association and this certainly eased relations, as the partner organization was also a direct beneficiary of the project.

2.5 Coordination with Other Initiatives

EBAS is coherent with other Tacis interventions in the banking sector as it provides a different type of assistance. Indeed, the International Finance and Banking School (IFBS) project and the Russian Bank Training project provided training to banks, while EBAS provided more operationally oriented assistance. EBAS is also different from FIDP in terms of both nature of the assistance provided and target population. Yet, at a certain point the risk of some overlapping emerged, since EBAS’ beneficiaries could later qualify for assistance under FIDP. The problem was addressed by the EBAS team, who effectively liaised with their counterparts at FIDP, and it was eventually agreed to stop EBAS assistance whenever: (a) an FIDP contract was in place; and (b) the Russian bank participating in FIDP had already selected its preferred twin.

3. EVALUATION

3.1 Overall Assessment

Overall, the project has been relevant and effective in achieving its intended specific objectives. However, it has not been an efficient and sustainable intervention. Its impact on the upgrading of commercial bank activities is difficult to evaluate at this stage, but it should not be substantial because of the lack of ownership and commitment of many banks that received EBAS assistance and frequently did not implement its recommendations.

The question has been posed whether the inclusion of a cost-sharing element could have been a better approach for delivering technical assistance to commercial banks. According to the ARB, banks would be willing to share costs and we found evidence of such a willingness during our interviews with banks on EBAS and FIDP. The great demand for FIDP twinning (where there is a 50-50 cost sharing arrangement, as a half of the cost is paid through a World Bank-EBRD loan) is another sign of the willingness of banks to pay. However, according to the contractor and the Monitoring Unit, “the weakness of the demand driven [i.e. cost-sharing] approach is that banks subscribe only to ‘painless’ modules and may not markedly improve their overall position, even though benefits have been derived from the modules implemented.”⁶⁷ At the same time, it was recognized that “the absence of a pricing mechanism for the delivery of the direct consultancy services opens the door to severe difficulties in the management of the project. Impartiality in allocation cannot be enforced.”⁶⁸

3.2 Relevance

Assistance to Commercial Banks. The issue of upgrading commercial banks’ capabilities was and still is a relevant objective. The Russian banking system grew tremendously in the early 1990’s and developing a strategic vision and improving banking skills can help ensuring the survival of better banks after the turmoil is over.

However, the rationale for an intervention like EBAS can be questioned on several grounds. Was it worth spending Tacis money to help smaller banks that in many cases will not be able to survive? Also, did banks really need financial support to buy technical assistance?

The answer to the first question can be fully affirmative only if the portfolio of assisted banks were sufficiently diversified in terms of size, nature of activities and regions of operations. On the whole, EBAS was too concentrated on Moscow banks, with regional banks receiving only 7% of resources mobilized under the project. This problem was addressed in the design of the second phase of the project (EBAS-II), which requires that at least 33% of available resources are devoted to non-Moscow banks (St. Petersburg, Urals, South Russia).

As for the second quotation, it is well known that the hefty profits posted by many banks in 1996 and 1997 were only on paper. Even more importantly, several observers agree that when EBAS was designed many Russian banks did not show any particular appreciation for external advice, which would have prevented the introduction of a cost sharing element. However, under the pressure of events, the appreciation for external expert advice has been growing over time (during field work we met with some banks who were more or less routinely using consulting services on a purely commercial basis) and the possibility of introducing some form of “matching grant scheme” has significantly increased.

Support to ARB. Well developed professional associations are a key element in supporting the transitional process. ARB is definitely a representative organization in the Russian banking community (some 850 members, accounting for 80% of total equity and 94% of branches in operations throughout the country) and the objective of supporting its further strengthening was clearly appropriate.

3.3 Effectiveness

Assistance to Commercial Banks. As showed in Table 2, EBAS achieved or surpassed all of its output targets. The quality of services provided was also perceived to be rather good, both by the local counterpart (ARB) and by the banks (although some cases of mismatch between needs and the assistance received were indeed mentioned, see Box 1)

Table 2 Output Indicators – Planned and Actual

| <i>Indicator</i> | <i>Planned</i> | <i>Actual</i> |
|---|----------------|---------------|
| No. of Russian Banks receiving direct consultancy on at least one module | 30 | 38 |
| Of which banks from the regions | 6 | 7 |
| No. of Russian Banks receiving direct consultancy on more than one module | 15 | 22 |
| No. of seminars delivered | 10 | 10 |

Box 1 - Matching Client Needs and Consultant’s Skills

We interviewed a bank that had benefited from an EBAS human resource management module. According to the bank, some of the short term consultants had good technical knowledge, but did not know Russia, had problems in communicating in English and most of the documents they gave to the bank were in German. “They were not consultants but

⁶⁷ Tacis Monitoring and Evaluation Program. End of Project Assessment Report. Report No. 3, p.3.

⁶⁸ Tacis Monitoring and Evaluation Program – Monitoring Report No. 2, February 1997, p. 3

bankers and could tell us what they do with their bank employing 30,000 people. But we employ 700 and do not need sophisticated HR techniques. They use a German system (open but automatic pay increases) while we use a US-like system (secretive but with a competitive pay determination system). The assistance we received from EBAS Russian long term expert was much more relevant and useful.”

Some beneficiaries complained about the rigidity of the menu of modules, claiming that it limited the overall effectiveness of EBAS. However, while there was certainly some rigidity in EBAS, we believe that given the wide choice of modules such a problem may have affected only a few banks and therefore not hampered the overall effectiveness of the project. All EBAS assignments were rated by recipients on a scale from excellent (A) to poor (E) by filling in a questionnaire. Only in four cases out of a total of 83 assignments, was the quality of advice from EBAS rated “C” (satisfactory) and never insufficient or poor.

The main problem with project effectiveness is that implementation of recommendations was not very common. This was duly acknowledged by the contractor who, in particular, noted significant resistance to the introduction of organizational changes⁶⁹. Interestingly enough, the contractor found (and contacts we had during field work broadly confirmed) that “on the whole it has been the smaller banks, which have been most receptive and willing to take on many of the recommendations put forward by consultants.”⁷⁰ Both these lessons have been incorporated into the design of EBAS II, with the renewed emphasis on smaller, regional banks and, even more importantly, with the introduction of a provision whereby the delivery of additional assistance depends on the actions taken based on recommendations formulated in the earlier phase.

Support to ARB. The assistance from the British Bankers’ Association to the ARB was very effective and led the ARB to issue a code of conduct for banks and to conceive and set up a better system to handle relations with the numerous members who can no longer be contacted regularly on a one-to-one basis.

3.4 Efficiency

EBAS was a moderately cost-effective project. The cost per staff/day of assistance delivered to banks (an estimated ECU 1,500) is certainly not outrageous by international standards (but a number of short term experts employed on the project were not free lancers but full time staff of consortium members). The cost of the assistance provided could have been lower (and the assistance provided more relevant to local conditions) if the project had made a more extensive use of local expertise (but this is made difficult by Tacis regulations putting an exceeding low ceiling for the remuneration of Russian experts).

3.5 Sustainability

Whenever tangible results (i.e. introduction of new practices, organizational schemes, etc.) were achieved during project implementation (which, as mentioned above, was certainly not always the case), these appear to have been fairly sustainable. From both the analysis of project documents and interviews during field work we were not informed of cases in which improvements introduced under EBAS had been reversed.

In terms of transfer of skills, EBAS is (rather, became) not sustainable by design. The original TOR did envisage some transfer of skills to Russian consultants, but this feature was later deleted upon request from the contractor because it seemed that:

- Russian banks preferred expatriate consultants because they felt such consultants would guarantee superior confidentiality⁷¹; and
- Tacis rules would not allow to pay good Russian consultants at market rates.

The first issue was not confirmed by our interviews as both banks and the ARB felt that Russian consultants are often preferable because they know more about the real situation of the Russian banking system. They did not insist on using Russian consultants only because they thought that foreign consultants were compulsory. The second issue is (as already mentioned) correct and deserves Tacis attention.

3.6 Impact

Impact on Attitudes. In this area, considerations are similar to those formulated for the ESCs (see Profile #8), in the sense that EBAS certainly contributed to the process of mentality change gradually taking place in the Russian banking community. This is signaled by two elements, namely:

⁶⁹ “Extreme sensitivity about organizational change is a serious handicap. Banks might be happy to receive help in developing a strategy but are typically unwilling to make the necessary organizational changes to implement it”, *Project Completion Report*, October 1997 (p. 19).

⁷⁰ *Ibidem*, p. 20.

⁷¹ *Project Completion Report*, p. 22.

- the decision made by some EBAS-assisted banks to proceed further in their restructuring efforts by applying for the more complex and demanding FIDP;
- the increased awareness of potential benefits associated with external advice and corresponding wider acceptance of consulting services.

Impact on Bank Performance. It is not possible to determine the impact of EBAS on the performance of the 80 odd-assisted banks because no baseline data exist and no monitoring of performance was undertaken after the assistance had been delivered. The problem of measuring the impact is further complicated by conceptual difficulties. Indeed, as clearly emerged during interviews with Russian bank managers, while it is usually possible to trace qualitatively the main effects of EBAS interventions, these effects are usually difficult to quantify in terms of increased revenues and/or decreased costs.

Box 2 - Assessment by the Monitoring Unit

The project received average-to-low ratings from the Tacis Monitoring Unit both in the end of project assessment report and in the various monitoring reports. The ratings of the assessment report were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor):

| | |
|--|---|
| Overall Contractor Performance | C |
| Contribution of project partner to project results | C |
| Results (against agreed outputs) | C |
| Appropriateness of project for project partner | C |
| Expected sustainability | D |
| Achievement of specific objectives | D |

Only the rating on sustainability had worsened from the first to the second report, while all other ratings remained constant during the project’s life. The main concerns of the monitors were the lack of sustainability of the project, the overlap with FIDP-twinning and the conflict of interest situation discussed in the text. The above assessment was disputed by the contractor that felt it had not been fairly assessed against the performance targets agreed upon when the project started.

Profile #12

International Finance and Banking School (IFBS)

| | |
|-----------------------------|---|
| Official Title: | Technical Assistance to the International Finance and Banking School – IFBS |
| Reference Number: | FSU0011 |
| Contract Number: | 91.04/02.00/B012; B013; B014; B015 (four contracts) |
| Location: | Moscow |
| Contractor: | Crown Agents (UK) |
| Sub-contractors: | European Bank Training Network – EBTN (France) |
| Partner Institution: | IFBS |
| Start Date: | September 1992 |
| Completion Date: | February 1996 |
| Budget: | ECU 6,330,000 |
| Manpower: | foreign experts: 335 man/months |

1. INTRODUCTION

The International Finance and Banking School (IFBS) is a training organization established in 1992 after the reorganization of the Moscow School of Banking Business (now called the Finance Academy of the Government of the Russian Federation). IFBS’s main founders are the Finance Academy, the EBRD, the Central Bank of Russia, the Ministry of Finance, the Center pour la Formation de la Profession Bancaire (CFPB), the European Bank Training Network (EBTN) as well as several major Russian commercial banks and the Association of Russian Banks.

The cooperation between the then Moscow Institute of Finance and CFPB started in 1989 with the first joint training programs in Moscow. In 1990 the Moscow Institute of Finance became the Moscow School of Banking Business and the cooperation with CFPB continued with more joint courses. In 1991 the Moscow School of Banking Business started several programs funded by the World Bank and the UK Know How Fund while CFPB formulated the original proposal for the project, submitted to Tacis in September. A Statement of Endorsement was issued in March 1992 and the contracts with Crown Agents and EBTN started in September 1992. The consultants were hired to carry out a multi-year training program worth MECU 7.5 (down from an initial proposal of MECU 23.8) at the newly established IFBS.

