

SMALL AND MEDIUM BUSINESS IN RUSSIA AND EXPORT POTENTIAL OF THIS SECTOR

Sectoral structure of SMEs in Russian national and regional level

By 1 January 2013 according to the official data of the Russian Federal State Statistics Service (Rosstat) and the FTS of Russia, there are 4.6 million SMEs which employ more than 18 million people in the Russian Federation.

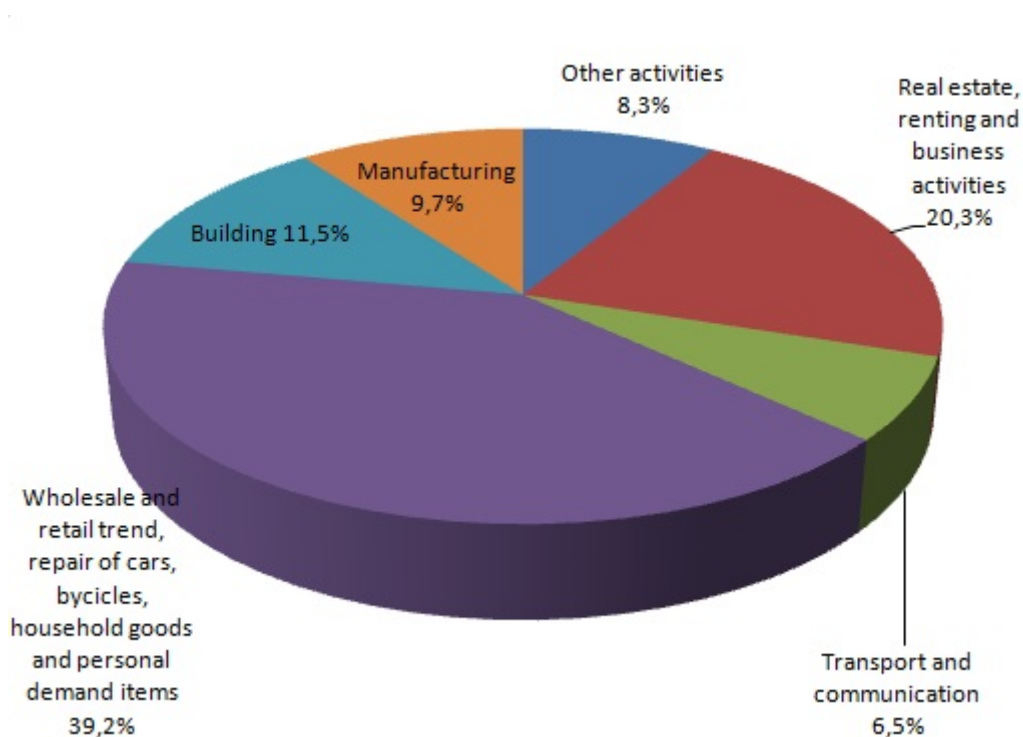
Table 1 - main indicators of SMEs activity
by 01.01.2013 (at the end of 2012)

	Micro	Small	Medium	IP	All categories of SMEs
Number of SMEs, thousand	1760.0	243.0	13.8	2628.9	4645.7
Average number of employees, thousand people	4248.9	6506.8	1719.5	5644.2	18119.4
Turnover (revenue) of SMEs from realization of goods (services), billion RUB	8347.4	15116.3	4110.6	8707.4	36281.7

Sectoral structure of SMEs – juridical persons - represented in the diagram below.

In 2012 the largest share in the total number of SMEs - juridical persons - almost 40% - was of the companies in wholesale and retail trade, repair of motor vehicles and household goods. The second largest segment - 20% - consists of the companies engaged in real estate operations, leasing and services. The third largest segment - 11% - construction enterprises. Nearly 10% of all SMEs - manufacturing enterprises.

Diagram 1 - Number of SMEs by economic activity in 2012 (at the year-end,%)



According to various sources (including the Ministry of Economic Development of the Russian Federation) less than 1% of the total number of active SMEs annually engaged in foreign economic activities covering about 7,000 types of goods and services; at the same time the share of innovative enterprises - those whose competitiveness must be definitely higher and whose products should be more in demand in the international markets - among them is negligible.

According to the Russian Federal Customs Service the total number of active participants of foreign trade in 2011 amounted about 92,000 business entities, including 27,000 exporters (29.3% of the total number of participants of foreign economic activities) and 65,000 importers (70.7% of the total participants of foreign trade activities).

