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**STRENGTHENING/ESTABLISHING INDUSTRIAL AND
BUSINESS INFORMATION CENTRES FOR SMEs
IN RUSSIA AND SELECTED CIS COUNTRIES**

XP/RER/95/038

**Technical report: Preparatory assistance to the establishment
of a subcontracting and partnership exchange in Moscow**

Based on the work of Henri Nicolas, Consultant in
Industrial Subcontracting

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A. de Crombrughe, Small and Medium Enterprises Branch

* Mention of firm names and commercial products does not imply the endorsement of the United Nations Industrial Development Organization (UNIDO).

This document has not been edited.

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TABLE OF CONTENTS

CONCLUSIONS AND RECOMMENDATIONS	4
SUMMARY	9
1 - The objectives of the first mission	9
2 - Practices and systems of subcontracting in Russia	9
2.1. Large industrial groups. Externalisation - privatisation	10
2.2. The sector of the car industry	11
2.3. The OBORONINVEST project	12
3 - The SMEs support policies and structures	13
4 - Consultation of public or private institutions capable of being involved in a project of subcontracting and partnership.	14
5 - Second mission and meetings.	16
CHAPTER 1 - SUPPORT POLICIES	24
1 - Support policies	25
1.1. Federal level	25
1.2. Regional level	28
1.3. Local level	29
2 - Professional structures	31
2.1. Chambers of Commerce and Industry	31
2.2. Associations	31
3 - Support and advice operators	33
3.1. Operators in relation with public structures	33
3.2. Operators in relation with associative or professional structures	36
4 - Programmes	37
4.1. GOSKOMPROM : Russian National Industry Policy Committee.	37
4.2. ROSCOMINFORM : Committee of the Russian Federation for Informatization Policy.	37
5 - Regional networks	38

CHAPTER 2 - ACTIONS

39

1 - Demand for services from SME	40
1.1. General aspects of SME's live	40
1.2. Demand for services and information	41
2 - Services supply	42
2.1. Consulting to SME	42
3 - Strategies and projects	45
3.1. Product strategies	45
3.2. Networks	46

CHAPTER 3 - ELEMENTS OF SUBCONTRACTING SYSTEM

47

1 - Justification	48
2 - First elements	49
3 - Feasibility of a subcontracting and partnership project	50
4 - Some comments from the persons involved	51
5 - Financing	53

ANNEXES

Annex I	Job description
Annex II	List of persons met
Annex III	Proposed project document
Annex IV	The minutes of the Constitutive meetings
Annex V	The minutes of the Awareness Seminar
Annex VI	The proposed structure of the SPX
Annex VII	The terms of reference of SPX
Annex VIII	The proposed budget

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

There are two main conclusions about the feasibility of the project. They concern :

- The opportunity and profitability of the project in light of the changing industrial economy and structures in Russia.

- The possibility of implementing the project effectively considering the institutional and financial means available.

- There have been huge changes in the industrial structures in Russia within the past five years. Large industrial complexes are now falling apart and they are no longer suitable in the organisation of a market economy. The most developed ones from a technological point of view (i.e. the industrial and military complexes), are looking for private markets under subcontracting arrangements with western companies. Others, like the car industry or tractor industry, are out of the market economy and they are now fragmented into small or medium units. Both the remaining large companies and the new small and medium units cannot carry on their activities with only one supplier or one client. They are looking to diversify their industrial links. Generally they do not produce final products but rather intermediary products, so they are naturally involved in a process of developing their subcontracting relations. Furthermore, many new entrepreneurs or businessmen are emerging and creating activities on the basis of private structures. Most of them are oriented towards commerce and trade but there are also industrial projects being undertaken.

Finally, the structural changes in the Russian industry are oriented towards the necessary organisation of the relationships between enterprises.

They need to be organized on the basis of the identification of the firms and their capabilities (who is who ? who makes what ?), and on the establishment of technical, commercial and legal links between them. That is the purpose of a Subcontracting and Partnership Exchange (SPX). It is also very important to notice that such a structure will be an instrument of support to the small and medium industries (SMI) in the development of their technological and managerial capabilities, and the widening of their scope of commercial relations.

With regards to the effective possibility of implementing this project , the purpose of the mission was also to identify an institution or structure capable creating a SPX and managing it. This institution had to be :

- already involved in the field of industrial information, with data bases on companies and products,
- familiarised with the concept of consultancy,
- in accordance with the official policy of industrial development and of SME support.

With respect to these criteria, INFOCENTER¹ is recommended as the core institution of a structure which would include other institutions in view of their specialized skills. The proposed scheme is presented on page 9:

- INFOCENTER is the basis of the structure in association with MNITZ², which has the expertise for consultancies to firms
- Large companies send orders to the SPX. These orders are analyzed by the SPX which sets up technological and commercial relations between ~~large~~ companies and SMEs

¹INFOCENTER: Russian Information Centre

²MNITZ: General Information Centre of Enterprise Support

- specialized institutions and experts on data bases and telecommunications help the SPX on a consultancy basis (OLVI³ and CTI⁴),
- relevant specialized institutes and experts help the SMEs to improve their technological and managerial capacity on a private consulting basis.

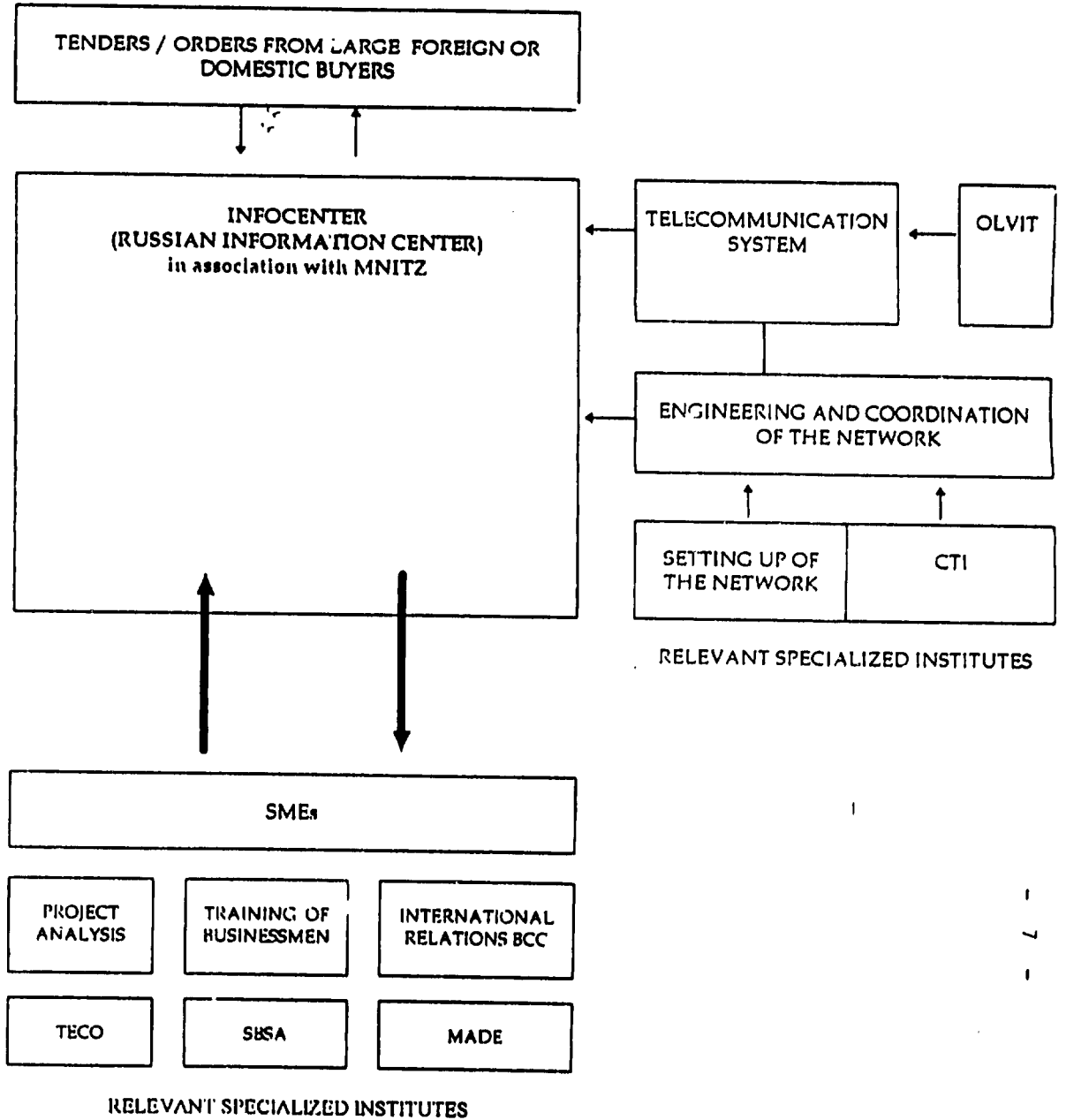
This scheme would concern the region of Moscow and, at the beginning, two other regions in which there is already a local structure like INFOCENTER in Varonej or CTI in Cheboxary.

³ OLVI: Engineering and Telecommunication System Management.

⁴ CTI: Computing Technology and Information

RUNNING OF THE SPX

- ◊ The collection, analysis, storage and organization for rapid retrieval of information and data on the existing production capacities of industries, especially SMEs.
- ◊ The identification of subcontracting, supply and partnership inquiries or offers from large foreign or domestic buyers and main contractors and their dissemination to potential subcontractors / suppliers / partners.
- ◊ Assistance to potential subcontractors/suppliers/partners in organizing production clusters and associations and in negotiating agreements with main contractors, which could be their own Governments.
- ◊ Quality management, standards and certification.
- ◊ Marketing analysis and strategies (including participation in international fairs and business promotion forums)
- ◊ Access to credit, financial facilities and incentives.
- ◊ Management (rehabilitation, financial management, stock control).
- ◊ Legal advice (legal contracts, codes of conduct, settlement of disputes)
- ◊ Human resource management (training).
- ◊ Technical support (product design, technology, equipment, innovation)



This assistance and information is provided either directly by the SPX in the form of advice, training, awareness seminars and industrial fairs, or by referring the enterprises to the relevant specialized institutes (national standards bureaux, testing institutes, technical centres, training institutes, chambers of commerce and industry, commercial and development banks and other SME support institutions).

Recommendations

- 1) The establishment of this structure is our first recommendation. In accordance with the terms of reference of the mission, a meeting was organised with all the institutions concerned and the scheme was approved in principle. As a symbol, these meetings took place in INFOCENTER. Furthermore, several meetings were organised with GOSKOMPROM⁵ (which is the public mother institution of INFOCENTER) in order to validate the proposal.
- 2) The second recommendation concerns the financial aspect. Everybody agreed on the principle of a two year pilot project.

An official request was made by GOSKOMPROM in February and then in August 1995 with a budget of USD 370,000 (see Annex III).

We agree with the content of this project. The only changes recommended would be to increase the budget of the counterpart personnel up to 4,2 billions Rbl.

On this basis, the second step of the new structure would be to request for the financial means of this pilot-project from three possible sources :

- Russian Government, through GOSKOMPROM,
- UNIDO,
- TACIS⁶ Programm.

- 3) A last but equally important recommendation is to appoint someone to follow this project and particularly with a view to maintaining the excellent personal relations established during this mission. Additional work must be done in order to accompany the creation of the structure, the elaboration of the reports and their monitoring, as well as the support of the files in Moscow, Vienna and perhaps in Brussels.

A one month consultancy in split missions in the year 1996 is suggested.

⁵ GOSKOMPROM: Russian State Committee for Industrial Policy

⁶ TACIS: European Union Programme of "Technical Assistance to the Confederation of Independent States"

SUMMARY

1 - The 1st mission had 3 objectives :

- description of prevailing practices and systems of subcontracting in Russia,
- consultations with public / private institutions which may be involved in a subcontracting and partnership project,
- proposal for a pilot subcontracting and partnership system.

2 - Practices and systems of industrial subcontracting in Russia

Until now, Russian industry was organised around industrial complexes which implemented planned exchanges among themselves.