IFBS now operates in 1,400 sq. m. of leased premises with 10 classrooms, has a staff of 60 and trains over 5,000 people a year, most of whom are bank middle managers. Its performance over the last five years is presented in Table 1 below.

Table 1 IFBS Performance 1992-1997

| Number of | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Seminars | 44 | 154 | 186 | 273 | 314 | ~300 |
| Trainees | 760 | 2,814 | 3,184 | 4,672 | 5,018 | ~5000 |
| Share of trainees attending customized courses | 2% | 12% | 39% | 29% | 42% | ~50% |

2.1 Objectives

Project objectives (as stated in the TOR) are summarized in Table 2. The project's wider objective was to be achieved by establishing IFBS as a recognized center of excellence in the provision of bank training in Russia and as a profitable and self-sufficient institution. The third specific objective, the assistance to the development of regional centers, attracted *de facto* limited attention

Table 2 Wider and Specific Project Objectives

| Wider Objective | Specific Project Objectives |
|---|--|
| Improvement of the Russian credit system according to advanced international and Russian standards of banking | To establish the IFBS as a recognized center of excellence |
| | To establish the IFBS as a sound commercial enterprise |
| | To assist in the development of regional centers |

2.2 Activities

The program envisaged the training of 4,000 bank staff in the following eight main subject areas:

- general aspects of market economy and banking systems (module 1);
- international banking operations (module 1.1);
- financial training methodology (module 1.2);
- bank accounting (module 1.3);
- financial analysis (module 1.4);
- bank management (module 1.5);
- bank marketing (module 1.6); and
- securities markets and stock exchanges (module 1.7).

Other activities included the provision of two-week traineeships in Western Europe to 130 trainers from IFBS faculty, banks and regional centers, and the procurement and installation of training and related equipment.

2.3 Implementation

Crown Agents was responsible for the overall coordination of the project (contract B012) and for training under modules from 1.3 to 1.7 (contract B013), while EBTN provided training under Module 1.1 (contract B014). The two organizations were jointly responsible for delivering module 1.2 and for the traineeships in Western Europe (contract B015). Although the fragmentation of responsibilities and the need of managing four separate contracts made implementation more cumbersome, it did not limit the project's effectiveness in any significant way.

2.4 Relations Contractor/Partner Organization

The relations between Crown Agents and IFBS were excellent. The flexibility showed by the contractor in responding to the needs of its partner organization were a key factor for success. IFBS had also a very competent and determined management team that knew what it needed from the project and was committed to it.

2.5 Coordination with Other Initiatives

As discussed above, the EBRD is a major shareholder of IFBS and the Bank involved IFBS in the Morosov project, aimed at establishing a network of regional training centers. It is clear that a good level of coordination existed between the EBRD and Tacis, and both provided technical assistance to IFBS, the EBRD on management matters (particularly marketing

and finance) through resident advisors, while Tacis focused on assistance in the delivery of training. However, it seems that the resident advisors provided by the EBRD were of varying quality and their performance had at times a negative impact on the project's performance, especially as far as the marketing of training courses is concerned.

Once become a firmly established institution, IFBS has been involved actively in several other Tacis projects (e.g., EBAS II, Russian Bank Training, INVAS).

3. EVALUATION

3.1 Overall Assessment

Overall, the project has been relevant and effective in achieving its intended specific objectives. Furthermore, it has been an efficient and sustainable intervention. Its impact on the upgrading of skills in commercial banking is already noticeable (20,000 bank staff trained so far, many in key middle level position) and is expected to increase over time.

Key factors for the success of the IFBS project, as perceived by IFBS itself, were:

- focus on sustainability: “We were mindful of the issue of sustainability: we started to think immediately what to do after the end of donor support”.
- a good TA team (not only good professionals but also people who could work well together);
- leadership by the IFBS Director General supported by a good team of people willing to sacrifice and implement his ideas;
- a strong mission and identity for the school; and
- the fact that IFBS did not start from scratch but evolved out of a pre-existing, reputable institution (the Moscow School of Banking).

3.2 Relevance

At the time when the project was designed the Russian banking industry was experiencing a phenomenal growth but it lacked an adequate supply of skilled manpower. The magnitude of the problem was such that it was felt necessary to pool a substantial amount of European resources to assist with the training of thousands of bank staff in all topics relevant for a banking system in a market economy: “The importance of the proposal is in direct relation to the magnitude and the urgency of the need to train, albeit on a broad but selective basis, of a very large number of specialists in a variety of skills. Only by pooling together all the European Resources, can the objectives of this proposal be met. By coordinating the activities of vocational training duplication of efforts will be avoided and effective results can be assured.”⁷² In a nutshell: the project was highly relevant in terms of both contents and timing and the approach adopted was also appropriate.

3.3 Effectiveness

As shown in Table 3 below, IFBS substantially achieved all of its output targets. IFBS is also recognized as a center of excellence in training and it is consistently ranked 2nd or 3rd among the top 100 training institutes in Russia. Finally, the school has modern training facilities created, at least in part, through the Tacis project.

Table 3 Output Indicators –Planned and Actual

| Indicator | Planned | Actual |
|--|---------|--------|
| Number of trainees | 4,000 | 7,500 |
| Trainers trained | 130 | 126 |
| Fully equipped and recognized training center of high reputation | ✓ | ✓ |
| Development of a faculty of qualified trainers | ✓ | ✓ |

Initially there were some problems. “Not all consultants were up to their task and we had to send some back home. But it was also true that we did not know what we really wanted. Later the permanent faculty of Western trainers assisted short term consultants to learn and adapt quickly.” The demand for courses was also uneven, high on international operations, financial analysis, bank accounting and general aspects of market economies and banking systems, but very low on bank management and bank marketing, both under-subscribed due probably to poor marketing, lack of understanding of local conditions by EU trainers and lack of appreciation for such training by the senior management of Russian banks. Once EU trainers became resident, the performance of the project improved steadily and the effectiveness increased, with the attainment of most of its output targets.

⁷² CFPB. *Project for a co-operation in the field of vocational training and further education of Specialists in Banking, Finance, Accounting, Audit and International Economic Relations under the auspices of the Commission of the European Communities between major Soviet Union Financial Training Organizations and a group of European Training Institutes*. September 24, 1991, p. 4.

3.4 Efficiency

A crude indicator of efficiency is to compare the Tacis grant per delegate trained with the cost of training today. The level of grant funding per delegate trained (about ECU 850) does not seem high compared with the present fee structure of IFBS which ranges from US\$ 600 to US\$ 1,300 per delegate for a week long course, which is the average length of training at the School.

3.5 Sustainability

The project was highly sustainable. Each European consultant had a professional Russian counterpart (not just an assistant, as in many other projects). The building up of Russian capacity “has been achieved to a high degree and is illustrated by the fact that initially Western trainers used to deliver 7 days out of a 10-day course and at the end they only delivered 1 day, having coached their counterpart Russian trainers to the extent that they can now deliver the courses themselves.”

As far as financial self-sufficiency is concerned, IFBS has been consistently profitable in the last few years (although part of the profit derives from the fact that IFBS has received premises from the Finance Academy free of charge). IFBS has also been able to diversify its sources of income (another important step towards financial sustainability) by offering tailor-made courses to commercial banks. This line of business has expanded from 10% of total turnover in 1993 to 50% in 1997, a remarkable achievement if one considers that competition in bank training has increased substantially since 1993. The impact of recent bank crisis on IFBS’ financial position is hard to guess. On the one hand they will certainly lose some clients. On the other one, surviving banks should be more concerned about improving the quality of their operations and, therefore, more inclined to wards buying IFBS services.

One of the main problems is that IFBS has not been able to pay salaries high enough to retain some of its best staff. EBRD financed salary top-ups till early 1994 when a EU-funded incentive scheme was introduced, costing about US\$ 15,000 a month. Since 1995 there has been no donor funding available for top-ups and the management has used IFBS resources and training abroad as a tool to reward good performers. It has nevertheless experienced a substantial turnover of staff.

Box 1 - Assessment by the Monitoring Unit

The project received excellent ratings from the Tacis Monitoring Unit both in the end of project assessment report as well as in the 1995 monitoring reports. The 1994 monitoring report had given lower implementation and impact ratings, mainly due to concerns over the managerial capacity of IFBS. The ratings of the assessment report were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate; some poor aspects; E = poor):

| | |
|--|---|
| Overall Contractor Performance | A |
| Contribution of project partner to project results | A |
| Results (against agreed outputs) | B |
| Appropriateness of project for project partner | B |
| Expected sustainability | B |
| Achievement of specific objectives | B |

The monitors felt that a key for the success was the excellent working relationship among all parties. The above assessment was fully shared by the Commission’s Delegation in Moscow which considered the IFBS project one of TACIS most successful undertakings in Russia.

3.6 Impact

Overall IFBS has trained 20,000 bank staff, equivalent to about 2% of all bank employees in Russia. The fact that 70% of the school clients come back for more training means they are constantly upgrading their skills and should be therefore progressing in their careers. Although the numbers are not huge, the impact on the level of skills in the whole Russian banking industry is becoming noticeable and (considering also the multiplier effects) is expected to increase over time.

Another important aspect is that IFBS has contributed to elevate the standards in Russia’s bank training sector. Although other reputable organizations are active in this business, the establishment of an “international” institution such as IFBS has had a significant impact.

Profile # 13

Financial Institutions Development Project (FIDP) – Twinning Component

| | |
|-----------------------------|---|
| Official Title: | Financial Institutions Development Project |
| Reference Number: | none |
| Contract Number: | several (one for each twinning arrangement) |
| Location: | countrywide |
| Contractor: | various EU banks |
| Sub-contractors: | depending on the specific initiative |
| Partner Institution: | various Russian banks |
| Start Date: | 1994 |
| Completion Date: | ongoing |
| Budget: | ECU 14,500,000 |
| Manpower: | depending on the specific initiative |

1. INTRODUCTION

The Financial Institutions Development Project (FIDP) is a major operation (some US\$ 300 million) aimed at improving the banking system in Russia. The project is financed primarily with loans from the World Bank and the EBRD, with Tacis (and a few bilateral donors) providing some grant financing to support a specific sub-component, the so called “twinning program”.

FIDP comprises the following three main components:

- a “commercial banking component”, which in turn includes: i) an IT equipment & services sub-component, aimed at strengthening commercial banks’ information infrastructure and financed through loans, and ii) a bank twinning program for capacity building purposes, typically financed with a blend of loans and grant money;
- a “bank supervision component”, consisting primarily of the development of on-site bank supervisory capabilities within the relevant services of the Central Bank of Russia (CBR);
- a “bank accounting component”, supporting the modernization of accounting and auditing standards and practices.

FIDP’s “commercial banking component” (the most relevant for our purposes) works on the basis of applications submitted by individual banks which subsequently undergo an “accreditation process”. Accreditation under FIDP is also a pre-condition for access to funding under another joint World Bank/EBRD operation, the “Enterprise Support Project” (ESP). Also funded with US\$ 300 million (2/3 from the World Bank, 1/3 from the EBRD), the ESP extends loans to accredited commercial banks which are re-lent for investment financing purposes.

As mentioned above, Tacis has been involved primarily in the financing of the twinning sub-component (together with some bilateral donors: Japan, the US, etc.). Some additional Tacis funds have been provided for project management, namely for the Bank Review Unit (BRU), responsible for the accreditation of banks eligible under the scheme. Over the period covered by this evaluation, Tacis made three separate allocations to FIDP, totaling ECU 14.5 million (ECU 5.5 million in 1994, 5 million in 1995 and 4 million in 1997), with another allocation envisaged under the 1998 Action Program. A Memorandum of Understanding formalizing the co-financing agreements among the World Bank, the EBRD and Tacis was signed in March 1996.

