



PRODUCTIVITY ENHANCEMENT PROGRAM

*An Adaptation of the Marshall Plan Technical Assistance Program:
Russia in the Twenty-First Century*

The Center for Citizen Initiatives (CCI) has been a leader in the field of citizen diplomacy between the United States and the former Soviet Union since 1983. The **Productivity Enhancement Program (PEP)** is based on the principles of the historic Marshall Plan which helped Resurrect Europe after World War II. As one of several citizen-driven projects run by CCI, PEP's mission is to provide crucial management training to Russian small business owners and entrepreneurs in order to boost production of domestic goods and services. The growth of Russia's private businesses, a sector vitally important in any healthy market economy, is strengthening democratic reforms and building Russia's first-ever middle class. Middle classes are recognized as the strongest proponents and supporters of democracy and political stability in any country. In 1995, CCI designed PEP based on the now famous Marshall Plan to inspire Russia's swift transition to democracy and a free market system.



US Secretary of State George C. Marshall

US Secretary of State George Marshall introduced the European Recovery Program ("The Marshall Plan") at Harvard University on June 5, 1947. His plan was designed to rebuild Europe following the destruction of World War II.

After a bitter victory in 1919, the Allies had forced an isolated Germany to pay billions of dollars in war reparations. This punishment threw Germany into deep economic depression, giving rise to broad support for the irrational economic and social solutions promised by the National Socialist Party.

The Nazi Party took advantage of Germany's low morale by rearming the country and pushing the world into an even more destructive war. Marshall sought to ensure that the mistake would not be repeated. He understood that peace cannot be taken for granted; it must be maintained. Marshall boldly embarked on an unheard of style of diplomacy: provide assistance to Western Europe and Asia (including former enemies) to boost individual economies and to strengthen peace and promote democracy.

Congress enacted the Marshall Plan as part of the Economic Cooperation Act of 1948. The plan's technical assistance program invited 24,000 Western Europeans (and later, thousands of Japanese, Taiwanese, and Koreans) to the United States for business training. During

their four- to six-week study-tours, civic organizations and private business owners served as hosts and donated time to give seminars on US production techniques. Upon their return to Europe, these managers wrote reports and gave lectures to their colleagues.

The program was hugely successful! Industries which had seemed hopelessly old fashioned and inefficient were able to restructure themselves quickly without forcing changes in national economic policies. Business sectors in the participating countries flourished. By 1960, the countries of Western Europe and Japan were revitalized with functioning democracies and self-sufficient free market economies.

Since the technical assistance program absorbed only 1.5% of the Marshall Plan's budget, it was hailed as its most cost-effective component!

The program worked because of the broad involvement of the American public. It was not a monetary gift, but a "psychological gift," enabling Europeans to take control of their own destinies.

The Marshall Plan provided much needed optimism and relief in a time of widespread social despair, while the technical assistance program facilitated the development of free markets and democracies. As a result, today, Germany and Japan are not only America's top foreign trading partners, but are two of our strongest allies.

***PEP is bringing the
Marshall plan's proven
concepts back to life in
Russia in the twenty-
first century.***



RUSSIA TODAY

Russia has peacefully and willingly worked toward both democracy and the free market since the collapse of the Soviet Union in 1991. However, Russia continues to suffer its historical burden of widespread poverty, official corruption, and a huge gap between the rich and poor. Domestic laws and internal institutions designed to answer these problems are weak now, but they are strengthening.



Ibadullah Satybalov is one of Russia's new vibrant entrepreneurs.

Democracy cannot survive without a thriving middle class! This temporary imbalance has created enormous political, economic, and social instabilities in Russia, including a lack of a middle class.

Russia's Soviet Legacy: All aspects of the Soviet Union's economy were nationalized. Banks, retail, insurance companies, shipping, services, and manufacturing all worked for the benefit of the

government and the Communist Party. Private ownership was illegal, grossly inefficient, and counterproductive methods of production and trade were encouraged. The destruction of the Communist Party in Russia in 1991 left enterprises in an economic vacuum, without requisite knowledge about how to restructure themselves.

Complicating this is the legacy of distrust in private business. For over 75 years, Soviet ideology portrayed the entrepreneur and small business owner as a dangerous enemy and thieving "bourgeois profiteer." Despite Russia's honest desire to create a market economy and the collapse of anticapitalist rhetoric, hostile Soviet attitudes toward small business have proven difficult to overcome. Even the Russian word *biznesmen* has been a common euphemism for a small-time criminal. Many Russians continue to think the only path to

economic prosperity is through big business and enormous production enterprises.

Today only 12% of Russia's businesses are small- and medium-sized (under 500 employees). By comparison, small- and medium-sized businesses constitute 99% of all US enterprises! (source: *US Small Business Association, Office of Advocacy*) Politicians support and reward huge inefficient factories and industries with tax breaks and subsidies to continue operation. At the same time they overtax the small business owners and force them to wade through layers of bureaucracy to operate. With such obstacles, few small businesses in Russia can effectively operate or compete with foreign-produced goods.