The concept of subcontracting, which consists in delegating production by large companies to small or medium-sized enterprises, either because they look for additional production capacities or in order to resort to specialised skills, is not widely known in Russia.

The principal and vital elements of subcontracting do not exist there, such as :

- flexibility of the production system and
- a dense network of small and medium-sized companies.

On the contrary, the economic context is unfavourable because of the degradation of the industrial structures and of their financial results.

SMEs are now emerging from industrial groups which have been privatized by sections, as well as from the privatization and restructuration of cooperatives or from private initiatives. Investors on their part are looking for projects based on the manufacture of finished products, which is in fact in contradiction with the principle of subcontracting.

2.1. Large industrial groups: Externalization - Privatization

Russian industrial structures are still strongly characterised by large integrated complexes. Privatized and newly created SMEs manufacturing final products are now included into these structures.

The figure of one million was the approximate number of existing industrial companies reported. This number is constantly changing because of integrated complexes splitting up and because of a high rate of both new firms emerging and of bankruptcies.

The number of people employed in industry is estimated to be around 40 million (estimated on the basis of a rate of a working population of 40 % and of 65 % of Gross National Product being produced by the industrial sector), with 35 million employed in large companies and 5 million in SMEs.

In this context, subcontracting is a new concept which is often unknown because it is used in systemic production schemes including numerous actors with a common objective, which is very much the opposite of the linear integrated schemes which characterised the organization of production in Russia until now.

Normally, in emerging economies or economies in transition, businessmen prefer simple projects oriented towards consumer products or import substitutes which do not have to enter into a subcontracting process. Under such conditions, there is little chance for industrial subcontracting activities to develop if other conditions are not met.

The main element to bring about change seems to be a policy of externalization and privatization of industrial complexes.

- externalization has as a result to separate or cut off some workshops and put them in the role of autonomous suppliers or subcontractors for the rest of the complex. If this relationship is limited entirely to only one customer and one supplier there is no need for intermediation. But if the externalized workshop does not limit its offers to only one customer, it will have to look for other customers, and will thus need some assistance to market its products and services;

- privatization reinforces this situation, on the one hand because it forces the firms to enter into an open system and on the other hand, because it could lead to the elimination of some non-profitable parts of the production process and to seek substitutes in the form of external subcontracting outside.

2.2. The automotive industry sector

The concept of subcontracting is unknown, even in the Russian car industry. That is not to say that production firms, which are generally very large companies, are completely integrated. They buy semi-finished products and components from other large supplier groups. For example, in the automobile industry, these suppliers are similar to French, Italian or British ones⁷, but on the one hand, there is no second level of subcontracting firms, and on the other, supply companies are diversified. Diversification has been increasing since the recent political and economic developments have lead suppliers to look for other products and other customers, in particular for consumer products even if these differ greatly from the original ones (for example, some firms have diversified from automobile supply to wood or electronic industry).

The main reason for this diversification is that on the one hand industrial groups which are often privatized are free to follow their own strategy, and on the other, the prices of automobile supplies have reached such a low level that it has become impossible for the suppliers of the automobile industry to survive.

⁷ such as VALEO, MAGNETTI-MARELLI, LUCAS, ...

= large automotive component manufacturers/suppliers in Western Europe.

In fact, grants used to be provided (to automobile manufacturers) of up to 70 % of the sales price of the car parts. These grants are no longer available. On the basis of this previous system, one of the basic functions of a new subcontracting mechanism could consist in organizing those interfirm exchanges, and make it possible for industrial complexes to emerge from privatizations and spin-offs of certain departments or sections of those complexes.

As far as interfirm exchanges are concerned, another prolific field is the defence industry, in which aeronautics and electronics are integrated. Planned exchanges could be replaced by a flexible network of supply and subcontracting relationships.

Moreover, the sectors of mechanical and electric construction in which subcontracting is most common, attract very few investments from SMEs. However, implementing a subcontracting system could be a way of creating new attitudes in a constantly changing environment. Complex organizations and groups splitting-up into specialized firms will have to establish new commercial relationships.

2.3. *The OBORONINVE project*

I had three interviews with Professor UMNOV. Mr. DOENIN⁸ was present at the first one and Mr. SIVOV⁹ and Mr. PAVLOR¹⁰ at the third one. The OBORONINVEST project is characterised by the priority given to defence enterprises (Military Industrial Complexes) (MIC).

Even if these enterprises have advanced technologies they have difficulties with offers and deliveries. So an organization like a SPX would have a role to play here. For the moment, the only action which has been taken is a series of meetings (in Bilbao, Paris, Brussels) in which the capacities of MIC companies were presented, as well as a proposed meeting in Moscow at RIOST's¹¹ initiative.

⁸ MR. DOENIN: See Annex II

⁹ MR. SIVOV: See Annex II

¹⁰ MR. PAVLOR: See annex II

¹¹ RIOST: International Network of Subcontracting Organizations (European non-profit association)

3 - The SME support policies and structures

Support to SME is being carefully studied by the Government. An illustration of this is the recent establishment of the STATE COMMITTEE FOR THE SUPPORT (OR DEVELOPMENT) of the SMEs. Some people believe that this support policy is simply theoretical and free cost, yet the tax system applied to those companies is rather dissuasive. It should be noticed that one of the obstacles to the development of SMEs is the unoperational banking system as far as credits for equipments, financing of working capital needs and instruments for payments are concerned. However, SME support structures exist. Joint-stock companies follow and apply decrees and recommendations of directive schemes. For example, GOSKOMPROM (Russian National Industrial Policy Committee), which is responsible for implementing industrial policies (particularly for SMEs) is assisted by the Administration and by joint-stock companies in applying its biannual programme. As far as the policy of information and the computerization of firms is concerned, GOSKOMPROM delegates this responsibility to another interministerial committee : ROSKOMINFORM¹², and to another joint-stock company : the Russian Information Center. ROSKOMINFORM itself uses the skills of MNITZ which in turn works in association with private consultants.

This hierarchy of delegations results in creating many structures which work for SMEs. Those structures may take the form of joint stock companies or of private companies. In all cases, those structures are faced with the crucial problem of their profitability in the new Russian market economy where SMEs are rarely prepared to pay for consultancy services. Instead these structures look for credibility through official recognition since they have no professional references. SMEs can be promoted either by a public (administrative) organization, or by a professional organization. These organizations are numerous. It is also important to notice that all of these structures try to develop a network in the different regions (89) of the Russian Federation. This is due to the federal organization of the Russian territory and the need for a second level of information in a country which is too large to be well organized from one central location. In addition, the structures will find financial support in a decentralised regional structure. This network enables capital equities or equipment allocations, which the Federal State cannot afford to provide.

¹² ROSKOMINFORM: Russian Federation's Committee for Informatization Policy

4 - Consultations with public or private institutions interested in being involved in a subcontracting and partnership project.

The relations between my missions and a programme of information and computerization of enterprises, as well as the selection of IAS¹³ as a counterpart, have inevitably oriented my contacts toward organizations which were predominant in this field.

Originally, the interviews planned were to be from two structures specialized in computerized information :

- IAS - OLVIT, and

- INFOCENTER.

On the whole, the persons I met (approximately 30) belonged to government organizations, associations or federations representing firms, joint-stock or private consulting companies and economic actors (enterprises, banks).

In addition, it should be noted that because of previous missions and the correspondence exchanged with Russian partners, GOSKOMPROM, INFOCENTER and MNITZ were the main organizations that I met with.

After the interviews which generally took place in two or three phases, the following scheme was proposed and accepted by INFOCENTER and MNITZ. This scheme takes into account the necessary balance between governmental organizations, firms' representatives and economic operators.

It has been proposed that the running of the subcontracting and partnership system would be ensured by INFOCENTER, TECO (which is a consulting organization like the Confederation of Businessmen in Russia) and MNITZ.

¹³ IAS: OLVIT

They have been asked to submit their own proposals in order to confirm our common approach and to assess their perception of the project :

- a request was sent by INFOCENTER to UNIDO (see Annex III)
- a project was proposed by TECO¹⁴ for the organization and support of a consultants network with a budget of 7 millions dollars !

Otherwise, specific missions could be delegated to organizations which could be useful thanks to their political impact and their technical skills, such as :

- MADE, in relation with the Russian Association for Development of SME
- RUSSIAN SMALL BUSINESS SUPPORT AGENCY¹⁵

The first of those two organizations seems to be very active in international relationships, the second one in managers' training.

Finally, OLVIT can be helpful in providing information and telematic equipment as well as telecommunication networks interface and equipment.

¹⁴ TECO: (1), (2), (4) see page 6

¹⁵ SBSA: Russian Small Business Support Agency

5 - *Second mission and meetings*

The second mission was principally organised around two meetings :

- A meeting with the institutions which would become UNIDO's counterparts in the implementation of the subcontracting and partnership system and would carry out the pilot programme (21st November 1995) (see Annex V).
- An awareness meeting for the enterprises (22d November 1995) (see Annex VI).

1 - Constitutive Meeting of the Subcontracting Exchange System (21 November 1995)

This meeting was prepared based on a project for structure (SPX) which had been sent to the persons concerned. They had been asked to comment on the project and to make proposals. Only Mr. ERMAKOV¹⁶ had replied, but each person contacted was present or represented at the meeting.

During the first week of the first mission, the proposed partners in the project had been visited:

- INFOCENTER (MR. DOENIN¹⁷) in relation with GOSKOMPROM (MR. BERESNEV¹⁸)

Messrs. ISAJEV and SCHEVTSON who belong to GOSKOMPROM (see Annex II).

- MNITZ (MR. BIKOV) in relation with TECO (MESSRS. VITKOWSKY and VASILIC), the Confederation of Businessmen Unions of Russia (MR. SKATCHKOV) and TCI (MR. KUSTARIN).

¹⁶ MR. ERMAKOV : Russian Small Business Support Agency

¹⁷ M.DOENIN is both one of the directors of GOSKOMPROM (under M.BERESNEV) and the General Manager of INFOCENTER.

¹⁸ Or Russian (State) Committee for Industrial Policy

INFOCENTER which was expected to be the leader of the project, had invited different organizations to the meeting. A list of 16 was been established (see Annex II):

- GOSKOMPROM (MR. BERESNEV, MR. ISAJEV, MR. SCHVETSOW)
- STATE COMMITTEE FOR DEVELOPMENT OF THE SME (PROKOROV)
- IAS (MR. SAVOSTITSKY)
- OLVIT (MR. SVERIDA)
- MNITZ (MR. BIKOV)
- TECO (MR. VITKOVSKY - MR. VASILIC)
- INFOCENTER (MR. DOENIN)
- MADE (MS. EMILIANOVA)
- RUSSIAN SMALL BUSINESS SUPPORT AGENCY (MR. ERMAKOV)
- CTI (MR. KUSTARIN)
- CONFEDERATION OF ENTREPRENEURS IN RUSSIA (MR.SKATCHKOV)
- INFOCENTER - Région of Varonej (MR. PETROV)
- RUSSIAN CHAMBER OF COMMERCE
- ROSPACK
- RELCOM
- RUSSIAN ASSOCIATION OF LARGE ENTERPRISES.

Already in August the newly created State Committee for the Development of SME (Mr. PROKOROV) was expected to be strongly in favour of the project. As a consultant, I could not give my opinion on the choice of the most suitable organization politically. Some (in particular INFOCENTER) recommended GOSKOMPROM, others (MNITZ) recommend ROSKOMiNFORM. A meeting initiated by Mr. DOENIN took place on the 17 November with Mr. BERESNEV and Mr. SCHEVTSOV.

Mr. BERESNEV indicated that the Russian State Committee for Industrial Policy (GOSKOMPROM) had been appointed by the Government to become the counterpart of the project.

Some UNIDO documents indicated the same choice, such as a request dated August 1995 (see Annex III).

This request was confirmed by a letter of Mr. DOENIN of 1st November 1995.

Mr. BERESNEV was expected to meet UNIDO's Director-General in December 1995, at the UNIDO General Conference. In spite of several attempts I did not manage to meet Mr. PROKOROV.

