

**TAM/BAS COUNTRY BRIEF FOR RUSSIA
2009-2011**

July 2009

This document provides recommendations for TAM/BAS intervention in Russia over the period 2009-2011. It is a product of the staff of the European Bank for Reconstruction and Development undertaken by the TAM/BAS Programme team and the Office of the Chief Economist. The findings, interpretations, and conclusions expressed do not necessarily reflect the views of the Board of Directors of the EBRD or the governments they represent.

The EBRD does not guarantee the accuracy of the data included in this work.

This Report has been prepared by a core team led by Francesca Pissarrides (Office of the Chief Economist), Valeria Della Rosa (BAS Programme) and Caroline Bosa (TAM Programme). The team was assisted by Lise Bruynooghe (Office of the Chief Economist), Karin Becker (TAM Programme) and Caroline Van Coppenolle (BAS Programme).

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1. ABBREVIATIONS

BAS	Business Advisory Services Programme
BEEPS	Business Environment and Enterprises Performance Survey
GGM	Grant Guideline Matrix
IFI	International Financial Institutions
LEF	Local Enterprise Facility
MSME	Micro, Small and Medium sized Enterprises
OCE	EBRD Office of the Chief Economist
TAM	TurnAround Management Programme

Previous TAM/BAS experience in Russia

The TAM/BAS Programme supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) in the EBRD countries of operation.

TAM

TAM supports the introduction of international best practice in small and medium-sized enterprises with the potential of becoming future leaders in their market through the introduction of international advisors from developed countries with 15 to 20 years of professional experience in the specific business sector. TAM projects typically last around 18 months. The Programme also carries out seminar and training activities promoting international best practices by disseminating successful case-studies to entrepreneurs.

TAM has carried out 210 projects throughout Russia since inception in 1998, 18 of which are still in progress. These projects have been widely distributed throughout all Federal Districts. Currently, projects are being carried out in Far East Russia, the Urals, the Southern (North Caucasus) and the North Western Federal Districts. The largest donors of TAM projects have been Japan, the EU (under TACIS), the Russian Privatisation Center, the UK, the Nordic Council, Finland, the US and Sweden. Other important donors include the Denmark, Italy, Taiwan, Switzerland and Ireland.

BAS

BAS acts as a facilitator for the use of local, private-sector consultants by MSMEs to obtain a diverse array of services. BAS works on both the demand and the supply side. By assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback, it stimulates demand and the understanding of the potential benefits of using external consultants. It also directly increases the supply and quality of local advisory services, through targeted market development activities. BAS supported projects typically last around four months.

The BAS Programme in Russia was first established in Northwest Russia, with the BAS office being located in St Petersburg in 2000 with funding from Finland and Germany. Further funding was then provided by Denmark, Luxembourg, Norway, Sweden, Switzerland, the United Kingdom and the EBRD. In July 2003, another office was established in Kaliningrad with funding provided from Finland, Luxembourg, Sweden and later on by the EBRD. Finally, the BAS office in Far East Russia was established in 2004, with funding from Japan. The Kaliningrad and St. Petersburg offices will be closed as of October 2009.

As of June 2009, BAS Russia has undertaken a total of 825 projects with MSMEs, engaging 232 local consultants. These projects have been widely distributed throughout the three main regions where BAS operates. In addition to standard BAS projects, the Programme has also carried out market development activities by way of trainings for local consultants. Examples of these include a training programme for SME Support Centers' staff in Small Business Counseling carried out by the BAS Kaliningrad, and a Seminar on "Energy Efficiency and Energy Saving for Industrial SMEs: Innovative Technical, Organizational, and Financial Solutions" carried out by BAS in North West Russia.

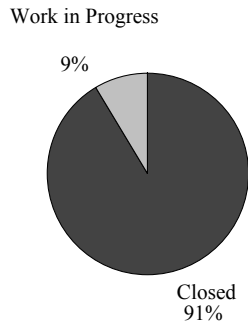
Linkages with banking

To date, two TAM/BAS assisted companies in Russia have attracted two investments from the EBRD or EBRD related financial intermediaries, mobilising a total project value of over € 7.8 million. For MSMEs, the EBRD offers The Facility for Medium Sized Projects which includes mid-cap equity and unsecured debt for Russian SMEs. There is also the Mid-size Corporate Support Facility, providing loans for existing EBRD clients. Other sources of financing are available via local banks.

TAM in Russia in charts

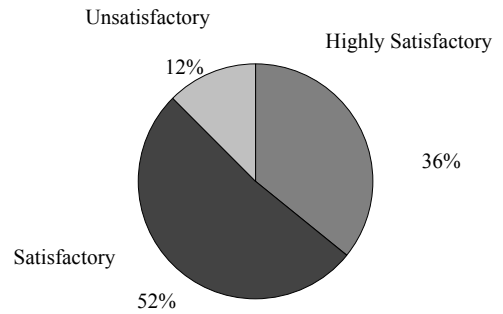
Out of the 210 TAM projects 192 have been completed and 18 are still in progress

Status of TAM projects in Russia



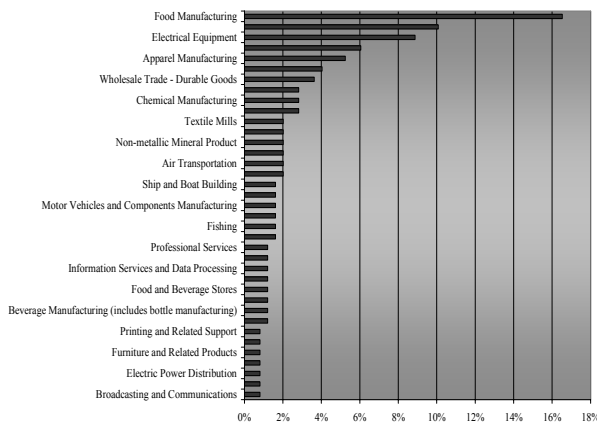
The vast majority of TAM projects have been evaluated as successful

Evaluation of completed TAM projects



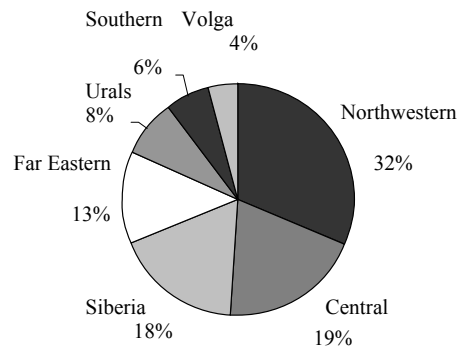
TAM projects have had a wide industry spread, with food manufacturing the most common sector