The project started in 1995 and, in spite of some problems in the mobilization of financial resources, by end 1997 operations were in full swing, with a number of banks already accredited to receive support under the scheme and several others undergoing the accreditation process. FIDP was severely affected by the bank crisis who started to unfold in August 1998 and project activities (including twinings) have been effectively suspended since November 15. As several plans for the restructuring of Russia’s banking sector are presently being drawn up, the future of the program remains uncertain.

2. DESCRIPTION

2.1 Objectives

FIDP’s “ultimate objectives are ... to increase the quantity and improve the quality of banking services, promote banking stability, and contribute to a more efficient mobilization of financial resources and allocation of bank credit”⁷³. In the case of the commercial banking component, the specific objective was to strengthen a “core group” of some 20 (later increased to about 40) commercial banks, through a combination of “institutional strengthening programs and system modernization & automation programs”. The “twinning sub-component” analyzed in detail here shares the same objectives with the additional (although largely implicit) goal of facilitating the establishment of stable collaborative relations between Russian and Western banks.

⁷³ World Bank, *Russian Federation - Financial Institutions Development Project - Staff Appraisal Report*, Report # 12707RU, Washington, April 6, 1994.

2.2 Activities & Implementation Arrangements

Nature of Twinning. Twinning is defined as an arrangement providing for the delivery of technical assistance to a Russian bank by staff (typically, middle level managers) from a similar but more developed Western financial institution. At project design, the twinning sub-component had been conceived to include nine modules, corresponding to the basic functional areas in banking, namely:

- strategy,
- organization structure,
- credit management,
- financial management,
- marketing,
- branch management,
- human resources management,
- training, and
- technology,

Total inputs were expected to range from a minimum of 265 weeks to a maximum of 450 weeks. However, since the very beginning it was anticipated that each participating bank (PB) would adapt the general scheme to its particular needs (“no two programs will be identical”), subject to approval from the relevant project management entities.

Project Management. The FIDP is managed by a high level Task Force, comprising a dozen of representatives from the Ministry of Finance, the CBR, the Ministry of Economic Affairs, etc. The Task Force is supported by two operational units: i) the Project Implementation Unit (PIU) and the Bank Review Unit (BRU). The PIU is established within the Foundation for Enterprise Restructuring and Financial Institutions Development (a parastatal specifically established to manage internationally funded projects in private sector development) and is responsible for the bulk of operational and administrative work. The BRU is a “technical unit”, staffed with foreign bankers and technology specialists, primarily responsible for the assessment of banks applying for participation in FIDP and for subsequent supervision of their performance during project implementation.

Accreditation Process. FIDP was conceived to assist Russia’s “first tier banks”, i.e. banks displaying a commitment to change and fulfilling certain financial criteria. The accreditation process involves a “long form” audit conducted in line with international standards by an approved external auditor, which forms the basis for the assessment made by the BRU. Initially, the project was intended to support a group of some 20 banks. During implementation, the scope of the project was enlarged and, as of mid 1998, 39 banks had been accredited and were therefore considered eligible for participation in the twinning sub-component.

Selection of Twins. Once a bank is accredited, the next step consists in the identification of a suitable Western financial institution to act as a twin. This is done, with support from the BRU, on the basis of specific terms of reference and through a restricted tendering procedure, typically involving 3 to 6 western banks. Unlike the case of standard Tacis projects, the tendering is done directly by the participating bank, under supervision from the World Bank and the EBRD (with standard “no objection” procedure). In line with the 1996 Memorandum of Understanding, Tacis comes into play only for the finalization of contractual arrangements with the selected twin.

Financing & Administrative Arrangements. As anticipated above, twinning programs are financed with a blend of grant money and loan financing. The typical arrangement involves i) a 50% of grant money (up to a maximum of US\$ 1.5 million) from Tacis or other donors (the source of funding depending on the nationality of the Western bank participating in the scheme) and ii) a 50% of loans from the World Bank (2/3) and the EBRD (1/3). Due to some problems experienced during project implementation (delays and uncertainty in the mobilization of Tacis financing, cumbersome approval procedures), some Russian banks preferred to renounce to grant financing and decided to go ahead with twinning arrangements entirely financed with loans⁷⁴.

3. EVALUATION

3.1 Overall Assessment

The recent crisis that brought havoc in Russia’s banking sector does not allow for a proper assessment of the program. Still, the experience accumulated in over two years of operations does allow for the treatment of some aspects whose consideration could enhance the performance of future, similar operations.

3.2 Relevance

FIDP is intended to support the strengthening of a core group of Russian banks and the inclusion of a twinning component was certainly appropriate to pursue this goal. Twinning arrangements in banking have worked well in other contexts (including some transitional economies, namely Poland) and appear well suited to meet the typical Russian managers’ appetite for “hands on” support. As mentioned by Russian bankers interviewed during fieldwork: “A consultant

⁷⁴ This was the case of Menatep Bank, who was anxious to start its twinning program with Banco S. Paolo di Torino and “would not wait any longer for the grant money”.

gives a report. Twinning allows people to work together” and “We need to get access to real life cases. That’s why twinning is important. We need to compare the way we do business with the Western way”.

Unfortunately, as the experience of the last few months amply demonstrates, even the first tier banks targeted by FIDP proved to be rather implausible candidates for the future “core group” supposed to provide stability to Russia’s banking sector. While this certainly demonstrates a distinct inability to assess the systemic weaknesses in Russia’s banking sector and to foresee the negative implications of these weaknesses (but Tacis bears little responsibility here), this certainly does not disprove the potential usefulness of twinning arrangements, whenever minimal conditions for success are in place.

3.3 Effectiveness

By the time project activities were suspended, most of the twinning were still ongoing and no judgment can be passed. However, elements gathered during fieldwork in mid 1998 or drawn from previous works on the subject⁷⁵, suggest that some progress was indeed being achieved, although with substantial differences across participating banks and Western twins, as shown by data provided by the BRU (Table 1 below). Examples of results achieved include improvements in treasury management (e.g. by introducing simple rules like limits to counterparts) and in lending (especially, regarding enforcement issues).

Table 1 Indicators of Twinning Effectiveness
(as of mid 1998 – ratings are from 1 poor to 5 excellent)

| Russian Bank | Western Twinning Partner | Receptiveness of Russian Bank | Quality/Capacity of Twinning Partner | Source of Grant Funding |
|------------------------------|--------------------------|-------------------------------|--------------------------------------|-------------------------|
| Bank St. Petersburg | Allied Irish Bank | 1 | 3 | Tacis |
| Dalnevostochny Bank | Bank of America | 4 | 5 | US |
| Imperial Bank | Raiffaisen | 2 | 3 | Tacis |
| Mezhkombank | ING | 2 | 3 | Tacis |
| Mosbusinessbank | Banco Bilbao y Vizcaya | 3 | 2 | Tacis |
| Peomstroybank St. Petersburg | ABN Amro | 5 | 4 | Tacis |
| Tokobank | Bank of Ireland | 1 | 2 | Tacis |
| Uralpromstrybank | NBR | 4 | 4 | Norway |
| Dalrybbank | ING | 4 | 1 | Netherlands |
| Inkombank | West Deutsche LB | 4 | 4 | Tacis |
| Tori Bank | Merita Bank | 4 | 4 | Tacis |
| Vozrozhdeniye Bank | CIBC | 5 | 5 | Tacis |
| Alfa Bank | Core States Bank | 5 | 4 | US |

Two problems somehow affecting the project’s ability to achieve the intended goals emerged from fieldwork and their consideration may be useful for future operations, irrespective of the fate of FIDP. The first problem relates to a certain rigidity in terms of instruments. Although the notion of twinning was very well accepted, some more sophisticated interviewees remarked that in certain areas (most notably, strategy) the involvement of consultants could be preferable. Having all nine modules carried out through twinning was perceived to somehow limit effectiveness. The second problem relates to the shortage of qualified Western banks potentially interested in playing the role of twins. In mid 1998 the BRU was maintaining a mini roster of some 15 banks potentially interested in this sort of assignments, but this was considered insufficient for the purpose (no bank from Switzerland, only one from Britain). The lack of interest shown from European banks was partly explained with their lack of familiarity (and irritation) with the rather cumbersome procedures the tendering and subsequent administrative requirements.

3.4 Efficiency

For the reasons given above it is impossible to pass any comprehensive judgment about the cost-effectiveness of the program. Some non trivial considerations can however be formulated regarding the nature of the process governing twinning arrangements.

First, delays in Tacis allocations to the program (partly due to the intrinsic nature of the EU budgeting cycle) determined uncertainty in the availability of funds which, in turn, somehow damaged the credibility of the initiative. As indicated by a staff of the Foundation: “The uncertainty generated by the EU annual cycle is hurting the project. The 1997 budget was approved [only] in February 1998”. In the meantime, banks selected under the program (as well as their prospective twinning partners) were waiting for a reply. Tacis was also slow in defining the finer details of the disbursement process. While the project was already well underway in 1996, with some twinning programs already operational, Tacis was reportedly unable to make any payment until August 1997. This also created problems within the Commission, and Tacis was forced to admit on an exceptional basis the retroactive financing of twinings already underway.

⁷⁵ See in particular, NEI, *FIDP - Mid-Term Operational Review - Final Report*, February 9, 1998.

Second, lack of flexibility is also lamented. FIDP received more applications than expected and the initial target of some 20 banks assisted by the twinning component was revised upwardly to 40 (“we were too successful”, was the somewhat ironic comment of an expatriate staff at the BRU). This prompted a request for more funds but also (and more importantly) the proposal to reduce the amount of grant money for each twinning program from the initially envisaged ECU 1.5 million to 0.5 million. Although in principle accepted by the banks on the waiting list, this was proposal was turned down by Tacis in order not to re-negotiate the agreement with the World Bank and the EBRD. As stated by a project official “we have ECU 7.5 million [from Tacis] ... we wanted to assist 15 banks with 0.5 million each. No way. We will be able to assist 4-5 banks instead with ECU 1.5 million each, because that was the original design”⁷⁶.

Third, many participating banks felt that the administration was far too heavy, to the point that one of the banks interviewed had to hire a full time staff just to handle the administration of the twinning program. The process was also regarded as fairly frustrating by potential twinning partners, who complained about the lengthy and costly tendering process (certainly an unusual procedure for most banks). According to the PIU, procurement could take up to 8-9 months due a combination of inexperience on the Russian side and of delays in obtaining final approval from the World Bank.

3.5 Sustainability

The twinning element was intended to contribute to the sustainability of results achieved under the various FIDP’s components by facilitating the establishment of long term relationships with the Western partners. And indeed before the bank crisis there were signs that this sort of relationship could have developed in at least some cases. In the present situation, it impossible to say if these relationships could be fruitfully resumed in the future. On the other hand, the possibility of developing some long term strategic relationships was somehow reduced by the extensive involvement in the program of some “professional twins”, i.e. western banks with well developed consulting units but not necessarily motivated by a strategic interest in the Russian market.

3.6 Impact

In the present circumstances, it is obvious that no discernible impact on the performance of participating banks can be identified. Before the crisis, some observers were suggesting that, irrespective of the results of twinings on individual banks, the sheer scale of the exercise (with up to 100 Russian bank staff involved in each twinning program) ensured an adequate transfer of skills at the sector level.

