



# **SMEs in the EU and Russia:** **Developments and obstacles**

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## **We are talking about:**

- 1. What is an SME?**
- 2. Why are SMEs important?**
- 3. How are SMEs supported in the EU?**
- 4. SMEs in Russia;**
  - a) Obstacles**
  - b) Solutions**
  - c) Opportunities for Russian SMEs**
  - d) The power of the EU-RF connection**



## What is an SME in EU?

Enterprise category	Headcount	Turnover	Balance sheet total
medium-sized	< 250	≤ € 50 million	≤ € 43 million
small	< 50	≤ € 10 million	≤ € 10 million
micro	< 10	≤ € 2 million	≤ € 2 million



## What is an SME in RF?

Enterprise category	Headcount	Turnover	o r	Balance sheet total
medium-sized	< 500	na		na
Small	< 100	na		na
Micro	na			

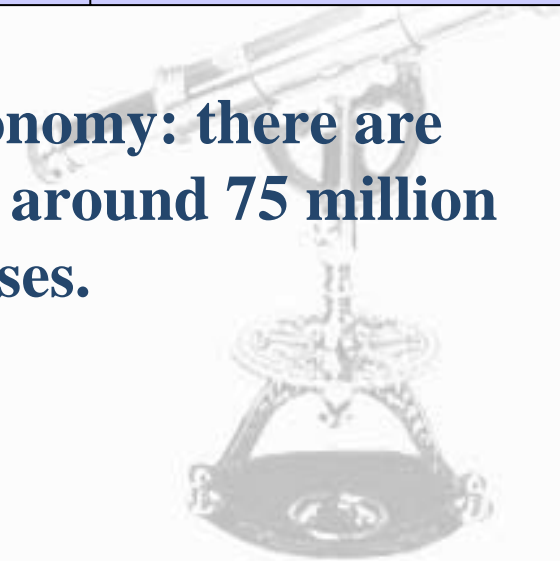
**A small firm is an independent business, managed by its owner or part-owners and having a small market share.**

## Why are SMEs important? I

SME	% of workforce	% of GDP	% of companies
EU	80	75	99
Russia	10 - 45	12 - 40	80

**SMEs make up a large part of Europe’s economy: there are some 23 million SMEs in the EU, providing around 75 million jobs and accounting for 99% of all enterprises.**

**In Russia SMEs could play a similar role.**



## Why are SMEs important? II

SMEs have proven to contribute to:

- **Civil society**
- **Middle class**
- **Political critical mass**
- **Economic stability**



## **How are SMEs supported in the EU? I – general economic**

- **“Lisbon strategy” launched by the European Council in March 2000 to promote the EU as the most competitive and dynamic of the world based upon knowledge and innovation as a unique added value.**
- **Target should be met within 10 years.**
- **As it seemed obvious that targets of the strategy would not be met, a review of the ‘strategy’ was made in 2005 which narrowed the priorities and focused at fostering economic growth and creating more and better jobs. It set two concrete goals: investing 3% of GDP in research and development and having 70% (now it is 60%) of EU population employed by 2010.**

## **How are SMEs supported in the EU? II - general economic**

- 1. Make Europe an attractive place to invest and work**
  - **Widen and develop internal markets**
  - **Improve the legislative framework**
  - **Guarantee open and competitive markets inside and outside EU**
  - **Improve EU infrastructure**
- 2. Knowledge and innovation as engines for growth**
  - **Increase investment in R&D and Promote innovation**
  - **Promote IT and use of sustainable resources**
  - **Contribute to a solid industrial base**
- 3. More and better employment**
  - **Attract more people to the labor market and Increase flexibility of the labor market**
  - **Modernize social security and Invest in education and training**

## **How are SMEs supported in the EU? III – specific SMEs**

- 1. Promoting entrepreneurship and skills**
- 2. Improving SMEs' access to markets**
- 3. Cutting red tape**
- 4. Improving SMEs' growth potential**
- 5. Strengthening dialogue and consultation with SME stakeholders**