For reference - according to the Russian FCS the total number of FTA participants in Russia in 2013 as a whole was 82,499 business entities, including 21,090 exporters (25.6% of the total number of FTA participants), 70,274 importers (85, 2% of the total number of FTA participants); at the same time it should be noted that as the same company may be engaged in both exports and imports their amount is greater than the total number of traders. Also in 2013 the total amount of all FTA participants: legal entities – 74,594 (90%), individual entrepreneurs - 7905 (10%).

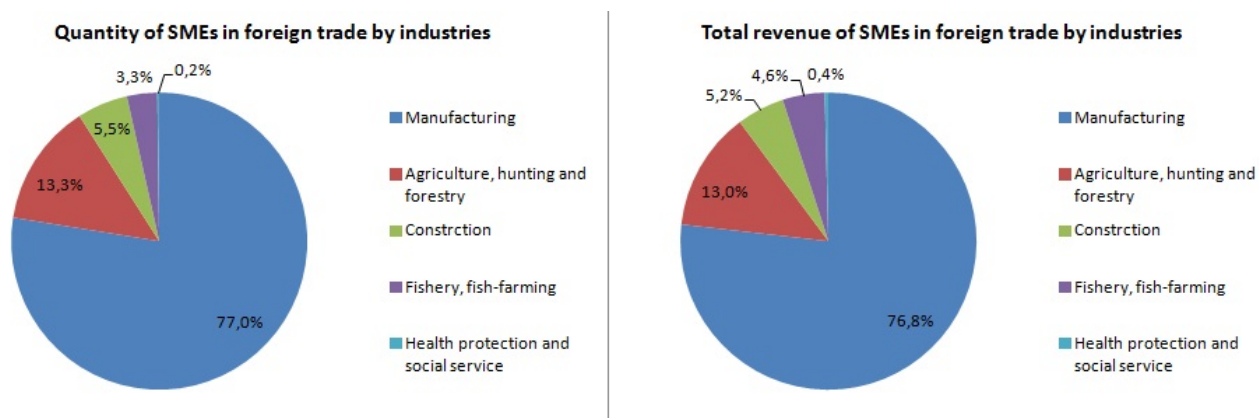
Thus it is clear that in 2013 – in comparison with 2011 - the number of importers as a whole increased by 8%, while the number of exporters - decreased by 22%.

Export activity in all directions and commodity positions in 2011 was taken by 15 000 SMEs of the total number of participants of foreign trade that is approximately 56% of all exporters and 0.3% of all registered SMEs (including microenterprises and individual entrepreneurs), and import activity - about 42,700 SMEs that is approximately 66% of the total number of importers and 0.9% of the total number of registered SMEs (including microenterprises and individual entrepreneurs).

At the same time export in non-trade sector in 2011 was made by 7,284 SMEs (49% of the total number of SMEs exporters), and import - by 23,670 SMEs (55% of the total number of SMEs importers) (it is worth noting that all of these trends continue in general with respect to the sector of SMEs in 2013).

Relying on various research and analytical information it can be concluded that currently export-oriented SMEs potentially can be 12 - 15% of the total number of registered SMEs in Russia operating in the production and innovation, and partly in services.

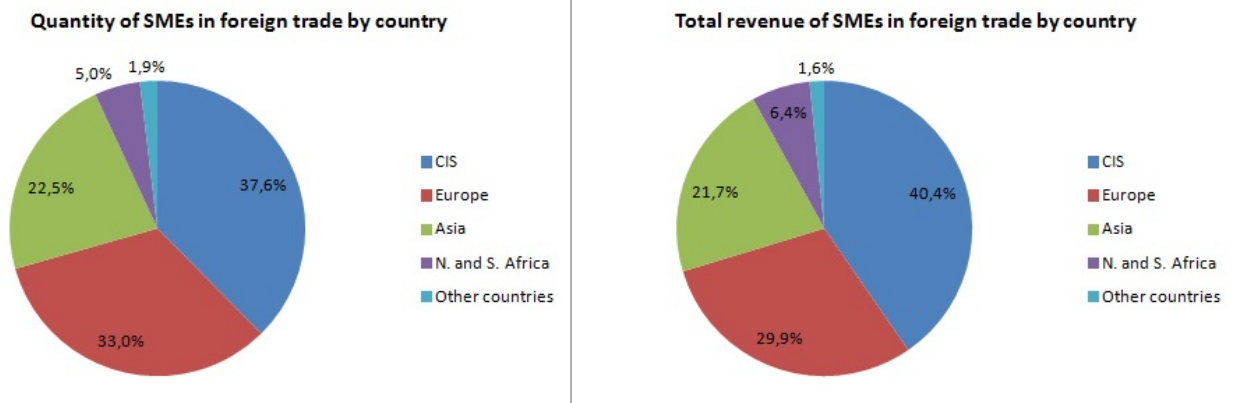
Diagram 2 – sectoral structure of enterprises engaged in foreign trade activities



