

PRODUCTIVITY ENHANCEMENT PROGRAM
EVALUATION REPORT—2001

Russia's Regional Entrepreneurs



(see inside cover for more information)

America's Future Business Partners

CENTER FOR CITIZEN INITIATIVES
Dedicated to Economic Reform in Russia

SERGEI PEREVALOV

EKATERINBURG, RUSSIA



Sergey Perevalov, age 43, is the Director of Distin, Ltd., a bottling company in Ekaterinburg, Russia. He is impassioned about making pure drinking water available for public consumption. When he started his business he created his own distilling equipment. While in the US, he finally had the opportunity to see commercial water bottling equipment in person. Sergey then purchased American equipment and now has a flourishing water bottling business in the Ural mountains.

Sergey is also a Rotarian and was elected to be the Ekaterinburg Rotary Club's second president. During his tenure as president, the club was recognized at the international level and received its official charter.

Most importantly for Sergey, his company supports Ekaterinburg's disadvantaged citizens. After he launched his new water bottling line he began supplying local organizations with donated, ecologically pure water. Recipients include health centers for children with esophageal diseases, the Ekaterinburg Heart Center, maternity homes, the Children's Institute and the Ekaterinburg Pharmaceutical Clinic.

CONTENTS

Relevant History.....	4
-----------------------	---

Spotlight on Entrepreneurs	5
Generation E: Russia's Dynamic Generation of Entrepreneurs	6
Generation E's Businesses.....	7
Perceptions of Private Business in Russia today	8
Impediments to Business Development	9
Entrepreneurs Greatest Impediments in 2001.....	10
Money: Credit, Banking System, Barter, Informal Arrangements.....	11
Tackling Corruption: A Proactive Approach by Regional Entrepreneurs.....	12
Development of Civil Society	13
Association Building	14
Entrepreneurs' Values and Charitable Giving	15
Rotary and Kiwanis Development in Russia	16
State of the Russian Economy	17
Entrepreneurs' Scorecard on Russia's Economy—2001	18
Evidence of Russia's Emerging Middle Class	19
Infrastructure Redevelopment	20
Domestic and International Politics	21
Russia's Regional Entrepreneurs Speak to Power.....	22
Putin, Chechnaya & Gusinski: Regional Entrepreneurs' Perspectives.....	23
Russian Entrepreneurs Assess US-Russia Relations.....	24
Power of US Internships.....	25
Businesses and Lives Changed.....	26
Statistical Results.....	27

Relevant History

The Center for Citizen Initiatives (CCI) has conducted US-based business management training internships in American companies since 1989, when CCI's **Economic Development Program** (EDP) was initiated. Funded first by American foundations and later by USAID, the program ran for eight years. During these years, thousands of early-stage Russian entrepreneurs were trained in American companies and by US consultants on site in Russian companies. Six CCI Russian offices were established: St. Petersburg, Volgograd, Ekaterinburg, Dubna, Rostov-on-Don, and Voronezh. Evaluations of program participants were conducted annually.

The **Productivity Enhancement Program** (PEP), CCI's effort to provide training internships for non-English speaking Russian entrepreneurs, was funded by the US State Department in 1996. PEP, an adaptation of the historic Marshall Plan Productivity Tours, has proven that it is possible to transfer business concepts across the language barrier. Evaluations are conducted annually to gauge PEP's effectiveness.

Currently PEP has trained over 2,500 Russian entrepreneurs from 287 Russian cities in 57 regions. They have had internships in 324 American communities and 44 states. American civic clubs sponsor these internships gratis, arranging business training and home hosting.

Methodology of CCI Evaluations

CCI's evaluators use the direct approach to information gathering, going to Russian entrepreneurs at their work sites preferably, observing their business activity within its own context, looking at the city or town for evidence of stagnation or growth, visiting participants' homes, and participating in civic clubs and association meetings whenever possible. CCI evaluators are not professional pollsters; they ask questions and create surveys for our own use in program refinement and for a better understanding of what is happening economically and politically throughout Russia.

Russia Mid-Year 2001 Evaluation Report

May 2001, a team of CCI staff and Board Members began a ten-week trek throughout western Russia to evaluate year 2000 PEP graduates. Twenty-five cities and towns were visited (Pskov, Vyborg, St. Petersburg, Saratov, Samara, Novokuibyshevsk, Rostov-on-Don, Toliatti, Taganrog, Sochi, Krasnodar, Volgograd, Tver, Tula, Ekaterinburg, Chelyabinsk, Izhevsk, Perm, Kazan, Belgorod, Voronezh, Kushalina, Nizhny Novgorod, Volsky, plus three villages, and four visits to Moscow for meetings).

The team covered over 8,000 kilometers (5,000 miles) via automobile, bus, van and rail in the pursuit of detailed knowledge and facts about: 1) how Russia's regional entrepreneurs are using US management principles in their firms; and 2) how Russia is faring 10 years after the USSR's dissolution and the monumental transition toward democracy began.

RUSSIA'S REGIONAL ENTREPRENEURS

VIKTOR KOVALEV
BELGOROD, RUSSIA



Victor Kovalev, age 40 from Belgorod, Russia, was an engineer and musician when the soviet system fell apart. He and his father pondered what would be needed as the country privatized. The soviet paint industry had practically disappeared. When private housing construction and renovation businesses started, they reasoned that paint production would have a good future.

With no experience in this field, they went to the library and researched everything they could find out about how to create paint. Next, they built their first paint grinder and mixer (small photo above). They learned techniques one step at a time, all the while cobbling together needed vats, pipes and automated parts from scrap materials in former soviet enterprises.

After eight years, Victor's company, KVIL, owns several buildings, storage facilities and trucks and occupies two hectares of land. KVIL now ships paint from Murmansk in the Russian northwest to Vladivostok in the Russian Far East.

Generation E: Russia's Dynamic Generation of Entrepreneurs

A unique generation of young Russian entrepreneurs¹, masked by a decade of economic turmoil, have emerged across Russia's regions.

"Generation E"², the builders of small and medium-sized businesses, have kept regional economies alive by producing increasing amounts of consumer goods and services over the last ten years. Their numbers are not large, but their impact is evident in every region CCI visited. With appropriate inputs, they are positioned to influence federal politics and to lead Russia's regions beyond crisis to capitalism.

How did this generation of business pioneers emerge from the Soviet mentality? Most can be termed "situational entrepreneurs." If not for extreme circumstances forced on them, their careers might not be so dynamic today. Their destinies handed them radically different societal fault lines than those of their parents' generation.



Izhevsk, Russia — **Konstantin Krapshin** (above), age 36, is the Executive Director of Udmurtiya TV and Radio, a private media company which includes three TV channels, four radio channels and one newspaper. During a site visit he gave a tour of his sophisticated where advanced technologies were in use.

In his own words: *"Our aim [in the US] was to find out how they do their business in the USA, to exchange opinions, ask questions about marketing & communications, even how to hire and fire! Americans shared information openly with us, even advised us on long-term strategies which we don't have in Russia. A short while ago, corporate culture was impossible to learn about here. Now we are working to develop this. Everybody in the US smiles at work, including the boss. It turns out he can rely on his people as a result—his future depends on these people. It's very important."*

Members of Generation E were born during the "stagnation years" and grew up in an environment where fear of the state had significantly diminished. The standardized soviet educational system provided them with a comprehensive background in science, math, and the classics. Thus, they were intellectually prepared to survive when the Soviet system fell apart. After the breakup, their youthful energy was directed towards finding a market niche. Persevering through enormous obstacles, several have expanded their operations from one-man shops to a thousand employees. They are now setting the standards for and stabilizing the private sector across Russia.