The accreditation process was also deemed to have had an impact *per se*, by placing upon Russian banks a significant, early pressure to shape up and by making the (supposedly) best Russian banks more easily identifiable by outsiders. It is undeniable that Russian banks regarded their accreditation as an asset whose value was greater than the simple access to certain donor financed program, and indeed the fact of being an “FIDP accredited” bank often figured prominently in their press releases and annual reports⁷⁷. With hindsight, this might well have turned out a negative factor. While there is no doubt that many western bankers were just waiting for an excuse to somewhat carelessly extend some further loans to Russian financial institutions, the badge of quality provided by the FIDP accreditation certainly provided them with a very good one.

⁷⁶ This point was analyzed in the detail in the mid-term operational review conducted by NEI in early 1998. The review also strongly supported the idea of reducing the unit grant contribution in order to assist a larger number of banks.

⁷⁷ As a way of example, the reader may refer to Neftechimbank’s annual reports for 1996 and 1997, which are accessible on the net (www.nhb.ru/eng/1997anrp or [/1996anrp](http://www.nhb.ru/eng/1996anrp)).

7. Development of Other Financial Institutions

Profile #14

Development of Credit Unions

| | |
|------------------------------|---|
| Official Title: | Advisory Assistance on the Development of Credit Unions in the Russian Federation |
| Reference Number: | FSU 9260 |
| Contract Number: | 93-1011.00 and 92.02/02.01/B002 |
| Location: | Moscow, Vladimir and Yaroslavl |
| Contractor: | Rabo International Advisory Services (Netherlands) |
| Sub-contractors: | Irish League of Credit Unions (Ireland) |
| Partner Institutions: | Russian Committee for Credit Union Development |
| Start Date: | April 1994 |
| Completion Date: | December 1995 |
| Budget: | ECU 850,000 |
| Manpower: | not available |

1. INTRODUCTION

Credit unions were widespread in Russia before World War I with a total 15,000 credit unions serving 8 million members all around the country. Credit unions were abolished in the 1930's and re-emerged only after the collapse of the Soviet Union.

In 1991 the Russian Center for Credit Union Development (RCCUD) was established by the Inter-Republican Confederation of Consumer Societies and at the end of the year the first experimental credit union was established at Moscow State University. The World Council of Credit Unions (WOCCU) and the Irish League of Credit Unions (ILCU) supported the process. In July 1992, RCCUD approached the Commission with a project proposal envisaging assistance to establish a Russian Credit Union League (RCUL). The contractor was selected in April 1994 and work commenced in May.

RCUL provides members with information, organizational support, seminars, networking, contacts with regional administrations (RCUL produced a sample law used in the regions), accounting & auditing services, and assistance in tax disputes. Membership in the League is not compulsory for credit unions and the League has no particular power on its members. RCUL has tried to promote financial standards for credit unions and has been lobbying for the adoption of a Law on Credit Unions which, although approved by the *Duma*, was vetoed by the President in 1997.

The 200 credit unions presently active in Russia have aggregate deposits amounting to some US\$ 25 million. Most unions are relatively small, although the largest RCUL member serves 4,000 individuals with deposits for US\$ 1.7 million. In 1994/95 two large credit unions went bankrupt and 12,000 of their members lost their savings, indicating the high risk of maverick operations which could damage the credibility of the entire movement.

2. DESCRIPTION

2.1 Objectives

The original objective of the project was the provision of advice on the establishment of credit unions in Russia, including the assessment of the demand and justification for credit unions and the delineation of their purpose, structure, organization, management, financial set-up, legal framework and policies. When project implementation began, the situation on the ground had changed considerably (see below) and the objective had shifted to fostering the development of credit unions in general, through the provision of operational advice to RCUL.

2.2 Activities

The twenty-two months elapsed between the submission of the project proposal and the commencement of the Contractor's work meant that the content of the assignment had to be changed dramatically. While the project proposal envisaged the provision of assistance in establishing a credit union movement in Russia, the Russians had not waited so long and had already established a number of unions. The work therefore shifted to provision of operational advice on a continuous basis. It had also become clear that RCUL could not absorb all the required TA in a period of six months as originally envisaged and project activities were instead spread over a period of eighteen months. Finally, the geographical

distribution of activities changed from the Moscow *oblast* to the neighboring regions of Yaroslavl and Vladimir, where the credit union movement was developing faster.

Phase One (1994) comprised the following activities:

- organizing training courses in Moscow;
- provision of internships for key Russian personnel in Ireland;
- technical assistance in finance and auditing, safety and soundness monitoring, insurance, and marketing;
- coordination of international activities.

Phase Two (1995) comprised the following activities:

- further internships in Ireland;
- additional training of staff;
- launch of the Credit Union Insurance Company;
- provision of financial assistance to the League; and
- provision of ad hoc technical advice as needed.

2.3 Implementation

Implementation was very smooth. Project components were adapted to the local circumstances. The project shows that commitment of the contractor and flexibility in approaching the assignment (including a certain willingness to adapt plans to reality on the ground, a in principle requirement for most projects given the time lag between preparation and implementation) are key factors for success.

2.4 Relations Contractor/Partner Organization

The relations between RCUL and ILCU were excellent before the project started and this contributed to project success. As discussed below, the excellent relations developed eventually led to ILCU’s decision to provide direct financial support to RCUL. A “Russian Club” was also formed together with other RCUL partners like the World Council of Credit Unions, the Desjardins Movement and the Australian Credit Union Forum.

2.5 Coordination with Other Initiatives

Tacis has remained supportive of the credit union movement and some assistance to RCUL is being provided through a ECU 1.5 million project with the Confederation of Consumer Unions (included in Tacis’ Human Resources Development sector). The RCUL component is equivalent to about a third of the project. Lately, the German bilateral aid has become interested in the development of credit unions and some initiatives are envisaged building on the basis established by Tacis.

3. EVALUATION

3.1 Overall Assessment

Overall, the project has been highly relevant, efficient and effective. However, it is unclear whether the RCUL will be financially sustainable. Its impact on the availability of banking services to the Russian population living outside major cities has clearly been positive although it is difficult to quantify at this stage.

3.2 Relevance

The credit union movement can be an effective way for offering a safe depository for savings and a source of credit to individuals and households who otherwise might not have access to either. Given the poor development of banking services outside the major Russian cities, characterized either by poor services (Sberbank is often the only option) or by a total lack of services, a project supporting the credit union movement was highly relevant.

3.3 Effectiveness

The project was highly effective due to the competence, commitment and flexibility of the contractor who adapted its work totally to the needs of the Russian partners. Legal and regulatory assistance was particularly helpful. RCUL is highly satisfied with the quality of the TA provided. The outputs achieved were impressive given the limited time and resources available.

Table 1 Activities and Outputs

| Activities | Outputs |
|------------------------|---|
| Organizational support | RCUL established with a satisfactory set of norms adapted to Russian conditions |
| Training | Key RCUL staff attended two internships in Ireland and seminars on accounting, finance and promotion of conditions, safety and soundness of |

| | |
|--------------------------|---|
| | operations |
| Legal and Policy Advice | Draft legislation prepared and passed by <i>Duma</i> but not signed by President |
| Insurance | Joint venture company established and operational (the members of 15 credit unions have bought group insurance from it) |
| Strategic Planning | Plan developed and under implementation |
| International Activities | RCUL became a member of WOCCU in 1995 |

3.4 Efficiency

It is difficult to determine whether the project was efficient because of the lack of any detailed financial information on the project and of useful benchmarks. It seems however that ILCU worked for low fees and practically re-invested all of them in financial contributions to RCUL. Considering both aspects, we can therefore conclude that the project was probably very efficient.

3.5 Sustainability

On the one hand, project results have been effectively absorbed by RCUL officials and personnel and are going to have lasting effects. On the other hand, the financial sustainability of RCUL is less clear. ILCU, with an unusual move for a contractor, decided to fund part of RCUL's operating budget on a declining scale for a period of five years (1996-2000) with a grant of US\$ 300,000. However, RCUL is far from being financially sustainable and largely relies on the management of donor projects to fund its activities. Members do pay fees but these are insufficient to cover costs. Services that are not for free (like training) are usually poorly attended. As a positive note, the credit insurance company established by RCUL with CUNA of the USA and a capital contribution from ILCU is operating with a small profit and offers group insurance to the members of 15 credit unions associated to RCUL.

3.6 Impact

The strengthening of RCUL has had a positive impact on the development of the credit union movement in Russia. Although the growth in the number of credit unions in the last few years cannot be attributed exclusively to RCUL, they were clearly among the pioneers in this field and their activities certainly had demonstration effects going beyond the league members.

Assessment by the Monitoring Unit

The project received average-to-good ratings from the Tacis Monitoring Unit both in the end of project assessment report as well as in the various monitoring reports. The ratings of the assessment report were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor):

| | |
|--|---|
| Overall Contractor Performance | B |
| Contribution of project partner to project results | C |
| Results (against agreed outputs) | C |
| Appropriateness of project for project partner | B |
| Expected sustainability | C |
| Achievement of specific objectives | B |

The monitors noted with appreciation the good performance of the contractors and the appropriateness of the project as re-designed during implementation.

Profile #15

Russian Project Finance Bank

| | | |
|-----------------------------|--|----------------|
| Official Title: | Development of the Russian Project Finance Bank (RPFb) | |
| Reference Number: | FSU0012 | |
| Contract Number: | 91.04/02.00/B006; B024 (two contracts) | |
| Location: | Moscow | |
| Contractor: | ING Bank (Netherlands) | |
| Sub-contractors: | Samuel Montagu and Ernst & Young | |
| Partner Institution: | RPFb | |
| Start Date: | July 1993 | |
| Completion Date: | not known (possibly end 1996) | |
| Budget: | ECU 6,960,000 | |
| Manpower: | Foreign resident experts: | 132 man/months |

1. INTRODUCTION

The Russian Project Finance Bank (RPFb) was established in 1992 by the EBRD and some Russian entities. The Bank is still controlled by the EBRD with 51%, of which 16% has been placed with an independent trustee for the benefit of designated management and employees. Other major shareholders are Gazprom (11%), Aeroflot, Agroprombank and TokoBank (about 5% each).

RPFb is an investment bank providing advisory services to Russian and foreign clients. During the 1993-97 period the Bank participated in the structuring of more than 40 project financing schemes and completed 18 projects for a total value of US\$ 11 billion, mostly in the oil and gas industry. It has usually acted as a financial advisor to the borrower. After a difficult start (losses in 1993 and 1994) RPFb has been consistently profitable. In 1997 its annual fee income amounted to US\$ 7 million, with some US\$ 2 million profits.

2. DESCRIPTION

2.1 Objectives

The project had the wider objective of attracting capital to investment projects in several key industries and infrastructure. The specific objective was to establish a modern, competitive financial institution specializing in project finance, privatization and venture capital activities and also capable to offer a selective range of treasury and customer services to complement and support the core activities.

2.2 Activities

The project funded a team of five resident professionals and over 25 short term consultants to assist the RPFb in:

- Strategic planning;
- Business development and marketing activities;
- Risk control, covering both credit and other risks;
- Management information and reporting systems, including monthly updating of the project pipeline;
- Operational procedures;
- Internal audit;
- Treasury activities, as part of planned commercial banking activities;
- Selection of a suitable integrated automated data processing system; and
- A general training program for bank staff including on-the-job training and secondments.

Most of these activities led to the production of manuals, with some (mainly on-the-job) training of RPFb staff as showed in Table 1 below.