The persons who were expected to be at the meeting were all present. Mr. BERESNEV was represented by Mr. DOENIN, Mr. PROKOROV was also represented.

The programme of the meeting was (see Annex V):

- introduction by Mr. DOENIN,
- Mr. NICOLAS's report on :
 - * the concept of subcontracting and partnership : definition, subcontracting in Western Europe
 - * Subcontracting and Partnership Exchange (SPX) functions and their role in the development of SME
 - * UNIDO Programme for the promotion of Subcontracting and Partnership
 - * The contents and results of the feasibility study
 - * the reasons and objectives of the meeting (constitution of a group or structure for the pilot project)
- presentation of a Video Tape on UNIDO's Programme
- round table discussion
- conclusions by Mr. DOENIN.

It was decided to create a structure in the form of a task force which would meet to implement the project concept and to request UNIDO's assistance. Mr. DOENIN appointed INFOCENTER to be the leader of the group. Remarks were made by MNITZ in the name of the Russian Committee for the Development of SME. CTI announced its interest in taking part in the group.

We can not confirm today if GOSKOMPROM and INFOCENTER will be the only leaders of the group and on which basis the organizations present at the meeting will have to cooperate. It is also difficult to know how the Russian Committee for the Development of SME will evolve in the future.

2 - Awareness meeting

This meeting was not organised by MNITZ and the Federation of Businessmen as it had been planned. This can be interpreted as a sign of disappointment by MNITZ for not being the leader of the project.

It was replaced by industrial meetings :

- on 21 November with the Federation of Businessmen and CTI which represented regional and national companies,
- on 22 November in RTI-CAOUTCHOUC's buildings. This firm employs 2000 people and is specialized in rubber products manufacturing. It will be a member of the group.

After those two meetings, I met Mr. BERESNEV, Mr. DOENIN and the team members several times.

- Mr. BERESNEV confirmed that he was very interested in the project and he said he was going to have a meeting at the highest level (UNIDO's Director-General) in Vienna in December 1995. He will study the means of financing the project with UNIDO.
- Mr. DOENIN as a member of GOSKOMPROM and as the Director of INFOCENTER, was responsible for the workshop and is responsible for the implementation of the SPX project into a formal structure. INFOCENTER will be responsible for the secretariat.

- The project document up-dated in August 1995 (see Annex V) was analyzed. Some expenses must be reviewed, in particular for counterpart personnel (the figure seems to be too low.) Otherwise, additionnal expenses must be included concerning the regional structure (2 regional structures have been proposed : CHEBOXARY and VARONEJ). Mr. DOENIN will proceed with those changes.
- Interviews were conducted in order to create a counterpart team. Two individuals were proposed besides Mr. DOENIN : Mr. SAVONENKOV and Mr. VASILIC.

	TECO	INFOCENTER	MADE	Russian Small Business	OLVIT	
Main function Know how	Consultants network	Développement of the RIC	Support to SME's	Développement of consultancy	Technical maintenance of telecommunication networks and datas	Best
Support to a public program Professional organisation	ROSCOMINFORM Confederation of Businessmen in Russia	ROSCOMINFORM	Mayor of Moscow Russian Association for Development of SME	State Committee for Development of Entrepreneurship	GOSCOMPROM	INFOCENTER TECO RSB
Technology of information network					Yes	OLVIT
Expérience in data supply Significant number of : - firms - subscriber		Yes			Yes	INFOCENTER OLVIT
Project files	Yes					TECO
Exchanges programme					Yes	OLVIT
Network national Network international	12 Yes	36 Yes	53 Yes	21 -	1 -	MADE INFOCENTER
Number of senior consultants	11	40	20	10	10	MADE
Partnership with : MNITZ Chamber of Commerce TECIS	Yes Yes Yes		Yes			

**TERMS OF REFERENCE FOR AN INDUSTRIAL SUB-CONTRACTING
AND PARTNERSHIP EXCHANGE (SPX)**

(1) Functional services to be performed

- Information services, i.e. technical information concerning small and medium industries which are capable of working as sub-contractors for domestic and foreign main-contractors; brokerage of information relating to the supply of and/or demand for sub-contractors' products; information on supply of and demand for know-how, patents, technical co-operation, opportunities and procedures for the setting-up of partnership agreements.
- Promotional services, i.e. organisation of business meetings with Purchase managers from domestic and foreign industrial groups; organisation of collective participation in industrial fairs of the sector; preparation and dissemination of promotional material on the SPXs and their member industries.
- Advisory services on legal aspects of sub-contracting operations, product development and adaptation, quality control, standardization and certification, marketing.

(2) Minimum staff composition (Full-time)

- * One Executive Manager (with 9 years of experience)
- * Two graduate industrial engineers (with 5 years of experience)
- * Two secretaries/typists (bilingual) (with 2 years of experience)

This staff will obtain additional specialized skills as required through a combination of on-the-job and a formal training.

(3) Methodology and work procedures

The SPXs will have a common methodology, work procedures and manuals for their full operation. They will use a common terminology and nomenclature as well as a standard computer software for the regular processing and updating of technical information.

(4) Premises, facilities and equipment

The SPXs will have 3 furnished offices and one meeting room within the host institutions, a personal computer, photocopy machine, telephone, telex, (fax), two typewriters and office sundry supply. In addition, at least one vehicle should be made available to the SPX for the plant visits.

(5) Clients/end-users

Each SPX will provide a complete range of services to small and medium sub-contractors in the respective countries and will provide information services to large domestic and foreign enterprises, to SPXs, chambers of commerce and industry, federation of industries, industrial promotion agencies, foreign trade offices, etc. operating in the subregion and worldwide.

(6) Management/Financing

The Executive Manager of each SPX reports to a Governing Board. The SPX can be financed by public or private bodies, registered members or from enterprises concerned with its development in the regional national or international economic interest. In this respect, UNIDO has proposed model statutes of a national SPX and of its Governing Board.

Notes

The following Organizations were not met directly :

- *ROSCOMINFORM was represented by MNITZ.*
- *RUSSIAN ASSOCIATION FOR DEVELOPMENT OF SME, represented by MADE.*
- *STATE COMMITTEE : I could not meet Mr. PROKOROF (in spite of Mr. SAVOSTITSKY's attempts). Mr. DOENIN (RUSSIAN INFO CENTER) has informed him of our mission and our objectives.*

We are grateful to :

*Messrs. SAVOSTITSKY (IAS)
BIKOV (MNITZ)
VASILIC (TECO)
DOENIEN (INFOCENTER-RIC)
KUSTARIN (CTI)*

with whom numerous meetings have taken place.

A four day trip in the Schuvash Republic made it possible for us to discover the regional dimension of the structure we were studying. This regional dimension is particularly important in a context where most institutions are expanding into networks.

CHAPTER 1
Support policies

SME support and advice structures in Russia

Among those structures, the difference must be made between :

- public support policies,
- professional structures,
- programmes,
- public regional networks.

I - Support policies

They are promoted by administrative structures at different levels :

1.1. Federal level

Pertinent structures are interministerial committees whose role consists in organising the implementation of an industrial policy on various issues at federal level. The points which have a direct interest for us are related to :

- the development of SME
- computerization.

***1.1.1. The organization responsible for the industrial policy is
GOSKOMPROM (RUSSIAN COMMITTEE ON INDUSTRIAL POLICY
)***

GOSKOMPROM was the key-organization of the project until now. This interministerial committee was the main motor for the policy of support of industry in Russia.

It is managed by M.BERESNEV. It was created 3 years ago. It has studied the structures of support and assistance in different countries : Germany, France, UK, USA, and it coordinates a two year programme of promotion of industrial policies.

This programme deals with several subjects like :

- The legislative and regulatory system. A law is being prepared to promote SME undertaking.
- The organization of financial means : subsidies, grants, credits. This mission has been delegated to the Finance Ministry.
- The organization and promotion of international commercial relations. This mission has been delegated to the Ministry of Foreign Affairs.
- The organization and the promotion of economic information.

Concerning this last point, GOSKOMPROM is helped by a core-monitoring network including :

ROSKOMINFORM,
ROSKOMINFORM-RESSOURCES,
The RUSSIAN CHAMBER OF COMMERCE,
and others.

Still within the field of economic information GOSKOMPROM has developed an operational structure which takes the form of a joint-stock company : INFOCENTER (for SME support). INFOCENTER can be seen as the basis for close action in support of SMEs in the fields of economic information as well as promotion and consulting. The main tasks which are now being achieved by INFOCENTER consist of the reinforcement of its competences and the creation of a network.

GOSKOMPROM itself creates or supports the implementation of INFOCENTERS in different regions of Russia, in association with the regional governments or authorities. 15 regional centers have already been created whose CTI ¹⁹ is a relevant illustration. 21 centers are now being created. The aim is to implement one center per region, that is, i. e. 89 centers.

¹⁹ Computing Technology and Informatics

The controlling centers will form a structure which will be called RIC (Russian INFOCENTER) directed by M. DOENIN. On these basis, a new plan which has been approved by the Government will be launched in the following years. Its principal purpose will be the implementation of a multiregional network which will provide SMEs with access to the information they need.

M. BERESNEV insists on the importance of SPX in this context.

A law on the support SME was voted in June 1995 and an interministerial committee of support was created : the STATE COMMITTEE FOR THE DEVELOPMENT OF SME. This committee is being established. It is directed by M. PROKOROV. The committee for the development of SMEs may probably become an important actor in the continuation of our programme.

1.1.2. The organization responsible for computerization is ROSCOMPROM. It conducts a programme of support of computerization in firms of all sizes with the support of MNITZ (General Information Center of Enterprise Support) which works within the structure of the scientific Center of Moscow.

The actions undertaken by the interministerial committees are political (moral support), technical (methodological support) and financial. Financial means are not very significant ; they come from a federal fund in support of SMEs.

1.2. Regional level

The Russian Federation includes 89 regions with varied status.

For example, in the Schuvasch Republic, the regional government :

- supports a policy in favor of the establishment of firms through fiscal exemptions (exemption of the company tax during 3 years),
- gives support (including financial support) to economic operators in charge of the development of the SMEs.

So that:

- * the semi-public organization CTI gets the subsidies which are necessary to organise group meetings of 40 businessmen every 3 months,
- * the Schuvasch governmental fund called " Small Business Support " pays for a part of the consulting services given by CTI to businessmen : business-plans, market studies and assistance in company registration. The governmental fund pays for a " ticket " aimed at encouraging firms to call on consulting organizations.
- * The Schuvasch government takes part in the structure of the consulting organization (TCI).

1.3. The local level

We have no information on the role played by the cities in SME support policies, except in the case of Moscow.

As far as the population and the level of economic development are concerned, Moscow can be compared with a region. The town has developed a support policy which is applied by an association : the Association for the Development of Small- Sized Enterprises ²⁰ (it should be noted that companies supported by towns are mainly small-sized enterprises).