St. Petersburg, Russia — **Natalya Zhuravleva** (above), age 40, owns a consulting firm specializing in auditing and financial analysis which employs 49 people full-time and 23 people part-time. She is one of the most sought after specialists by private businesses throughout St. Petersburg.

Natalya spearheaded an effort to summarize recommendations from Russia's Regional Entrepreneurs for President Putin's chief economic advisor, Andrei Illarionov, in April 2001. Recently, Natalia initiated the set up of a web site and listserv for the Russian Leaders Institute. The listserv will disseminate questions of economic and political significance for discussion among Russia's regional entrepreneurs.

CCI's mid-2001 trip to 25 cities and towns across western Russia, confirmed that the phenomenon of this generation of entrepreneurs is not limited to the capital cities. Wherever the train, bus or automobile stopped, the same caliber of young Russian entrepreneurs were found. Despite lack of credit, corrupt bureaucrats and horrendous taxation, these energetic men and women are integrating free market principles at the grassroots level of Russian society. This sector deserves serious attention. They can undoubtedly be reliable, future trading partners for Americans.

¹Now 25 to 45 years of age, they were born roughly between 1955 and 1975.

²CCI coined the phrase to differentiate this generation from generations before or behind them, since those before are less flexible, and those behind seem to be less aggressive and dynamic.

Generation E's Businesses

Question:

Tell us when you started your first business, your current business focus, age of your business, your products/services, and in general, how your business is doing today. Is it stronger, weaker, the same... compared to last year and compared to 1998 prior to the financial crisis?

Answers

- Most started their first businesses between the ages of 20 to early 30s. A few started their businesses as early as 1988; the rest in first seven years of the 90s.
- About 90% started with a couple of employees, and a few have grown to over 1,000 employees since.
- All expect continued growth, none have hit their prime.
- Many are husband and wife teams.
- All have identified their market niche and have one primary business now. Many still have peripheral businesses.
- Primary businesses range from 5 employees (auditing and legal service firms) to over 1,000 employees (wholesale foods). The average primary business employs between 50 to 100 people.
- Business range: bakers to bankers, dairy plants to architectural firms, furniture makers to paint manufacturers, and telecommunications companies to construction firms. (PEP trains in 80 industry sub-sectors.)
- About 95% of those interviewed said their businesses are stronger in 2001 than in 2000.
- Amazingly, 99% said that the August 98 crash was devastating but necessary for Russia.

Commentary

All expect continued growth: Having had “first mover advantage”, they are positioned to be Russia’s top regional business people of the future. Having cut their business teeth in the worst of circumstances, they instinctively know how to increase and keep market share.

Businesses are stronger: 2001 marks the first year (since evaluations began in 1992) when Russian entrepreneurs confidently reported that their businesses are stronger. Reasons cited: 1) they understand market principles better; 2) the economy overall is stronger; 3) consumer spending is up; 4) enterprise and state salaries are being paid on time; 5) cash rather than barter is being used for transactions; and 6) they have better disciplined work forces now.



Ekaterinburg, Russia — Alexander Viktorov (above), age 40, lost his engineering job when the Russian government pulled the plug on his institute.

He quickly surveyed his options and decided to start his own company with two other partners. At the time the only quality plastics available in Russia were manufactured abroad. He recognized it was an untapped market for domestic producers.



He and his fellow partners, who were also engineers, invented a plastics molding line out of scrap metal left over from their former institute. Initial success sparked the development of a dozen more plastic molding lines and new equipment. Today they continue to invent new equipment and purchase other lines. They recently expanded into plastic recycling and blister packaging.

Crisis of 1998: Entrepreneurs say that the crisis drove foreign products away from the shelves, leaving Russian citizens to depend on domestic production for the first time. Simultaneously, Russian consumers discovered that the quality of domestically-produced products had risen dramatically since the early 1990s. Secondly, many entrepreneurs switched permanently from trade to production to meet market needs.

CCI Target Population: CCI targets Russia’s business owners whose companies are “second stage” businesses — not start-ups. Second stage businesses serve CCI’s macro goals which are to: 1) generate more jobs for local citizens; 2) increase the volume of domestic production; 3) increase quality of domestic production; 4) work with entrepreneurs of sufficient status and financial well being, so that they can begin to build associations and to take on corrupt officials who still impact local markets adversely.

Perceptions of Private Business in Russia Today

Question: *How do ordinary Russian citizens view businessmen and women today?*

Answers

On the whole, from city to city, entrepreneurs agreed that the socialist holdover of denigrating business, too, is changing—albeit more slowly with the intelligentsia and the older population. No longer are entrepreneurs considered to be crooks by local populations, and business is no longer assumed to be speculative.

Commentary

Fierce resistance toward private business owners existed in the early 90s as a result of opportunists in the capital cities who preyed on others to get rich. “New Russians” gained fame and proudly flaunted their wealth, giving a black eye to “biznesmen.” Oligarchs and shady privatization schemes further discredited the private sector making the average Russian suspicious of anyone who entered into business.



“We design stylish Russian-made clothing at prices local people can afford. The younger generation appreciates us — they want to be like us. They will go into business when they grown up.”
— Sergei Zelensy, Krasnodar (Sergei pictured above in cameo; photo above taken at his store “Ares” in Krasnodar.)



Sergei Lozhkin (above right), age 27, giving an interview to a local TV station about how young people can be serious business owners. He started his wholesale company seven years ago at age 20.

“Buying and selling, it was easy. Now I employ 250 people. My educational background was in economics, but what I learned was macroeconomics not business economics. My parents don’t understand what I do, but they are proud of me. Business is new for their generation.”

Regional entrepreneurs, who were not looking for get-rich-quick schemes, had to find a way to support their families. Dealing with suspicions and resentment was a normal part of life for these fledgling business people. As time passed, they demonstrated that they were responsible in business, provided products for the marketplace, and public opinion began to change for the better.

Do they still feel any resentment? *“It’s not too noticeable these days,”* they say gratefully.

“Local people see that we bake the bread they eat, make the sausages, repair their apartments, and they begin to see us in a different way.” —Irina Gordeyeva, Rostov-on-Don, Supermarket Owner (150 employees)

IMPEDIMENTS TO BUSINESS DEVELOPMENT

PETR PROIDAKOV

TAGANROG, RUSSIA



Petr Proidakov (standing) addresses the mid-2001 gathering of the Russian Leaders Institute in Moscow about what they need to do to push reforms forward.

Petr, age 38, is the owner of a wholesale foods company in Taganrog, Russia. As a former military officer, who was educated as an attorney, he suddenly found himself unemployed and returned to Taganrog with his wife to figure out what to do with their future. Knowing that every citizen needed food, he began learning how to meet the need. Bit by bit Petr developed access to sellers and buyers using business principles and professionalism uncommon in Russia. Today his company employs 300 people and recently opened up production in flour milling. Petr relies heavily on domestically produced goods. Approximately 80% of his goods are Russian made and the remaining 20% are foreign produced. Since finding sources for packaging is always a problem, Petr created his own packaging line, which has increased his sales, decreased his costs, and reduced his reliance upon others.

This quintessential entrepreneur also finds time to participate in efforts to create a prosperous Russia in the future. As Rostov region's advisor to the Leaders Institute, he provides leadership on matters to influence the Putin government, and in April 2001 wrote the original recommendations that were requested by Dr. Andrei Illarionov, President Putin's economic advisor.

Entrepreneurs' Greatest Impediments in 2001

Question:

What are your greatest impediments in business today?

Answers

Answers were mixed depending on size, type of business, and level of sophistication.

- Lack of Credit
- Public Corruption
- Taxation and legislation
- Lack of trained mid-level managers
- Mafia

Commentary

Lack of Credit: This generation plows money back into their businesses, and considers it better to grow at a modest rate on one's own money, rather than to borrow short-term and pay heavy interest rates (see Money Section pg. 11). It should be mentioned that these second-stage entrepreneurs are deeply concerned about young entrepreneurs starting businesses today, saying that it is impossible for them to get credit.