If the Marshall Plan worked so well to develop small business in Western Europe and Asia, why has there been no official "Marshall Plan" for Russia?

A comprehensive "Marshall Plan for Russia" was deemed too expensive and was largely unsupported by American public opinion. In addition, news reports of the Russian government's corruption dampened the public's interest to provide more assistance to Russia.

The United States has been generous in its loans to Russia (nearly \$5.5 billion from 1993-1998), however these

loans have usually been in the form of trade credits or have been tacked on to other conditions to pay former Soviet debts.

Major international financial institutions are designed to fund large-scale, multimillion dollar projects rather than invest in smaller-scale Russian enterprises. Altogether, few of the loans and assistance funds have helped Russia's struggling, yet vitally important, small-business sector. Loans and trade credits cannot equal the hands-on training that Russia really needs. Small businesses need to be trained to create their own wealth, rather than depending on foreign aid.

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ENHANCING PRODUCTIVITY

"We have destroyed the past but have not yet created the future. We must create achievements at our work places which will benefit Russia and the US."

—Elena Poulyueva
1998 PEP Delegate

Since 1996, CCI has modeled PEP after the Marshall Plan technical assistance program to train a new generation of Russian business leaders in US communities to rebuild their manufacturing, service, and production infrastructure and to take control of their own well-being. To date, PEP has trained over 1500 Russian business managers and entrepreneurs in the United States!

Russian participants are invariably amazed at what they see on their site tours in America: private businesses succeeding without government subsidies, managers employing ethics and honesty as a customer service tool, companies reinvesting profits, banks loaning money to help start new businesses, and competitors working with one another. **These practices run counter to many Russians' expectations of American capitalism.**

As with the Marshall Plan, the PEP participants return to Russia to give lectures and reports to other professionals in their fields to spread their new-found knowledge.

The role of civic clubs is vital in aiding small business! PEP depends on a network of grassroots civic volunteers nationwide to provide the essential and invaluable technical training. Hosting civic clubs invite delegations of 11 Russians to their communities for three weeks of industry-specific business management training. Clubs provide three aspects to ensure a successful program: business training appointments in local firms, home hosting, and local transportation.

Civic pride and volunteerism is contagious! Russians witness firsthand the generosity and service that civic clubs provide in the United States. They are astounded by the kindness and openness displayed by hosting civic club members and their families. They learn the benefits of putting time and money back into their own communities. By the time it's all over most PEP delegates have returned to Russia with a desire not only to

improve their businesses, but to participate in or start business associations, Rotary and Kiwanis clubs!

Today's young Russian managers and entrepreneurs are tomorrow's leaders. PEP graduates have already begun to work with local governments to remove illogical laws inhibiting the development of Russia's small businesses. **Russia's small business sector will begin to prosper as Russian society starts understanding and accepting the enormous role that small business plays in a healthy economy.** The Marshall Plan successfully changed archaic and inefficient business attitudes in postwar Europe. PEP strives to do the same for Russia.

Some have expressed fear that a strong Russia would once again threaten the United States as in the Cold War. The United States, as well as the world, has far less to fear from an economically strong, democratic Russia than from a poor, frustrated, and unstable Russia. For fifty years the Marshall Plan concept has proven that citizens can overcome their nations' historical animosities and centuries of distrust. Economic partners simply do not make war with each other.

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The US State Department has recognized PEP as a leading technical assistance program for Russia! In addition, PEP has received endorsements and support from both branches of Congress, which have included Republican and Democratic Leaders Newt Gingrich (R-Georgia) and Richard Gephardt (D-Missouri).

Play an important role in assisting the development of democracy and stability in Russia by participating in PEP. Your club will not only help turn today's young Russian managers and entrepreneurs into tomorrow's leaders, but also contribute to lasting peace between our two countries for future generations.



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Mission Statement

The Productivity Enhancement Program (PEP) seeks to facilitate the creation of a critical mass of successful production sites across Russia to increase the availability of affordable domestic products and services to Russian families.

The mission includes empowering Russian citizens to transform their personal well being, their businesses and their local economies. Further, the mission includes inspiring American citizens to volunteer their business expertise, homes, and energy to deliver personalized foreign assistance in their own businesses and communities.

PEP is based on a profound faith in the extraordinary capability of ordinary citizens and transforming power of newly-communicated ideas. We hold the conviction that sharing technical expertise, business management and culture from personal, altruistic motives has far greater impact than delivering technical assistance for financial gain.

We, the PEP staff, dedicate ourselves to remember daily the spirit of our mission and the long-term impact our efforts will have in the businesses and personal lives of the Russians and Americans with whom we will work.