TAM projects by industry

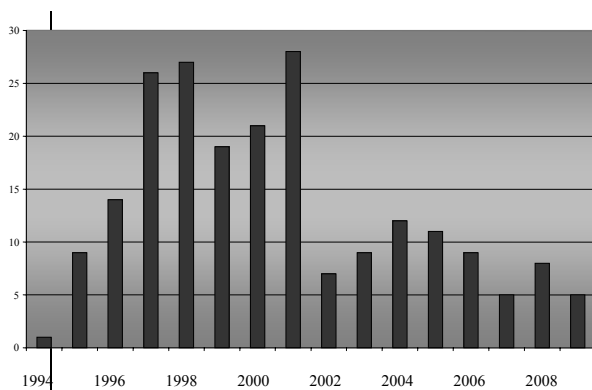


Projects have been dispersed throughout Russia with a broad representation in all federal districts

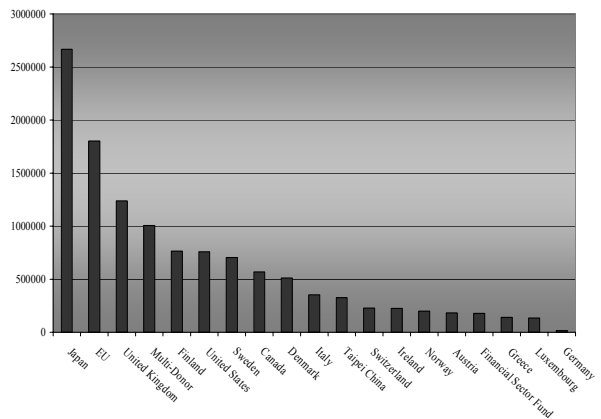
TAM projects by federal district



TAM projects started up over time



TAM Donors in Russia since inception

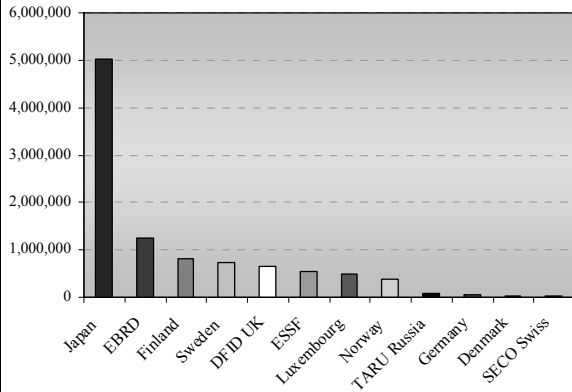


Source : TAM/BAS Programme

BAS in Russia in charts

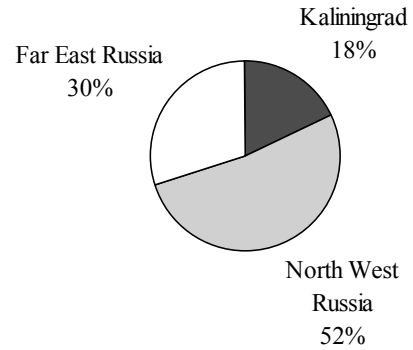
BAS in Russia has benefited from funding from Japan, Finland, Sweden, the UK, Luxembourg, Norway, Russia, Switzerland Denmark and the EBRD.

Donor contributions to BAS Russia



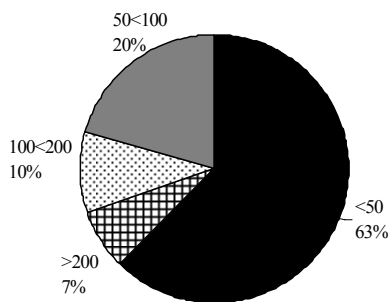
BAS has operated in 3 main regions: North West Russia; Kaliningrad and Far East Russia

BAS projects by office



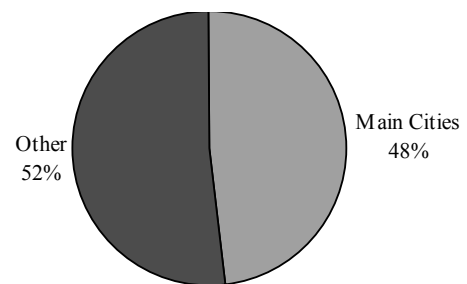
BAS has assisted enterprises of all sizes, but especially micro enterprises

BAS projects by enterprise size



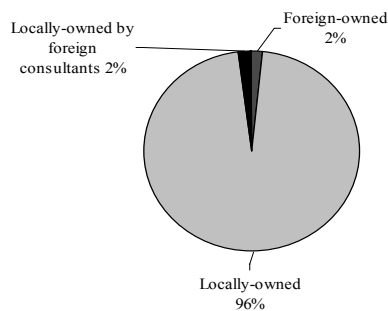
Since 2000, there has been a fairly even distribution of projects between the main cities and other areas

BAS projects by location (rural/urban)



The overwhelming majority of BAS consultants is under local ownership

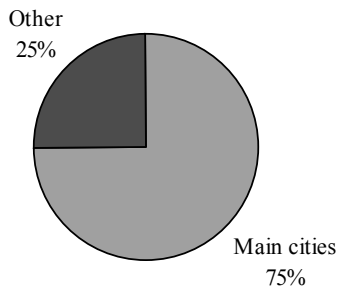
BAS consultants by ownership



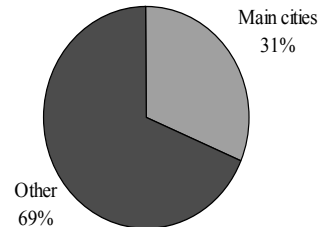
Source: TAM/BAS Programme

The distribution of projects between the main cities and more rural areas has been changing over time in favor of enterprises outside of the main cities in Russia where BAS operates : Kaliningrad, Khabarovsk, Saint-Petersburg, Sakhalin and Vladivostok

