

### ***Evaluation of the TACIS Enterprise Restructuring and Private Sector Development Programme in the Russian Federation - ref. 951468***

#### ***Abstract***

*Private Sector Development (PSD) is the most important area of Tacis operations. Given the increased level of awareness of the benefits of the market economy and the continuous political instability affecting also the private sector in Russia, the PSD activities are being and should further be re-oriented from classical technical assistance projects to flexible facility like schemes, twinning and economic and industrial co-operation activities.*

#### **Subject of the evaluation**

The evaluation covers Tacis activities in six PSD areas 1) privatisation and market infrastructure, 2) military conversion, 3) enterprise restructuring, 4) SME development, 5) bank restructuring and 6) development of other financial institutions. Over the period covered by the evaluation, 1991-1997, allocations to PSD initiatives in the Russian national programmes amounted to over 255 MECU, equivalent to some 27% of total resources devoted to technical assistance (TA) in the country.

#### **Evaluation description**

**Purpose:** To provide an independent opinion and recommendations on possible policy and strategy re-orientation and suggest possible adjustments of Tacis regulations and procedures to allow for the adoption of better implementing instruments and more efficient programme cycles.  
**Methodology:** The evaluation was conducted in three phases: desk study, field visits (visits to 22 selected projects and contacts with relevant Tacis counterparts and interlocutors in Moscow, St.Petersbourg and in 13 other oblast) and preparation of the final report.

#### **Main findings**

- **Standard restructuring advice** to operators (banks or privatised enterprises) has achieved limited results, often at a high cost. The advice dispensed by the Enterprise Support Centres, European Banking Advisory Services, 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.
- **Technical Assistance to enterprises** was relevant and effective whenever 1) it was targeted at specific outcomes (i.e. the development of a specific product aimed at certain market) and/or 2) it was implemented by fellow industrialists in the same trade or by consultants who displayed solid capabilities in business development.
- **Institution strengthening activities** were successful when targeted at well-established organisations with genuine interest in the relevant subject matter. Initiatives aimed at establishing new institutions or involving organisations reflecting a certain political climate were much less successful.
- Assistance provided in **politically sensitive matters**, such as privatisation 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. 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 or to follow the more fashionable developments. The emphasis lately placed on the development of Russia's capital markets, whose sophistication already outstretches developments in the enterprise sector, is an example in point.
- **Co-ordination with other donors and international financial institutions** was attempted and achieved in a number of cases, but more could have been done. 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 Financial Institutions Development Project, but, on the other hand, before venturing into its mass scale program aimed at the establishment of Enterprise Support Centers (which alone absorbed 1/5 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.

## **Recommendations**

### **General recommendations**

- to move from classical TA projects towards demand-driven facility-like schemes, which ensure more flexibility and can compensate for weaknesses in the Tacis project identification and preparation stage
- to move from TA free of charge to cost sharing mechanisms that could increase the quality and commitment at entry of participant Russian operators
- to increase the role of EU operators and associations in the implementation of Tacis projects
- to increase the use of Russian professionals (this requires modification to Tacis regulations setting limitations on permissible fees for Russian experts)

### **Specific recommendations**

**Privatisation and market infrastructure:** Low priority is justified by the political instability to which activities in this area are inevitably exposed. Emphasis should be on small projects implemented through special facilities.

### **Enterprise restructuring & military reconversion:**

- 1) From classical TA with limited results to industrial co-operation. Promotional efforts are required to make the new Tacis Industrial Co-operation Initiative known in business circles.
- 2) Revive the initial sector approach likely to facilitate business development activities and dissemination of results. Emphasis should be on demand-driven schemes and/or high profile initiatives with some "technical" content (e.g. technical centres, certification).
- 3) Eligibility under the Enterprise Support Centers project should be extended to private Russian consulting companies, to avoid that they suffer from unfair competition from EU-supported structures.

### **SME development:**

- 1) Efforts should gradually be extended to cover newly emerging business associations. Support could be provided through existing SMEDAs and through EU business associations.
- 2) Funds could be used as seed money for the establishment of SME financing schemes in a small number of regions. This would make a major impact on SMEs access to finance and give Tacis great visibility.

### **Bank restructuring & other financial institutions:**

1) Renew support to bank twinings, 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 alternative to the usual "professional twins".

2) Reduce the emphasis on the development of capital markets (which remain very doubtful as a source of investment) and give high priority to the insurance industry and mutual credit schemes. Activities in these sectors have high potential returns and appear to offer good opportunities for the involvement of EU operators and professional associations.

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