Taxation and legislation:

Taxation and legislation, which have been frustrating for Russia's entrepreneurs, are experiencing rapid changes this year and it won't be covered. Entrepreneurs support the new package of economic reforms and believe that even more will be achieved within the next year.

Official Corruption by "public servants" is endemic:

Bribes, "pieces of the action", and percentages of business arrangements given to public officials, administrators and bureaucrats are omnipresent. Any type of registration, permission, inspection, document, or service is an excuse for under-the-table, mandatory payments. The amount is arbitrary. Inspections are rigged so that bureaucrats collect fees as often as once a month for infractions of obscure regulations. Payoffs and kickbacks go all the way up and down the vertical chain of bureaucrats.

Entrepreneurs don't know how to tackle the situation without jeopardizing their companies. It's apparent that bribes are offered by entrepreneurs in exchange for expediency—\$500 will result in quickly signed and stamped documents. Working out "smooth relations" requires entrepreneurs to continually offer "gifts" in order to get the official matters of business taken care of speedily.

Of course, every entrepreneur would rather pay a fixed, legal service charge and get the documents on time. Since that's not possible, they resort to hiding revenues and hope for low cost bribes. Figuring out this intricate web of "connections" results in losing precious days in negotiations and making arbitrary payments. In addition, they spend several days a month appeasing multiple inspectors coming into their

"Corruption is a national problem, we need tax changes, administrative changes, changes in Russian mentality. It's hard but possible. Russian people are flexible. Actually, what we have done in Russia in ten years, it took America 200 years to do, and maybe 500 years for Europe. We need time...nothing else but time." —Ella Nechaeva, age 32, General Director of a private pipe manufacturing company



businesses to collect fines for regulations which are nonexistent in other countries.

Mafia: After years of coping with mafia, Russian entrepreneurs this year reported in all regions, that "mafia" (criminalized extorters who exchange protection for money) is no longer a factor for small and medium-sized businesses—not even for larger private businesses. In various ways they summed it up by saying that "the mafia came and went in the 90s." CCI has monitored the mafia issue for years, and as early as 1996, some entrepreneurs reported that they had hired a "security service" and told mafia to leave. How did this approach succeed without problems? More reliable, less heavy-handed and legal "security companies" came into existence. Since security companies were often comprised of former KGB, unemployed militia, etc., the mafia was not interested in confronting them. By 1998, the mafia presence was noticeably reduced. By year 2000, only 7% of PEP participants interviewed were still dealing with mafia. In 2001, only one entrepreneur claimed to still have a mafia connection.

What happened to the once feared mafia? Entrepreneurs report the following: 1) half of them exterminated each other in the 90s; 2) not a rosy career, their ranks weren't replenished; 3) of those still alive, most had sufficient illegitimate money to start legitimate businesses; 4) and some moved into the traditional big organized crime spheres, such as casinos, prostitution, ports, oil and gas (BIG money).

It seems that by the time a Russian entrepreneur gets large enough to matter to mafia, they either have their own guards or a security firm, so the mafia doesn't interfere with them. One PEP graduate in Penza admitted killing a mafioso in 1996 when they attempted to take over of his restaurant. His logic: he'd worked hard for his business, invested everything he had, his family's survival depended on it. The police and/or courts wouldn't/couldn't protect him. It was either the mafia or him. Such was the law, or lack thereof, during the years of Russia's wild capitalism.

Money: Credit, Banking System, Barter, Informal Arrangements

Question:

Can you get sufficient credit? Do you take out bank loans? For what services do you use banks? Do you barter? Do you have informal lending arrangements?

Answers

- Credit isn't available for significant expansion.
- All entrepreneurs use banks for wire transfers.
- Entrepreneurs do not use banks for deposits.
- Most took out bank loans in the past; some still do.
- Credit lines are used for short-term operating capital.
- Use of barter has been dramatically reduced.
- Informal lending arrangements are done among friends, but not nearly to the extent as in the 90s.

Commentary

Current credit needs: CCI-trained entrepreneurs need credit or lease-to-purchase arrangements for large pieces of equipment to expand their production. The range is anywhere from \$25,000 to \$1 million, with terms up to two to five years—impossible within Russia. Repayment would be easy because they already have market share, and the market is still relatively untapped. Whatever they produce will be sold. Russian entrepreneurs have become obsessive about keeping good “credit history”, unlike a few years ago when many Russians, particularly in capital cities, took loans never intending to pay them back.

Bank Reputation: Trust in banks has improved somewhat since 1999.

Loans: Most regional entrepreneurs took out bank loans in the past — even when interest rates were over 200% annually with three-month repayments — because they had no other choice. Today they admit that interest rates are more favorable, something between 24% to 30% for credit up to a year. However, even this is not considered a viable option for the size of loans they need. They tend to utilize non-bank options for loans.

Credit guarantees: Money exists in Russia and agencies will make loans, but entrepreneurs don't have the required collateral for larger equipment loans. Credit guarantees are greatly needed by some backup entity.

Credit Lines: PEP graduates in wholesaling use short-term operating capital. Turnaround credit costs less than 20% in some cases.

Wire transfers: Regional entrepreneurs use the banks regularly for wire transfers. They deposit the funds needed, leaving money in only long enough to make the transaction.

Deposits: Entrepreneurs still don't trust depositing money in banks. As a result, banks don't have enough deposits to

provide long-term loans to entrepreneurs — thus creating a vicious cycle. Entrepreneurs understand the problem, but won't risk their hard earnings. It's widely known that some \$50 to \$60 billion resides “in mattresses” in Russia or is kept in other safe places outside of banks.

Informal lending: These relations remain between entrepreneurs. Some have money sitting still while others need quick capital. They have their own schemes of when they can lend and when it needs to be paid back.

Barter: Like the criminalized mafia, barter “came and went” in the 90s. Occasionally there is some exchange between friends today, but the intricate networks of barter are gone. Entrepreneurs are relieved, since trying to get one's money out of a deal which included shipments of sugar, truck loads of tires, hospital uniforms, butter, and salaries for school teachers, was maddening.

Credit to young entrepreneurs: Many interviewees broached the topic of “how to help emerging young entrepreneurs.” Credit and transfer of knowledge to the next generation is one of their largest concerns, since they need them as producers, consumers, and even competitors to expand regional business sectors. Russia's market and lending procedures today are far more sophisticated than when Generation E got their feet wet in business.

Credit Unions:

This is a hot topic about which they have little information and legislation. However, it is seen as a possible alternative to the untenable situation with Russian banks.

“We didn't have a real banking system. I graduated with a degree in metallurgy. I had a lot to learn to become a banker...even today it's impossible to give out small loans at decent rates. Right now we have a 28% interest rate. Earlier, Russian banks would take credit from American and German banks at 4-5%. In this case we could give loans to entrepreneurs at 7%. But we can't find such cheap money currently.”



“In America I learned that banks operate differently. If an American puts his house up as collateral and can't pay off the loan, the bank takes his house. In Russia this is out of the question. If there is a child in a family the bank would never force the family out, so no bank will accept a house as collateral. Please understand that Russian mentality is different.” —Alexander Maloukov, age 42, banker, Chelyabinsk, Russia (pictured above)

Tackling Corruption: A Proactive Approach by Regional Entrepreneurs

Little did Volgograd entrepreneurs understand what they were unleashing when they first decided to unite in 1997. The Volgograd Association of Entrepreneurs' (VAC) first conference attracted 30 participants, the second 300, and the next 600. Then entrepreneurs from other cities began contacting them for information on how to set up their own associations. Associations based on the Volgograd model are springing up in other regions.