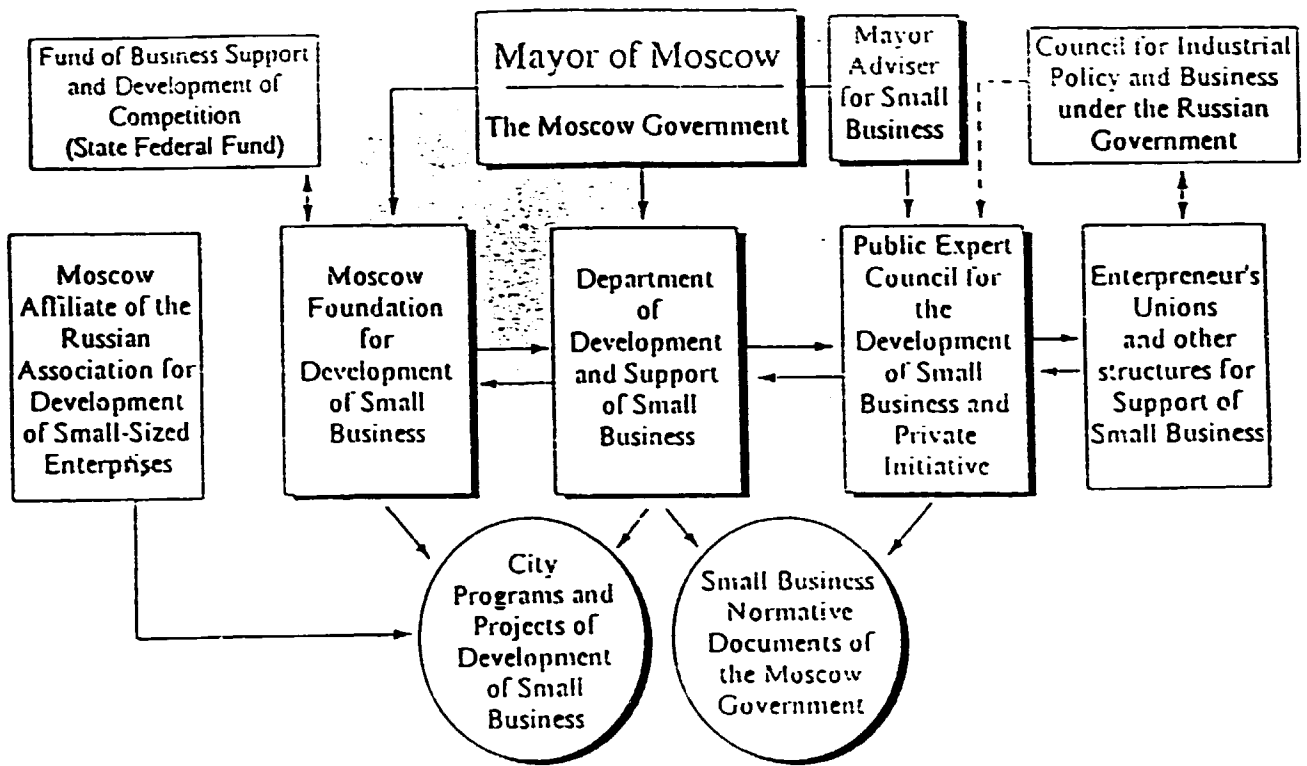
Some people commenting on this type of organization emphasize on its social aspect and the limited role it really plays. This will be described later on.

Two main factors must be noticed regarding support policies :

1. Public structures do not operate directly. Concrete measures aimed at firms are delegated to operators, most of which are private.
2. Those operators all have multiregional ambitions : joint-ventures or contracts with other regional operators.

²⁰ Supported by the Town Council of Moscow and presided by the Mayor. The President of the association is the councillor of the Mayor of Moscow (Alexander YOFFE)

Structures for Support of Small Business in Moscow



2 - Professional structures

2.1. Chamber of Commerce and Industry

- The Federal Chamber of Commerce (Russian Chamber of Commerce),
- The Regional or local Chamber of Commerce. For example : the Chamber of Commerce and Industry of Moscow.

The Chambers of Commerce have a few activities in support to enterprises but they take part in support structures.

2.2. Association

The following have been noted:

In Moscow :

The Russian Association For Development of Small - Sized Enterprises.

The Association includes the following structures :

- The Committee for legislation and normative base of small and medium-scale entrepreneurship,
- The Committee for credit-finance and investment policies,
- The Committee for development of infrastructure of small and medium-scale entrepreneurship,
- The Committee for coordination of entrepreneur unions activity,
- The Committee for innovation activity,
- The Committee for agribusiness issues,
- Council of leaders of funds in support of entrepreneurship,

The Association has extensive business contacts in the regions of Russia and abroad ,
such as:

- The Association of Women Entrepreneurs of Russia
- Russian Union of Young Entrepreneurs.

The Moscow Foundation for the Development of Small Business.

The All Russian Union " The Round Table of Russian Business ".

The All Russian Movement " Business for new Russian ".

The Confederation of Businessmen Unions of Russia (2.000 members).

The League of Cooperators and Businessmen in Russia.

3 - Support and advice operators

Consulting societies and semi-public or public structures are now proliferating. Two categories have a particular interest because of their organic and financial relationships with public or associative structures of promotion:

3.1. Operators in relation with public structures

Consulting operators who have been introduced to us by public organizations have a link with these organizations which take different forms :

- . participation in equity capital,
- . grants,
- . missions.

Otherwise, in view of the context of our mission and the nature of counterpart organizations, the emphasis was put on those operators whose main role was to manage economic information for companies.

The examples which have been analysed are the following :

INFOCENTER (joint -stock company)

While OLVIT and TECO are supported by the Government to carry out missions of private interest (firms consulting), INFOCENTER's mission is of public interest; it is the achievement of a governmental programme of information destined to firms (State programme).

It is appointed by GOSKOMPROM. This programme aims at implementing a federal structure to produce and broadcast economic, commercial and legal data-banks.

INFOCENTER will aim at the creation of a regional network of INFOCENTERS which will bear the name of RIC (RUSSIAN INFORMATION CENTER).

INFOCENTER'S director, Mr . DOENIN, will be RIC's director.

INFOCENTER'S activities

Informational services

Providing information from state and private data banks, reference prints, providing access to global networks, collecting field information.

Analytic services

Carrying out marketing surveys, defining the tendencies of Russian regions development, selecting investment projects, selecting a potential investor.

Operational Services

Accounting services for enterprises, clearing-off with banks, auditing, providing consultations of legal advisers and notaries, preparing advertisement, providing printing services, etc ...

Training

Entrepreneurial training for managers and experts relating to the conditions of market economy.

We are looking forward to your proposals concerning exchange of information and other services you would propose for the information centers network.

TECO

TECO is a private organization which benefits from the logistic support of the Committee of the Russian Federation of Informatization Policy (ROSKOMINFORM). It is located in MNITZ 's offices which are in the building of the Institute of Research and Development in Computer Science which itself depends on ROSKOMINFORM.

TECO is linked with the Confederation of Businessmen of Russia which holds 10 % of its capital.

Finally, TECO gets public funds from public or associative organizations such as the Center of International Enterprise, which is a member of the federal Chamber of Commerce, and is issued by the Confederation of Businessmen.

OLVIT

OLVIT is a private company which is specialized in management and supply of marketed information. Its customers are private companies which may be foreign or public organizations. OLVIT subscribes to a databank and broadcasts information ; it also has its own data.

CTI (joint stock company)

CTI is an illustration of the regional structures. Its mission is to advise promoters and firms. It also develops various service activities like supplying equipment to firms and also private customers.

Those four examples of structures have a common characteristic which is that they are promoted by public organizations. This promotion materializes in organic relationships or in contractual missions in an associative partnership striving towards a common objective. CTI belongs to a five partner group including :

- INFOCENTER, representing GOSKOMPROM,
- MNITZ representing ROSCOMINFORM,
- The Schuvasch Republic Government,
- CTI,
- RELCOM in charge of the development of telecommunications.

These four organizations have private activities as well as missions delegated by three public institutions :

- GOSKOMPROM,
- ROSCOMINFORM,
- specific partners such as regional governments.

3.2. Operators in relation with associative or professional structures

Some consultants are close to associative or professional structures and take part, directly or indirectly, in missions of general interest. Others are closer to the market economy and develop business services.

The difference is illustrated by two organizations related to the Russian Association for Development of Small Sized Enterprises :

MADE (Moscow Agency for Development of Entrepreneurship)

It is a non -profit company which contains a management consulting department and a department of economic information.

MLC (Moscow Leasing Cy)

This organization aims at developing leasing.

Russian Small Business Support Agency

Provides advice and training to managers.

4 - Programmes

The actions developed by these different organizations take place in the context of programmes of support policy whose main structures have already been mentioned:

4.1. GOKOMPROM : Russian National Industry Policy Committee.

One of the programmes it developed was RIC (Russian Information Center) - cf. INFOCENTER. This programme is also known as the " Programme for International Support of Small and Medium Business ".

4.2. ROSCOMINFORM : Committee of the Russian Federation for Informati- zation Policy.

It is working on a programme aiming at promoting resort to computerization and consulting through partners like TECO or CTI.

Those two organizations took part in the proposal which was made to UNIDO under the title of " Establishment of a Pilot Industrial Subcontracting and Partnership Exchange in Moscow ".

In addition, numerous operators like TECO, MADE or CTI act in the scope of the TACIS programme.

5 - Regional networks

Most of the organizations mentioned in this report plan to create multi-regional networks with the help of various partners and by establishing more or less contractual relationships with them.

Some examples can be developed :

TECO : It has a project of a network of consultants directed towards small and medium-sized industry companies. Twelve centers have already been created or at least accredited. A project has been proposed which may be promoted by MRDC (Moscow Research and Development Center or MNITZ) and the Federation of Businessmen of Russia, in collaboration with CIPE (Center for International Private Enterprises) and the American Chamber of Commerce.

INFOCENTER : It plans to organise 89 regional centers (among which 36 already exist) with the help of ROSCOMINFORM and in partnership with regional structures like the Chamber of Commerce and Industry.

CTI serves as a methodological model for the implementation of regional centers which get financial support from ROSCOMINFORM if they follow the recommended method. The Russian Association for the Development of SME has a network of 50 members with whom MADE and MLC can develop actions.

CHAPTER 2
Actions

1 - Demand for services from SME

1.1. SME's: General aspects

Several SMEs as well as a bank have been visited. The following common characteristics have been noticed :

- These firms were either created between 1985 and 1990 as cooperatives and privatized later on or they were created directly as private companies.
- Sometimes capital includes public funds (joint-stock companies); the staff may also hold a part of the capital.
- Buildings and equipment are self-financed.
- Firms faced problems during the period between 1991 and 1993.
- Working capital needs are generally low and banks play a limited role in firms' management.
- Conception, manufacturing and selling are integrated for one same product.
- There is little competition. Firms have a quasi-monopoly in limited areas (regions).
- The most dynamic of them extend their working area
 - to the whole Russia, CIS and East Europe where they export,
 - and to Western Europe where they buy components
- Trade activities are conducted at the same time as manufacturing. Firms tend to overdiversify in order to supply products in accordance with a varied demand.
- Firms look for technology transfers from western companies :
 - components,
 - more modern equipments,
 - know-how.
- Demand for economic information is low, because the geographic area of activity is generally limited and business relationships are easy.

1.2. Demand for services and information

Generally speaking, SMEs are rather autonomous and they rarely resort to services. Externalized maintenance units, temporary employees and transport facilities are developed and unknown in the regions. But in Moscow services begin to develop and this tendency should continue towards the regions.

Furthermore, modern services such as data-processing require organization schemes including services associated with the supply of equipment, training programmes, conception and manufacturing, computer maintenance, and use of collective equipment. As far as information is concerned, the demand for each type of information is different, whether it is:

- legal or legislative,
- statistical or commercial,
- technical or norm-related,
- or to related projects or business-partners.

• Legal and legislative information

Business law evolves quickly and firms seek constant information, particularly with regards to tax law.

• Statistical and commercial information

Firms have little interest in statistical information. They are more interested in opportunities for business relations.

• Technical and norm-related information

Only large firms need scientific and technological information. There are no restricting norm-systems in the fields of activities carried out by SMEs.

• Projects and partnerships

Firms look for business partners and in particular they seek :

- * technological and know-how partnerships,
- * industrial and trade exchanges, even international subcontracting,
- * capital - sharing, joint-ventures.

2 - Services supply

The analysis focuses on :

- SME consulting,
- supply of information to firms, in particular to SMEs, as it has been described in the analysis of demand for services from SMEs.

2.1. Consulting to SME

Despite the low level of demand, many private organizations have been created to form a consulting market which is expected to develop. The four consulting firms which have been studied have indicated that they had a lack of profitability which would be solved only by a diversification of their activities. SME consulting itself is not profitable if no other commercial activities like equipment supply, repairing and maintenance are carried out at the same time.

Thus, CTI's activities range from businessmen consulting to the supply of domestic appliances to private individuals. The common point between these activities is that they all use computers, electronics, etc.

MADE has developed commercial services through partnerships (for example with MLC as for leasing).

Initially consulting consists of new training businessmen and helping them to implement their management tools. Clearly, firms which resort to this type of services are the least solvent. This activity is considered by TECO as an investment with profitability objective to be reached within 3 or 4 years. as an advertising product by CTI, and also is said to be a "challenging task" by MADE.

