

The National Project to Develop SMEs: What Will Be Done in the Far East?

KEY CONCLUSIONS

Entering foreign markets is one way to develop small and medium businesses in the Far East

“According to our statistics, the number of export contracts from the Far East has increased by roughly 30% over the past year. In addition to lending, we are actively developing and supporting export-oriented companies using such working capital financing instruments as trade financing, international letters of credit, and international factoring. All these instruments enable companies that are entering new markets to develop more actively and cooperate with their partners in APR countries”, ROSBANK Chairman of the Management Board Ilya Polyakov said.

“All of Northeast Asia can and should be a market for the Primorye Territory [...] We are also promoting and developing expertise in this matter because one of the main problems is the inability to operate on foreign markets”, Primorye Territory Deputy Governor Konstantin Bogdanenko said.

“The number of ambitious SMEs that are entering foreign markets is constantly growing. Our corporation offers such companies a programme and mechanisms for assistance”, Japan External Trade Organization (JETRO) Executive Vice President Yasukazu Irino said.

Lending to SMEs in the Far East is growing rapidly

“Employment and the number of small companies in the Far East is about the same as it is throughout the Russian Federation in principle. Pay attention to how the loan portfolio behaves. Whereas growth throughout Russia is roughly 1%, it’s nice to see that lending to small businesses in the Far East is growing at a pace that is 12 times faster”, Sberbank Vice President and Head of the GR Directorate Andrey Sharov said.

PROBLEMS

Low level of entrepreneurial activity

“We see that the share of people who want to open a new business and want to start their own business is not very high, and this is a problem that needs to be addressed”, Russian Minister of Economic Development Maxim Oreshkin said.

“The level of the economically active population in the Far East is lower than the national average. In recent years, a significant outflow has been seen in the population and this, of course, affects the quality of the population. In addition, the quality of the business environment is lower than the average for Russia [...] We need to not only concentrate on measures of monetary support, but also on training and the development of human capital”, Governor of the Amur Region Vasily Orlov said.

A lack of funding, bigger shadow economy, and insufficient awareness about support measures

“As a factor hampering the development of SMEs in the Far East, the lack of financial resources accounts for 70%. Competition with the shadow sector is intensifying. 80% and 83% of people don’t really know about or are poorly informed about support measures and opportunities”, Sharov said.

“We have concluded a concession agreement for 12 years. This is a long contract, and we could not fully utilize the legislation that currently exists because banks aren’t really providing money for 12 years down the line at this point [...] Banks are ready to give money for 3 years. We’ve only read about project financing in books”, Safe Roads of the JAR Co-Founder Vladimir Rimer said.

Underdevelopment of additional sources of funding

“It would be nice to additionally focus on unconventional sources of funding – ones that don’t presume the existence of any physical infrastructure: crowdfunding, crowdsourcing, factoring – these are what could serve as an additional source of funds for entrepreneurs, and what has been forgotten for some reason today”, Russian Deputy Minister of Economic Development Vadim Zhivulin said.

SOLUTIONS

Making it easier for SMEs to access financing

“The most costly project in terms of budget funds associated with the new programme is the subsidization of interest rates for SMEs. The key product that the end borrower will receive is a loan at a rate of the key interest plus 2%, but no more than 8.5%. So it’s a rate that is acceptable and substantially lower than the average level of the borrowing cost on the market. We need to reach a point under the programme where the volume of loans granted exceeds RUB 1 trillion”, Oreshkin said.

“There are sectors or areas where respected banks are extremely reluctant even with the subsidizing of rates. I’m referring to startups, agricultural cooperatives, the Far Eastern Federal District as a regional section, and the North Caucasus Federal District. We will supplement our guarantees in the sectors there, gradually stepping them up from RUB 1 trillion to RUB 1.2 trillion and over the years to RUB 10 trillion. This will substantially expand the market and be a significant help to the market”, Russian Small and Medium Business Corporation General Director and Chairman of the Board Alexander Braverman said.

“We have provided RUB 142 million in business support this year. This is 20 times more than last year”, Orlov said.

Bringing the self-employed out of the shadow sector

“Another aspect is related to shadow employment and shadow competition. A separate project is being implemented in this regard to get the self-employed involved in the legitimate stream of commerce. This means creating new tax regulations with a rate of 4% when providing services or selling goods to individuals and a 6% rate when providing services to legal entities”, Oreshkin said.

Promoting entrepreneurship

“We need to actively promote success stories that we already have and talk about positive trends, how to do business, and that this isn’t as big of a problem as it seems to many, and show that you can achieve great success in this way”, Oreshkin said.

Modernizing control and oversight activities

"We can cite the example of France when our colleagues introduced some very good things that led to a reduction in control and oversight activities and saved EUR 2.2 billion. There are a few basic principles. The first is the declarative procedure for SMEs: if the monitoring authorities don't respond within a certain time, the reporting is conditionally taken into account, information is accepted, etc. The second important principle is to say once and for all that enterprises don't have to submit the same information in different forms to different control and oversight bodies. The third thing is to simplify access to public procurements in terms of the administrative burden", Partner, Head of Global Strategy Group in Russia, and Head of Public Sector at KPMG in Russia and the CIS Alexey Nazarov said.

Developing channels for communication between business and the government

"We should once again take a look at the channels of communication with entrepreneurs. There is still demand for convenient, comfortable, and high-quality channels for interaction between entrepreneurs and the authorities [...] We should also focus on the use of digital platforms and electronic methods of interaction. This is something that will seriously enhance the convenience of working with support institutions – a format in which entrepreneurs can learn about services, receive services, and interact with the authorities and development institutions all within a single window. This is something that has been talked about for a long time, but we still haven't managed to realize at all", Zhivulin said.

Attracting entrepreneurs to public business organizations

"Public organizations must play an enormous role. Only every tenth entrepreneur is a member of a public business organization in Russia. And this is probably one of the reasons why our business environment is not what we would like it to be", All-Russian Non-Governmental Organization of Small and Medium-Sized Businesses OPORA RUSSIA President Alexander Kalinin said.