### **Hoping to**

- 1. Fuel entrepreneurial mindsets**
- 2. Encouraging more people to become entrepreneurs**
- 3. Gearing entrepreneurs for growth and competitiveness**
- 4. Improving the flow of finance**
- 5. Creating a more SME-friendly regulatory and administrative framework**

## **How are Russian SMEs supported by the EU? – Common Spaces**

- 1. The objective is to create an open and integrated market between the EU and Russia.**
- 2. Work on this space will bring down barriers to trade and investment and promote reforms and competitiveness, based on the principles of non-discrimination, transparency and good governance.**
- 3. Among the wide range of actions foreseen, a number of new dialogues are being launched.**
- 4. Cooperation is being stepped up on regulatory policy, investment issues, competition, financial services, telecommunications, transport, energy, space activities and space launching, etc.**
- 5. Environment, including nuclear safety and the implementation of the Kyoto Protocol, also figures prominently (see also the overview on economics and trade).**

## **How are Russian SMEs supported by the EU? – CES**

### **Concretely for SMEs?**

- 1. Launching of a dialogue on the development of enterprise policy, including the
  - a) improvement of the administrative and regulatory environment of companies and**
  - b) the development of measures to increase competitiveness.**
  - c) Special attention should be devoted to SMEs and their respective needs.**
  - d) Study and report on approaches to the criteria for classification of SMEs in Russia and in the EU****
- 2. “Launching” of a “Dialogue”??**
- 3. Effectiveness of Government policy??**

## **What do SMEs need to prosper?**

- **Enabling business environment and regulations**
- **Adequate basic infrastructure services**
- **Access to short and long-term funding at reasonable rates, equity and venture capital**
- **Advisory assistance**
- **Knowledge about market opportunities**
- **They typically suffer from deficiencies in accounting, production management, and business planning**
- **As SMEs grow, they increasingly need connectivity to export markets and the world economy**

## **A. SMEs in Russia - OBSTACLES;**

- **Poor physical infrastructure (gas, water, electricity, heat)**
- **Poor enforcement of contractual and ownership rights**
- **Administrative and legislative ambiguity (bureaucracy)**
- **Lack of affordable long-term finance**
- **Strong entrenched “informal” networks between legislative, executive, judiciary and business and**
- **Protectionist attitude of big business**
- **Corruption**
- **Lack of SMEs – SMEs enabling SMEs**



## B. SMEs in Russia - SOLUTIONS;

- Funding
- Enforcement
- Please; not one window!
- Political rhetoric and actually no real political solutions
- Governments can only create enabling environment
- Real solution within the sphere of influence of Russian SMEs =
  - Partnering with EU SMEs!!!



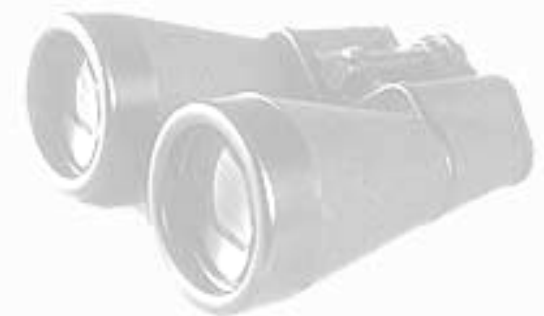
## **C. SMEs in Russia - OPPORTUNITIES;**

1. **Niche markets that are not interesting for the big companies**
2. **Competitive edges over big companies**
  - a) **Flexibility**
  - b) **Independence**
  - c) **Transparency and good corporate governance**
  - d) **Client orientation**
3. **The potential of cooperation with EU SMEs!!**



## Because what do you hear around the EU kitchen tables?

- Returns in Russia higher than anywhere else
  - Stock market 2005 ↑↑ 80%
  - Gazprom capitalization from 30 bln\$ to 300 bln\$ in 3 years
  - Upgraded country ratings (BBB, BAA2)
- It takes determination, flexibility, stamina and hard work but success in Russia is very well possible
- The foreign media are much too negative
- Russia is not more difficult than China



