Sida Evaluation 97/6

Sida's Support to the Start East Programme

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Sida Evaluation 97/6
Commissioned by Sida, Department for Central and Eastern Europe

Registration No.: ÖST-1996-0684
Date of Final Report: January 1997
Printed in Stockholm, Sweden, 1997
ISBN 91 586 7460 8
ISSN 1401-0402

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1 Background

The Swedish development cooperation with the Baltic States and Russia was initiated in 1990 and 1992 respectively. From the inception great emphasis was placed on transfer of knowledge. In 1994/95 four specific goals were established for the cooperation:

a) to foster a sense of common security,
b) to further strengthen the culture of democracy,
c) to support a social and economic transformation,
d) to support an environmentally sustainable development.

The Start East Programme, financed by Sida, specifically addresses goal c)"to support a social and economic transformation".

1.1 Description of the Start East Programme

1.1.1 Objectives and Target Group

The Start East Programme began in March 1994. The target group of the programme is Swedish small scale businesses (less than 100 employees) and their partner companies in the Baltic countries and Northwestern Russia, which are about to start joint commercial and industrial activities. The activities can be the production of goods and services or the setting up of sales organizations, with the purpose of long term collaboration There is no requirement for joint ownership.

The immediate objective of the programme is to quickly trigger off productive activities by:

a) transferring knowledge from Swedish firms to develop competence in the partner companies,

b) facilitating the establishment of Swedish small scale firms in the Baltic States and Northwestern Russia.

The programme aims at creating sustainable long term business cooperation between Swedish firms and the partner firms. It is expected that the business projects will create employment, lead to increased sales and exports from target companies, and eventually generate profit.

The programme extends credits to Swedish entrepreneurs. Two types of credits are available to a maximum of 30 per cent of the total investment. A credit of maximum SEK 350,000 is available for transfer of knowledge. Once the joint project is done and positively evaluated, this credit is written off. The second type of credit is for investment in equipment (not for land, buildings or raw materials). This credit is to be repaid with market rate interest within two years, in two installments and can only be granted togther with a credit for knowhow-transfer. The sum of the two credits together is maximum SEK 500 000.

The programme has a clear ambition to draw upon mutual understanding, trust, joint financial benefits and joint risk taking.

The following guiding principles have also been laid down:

a) to prioritize applications from Latvia, Lithuania, Russia and Ukraine over applications from Estonia,
b) the Start East credits should contribute to a quicker inception and lower risk exposure but not be a determinant for the implementation,
c) to have a fair mix of sectors and geographical areas in host countries,
d) a loan can only be given once per company per country,
e) the project shall start within six months after approval,
f) to strive to achieve a fair distribution between regions in Sweden.

1.1.2 Approved Loans

In the first phase of the programme, 1993/94 - 1994/95 (18 months), MSEK 32.7 was granted during five decision rounds to 101 Swedish firms (37 in Estonia, 17 in Lithuania, 14 in Latvia and 33 in Russia).

For the second phase, 1995/96, also 18 months long, MSEK 32 was allocated for another 100 credits for transfer of knowledge and 50 credits for investments. The four decision rounds resulted in the approval of 81 additional projects, worth MSEK 25.3. 22 were in Estonia, 19 in Lithuania, 11 in Latvia, 28 in Russia and one in the Ukraine.

64 projects have presented their final reports regarding the use of the training credit. 49 of these have been followed up, with the outcome that 40 projects are completed and their training credits written off (22 per cent of the total number of approved projects). 16 projects have been discontinued (9 per cent). Hence, 125 projects are on-going.

Of the total loan volume of MSEK 58, MSEK 12.1 (20 per cent) have been extended for conditional loan for investments. 65 loans have been invoiced for repayment and 40 have paid up, while 25 loans (MSEK 2) have failed to meet the requirements.

1.2 The Mechanisms of the Programme

1.2.1 Application

The programme is administered by Sida and ALMI Företagspartner AB. The screening and processing of loan applications is delegated to the regional ALMI offices. The application shall contain a description of the business idea and the training plan, investment analysis, financial plan and budget, information regarding the Swedish applicant (company registration form, company taxation form, annual statements, references) and statement of cooperation with the partner company. ALMI appraises the business idea and the Swedish partner by discussing the proposal and his/her previous experience with the applicant, taking references and checking previous records with relevant authorities, as well as collecting outstanding information. The appraisal of the partner company is made by the Swedish firm. Costs for transfer of knowledge are based on a standard hourly rate including travel, hotel, allowance and fee based on a maximum of 40 hours per week.

1.2.2 Decision

Once the applications have been screened by the first level in the appraisal process, the regional ALMI/Start East officer, the applications are then sent to Sida. Sida collects the applications for three decision rounds per year (two in the spring and one in the fall). Sida considers mainly the total mix of projects, regional distribution, development effects and remaining funds for credits. If the total amount requested is below SEK 100,000 the loan is approved by Sida without further appraisal based on the ALMI recommendation. Of a total of 376 applications, ALMI has supported 306 (81 per cent) and Sida has approved 182 credits (48 per cent of total number and 59 per cent of the number supported by ALMI).

Decisions are taken within six weeks after the dead line for applications. The agreement is made with the Swedish firm only.

1.2.3 Disbursement and Repayment Routines

50 per cent of the training credit is paid immediately after the decision. The remaining 50 per cent is paid when the project has been implemented, reported on and followed up.

The loan for investment is paid in full immediately after the decision. 50 per cent shall be repaid after one year, and the remaining 50 per cent after two years, including interest. All payments are made to Sida. The investment credits are administered by ALMI (since April 1996).

1.2.4 Reporting and Follow up Routines

Once the training and investments have been implemented, a final report is prepared by the Swedish and partner companies, describing how the activities were implemented and indicating any deviations from presented plans.

The report is sent to the regional ALMI officer, who assesses it and contacts the Swedish firm for a discussion. Together with his comments the final report is then sent to Sida. Once the report, approving the project implementation, has reached Sida the remaining 50 per cent of the training credit is paid. Sida thereafter commissions a follow up at the partner company. ALMI organizes the trip (at least four firms per visit) and prepares a brief follow up report per company, in which they recommend if the loan shall be written off.

2 The Evaluation

In connection with the decision for a phase II of the Start East programme 1995/96 it was decided that an independent evaluation of the effects of the programme was to be carried out in the host countries during the fall of 1996.

ISO Swedish Management Group was awarded the contract based on its tender dated 26 September 1996.

2.1 The Purpose of the Evaluation

According to the Terms of Reference dated 11 September 1996 the purpose of the evaluation is to:

- "... find out whether the Programme has accomplished its stated goals and objectives,
- examine the effects of the Programme in the host countries,
- The evaluation will be used as an input for deciding on the appropriateness of, and - if applicable - on the modes for a continuation of the Programme in 1997. The evaluation shall therefore also recommend improvements as to the programme concept and its implementation."

The complete Terms of Reference are found in Annex 1.

2.2 The Evaluation Team

The evaluation was undertaken by Cecilia Karlstedt (ISO Swedish Management Group), Sven Hilding (Sven Hilding AB) and Piotr Gryko (ISO Swedish

Management Group). The work in Sweden was done by Cecilia Karlstedt and Sven Hilding. Piotr Gryko participated in the team in the field visit to the four countries.

In each of the countries a local firm was engaged to book the meetings, provide transport and, when needed, act as an interpreter. ISO Swedish Management Group had assumed that it would be possible to communicate in Russian in all countries. This, however, turned out not to be practical.