Table 1 Activities and Outputs

| Activity | Output |
|------------------------------------|---|
| Strategic planning | On-the job training of Russian managers |
| Business Development and Marketing | Business Plan |
| Risk controls | Credit Manual |
| MIS | MIS in place |
| Operational procedures | Operations Manual |
| Internal audit | Internal Audit Plan; Internal Audit Report |
| Treasury | Not clear (limited activities) |
| Automated data processing system | Reportedly, none |
| General training program | Mainly on-the-job training (some formal training in the UK and in Moscow) |

2.3 Implementation

During the start up phase, the Bank was effectively run by seconded expatriate managers, with only one Russian manager in an executive position. The Russian management became increasingly dissatisfied with this situation (and with the quality of seconded experts – see below) and in early 1995 a proposal was made to amend the TOR to bring in more relevant expertise on a short term basis. Based on information provided by the beneficiary and drawn from the project files (the little we could find), it appears that these proposals were never properly addressed by Tacis and or by anybody else and the project came somehow to an end, possibly towards the end of 1996. According to the Monitoring Unit, by mid 1996 some

ECU 3.2 million remained unspent⁷⁸. This somehow fits with the beneficiary's recollections ("We managed to save at least on million") but it is not clear if this money was subsequently re-allocated to other projects.

2.4 Relations Contractor/Partner Organization

The relations between the contractor and the partner organization deteriorated during the life of the project. The Russian side complained about the lack of business orientation of the European consultants and about the composition of the team, whose members were not performing as expected. In general, the Russian side felt that the contractor did not respond to their concerns as it should have.

2.6 Relation with Other Initiatives

This project is one of the first examples of cooperation between Tacis and the EBRD, and also saw the substantial involvement of other donors. The establishment of RPFB was preceded by a feasibility study and business planning exercise financed by Britain's Know How Fund (at an estimated cost of US\$ 1.5 million), conducted by Morgan Grenfell, Arthur Andersen and Clifford Chance. The Tacis project was implemented in parallel with additional support (again, involving the secondment of professionals to managerial positions) by USAID and by the Canadian government (the latter worth an estimated US\$ 2.2 million). Altogether, it would seem that no less than US\$ 15 million of aid money was allocated to RPFB although the amount actually spent is likely to be somewhat less.

3. EVALUATION

3.1 Overall Assessment

A strange case. The idea of establishing the RPFB was certainly appropriate, sustainability does not seem to be an issue and the impact also appears positive. However, there are some doubts about the effectiveness of Tacis support as opposed to that contributed by other donors and the operation was certainly not efficient.

3.2 Relevance

When the RPFB was launched the Russian financial sector was still very undeveloped and the idea of establishing a local investment house capable of providing western quality services in the structuring of major investment deals was certainly appropriate. In this context, the decision to support the start up phase with Tacis-funded TA was also appropriate and indeed, despite the criticisms regarding the quality of some of the support received (see below), the beneficiary recognizes that "the Bank would not have started without this program" but "we could have used it more effectively".

3.3 Effectiveness

As mentioned above, the RPFB is now an established and profitable investment house, with good contacts with Russian business circles and Western financial organizations. Although this is certainly *prima facie* evidence of effectiveness, there are indications that the positive results achieved may have been at least partially independent from Tacis support. Indeed, during the interview, the RPFB staff lamented the largely passive attitude of Tacis-financed consultants ("no profit targets: they were rather afraid and passive") and commented somewhat unfavorably on the quality of some of the seconded experts (the contractor "would not send their best staff", "some advisers were rather old and tired: one was in his seventies, another had never seen a computer")⁷⁹.

⁷⁸ *Monitoring Report #1*, March 7, 1996.

⁷⁹ These views were somehow endorsed by the Monitoring Unit in their *Monitoring Report #1*, March 7,

The performance of Tacis-financed experts is contrasted by the beneficiary with that of American and Canadian advisers: “they were TA but had profits targets. On the contrary, the European group had nothing about profit targets in their terms of reference. The first were pro-active (too much at times), the latter simply followed their terms of reference. They were just advising ...”. As a result of this different attitude, the US and Canadian advisors are also said to have significantly contributed to improve RPFb’s operations, by bringing in some important customers (General Electric, Allied Signal).

3.4 Efficiency

Details about project costs are not available but even the little information in our hands clearly suggests that the project was not cost-effective. To devote an estimate US\$ 15 million of TA money to develop an institution with a US\$ 5 million share capital and a US\$ 7 million turnover (reached only in 1997) was clearly an overkill, made it possible by the strong pressure to commit (and spend) money characterizing the early TA projects in Eastern countries.

3.5 Sustainability

Although they may suffer somehow from the recent crisis, at the time of our visit (Summer 1998) the Bank was doing fairly well. They have definitely retained a western style of doing things, which is another indicator of sustainability. Over the last few years RPFb suffered significant losses of qualified personnel (“we cannot pay the same salaries granted by foreign financial institutions”, “now many of our colleagues are working with the big names: ABN-Amro, Chase, Citybank, NatWest, Barclays, etc.”) but this does not seem to have significantly affected their operations.

3.6 Impact

Over the last few years RPFb has been active in the finalization of several important deals in the oil & mining sectors and in manufacturing (see “tombstones” in the project files), with fairly complex project structures involving Western export credit agencies and without the use of sovereign risk guarantees. These deals could have been certainly done by Western investment banks but there is no doubt that RPFb is an useful additional element to Russia’s financial sector.

| Assessment by the Monitoring Unit | |
|---|---|
| <p>The project received extremely poor ratings from the Tacis Monitoring Unit. The ratings of the monitoring report of March 1996 (we could not find their end of project assessment report) were as follows: (codes are A = excellent; B = good; C = standard; D = problems, need for action; E = urgent review to assess continuation):</p> | |
| Implementation of activities | C |
| Achievement of outputs to date | C |
| Appropriateness of workplan | E |
| Ability to Achieve Objectives | E |
| Potential sustainability | E |
| <p>The monitors were concerned that the project had stalled and underlined the reservations expressed by RPFb about the quality of the contractor and the content of its assignment.</p> | |

Profile #16

Insurance Training

| | | |
|------------------------------|--|---------------|
| Official Title: | Insurance Training Program in Moscow and St. Petersburg | |
| Reference Number: | FSU 25/A | |
| Contract Number: | 93-0768.01 and 91.04/04.01/B005 | |
| Location: | Moscow and St. Petersburg | |
| Contractor: | Comité Européen des Assurance – Training Task Force (Belgium) | |
| Sub-contractors: | none | |
| Partner Institutions: | Moscow State University (MGU), St. Petersburg University of Economics and, Finance (SPUEF) and Finance Academy (FA). | |
| Start Date: | January 1994 | |
| Completion Date: | July 1997 | |
| Budget: | ECU 2,400,000 | |
| Manpower: | foreign experts: | 32 man/months |

1. INTRODUCTION

Started in January 1994 with the project was implemented by the European insurance industry association, the Comité Européen des Assurances (CEA), and involved three distinguished Russian educational institutions, the Moscow State University, the St. Petersburg University of Economics and Finance, and the Finance Academy.

The Moscow State University (MGU), established in 1775 by the Russian scientist Michael Lomonosov, has a long tradition of academic excellence. It has an academic staff of over 8,000 professors, lecturers and research associates. About 30,000 undergraduate students and 5,000 Ph.D. students currently take courses at MGU. It has 20 faculties and the Faculty of Economic Sciences, where the Chair on Insurance is located, is one of the most prestigious.

The St. Petersburg University of Economics and Finance (SPUEF) was established in 1930 as the Leningrad Economic Institute and became one of the former USSR's leading centers for education and research. The Faculty of Finance, Credit and International Economic Relations, one of SPUEF ten faculties, comprises a Chair for Insurance Sciences which pre-dated the project.

The Finance Academy of the Government of the Russian Federation (FA) was established in 1918 and is one of the leading higher education institutions in Russia. It has an Institute of Insurance and played a leading role in training financial experts for the two former insurance state monopolies – *Rosgosstrakh* and *Ingostrakh* – with whom it has excellent relations. As noted in CEA's inception report (page 18) "the most knowledgeable insurance practitioners are seen to be Ingostrakh staff, of which the vast majority was trained at the Finance Academy."

2. DESCRIPTION

2.1 Objectives

The objective of the project was to assist the insurance industry in upgrading its human resources base by strengthening training capabilities at the three beneficiary institutions and by training insurance professionals. Table 1 shows the wider and specific project objectives as stated in the original terms of reference (TOR).

Table 1 Wider and Specific Project Objectives

| Wider Objective | Specific Project Objectives |
|---|--|
| Contribute to the reorganization of the Russian insurance sector to achieve a free but regulated market structure by assisting to meet the most urgent training needs | Development of long term comprehensive education curricula to foster a solid educational base for the insurance profession |
| | Immediate short term training for insurance professionals |

2.2 Activities

The project involved the following activities:

- **Retraining of trainers:** short term intensive courses in basic and specialized topics; study visits to the EU; and on-the-job training through joint delivery of classes during the first year of the master program;
- **Master Program:** development of appropriate curricula and teaching materials and mobilization of Western trainers for the co-training;
- **Training of Insurance Professionals:** preparation of courses including schedule, topics and materials and mobilization of EC professors/teachers;

- Establishment of a Documentation Center: purchase of key EC insurance literature, translation and publication of Russian editions of a small number of basic insurance literature;
- Establishment of a Research Center: feasibility study for a new center located at MGU.

2.3 Implementation

Commitment and flexibility were the two crucial factors affecting project performance. As one could expect because of its nature, CAE was very committed to the development of insurance training in Russia. As a consequence, it was flexible in implementing the assignment, always adapting contents and operating modalities to the needs of the Russian partners. As a result, *ex post* the project was largely different from what had been anticipated (e.g., one recipient institution was added; distance learning was practically dropped; the intensity of training was reduced).

2.4 Relations Contractor/Partner Organization

The Finance Academy was added after the project started upon recommendation from the contractor. Relations between the contractor and all partner organizations was excellent. The fact that CEA is an insurance organization itself rather than a consulting firm made the relation closer to a “twinning arrangement” rather than a consulting assignment. This was made apparent also by some minor aspects, such as CEA’s decision not to rent separate premises but to ask for a room at each institution, with a view to strengthen relations further.

Relations among partner organizations and between the project and the industry were instead more difficult. Partner institutions are competitors in insurance training and coordination suffered as a consequence, leading to some duplication of efforts. Insurance companies were instead somewhat dissatisfied with the quality of the training for insurance professionals, which suffered from problems similar to those faced by the IFBS project in its early stages: the lack of resident Western trainers who could ensure continuity and help short term experts in understanding the Russian situation quickly.

2.5 Coordination with Other Initiatives

The project is closely related to its successor, Insurance Training II (started in September 1997), which has taken into account the lessons learned. The project was also complementary to a Tempus Project (Transition-Development of Teaching in the Field of Banking and Insurance – JEP-08541-94) providing training for young professors in France and Germany, being implemented at SPUEF.

3. EVALUATION

3.1 Overall Assessment

Overall, the project has been relevant, efficient and effective in achieving its intended specific objectives, although effectiveness has been higher on the academic front than in training of insurance professionals. Project results are also sustainable. Its impact on the insurance sector was probably positive but it is difficult to quantify at this stage.

3.2 Relevance

The project started when Russia was in the process of developing an insurance market. A Supervision Authority had been created in July 1992 and a law on insurance had been passed at the end of 1992 by the Russian Parliament. A thousand private insurance companies were formed in the same period, with hundreds of new employees every. The project was therefore both timely and appropriate as the needs of the insurance industry for qualified manpower was great.

3.3 Effectiveness

As shown in Table 2, the project substantially achieved all of its output targets. The project had several significant achievements. First, it contributed to the creation of a complex system of education in insurance at MGU, SPUEF and FA. The system comprises both higher education and training/upgrading at each location. A Master’s Program in insurance was also introduced at both MGU and SPUEF.