## Will Russia remain stable?

- Continuing high prices for oil and gas
  - (Account for 20% of GDP)
- Low level of consumer credits and mortgage lending (The Russian owns his house, car, dacha)
- Consumptive spending can be easily (temporarily) reduced by the Russian consumer
- Consumption over democracy
- Inflow of foreign capital increased 90% between 2004-2005

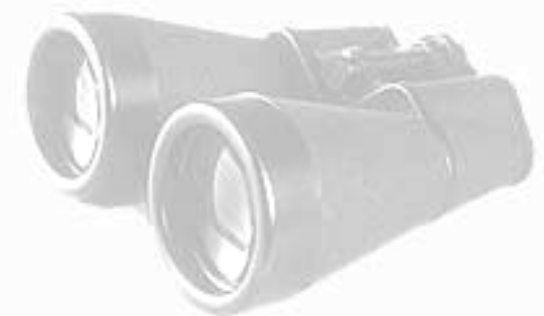
## Successful EU SMEs in Russia

- Independent Media (publishing)
- Baruch (clothing)
- AMS (advertising)
- Direct Star (telemarketing)
- Impress Media (real estate related publishing)
- Feadship and other Dutch yacht builders (luxury and super yachts)
- Stroymoda (office partitionings and furniture)
- KPV Story (construction)
- Juralink (legal services)
- The Lighthouse Group (consulting, publishing, energy)
- Etc.



## WHAT IS THEIR SECRET???:

- **They are there and they are committed**
- **They like it**
- **They understand Russia and its potential**
- **They are ready to be flexible**
- **They are entrepreneurial**
- **They are ready to work with Russia's SMEs**



## D. How can Russian SMEs use EU SMEs to their benefit?

- **CREATE PARTNERSHIPS** by
- **COMMUNICATING** (and establish positive emotions)
- **ANTICIPATING** and **ADDRESSING** partner's concerns
  - Make clear what the potential of the Russian market is
  - Be aware of the concerns your Western counterpart has and address these concerns
  - Provide a realistic picture - no surprises
  - Be transparent! (Prove them wrong and you'll have made a doubly strong impression)

## **Make EU SMEs understand Russia's potential**

- A market of 143 million consumers with strong demand both for consumer and industrial goods
  - 15% of population has a high purchasing power
  - Income is concentrated in large cities in Western Russia
  - 75% of household income is spent on consumption
  - 100.000 millionaires and 33 billionaires (25 in Moscow)
  - The aggregate net worth of Russia's 100 richest businessmen rose to U.S. \$248 bln in 2006 from \$141 bln in 2005
- Demand for innovative products, value-added services and modern equipment and technologies
- **There are many successful foreign businesses active in Russia!!**



## **Address the concerns of your Western Partner**

- **Make your partner enjoy Russia!**
- **Try to understand the Western perspective and be aware of cultural differences and language barriers**
- **Allow both parties to stay in control (of finances and management)**
- **Divide the shares/interests off-shore and agree on foreign arbitration and create win-win situation**
- **Use (general, tax and legal) advisors experienced in Russian-Western business**
- **Be aware of your partner's exposure**
- **Dedicate and commit sufficient financial & human resources**

## **Provide a realistic picture – no surprises**

- **Russia is not always cheap**
- **Russia is a developed market**
- **Movement of capital and equipment subject to certain restrictions**
- **It is difficult to attract external financing for Russian projects**
- **Prepare for bureaucratic procedures**
- **Prepare to be flexible**



## **Be transparent and show that you have:**

- **Good management**
- **Strategy and growth prospects**
- **Clear company structure**
- **Sufficient transparency (tax, legal, finance, etc.)**
- **External advisors**
- **All in all: Good Corporate Governance**



## **Conclusion**

- **SMEs are important for the health of economies and societies**
- **Policy cannot make entrepreneurs; policy can only create the conditions for entrepreneurs. Entrepreneurs are born, not made.**
- **Neither RF nor EU policies aimed at Russian SMEs will lead to great improvements of the SME climate.**
- **Russian SMEs should play their strengths!**
- **Partnerships between RF and EU SMEs can be one of the strongest tools for development of Russian SMEs and of EU-RF relations.**

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