BAS projects by location, 2000-05

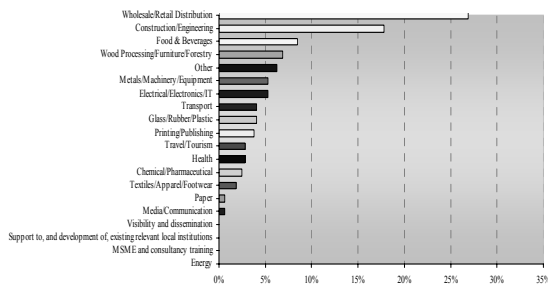


BAS projects by location, 2005-09

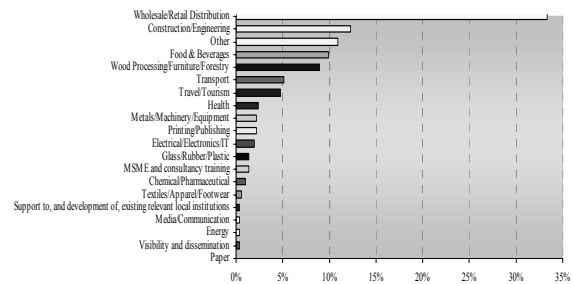


Wholesale, Construction and Food remain three industries where enterprises have accounted for a significantly larger share of the total of BAS projects. Since 2005, projects in wood-forestry, transport and tourism have become more popular since they require more technical and high skilled consultants.

BAS projects by industry, 2000-05

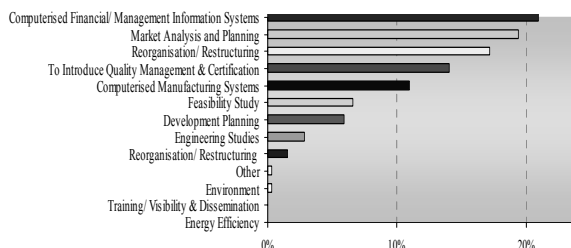


BAS projects by industry, 2005-09

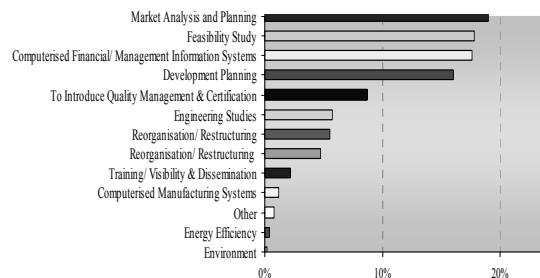


Market Analysis and Planning as well as Computerised Financial and Management Information Systems and Feasibility studies remain popular throughout all the period.

BAS projects by type of advice 2000-05



BAS projects by type of advice, 2005-09



Source : TAM/BAS Programme

The MSME sector and infrastructure of business advisory services	This section lays out some of the main challenges and transition obstacles for the MSME sector in Russia. It provides insight into the level of entrepreneurial activity, the business environment, challenges faced by the MSME sector, and the supply of business support services.
MSME sector gradually gains in importance	Starting from a weak base (61 MSMEs per 1000 inhabitants in 2002) the MSME sector in Russia has gradually gained importance (there were around 80 MSMEs per 1000 inhabitants in 2007). In 2007, MSMEs contributed to 12% of GDP and 22.4% of employment. The level of innovation among Russian MSMEs is fairly low compared to other countries, but a growing number of enterprises (especially newly set up businesses) use new and innovative technology. The MSMEs market in Russia is relatively small due to a heritage of industrial cooperatives which have been privatised as whole entities. Slowly, these enterprises are being rationalised to compete in a free market.
A small and decreasing number of entrepreneurs despite a positive perception of entrepreneurship	According to the Global Entrepreneurship Monitor (not-for-profit academic research consortium producing international research, including surveys of businesses) just over 1% of the population are owners of nascent and new businesses respectively, and less than 2% operate established businesses. The perception of entrepreneurship is positive: the majority of respondents consider that those successful in starting a business have a high level of status and respect in society. Less than 30% of respondents, however, consider starting a business a good career choice for themselves. The same number mentions the fear of failure as a main reason preventing them from starting a business. This may be linked to the fact that around 10% do not feel they have the necessary skills, knowledge and experience to start a business and/or do not see good start-up opportunities where they live. Persons aged 25 to 34 are the most active in setting up new businesses (46% of total entrepreneurs) closely followed by the group aged 18 to 24 (30% of total entrepreneurs). Established businesses are managed by entrepreneurs aged 35 to 44 (42%) and 45 to 54 (31%), with those aged 25 to 34 already accounting for 15% of business owners of established enterprises.
Difficult business environment	Russian businesses, including Russian MSMEs, face an array of obstacles in their operations. Taxes and lack of access to finance are perceived as the main obstacles by enterprises interviewed for the Business Environment and Enterprise Performance Survey (BEEPS), while Doing Business identifies legislation in the field of construction permits as the most significant problem. Further obstacles identified by the BEEPS include practices of the informal sector and political instability. Another obstacle identified by the BEEPS is the high corruption: 17% of MSMEs reported having had to make informal payments to obtain compulsory certificates and 10% reported that a gift or informal payment was requested during some tax regulation inspection. This suggests that a better application of the rule of law would create a more viable and stable business environment for MSMEs.
Access to finance is a major constraint with a poor regulatory and legal environment	Russia has a range of banks and other institutions offering MSME finance, though the demand is still far from being met. Few banks in Russia are organisationally geared towards MSME lending, reflecting the perceived high cost of setting up the infrastructure needed to reach the clients and a view that lending to this economic segment is a high risk and potentially expensive activity. Few MSMEs have bank accounts and significant cash payments contribute to lenders' perception of high risk, resulting in a continuing lack of access to financing. While many banks reported positive changes in their approach to MSME financing (such as simplified requirements for MSME borrowers, more flexible attitude towards collateral requirements, faster disbursements), this work has to be continued together with an increased focus on lifting the other constraints to MSME development. In terms of regulatory and legal matters, both credit registry and private credit information bureaus are in the early stages of development. Collateral and bankruptcy legislation are a further hindrance to MSME lending. The cost of registering collateral is more than twice the OECD countries' average.
Skilled engineers and technical specialists are particularly difficult to afford	According to a survey led by the Global Entrepreneurship Monitor, entrepreneurs with a technical or university qualification tend to be more successful in establishing viable enterprises. MSMEs find it difficult to afford qualified and trained personnel. According to a survey led by OPORA (Association of SME, Survey 2007-2008,), hiring skilled engineers and technical specialists as well as qualified workers is a serious problem for 43% of enterprises.