In July of 2001, a representative of the Volgograd Association was invited to Moscow by the Putin Administration. Vladimir Leontovich attended. He was among 30 representatives present from regions throughout Russia.

The agenda of the meeting: to begin to eradicate corruption from Russia's business sectors across the country.

Leontovich was asked how quickly he could put together a conference on the issue of corruption for the Volga region. He replied optimistically, "Three weeks." August 3, 2001, the Volgograd "Business & Power" conference, backed by President Putin's administration, held their first conference in Russia with 300 entrepreneurs in attendance. Some drove eight hours to be there. Similar conferences were held in various regions the remainder of August, with all regional coordinators to meet in Moscow in September.



"Business & Power: A Strategy for Interaction" was boldly displayed on a banner stretching across the Volgograd stage. Sergei Polyakov at the podium, with Lubyanoi and Leontovich sitting on the panel. One entrepreneur after another told their stories of corrupt practices by government officials and offered solutions to tackle these problems. The conference was a smashing success.

VAC Founders



*Alexander
Lubyanoi*



*Vladimir
Leontovich*



Sergei Polyakov

From the Podium:

"We entrepreneurs want to have a transparent business environment. We want to report all of our income and pay our fair share of the taxes...but between outrageous tax policies and bribes demanded by public officials at every turn, we have been forced into all manner of secretive behavior in order to survive and grow our businesses."

Recommendations:

- 1) Reduce the number of officials on payroll by half; give those remaining better salaries.
- 2) Pay public officials according to how well they encourage business.
- 3) Bring local, regional and federal laws in-line, reducing opportunities for bribes.
- 4) Update necessary regulations on the books since the Soviet era.
- 5) Create "hot lines" for entrepreneurs to report public official abuses.
- 6) Keep logs in each company and require public officials to sign in for visits
- 7) Create conflict of interest legislation...and other ideas too numerous to mention.

DEVELOPMENT OF CIVIL SOCIETY

ALEXANDER LUBYANOI
VOLGOGRAD, RUSSIA



History is filled with unexpected heroes. Prior to 1993, Alexander Lubyanoi (above) felt alone in the heart of the communist-dominated “red belt” in Volgograd, Russia. As a private dentist and new entrepreneur, he argued that any effort to change the system was useless — things in Russia would always remain the same. Eight years later, Alexander has become a *leader of change* and one of President Putin’s newest advisors on small/medium-sized business development.

Utilizing ideas for building a private dental clinic which he learned in America, Alexander’s business took off. His success soon attracted attention and he had to deal with corrupt bureaucrats on every front. He responded to the challenge by founding the VOLGOGRAD ASSOCIATION OF ENTREPRENEURS in 1997. *“Most of us are people who have been to the US on CCI internships. We, who have traveled to the US, understand the right direction of business.”*

The VOLGOGRAD ASSOCIATION OF ENTREPRENEURS spends 80% of its time working with local “micro-business” entrepreneurs and the remainder is spent lobbying officials for change. In June 2000, Alexander’s reputation secured him a Kremlin invitation to meet with President Putin, along with 100 other entrepreneurs from across Russia. While there, he listed several impediments to business in his region. After he returned to Volgograd, he received a call from local officials who informed him that they were correcting the problems! Alexander now even believes in the impossible.

Association Building

Among the most important of the new ideas brought from America is the concept of building grassroots organizations committed to private sector development.

Russia has more than enough top-down structures. Trade associations exist, but they also tend to be run by people far from the grassroots level. Every city has a Chamber of Commerce, and all too often they are controlled by local bureaucrats who hoard power and perpetrate the old mentality using personal connections.

Professional Associations

Having seen the value of bottom-up associations in the US, local entrepreneurs are now getting together and forming Real Estate Associations, Home Builders Associations, Dental Associations, Crop Farmer Associations, etc. Although still in the early stages, they are nonetheless the beginnings of full-fledged professional and trade associations. The US experience is needed as these first-generation entrepreneurs struggle with how to develop charters, set standards, and network from region to region.



"The most important thing I learned about in America was how to build an association of farmers to lobby for our interests. I came home from America and decided to create an Association of Small Private Farmers. I did it! We now have 1,000 plus small farmers in our association. I'm running for a Duma seat in December (a meeting with the local Chamber of Commerce confirmed that Ponik is expected to win the Duma seat!)."

—Valeri Ponik, farmer, Belgorod, Russia (pictured above during his US internship in South Carolina)

Associations of Entrepreneurs

News is spreading quickly... entrepreneurs from distant Russian cities are coming to Volgograd to learn how to form their own city-wide associations of entrepreneurs. They have realized that individually they cannot make changes, but together they can become a force for power. There is so much that these stalwart initiators could learn from the US as they attempt to build local lobbying institutions.



Igor Yuhnevich (above), age 35 from Urupinsk, Russia is a former Russian Airforce officer. Igor moved back to Urupinsk in 1996 without a job. He decided to open a printing business which became quite successful. More recently, Igor single handedly launched the Urupinsk Association of Entrepreneurs in June 2001. The association has already funded several service projects to support the local community. Secondly, they are working with local authorities to improve the business environment.



Kamyshin, Russia: This hardy core of entrepreneurs went to Volgograd to learn how to start their own association. They assert that the seated entrepreneur will be the next mayor of Kamyshin. The woman pictured is a journalist who publishes a weekly newspaper for the association.

Entrepreneurs' Values & Direct Charitable Giving

Russia's regional entrepreneurs' values:

- Strong family ties
- Hard work
- Individualism
- A "civilized" country
- Rebuilding Russia's school system
- Adequate salaries for teachers, scientists, researchers, even officials
- Reintegration of Russia's cultural values (great music, literature, arts, poetry) into daily life
- Redefining and rebuilding a "strong Russia"
- A social safety net for the disadvantaged

Commentary

Family values, hard work and individualism: All go hand in hand with the life regional entrepreneurs lead. Free choice for themselves and for others is a solid foundation for their independent spirits.

Civilized country: Frequently this topic of making Russia more "civilized" comes up in discussions. On being queried they said they mean "law abiding", living by the "rule of law", citizens becoming trust worthy, developing trust, being open, being transparent in relations, living by one's word.

Education: Although many choose private schools for their children today, they push for the day when once again Russia's public education will be excellent, so that the entire nation can benefit from the education of youth.

Salaries: They feel it shameful that educators' salaries have fallen and Russia's school system is but a shell of its former self. They even believe the public officials (who demand bribes) should be paid decent salaries.

Rebuilding a strong Russia: There is no interest in military might; quite the contrary, entrepreneurs believe that the future of the world's nations must be built on nonmilitary values. They believe Russia should be guided by cultural and intellectual principles and objectives.

Social Safety Net: PEP Fellows bring up the fact that the state can't afford to provide social services, so entrepreneurs must meet this need. Generally this takes the form of donating products and services in-kind. Construction companies rebuild churches and repair kindergartens in off seasons; meat processors provide sausages for orphanages; cheese companies donate milk products to state kindergarten; food processors give food products to veterans' homes; or if a product isn't appropriate, an insurance company will sponsor uniforms for a local soccer team.

"I started in business in 1989. I designed the decor, cooked, cleaned, and waited tables. It's true I'm successful today, but no one counts what we had to go through. The early 90s were tragic for Izhevsk. Jobs were gone, ordinary people didn't know how to make a living. I learned from the Mayor that children were starving. I went to see for myself, and saw sights that broke my heart. Four children whose mother had died and the father couldn't support them—they were all starving. I came home to my husband and said, 'Stop plans for the new building, we have to feed people of this city.' We did. We still help orphans and the elderly. How can we prosper when others suffer?"