Consulting is not only a means of attracting customers into trade activities but it is also a way of reaching consensus with the government in SME policies which is carried out by different state committees (State programme of support for SMEs, State Committee on Development and Support of SMEs, State Committee for the Support of entrepreneurship) and which is taken over by professional institutions (Confederation for the Businessmen in Russia, Moscow Foundation for Supporting Business, Russian Small Business Support Agency).

Overall, developing SME consulting activities allows the relevant institutions to belong to the core monitoring team and to gain recognition field. Private organisations support to government policy is rewarded by public tenders and partnerships with regional organizations which give financial support.

One particular area of consulting is computerization of the firms' functions and of the services they resort to. The same characteristics apply to consulting itself: it is integrated with equipment supply and installation in the case of CTI. The supply of computerized information makes consulting services more attractive and marketable when information requires the use of a computer. Commercial and partnership-related information can be included in computerized information.

Two main services are provided:

- Address lists and information on firms. The organizations playing the role of information center (INFOCENTER, CTI, OLVIT) which have been visited supply this type of service. They supply lists of firms with information on their products, the number of persons they employ and their turnover, but quantitative data is generally outdated old and useless. Another illustration of this service is electronic mail using address lists. This has been noticed only at OLVIT's.

- Project dissemination

It is TECO's main activity. Projects' descriptions are disseminated in order to find financial partners, either in Russia or abroad. So TECO gets projects' descriptions or business plans and broadcasts them with additional information. This type of service, as well as broadcasting address lists requires a broadcasting network. This point will be developed further on.

Project broadcasting and more generally intermediation in partnerships relations, are some of MADE's most significant activities. MADE employs five persons in its " partnership " department and has taken part in Europartnership activities supported by the European Community (DG XXIII). Also, INFOCENTER has developed relations with Spain, Bulgaria, India, Canada, Hungary. However, it is rather difficult to identify appropriated correspondents in each country.

3 - *Strategies and projects*

- product strategies,
- networks.

3.1. *Product strategies*

We have already described the phenomenon of diversification which is sometimes necessary and which sometimes looks like overdiversification.

MADE

•Consulting

- ◇ Business planning
- ◇ Marketing strategy
- ◇ Promotion activities
- ◇ Negotiation assistance
- ◇ Financial management
- ◇ Financial analysis
- ◇ Registration procedures
- ◇ Investment projects
- ◇ Joint-ventures
- ◇ Forms of financing
- ◇ Export/import procedures

•Training

- ◇ A unique open-learning starters kit
- ◇ Courses brokerage
- ◇ Specialized courses

•Information

- ◇ Export-import information (data bases)
- ◇ Local and european legislation
- ◇ Custom Clearance
- ◇ Forms of co-operation

•Organisation

- ◇ Organisation of business trips
- ◇ Organisation of seminars and symposia

3.2. Networks

A lot of regional networks are being built for different reasons, some of which have already been noted :

- quantitative efficiency : geographically extended data banks give more opportunities for contact.
 - qualitative efficiency : the quality of information is reinforced by the proximity of regional centers which can have direct contact with firms,
 - political efficiency and economic consequences.
- TECO has proposed to implement a network of consultants.

CHAPTER 3
Elements of a subcontracting system.

1 - Justification (recall of document of February 1995 then September 1995)

PART A. CONTENT

Industrial subcontracting is recognized as an efficient tool to increase the rate of utilization of installed industrial capacities, and to increase the industrial production and employment in the small and medium industries (SMIs) sector, to produce better quality products at a reduced cost, to contribute to an overall reallocation of industrial resources and thus to the national industrial growth and integration. In view of the importance and complexity of industrial subcontracting, UNIDO has devoted special attention to this particular type of partnership agreement between small and large industries, by launching special programmes for the promotion of industrial subcontracting and Partnership through specific mechanisms such as Subcontracting and Partnership Exchanges (SPX).

A Subcontracting Exchange is a technical information and promotion mechanism for industrial subcontracting and supplies between main-contractors and subcontractors aiming at the optimal utilization (the most complete, the most rational and productive) of the manufacturing capacities of the affiliated industries. In effect, the Exchange appears not only as the meeting point and the instrument of regulation between the supply and the demand of industrial subcontracting and supply orders, but also as an instrument of assistance to both partners, and particularly the small and medium subcontracting enterprises.

The industrial sectors where subcontracting and specialized outsourcing applies are, by ranking order of importance: (1) the metal-working industries; (2) the mechanical, electrical and electronic engineering industries (it is well known that the whole manufacturing process in the automobile, the electronics and aeronautics industries relies on subcontracting); as well as the (3) plastic and rubber industries (4) the textile and leather industries; and to a lesser extent (5) the wood-working, ceramics, glass and chemical industries. Furthermore, subcontracting in (6) industrial services is becoming increasingly important (repair and maintenance, testing and quality control, financial accounting, computer services, R + D, marketing, packaging, transportation, etc.). Therefore, newly set-up SPXs should start operating in the (1) metal-working and (2) engineering industries and progressively to the other industrial sectors (from (3) to (6)) as the SPX strengthens its overall capacity to fulfill its functions and enlarge its participating industries.

PART B. PROJECT JUSTIFICATION

1 THE PRESENT SITUATION

At present, the Russian Federation is in a complex and difficult process of transformation of the national economy from its formerly centralized system towards a market economy similar to the one prevailing in highly industrialized countries. In particular, problems in the transformation process result from the existing industrial structure including the lack of properly developed subcontracting links among enterprises and the still dominant form of state ownership. It is worth recalling that under the centrally planned system, subcontracting cooperation was imposed by the state administration via obligatory type of industrial relationship. It was composed of State Planning Commission, branch ministries, unions or associations and industrial combines and enterprises. Those associations had usually a monopolistic character so that the cooperating firms did not have any possibility to choose a suitable cooperative arrangement and had to bear all consequences of these predetermined linkages. The industrial structure was characterized by the domination of large state-owned enterprises, lack of small- and medium-scale enterprises and the absence of a competitive industrial subcontracting market.

Since the sudden end of the "cold war" era, drastic changes are taking place in building a peace-based market economy in the Russian Federation, including an abrupt reduction of the military orders given to the industry of Russia in 1992 (down to 20-30% of the volume of 1991). This decision by the Russian Government generated a series of disintegration processes and of tragic drawbacks, such as the disruption of the economic links between enterprises, loss of the most skillful work force, uncontrolled drain of technologies, know-how and intellectual potential.

2. *First elements*

There are few experiences of systems of information exchange in Russia. There is a system called " MOBILE ". It is a list of announcements listed by products and giving the name and address of the buying and selling firms, which is broadcasted twice a week. It is specialized in products like video, computers and automobiles. Others are concerned with the property business.

Those organizations are called " company integrated ". Their functioning is limited by information becoming quickly outdated. It can take 15 days to broadcast a piece of information to a distant region and for example the product for sale may have already been sold within this period. Also, the functioning of these organizations costs a lot (200 USD for 16 broadcasts). Furthermore, it can be applied only on standard products which can be described easily.

Two years ago OLVIT tried to computerize this service into an " electronic shop " in which buyers and sellers could exchanges. The system which includes electronic mail makes it possible to exchange sophisticated information, such as drawings or maps.

However, several obstacles have limited the development of this project :

- as far as standard industrial products are concerned, exchanges are carried out by wholesalers. There is no need to reach the manufacturing firm.

- OLVIT thinks that the project must involve a minimum number of companies (at least one hundred users) and include a minimum of operations in order to gain credibility.

Presently, the project is limited to a data-bank which contains the following pieces of information on the product :

- name and identity of manufacturers,
- details on the products,
- prices (sometimes).

The user can then get more information by electronic mail or by phone.

OLVIT is ready to study the project again and play a technical role by concentrating on the management of computers, software and organization rules. Technical means are almost fully available and will soon allow 10.000 users of IASNET system to develop interactive exchanges.

OLVIT collects, processes, checks and validates information. In a few weeks or months OLVIT will be able to control the electronic data exchange network. This network will make it possible for users to reach and exchange information.

During a second phase OLVIT aims to create regional centers destined to collect and broadcast information and messages, since users (in particular in small and medium-sized enterprises) will need human intermediaries to analyse information before broadcasting it.

3 - Feasability of a subcontracting and partnership project

It has been mentioned that firms have little interest in a subcontracting system because of the present organization of industrial production. Yet the system of industrial manufacturing is changing and new structures must be implemented in line with this development. The role of a subcontracting system could be to support this evolution. It could follow two main objectives :

- to be a means of exchange and regulation of supply and demand for industrial exchanges, be it products or services.
- to help and support business partners, particularly SMEs.

These two functions also include the promotion of projects which could result from exchanges between companies.

4 - Some comments from the persons involved

On the project :

1. No new set up can be built on the basis of the existing industrial firms. Most of them are expected to go bankrupt or to be split into several small and medium sized companies through privatization.

2. This negative analysis of industry must nonetheless be tempered because some companies, most of which work in the sectors of defence and aeronautics, have technically competitive products and technologies. However, these firms have no profitability criteria.

3. The capabilities of subcontractors (SMEs) is still to be built upon. In fact, the interest of a subcontracting system is to lead to the creation of SMEs and not the opposite.

On this basis, projects could be developed in order to make up for the weaknesses of the current production system; imports could be substituted and products could be exported thanks to :

a - the use of large companies' technology bases,

b - the promotion of SMEs as subcontractors.

The aim is thus to create an industrial system organised around production based upon subcontracting relationships.

Such a policy, however, can only be implemented only on two conditions :

- there must be a final market for the products,

- financial means for investment are required.

5 - Financing

TACIS programme can finance private structures like TECO and MADE.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

JOB DESCRIPTION

XX/RER/95/XXX/11-52

- Post title:** Consultant on industrial subcontracting
- Duration:** 1.5 m/m (in 2 split missions)
- Date required:** As soon as possible
- Duty station:** Moscow, with possible travel within the country
- Purpose of project:** To establish Business Information Centers for SMEs in Russia and other selected CIS countries and facilitate a worldwide access to industrial information databases by connecting the IASNET Russian Network to the European Wide Area Network.
- Duties:** In close cooperation with the consultant in Design and Establishment of Information Services for SMEs, and the National Coordinator, the consultant will formulate and present a proposal for the establishment of a Pilot Industrial Subcontracting and Partnership Exchange (SPX) in Moscow, including its legal, institutional, financial and operational basis within the Industrial and Business Information Center. He/she will undertake 2 missions.
- 1st mission:
1. Assess the existing system and practices of industrial subcontracting and supply relations between enterprises.
 2. Consult with all relevant public and private institutions and associations in order to create an awareness on the benefits of establishing a SPX and to involve them in the Management Board or Advisory Committee of the pilot SPX.

Applications and communications regarding this Job Description should be sent to:

Project Personnel Recruitment Branch, Department of Industrial Operations,
UNIDO, Vienna International Centre, P.O.Box 300, A-1400, Vienna, Austria.

3. Formulate a proposal for the establishment of a pilot SPX in Moscow, including its institutional, legal, financial and operational basis.
4. Prepare the terms of reference of the pilot SPX, its staff and of the SPX Management Board.

2nd mission:

1. Organize a preparatory meeting of the members of the SPX Management Board and present a proposal for the establishment of the pilot SPX, for their consideration and approval.
2. Interview and evaluate candidates for the SPX management/staff.
3. Conduct an awareness conference on the benefits of industrial subcontracting as a means of economic development and integration and on the advantages of joining the SPX.
4. Draft a final report, including the recommendations for the establishment of the pilot SPX and its Management Board.

Qualifications:

University degree in industrial engineering, economics, MBA or equivalent with extensive experience in organizing and setting up of industrial subcontracting services and fully familiar with the UNIDO developed approach/methodology.