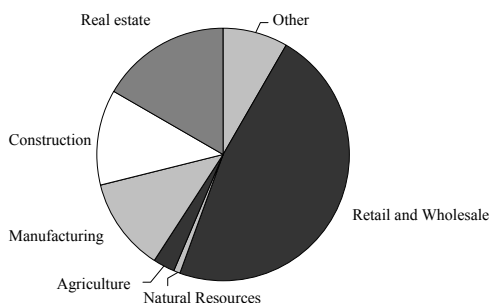
<p>Women entrepreneurs are mostly active in large cities</p>	<p>Women entrepreneurs are well represented in established businesses. The highest level of female entrepreneurial activity is among women who plan to set up a business. Women entrepreneurs operate most frequently in the cities of Moscow and Saint Petersburg as well as in other large cities in the regions.</p>
<p>Business support services are affordable and of good quality, however in need of additional development</p>	<p>According to the OPORTA, enterprises find it relatively easy to train their employees in business skills related to business plans, quality management, marketing and strategic development, export, finance, production processes, and development of new products. 58% of enterprises think that on-the-job professional training is affordable and of good quality. However, 17% underline the lack of specialised and technical programmes targeted at their specific needs. Given the current low level of national and international competitiveness of MSMEs, the survey expects demand for high-quality business advisory services and targeted enterprise training to rise considerably. This will play a crucial role in helping MSMEs increase competitiveness and introduce upgrades in technology.</p>
<p>Consultancy market in Russia not providing targeted services to certain segments needs : entrepreneur skills or highly technical skills</p>	<p>The Russian consultancy market was initially funded by international donors; by 1995, international companies as well Russian consulting firms had entered the market. The current consultancy market in Russia provides basic consultancy services: mainly covering Marketing, Public Relations, and more recently Human Resources which are mainly accessible in the main cities. The local consulting market is often characterized by auditing, information services, or software companies that are offering consulting services on the side and not as a primary business. Consultancy services offered are mostly basic and standardized and they are targeted at the companies which are in growth stage. They are not adapted to respond to the needs and demands of companies at an introductory stage (entrepreneurs) nor at the maturity stage (technical and high skilled services).</p>
<p>Government support</p>	<p>In the past five years, the government has increased its support of MSMEs. SME policy became more prominent with the introduction in July, 2007 of an SME strategy: ‘Developing Small and Medium Scale Entrepreneurship in the Russia Federation’, allowing for better SME regulations and providing support to the growing number of MSMEs. The government is committed to raising the share of GDP generated by the sector, which is currently low at an estimated 12%. Various government programmes focus on the SME sector, ranging from facilitating administrative procedures to providing funds to alleviate financial constraints of the crisis on SMEs. Several associations and business organisations provide SME support at regional and local level. One example is OPORTA, the Association of Small Business Organisations, which represents over 50 non governmental business associations. OPORTA provides legal counselling to entrepreneurs and aims at fostering dialogue between entrepreneurs and the state.</p> <p>Recently the government has identified a gap in support for entrepreneurs and start ups and launched a couple of initiatives, such as the Innovation and Entrepreneurship website which is targeted at informing entrepreneurs in the field of innovative business, as well as the Russian partnership in a Gate to Russian Business Innovation Networks (Gate2RuBIN) project, that is aimed at creating opportunities for establishing partnerships between European and Russian companies and research organizations. However these efforts are not accessible to most entrepreneurs and there is a lack of funding available to promote new SMEs and encourage young people to stay, invest and do business in Russia.</p>
<p>Number of international donor programmes significantly reduced</p>	<p>With Russia having grown into a middle income country and emerging as a donor itself, the attitude of international donors towards Russia has changed. The number of programmes and the extent of assistance have been significantly reduced. The UK Department for International Development (DFID) for example has ceased aid to Russia in March 2007 and the EU funded TACIS programme came to an end in late 2006. International donors now concentrate mostly on programmes targeting underdeveloped regions and/or sectors and topics (such as economic development of the Northern Caucasian Republics (EU), support of the mining industry and craft businesses in the Magadan Region (IFC), innovation in the high-tech industry). Also, support from the EU continues on a national level through the European Enterprise Network Russia, which aims to provide Russian MSMEs with information on EU regulations and market requirements but also makes business data available to MSMEs.</p>
	<p>The largest donors of TAM projects have been Japan, the EU (under TACIS), the Russian Privatisation Centre, the UK, the Nordic Council, Finland, the US and Sweden. Other important donors from the past include the Denmark, Italy Taiwan, Switzerland and Ireland</p>

followed by the EBRD Special Shareholders' Fund. TAM is anticipating funding for six to seven energy efficiency projects in several parts of the country, and other funding has been forthcoming from Finland for the Northwest. Going forward, it is anticipated that bilateral donors will form the core part of the funding for TAM. By far the main donor for the BAS Programme in Russia has been Japan, followed by the EBRD Special Shareholders' Fund, Sweden and Finland.

The MSME sector in charts

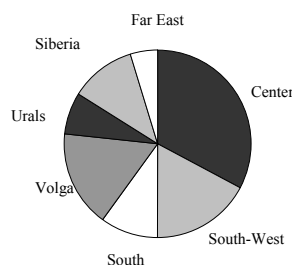
MSMEs are concentrated in Trade

MSME across sectors, 2007



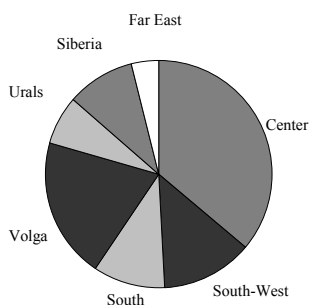
...and in the Central and South-West and Volga regions of Russia

MSMEs across regions, 2007

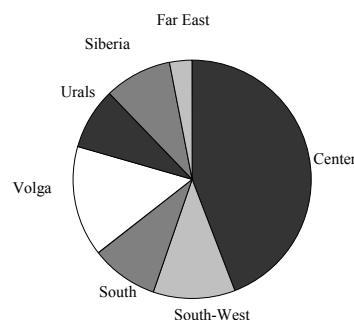


MSMEs contribution to employment and turnover is also highest in the Central, South West and Volga regions, highly correlated to the overall number of enterprises