Svetlana Ivanova, Izhevsk, Russia, Age 40, Restaurant Owner

Nearly every general director seems to have one or more charities which his/her company helps support by "giving out the company door." Russians don't trust organized charities or middle men. Rather they prefer "direct giving" — knowing that these donations go straight to the recipients. It's not uncommon for the general directors to deliver products themselves. Charity is kept low profile. There are no tax incentives or advantages — except perhaps the feeling of doing something for those who are less fortunate.

Ibadullah Satybalov, age 40 (Ekaterinburg), private bakery owner pictured right. This engineer turned baker, has given generously to the disadvantaged since becoming a businessman. As Ekaterinburg's first Rotary President he presided over an effort to vaccinate all women of childbearing age with measles vaccine. His current passion is setting up a program to train the next generation of Russia's young entrepreneurs, believing that they are essential to Russia's economic resurgence.



Rotary and Kiwanis Club Development in Russia

Each PEP delegation is sponsored by one or more US civic clubs. Approximately 85% are Rotary Clubs and about 10% are Kiwanis Clubs. Russian businessmen and women understand the immense practical value of membership in such organizations after being hosted for a month by a US civic club.



The Volgograd, Rotary Club was chartered and founded by graduates of US internship programs.

Upon returning home to Russia, many PEP graduates begin the lengthy process of finding other business people (usually CCI Fellows) to join with them, and they proceed to charter and register their new clubs with Rotary or Kiwanis. Stellar clubs, which are credits to these international organizations, now meet weekly in St. Petersburg, Ekaterinburg, Volgograd, Voronezh, Rostov-on-Don and Dagestan, with additional clubs forming in Chelyabinsk, Izhevsk, Volgodonsk, Volshky,



The Ekaterinburg Rotary Club, which was founded by graduates of US internship programs, has a membership which includes business people from all over the Ekaterinburg region.



The Board of Directors of the Rostov Rotary Club are all graduates of US internship training programs.

Sochi, Krasnodar and other Russian cities. Including the clubs in Siberia and the Far East, there are now more than 60 active Rotary clubs in Russia. Kiwanis clubs have been started by CCI Fellows in St. Petersburg and Ekaterinburg.

Rotary and Kiwanis both strengthen civil society and solidify democratic and free market principles in Russia's regions. These clubs emphasize codes of ethics, provide regular networking opportunities for business people, encourage support for colleagues' businesses, serve as a forum for social action, and provide a valuable connection to an international organization.



Russian Rotarians are eager to attend large Rotary events. President of Rotary International, Rick King (left), at a gathering in Moscow spoke with Oleg Ivantchikine (right), President of the Rostov Rotary Club and PEP graduate, about Rotary's development in southern Russia.

STATE OF THE RUSSIAN ECONOMY

SERGEI KOLSANOV
KAZAN, RUSSIA



Sergei Kolsanov, age 40, from Kazan, stands proudly before his company's banner which is a play on words: "We are going to turn the country of *Soviets* into a country of consultants".

Sergei started his company from scratch and has built an extremely successful business providing information services. Sergei has a thousand ideas about how to build Russia's economy and imagines a day when Russia will be integrated into the world market—and his firm, KIT, will be providing information services across the globe.

"I started with just myself, two tables and two chairs. We now have 45 full-time and 20 part-time employees. Our business is about 20% stronger this year than last. My business information services are for individuals, companies and the regional government. Approximately 80% of our information services are in the legal field, helping entrepreneurs understand the law with which they must be in compliance. Only about 15% of the laws are published publicly in newspapers or journals, so our service is very important to entrepreneurs. We keep up with laws and regulations on both the federal and regional levels. Everyday at 3 PM we integrate all the latest information into our databases."

"My trip to the US was very important. I learned about macro economic issues such as mergers, acquisitions and venture capital. This knowledge will be in demand here very soon."

Entrepreneurs' Scorecard on the Russian Economy—2001

Question: *What is your estimation of Russia's economy, midyear 2001?*

Answers

With the exceptions of a couple of regional towns where market progress has been slower, the answers were the same across the regions. The overwhelming majority believe that the Russian economy is moving forward at a good and predictable pace.

Commentary

Entrepreneurs' answers demonstrated pride and relief. They can foresee their future for the first time. To their surprise, a few of the large dinosaur enterprises (employing up to 7,000) have retooled, hired new managers, and landed new contracts.

Since statistics and figures in Russia don't give an accurate assessment of what's going on with the economy, it's better to use one's eyes in order to get a realistic picture.



Business is going great in the Ural Mountain region according to Oleg Yurpalov (above left on his delegation in the US and standing in his business in Izhevsk). His printing presses are rolling around the clock. Instead of printing books, these days printers like Oleg are printing food containers, labels, packaging for household goods, and specialized boxes to promote new industries. *"I've just purchased new equipment from Germany to increase our production. My credit history is good, so they carry the loan."*

Oleg is purchasing the remainder of the building he occupies for his next business expansion.

One-family dwellings are going up around the peripheries of the cities—where none existed five years ago. First floor apartments are being converted into small business outlets — new phenomenon within the last three years. City streets are full of fairly-new Russian-made automobiles — where a decade ago there were mostly public buses and trolleys. Kiosks today are attractive, semipermanent structures that sell anything from French perfume to pharmaceuticals — five years ago they were primarily outlets for cigarettes and liquor. Average citizens on Russian streets wear trendy clothing like people in any western city.

In May 2001, when CCI's team started evaluations, a major US monthly magazine carried its cover photo and a sixteen-page lead story touting, "RUSSIA IS FINISHED." One wonders about the investigative journalism of such pieces.

In Their Own Words

Evgeni Novosoleov, Krasnodar: Food Packaging: *"It is much better and more lively now. In 1991, we weren't ready for private entrepreneurship. In Krasnodar we have 70,000 officially registered businesses, so every tenth person here is an entrepreneur. That is only registered businesses — and it is the tip of the iceberg. As I see it, every second person is an entrepreneur."*

Olga Bogomolova, Voronezh: Construction Company. *"I believe there is some kind of stability on the way. We have built this society of owners. We are striving to have success in our lives."*

Anatoli Vovnoboi, Pskov: Private Meat Processing: *"I think we see the first stages of revival of industry, metallurgic and construction as well."*

Gennadi Andrianov, Saratov: Subcontractors Company: *"Today is considerably better than 1990 or 1995. The approach is getting more professional. It's a time of real assessments and real decisions."*

Igor Solotov, Tula, Publisher: *"The economy is getting better. I have big hopes for the Russian economy now. Our business is growing rapidly."*

Evidence of Russia's Emerging Middle Class

Question: *Do you consider yourself “middle class?” What percentage of the population of your city do you think can be considered middle class?*

(For discussion purposes, middle class [low end] was described as: A Russian family of four, one or both adults working, who own a comfortable apartment, a Russian-made automobile, can afford professional and sports clothing, pay for modest amounts of private dental and healthcare, takes an extended vacation somewhere in Russia once a year. High end middle class included the above, plus, Russian families with two-story brick homes in the suburbs, a foreign make car and can afford a vacation outside of Russia every five years.)

Answers

All of those interviewed view themselves as middle class— only a couple said they were part of the upper class. No reliable statistics are known to exist which sufficiently define the middle class in Russia.

Percentage of middle-class in each city? This stumped interviewees. They struggled to come up with dependable figures. The lowest amount mentioned was 10% (from cities which were lagging behind others). The highest amount was 30% to 40% in the Belgorod region (an area doing quite well). About 12% to 20% were the most frequent estimates.

