SMEs in the EU and Russia:
Developments and obstacles

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Summer School
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The Lighthouse Group
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?

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<th>Enterprise category</th>
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<th>Turnover</th>
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<td>medium-sized</td>
<td>&lt; 250</td>
<td>( \leq \€ 50 \text{ million} )</td>
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<td>( \leq \€ 43 \text{ million} )</td>
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<td>small</td>
<td>&lt; 50</td>
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<td>micro</td>
<td>&lt; 10</td>
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**What is an SME in RF?**

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A small firm is an independent business, managed by its owner or part-owners and having a small market share.
Why are SMEs important?

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
- BRIC
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.
# Contact LIGHTHOUSE

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<thead>
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<tr>
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<td>Address</td>
<td>Mytnaya Ulitsa 3, office 41, Moscow, Russia, 119049</td>
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