Number of employees across regions, 2007

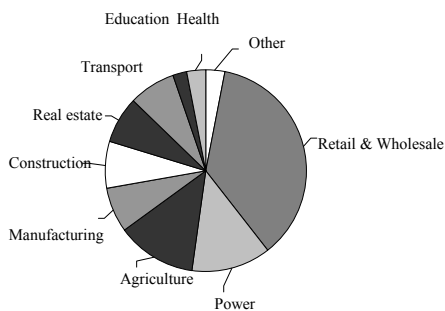


Turnover of MSMEs across regions, 2007



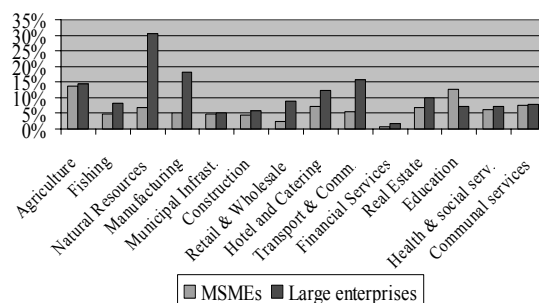
Turnover per employee is highest in Trade and Agriculture

Turnover per employee across sectors, 2007



MSMEs are particularly efficient in Agriculture, Municipal Infrastructure, Education, Health and Social services as well as Communal services

Cost-effectiveness of production: MSMEs compared to large enterprises across sectors, 2007

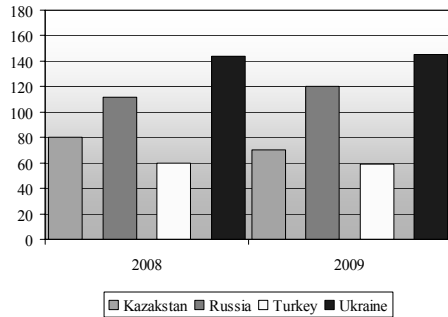


Source: EBRD, Russian State Statistical Committee.

Business environment in charts

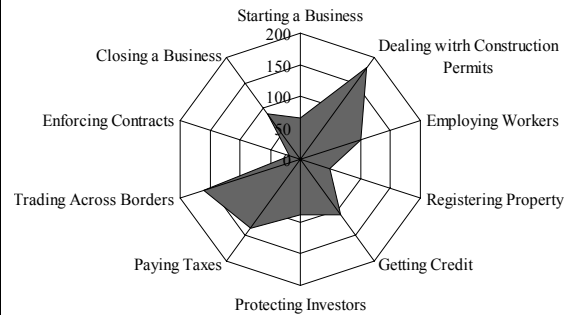
The business environment has not improved in the past year and does not compare well with the region.

Doing Business Ranking



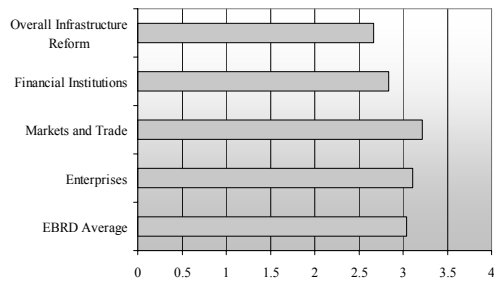
Dealing with construction permits, trading across borders and paying taxes are major impediments to business.

Doing Business Ranking



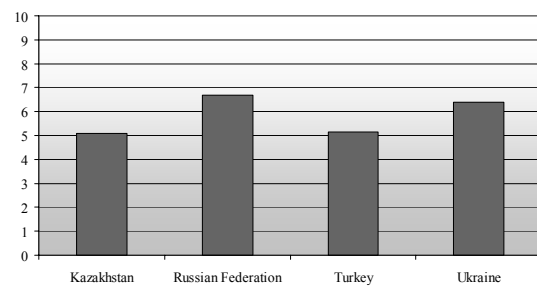
Reform of the national infrastructure and financial institutions has lagged behind other areas.

EBRD Transition Indicators (2008)



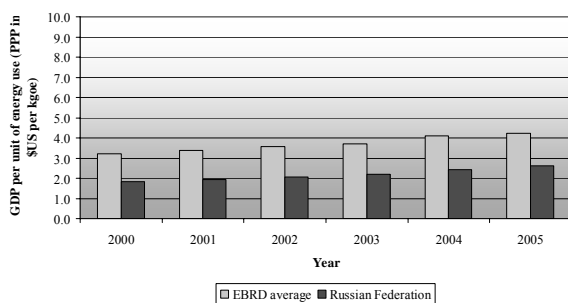
High literacy and tertiary enrolment rates, publications and number of patents translate in a relatively high potential for the development towards a knowledge economy

Knowledge Index (2008)



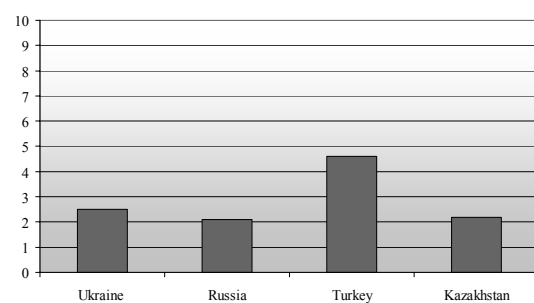
The lack of adequate price signals and weak institutional capacity translate into very high energy and carbon intensity.

Energy Efficiency



Perceived corruption is quite high by regional standards

Corruption Perceptions Index (2008)



Source: EBRD, World Bank, Transparency International.