Commentary

All of those interviewed have risen to “middle class status” within the last five years. They have strong bonds with



A middle class family in Rostov-on-Don: Victor Melnikov, owner of a construction company, in front of his newly renovated home — a pre-revolutionary house in the center of Rostov which he purchased for a song due to its deteriorated state.

their city and region and are devoted to rebuilding the school system, monuments and historic buildings. These are the community builders. They have no aspiration to move to larger cities. Quite a few Moscow firms are moving to these regions for the same reasons that American firms started moving to smaller cities in the last decade.

Private construction is the most definitive evidence of middle class growth. Soviet apartments are being renovated with new baths installed, two apartments joined into a single more spacious one and endless details being changed. Private housing, like two to four stories for one-family homes have sprung up — where villages, dacha plots, and agricultural fields previously existed. Such houses were observed out of train, car and van windows across the country. Private brick companies are appearing in many cities. Construction companies, architects, real estate businesses, interior design companies, and paint manufacturers can't keep up with the demand. This tells a story that Russian statistics don't account for.

Entrepreneurs are restoring beauty to Russia: “Wherever Russia's entrepreneurs create businesses or homes, they create beauty and order,” said a Russian colleague who has traveled on evaluation trips for several years. It is true. Gone is the dullness of Soviet life, the sloppy paint jobs, the poor finish work, the drab sameness of curtains, carpets and furniture. Entrepreneurs clearly are attracted to quality production and esthetic surroundings for both public life and their own private property.



Mikhail Grishin's furniture manufacturing firm (above) in Ekaterinburg cannot keep up with the demand for sofas and other middle class consumer goods.

Infrastructure Redevelopment

Entrepreneurs building their own personal businesses are one thing; redeveloping eleven time zones of Soviet industrial wasteland is another. Five years ago the countryside looked like a graveyard. Rusting skeletons of half-finished or disintegrating buildings were left partially constructed, looking like ghosts of the past.

The massive cleanup has quietly begun. Metal needed for smelting or for resale abroad is being gathered and stacked like heaps of bones along railroad tracks, where it will be shipped off to who knows where. Here and there, some aging buildings have been used as foundations for new businesses, offering hope that at least some will be restored to usefulness. Occasionally a structure hardly bears resemblance to its former condition — sporting new roofs, paint, windows and doors. Maybe within 20 years the country will have eradicated any remaining traces of the tens of thousands of generic buildings put in place by socialism.

In other spheres, a lot has been done in the last three years that hasn't been observed by the western media as far as CCI can tell. The following are a few:

Infrastructure: Roads/Highways — A dozen years ago, just 30 minutes outside of Leningrad, potholes and broken concrete had to be circumvented to prevent broken axles. There were no such roads seen this year. Some repairs were a little bumpier than in the West. However, other four-lane, divided highways were as good as many in the middle of the US. Several three-lane highways have been built but with dangerous passing lanes in the middle. Road surfacing equipment, gravel, and the smell of asphalt were common all along the routes. Clearly, state and regional monies are being invested into infrastructure building.

Interregional Commerce: Eighteen-wheelers fill up the highways and transport cargo on roads, rather than by rail as in former days. There is a veritable rash of sophisticated new gasoline stations, parking lots for truckers, motels and small restaurants on highways throughout the regions. The food was typically Russian and surprisingly tasty.

Rural Areas: Russia looks like a healthy country as one drives through it this year. What looks like a bumper crop of grains was spread out in all directions. Local peasants were already collecting the harvest in late July. Boys on horses were seen with small herds of village cattle. Village plots were impeccably groomed. Fresh repairs were evident in village areas.

Paint: The industry must be getting back up on its feet, because even in remote tiny towns, fresh coats of paint appeared this year in downtown areas. When passing through



on trains, village train stations, more often than not, had fresh coats of pastel paint. Stock in paint companies should be yielding good returns.

Cities: Some cities were in excellent condition. Kazan, Belgorod, Nizhny Novgorod, Chelyabinsk, especially stood out. Buildings were well repaired. Streets were well paved, sidewalks swept. Grass was trimmed with flowers in public places. But a few cities looked as though they had no city maintenance at all. Interestingly enough, this was true even where vibrant entrepreneurial communities and a lot of private money existed, such as in Toliatti and Saratov. On the whole, regional cities appeared better kept and stronger this year than even a couple of years ago.

Trains/Public Transportation: While traveling by rail, one can't miss the new rail track being laid across the country. It's obvious because the old tracks were made from wood and the new are concrete. If they aren't already laid, they are piled up, a half-dozen high, in endless stacks waiting to be exchanged for the old.

Russian trains have finally been renovated. Only a couple, out of perhaps 20 rides, were reminiscent of the past. Train attendants were for the most part young women who are dressed well in new uniforms. They obviously had been coached in customer-friendly behaviors. Coupes, whether four-person or two-person, were clean. Linens and breakfast trays were included in the price. Two-person coupes, now the favorite of Russian business people, have velveteen curtains and new carpets, and in some trains even televisions and electrical outlets (Volgograd to Moscow). Attendants vacuumed the common hall every shift. Bathrooms were kept clean with shampoo containers attached to the wall. Plenty of paper and soap were available. Gone are the slushy floors and smelly environs. Even at 4 AM, the facilities were found to be clean and dry. A glaring exception was the train ride from Voronezh to Moscow.

DOMESTIC AND INTERNATIONAL POLITICS

ALEXANDER MALASHKINE

VOLGOGRAD, RUSSIA



Alexander Malashkine (above) tells his rags-to-riches story to Secretary Colin Powell in the U.S. Department of State Dean Acheson Auditorium.

At age 34, Alexander's future is virtually unlimited. Five years ago he was a law school graduate who couldn't find a job to provide for his young family. Not knowing what else to do, he borrowed a truck and some money, and drove 300 miles to Moscow to buy a load of cookies. When he came back he hired 15 retirees, who camped out at metro stations to sell the cookies. Together they made a small profit, and Alexander returned to Moscow for another load.

From these humble beginnings Alexander now has the largest wholesale business in the Volgograd region. He carries 1,600 products and provides employment for 1,200 workers. *"My workers are paid better than most, we have a strict work ethic, they feel good about the company."*

Oksanna, Alexander's wife, is his very capable CFO who keeps close tabs on the money. Recently they bought a bowling alley and converted a large, dilapidated canteen in downtown Volgograd into a recreation center. Everything Alexander touches turns a profit. *"I LOVE doing business!"* he exclaims. The last page of his company brochure states with pride, *"If you want to do honest business, you can work with us!"*

Alexander is passionate about politics and is a strong supporter of the Union of Right Forces political party. Wherever a group of entrepreneurs meets, he pushes them to get involved in the political process.

Russia's Regional Entrepreneurs Speak to Power

CCI interviewed Leaders Institute members regarding their visits to Washington and the Kremlin. Without exception they reported to have been inspired and invigorated to take new action as result of meetings with officials in both capitals.

The Russian Leaders Institute, a 100 strong body of regional entrepreneurs, traveled to Washington, for 60 meetings March 5 through 9, 2001. Their mission was twofold: 1) to make American policy makers aware of Russia's regions; and 2) to give recommendations on America's policy toward Russia, as follows (see below):



- Target support toward Russia's lower economy
- Target Russia's regions rather than Moscow
- Target the private business sector rather than political elites
- Help with development of a Small Business Administration and Credit Unions in Russia
- Utilize Russian entrepreneur's networks
- Consider partial guarantees for equipment loans
- Offer incentives to US businesses for investments in Russia



Senator Richard Lugar shakes hands with 100 Russian entrepreneurs and encourages them to persevere.



Democratic Leader Richard Gephardt surrounded by Russian entrepreneurs.

Secretary Colin Powell met with the delegation (top left) and welcomed them on behalf of the new Bush administration. He encouraged them to stay on course for change.



Senator Robert Bennett meets with a small group of Russian entrepreneurs.