Language:

English

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Language:

English

1 GOSKOMPROM (Russian Committee of Industrial Policy)	Vyacheslav A.BERESNEV	Deputy Chairman
2 ROSCOMINFORM * (Russian Committee for Informatization)	Alexander V.VOLOKITIN	Deputy Chairman
3 INSTITUTE FOR AUTOMATED SYSTEMS (IAS)	Dr Yuri A.SAVOSTITSKY	Deputy Director
4 INSTITUTE FOR AUTOMATED SYSTEMS (IAS)	Vladimir B.POZDNIAKOV	Head of laboratory
5 INSTITUTE FOR AUTOMATED SYSTEMS (IAS)	Dr Yelena S.MASHEROVA	Assistant General Director
6 INSTITUTE FOR AUTOMATED SYSTEMS (IAS)	Dr Oleg SMIRNOV	Director
7 OLVIT	Victor L.BODIANSKY	President
8 OLVIT	Sergey V.SVIRIDA	Vice-President
9 TECO	Dr Anatoly VITKOVSKY	Director of General Information Center of Enterprise - Support
10 TECO	Dr Boris VASILIC	General Director
11 INFOCENTER or RUSSIAN INFOCENTER	Vixtor DOENICN	Executive Director
12 MADE (Moscow Agency for Entrepreneur ship)	Elena EMELIANOVA	Director
13. MOSCOW FOUNDATION FOR DEVELOPMENT OF SMALL BUSINESS	Vladimir S.SHTERN	General Manager
14. MOSCOU LEASING COMPANY	Dr Yuri GLADIKOV	Vice-President
15. E C DELEGATION	Dr Michael KUSKE	General Director
16. E C DELEGATION	Luigi NARBONE	Advisor (TACIS)
17. RUSSIAN SMALL BUSINESS SUPPORT AGENCY	Victor P.ERMAKOV	Advisor (SME)
18. INSTITUTE FOR PROBLEMS OF COMPUTING TECHNOLOGY AND INFORMATICS	Alexandrovich MICHEËV	President
19. CHUVASH REPUBLIC - PRESIDENT ADMINISTRATION	Alexander RAZUMOV	President
20. CHAMBER OF COMMERCE OF CZEBOSKARY	IGOR KUSTARIN	Chief
21. COMPUTING TECHNOLOGY AND INFORMATIC (CTI)	IGOR KUSTARIN	Vice-President
22. AVTOVA-Z BANK	LEV.E.SMIRNOV	Director
23 MARIA (enterprise)	NICOLAÏ MICHAILOVITCH	General Manager
24 KEREK (enterprise)	(OWNER)	Manager
25 UNIDO	Dr Robert GUMEN	Manager
26 UNIDO	Thierry DAVID	Director
		Expert

27. RUSSIAN SMALL BUSINESS SUPPORT AGENCY	Volodia VASILJENI	Expert-Consultant
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29. RUSSIAN ASSOCIATION FOR DEVELOPMENT OF SMALL - SIZED ENTERPRISES	Michaël LEBEDEV	Coordinator
30. STATE COMMITTEE FOR THE DEVELOPMENT OF SME ENTREPRENEURSHIP	M.PROKOROF	Deputy
31. STATE COMMITTEE FOR COMPUTER SYSTEMS AND INFORMATICS.	LEV N.ILJIN	Director
32. MOSCOW SCIENTIFIC AND RESEARCH CENTER (MNITZ)	Vjacheslav BIKOV	Deputy
33. AMBASSADE DE FRANCE - Services Economiques	Mme AFANAZIEF	
34. UNIDO, Vienna, CSPA - Europe	G. S.DONOCIK	Country Programme UNIDO
35. UNIDO, Vienna, CSPA - INFORMATISATION	Y. PAVLIK	UNIDO
36. CENTRAL RESEARCH INSTITUTE OF ECONOMICS, INFORMA- TICS AND CONTROL SISTEMS	Alexander UMNOV	Deputy Director - Professor
37. GOSKOMPROM	Pr.SCHVETSOV	

up-dated: August 1995

**UNITED NATIONS DEVELOPMENT
PROGRAMME**

Country/Region: The Russian Federation

Number:

Title: Establishment of a Pilot Industrial Subcontracting and Partnership Exchange in Moscow

Duration: 24 months

Estimated starting date: September 1995

Executing Agency: UNIDO (Institutional Infrastructure Branch, Department of Industrial Operations) (Programme Element: J12104)

National Counterpart Agency:

1. The Russian Committee on Industrial Policy
2. The Russian Committee on Information (ROSCOMINFORM)

UNDP Contribution: US\$ 370,000

National Contribution: Rbl. 3,718,000

UNIDO backstopping Branch: HEPD/SME

Programme Element: 06-4000

Origin and Date of Official Request: Request of the Deputy Minister of Industry addressed to UNIDO's Director-General on 3/9/1992 and official request from Mr. Benesnev ((Russian Committee on Industrial Policy) dated 27 December 1994.

Brief description:

The project will assist in the establishment of a Pilot Industrial Subcontracting and Partnership Exchange (SPX) in Moscow to provide information and advisory services to small and medium industries in Moscow and to promote subcontracting and partnership agreements between Russian subcontractors and national or foreign main contractors.

PART A. CONTEXT

Industrial subcontracting is recognized as an efficient tool to increase the rate of utilization of installed industrial capacities, and to increase the industrial production and employment in the small and medium industries (SMIs) sector, to produce better quality products at a reduced cost, to contribute to an overall reallocation of industrial resources and thus to the national industrial growth and integration. In view of the importance and complexity of industrial subcontracting, UNIDO has devoted special attention to this particular type of partnership agreement between small and large industries, by launching special programmes for the promotion of industrial subcontracting and partnership through specific mechanisms such as Subcontracting and Partnership Exchanges (SPX).

A Subcontracting and Partnership Exchange is a technical information and promotion mechanism for industrial subcontracting and supplies between main-contractors and subcontractors aiming at the optimal utilization (the most complete, the most rational and productive) of the manufacturing capacities of the affiliated industries. In effect, the Exchange appears not only as the meeting point and the instrument of regulation between the supply and the demand of industrial subcontracting and supply orders, but also as an instrument of assistance to both partners, and particularly the small and medium subcontracting enterprises.

The industrial sectors where subcontracting and specialized outsourcing applies are, by ranking order of importance: (1) the metal-working industries; (2) the mechanical, electrical and electronic engineering industries (it is well known that the whole manufacturing process in the automobile, the electronics and aeronautics industries relies on subcontracting); as well as the (3) plastic and rubber industries (4) the textile and leather industries; and to a lesser extent (5) the wood-working, ceramics, glass and chemical industries. Furthermore, subcontracting in (6) industrial services is becoming increasingly important (repair and maintenance, testing and quality control, financial accounting, computer services, R + D, marketing, packaging, transportation, etc.). Therefore, newly set-up SPXs should start operating in the (1) metal-working and (2) engineering industries and progressively to the other industrial sectors (from (3) to (6)) as the SPX strengthens its overall capacity to fulfill its functions and enlarge its participating industries.

UNIDO has already provided assistance in establishing more than 40 Subcontracting and Partnership Exchanges in some 22 countries. At the regional level, a regional network was established among five Arab countries, namely, Algeria, Egypt, Jordan, Morocco and Tunisia within the framework of the Regional Arab Programme for the Development of Subcontracting. Another regional network was established between 14 Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Guatemala, Mexico, Paraguay, Peru, Uruguay and Venezuela within the framework of the Regional Project for the Development of Subcontracting in Latin America. Similarly, other regional networks are being envisaged in South-East Asia, with the participation of 8 Asian countries, namely, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, Vietnam and possibly China and in Central/Eastern European countries, namely, Bulgaria, Czech Republic, Poland, Romania, Russian Federation, Slovakia, Slovenia and Turkey.

In Eastern Europe, UNIDO has established a national project for the establishment of a Pilot Industrial Subcontracting and Partnership Exchange in Gdansk, Poland and in Bratislava, Slovakia.

PART B. PROJECT JUSTIFICATION

1. THE PRESENT SITUATION

At present, the Russian Federation is in a complex and difficult process of transformation of the national economy from its formerly centralized system towards a market economy similar to the one prevailing in highly industrialized countries. In particular, problems in the transformation process result from the existing industrial structure including the lack of properly developed subcontracting links among enterprises and the still dominant form of state ownership. It is worth recalling that under the centrally planned system, subcontracting cooperation was imposed by the state administration via obligatory type of industrial relationship. It was composed of State Planning Commission, branch ministries, unions or associations and industrial combines and enterprises. Those associations had usually a monopolistic character so that the cooperating firms did not have any possibility to choose a suitable cooperative arrangement and had to bear all consequences of these predetermined linkages. The industrial structure was characterized by the domination of large state-owned enterprises, lack of small- and medium-scale enterprises and the absence of a competitive industrial subcontracting market.

Since the sudden end of the "cold war" era, drastic changes are taking place in building a peace-based market economy in the Russian Federation, including an abrupt reduction of the military orders given to the industry of Russia in 1992 (down to 20-30% of the volume of 1991). This decision by the Russian Government generated a series of disintegration processes and of tragic drawbacks, such as the disruption of the economic links between enterprises, loss of the most skillful work force, uncontrolled drain of technologies, know-how and intellectual potential.

2. PROJECT STRATEGY

In the industrialized economies, the industrial cooperation links between enterprises are created spontaneously as a result of free market behaviour. Both the companies issuing orders (the main contractors) and the suppliers (the subcontractors) try to optimize the conditions of their industrial cooperation. Interaction between both contributes to the development of a modern, dynamic industrial structure where the manufacturers of final products may safely subcontract their production, thanks to the existence of a great number of competent firms offering supplies of goods and services, specialized in such spare parts, sub-assemblies pieces of equipment and technological processes adapted to the needs of the final assembly of machines and end products.

In free market economies there is a relatively small number of large enterprises, involved mostly in the production of final goods, while 60-80 per cent of productive and service activities is carried out in small- and medium-sized private enterprises under subcontracting arrangements. Those small- and medium-sized enterprises form a huge competitive market of industrial components. At present, in the Russian Federation there is virtually no industrial components market. Unless it is established, the transition to a modern, developed economy is unlikely.

With the intention of accelerating the transition process, Moscow's industries and R&D institutions are developing a programme for the conversion of the local industrial system from activities oriented onto development and production of military items to market-oriented and commercially viable activities including development of subcontracting cooperation.

To develop such a programme in the most efficient way it is proposed to implement, with the assistance of UNIDO, the following project strategy:

- (1) A detailed assessment of the local industrial system and existing subcontracting practices and relationships and a proposal for assisting the pilot SPX in Moscow (Output 1)
- (2) Establishment of a "Management Board for Subcontracting", composed of representatives from public and private sector institutions actively involved in the promotion of the conversion programme in the Moscow region, to coordinate and monitor the implementation of project activities (Output 2).
- (3) Carrying out of a survey on the subcontracting capacity and capability of the local industry in specific sub-sectors. The aim of this inventory survey is to identify a list of industrial enterprises to be covered by a pilot subcontracting exchange (Output 3).
- (4) Establishment and operation of a pilot Subcontracting and Partnership Exchange in Moscow (Output 4, 5 and 6).
- (5) Training of at least 100 members of the SPX on technical matters closely related to subcontracting, such as management, quality control, standardization and certification, product adaptation and marketing (Output 7).
- (6) Promotion of cooperation activities with other SPXs and main contractors in countries where the Russian Federation has established or intends to promote industrial subcontracting and partnership agreements (Output 8).
- (7) Improvement of policy or regulatory environment (tax incentives, multilateral customs regulations and guidelines for subcontracting agreements) to be studied and promoted (Output 9).

3. EXPECTED END-OF-PROJECT SITUATION

The above description of the proposed strategy also describes the expected end-of-project situation. This situation should be characterized by the existence of a fully operational and autonomous SPX established according to the terms of reference for a SPX attached as Annex III. The autonomy implies an appropriate budget allocation (from Government and/or public institutions and/or

private associations) on a yearly basis, to allow the SPX to operate efficiently and independently.

4. TARGET BENEFICIARIES

The small- and medium-scale industries acting as subcontractors and the large enterprises acting as main contractors, as well as Industrial Associations and Institutions involved.