<p>Recommendations for future TAM/BAS interventions</p>	<p>This section highlights proposed TAM/BAS interventions to address the gaps and challenges analysed in the previous section.</p>
<p>Continuation of TAM</p>	<p>This Brief finds strong support among interviewed stakeholders for TAM to continue operating in the Russian Federation in 2009-2011. The main impediments faced by Russian MSMEs, which can be addressed through TAM assistance are lack of knowledge of: effective organisational and management structures, efficiency in production processes, business planning, marketing techniques and lack of exposure to international best practices.</p> <p>TAM plans to target enterprises needing assistance to improve energy efficiency and those located in rural areas. Geographically, TAM will particularly target the Northwest, Far East and Southern Federal Districts. Key industry areas of focus will be machinery, electrical goods and chemicals manufacturing, renewable energy, wood processing, and shipbuilding and repairs in coastal areas. TAM projects with enterprises in these industry areas will provide important platforms for visibility and dissemination of knowledge throughout Russia to improve energy efficiency and encourage safer environmental practices. Further areas for TAM intervention include food production and retail. These will be a particular focus in growing rural areas including new mining districts where new development is most needed. Companies wishing to continue to receive TAM assistance after the conclusion of a TAM project should pay for services.</p>
<p>and BAS</p>	<p>Stakeholders in the enterprise sector unanimously believe that Russian entrepreneurs could benefit strongly from the help of business advisory services. The main advantage of BAS is that it contributes to the creation of a viable infrastructure of business support by operating on both the demand and the supply side of the market. Evidence shows that the local advisory market is not yet well developed hence, while the BAS grant should remain the key component of BAS assistance, targeted market development activities should play a significant role in BAS assistance to Russia.</p> <p>A Grant Guideline Matrix is proposed in Far East Russia in order to prioritize intervention, avoid duplication of efforts from international donors and focus on the areas where Russian businesses have needs and no access to such services. Higher grants should be given to:</p> <ul style="list-style-type: none"> - smaller enterprises - enterprises outside the main cities of Vladivostok and Khabarovsk - projects involving technical and highly skilled types of advisory services aimed at improving market performance, environmental management, as well as quality management systems and environmental and energy efficiency.
<p>in addition to targeted market development activities</p>	<p>It is recommended to complement TAM/BAS assistance at the enterprise level with the following market development activities in order to maximise the Programme's transition impact in Russia.</p> <p><i>Visibility and dissemination:</i> The BAS Programme should take steps to promote the use of business advisory services by MSME and should organise seminars and trainings related to international best practices in application of consultancy services and what benefits it brings.</p> <p><i>Support to and development of existing relevant local institutions:</i> The BAS Programme should continue to support the consolidation of the Russian consultancy industry, specifically by assisting existing associations of consultants to grow further. A considerable number of business associations operate in the different regions across Russia, but often do not offer a wide range of services to their members. BAS should continue to support these associations through MDAs, facilitating the promotion of business advisory services to MSMEs. Moreover, the Programme should also assist local institutions with the objective to support the Russian MSME sector especially facilitating services targeted to young entrepreneurs and rural businesses..</p>
<p>with a strengthened focus on addressing cross cutting issues</p>	<p>In order to address cross-cutting issues that are pertinent to Russia's MSME development, the TAM/BAS Programme should promote measures to increase energy efficiency in production and reduce environmental pollution. TAM will seek projects with manufacturers for heavy industry, in areas such as chemical, metal, machinery and energy production, water sewage and water supply companies. As the attainment of environmental standards enhances (or is often essential) the ability of businesses to market in the EU, TAM will work with enterprises to</p>

ensure their manufacturing processes meet EU standards.

BAS should focus on the projects requiring high level technical advisory services to provide energy efficiency advice and help address environmental regulations in response to the lack in technical and skilled advisory services in the private sector.

BAS should furthermore focus specifically on offering services at the introductory level: targeted towards young entrepreneurs, including Market Development Activities such as mentoring, funding application, business planning.

However, such measures will only be successful if entrepreneurs start understanding the potential future payback for their enterprise which is not a priority for the smallest enterprises. TAM/BAS should also devote efforts to supporting rural areas as those areas outside the main cities face a lack of exposure to free market practices. Entrepreneurship should be encouraged through programmes for young entrepreneurs where young managers of enterprises work closely with a BAS consultant or TAM advisor.

TAM/BAS would seek private funding specifically towards developing community and corporate social responsibility projects alongside EBRD investments in natural resources projects

TAM/BAS is seeking other sources of funding for its activities in Russia since the number of donors in the country has been decreasing significantly over the years. The Programme should seek private sector funding specifically to address cross-cutting issues and for community corporate social responsibility projects which are in line with the current developments in Russia.. TAM/BAS community projects could be developed alongside EBRD investments in large natural resources project given the high number of these sites in industries such as extraction and forestry.

By seeking private sector funding, TAM/BAS would expand its sources, and be able to help local communities while at the same time valuing corporate social responsibility. Most companies see corporate social responsibility programs as a way to fulfill the contract between business and society. But many companies are also creating real value through their environmental, social, and governance activities—through increased sales, decreased costs, or reduced risks—and some have developed hard data to measure even the long-term and indirect value of such programmes.

This Brief as contribution to EBRD's policy dialogue

By thoroughly analysing the business environment and clearly identifying the challenges faced by the MSME sector, this brief further strengthens the EBRD's policy dialogue toolkit. Future challenges for the government (among others) are identified as improving law enforcement, reducing inequality of treatment and administrative corruption, improving tax administration and improving the educational system.

An input for enhancing linkages with banking

In line with TAM/BAS Strategic Plan 2008-2010, TAM/BAS should continue to assist the Bank to meet its objective of generating a commercially viable project pipeline for direct investments by the Bank that will be transitional in three ways:

- identifying potential pipeline (pre-investment)
- providing “consulting and business” services for the preparation and support of Bank private enterprise financing projects and for the enterprises themselves
- providing candidates for non-executive board member positions.

In addition, the Programme should link MSMEs in need of finance with the EBRD's Facility for Medium Sized Projects (for new clients of the bank) and the Mid-size Corporate Support Facility (for existing EBRD clients). TAM/BAS should also encourage enterprises to consider other sources of EBRD financing available via local banks. This will strengthen the Bank's impact in the enterprise sector and in the financial sector, as outlined in the EBRD Country Strategy for the Russian Federation.

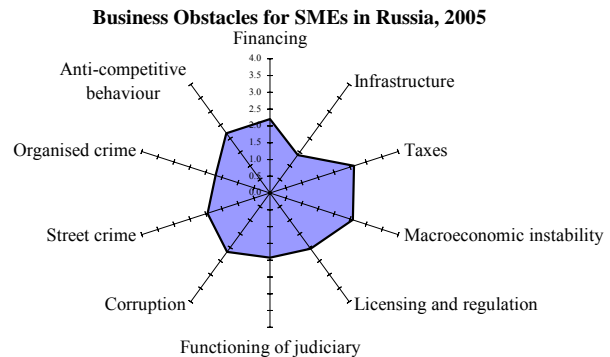
ANNEXES

1.1. Russia MSME Fact sheet

Russia MSME Country Brief

Key MSME Sector Challenges

* *Inadequate access to debt finance still acts as a constraint on growth for SMEs, with transparency of financial accounts, and information sharing through credit bureaus still poor;* * *Corruption and unfair competition have worsened according to recent surveys;* * *Access to land and premises, and the costs and need for personal connections in registration procedures still act as impediments;* * *Overall, a slow trend towards deregulation was found in surveys over the past five years.*



Source: EBRD

Source: BEEPS (2005)