Table 2 Output Indicators

| Output Indicator | Planned | Actual |
|--|-----------------------------|-----------------------------|
| Re-training of Professors | 10 MGU 15 FA 13 SPUEF | 10 MGU 15 FA 13 SPUEF |
| Master Course enrollment | 24 | 24 |
| Establishment of a documentation center in each location | ✓ | ✓ |
| Establishment of a research center at MGU | ✓ | ✓ |

Qualitative developments are illustrated by improvement at the Moscow State University. MGU established a Department of Risk Management and Insurance with a staff of five people. They are presently running a Master Program with up to 18 students and a few courses at Bachelor's level. MGU also provides some consulting to the industry (two assignments so far) and training for professionals in the regions. The training offered by MGU seems to be effective. While students perform well in nation wide competition (e.g. 50% of the MGU students won prizes at the *Ingostrakh* National Competition last year), the impact on their ability of finding a job in the insurance industry is less clear, as most of the Master's Graduates either remained in MGU to achieve a Ph.D. or went back to a job they already had.

Practitioner Training (delayed till 1995) seems to have been less effective than university training, at least initially because of the limited ability of the Russian Insurance Unions in jointly organizing the short course seminars and because of the quality of short term experts, which was not always high as shown by the participants feedback. Short term experts were often unaware of the state of the Russian insurance industry and sometimes provided superficial/generic training. Overall, the project had a higher effectiveness on the academic side and performed less well in its interface with the insurance industry, a flaw recognized by Tacis and being addressed by the subsequent Insurance Training II much more focused on the needs of the Russian insurance industry.

3.4 Efficiency

The cost of CEA services, with consulting fee up to ECU 350/day was very reasonable. According to Russian beneficiaries (MGU), the budget was carefully managed and savings were made wherever possible.

3.5 Sustainability

Project results appear sustainable. The professors re-trained under the project are still working with the respective beneficiaries, teaching materials are still in use and being updated. On the financial front, insurance training in universities is funded out of each university's budget and, barring major financial difficulties the survival of the Insurance Depts/Institutes should not be in doubt.

3.6 Impact

The project's positive impact will only be felt in the long run. At present, the number of graduates is too small compared with the about 300,000 employees of insurance companies (80% of whom working at *Rosgosstrakh* or *Ingostrakh*).

| Assessment by the Monitoring Unit | |
|---|---|
| The project received good ratings from the Tacis Monitoring Unit in the end of project assessment report, compared with monitoring reports whose average was C rather than B. The ratings of the assessment report were as follows (A = excellent; B = good; C = generally adequate, some good aspects; D = generally adequate, some poor aspects; E = poor): | |
| Overall Contractor Performance | B |
| Contribution of project partner to project results | B |
| Results (against agreed outputs) | B |
| Appropriateness of project for project partner | A |
| Expected sustainability | B |
| Achievement of specific objectives | B |
| The monitors were particularly positive about the performance of the contractor and its relations with Russian partner institutions. | |

APPENDIX

In this Appendix we summarize the available information on activities performed by the ESCs. The data presented here were provided directly by contractors based on a standardized questionnaire. The collection of data on ESCs' activities was initiated within the framework of a recent Mid Term Operational Review (MTOR) conducted by Tacis. The database was subsequently partly updated during this evaluation exercise. Data refer to all ESC projects with the exception of the ESC in the Baikal Region (where operations started only during 1998) and cover the period early 1995-mid 1998 (with some limitations indicated in the subsequent tables).

The data were collected through a questionnaire developed for the MTOR and covering the following areas of activity:

- training (number of seminars, individuals and companies attending). In the ESCs' jargon these activities are often referred to as Modular Advice Program (MAP);
- assistance extended in business planning (business plans developed/reviewed by the ESCs) and in marketing (number of market surveys and of marketing plans, requested by clients and actually developed by ESCs);
- assistance extended in business development (typically meaning the establishment of some form of "stable" relationships with suppliers or customers), with indication of contacts established, deals finalized and negotiations ongoing. Originally intended to promote contacts with EU companies (but later extended to cover also other Russian or CIS counterparts), in the ESCs' jargon these business development activities are often referred to as "twinning";
- assistance provided in securing sources of external financing (be it equity or debt), again with indication of contacts established, deals finalized and negotiations ongoing;
- technical assistance in the form of "mini projects" (typically involving up to one staff/month) and in the form of larger "enterprise restructuring" exercises, again with indication of proposals formulated and of restructurings actually implemented.

A summary presentation of key data is provided in Table 1 while detailed information for the individual ESCs (as well as for the regional groupings) is provided in Tables 2 through 19. In general, the database is an useful tool to assess the activity performed by ESCs. There are, however, some data limitations which are worth mentioning, namely:

- some of the items included in the MTOR questionnaire may have generated some ambiguity. For instance, discussions with ESC staff in the field left with the impression that the distinction between "market analyses" and the development of "marketing plans" was not always clear in the minds of respondents. This may have led to some double counting between the two items and/or with mini projects;
- in some cases the information provided by respondents shows some (usually minor) inconsistencies. For instance, in the case of the Kemerovo ESC (Table 10) the pattern of "mini projects" ongoing (constantly increasing) seems hardly compatible with the pattern of "mini projects" completed and with the trend of similar activities performed by other ESCs. In other cases (e.g. Voronezh, Chelyabinsk) for certain items the number of services performed is greater than the number of requests received from client enterprises (most likely, this is just the result of some banal mistakes in filling in the questionnaire);
- some potentially more serious limitations are found in the data referred to "business development/twinning" activities, where at times the notion of "deals concluded" seems to have been over extended. This is most notably the case of the Chelyabinsk ESC (Table 18), where the 26 deals completed (an unusually large number compared with what achieved by other ESCs: on average less 4 deals each) appear to include the organization of visits from foreign companies and/or the signing of letters of intents not necessarily followed by tangible developments. A similar problem is posed by the two ESCs in the Golden Ring (Tables 6-8), where the nature of "contacts established" (over 450 per center in less than three years) is clearly different from that of other centers (posting an average of "only" 50 contacts).

Table 1 Summary Data

| | South Russia | Golden Ring | West Siberia | Kaliningrad | Voronezh | Urals | Total |
|--|-------------------------|------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|
| ESCs in operation | 3 | 2 | 3 ⁽¹⁾ | 1 | 1 | 3 | 13 |
| Period covered | Feb. 96 May 98 | July 96 May 98 | March 95 Jan. 98 | July 96 May 98 | Jan. 96 Oct. 97 | Jan. 95 Oct. 97 | ... |
| Budget (ECU) | 6,973,000 | 4,500,000 | 7,702,000 | 999,000 | 2,000,000 ⁽²⁾ | 12,310,000 | 34,484,000 |
| Training | | | | | | | |
| – seminars | 41 | 52 | 78 | 17 | 7 | 167 | 362 |
| – individuals attending ⁽³⁾ | 576 | 409 | 1182 | 90 | 215 | 2916 | 5388 |
| – companies attending ⁽³⁾ | 163 | 139 | 452 | 17 | 19 | 620 | 1410 |
| Business plans | | | | | | | |
| – developed | 7 | 4 | 17 | 4 | 7 | 56 | 95 |
| – reviewed | 1 | 12 | 46 | 5 | 9 | 140 | 213 |
| Market analyses | | | | | | | |
| – requested | 23 | 34 | 71 | 10 | 10 | 23 | 171 |
| – performed | 16 | 24 | 33 | 7 | 12 | 13 | 105 |
| Marketing plans | | | | | | | |
| – requested | 14 | 21 | 32 | 6 | 3 | 34 | 110 |
| – performed | 10 | 14 | 19 | 4 | 3 | 17 | 67 |
| Business development | | | | | | | |
| – contacts made | 81 | 928 ⁽⁴⁾ | 199 | 90 | 85 | 161 | 616 ⁽⁵⁾ |
| – deals completed | 11 | 6 | 9 | 4 | 5 | 38 ⁽⁶⁾ | 47 ⁽⁷⁾ |
| Finance | | | | | | | |
| – contacts made | 12 | 35 | 89 | 30 | 5 | 70 | 241 |
| – deals completed | 3 | 0 | 5 | 1 | 0 | 2 | 11 |
| Mini projects | | | | | | | |
| – completed | 47 | 24 | 78 | 4 | 25 | 81 | 259 |
| Restructuring | | | | | | | |
| – proposals made | 6 | 22 | 9 | 6 | 7 | 22 | 72 |
| – implemented | 2 | 14 | 2 | 5 | 4 | 9 | 36 |

Notes

⁽¹⁾ Plus a Representative Unit in Tomsk

⁽²⁾ Phase I only

⁽³⁾ Not discounted for multiple counting

⁽⁴⁾ Data not comparable with those of other ESCs

⁽⁵⁾ Excluding the Golden Ring ESCs

⁽⁶⁾ Of which 26 for Chelyabinsk ESC (most likely, data not comparable with other ESCs)

⁽⁷⁾ Excluding the Chelyabinsk ESC

Table 2 ESC Rostov - (established February 1996)

| Activities | 1996 | 1997 | 1998 (May) | Total |
|-----------------------------|-------------|-------------|-----------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 3 | 8 | 1 | 12 |
| – individuals attending | 113 | 76 | 31 | 220 |
| – companies attending | 30 | 13 | 13 | 56 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 0 | 2 | 2 |
| – reviewed | 0 | 0 | 0 | 0 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 4 | 2 | 6 |
| – performed | 0 | 4 | 2 | 6 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 6 | 0 | 6 |
| – performed | 0 | 2 | 3 | 5 |
| <i>Business development</i> | | | | |
| – contacts made | 0 | 14 | 20 | 34 |
| – deals completed | 0 | 1 | 5 | 6 |
| – negotiations on going | 0 | 9 | 11 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 0 | 3 | 0 | 3 |
| – deals completed | 0 | 2 | 0 | 2 |
| – negotiations on going | 0 | 1 | 0 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 0 | 9 | 5 | 14 |
| – ongoing | 0 | 9 | 1 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 0 | 2 | 2 |
| – initiatives implemented | 0 | 0 | 0 | 0 |

Table 3 ESC Krasnodar - (established June 1996)

| Activities | 1996 | 1997 | 1998 (May) | Total |
|-----------------------------|-------------|-------------|-----------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 5 | 6 | 1 | 12 |
| – individuals attending | 80 | 67 | 23 | 170 |
| – companies attending | 20 | 34 | 8 | 62 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 2 | 0 | 2 |
| – reviewed | 0 | 1 | 0 | 1 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 5 | 0 | 5 |
| – performed | 0 | 3 | 0 | 3 |
| <i>Marketing plans</i> | | | | |
| – requested | ... | ... | ... | ... |
| – performed | ... | ... | ... | ... |
| <i>Business development</i> | | | | |
| – contacts made | 0 | 14 | 2 | 16 |
| – deals completed | 0 | 1 | 1 | 2 |
| – negotiations on going | 0 | 2 | 0 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 0 | 4 | 0 | 4 |
| – deals completed | 0 | 0 | 0 | 0 |
| – negotiations on going | 0 | 1 | 0 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 0 | 14 | 2 | 16 |
| – ongoing | 0 | 0 | 0 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 3 | 0 | 3 |
| – initiatives implemented | 0 | 2 | 0 | 2 |