5. REASONS FOR ASSISTANCE FROM UNIDO

The reasons for UNIDO assistance through this project result from long experience acquired by UNIDO in providing this type of assistance in other regions and countries. This assistance will include:

- (a) adaptation and application of the standard instruments and methods designed and developed successfully by UNIDO in other regions of the world such as standard statutes for the establishment of a SPX, a SPX operational manual, legal guidelines for subcontracting agreements and model contracts, industrial legislation including tax and custom regulations, industrial nomenclatures and terminologies, standard questionnaires, computer software for data management (UNIDOSS), and various other guides and manuals published by UNIDO, etc.
- (b) enabling the pilot SPX and the participating enterprises to network among themselves and with European countries and other geographical regions. The network would aim of promoting international subcontracting arrangements, through standard institutional set-ups (SPXs), standard methods and instruments, facilitating an increased flow of communication.

6. SPECIAL CONSIDERATION

The project represents an instrument to set up modern business structures in the Russian Federation and facilitates conditions under which the research-intensive enterprises, formerly specialized in military operations, should adapt their production to an internationally competitive range of subcontracting products and processes.

The project will also contribute to the promotion of technical cooperation activities with other European countries and to the development and innovation of local small-scale industries.

7. COORDINATION ARRANGEMENTS

The Management Board for Subcontracting, composed of representatives from public and private sector institutions actively involved in the promotion of industrial conversion through subcontracting in the Moscow region and initially including also representatives of UNIDO, will meet twice a year to monitor the smooth progress of this project and the integration and coordination of other

relevant programmes developed at national level.

8. INSTITUTIONAL FRAMEWORK

The Ministry of Industry of the Russian Federation is assuming the responsibility of being the national executing agency for this project.

Taking into consideration the preparatory efforts already accomplished and urgent necessity of the restructuring process, Moscow's Authorities officially requested UNIDO to take necessary steps to provide suitable financial and technical assistance for setting-up a pilot Subcontracting and Partnership Exchange in Moscow.

PART D. IMMEDIATE OBJECTIVE, OUTPUTS AND ACTIVITIES

1. Immediate objective

The establishment of a pilot industrial Subcontracting and Partnership Exchange (SPX) in Moscow to provide information and advisory services to industries, including small- and medium-scale ones, in the Moscow region and to promote partnership agreements between local subcontractors and main contractors at national and international levels (including partnership-type of cooperation with developing countries).

1.1. Output 1

A detailed assessment of the local industrial system and existing subcontracting practices and relationships and a proposal for the setting-up of a pilot SPX in Moscow including its legal framework, financial arrangements, administration and operations.

Activities for Output 1

To be completed by

- | | | |
|--------|---|---|
| 1.1.1. | Assessment of the local industrial system and existing subcontracting practices and relationships. | Chief Technical Adviser |
| 1.1.2. | Preparation of the proposal for the setting up of the SPX, including its statutes | Chief Technical Advisor |
| 1.1.3. | Presentation of the proposal to a meeting with members of the Management Board for their consideration and approval | Chief Technical Advisor and Board members |
| 1.1.4. | Organization of an awareness seminar on strategies and methods to develop and reinforce subcontracting practices and relationships. | UNIDO Officials, Chief Technical Adviser (CTA) and national staff |

1.2 Output 2

A Management Board for Subcontracting established. The Board is composed by representatives from public and private sector institutions actively involved in the promotion of subcontracting in the Moscow region and initially includes the Chief Technical Advisor (CTA) and the responsible UNIDO official.

Activities for Output 2

To be completed by

- | | | |
|--------|--|--|
| 1.2.1. | Preparatory consultations with the identified national counterpart institutions to launch the programme and set up the Management Board. | Chief Technical Advisor and responsible UNIDO official |
| 1.2.2. | Preparatory meeting to organize and set up the Management Board (composition, terms of reference, etc.) | CTA and national staff |
| 1.2.3. | Four meetings of the Management Board to review the smooth progress of the project activities | Board members |

1.3. Output 3

A survey is performed on the subcontracting capacity and capability of the local industry in the following industrial sectors: metal-working industries; mechanical, electrical and electronic engineering industries; plastic and rubber industries. The aim of this survey is to identify a list of industrial enterprises to be covered by the pilot SPX.

Activities for Output 3

To be completed by

- | | | |
|--------|---|--|
| 1.3.1. | Carrying out the industrial survey by undertaking 250 plant visits and interviews with plant managers. | Chief Technical Advisor (CTA) and national staff |
| 1.3.2. | Selection and assessment of 100 industrial enterprises, capable of working as subcontractors for local and foreign main contractors, to be covered by the SPX | same as above |

1.4 Output 4

Methodology and instruments prepared for running the SPX, designed by UNIDO and fully adapted and applied (including subcontracting nomenclatures, standard forms for registration and evaluation of enterprises, operational manuals, managerial surveys, promotional tools).

Activities for Output 4

To be completed by

- | | | |
|--------|---|------------------------|
| 1.4.1. | Adaptation of the UNIDO designed manuals, guides, forms, questionnaires brochures | CTA and national staff |
|--------|---|------------------------|

1.4.2. Translation into Russian language and dissemination of the manuals and related documents National staff

1.5. Output 5

A fully operational pilot SPX established in Moscow (see Annex III for a detailed description of this output).

Activities for Output 5

To be completed by

- | | | |
|--------|--|------------------------|
| 1.5.1. | Setting up of a roster of selected 100 subcontracting enterprises and a system for the collection and processing of technical information concerning local industries which are capable of working as subcontractors for local and foreign main contractors. | CTA and national staff |
| 1.5.2. | Assistance in the analysis and circulation of information relating to the supply of and/or demand for subcontractors' products (match-making operations) | CTA |
| 1.5.3. | Assistance in managing and operating the SPX including its promotional and advisory services | CTA |
| 1.5.4. | Assistance in preparation and dissemination of promotional material on SPX and in running (4) information seminars on the services provided by the SPX and the benefits of joining it. | CTA and national staff |
| 1.5.5. | Training of 3 national staff in carrying out the activities of the SPX through studytours to similar institutions in Europe as well as on-the-job training throughout the project period. | CTA and national staff |

1.6. Output 6

Computerized data base using UNIDO standard computer software (UNIDOSS).

Activities for Output 6

To be completed by

- | | | |
|--------|--|--|
| 1.6.1. | Computerizing the roster (or data-base) of the affiliated sub-contracting enterprises and the system for storing, processing, selecting and retrieving the technical information on these enterprises. | Consultant in informatics and national computer programmer |
| 1.6.2. | Application and testing of UNIDO's original computer software UNIDOSS | Same as above |
| 1.6.3. | Programming of the industrial nomenclatures | National programmer |
| 1.6.4. | Programming of the registered enterprises into the computerized data-base. | Same as above |
| 1.6.5. | Evaluation of possible links between the SPX computerized data-base and other foreign databases (SPX, UNIDO, BC-Net) | Consultant in informatics |

1.7. Output 7

At least 100 members of the SPX trained on technical issues such as management, quality control, standardization and certification, product adaptation and marketing, and a report containing an investigation and recommendations on these issues.

Activities for Output 7

To be completed by

- | | | |
|--------|--|--------------------------------|
| 1.7.1. | Preparation of a training plan and schedules for conducting four seminars in the Moscow area. | CTA and national staff |
| 1.7.2. | Organization of the four training seminars on technical issues, closely related to subcontracting. | CTA and short-term consultants |
| 1.7.3. | Preparation of an evaluation report after each seminar, including recommendations to the SPX for the required follow-up actions. | same as above |

1.8. Output 8

Preliminary links with other SPXs and main contractors in countries (including developing countries) where the Russian Federation has established or intends to promote industrial subcontracting and partnership agreements.

Activities for Output 8

To be completed by

- | | | |
|--------|---|--|
| 1.8.1. | Preparation of an action plan for establishing links with other SPXs and main contractors in countries where the Russian Federation has established or intends to promote industrial subcontracting and partnership agreements | CTA and national staff |
| 1.8.2. | Assistance in the organization of two study tours (15 participants each) for the staff and selected members of the SPX to European specialized fairs (e.g. Hannover, MIDEST) and exchanges (SPXs) and participation in business meetings with foreign main-contractors organized in such occasions. | Consultant in the promotion of internat. subcontracting and national staff |
| 1.8.3. | Preparation of an evaluation report after each study tour. | same as above |
| 1.8.4. | Assessment of the viability and benefits of organizing an industrial subcontracting fair in Moscow to attract domestic and foreign partners and investors. | same as above |

1.9. Output 9

A report containing an investigation into the legal, fiscal and customs problems posed in the Russian Federation by the development of subcontracting operations, and proposals for appropriate solutions; as well as guidelines on the establishment of subcontracting agreements.

Activities for Output 4

To be completed by

- | | | |
|--------|--|--|
| 1.9.1. | An investigation conducted in close cooperation with Government institutions to identify the legal, tax and customs problems posed in the Russian Federation by the development of subcontracting operations. The aim is to study the status of existing regulations, examine the problems and propose solutions for | Consultant in legal, and tax customs matters |
|--------|--|--|

adoption in the national legislation
in the following areas:

- a. Rules governing the transfer of ownership of subcontracted industrial products
- b. Fiscal conditions in respect of the indirect taxes involved in the transfer of subcontracted industrial products from one enterprise to another.
- c. Customs regulations affecting the industrial products involved into international subcontracting and the advisability of applying multilateral agreements.

1.9.2. Preparation of a report incorporating the above-mentioned investigation and relevant recommendations.

1.9.3. Organization of three training and information seminars/conferences/workshops.

PART E. Inputs

National Inputs

- a. Counterpart personnel of the pilot SPX in Moscow: one executive manager, two industrial engineers, national consultants, two administrative staff, one computer operator, two secretaries/typists (with working knowledge of English).
- b. Necessary logistic support for the SPX: office space and furniture, personal computer (IBM-XT compatible) with basic programme softwares, a vehicle, telecommunication facilities (telephone, telex, fax) photocopy machine and office sundry supply;
- c. Government and private sector support and contributions (in kind and in cash) to the operational costs of the pilot SPX and to the National Board for Subcontracting;
- d. Financing of all necessary translations into Russian language, of publications, manuals, brochures and catalogues;
- e. Financing of all promotional activities, including the participation in international subcontracting fairs;
- f. Organization of national awareness/information seminars and conferences for Russian industries on the newly established SPX.

Provisional Budget for National Inputs

A. Counterpart personnel:

- executive manager, 24 months	Rbl - 120,000	
- two industrial engineers, 2x24 months		Rbl 84,000
- national consultants, 24 m/months		Rbl 72,000
- two administrative staff members, 2x24 months		Rbl 60,000
- computer operator, 24 months		Rbl 84,000
- two secretaries, 2x24 months		Rbl 48,000

Subtotal counterpart personnel Rbl 468,000

B. Office space, 50 sq.m, renting per

Rbl 5000 per sq.m per year		Rbl 500,000
Furniture		Rbl 300,000
Computer AT/XT/ IBM compatible		Rbl 200,000
Software		Rbl 50,000
Vehicle		Rbl 100,000
Office equipment		Rbl 500,000

Subtotal logistic support Rbl 1,650,000

C. Government/private sector contribution
into the development funds

Rbl 500,000

D. Translation and publication of manuals and
promotion materials

Rbl 250,000

E. Promotional activities

Rbl 250,000

F. Organization of seminars and conferences

Rbl 600,000

Total national inputs*) Rbl 3,718,000

UNDP inputs

International Experts

		m/m	US\$
11-01	Chief Technical Advisor	7.0	98,000
11-50	Short-term consultants (informatics, legal matters, marketing, quality upgrading)	5.0	70,000
11-99	Sub-total Int. Experts	<u>12.0</u>	<u>168,000</u>
15-00	Project travel		20,000
16-00	Other personnel costs (2 UNIDO staff missions to Moscow)		5,000

17-50	National consultants	<u>30.0</u>	<u>150,000</u>
19-99	Total personnel component	42.0	343,000
<u>Training</u>			
32-00	Three study tours, one for the SPX manager and one for the two industrial engineers to European countries (US\$ 3,000 each)		9,000
32-00	At least four training seminars on subcontracting technical issues		8,000
39-99	Total training component		<u>17,000</u>
<u>Equipment</u>			
41-00	Technical publications, manuals, etc		5,000
49-99	Total equipment component		<u>5,000</u>
<u>Miscellaneous</u>			
51-00	Printing and publication of learning materials, guidelines and manuals		5,000
59-99	Total miscellaneous component		<u>5,000</u>
99-99	PROJECT TOTAL	42.0	<u>370,000</u>

*) Inflation factor is not considered

PART F. RISKS

The main risk relates to the lack of financial and operational autonomy. This autonomy may be gained through the creation of a non-profit-making association covering all the industrial enterprises and institutions benefiting from the services of the SPX and governed by a governing board composed of all the public bodies concerned with the promotion of subcontracting, private institutions representing the enterprises benefiting from the SPXs and of the affiliated industrial enterprises themselves. (See Annex II, the UNIDO proposed legal statutes for the establishment of an autonomous SPX.)