At the entrance to the Kremlin offices the 100 Russian entrepreneurs prepare to meet with Dr. Andrei Illarionov, President Putin's Chief Economic Advisor.

Putin, Chechnaya & Gusinski: Regional Entrepreneurs' Perspectives

Questions: *What is your estimation of your new President? Where do you think he will lead the Russian economy? If you were President Putin, what would you do about Chechnaya?*

What is your estimation of the NTV/Gusinski scandal?

Answers

President Putin

The majority of Russian entrepreneurs gave Putin high marks, despite the fact most were Yavlinsky supporters before the election. After 16 months, they concluded he is a better president than they expected. Almost without exception they were pleased with his economic policy. There was intense curiosity about why Putin, a person with a KGB background who suddenly became president, would be so pro reform.

If you were President, what would you do about Chechnaya?

This subject evoked more emotion than any other question. Respondents sank in their chairs and paused to gather their thoughts. Most would utter the same words “slozhni vapros” (that’s a hard question). Painful recollections of their personal relations with Chechens spilled out. Most eventually said they would probably do what Putin is doing. Few really expected that Chechens would change. Some asked, “What would you do if you had such a situation in California or Texas?” “What do you think President Bush would do?” Occasionally one would say, “Maybe a ten meter wall could be built, and let them do within their part of Russia what they choose, while preventing them from fomenting revolution in Dagestan and other Russian territories.” Several women entrepreneurs said in essence, “Nothing is worth the blood shed of innocent people and Russian boys.” Only a couple believed Chechens should be given the territory, but not allowed to come back into Russia. There were no good answers. What a horrible situation to face while trying to reestablish order in the country.

NTV/Gusinski?

Very few of these Russian entrepreneurs feel this is a “freedom of press” issue, perhaps 5%. They claim that in Russia and in most countries, there is no such thing as a free press. Somebody always has enough money to buy and sell their own point of view. They asserted that Gusinski had his own point of view and broadcasted it on NTV. They liked the programs, but nonetheless, they knew it was oligarch media with its own slant.

Most entrepreneurs see the NTV situation as a money issue. None have any love lost for Gusinski, seeing him as one of a

small band of robbers of the country’s wealth, and feel he should have to pay back his loans just like anyone else. They also have no sympathy for Kiselov who routinely bragged about his \$45,000 a month salary and drinking bottles of wine costing \$270 a pop. When asked if they are satisfied with their news, they replied that they have never been satisfied with the news, and believe that someone always spins it. Russians have never had a history of trusting media. As a result, the NTV scandal is not a big deal to them. When asked where they get reliable news, several remarked that they go to several web sites in one or more countries to get differing perspectives on important issues — then they make up their own minds about what is true.



Anatoli Blachtchouk (above left), age 44, is a lawyer in private practice. When asked what he thought of his President he replied, “*One person cannot introduce changes alone, so I am intently watching what kind of team will implement his (Putin’s) will. I hope Putin will pass the tests of fire & water and the trumpets of conceit and that he will do it with dignity.*

“So far I approve of his economic team. I support his policy of strengthening the vertical power. All power from top to bottom must agree, as in the US. A strong state means, first of all, the rule of law: everybody is equal before the law. There is no way we achieve it overnight, but we must try. Maggie Thatcher said, ‘Yes, you will succeed, but not earlier than 25 years because a whole generation’s mentality must be changed.’ But we are moving fast. I am not exaggerating when I say that it took us five years for us to cover 50 to 70 years of the American judicial system. I am looking forward to seeing Russia integrated into the world economic system.”

Russian Entrepreneurs Assess US-Russia Relations

Question: *What is your assessment of the current relationship between America and Russia?*

Answers

Entrepreneurs are hopeful that the two new Presidents, Bush and Putin, can find a common ground. Upon reflection, they said that they believe the Presidents and their teams will invariably accommodate each other because the global issues are so important. They seem to like what they see of President Bush thus far.

Entrepreneurs don't approve of abolishing the ABM Treaty. Treaties, particularly this one, are held in high esteem, and should not to be broken.

NATO: They maintain that NATO is a relic of the past which was intended to contain the now nonexistent USSR. They argue that either NATO should be disbanded, or it should be reorganized in such a way to allow Russia to become a full-fledged member.

With the exception of these two issues, Russian entrepreneurs have complete confidence that American people are their friends, and believe that America wants to work out a cooperative future with Russia.

In Their Own Words

"I had a chance to stay with three different families. At the end of the visit I told them that Americans are just like us. No one can fool me about it now. People to people contact is important because only through personal contacts can we see the real truth."

—Vassili Tretyakov, Rostov-on-Don

"I think this is a new time between our two countries; a time to get Russians and Americans together on a practical basis and that basis is business. This is what we both need, not conflict."

—Alexander Perepechekov, Kazan

"We have healthy, young, strong presidents. They will find a way to cooperate. Our citizens want peace with America. Our businessmen want commerce with America. I have confidence that major problems will be resolved."

—Valeri Ivanov, Krasnodar

"I worry about the ABM Treaty. This issue between our two countries must be resolved positively. When that is settled, our working relations should be normalized. Russians and Americans are more like each other than any other people."

—Vladimir Shestakov, St. Petersburg



The stars and stripes were waving in southern Russia (above)—as they were in nearly every city visited by the CCI team. It is amazing how many full-sized American flags were taken home by Russian entrepreneurs after their internships.



Vladimir Maximov (above), age 40 from Belgorod, Russia, broke into business with a small graphics operation, and has ended up with the lion's share of Belgorod's printing

Vladimir is an avid photographer and while in America, he took hundreds of shots. Upon coming back home he created a photo exhibition of thirty prints entitled, *"My America!"* Colorful street scenes, mimes, federal buildings, antique automobiles — everything Americana was wrapped up in it. Exhibited in Belgorod for one month, it was so popular that it was requested for a second month.

After US internships, these entrepreneurs become America's staunchest supporters and allies. If there is any sector in Russia which wholeheartedly aligns with and emulates America, it is Russia's regional entrepreneurs.

POWER OF US INTERNSHIPS

ALEXANDER KALININ
CHELYABINSK, RUSSIA



Alexander Kalinin, age 35 from Chelyabinsk, Russia, is a weapons-industry cybernetics engineer by education. When the Soviet Union broke up his training was suddenly meaningless. In 1994, he took a crash course in 'economics and finance'.

In his own words: *"Then I caught some idea about how to make money. I studied how to be a supplier of goods for local plants and started to work on this idea. We grow, grow, and grow. The number of our employees is now 200. I wasn't ready [for my company] to be so big. We are currently producing digital engines for cranes. I own five businesses and I believe every one has a bright future."*

"The trip (to America) was very important for me. I needed to verify my direction and make changes if necessary. After that trip, I realized a lot of weak points in my business. It was time to take a break and to become a professional in my activities. The main things I learned were how to serve my customers, how to advertise, how to market, and how to take care of my employees. After I returned home I created an employee benefits program like in America."

"In America, everyone said business owners have to take responsibility for the society, not the state. In the US, I saw with my own eyes business philanthropy. I am proud that we donate money to the house of orphans. We also opened an athletic club named 'Club EXTREME' for young people. There young people can take courses in underwater diving and mountain climbing. These exciting activities help keep young people off of the streets."

Businesses and Lives Changed

Question: *Given that Russia's and America's economic situations are so different, was the US experience useful or relevant for you and your business?*

Answers

Regardless of the sphere of business, this question resulted in a veritable explosion of ways in which the US experience:

- Contributed to the development of their businesses.
- Offered them product diversification ideas which have resulted in new product directions.
- Gave them management and personnel techniques which have revolutionized their workplaces.
- Provided them with inspiration to organize Rotary Clubs and other civic activities.
- Galvanized their determination to assume a public "face" and push for reforms in their regions.
- Gave them a new sense of their personal capabilities, a new sense of their role as responsible citizens.