Table 4 ESC Stavropol - (established February 1996)

| Activities | 1996 | 1997 | 1998 - May | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 3 | 13 | 1 | 17 |
| – individuals attending | 115 | 52 | 19 | 186 |
| – companies attending | 31 | 13 | 12 | 56 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 3 | 0 | 3 |
| – reviewed | 0 | 0 | 0 | 0 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 7 | 5 | 12 |
| – performed | 0 | 7 | 0 | 7 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 5 | 3 | 8 |
| – performed | 0 | 2 | 3 | 5 |
| <i>Business development</i> | | | | |
| – contacts made | 0 | 1 | 30 | 31 |
| – deals completed | 0 | 1 | 2 | 3 |
| – negotiations on going | 0 | 7 | 10 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 0 | 3 | 2 | 5 |
| – deals completed | 0 | 1 | 0 | 1 |
| – negotiations on going | 0 | 2 | 2 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 0 | 15 | 2 | 17 |
| – ongoing | 0 | 0 | 2 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 0 | 1 | 1 |
| – initiatives implemented | 0 | 0 | 0 | 0 |

Table 5 ESC South Russia

| Activities | 1996 | 1997 | 1998 – May | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 11 | 27 | 3 | 41 |
| – individuals attending | 308 | 195 | 73 | 576 |
| – companies attending | 81 | 60 | 33 | 174 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 5 | 2 | 7 |
| – reviewed | 0 | 1 | 0 | 1 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 16 | 7 | 23 |
| – performed | 0 | 14 | 2 | 16 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 11 | 3 | 14 |
| – performed | 0 | 4 | 6 | 10 |
| <i>Business development</i> | | | | |
| – contacts made | 0 | 29 | 52 | 81 |
| – deals completed | 0 | 3 | 8 | 11 |
| – on going | 0 | 18 | 21 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 0 | 10 | 2 | 12 |
| – deals completed | 0 | 3 | 0 | 3 |
| – on going | 0 | 4 | 2 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 0 | 38 | 9 | 47 |
| – ongoing | 0 | 9 | 3 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 3 | 3 | 6 |
| – initiatives implemented | 0 | 2 | 0 | 2 |

Table 6 ESC Yaroslavl - (established July 1996)

| Activities | 1996 | 1997 | 1998 - May | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | ... | 6 | 6 | 12 |
| – individuals attending | ... | 50 | 36 | 86 |
| – companies attending | ... | 27 | 14 | 41 |
| <i>Business plans</i> | | | | |
| – developed | ... | 1 | 0 | 1 |
| – reviewed | ... | 2 | 1 | 3 |
| <i>Market analyses</i> | | | | |
| – requested | ... | 2 | 3 | 5 |
| – performed | ... | 2 | 1 | 3 |
| <i>Marketing plans</i> | | | | |
| – requested | ... | 4 | 2 | 6 |
| – performed | ... | 2 | 1 | 3 |
| <i>Business development</i> | | | | |
| – contacts made | ... | 152 | 125 | 277 |
| – deals completed | ... | 4 | 1 | 5 |
| – negotiations on going | ... | 6 | 16 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | ... | 5 | 7 | 12 |
| – deals completed | ... | 0 | 0 | 0 |
| – on going | ... | 2 | 2 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | ... | 6 | 4 | 10 |
| – ongoing | ... | 2 | 0 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | ... | 3 | 3 | 6 |
| – initiatives implemented | ... | 2 | 2 | 4 |

Table 7 ESC Ivanovo - (established July 1996)

| Activities | 1996 | 1997 | 1998 - May | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | ... | 22 | 14 | 36 |
| – individuals attending | ... | 165 | 50 | 215 |
| – companies attending | ... | 48 | 7 | 55 |
| <i>Business plans</i> | | | | |
| – developed | ... | 1 | 2 | 3 |
| – reviewed | ... | 8 | 1 | 9 |
| <i>Market analyses</i> | | | | |
| – requested | ... | 15 | 4 | 19 |
| – performed | ... | 11 | 2 | 13 |
| <i>Marketing plans</i> | | | | |
| – requested | ... | 4 | 1 | 5 |
| – performed | ... | 4 | 1 | 5 |
| <i>Business development</i> | | | | |
| – contacts made | ... | 276 | 175 | 451 |
| – deals completed | ... | 3 | 1 | 4 |
| – negotiations on going | ... | 22 | 14 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | ... | 8 | 5 | 13 |
| – deals completed | ... | 0 | 0 | 0 |
| – negotiations on going | ... | 2 | 3 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | ... | 10 | 4 | 14 |
| – ongoing | ... | 17 | 8 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | ... | 10 | 6 | 16 |
| – initiatives implemented | ... | 8 | 1 | 9 |

Table 8 ESCs in Golden Ring

| Activities | 1996 | 1997 | 1998 – May | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 4 | 28 | 20 | 52 |
| – individuals attending | 72 | 251 | 86 | 409 |
| – companies attending | 43 | 75 | 21 | 139 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 2 | 2 | 4 |
| – reviewed | 0 | 10 | 2 | 12 |
| <i>Market analyses</i> | | | | |
| – requested | 10 | 17 | 7 | 34 |
| – performed | 8 | 13 | 3 | 24 |
| <i>Marketing plans</i> | | | | |
| – requested | 10 | 8 | 3 | 21 |
| – performed | 6 | 6 | 2 | 14 |
| <i>Business development</i> | | | | |
| – contacts made | 200 | 428 | 300 | 928 |
| – deals completed | 0 | 4 | 2 | 6 |
| – negotiations on going | 0 | 28 | 30 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 10 | 13 | 12 | 35 |
| – deals completed | 0 | 0 | 0 | 0 |
| – negotiations on going | 0 | 4 | 5 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 0 | 16 | 8 | 24 |
| – ongoing | 0 | 19 | 8 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 13 | 9 | 21 |
| – initiatives implemented | 0 | 11 | 3 | 14 |

Table 9 ESC Novosibirsk - (established March 1995)

| Activities | 1995 | 1996 | 1997 | 1998 - Mid Jan | Total |
|------------------------------------|-------------|-------------|-------------|-----------------------|--------------|
| <i>Training</i> | | | | | |
| – seminars | 0 | 6 | 19 | 1 | 26 |
| – individuals attending | 0 | 139 | 339 | 12 | 490 |
| – companies attending | 0 | 70 | 170 | 1 | 241 |
| <i>Business plans</i> | | | | | |
| – developed | 0 | 0 | 2 | 1 | 3 |
| – reviewed | 4 | 8 | 6 | 1 | 19 |
| <i>Market analyses</i> | | | | | |
| – requested | 0 | 3 | 9 | 0 | 12 |
| – performed | 0 | 0 | 1 | 0 | 1 |
| <i>Marketing plans</i> | | | | | |
| – requested | 0 | 2 | 7 | 0 | 9 |
| – performed | 0 | 0 | 1 | 0 | 1 |
| <i>Business development</i> | | | | | |
| – contacts made | 0 | 28 | 42 | 2 | 72 |
| – deals completed | 0 | 0 | 2 | 0 | 2 |
| – negotiations on going | 0 | 7 | 5 | 3 | n.a. |
| <i>Finance</i> | | | | | |
| – contacts made | 0 | 8 | 14 | 1 | 23 |
| – deals completed | 0 | 0 | 0 | 0 | 0 |
| – negotiations on going | 0 | 3 | 2 | 2 | n.a. |
| <i>Mini projects⁽¹⁾</i> | | | | | |
| – completed | 4 | 20 | 35 | 1 | 60 |
| – ongoing | 0 | 0 | 7 | 2 | n.a. |
| <i>Restructuring⁽²⁾</i> | | | | | |
| – proposals made | 0 | 0 | 5 | 0 | 5 |
| – initiatives implemented | 0 | 0 | 0 | 0 | 0 |

⁽¹⁾ The center also performed some 30 “company business diagnostics” and provided “informational services” in a dozen of cases and assisted in 4 import-export deals.

⁽²⁾ Not mandated by TOR. *De facto* conducted with successive mini projects.

Table 10 ESC Kemerovo (established March 1995)

| Activities | 1995 | 1996 | 1997 | 1998 - Mid Jan Total | |
|-----------------------------|-------------|-------------|-------------|-----------------------------|------|
| <i>Training</i> | | | | | |
| - seminars | 3 | 18 | 12 | 0 | 33 |
| - individuals attending | 46 | 218 | 104 | 0 | 368 |
| - companies attending | 27 | 37 | 28 | 0 | 92 |
| <i>Business plans</i> | | | | | |
| - developed | 0 | 8 | 4 | 1 | 13 |
| - reviewed | 2 | 11 | 9 | 0 | 22 |
| <i>Market analyses</i> | | | | | |
| - requested | 5 | 24 | 26 | 0 | 55 |
| - performed | 2 | 13 | 15 | 0 | 30 |
| <i>Marketing plans</i> | | | | | |
| - requested | 0 | 10 | 10 | 0 | 20 |
| - performed | 0 | 6 | 9 | 0 | 15 |
| <i>Business development</i> | | | | | |
| - contacts made | 0 | 35 | 33 | 0 | 68 |
| - deals completed | 0 | 3 | 4 | 0 | 7 |
| - negotiations on going | 0 | 13 | 5 | 0 | n.a. |
| <i>Finance</i> | | | | | |
| - contacts made | 0 | 14 | 37 | 5 | 56 |
| - deals completed | 0 | 5 | 0 | 0 | 5 |
| - negotiations on going | 0 | 9 | 8 | 0 | n.a. |
| <i>Mini projects</i> | | | | | |
| - completed | 0 | 5 | 10 | 0 | 15 |
| - ongoing | 20 | 24 | 20 | 10 | n.a. |
| <i>Restructuring</i> | | | | | |
| - proposals made | 0 | 0 | 3 | 1 | 4 |
| - initiatives implemented | 0 | 0 | 1 | 0 | 1 |

Table 11 ESC Barnaul - (established March 1995)

| Activities | 1995 | 1996 | 1997 | 1998 - Mid Jan Total | |
|-----------------------------|-------------|-------------|-------------|-----------------------------|------|
| <i>Training</i> | | | | | |
| - seminars | 0 | 3 | 14 | 0 | 17 |
| - individuals attending | 0 | 98 | 174 | 0 | 272 |
| - companies attending | 0 | 32 | 38 | 0 | 70 |
| <i>Business plans</i> | | | | | |
| - developed | 0 | 1 | 1 | 0 | 2 |
| - reviewed | 2 | 3 | 0 | 0 | 5 |
| <i>Market analyses</i> | | | | | |
| - requested | 0 | 1 | 1 | 1 | 3 |
| - performed | 0 | 0 | 0 | 1 | 1 |
| <i>Marketing plans</i> | | | | | |
| - requested | 0 | 1 | 1 | 0 | 2 |
| - performed | 0 | 1 | 1 | 0 | 2 |
| <i>Business development</i> | | | | | |
| - contacts made | 10 | 7 | 32 | 2 | 51 |
| - deals completed | 0 | 0 | 0 | 0 | 0 |
| - negotiations on going | 10 | 11 | 0 | 0 | n.a. |
| <i>Finance</i> | | | | | |
| - contacts made | 10 | 2 | 2 | 1 | 15 |
| - deals completed | 0 | 0 | 0 | 0 | 0 |
| - negotiations on going | 1 | 2 | 0 | 2 | n.a. |
| <i>Mini projects</i> | | | | | |
| - completed | 0 | 0 | 0 | 0 | 0 |
| - ongoing | 0 | 0 | 0 | 0 | n.a. |
| <i>Restructuring</i> | | | | | |
| - proposals made | 0 | 0 | 1 | 0 | 1 |
| - initiatives implemented | 0 | 0 | 1 | 0 | 1 |