PART G. PRIOR OBLIGATIONS AND PRE-REQUISITES

- (a) Actual establishment of the "National Commission on Industrial Subcontracting and Partnership" which will act as the project counterpart.
- (b) Allocation by the "National Commission on Industrial Subcontracting and Partnership" or by the "Russian Committee on Industrial Policy" or by the Government authorities concerned, of the required staffing, vehicle, office space, facilities, etc. as specified above under counterpart inputs (PART E.) and in Annex V (terms of reference of an SPX).

UNIDO's assistance to the project will be provided only if the prior obligations stipulated above have been met.

PART H. PROJECT REVIEWS, REPORTING AND EVALUATION

- (a) The project will be subject to tripartite review meetings (joint review by representatives of the "National Commission on Industrial Subcontracting and Partnership", The Russian Committee on Industrial Policy or the designated Government authorities, of the Funding Agency and of UNIDO, once per year. The project coordinator (CTA) shall prepare and submit to the other parties the relevant interim progress reports.
- (b) A project terminal report will be prepared by the CTA for consideration at the terminal tripartite review meeting. It shall be prepared in draft sufficiently in advance to allow review and technical clearance.
- (c) The project shall be subject to evaluation upon completion of the project activities.

The following types of revision may be made to this Project Document with the signature of UNIDO only, provided that the other signatures of the Project Document have no objections to the proposed changes:

- (a) revisions in, or addition of, any of the annexes of the project:

- (b) revisions which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by the re-arrangement of inputs already agreed to or by cost increases due to inflation; and
- (c) mandatory annual revisions which re-phase the delivery of agreed project inputs or increased expertise or other costs due to inflation or which take into account agency expenditure flexibility.

ANNEXES

- I Budget sheets
- II Legal Statutes for an autonomous SPX
- III Terms of Reference for a SPX

The minutes of the Constitutive meetings

Meeting of constitution of the subcontracting system (21st November 1995)

This meeting had been prepared with a project of structure which had been sent to the people concerned.

INFOCENTER which was expected to be the leader structure of the project had invited the different organizations to the meeting. A list of 16 organisations had been established :

GOSKOMPROM (BERESNEV, ISAJEV, SCHVETSOW)
STATE COMMITTEE FOR DEVELOPMENT OF THE SME (PROKOROV)
IAS (SAVOSTITSKY)
OLVIT (SVERIDA)
MNITZ (BIKOV)
TECO (VITKOVSKY - VASILIC)
INFOCENTER (DOENIN)
MADE (EMILIANOVA)
RUSSIAN SMALL BUSINESS SUPPORT AGENCY (ERMAKOV)
CTI (KUSTARIN)
CONFEDERATION OF ENTREPRENEURS IN RUSSIA (SKATCHKOV)
INFOCENTER - Région of Varonej (PETROV)
RUSSIAN CHAMBER OF COMMERCE
ROSPACK
REL.COM
RUSSIAN ASSOCIATION OF LARGE ENTERPRISES.

People who were expected to be at the meeting were present. M.BERESNEV was represented by M.DOENIN, M.PROKOROV was also represented.

The programme of the meeting was :

- introduction by M.DOENIN,
- M.NICOLAS's report on :
 - * the concept of subcontracting and partnership : definition, subcontracting in Western Europe,
 - * SPX functioning and their role in SME,
 - * UNIDO programme,
 - * The contents and results of the feasibility study,
 - * the reasons for and objectives of the meeting (constitution of a group or structure for the pilot project)
- presentation of a Video Tape on UNIDO,
- round table,
- conclusions by M.DOENIN.

It was decided to create a structure in the form of a workshop which would meet to implement the project problematic and to ask for UNIDO's support.

M.DOENIN declared Infocenter to be the leader of the group. Remarks were made by MNITZ in the name of the Russian Committee for the Development of SME. CTI declared to be interested in taking part in the group.

So we can not say today if GOSKOMPROM - INFOCENTER will be the only leader group and on which bases the organizations present at the meeting will have to cooperate. It is also difficult to know how the Russian Committee for the development of SMEs will be involved in the future.

The Minutes of the Awareness Seminar

Awareness meeting

This meeting was not organised by MNITZ and the Federation of Businessmen as it had been planned. This can be interpreted as a sign of disappointment of MNITZ not being the leader of the project.

It was replaced by two industrial meetings :

- on 21 November with the Federation of Businessmen and CTI which represented regional and national companies,
- on 22 November in RTI-CAOUTCHOUC'S buildings. This firm employs 2000 persons and is specialized in rubber products manufacturing. It will be a member of the group.

The proposed structure of the SPX

The structure and the composition of the subcontracting system founders result from political, tactical and technical factors.

The request of February 1995 and August 1995 for a pilot subcontracting system involved two Russian counterparts :

- the Russian Committee of Industrial Policy (GOSKOMPROM),
- the Russian Committee of Information (ROSKOMINFORM).

The request was made by Mr BERESNEV, Deputy Chairman of GOSKOMPROM. Those two organisations should logically be involved in the implementation or in the structure of the pilot project.

An interview with Mr BERESNEV confirmed that GOSKOMPROM intended to play a significant role in this project.

In order to be legitimate the programme must take place within the scope of government policy which has recently been illustrated by the creation of a State Committee for the Development of Entrepreneurship directed by MR PROKOROV.

The project of subcontracting system is concerned with three aspects of the government policy which correspond to specific fields of activities and public organisations :

- general industrial policy, concerning both large companies and SMEs, which is GOSKOMPROM 's responsibility,
- SME development promotion, responsibility of the State Committee for the development of Entrepreneurship (Mr PROKOROV),
- information-related aspects, ROSKOMINFORM's responsibility.

Those three organisations can be useful in the founder structure and they can make the link between the project and governmental structures.

Three other organisations can be requested to take part in the project :

- ROSPACK : the most significant telecommunication networks working under the protocol X25 in Russia,
- RELCOM,
- IAS : manager of the telecommunication structures.

Then other industry representatives of the telecommunication members for example :

- the Confederation of Businessmen Unions in Russia;
- the Russian Association for Development of Small-Sized Enterprises,
- one or several large principals companies.

Operators will have the responsibility of concrete execution :

- OLVIT for telematic aspects, project engineering, equipment definition, maintenance,
- the Russian Information Center for the acquisition and management, of databases,
- TECO for technical support and advice,
- the Russian Small Business Support Agency,
- CTI as a representative of a regional structure,
- a regional branch of INFOCENTER.

The structure will include :

1. A pilot committee
2. For example, a joint-stock company in which parts can be distributed as follows :

- Governmental (economic) organisations 24 %
- Governmental (technical) organisations 24 %
- Professional organisations 24 %
- Operators 28 %

GOSKOMPROM and MNITZ are expected to propose a panel of representative companies which will be the users of the SPX.

• Joint stock company :

INSTITUTIONS	A	◇ INFOCENTER	8
		◇ MNITZ	8
		◇ Russian Chamber of Commerce	8
	B	◇ ROSPAK	8
		◇ RILCOM	8
		◇ IAS	8
	C	◇ Confederation of Businessmen in Russia	8
		◇ Russian Association for Development of SME	8
		◇ (A large company of representative institution)	8
PRIVATE ORGANIZATIONS	D	◇	
		◇ OLVIT	4
		◇ INFOCENTER (x 2)	8
		◇ TECO	4
		◇ Small Business Support Agency	4
		◇ MADE	4
		◇ CTI	4
		100	

Notes

A - Governmental economic organisations (< 25 %)

B - Governmental technical organisations (< 25 %)

C - Professional organisations (< 25 %)

D - Operators

A + B < 25 %

Among founder members, operators whose capital holding is symbolic will play a significant role in carrying on the missions of the subcontracting system.

OLVIT	engineering and telecommunication system management
INFOCENTER	management of the information center and development of the network
TECO	use of the information center : interface with enterprises. Project analysis.
the Small Business Support Agency	training
MADE	international relationships
CTI	relationships with regional governments.

• Pilot committee :

- ◊ GOSCOMPROM
- ◊ State Committee for the development of SMEs
- ◊ ROSKOMINFORM
- ◊ UNIDO

The terms of reference of SPX

Terms of reference for a pilot-project

They are described in UNIDO's programme :

- information and exchanges of orders,
- assistance and development of the SMEs,
- projects promotion.

1.1. Information and exchanges

a) Databank upon firms and their products

This databank could firstly include one hundred principals and a few thousands subcontractors which could be selected among SMEs which have technical products and services.

This objective has already been partly achieved by organisations like INFOCENTER and OLVI.

b) Implementation of a network in the regions

An SPX has been planned in Moscow. It could be the place of a first experience or a multiregional system. According to the available means, the project could be limited to Moscow's center or it could be enlarged to three centers in Moscow and in two other regions (CHEBOKHARY and VARONEJ)

c) Information exchanges organized thanks to telematic means :

- computers and means of telecommunication such as those which have been implemented by OLVIT,
- information analysis and processing in order to make it possible for SMEs to use the system. It principally consists in consultation, which requires a good understanding of the SME and of production processes.

d) Extension of the system abroad (CIS and the rest of Europe)

1.2. SME development support

The system should also be a means of promoting small and medium enterprises. The system could be assigned four missions.

- a) Commercial promotion support : helping SME to improve market analyses, marketing and communication tools.
- b) Support in contract-making
- c) Implementation of economic and financial tools to calculate costs, foresee working capital needs and resort to short term bank resources.
- d) Technological support : support in the adaptation of SMEs to markets :
 - choice of materials
 - definition of equipment needs
 - automation of production processes
 - quality control.

1.3. *Project promotion*

a) Project identification

b) Project analysis :

- market surveys
- project dimensioning according to technical and economic criteria
- equipments definition
- investments evaluation
- business plans, cash flow and profitability valuation
- external financing needs.

c) Use of a network to reach regions (cf 1.1. /b)

d) Use of a network to reach foreign countries (cf 1.1. /d)

The different partners we have met are specialized in one or several types of expertise in regard to the functions above (see next page).

The proposed budget

1) Pilot project :

National inputs	4,2 billions roubles
International inputs	USD 370.000

2) Current budget (per year)

National inputs	2,5 billions roubles
International inputs	USD 100.000

¹ As proposed by the request coming from GOSKOMPROM on August 1995 and amended.

ADDENDUM

LIST OF ABBREVIATIONS

<i>GOSKOMPROM:</i>	Russia State Committee for Industrial Policy
<i>ROSCOMINFORM:</i>	Russian Federal Committee for Information Policy
<i>INFOCENTRE:</i>	Russian Information Centre
<i>MNITZ:</i>	Moscow Scientific and Research Centre
<i>OLVIT:</i>	Engineering and Telecommunication System Management
<i>CTI:</i>	Computing Technology and Information
<i>TECO:</i>	General Information Centre of Enterprise Support
<i>SBSA:</i>	Russian Small Business Support Agency
<i>MADE:</i>	Moscow Agency for Development of Entrepreneurship
<i>IAS:</i>	Institute for Automated Systems
<i>RIC:</i>	Russian Information Centres (Network)
<i>SME:</i>	Small and Medium Enterprises
<i>SPX</i>	Subcontracting and Partnership Exchange
<i>TACIS:</i>	European Union Programme for "Technical Assistance to the Confederation of Independent States"