2.3 The Programme

Initial meetings were held with the programme manager at Sida to:

- be briefed on the programme,
- jointly undertake the selection of companies for interviews,
- discuss practical matters,
- discuss the questionnaire to be used in the interviews.

Copies were made of all project files of the selected companies and studied prior to the interviews. The consultants visited most of the Swedish companies prior to visiting the host countries. Telephone interviews were made with the ALMI country responsible officers. One of them was paid a personal visit.

A trip was staged to Estonia and Latvia by Sven Hilding and Piotr Gryko 11-15 November, and visits to Lithuania and S:t Petersburg were made by Cecilia Karlstedt and Piotr Gryko during the subsequent week.

Telephone interviews were made with additional companies, as well as with a selection of firms which had applied for Start East credits but been rejected. A list of people interviewed is found in Annex 2.

2.4 Method

2.4.1 Selection

The evaluation is based on a number of case studies from which attempts have been made to draw general conclusions. 19 projects were included. There is an inherent risk in this method in the sense that it bases general conclusions on a small sample of projects with a number of firms involved. To counter balance this draw back we have studied documents from additional projects which have not been interviewed and conducted 12 additional telephone interviews.

It was decided to only select companies from the" decision rounds" in 1994[1], (the first year of the programme). The purpose was to measure programme effects and therefore it was necessary that some time had elapsed after the implementation of the project. Furthermore it was decided to make the selection from the projects which had been followed up. Thus, these 19 projects were selected from the 49 projects followed up, giving us a sample representing 39 per cent .

The selection is biased towards successful cases, as we selected companies that existed on both sides. We wanted to identify criteria common to successful cases in order to draw conclusions for programme improvements. In cases where the Swedish company had lost contact with their partners, the companies were dropped for practical reasons. Also, cases where the Swedish partners were not willing to be interviewed were excluded. We tried to avoid companies that had recently been visited by ALMI for follow up purposes.

Finally it was decided that the selection should approximately reflect the national distribution of the projects.

Finally, the following were selected:

	1994			**1995**	
	Decision 1	**Decision 2**	**Decision 3**	**Decision 4**	**Total**
Estonia	2	3	1		6
Latvia	1		2		3
Lithuania			4		4
S:t Petersburg		4	1	1	6

1 As insufficient companies were found for Russia, one firm had be selected from 1995 as well

There was a wide distribution of sectors reflecting well the reality :

Textile	1
Forestry and wood working	6
Installation and service	1
Food production	2
Trade	1
Metal work	2
Office supplies	1
Shipping	1
Printing	1
Construction work	1
Electronical industry	1
Home interior	1

2.4.2 Definition of Criteria for Success

The criteria to measure the success of a development programme should be derived from the development objectives, programme objectives and project objectives. It would, however, be unrealistic to try to evaluate the programme at the highest goal levels, such as national or regional economic and social development. The inputs are limited and the programme is still young.

The projects can be studied and their implications and effects inside the companies may be assessed. Also, in some cases the effects on local labour markets may be judged, particularly in small communities. For these reasons, the Terms of Reference stipulated a case-study approach. The programme strategies were to be evaluated by studying a sample of cooperations old enough to provide indications of sustainability.

The development strategy supplying the rationale for a programme like Start East contains a straightforward chain of effects:

- Economic and social development in a region or a nation is supported by increased business,

- business may be increased by providing means for business development and business alliances,
- one of these means may be long term business cooperation between companies offering one another strategic synergies.

The Start East programme objective is to help initiate business cooperation between Swedish and host country companies with good chances of becoming profitable and sustainable. This programme objective is described in the LFA matrix of 1995-02-06 (Annex 3), as "increased business development opportunities between Swedish and companies in the Baltic States and the Northwestern Russia". We prefer to reformulate it as stated above, since the formulation "increased development opportunities" is rather vague and difficult to measure.

According to the LFA matrix, if more than 40 per cent of the agreed business alliances continue after the second year of cooperation, the programme objective has been achieved. It can be discussed whether our sample is representative to judge this success rate as it tends to be biased towards continuing cooperations. We would like to add another two criteria to the ongoing projects, being:

- growth,
- indicators of sustainability, e.g. profits, competitiveness.

These criteria may be observed at project/company level. They cannot be arithmetically aggregated to reflect programme success.

There is a number of conditions or restrictions at programme level. Some are derived from the four specific goals set for Swedish cooperation with Russia and the Baltic States. Others are related to what is known as cross-cutting issues in Swedish development assistance:

- Improvement of external and working environment,
- Gender equality,
- Geographical dispersal is desired, regarding both the host countries and the domiciles of the Swedish companies.

These are not goals at project level, but rather desired spin-off effects in the programme. They can be influenced at programme level in deciding which companies to support in which industries at what locations.

In the Project Profile the project objective given is that the host companies should increase their sales and export, with the targets of 70 per cent of the companies increasing their sales and 55 per cent of the companies increasing their export value.

The common desired effect at company level, increased business, is pursued by establishing subsidiaries, by joint ventures, by sub contracts, by distribution rights, by supply contracts, and by other means. In evaluating the success of the projects one has to consider the specific conditions in each case. The decisive, long-term success factors for any commercial activity are related to market conditions, the relevance of the business idea and the capability of managers and other key actors. These aspects have not been analysed in depth in the evaluation, but we have tried to observe as much as possible during the visits and interviews regarding the companies in the sample in order to form an opinion on the future success of the ventures.

The purpose of the evaluation was to judge the degree to which the development purposes have been fulfilled at the present stage. The following criteria have been applied:

- duration of agreement/realistic long-term plans (yes/no)
- new skills and technology (applied/not applied)
- volume growth (rapid, slow, stagnant, dead)
- profitability (adequate, inadequate, not disclosed)
- financial strength related to capital requirements (adequate, inadequate, not disclosed)
- overall impression of business idea and management capability (adequate, inadequate)

3 Findings

3.1 General Impressions

The overall impression is that Start East is a well conceived development programme. At its best it combines the driving forces of knowledgeable and commercially motivated Swedish and host companies to enhance business. It also gets its message across in the sense that quality aspects of the transfer of technology are considered, that there is an awareness of gender equality, and that environmental aspects are given due attention.

3.2 Presentation of Data from Our Sample

Of the 19 projects included in our sample, 16 are ongoing. A problem common to the three that are no longer active is their limited understanding of domestic markets. In two of the cases their product did not meet with sufficient demand and in the third case they had not taken into account factors such as competition, access to suitable locations or service requirements.

The 16 ongoing business collaborations are described below according to a few different dimensions. (Please note that some companies have been recorded on more than one option in some cases.)

Type of activity		Number of businesses
1	Sales and service organizations for export from Sweden	6
2	Sub-contracting of Swedish firm	6
3	Production unit to mother company	4
4	Production for local market	4

It can be observed that 14 of the companies are production units. Of these, ten produce for export and four for the domestic market.

One third of the collaborations aim at exporting goods from Sweden. We have only found one case where the project objective is mainly sales with no value added to the products. In all the remaining cases value is added to the product by means of installations, modifications, service or provision of customer training.

As sales organizations in general generate less employment than production units it was raised with Sida whether Start East should include export promotion of Swedish goods. It became clear that Sida considered this a grey area and applied caution when approving such projects, which demanded the establishment of a sales organization as a minimum criterion. Two of the six projects have established a new company through a joint venture, one has established a wholly owned subsidiary, and the other three have given exclusive distribution rights to already existing firms. In the latter cases the employment effects are smaller.

Production for domestic markets entails greater risks than supply contracts with the Swedish partner. It is therefore more important to consider market characteristics including competition and the purchasing power of the segments targeted.

Type of agreement/ownership		Number of businesses
1	Distributors'agreement - no ownership	4
2	Joint venture of newly created firm with > 25 per cent Swedish ownership	7
3	Subsidiary of Swedish firm	5

In three fourths of the business cooperations the Swedish partner is one of the owners of the business. Investing in share capital means taking a greater risk but also provides possibility for greater control of the business. Ownership may be seen as an indicator of a long term commitment.

In all the businesses the Swedish partners have invested in capital, training, and equipment, while the partner in the host company has mainly provided premises and labour. The investments vary from approximately 1 MSEK to 10 MSEK, with a median of 2 MSEK.

Ownership of equipment		Number of businesses
1	Host company	3
2	Joint ownership	3
3	Swedish company	10

Despite joint ownership, almost two thirds of the business collaborations have chosen to let the Swedish partner retain ownership of the equipment. There are several reasons for this:

- Preferential VAT rules (Estonia)
- Customs reasons, it is easier/cheaper to import equipment as "temporary"
- The financial weakness of the host/joint company which has no possibility to purchase the equipment.
- To reduce the risk for the Swedish partner.

Reasons for cooperation		Number of businesses
1	Access to critical raw materials	6
2	Unique skills in host company	1
3	Cheaper production costs (salary levels)	12
4	Entry to new market for Swedish firm	8

This table clearly illustrates the three main reasons for starting cooperations in the Baltic countries or Russia, the major reason (three fourth of the companies) being low production costs.

Half of the Swedish firms are interesting in getting into the emerging markets.

Of those companies which wanted access to critical raw material (one third), all are in the forestry or wood working industry.

It is slightly surprising that not more businesses have made use of the competence of highly educated persons from e.g. the former armaments industry in these countries. The only example found is in the electronic industry, where the company is the first in the country to receive ISO 9000 certification and the combination of skills, salaries, proximity and volume makes it possible to compete with the Far East.

Management		Number of businesses
1	Swedish partner involved in all strategic decisions with almost daily contact	13
2	Management mainly by host companies and Swedish partner involved in a few specific functions	3

The commitments of the Swedish partner are impressive. Four out of five of the Swedish partners are greatly involved in the host companies. Frequent travelling (both ways), telephone contact and even living in the country permanently characterize the collaboration. Several of the interviewed persons have said that "it is not possible with remote control management" and the travel costs are a heavy burden for the Swedish partner.

In cases of distributors' agreements, the involvement of the Swedish counterpart in the host company is normally limited to functions pertaining to the product (pricing, sales and marketing, design).

The physical presence is shown in the following table:

Presence of Swedish partner in time		Number of businesses
1	100 per cent presence	1
2	More than 50 per cent presence	3
3	Once or twice per month	9
4	Less than once per month	3

Employment created as an effect of the cooperation, annual workers		Number of businesses
1	1 - 20	9
2	21 - 100	5
3	101 - 200	1
4	201 -	1

As shown, most of the businesses are small in terms of employees. The host companies are, in most cases, larger than the Swedish partners, which is partly explained by the fact that the Swedish companies are often established exclusively for the purpose of the cooperation. They therefore often have only one or two employees.

The two largest companies have together almost 1,000 employees. One is a group of companies with more than 800 employees. It deserves to be borne in mind that in this case almost 2,000 have already been fired from companies purchased by the same group for reasons of efficiency improvement. This serves as an illustration that great employment effects are not necessarily achieved when modern management is introduced in ongoing businesses.

Most employment opportunities have been created when production units for sub-contracting or production to mother company for export have been established. Often these units are located in areas where no other form of paid employment is found. The effects of such enterprises on the local community are enormous. Seven such cases are found in the sample.

3.3 Assessment of Project Performance

In section 2.4.1 a set of criteria for determining the success of the business collaborations was established. Applying these criteria to the total sample of 19 projects gives the following illustration of the aggregate assessment of the performance.

Number of projects						
Criterion	Assessment	Estonia	Latvia	Lithuania	Russia	Total
Duration	yes	5	1	4	6	16
	no	1	2			3
New skills/techn	applied	4	2	4	6	16
	not applied	2	1			3
Volume growth	rapid	2	1	2	5	10
	slow	2				2
	stagnant	1	2	2	1	6
	dead	1				1
Profits	adequate	1	1	1	2	5
	not adequate	3	2	3	4	12
	not disclosed	2				2
Financial strength	adequate	2	1	3	3	9
	inadequate	2	2	1	2	7
	not disclosed	2			1	3
Plans for growth	new products	2	1	2	5	10
Plans for growth	capacity expansion	3	1	1	3	8
Overall impression of management competence	adequate	3	1	3	6	13
	inadequate	3	2	1		6

The upside of the findings are long-term duration of cooperation agreements, (four fifths of the projects) new skills applied (four fifths) and volume growth (three fifths), i.e. not quite up to the target level of 70 per cent. This was to be expected considering the phase of business development in which Start East enters the scene. Even more promising is the indication that over two thirds of the companies show adequate managerial competence.

The down-side is inadequate profitability (four fifths) combined with weak balance sheets. The projects in this group will survive as long as the cash-flow is positive or else with the help of credit lines or additional equity from present or new owners.

Applying the criteria mentioned above, nine projects (almost half) may be judged successful and with good prospects of continued success. The common denominators of this group are the following:

- clear and relevant business idea,
- Swedish partner established in the market,
- host company shows track record in the production technology,
- sufficient financial backing,
- host company experienced in handling local bureaucracy,
- project strategically important for Swedish partner.

On the other end of the scale ,one third of the projects have either been abandoned or reached stagnation. However, this does not mean that they are doomed. Their markets may gain momentum, they may be sold to more solvent buyers, etc. The common denominators of this group are:

- insufficient financial backing either because of lack of financial means or because the business is not strategically important,
- insufficient knowledge of served markets,
- technology new to both parties,
- inadequate supply of raw materials.

The remaining one fifth of the projects are not clearly successes or failures. They may develop either way depending on market demand and the capability of the managers to make use of it.

3.4 Assessment of Programme Effects

3.4.1 Target Group and Criteria

Whereas the Swedish companies receiving support constitute the direct target group of the Start East programme, they are not viewed as the end beneficiary in the system. If there is any explicit end receiver at programme level, it is rather the owners and employees of the host companies.

As regards the direct recipients, the Swedish companies, Start East aims at supporting the quality and timing of necessary transference of knowledge and skills. By improving the technological aptitude and the desirable business attitudes of the Baltic and Russian partners, the programme helps increase the competitiveness of the Swedish companies. The pertinent criteria for evaluation purposes are profitability and growth. One difficulty in this assessment is to isolate the effects of the Start East support from other circumstances affecting profits and growth. We have based our report on the statements made by the Swedish executives in our interviews.

3.4.2 Comments

- *Establishment of new businesses*

Two thirds of the business collaborations in our sample have resulted in the establishment of new companies in the host countries.

- *Employment*

The employment effects are considerable. 400 jobs have been created in the *new companies* and another 150 are planned for recruitment during 1997. The net effect of Start East is difficult to assess, as the largest employers would have entered the ventures regardless. Nevertheless, at least one fourth of jobs in the group of 19 projects studied on site may be attributed to the programme. The companies interviewed by telephone verify approximately the same employment effects.

- *Salary levels*

Salary levels are average or above average in the respective areas of the labour market. Comparatively low salary levels (in combination with the geographical proximity and low transport costs), is of course a temporary factor in the long run. Once the salaries have reached European average the production units for export markets may find alternative countries where production costs are lower. Hence, the long term sustainability of such agreement can be questioned if the definition of long term is more than ten years.

- *Improved quality of production*

Four companies out of five report that the quality of production has increased during the period of collaboration by the introduction of:

- new techniques,
- better tools and equipment,
- improved management,
- establishment of quality consciousness through certifications and "good examples",
- market demands (export market).

- *Transfer of technology and techniques*

The core issue, the transfer of relevant technology and skills, is noticeable in all projects. The unanimous opinion is that the Start East support has been instrumental in facilitating more and better training at an earlier stage than would otherwise have been possible. The quality of the training has benefited from the requirements of proper plans which are prepared well in advance. More often than not, there has been a positive spin-off effect as regards business practices, for instance in costing and pricing. Also, attitudes towards work and business are reported to have been positively affected by the cooperation. (At the same time, employee attitudes are still reported to be a major stumbling block in the development efforts.)

- *Positive external effects*

An additional effect, the positive effect on the environment, is notified in one third of the firms, e.g. cleaner air by using energy more efficiently or revised methods for forestry.

Also, one third of the firms are collaborating with research and test institutes, universities and branch organizations and are thus influencing existing regulations and practices.

- *The power of good examples*

Small businesses have not existed in these countries under the Soviet production model. Visiting Swedish partners and seeing small businesses in operation is quite an eye opener for someone not used to small business operations. Effects of such visit cannot be measured but can have a remarkable impact on a personal level.

- *Changed attitudes towards work and increased occupational morale*

Attitudes towards work have been influenced by the incentives of regular salaries, work discipline and bonus systems. Work morale, however, still remains a problem for some companies in rural areas where employees are former farmers with different working habits.

- *Commercialisation of companies*

One important aspect of the Swedish cooperation is the commercialisation of the host companies. Learning how to calculate and set prices, how to participate in trade fairs, how to advertise, how to write invoices, credit notes, how to control the company through economic ratios, etc. All of these are entirely new concepts for companies which have existed in a command economy. This is the area where most remains to be done but possibly also where the greatest changes in practice and mentality have already taken place.

- *Increased business contacts*

Yet another effect which cannot be measured is the number of business contacts which continually takes place during visits to Sweden and the sales generated from these contacts as well as all the contacts transmitted by Swedish partner firms whereby the Swede has functioned as a guarantee for other collaboration agreements.

- ***Refinement of the business idea***

In many cases projects have started based on one idea which has then given birth to new ideas and off spring of the original business. There are examples where a number of businesses have been started by the same two entrepreneurs (a Swedish and a host country entrepreneur), without external support.

3.5 Difficulties and Bottlenecks

Despite the numerous positive effects emerging from the business cooperation, a number of difficulties have also been experienced. In most cases the companies have been able to jointly handle the problems. The following problems were brought up:

- ***Staffing***

Staffing problems have arisen when operations have been located to rural areas for a strategic reason and the staff have been recruited locally. These companies have had problems finding experienced staff. Training needs have been more extensive than anticipated, as staff have been trained for entirely new jobs from scratch. The companies have suffered from high staff turnovers and problems with work morale. These companies are all found within forestry and wood working industries.

- ***Market***

A few companies, mainly producing and selling on local markets, have had problems related to marketing aspects. Better initial market analysis would probably have resulted in alterations to decisions concerning location.

Two firms selling Swedish products in the Baltic countries and Russia have difficulties to find market demand at the actual price for Swedish products. Their Swedish partners are, therefore, now developing cheaper products for these markets.

Four host companies were affected by the bank crises in Russia, Latvia and Lithuania and lost large orders which have affected their financial strength.

Swedish partners, who export to host countries through their partners, express concern regarding the difficulty to gain understanding for the need for awareness of customer needs, aggressive sales and marketing. The host companies still believe that products of a good quality will sell automatically.

- ***Raw materials***

Access to raw materials is stated as a problem by two of the firms. One of them also suffers from government controlled prices, lack of transport to bring the raw materials and seasonal variations in the supply.

- ***Management***

The most common issue raised when it comes to administration and management is the problem related to the different requirements for accounting systems. Very few of the host companies have accounting systems that satisfy both Swedish and the national regulations. There are a few examples where the firms maintain double systems. In the other cases the Swedish firm has little or no insight in the accounting.

Another issue is related to understanding a market economy. This is shown as problems of finding potential managers, the difficulty in understanding the difference between operational and strategic management, need for board management training to formalize the business and general management training. The extensive involvement of the Swedish partner is seen as a necessity - but is expensive.

- ***Financing***

Shortage of working capital and capital for investments is a major problem. Almost all Swedish companies have reported that investment needs were higher than foreseen, and that is almost impossible to raise such capital locally due to the inefficiency of the banking systems. Export guarantees are not possible to get for Russia and small firms are not eligible to apply for EU grants. This means that either all investments must come from the Swedish partner (raised through self generated funds or loans from Swedish banks) or expansion can only take place very slowly and gradually through locally generated capital. This creates financial dependency on the Swedish partner.

Small firms with little financial backing in Sweden, can rarely sustain the costs of being involved in a partnership, as the Swede must carry the investment, working capital, stock and the costs of commuting (flights and hotel costs). The financial strength of the Swedish partner needs to be assessed more carefully in order to avoid the risk of personal catastrophe.

Cash flow problems are reported by the host companies. Raw material, custom charges and VAT charges are due for up-front disbursement.

- *Production*

Problems mentioned pertaining to production were poor quality of Russian equipment, difficulties in reaching a level of efficient production, difficulties related to required product certification, the staff's awareness of quality requirements and the need for repeated training.

- *External factors*

The bureaucracy and complex regulation systems is a common complaint. The impression of the companies is that they make an effort to obey all laws and regulations, but find it difficult as these are changed all the time, specifically the local taxation rules. "It is difficult to run a company in Russia if you want to comply with the law and want to be a good example."

- *Personal difficulties*

Problems with multiple visas for Russia were mentioned. The need for persistence and time to develop personal relations and trust were mentioned as requirements for conducting business in these counties.

3.6 Programme Management

The companies who have been granted support are content or very content with the administration of the programme. About one third of the Swedish firms were somewhat surprised over the large amount of monitoring, follow-up and evaluation work dedicated to the programme. About the same number stated that they missed someone to turn to when they ran into problems during the initial phase of the project, mainly concerning local conditions, legal matters and bureaucracy.

Based on aspects brought up by the Swedish partners regarding the Start East Programme, we wish to raise the following issues for consideration:

- *Decision criteria*

Several companies indicate that the criterion of 70 per cent own financing is very high as:

- actual costs turn out to be higher than planned in the investment plan for the Swedish counterpart,
- considerable costs are incurred to obtain credit,
- it is difficult to put an end point to the training and much more training is implemented than was anticipated and circumstances change quickly making initial plans obsolete.

It was also brought up that the maximum loans are not sufficient to implement some of the projects. The training credit should have been larger and the investment credit for a longer term. A grace period of one year was recommended as it is not possible to start generating income before the first repayment is due.

The assessment of investment required to implement training should be improved.

Overall, the criteria are correct in the sense that they reflect programme policy. The idea of geographical dispersal of Swedish companies has no bearing on project success or programme effects in host countries.

- ***Application***

The application form is considered complicated and difficult to complete[2] with too much focus on budgeted sales. Instead, the background and knowledge of the persons involved should be the most important aspects. Their knowledge of the markets and the industry and their practical skills should be appraised. In cases where the experience of the host company is critical, local consultants should be used for the assessment.

The financial base of the Swedish person/business applying for the credit may be a determinant for the sustainability and endurance of the venture as it is likely to be the only source for financing.

Market aspects need to be better analyzed, specifically when the project aims at new markets. Sida needs to follow up more carefully that sufficient market analysis has been done. Potential development effects should be assessed already during the selection process when projects are compared.

- ***Payments***

There were no complaints on payment and disbursement routines. Few of the entrepreneurs had any contact with Sida. In the few contacts that took place, Sida gave a professional and reliable impression.

- ***Follow up procedures***

The project follow up concentrates on compliance with the training plans. All projects with fulfilled training plans tend to be accepted. The scope of the project follow up should be widened in order to provide experience for improved screening and selection of projects. If project follow-ups were linked to project

[2] The application form has been revised twice since these entrepreneurs applied for a loan and is simplified today.

support more valuable information would be available. Follow-ups should preferably be made by the same person who assessed the application.

The entrepreneurs would prefer to report on implementation in smaller batches, more frequently owing to the turbulent environment. If reporting could be ongoing, e.g. per quarter, the entrepreneurs would be able to better account for all decisions taken along the process. More information could then be given and problems brought to attention at an earlier stage, Sida and ALMI would gain better understanding for the business environment in the host countries,

The ALMI country responsible officers agree that they do not know much about the firms before the follow up. Sometimes they ask a local consultant to check on a few aspects. They, however, feel it is difficult to check the partner company at an early stage and believe that one must trust the assessment made by the Swedish counterpart.

As the training plans had changed in most cases (often from courses to on-job training and study visits to Sweden) some entrepreneurs had problems with financial reporting, e.g. if more activities than planned were carried out, what should be reported and according to real or standard costs? How to report when the host company is paying for tickets? What should be included when the credit has been used to have one person stationed during a longer period at the host company? What is training and what is not? How do you draw the line between a training session and a management meeting, specially during the early stages of cooperation?

- ***Possibility of a second loan***

Some entrepreneurs inquired whether options for a second loan could be created. They felt that Sida should identify companies which are serious and progressing well and support active management development of these.

- ***Timing***

One of three companies finds the decision process (three events per year) unnecessarily slow.

- ***Project support***

There is room for improvement. There is very little support provided by ALMI to projects while they are implemented. Mistakes may be avoided if projects could receive support under way. However, ALMI cannot be expected to supply support on matters that are country and industry specific. Local experience would be required. Sida could furnish the Swedish partners with addresses of suitable contacts for this type of support.

3.7 Importance of Receiving or not Receiving Start East Credits

The importance of the Start East credit was stated by most companies. Start East had been an incentive to plan well and to get started. One company said:

> "The possibility to get support was an incentive for us to do good and proper planning. With that plan we could then arise the interest of other investors. The credit was also an incentive for us to fulfill the plan. The money itself was less important than the possibility."

The focus on training and transfer of knowledge is much appreciated. One third of the Swedish firms say they would probably have started without the credit (some had actually done so), but on a smaller scale and at a slower pace with less training given.

> "It is very difficult to invest own generated capital in training. Start East was a great kick! It can allow costs which otherwise can be difficult to motivate, like visits in both directions across the Baltic. SEK 350,000 is a lot for training but little in investments hardware."

Start East has a symbolic value. It helps people to dare take a risk and it speeds up the investment.

> "We would not have started without Start East. I did not dare to increase the mortgage on my house. Start East had a totally determinant influence. It was so important to get coverage for some of all the initial costs."

For the host companies the loans have provided opportunities to have access to European standards and they highly value the chance to see and copy Swedish production techniques. The fact that the Swedish State is lending to a project functions as a guarantee for clients.

Companies that have been denied support have direct experience of the programme management only as regards the application process and the decision-making. Three of eight have started the cooperation they solicited support for, albeit later and at slower space. Two of these cooperations may be classified as successful. The majority of those that were denied support still argue their case, thereby questioning the decision-making.

3.8 Rejected Applications

One intriguing issue in any evaluation are the rejects. Do the applicants go on without the support? If so, are they successful?

Eleven companies whose applications for Start East support had been turned down were selected for follow-up. Three of these had ceased the operations for which support was solicited. Two were nos available for interviews.

This is what had happened to the six that replied:

- Two were ongoing cooperations at the time of application but were later suspended.
- One was sold and is operating and growing.
- One decided not to establish after the reject.
- One started at a slower than planned pace.
- One postponed the establishment and continues its investigations.

The pattern indicates that the rejections were probably well founded. Start East support is not intended to be the decisive condition for survival. And some of these cases would probably have had difficulties even if backed by Start East.

Another equally intriguing issue concerns the group of companies which would have been eligible for support but which, knowingly or unknowingly, have not issued applications. The evaluation has not tried to included representatives of this group, mainly because they are difficult to identify.

4 Conclusions and Recommendations

4.1 Relevance of the Programme

According to our observations Start East is a relevant and well managed programme which has resulted in contributions to increased joint businesses between Swedish small scale firms and partners in the Baltic countries and Russia.

In most cases it appears that the selection process is adequate and that businesses with potential are selected for support. The main weaknesses in the selection process may be not paying enough attention to market aspects and financial endurance as investment needs turn out to be much greater than originally anticipated and shortage of working capital and capital for investments are the most critical aspect to the long term sustainability of the businesses as profit levels remain low after several years of operation.

The focus of the Start East programme is on transfer of competence. All companies interviewed have testified to the importance of this transfer. The relevance is very high indeed.

4.2 Effects

Four out of five businesses in our sample are still ongoing. The overall target was set at 40 per cent . However, as our original selection was focused on ongoing projects this result cannot be generalized at the programme level.

According to Sida's records, among the 125 projects approved in 1994 and 1995, there have been four cases of bankruptcy, 14 termination of projects or ceased collaborations, 11 loans cancelled or not disbursed and four uncertain collaborations. Thus, accounting to Sida around 90 businesses (72 per cent) continue to collaborate.

Further effects are:

- Almost all of the businesses have plans for product development or expanded production capacity.
- In all of the ongoing businesses transfer of relevant technology and skills is noticeable.
- Three of five projects have resulted in the establishment of a new company.
- An average of 50 new jobs are created by each new venture established. 400 new jobs have been created in our sample through joint ventures.
- Almost two thirds of the businesses have increased their sales each year since their establishment or since the cooperation started.
- One out of four are making what is referred to as adequate profits.

Almost half of the projects can be regarded as very successful. Common denominators for these are:

- a clear and relevant business idea,
- the Swedish partner was well established in the market prior to the cooperation,
- the host company or key staff working within the host company have documented experience in production technology,
- the host company is well experienced in handling local bureaucracy,
- the project is of strategic importance to the Swedish partner,
- the business has sufficient financial backing.

One third of the projects can be regarded as stagnant. Common denominators for this group are:

- lack of capital,
- insufficient knowledge of served markets,
- new technology to both parties,
- insufficient and unreliable supply of raw material.

The remaining one fifth of the projects are neither successful nor failures but may become successful if opportunities are noticed and used.

4.3 Cost Effectiveness of Start East

4.3.1 Administrative Costs

Over the period 1994-1996 ALMI has invoiced Sida MSEK 2,3 for their services rendered to Sida in connection with the Start East programme.

At Sida roughly one person is working full time with the programme (including the time of country responsible persons involved in the appraisal). This could be estimated to cost SEK 400,000 per year including employee-related indirect costs. For the four years that the programme has been ongoing this would be a cost of MSEK 1.6. Thus the total cost of managing the Start East programme has been approximately MSEK 3.9. This corresponds to an administrative cost of 7 öre per lend krona. As 182 loans have been approved during the four years, each loan costs SEK 21,000 in administration.

No bank would survive if credit administration costs occupied 7 per cent units of the margin. Then again, that is not a fair comparison, considering that Start East is a development aid programme, that the concept is new and still in the process of enhancement and that monitoring and follow-up requirements are stronger than for normal credits. There is, however, room for cost reductions by diminishing the follow-up missions and by utilizing local consultants for part of the work.

Provisions for bad debt losses have not been made. The cases studied do not indicate the bad debt risk level of the programme, but some write-off will be required. Among the 25 conditional loans now in arrears, Sida has estimated that 7 loans, worth MSEK 1.1 will not be collected. Including the cost of bad debt in the discussion above, the administration cost will rise to 8 öre per lended krona and SEK 27,500 per loan.

4.3.2 Cost Effectiveness of the Programme

Sida contributes to a maximum of 30 per cent of the planned investment. The results obtained are results from the total investment. Thus, Sida is in this respect "piggy-backing" on investments made by the companies.

Is the programme cost effective? The programme is responding to a well identified need in the Baltic States and Russia, to stimulate economic development through private sector development. The programme objective is quite clear; to help initiate business cooperation between Swedish and host country companies with good chances to become profitable and sustainable. A great number of positive effects have been observed. To answer the question one then has to question whether better results could be achieved at lower costs with a different method? The main results achieved are the long term collaborations, the transfers of knowledge, the jobs created and the profit generated. Job creation might have been better achieved by an entrepreneurship development programme in the countries, possibly connected to a loan scheme for starting up businesses. The long-term collaboration and transfer of knowledge are, however, difficult to reach unless two partners are established in a commercial partnership. The size of the soft loans and the administrative costs of running the programme can always be discussed, but the concept of the Start East programme is a clever construction. We believe Sida has found a concept which encourages entrepreneurial thinking without creating too much reliance on grants. In our minds the Start East programme is a cost effective programme for stimulating business cooperation with nearby markets.

4.4 Improvements

It is recommended that:

- A third phase of the Start East Programme be initiated.

- The screening procedures be strengthened in respect of
  a) better market assessment
  b) improved appraisal of financial strength of Swedish partner and a more thorough analysis whether the investment needs in the application are sufficient
  c) improved assessment of development potential of host companies through the use of local consultants or Swedish entrepreneurs with extensive business experience in the region.
  d) more emphasis on practical experience and industrial knowledge of the Swedish partner.

- A fourth decision point be included annually to speed up the decision process.

- The Swedish parties be allowed to report on progress periodically in writing throughout the implementation.

- Investment credits be extended to three years, with a one year grace period.

- Successful businesses be allowed to apply for a second loan focused on transfer of management skills and installation of management tools.

- Less expensive follow-up procedures be developed.

- The issue of reference letters to the successful businesses be considered.
- The requirement for geographical distribution of Swedish companies be reconsidered.
- An LFA-based plan be elaborated before the start of the third phase. Goal formulations may be improved as may the corresponding selection of indicators.
- ALMI take measures not to be overinclined to approve applications. More refusals should be made in the first scrutiny, before the applications reach Sida.

5 Lessons Learned for Similar Programmes

The notion of fuelling development processes with the ambition and drive of Swedish and foreign small companies is worthy of support. When projects with true synergies are found, employment and turnover come as natural effects.

If one factor should be pin pointed which may contribute to the successful establishment and running of joint commercial activities, it is the close relations between the Swedish entrepreneurs and their partners. To be able to afford to meet, discuss and work together once or twice per month and have more or less daily contact over the telephone or telefax is critical for the Swedish partners' willingness to invest and maintain a high commitment level. Such intensive contacts are possible because of the proximity of the host countries.

A "Start East Programme" set up geographically distant, will have to bear a large share of the communication costs if it is to attract investors. A regular level of contacts, which is the back bone of the collaborations, will be maintained differently. Probably the contacts will be 100 per cent presence during longer periods and consequently also longer periods of absence. Daily contact for joint problem solving and taking critical decisions will, therefore, not be available as a vehicle for transfer of competence. It can also be questioned if Swedish managers of small firms are able to be absent from their Swedish businesses for longer periods. If the person to be present in the joint business is not the manager him/ herself, a key aspect is lost. Copying the Start East-like programme in more distant markets, therefore, seems difficult.

The other lesson learnt is the importance of screening. All aspects - business idea, markets, supply of raw materials, investments, working capital, financial backing for endurance, motivation of the parties involved and their practical skills and experiences - need to be given the same importance. To find the right balance between burdening a programme with cumbersome bureaucratic procedures, scaring away the most suitable entrepreneurs and giving sufficient weight to appraisals is difficult in all credit programmes. Start East has managed quite well to find criteria and procedures which are not too complicated for the entrepreneurs and which give a fair enough result in successful projects.

Thirdly, a success of Start East is the distinct focus on credits for transfer of competence, which is a crucial aspect of successful establishment but less attractive to invest own capital in. To let the credit remain a credit until successfully complete is a clever strategy to increase the "value" of training. This strategy would be interesting to apply in other development programmes.

Annex 1

Sida

TERMS OF REFERENCE

Sida-Öst/EBC
Anne-Lie Andersson

1996-09-06

Diarienummer

ÖST-1996-0041

EVALUATION OF SWEDECORP/SIDA´S STARTEAST-PROGRAMME

1. Background

SwedeCorp/Sida has been providing support to Swedish companies' establishment of business activities in the Baltic States, the Northwestern part of Russia and Ukraine The support has consisted of loans for Swedish investments in know-how transfer and equipment in the companies of the host countries.

The overall objective of the StartEast-programme has been increased business development opportunities between the companies resulting in long-term business cooperation. The goal was to trigger off productive activities in the countries which connects to the development objective of sustainable economic and social development.

The Swedish companies had to apply for the loans on a special application form presenting a project plan including business idea, planned activities in know-how transfer and investments in equipment. Write-off loans for the transfer of know-how, could be maximum SEK 350 000, of which 50% were paid in advance and the rest when the project was completed and reported The write-off loan was written off after the activities of the know-how transfer had been followed up and approved by Sida. Conditional loans were granted for investments in equipment and the loan should be paid back within two years. The total sum of the two loans was maximum SEK 500 000 and could not exceed 30% of the total investment. Continued financing from Sida for a project was not possible.

Sida has been cooperating with ALMI Företagspartner and its 22 regional affiliated companies (the former Regional Development Funds) regarding the information of the Programme, the selection of projects recommended to be granted and the follow-up of completed projects. The conditional loans have been administered by ALMI since April 1996.

Three times a year Sida has decided upon which projects to be granted. In the selection of projects the opinion of ALMI, the degree of long-term and engagement of the parties involved have been taken into account. Sida aims also at a balanced distribution among projects regarding geographical areas.

Following a pilot-project in 1993, SwedeCorp launched the Programme in March 1994. During the first two financial years - 1993/94 and 1994/95 - five rounds of application were held and 100 projects were granted, totally SEK 32.3 million in loans. In 1995 Sida decided to continue the StartEast-programme and budgeted for another SEK 32 million for loans during the financial year 1995/96 (18 months). Four rounds of applications were planned of which three have been held resulting in support to 64 projects to the total amount of SEK 19.1 million, SEK 12.9 million remains for the last call of the year.

In total 164 projects have been granted loans to the total sum of SEK 51.4 million distributed as follows: 54 projects in Estonia, 22 projects in Latvia, 32 projects in Lithuania and 56 projects in Russia. 80% of the amount accounts for write-off loans and the remaining 20% is conditional loans. The average amount of loans for a project is SEK 312 000. So far 56 projects have been reported and 35 projects followed up. The progress reports from the companies and the follow-up of ALMI indicates that most of the projects carried out have been successful but have taken more time to accomplish than expected.

A independent study was made in June 1995 with the purpose of assessing the efficiency of the programme implementation and the results of the supported projects that far. The outcome regarding the implementation was satisfactory and was assessed to be cost-effective - ALMI was already dealing with matters regarding assessment of companies and business ideas, ALMI was a good regional channel for the marketing of the Programme and had incorporated the Programme among it's other activities. The contacts between SwedeCorp and ALMI was satisfactory, but in view of the growing stock of projects the study recommended Sida to let ALMI handle the project administration to a greater extent. Regarding the results of supported projects the rate of failed projects was at the time very low, likely depending on the short time passed from the start of the projects.

It was decided that an evaluation of the results achieved in the host countries should precede Sidas decision on support to a subsequent programme in 1997.

2. Purpose and Scope of the Evaluation

The purpose of the evaluation is to find out whether the Programme has accomplished its stated goals and objectives, and to examine the effects of the Programme in the host countries. The evaluation will be used as an input for deciding on the appropriateness of, and - if applicable - on the modes for a continuation of the Programme in 1997. The evaluation shall therefore also recommend on improvements as to the programme concept and its implementation. The evaluation and the experiences gained are also expected to have impact on the StartEast-concept to be tested in other geographical areas.

3. The Assignment

The assignment aims at analysing and assessing the results and effects of the StartEast-programme. The evaluation shall deal with both the Swedish partners and the partners in the host companies. Special effort shall be placed on analyzing the effects on the target companies in the host countries. An assessment regarding to what extent the objectives have been reached and the causes of possible divergence from the goals set up shall also be included in the evaluation. The goals of the Programme on different levels are presented in the LFA-matrix dated 1995-02-06 (see annex 1).

The Consultant shall assess the *relevance* of the programme, i.e. analyze:
- at programme level if projects granted have been relevant in order to achieve the overall objective and at company level if the activities have been relevant for the achievement of the project purpose.

The Consultant shall also assess whether the loans have had any impact on the projects, and if the projects would have been carried out without financing from Sida (a check on project proposals that were rejected financial support from Sida shall be included).

The Consultant shall further assess the *achievement of objectives*; regarding the outcome of the results at company level, in terms of target companies reporting improved sales value and/or export sales.

The assignment includes a *cause-effect analysis*, i.e the Consultant shall:
- assess the adequacy and applicability of the criteria used for the selection of Swedish companies to be granted loans,
- identify at company level problems arised during the project implementation and its' causes,
- analyze in what way the loans have had impact on the project,
- identity those areas where cooperation between the partners has been most successful and pinpoint those for which bottlenecks and/or inefficiencies exist.

The projects granted in 1994 shall especially be analyzed regarding long term impact and sustainablility. The *long term impact* shall be commented regarding the possibilities of continued business cooperation or alliances between the companies examined. Comments shall be given regarding *sustainability of results* on whether the methods learned are integrated and applied in the business activities without the Swedish partner's daily supervision or interference. It shall also be considered whether the host companies have the financial strength and are using techniques that are applicable in order to continue business in the long run.

A comment on the alternative cost of realizing the activities without StartEast-financing and whether the projects have been cost-effective shall be included. The Consultant shall also calculate on the *cost-effectiveness* of the Programme at project level in terms of write-off loan/ trainee ratio as well as at overall programme level (aggregated project level).

The evaluation shall at company level also treat:
- whether the measures taken due to the cooperation have had any effects (positive and/or negative) on women within the host company and, if so, in what way?
- environmental issues; if environmental issuses have been taken into consideration and, if any, what kind of effects on the environment (positive/negative) has the cooperation caused?
- whether the cooperation have had any effects on job-creation and other side-effects (positive and/or negative) in the Swedish and/or host company and if so in what way?

All findings at company level shall be analyzed and result in summarized conclusions for the Programme, and recommendations on possible changes of the Programme which can be motivated regarding goals, arrangement, implementation, follow-up, administration etc.

4. Methodology, Evaluation Team and Time Schedule

Methodology
The evaluation shall concentrate on completed projects of which a progress report has been presented. An overall view of project results shall also be presented.

Study of relevant documentation available at Sida, i.e.:
- programme proposals December 1993, August 1994 and June 1995
- report on independent inquiry, June 1995
- agreement between Sida and ALMI Företagspartner
- project applications, progress reports, follow-up reports

The Consultant shall undertake (telephone)interviews with Swedish companies and with ALMI Företagspartner. The interviews shall be followed by a selection of companies to be visited in Sweden and in the host countries. The interviews will be based upon a structured questionnaire being elaborated by the evaluation team in advance. The questionnaire and a summary of the answers shall be an annex to the report.

Evaluation team
The evaluation should be conducted by an evaluation team with two Consultants, preferably a woman included in the team. The competence in the team shall consist of experience/knowledge in small firm management regarding establishment and internationalisation, business and financial considerations, and ability in company assessment. Experience/knowledge

of the Baltic States and Russia is also required. The team is presupposed to have good analytic ability, report practice and good knowledge in English.

Time schedule
The evaluation is presumed to be conducted from the beginning of October 1996 to the end of November 1996, including maximum 16 days for visits to relevant companies in the Baltic States and Russia. Before the field phase the Consultant shall present to Sida a draft questionnaire and a selection of companies to be visited.

5. Reporting

The evaluation report shall be written in English and should not exceed 40 pages, excluding annexes. The outline of the report shall follow Sida Evaluation Report - a Standardized Format (see Annex 4). Five copies of the draft report shall be submitted to Sida no later than **6 December 1996.** Within four weeks after receiving Sida's comments on the draft report, a final version in five copies and on diskette shall be submitted to Sida. Subject to decision by Sida, the report will be published and distributed as a publication within the Sida Evaluations series. The evaluation report shall be written in WP 6.1 for Windows or a compatible format and should be presented in a way that enables publication without further editing.

The evaluation assignment includes production of a summary according to the guidelines for Sida Evaluations Newsletter (Annex 2) and the completion of Sida Evaluations Data Work Sheet (Annex 3). The separate summary and a completed Data Work Sheet shall be submitted to Sida along with the (final) draft report.

6. Undertakings

Sida will inform relevant companies of the evaluation and forthcoming visits by the Consultant. The Consultant will be responsible for practical arrangements in conjunction with the missions in the Baltic States and Russia and other visits. Sida will make available all written material deemed to be of relevance to the evaluation exercise by the Consultant and Sida.

Enclosures:
Annex 1 - LogFrameAnalysis
Annex 2 - Sida Evaluations Newsletter
Annex 3 - Sida Evaluatios Data Work Sheet
Annex 4 - Sida Evaluation Report - a Standardized Format

Annex 2: List of People Met

Arydas Maldziunas, Managing Director, Accel Electronica UAB, Kaunas, Lithuania
Gintautas Ivaskevicius, General Manager, Sakuona, Plikiai, Lithuania
Anders Ollenius, Scandi Flex/Saukuna
Stig Ollenius, Managing Director, Scandi Flex, Västerås
Kestin Ollenius, Scandi Flex, Västerås
Remigijus Gasparavicius, General Director, Telsiu RSO, Telsiai, Lithuania
Oliver Sjölander, Managing Director, Nordiska Byggprodukter, Köping
Mats Boman, Export Manager, Nordiska Byggprodukter
Vaidotas Januskis, Managing Director, Smalka, Moletai, Lithuania
Lars Forsman, Managing Director, FCY First Class Yachting AB, Vilnius
Björn Lagersten, Managing Director, Baltring AB, Bandhagen/Baltring Ltd, S:t Petersburg
Matts Persson, Managing Director, Matts Persson Reklam & Förlag AB, Köping/Viking Pride Corporation/S:t Petersburg
Valodia Postyka, Managing Director, Swerod Timber, S:t Petersburg
Lennart Lannerbeck, Project Manager, Sweros Skog AB, Mariefred
Sten Gidlund, Sweros Skog AB
Valeri Ivanov, Managing Director, Tomadek, S:t Petersburg
Boris Teherniak, Partner, Tomadek
Roland Dahlstedt, Managing Director, Svenska Skåmodul, Knivsta
Alexander Lukin, Deputy Director, Ennec Ltd, S:t Petersburg
Hans Persson, General Manager, Lemo Agency AB, SaltsjöBoo/A/O Lemo International, S:t Petersburg
Anders Brucefors, Rekal
Marie Tunnel, Anti Linhein, Rekal-Orto AS
Jan Olov Strandberg, Mo-Glass Konrads
Peter Sandwall, Lapell
XX, Masi AS
Anders Bengtsson, Stenströms
Avo Hummel, Kalevi ?, Swe-Est Wood
Kjell Hedblad, Lihed
Kaido Klassen, Avo Hilpus, Rein Sörmus, RSF AS
Joe Cederlund, Magnus Cederlund, Cederlund & Co
Peteris Rode, Tosmare
Bengt-Åke Löndahl, LS Wood
Modris Lazdekalns, Ventis Mikuda, Aluksne Wood
Torwald Persson, Torwald Persson CTP
Daumants Metrins, TunD
Pär-Åke Strandsäter, ALMI, Jönköping

Telephone interviews:

Peter Zachau, ALMI Väst, Götebrg
Lennart Larsson, ALMI Blekinge, Karlskrona
Roger Smedhäll, Grafisk Agent, Bålsta
Lars Karlsson, Swe-Balt Wood
Fredrik Haberg, Sun Up AB
Kåre Löfgren, Flagpoles Sweden AB
Håkan Gunnarsson, Drivex, Bengts Mekaniska AB
Christer Eklund, Cejol Teknik AB
Leif Bring, Vimmerby Industrier AB
Flemming Hansen, Östgöta Neon AB
Stig Nilsson, Saltsjöbadssegel, H&S Nilsson HB
Birgitta Tordling, Bernu AB
Bo Thuvesson, Kräknaggen i Göteryd AB
Ullf Lindwall, AB Eric Lindwall

Annex 1

SwedeCorp

PROJECT PROFILE 1995-02-0(

Project: **StartÖst**
Country/region: Eastern Europe
Target groups: Companies in the Baltic states and Northwestern Russia
Intermediaries: ALMI Företagspartner/Swedish small- and medium scale industries

Project No:
Type of project: Business developm
Agreement period: 1/1 1995-31/12 1997

	Intervention logic	Objectively verifiable indicators	Sources of verification	Important assumptions
Overall objective	Increased business development opportunities between Swedish and companies in the Baltic states and Northwestern Russia	Agreed business alliances continues TL: Y2>40% ?	Survey of existing alliances	
Project purpose	Target companies improves sales and exports	1. Target companies(%) reporting increased sales value. TL: Y1 70%, 2. Target companies(%) reporting increased export value. TL: Y1 55%	External evaluation based on questionnaires and examination of company records	Trained personnel remain in companies
Results	1. Improved capacity for product development, quality control and export marketing 2. Improved production facilities	1. Target companies (%) preparing and implementing plans. TL:>55% 2. Target companies(%) investing in new equipment. TL:>55%	Progress reports by intermediaries	Financial strength of local companies adequate for implementation of project plans
Activities	1. Establish credit facilities for Swedish firms initial training programs. 2. Establish credit facility for investment in equipment.	See Workplan	See Workplan	Adequate selection of partnerships and business ideas

Inputs: SwedeCorp financial contribution: 18 MSEK for initial training programs. 2 MSEK for administration.	**Preconditions:** Continued cooperation with ALMI Företagspartner AB in handling application forms for Swedish companies

Annex 4

EVALUATION OF START EAST

QUESTIONNAIRE FOR INTERVIEWS WITH SWEDISH COMPANIES

Name of company:..
Managing director:..
person interviewed:..

1. Company History
   1. Founded at..
   2. Founded in ....19.......
   3. Founded by ....
   4. Product lines today..
      ....
      ....
      ....
      ....
      ....
   5. Owner/manager involved in other companies....................................
      ....
      ....
      ....
   6. Production site: ....
      ....
   7. Volumes: Year

	1992	1993	1994	1995	planned 1996
Turnover					
Staff					
Sales					

   8. Markets/segments served:..
      ....
      ....
      ....
      ....
      ....

2. Business in the Baltic counties or Russia before the Start East programme

1. Started: ....19 ....in ....
2. Started as a result of ....
....
....
....
....
3. Present sales on that market: ....
4. Present purchases from that market: ....
5. First contact with .... in ....
6. Who initiated the contact...
....
7. Other business in the Baltic countires or Russia...............................
....
....
....
....
....

3. The Start East Project:

1. Whose idea...
2. Why...
3. How did you find a partner...
....
....
4. Why this partner...
....
5. Was his/her business operating prior to the Start East project ....
....
6. Initial form of co-operation...
....
....
....
7. Change of idea..
....
....
....
8. Comments...
....
....
....
....

9.Total investment ....

10. Loans: Start Öst ....

Other loans..

11. Specific strategic intention..

(export, import, establishm., subcontr.)

....

....

....

....

12. Project strategy/Methods for transfer of skill and technology:

technology:..

....

....

....

....

skills:..

....

....

....

....

management:..

....

....

....

....

13. Present form of co-operation..

....

....

....

....

14. Present ownership/stakeholders..

....

....

15. Project management..

(how, who, how often contancts, phone/visits)

....

....

....

16. Activities financed by Start East Results/outputs

17. Own financed activites:

18. Deviations from plans

19. Problems encountered: Solutions:

20. Effects on host co. up till now

a. establishment:

b. jobs

c. increased sales/ export

d. profitability..
....
e. quality of production..
....
f. environment...
....
g. gender distr..
....
h. skills and knowledge...
....
i. staff turnover...
....
j. other effects...
....

20. Views on sustainability...
finacial...
....
market..
....
skills...

21. Effects on your co. up till now
a. turnover...
....
b. profitability...
....
c. jobs...
....
d. product line...
....
e. others...
....
22. Plans, perspectives...
....
....
....
....
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....

23. Form(s) of co-operation in the future..
....
....
....
....
....

24. Impact of the loan (s)
....
....
....
....
....

25. Financial strength of host co...
....
....
....

4. The Programme

1. How did you first know about StartEast.......   ....
....
....
....

2. Your ALMI contact..

3. Number of applications..

Which countries..

4. ALMI performance, comments...
....
....
....

5. Sida performance, comments...
....
....
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....
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6. Rules, criteria, agreement; comments...
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7. Control and follow up procedures, comments.................................
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8. Would you have done it without Start East?.......................................
....
....
....
....
....

9. Lessons learnt...
....
....
....
....
....

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