Table 12 Representative Unit Tomsk - (established January 1996)

| Activities | 1996 | 1997 | 1998 -Mid Jan | Total |
|-----------------------------|-------------|-------------|----------------------|--------------|
| <i>Training:</i> | | | | |
| - seminars | 1 | 2 | 0 | 3 |
| - individuals attending | 23 | 41 | 0 | 64 |
| - companies attending | 16 | 34 | 0 | 50 |
| <i>Business plans</i> | | | | |
| - developed | 0 | 1 | 0 | 1 |
| - reviewed | 1 | 0 | 0 | 1 |
| <i>Market analyses</i> | | | | |
| - requested | 0 | 2 | 0 | 2 |
| - performed | 0 | 2 | 0 | 2 |
| <i>Marketing plans</i> | | | | |
| - requested | 0 | 1 | 0 | 1 |
| - performed | 0 | 1 | 0 | 1 |
| <i>Business development</i> | | | | |
| - contacts made | 2 | 10 | 2 | 14 |
| - deals completed | 0 | 0 | 0 | 0 |
| - negotiations on going | 2 | 6 | 1 | n.a. |
| <i>Finance</i> | | | | |
| - contacts made | 1 | 1 | 0 | 2 |
| - deals completed | 0 | 0 | 0 | 0 |
| - negotiations on going | 1 | 0 | 0 | n.a. |
| <i>Mini projects</i> | | | | |
| - completed | 0 | 4 | 0 | 4 |
| - ongoing | 0 | 0 | 0 | n.a. |
| <i>Restructuring</i> | | | | |
| - proposals made | 0 | 0 | 0 | 0 |
| - initiatives implemented | 0 | 0 | 0 | 0 |

Table 13 ESC in West Siberia

| Activities | 1995 | 1996 | 1997 | 1998 - Mid Jan | Total |
|-----------------------------|-------------|-------------|-------------|-----------------------|--------------|
| <i>Training</i> | | | | | |
| - seminars | 3 | 28 | 47 | 1 | 79 |
| - individuals attending | 46 | 478 | 658 | 12 | 1.194 |
| - companies attending | 27 | 155 | 270 | 1 | 453 |
| <i>Business plans</i> | | | | | |
| - developed | 0 | 9 | 8 | 2 | 19 |
| - reviewed | 8 | 23 | 15 | 1 | 47 |
| <i>Market analyses</i> | | | | | |
| - requested | 5 | 28 | 38 | 1 | 72 |
| - performed | 2 | 13 | 18 | 1 | 34 |
| <i>Marketing plans</i> | | | | | |
| - requested | 0 | 13 | 19 | 0 | 32 |
| - performed | 0 | 7 | 12 | 0 | 19 |
| <i>Business development</i> | | | | | |
| - contacts made | 10 | 72 | 117 | 6 | 205 |
| - deals completed | 0 | 3 | 6 | 0 | 9 |
| - negotiations on going | 10 | 33 | 16 | 4 | n.a. |
| <i>Finance</i> | | | | | |
| - contacts made | 10 | 25 | 54 | 7 | 96 |
| - deals completed | 0 | 5 | 0 | 0 | 5 |
| - negotiations on going | 1 | 15 | 10 | 4 | n.a. |
| <i>Mini projects</i> | | | | | |
| - completed | 4 | 25 | 49 | 1 | 79 |
| - ongoing | 20 | 24 | 27 | 12 | n.a. |
| <i>Restructuring</i> | | | | | |
| - proposals made | 0 | 0 | 9 | 0 | 9 |
| - initiatives implemented | 0 | 0 | 2 | 0 | 2 |

Table 14 ESC Kaliningrad - (established July 1996)

| Activities | 1996⁽¹⁾ | 1997 | 1998 -May | Total |
|------------------------------------|---------------------------|-------------|------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 0 | 12 | 5 | 17 |
| – individuals attending | 0 | 70 | 20 | 90 |
| – companies attending | 0 | 12 | 5 | 17 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 3 | 1 | 4 |
| – reviewed | 0 | 3 | 2 | 5 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 6 | 4 | 10 |
| – performed | 0 | 5 | 2 | 7 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 4 | 2 | 6 |
| – performed | 0 | 3 | 1 | 4 |
| <i>Business development</i> | | | | |
| – contacts made | 0 | 30 | 60 | 90 |
| – deals completed | 0 | 1 | 3 | 4 |
| – negotiations on going | 0 | 0 | 3 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 0 | 25 | 5 | 30 |
| – deals completed | 0 | 1 | 0 | 1 |
| – negotiations on going | 0 | 0 | 1 | n.a. |
| <i>Mini projects⁽²⁾</i> | | | | |
| – completed | 0 | 3 | 1 | 4 |
| – ongoing | 0 | 0 | 0 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 4 | 2 | 6 |
| – initiatives implemented | 0 | 2 | 3 | 5 |

⁽¹⁾ Activities were suspended for most of 1996 due to difficulties with local counterpart

⁽²⁾ The center also carried out some 20 other assignments (from technical audits to establishment of organizational structures to the introduction of management accounting) seemingly comparable to standard “mini projects”.

Table 15 ESC Voronezh - (established January 1996)

| Activities | 1996 | 1997 – Oct | Total |
|-----------------------------|-------------|-------------------|--------------|
| <i>Training</i> | | | |
| – seminars | 1 | 6 | 7 |
| – individuals attending | 35 | 180 | 215 |
| – companies attending | 8 | 11 | 19 |
| <i>Business plans</i> | | | |
| – developed | 1 | 6 | 7 |
| – reviewed | 3 | 6 | 9 |
| <i>Market analyses</i> | | | |
| – requested | 6 | 4 | 10 |
| – performed | 8 | 4 | 12 |
| <i>Marketing plans</i> | | | |
| – requested | 1 | 2 | 3 |
| – performed | 1 | 2 | 3 |
| <i>Business development</i> | | | |
| – contacts made | 36 | 49 | 85 |
| – deals completed | 0 | 5 | 5 |
| – negotiations on going | 0 | 15 | n.a. |
| <i>Finance</i> | | | |
| – contacts made | 2 | 3 | 5 |
| – deals completed | 0 | 0 | 0 |
| – negotiations on going | 0 | 2 | n.a. |
| <i>Mini projects</i> | | | |
| – completed | 12 | 13 | 25 |
| – ongoing | 0 | 6 | n.a. |
| <i>Restructuring</i> | | | |
| – proposals made | 4 | 3 | 7 |
| – initiatives implemented | 2 | 2 | 4 |

Table 16 ESC Perm (established February 1995)

| Activities | 1995 | 1996 | 1997 – Oct | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 35 | 0 | 42 | 77 |
| – individuals attending | 420 | 0 | 777 | 1197 |
| – companies attending | 61 | 0 | 84 | 145 |
| <i>Business plans</i> | | | | |
| – developed | ... | 44 | ... | 44 |
| – reviewed | 3 | 15 | 1 | 19 |
| <i>Market analyses</i> | | | | |
| – requested | 2 | 1 | 3 | 6 |
| – performed | 2 | 1 | 0 | 3 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 10 | 12 | 22 |
| – performed | 0 | 10 | 0 | 10 |
| <i>Business development</i> | | | | |
| – contacts made | 2 | 25 | 2 | 29 |
| – deals completed | 0 | 5 | 1 | 6 |
| – negotiations on going | 2 | 10 | 7 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 5 | 2 | 21 | 28 |
| – deals completed | 0 | 0 | 0 | 0 |
| – negotiations on going | 0 | 0 | 3 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 0 | 16 | 0 | 16 |
| – ongoing | 0 | 0 | 0 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 2 | 0 | 10 | 12 |
| – initiatives implemented | 0 | 3 | 0 | 3 |

Table 17 ESC Ekaterinburg - (established February 1995)

| Activities | 1995 | 1996 | 1997 - Oct | Total |
|------------------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 28 | 9 | 30 | 67 |
| – individuals attending | 400 | 55 | 385 | 840 |
| – companies attending | 60 | 25 | 66 | 151 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 4 | 7 | 11 |
| – reviewed | 24 | 0 | 1 | 25 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 1 | 10 | 11 |
| – performed | 0 | 2 | 2 | 4 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 0 | 3 | 3 |
| – performed | 0 | 0 | 0 | 0 |
| <i>Business development</i> | | | | |
| – contacts made | 10 | 11 | 15 | 36 |
| – deals completed | 0 | 0 | 6 | 6 |
| – negotiations on going | 0 | 0 | 6 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 0 | 2 | 2 | 4 |
| – deals completed | 0 | 0 | 0 | 0 |
| – negotiations on going | 0 | 0 | 1 | n.a. |
| <i>Mini projects⁽¹⁾</i> | | | | |
| – completed | 0 | 12 | 28 | 40 |
| – ongoing | 0 | 0 | 3 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 0 | 0 | 3 | 3 |
| – initiatives implemented | 2 | 2 | 0 | 4 |

⁽¹⁾ Also completed 3 “e-engineering” projects

Table 18 ESC Chelyabinsk - (established January 1995)

| Activities | 1995 | 1996 | 1997 - Oct | Total |
|-----------------------------|-------------|--------------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 9 | 7 | 7 | 23 |
| – individuals attending | 137 | 420 | 322 | 879 |
| – companies attending | 63 | 95 | 166 | 324 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 0 | 1 | 1 |
| – reviewed | 50 | 31 | 15 | 96 |
| <i>Market analyses</i> | | | | |
| – requested | 0 | 0 | 6 | 6 |
| – performed | 0 | 1 | 5 | 6 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 9 | 0 | 9 |
| – performed | 0 | 7 | 0 | 7 |
| <i>Business development</i> | | | | |
| – contacts made | 16 | ... ⁽¹⁾ | 80 | 96 |
| – deals completed | 6 | 5 | 15 | 26 |
| – negotiations on going | 0 | 10 | 20 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 8 | 10 | 20 | 38 |
| – deals completed | 0 | 2 | 0 | 2 |
| – negotiations on going | 0 | 10 | 3 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 6 | 19 | 0 | 25 |
| – ongoing | 0 | 0 | 0 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 5 | 0 | 2 | 7 |
| – initiatives implemented | 1 | 1 | 0 | 2 |

⁽¹⁾ The 1113 contacts indicated in the questionnaire are mail/internet contacts, not comparable with business contacts established by other centers.

Table 19 ESCs in Urals

| Activities | 1995 | 1996 | 1997 - Oct | Total |
|-----------------------------|-------------|-------------|-------------------|--------------|
| <i>Training</i> | | | | |
| – seminars | 72 | 16 | 79 | 167 |
| – individuals attending | 957 | 475 | 1484 | 2.916 |
| – companies attending | 184 | 120 | 316 | 620 |
| <i>Business plans</i> | | | | |
| – developed | 0 | 48 | 8 | 56 |
| – reviewed | 77 | 46 | 17 | 140 |
| <i>Market analyses</i> | | | | |
| – requested | 2 | 2 | 19 | 23 |
| – performed | 2 | 4 | 7 | 13 |
| <i>Marketing plans</i> | | | | |
| – requested | 0 | 19 | 15 | 34 |
| – performed | 0 | 17 | 0 | 17 |
| <i>Business development</i> | | | | |
| – contacts made | 28 | 36 | 97 | 161 |
| – deals completed | 6 | 10 | 22 | 38 |
| – negotiations on going | 2 | 20 | 33 | n.a. |
| <i>Finance</i> | | | | |
| – contacts made | 13 | 14 | 43 | 70 |
| – deals completed | 0 | 2 | 0 | 2 |
| – negotiations on going | 0 | 10 | 7 | n.a. |
| <i>Mini projects</i> | | | | |
| – completed | 6 | 47 | 28 | 81 |
| – ongoing | 0 | 0 | 3 | n.a. |
| <i>Restructuring</i> | | | | |
| – proposals made | 7 | 0 | 15 | 22 |
| – initiatives implemented | 3 | 6 | 0 | 9 |