Nadezhda Sofronova, Age 45, Ekaterinburg, Russia, Owner of six private pharmacies

spectors for fire, registrations, sanitation, and general inspections of my business. In the US I asked drugstore owners how often they have such official visits. They didn't know what I was talking about. They said maybe every five years! After returning to Russia, I went to the pharmaceutical licensing committee and told them what I learned in the US. I told them Americans don't have such bureaucracies... they nodded their heads and did nothing. I'm ready to start a campaign to ban such absurdities!"

"I got a lot of information in the US. Your pharmacies are different from traditional ones here in Russia. You provide a wide assortment of goods—cosmetics, and health care products. In the future I will open a similar store here. I believe that the drugstore business in Russia will develop along the US model. I need additional credit to start American-style drug stores here.

"Unfortunately, I have to make payments every month to in-

Commentary

Much of US expertise and "know how" can be adapted and transferred to their businesses upon return home (manufacturing principles, inventory controls, organization of labor, quality control standards, etc.). Financial and personnel policies, job descriptions, hiring and firing techniques, workplace layouts, and organizational charts are frequently put into practice without adaptation.



Mikhail Orlov (above), owner of a Tver private dairy products company, shows a CCI interviewer photos of American equipment he adapted and used for small-scale production after he returned to Russia.

In his own words: *"I was suspicious of such training trips. It took me a long time to decide to go. It turned out to be so intensive that we Russians didn't have time to gather and discuss!"*

"We absorbed a lot of technical details that affect the quality of milk. I recorded these details, translated them, and implemented them all over my factory. As a result, our products are of better quality and have a longer shelf life.

"I saw how antifreezes are used in America, so we assembled such equipment here—I also have a small machinery factory, so now I produce these devices and have sold them to three dairy farms already. They work quite successfully. I took photos of American equipment every where we went (Mikhail shows off his photos above). Now I show other directors and specialists of (local) dairy farms who bring us raw milk. They also have started implementing these ideas."

PEP Evaluations 2001

*Statistics**

I was exposed to ideas or images in the US which I'm now using in my business.	YES 74% NO 16%
The PEP experience was a transformational for me and my business.	YES 56% NO 33%
My management style has changed as a result of PEP.	YES 78% NO 17%
My revenues have or will increase as result of PEP.	YES 75% NO 16%
I've created new business networks as a result of PEP.	YES 76% NO 20%
I have developed interregional business networks as a result of PEP.	YES 49% NO 43%
I have business partners in other cities as result of PEP.	YES 62% NO 31%
I keep in touch with Russians I met on PEP delegation.	YES 92% NO 6%
I keep in touch with Americans I met on PEP delegation.	YES 60% NO 32%
Have you created new products as result of PEP?	YES 45% NO 47%
Have you improved your products as a result of PEP?	YES 68% NO 22%
Did PEP training give your business an additional competitive edge in the marketplace?	YES 76% NO 18%
Did PEP give you better ideas of how to interact with American colleagues and partners?	YES 93% NO 3%
My business contributed financially to a charitable organization within the last year.	YES 77% NO 19%
I currently use some barter for receiving and making payments.	YES 20% NO 69%
I currently use cash for receiving and making payments.	YES 63% NO 27%
I currently use banks regularly for receiving and making payments.	YES 42% NO 18%
I borrow money to finance my business dealings.	YES 38% NO 47%
I finance my business using loans from friends and family.	YES 60% NO 30%
I finance my business using bank loans.	YES 32% NO 45%
I finance my business using credit from suppliers (for example leasing).	YES 32% NO 45%
Young people support freedom, democracy and market reform.	YES 94% NO 2%
I believe Russian land should be bought and sold freely.	YES 81% NO 11%
I believe Russian land should be sold only to Russian citizens.	YES 36% NO 53%
I believe Putin will pass land reform laws.	YES 87% NO 5%
On the whole I'm more optimistic about economy now than a year ago.	YES 77% NO 17%
Were you hosted by Rotary?	YES 82% NO 13%
Were you hosted by Kiwanis?	YES 19% NO 57%
Have Russian consumers' attitudes toward Russian domestic production improved?	YES 84% NO 9%
Have the number of small businesses increased over the last year?	YES 64% NO 17%
Do you consume primarily goods produced in Russia?	YES 73% NO 19%
Is Russian middle class growing?	YES 74% NO 14%
Do you consider yourself part of the middle class?	YES 89% NO 5%
Do you own your own apartment?	YES 83% NO 12%

Does your family have a dacha?	YES 60% NO 33%
Do you own an automobile?	YES 85% NO 10%
Do you believe economic/political stability will increase as middle class grows?	YES 94% NO 2%
Are private schools teaching democratic principles?	YES 74% NO 6%
Are public schools teaching democratic principles?	YES 59% NO 18%
Are private schools necessary for the development of Russia?	YES 87% NO 4%
Are young people choosing teaching as a career now?	YES 8% NO 84%
Do you have children in public schools?	YES 55% NO 22%
I believe Russia's economy will improve under Putin.	YES 79% NO 10%
I believe Russia's economy will get worse under Putin.	YES 8% NO 70%
Are you generally positive about Putin's character?	YES 78% NO 9%
Do you believe Putin will be able to work constructively with Duma?	YES 78% NO 7%
Will Putin lead country toward democratic and market principles?	YES 74% NO 9%
Are you concerned Putin will change Russia into an authoritarian country?	YES 29% NO 54%
Will Putin roll back freedoms essential to democracy?	YES 24% NO 56%
Will Putin support small and medium-sized business sector development?	YES 76% NO 9%
Is there another person you would rather have as president?	YES 25% NO 55%
Are municipal officials supportive to you and your business?	YES 14% NO 77%
Are public administrators supportive to you and your business?	YES 16% NO 73%
Are they making money from their positions (beyond their salaries)?	YES 76% NO 4%
Would you work with a group to lobby for tax or improvement in the business infrastructure?	YES 62% NO 18%
Is your business impacted by public official corruption?	YES 53% NO 33%
Is there a way to stop corruption?	YES 52% NO 26%
Demanding bribes for necessary legal permits and/or forms is the most pervasive form of corruption?	YES 70% NO 11%
Will Putin be able to stop such bribes?	YES 15% NO 60%
Businessmen should begin a confidential list of officials who demand bribes?	YES 41% NO 34%
It could become publicized in the newspaper that this list is being kept?	YES 45% NO 35%
Would the list administrator be in danger if his/her identity was revealed?	YES 49% NO 27%
My business needs will be held up if I don't pay extra money?	YES 49% NO 20%
Do you offer extra money in order to get services or registrations?	YES 29% NO 44%
Would you be interested in a Declaration of Integrity in Business?	YES 74% NO 5%
Do you consider local and regional bureaucrats "institutional mafia?"	YES 54% NO 24%
Do you still have to pay such "mafia" types?	YES 0% NO 0%
Do you pay a security service?	YES 31% NO 52%
Do you provide your own security?	YES 37% NO 48%
Do you believe that a foreign language is NOT a barrier to understanding the information fully?	YES 81% NO 30%
If yes, do you believe that there should be more training programs similar to PEP which are designed for non-English speakers?	YES 88% NO 11%

A Publication of the Center for Citizen Initiatives (CCI) *copyright* © 2001

Published August 31, 2001

For more information about CCI Please contact:

CENTER FOR CITIZEN INITIATIVES

PRESIDIO OF SAN FRANCISCO

P.O. BOX 29912

SAN FRANCISCO, CA 94129

TEL. (415) 561-7777

FAX (415) 561-7778

EMAIL: INFO@CCISF.ORG

WWW.CCISF.ORG

Notes:

