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IFC SmartLessons

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Reaching Out to Indigenous People in the Russian Far East

The Russian Far East faces severe development challenges. Its remoteness and harsh winter conditions, particularly in the case of Magadan Oblast, limit economic development opportunities to mining and fishing. The weak investment climate, combined with geographic isolation, contribute to a poor standard of living. And the most vulnerable group is the indigenous community, where unemployment is four to five times that of the general population. The SmartLesson below summarizes the experience of the Russian Far East Business Development Project in working to develop new economic opportunities for entrepreneurs among the native population.

In 2001, IFC invested in Magadan's Julietta gold mine project, together with the Canadian mining company Bema Gold Corporation. In March 2002, in order to stimulate economic activity in the region, IFC launched the Russian Far East Business Development Project, with funding from the Canadian International Development Agency (CIDA). The goal of the Project was to extend the impact of a joint IFC-Canadian investment to the local community of Magadan by developing a supply base to the mining sector among local small and medium enterprises (SMEs). The Project worked with SMEs to help them overcome basic but critical barriers to their development, including weak business management skills, limited access to market information, poor access to financing, and lack of customer focus. To ensure that the lessons learned and materials developed would remain available to the wider business community, the Project also worked with SMEs outside the mining sector, including the indigenous community.

Lessons Learned: Traditional Arts and Crafts

In general, the aboriginal leadership believed that any initiatives for them should proceed along the lines of traditional pursuits such as fishing, hunting, and herding. To integrate the aboriginal community into the local market, the project not only addressed the needs of



Evdokiya Chivitkina displays her crafts at an exhibition in the City of Magadan. (Photo by the author)

traditionally male-dominated businesses but also catered to activities that provide opportunities for women, such as handicrafts.

The target group in the crafts sector was represented mainly by elder women, and 70 percent of crafters resided in remote native villages 500 kilometers from Magadan, in an area with no infrastructure. The objective was twofold: 1) the preservation of these rapidly vanishing skills; and 2) their revival and expansion to provide a viable, sustainable economic activity for the local aboriginal community. To meet these objectives, we needed local (and nearby) partners.

The Project's key partner for this activity, the Magadan Area Native Association (MANA), had a critical role in the outreach efforts and the extension of sustainable services to the community. Working with MANA and others, we took the following steps:

Local Market Survey. In partnership with MANA, the Project completed a survey of the local market for traditional native arts and crafts, polling visitors to the region, citizens, souvenir shops, and native crafters. The overall key findings indicated that: 1) crafts do not reach the distribution channels; 2) a lack of raw materials, tools, and accessories hampers production of handicrafts; 3) goods are too expensive; and 4) the variety is limited.

Raw Materials Evaluation. Given that CIDA has funded a similar initiative in Kamchatka (the region neighboring Magadan) through the International Union for Nature Conservation (IUCN), the Project recruited key Canadian and Russian IUCN staff to evaluate raw materials availability for crafts and develop recommendations on the sustainable production of native arts and crafts in Magadan. Their main findings echoed the results of the Project's market survey, including: 1) limited access to raw materials; 2) native crafters' lack of knowledge and skills in pricing and marketing; and 3) stores' requirement for utilitarian goods that are useful in daily life and are regularly supplied.

Action Plan. Based on the market survey results and IUCN recommendations, the Project developed an action plan for the revival of the crafts sector in the Magadan Region. It included: 1) providing seminars for dissemination of market survey findings and basic training on market channels and pricing; 2) setting up a support center and engaging a coordinator for sales and distribution of handicrafts; 3) creating financial projections for a revolving fund, based on demand analysis and management costs; 4) selecting the best crafters for training in quality standards in the handicraft market; and 5) assisting with product marketing and distribution, starting with a product catalog for potential buyers.

Trainings. Jointly with MANA, the Project conducted practical seminars—in the City of Magadan and in remote villages—to train aboriginal crafters in marketing fundamentals, including price building, product-mix analysis, distribution, and promotion. The seminars disseminated the findings of the local market survey, and involved a director of the local souvenir store to explain the market requirements to the crafters.