Country Data

Series Name	2002	2003	2004	2005	2006	2007	2008
GDP per capita, PPP (constant 2005 international \$)	9549	10300	11094	11861	12797	13873	14917
Unemployment, total (% of total labor force)	8	8	8	7	7	6	..
Unemployment, female (% of female labor force)	8	8	8	7	7	6	..
Rural population (% of total population)	27	27	27	27	27	27	..
Total businesses registered (number)	2048820	2310474	2572135	2908840	2962576	3267325	..
Enterprise Restructuring (EBRD transition indicator)	2.33	2.33	2.33	2.33	2.33	2.33	2.33
Competition Policy (EBRD transition indicator)	2.33	2.33	2.33	2.33	2.33	2.33	2.33

Source: WDI (2007) and EBRD

BEEPS (2005)

Change in Performance in Last 36 Months	Small Companies	Medium Companies
Sales % change	19.9	29.2
Exports % change	2.4	4.8
Fixed assets % change	12.2	20.1
Material inputs % change	20.8	29.8
Employment % change	42.7	206.9
% of companies adopted new technology	29.4	33.0
% of companies changed organisational structure	35.3	48.5
% change in capacity utilisation	16.0	11.5

Source: BEEPS (2005)

Initiatives Undertaken in Last 36 Months	Small Companies	Medium Companies
Developed successfully a major new product line/service	30.9	39.4
Upgraded an existing product line/service	50.3	50.0
Discontinued at least one product (not production) line/service	16.1	17.4
Agreed to a new joint venture with foreign partner	1.8	3.8
Obtained a new product licensing agreement	16.3	18.9
Outsourced a major production activity/service that was previously conducted in-house	5.3	13.6
Brought in-house of a major production activity/service that was previously outsourced	3.3	4.5
Obtained a new quality accreditation (ISO 9000, 9002 or 14,000, AGCCP, etc)	6.5	14.4

Source: BEEPS (2005)

Global Competitiveness Report (2009-2010)			Doing Business (2008-2009)					
	Rank (out of 134)	Score(out of 7)	Global Rank (out of 181 in '08 and out of 183 in '09)		Transition Country Rank (out of 28)		Change in Transition country rank	
			2008	2009	2008	2009		
Global Competitiveness	63	4.15	Ease of...					
Higher Education and training	51	4.3	Doing business	106	118	23	24	-1
Extent of staff training	91	3.57	Starting a business	50	88	8	18	-10
Goods Market Efficiency	108	3.8	Dealing with licences	177	182	28	28	0
Brain Drain	53	3.52	Employing workers	101	104	17	17	0
Technological readiness	74	3.45	Registering property	45	49	9	11	-2
FDI and technology transfer	103	4.21	Getting credit	84	109	23	25	-2
Firm-level technology absorption	104	4.18	Protecting investors	83	88	13	15	-2
Personal computers	56	13.33	Paying taxes	130	108	19	11	8
Business sophistication	95	3.59	Trading across borders	155	160	22	23	-1
Strength of auditing and accountin	119	3.7	Enforcing contracts	19	19	6	6	0
Burden of government regulation	124	2.43	Closing a business	80	92	14	18	-4

Source: WEF The Global Competitiveness Report (2009-2010)

Source: World Bank Doing Business Survey (2008, 2009) and EBRD

1.2. Overview of the key governmental and non-governmental MSME stakeholders

Governmental MSME Stakeholders			
Ministry for Economic Development of the Russian Federation		The Network of Regional Development Agencies	
Policy support /Legislation		Promotion/ Information support	
<p>The Mission of Ministry for Economic Development of the Russian Federation is to improve the competitiveness of Russian economy as a basis for economic growth and improvement of quality of life of population.</p> <p>Improving the competitiveness of Russia's economy assumes the following:</p> <ul style="list-style-type: none"> To strengthen economic diversification and lack of infrastructural restrictions; Improving the comfortable conditions for business, a favourable investment climate; Improving the efficiency of social sector; Strengthening the integration of the country into the world economic space; Improving the functioning of state institutions. 		<p>Regional Development Agency contributes to the successful development of the country through creation of conditions required to set up civil society institutions.</p> <p>The Agency represents interests of Russia's business community, federal and regional authorities, members of public organisations and business circles of other states. The major targets cover complex development of the Russian economy, consolidation of the domestic industry, contributing to the modernization of such based on the principles of fair trading, social responsibility, exchange relations, private property protection, freedom of enterprise, business ethics; development and support for business activity, enhancing the social role and positive reputation of the domestic business.</p>	
Non-Governmental MSME Stakeholders			
Chamber of Commerce and Industry of the Russian Federation (RF CCI)	Russian Union of Industrialists and Entrepreneurs (RSPP)	Business Associations and Consultants	All-Russian Non-governmental Organization of Small and Medium Business "OPORA RUSSIA"
Interest Group/ Lobbying/ Promotion/ Provision of legal support to members	Interest Group/ Lobbying/Promotion/ Provision of legal support to members	Interest Group/ Lobbying/ Promotion/ Provision of legal support and services to members	Interest Group/ Lobbying/ Provision of legal support to members
<p>Represents the interests of small, medium-size, and big business and it encompasses all business sectors – manufacturing, domestic and foreign trade, agriculture, the finance system, and the services. Promotes the growth of the Russian economy and its integration into the world economic system and it provides favourable conditions for the advancement of all business sectors.</p>	<p>Initiates new bill drafts and make continuous efforts to improve the existing legislation, including such areas as taxation, debureaucratization of the economy, small and medium business development, liberalization of foreign exchange regulation and the customs policy and others.</p> <p>Maintains regular contacts with authorities at the federal and regional level to keep them informed about the efficiency of applicable laws and to protect the interests of industrialists and entrepreneurs.</p> <p>Holds round tables, forums, conferences and public discussions on key issues of business development in Russia;</p> <p>Develops regular relations with business community organizations in other countries; provides assistance to Russian businessmen in developing their export capabilities, overcome discriminatory restrictions on export of goods and services from Russia and attract foreign investments for domestic production development.</p> <p>Keeps the general public informed of the place and role of the Russian business in carrying out the prosperity-oriented reforms through public activities, including expositions, presentations and awards (Best Russian Enterprises, High Social Efficiency Organization) and through ongoing interaction with the mass media.</p>	<p>A considerable number of business associations operate in Russia.</p> <p>The Business Associations operate in most cases as lobbying bodies (they represent and defend interests of professional community in federal and regional authorities of the Russian Federation, in trade unions and other institutions) and do not offer a wide range of services to their members.</p> <p>A lot of consulting companies and private consultants operate over the Russian Federation. They promote consulting and sell services to MSMEs.</p>	<p>The main issues of OPORA RUSSIA are:</p> <ul style="list-style-type: none"> • Lobbying of entrepreneurial interests • Creation of "feedback" channel in business and authorities relationship • Elimination of economic and legal bases of administrative barriers • Participation in the state policy in small and medium business sphere • Strengthening of the influence of business associations and other NGOs • Support of the businessman high social status and the prestige of entrepreneurial activity <p>OPORA RUSSIA is developing international cooperation and assists its members in establishing partner relationships with entrepreneurs from foreign countries.</p>