During implementation of the crafts project, it became obvious that the quality of crafts, though traditional, often did not meet market requirements. To improve the quality of aboriginal arts and crafts, the Project engaged the services of a highly qualified Canadian consultant—Pamela Baker, designer and owner of Touch of Culture (T.O.C), a Canadian First Nations Company (First Nations is a term of ethnicity that refers to the Aboriginal peoples in Canada who are neither Inuit nor Métis people.) The primary focus of the quality training seminars—in the city and remote villages—was to impress upon the crafters the importance of quality and consistency in native crafters' work, and to

emphasize the critical role of these factors in market penetration and pricing policy. Training included a step-by-step slide presentation, introduction of computer-aided design (CAD) as a modern quality tool, and samples of native arts and crafts produced by Pamela Baker's company or tribe members. Since attendance of the target groups was less than the numbers hoped for, we decided to provide access to such unique and valuable training to as wide an audience as possible—not only to crafters but also to students with an interest in the field as well as to the broader community. The training was videotaped for crafters of remote communities who were not able to participate in the training.

To facilitate access to materials, the Project located Internet shops selling beads and accessories, and trained a group of progressive crafters on Internet basics and how to order materials online. We also engaged a successful local trade entrepreneur to share her experience in dealing with Internet stores that sell beads and accessories. The group received individual training in developing product lines, cost building, and domestic and international market requirements.



Crafters and trainers gather with the head of MANA and the head of Evensk Area administration at the Project's first seminar on business basics and price building (July 2004) in Evensk settlement, a remote aboriginal community. (Photo by an unknown local photographer)

Marketing. To assist the craft sector with product marketing and distribution, the Project developed several handbooks (such as *Traditional Handicrafts Catalogue*, and *Tracking Sales Handbook*) and helped crafters develop their logos, business cards, flyers, souvenir tags, and portfolios.

To broaden the crafters' operations practice and increase their target audience, the Project (with permission from the Alaska State Council of the Arts) translated and distributed the Native Arts Marketing Handbook developed by the Council for Alaskan Native Artisans.

Distribution Channels. The Project negotiated with the local souvenir store to establish stable channels for selling native arts and crafts. The store agreed to provide commission-sales services for crafters and to assist them

with test shipments of crafts to Moscow and Vladivostok. New avenues also were established through the local tourist companies; the items supplied to their stores were largely



utilitarian—mostly clothing for hunters and fishermen. The improved quality of crafts allowed the artisans to enter into commission-sales relations with two art galleries. The number of sales outlets cooperating with artisans increased from zero to six, and annual sales went from \$0 to \$15,000.

Not all of the Project's efforts were successful, however. To facilitate access to external markets the Project explored exporting through the Pangea store at IFCHQ in Washington, D.C. Unfortunately, high export duties levied on crafts, transportation costs, an aggressive pricing structure, and the high markup of intermediaries resulted in the crafts being too expensive for this highly competitive export market.

The Revolving Fund. The concept of the revolving fund was presented to crafters, who agreed with its basic principles. However, the financial analysis revealed that with a small client base such as that of the crafts sector, a revolving fund would not be viable; but such a facility would work if it were available to all SMEs. The Small Businesses and Crafts Sector Development Fund, "Business Key," was established in 2006 as a spin-off of the Project's activity.¹



Program Coordinator Liliya Sherbakova lives in the village of Evensk and also is director of the Children's Cultural Center there. This photo is from 2004, when she participated in a marketing survey in Moscow. (Photo by the author)

Local Partner and Coordinator Position. One of the options explored was to train MANA to extend sustainable services to the aboriginal community, to service the needs of crafters and other native entrepreneurs. As it turned out, MANA did not have the capacity to provide *business* support services to local artisans, but it was actively involved in all Project activities with native arts and crafts. This knowledge

¹ Please see the SmartLesson "Helping Start-Ups Start Up! Setting up a small, sustainable standalone microfinance facility," by Natalya Kalchevskaya.

would remain in the community after the Project completion.

At the exit stage of activities, the Project concentrated its efforts to locate a coordinator for crafts sales. We identified a business-oriented crafter from the native community who had a lot of experience working with the Project team and had successfully developed her family arts-and-crafts business. Her experience working with remote reindeer herds and her leadership in village administration will help attract the support of the local administration to the craft sector. The Project properly trained the coordinator and provided her with the necessary tools and materials to support and develop crafts sales.