1.3. Overview of international donor programmes

The climate of international donors in Russia has recently changed. The former Technical Assistance to the CIS, funded by the European Union Commission, no longer exists. Nevertheless, the EU continues to support SMEs in Russia partly through the European Enterprise Network Russia. This network aims to provide Russian SMEs with information on EU regulations and market requirements but also make business data available to SMEs.

http://www.euoinfocenter.ru/eicc-EN/index.php?do=static&page=about_center

The European Commission is also funding, together with the EBRD, a program in the Northern Caucasian Republics which involves helping the set ups of SMEs. This program has a budget of 20 million euros.

http://www.delrus.ec.europa.eu/en/p_565.htm

The UK Department for International Development (DFID) has ceased aid to Russia because Russia has emerged as a donor itself and grown to a middle income country.

Amongst other projects, the World Bank has funded (via the International Finance Corporation) a program joint with Canada to help with the development of the Magadan region. It provides assistance to SMEs, particularly in the mining supply chain, helping to developing management efficiency skills. It also provides advice to entrepreneurs in other sectors, including the local population and craft businesses.

http://www.ifc.org/ifcext/eca.nsf/Content/Russia_AdvisoryProjects

1.4. Background information on MSME stakeholder interviews in Russia

In April 2009 interviews with major stakeholders in the MSME sector and the consultancy market were conducted. This annex provides a list of the interview partners and the questionnaire used.

<i>Russian Officials</i>		
Ministry of Economy and Trade	Stanislav Voskresensky	Deputy Minister
Ministry of Finance	Dmitry Pankin	Deputy Minister
<i>International Organisations and Embassies</i>		
Central Bank	Mikhail Kovrigin	Deputy Head of Supervision
IFC	Nena Stoiljkovic	Head of Office
World Bank	Samir Suleymanov	Russia programmes coordinator
EU-Russia Cooperation Programme	Hans Schoof	Head of Operations Section
UK Embassy	Anne Pringle	Ambassador
	Ian Gleeson	Head of Economic Section
US Embassy	Eric Schultz	Counsellor for Economic Affairs
	Ali Jalili	First secretary, economic section
	Clayton Hays	Financial Economist
Office of the Economic Development Support Programme in Kaliningrad	Peter Engberts	Senior Adviser/ Resident Representative of Ministry of Foreign Affairs of Denmark
<i>Think Tanks and Associations</i>		
American Chamber of Commerce	Andrew Somers	President
Center for Strategic Research	Mikhail Dmitriev	President
Moscow Carnegie Center	Lilia Shevtsova	Senior Associate
New Economics School	Sergei Guriev	Head
OPORA (Association of SMEs)	Victor Klimov	Executive Director
The U.S. Russia Center for Entrepreneurship	Eric Hansen	Deputy Director
	Victor Sedov	Executive Director
<i>NGOs and Media</i>		
Transparency International	Ivan Ninenko	Expert

1.5. BAS Grant Guideline Matrix:

2.5.1 FER Russia GGM 2009 (BAS office location: Sakhalin, Vladivostok, Khabarovsk)

Size of the company: *Higher grants should be given to enterprises with less than 100 employees as small firms usually are less able to pay for business advice and therefore there is greater need for BAS intervention.*

Geographic location: *Higher grants should be given to enterprises outside the main cities of Vladivostok and Khabarovsk, particularly to those in the small towns of Khabarovsky Krai and Sakhalin.* While companies in these areas tend to need the most help, they often find it difficult to access appropriate business advisory services and do not have the necessary financial resources to pay for them.

Type of advisory service: *Higher grants should be given to support projects aiming to improve market performance and to improve environmental management.* Generally, many entrepreneurs manage their business without proper attention to long-term strategic planning. In the case of the capital cities, all types of projects have a lower grant amount. Only Quality Management Systems and Environmental and Energy Efficiency projects still have a 50% subsidy in the capital cities.

Location/ Size		Type of Advisory Service					
		to improve market performance (Market analysis & planning, Development planning, Feasibility studies, Partner Search)	to improve management effectiveness		to reduce costs (Computerised Manufacturing Systems, Engineering Studies)	to introduce Quality Management & Certification	to improve environmental management (Energy efficiency, Environment)
			Reorganisation/ restructuring	Computerised financial/ management Information Systems			
Capital cities of Vladivostok and Khabarovsk	< 50	33%	33%	33%	33%	50%	50%
	50 ≤ 99	33%	33%	33%	33%	50%	50%
	100 ≤ 199	25%	25%	25%	25%	33%	33%
	≥ 200	25%	25%	25%	25%	33%	33%
Capital city of Yuzhno-Sakhalinsk, city of Komsomolsk-na-Amur, rural areas and small towns of Primorsky Krai	< 50	50%	50%	50%	50%	67%	67%
	50 ≤ 99	50%	50%	50%	50%	67%	67%
	100 ≤ 199	33%	33%	33%	33%	50%	50%
	≥ 200	33%	33%	33%	33%	50%	50%
All other regions of Far East Russia (rural areas and small towns of Khabarovsky Krai and Sakhalin)	< 50	67%	67%	67%	67%	75%	75%
	50 ≤ 99	67%	67%	67%	67%	75%	75%
	100 ≤ 199	50%	50%	50%	50%	67%	67%
	≥ 200	50%	50%	50%	50%	67%	67%

References

World Bank (2008), "Doing Business 2009 – Russian Federation", World Bank Group, Washington D.C., USA.

World Bank/EBRD (2005), "Business Environment and Enterprise Performance Survey (BEEPS) 2005 – Russian Federation"

The World Economic Forum (2008), "The Global Competitiveness Report 2008-2009", WEF, Geneva, Switzerland.

OPORA (Association of SMEs)

US Russia Center for Entrepreneurship : <http://www.cfe.ru/eng/welcome/>

Russia MSME Ressource Center : www.rcsme.ru

Russian consulting market review, Russian consulting business history
Prepared by STEP CONSULTING, Moscow, Russia
Published in "Litza Bisnesa" ("The Faces of Business") №7/1 (124), July 2006