In April 2009, the coordinator happened to visit Alaska, the area of the United States neighboring the Russian Northeast, and explored international sales opportunities with stores and museums through the contacts provided by the Project. The test sales totaled \$1,000—a significant amount of money for local people.

1) Native crafters require substantial hand-holding and explanation of basic concepts such as pricing, distribution, and supply—and how to develop and market their crafts as self-sustaining businesses.

2) Without the active involvement of an experienced local intermediary and trade coordinator, craft sales may not be sustainable.

3) Individual training for the crafters appeared to be a very productive and effective educational tool, supplementing the seminars conducted for the larger groups of participants.

Lessons Learned: Magadan Union of Tribes and Indigenous-Owned Businesses—A New Client and Partner

Early in 2006, a group of business-oriented native tribes established the Magadan Union of Tribes, a nongovernmental organization, to represent the interests of the native population. (Later in 2006, the Union of Tribes became a co-founder of the microfinance fund "Business-Key.") To create jobs in the native community, the Union of Tribes asked the Project for tailored assistance in properly setting up their operational activity. The Project played a pivotal role in the establishment of two commercial cooperatives in the aboriginal community: a fish-processing cooperative, and a transportation (trucking) cooperative. The support of the Project in targeting mining companies in both matters was highly important.

Transportation Company. The Project assisted the Union of Tribes in negotiating a winter road-haulage contract with Bema Gold, the Project's anchor company. Under the terms of this contract, in 2007 members of the union, using a fleet of 12 all-terrain vehicle (ATV) trucks, hauled mining supplies from Magadan to the Kupol mine site some 3,500 kilometers away. The preliminary estimate of the contract value was 5 million RUR (\$190,000). The Project also assisted in developing a business plan (a cash flow for

current activities) to enable the members to access financing for the purchase of two trucks. Today, it is an independent trucking company with a fleet of 20 trucks.

The Project leaves behind: 1) a set of well-developed contacts between SMEs and big mining companies; 2) SMEs with experience and knowledge about how to approach companies and conduct negotiations; and 3) SMEs trained in developing business plans and in ways of approaching financial institutions and “angel investors” for financing.

Fish Processing Cooperative. The cooperative was established to process and add value to the fish caught, and to represent the subsistence and commercial fishing interests of the natives, including their right to ownership of fishing quotas and of fishing grounds in the historical habitat of indigenous peoples.

The Project facilitated the donation of equipment by the Omolon Gold Mining Company (Kinross Gold)—another Project target company—to the Union of Tribes to start construction of a fishermen’s cooperative site that will serve as a shared processing facility for native fishermen.

The Project also assisted the cooperative with the purchase of three refrigerating containers and a freezer. The cooperative was able to provide freezing services to the native community. During the 2007 fishing season, 89 tons of fish were processed for the local fisherman, resulting in net revenues to the cooperative of \$10,000 for services rendered to local fishermen, and 18 seasonal jobs for aboriginals were created. Unfortunately, the cooperative was not granted any fishing quotas in 2008, due to the small fish run. (Natives received only personal quotas.) In 2008, a local branch of the Federal Fishery Committee was established, and the native tribes expect positive developments on the issue of quotas for aboriginal businesses.

4) Indigenous-owned SMEs, although experienced in their businesses, require help to cover the gap in negotiation skills with big mining companies.

5) The viability of native fishing businesses is highly dependent on fishing quotas, which are dependent on local and federal legislation and the transparency of the quota-distribution procedure.

Conclusion

Any projects implemented with the objective of increasing employment opportunities for the indigenous population in remote areas can be regarded as social development projects and thus require substantial involvement and support of all possible parties. These parties include mining and fishing companies, educational and trade facilities, charity funds, and, most important, the support of local governmental authorities, who have a better understanding of day-to-day issues in the remote areas. The best results are achieved by a combination of efforts of all possible parties who are able to answer the question: How can we help develop employment opportunities for indigenous people? The Project was instrumental in helping these parties focus on this question.

To continue beyond the Project, we put in place: 1) a microfinance facility for SMEs, including aboriginal crafters and tribes, where city and regional administrations are represented; 2) distribution channels for the craft sector; and 3) a program coordinator trained by the Project and subsequently elected to sit in the municipal Assembly of Evensk Area in the capacity of deputy.



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