The structure of export by country

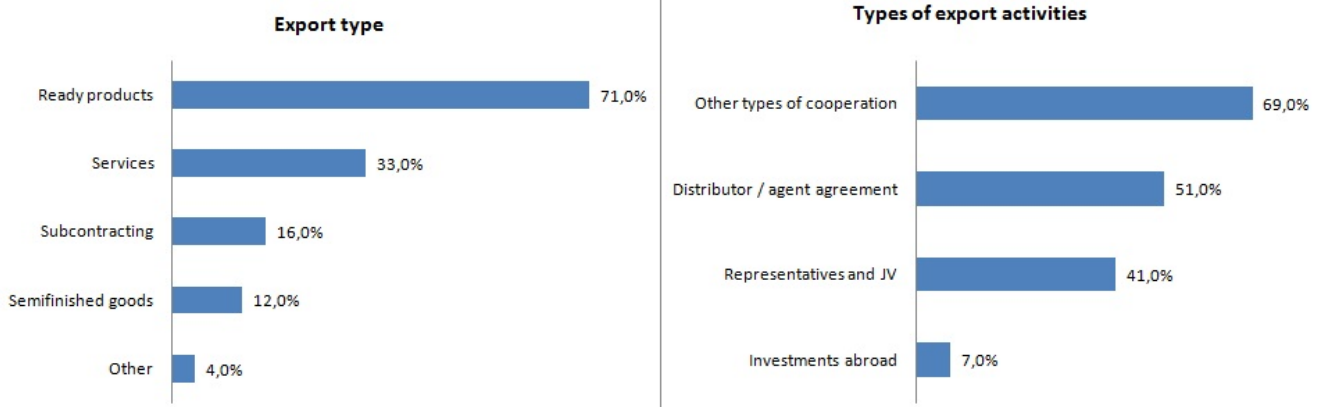
In countries' structure on both indicators (the number of enterprises in foreign trade and their revenue from the sale of goods for export) major groups of countries importing products of SMEs are the CIS countries (about 40%), Europe (30%) and Asian countries (about 22%).

Chart 3 - exports of enterprises by country



The main countries that exported products of entrepreneurs according to total export revenue are: Ukraine (25% of total revenue), Uzbekistan (11% of total revenue) and the USA (6% of total revenue).

Chart 4 - Export activities of SMEs



Talking about the geographical (regional, country) development priorities of SMEs' exports in Russia firstly those markets should be considered in which non-energy goods and products can be claimed (oil, oil products, natural gas, coal), and other sectors of economy, i.e. those goods or products which may be potentially competitive.

On the basis of expert judgment of specialists of Russian Academy of Foreign Trade and the All-Russian Research Institute of opportunistic can make the following table:

Table 2 - competitiveness of the Russian non-oil products in the world markets

Potential to strengthen market positions	Competitiveness		
	global	regional	local
high	steel pipes, mixed fertilizers, timber	gasoline, rolled nonferrous metals, petrochemicals, wood boards, paper and cardboard packaging, civil aircraft, specialized vessels, power equipment, vegetable	

		oil, flour, corn, feed, fish and seafood	
medium	diesel, ferro-alloys, rolled steel, aluminum, titanium, potassium fertilizers, synthetic rubber, plywood, newsprint	electricity, copper, metal, inorganic chemicals, plastics, tires, pulp, graphic paper, glass, cargo ships, mining equipment, optical materials, measuring instruments and tools, furniture, alcoholic beverages, tobacco products	plastic products, household chemicals, building materials, automobiles, agricultural machinery, construction machinery, finished textiles, clothing, jewelry, food
low	oil, iron, steel semi-finished products, nickel, nitrogen fertilizers	coke, zinc, lead, railway equipment, engines	chemical fibers, paints, toiletries, pharmaceuticals, machinery, automotive spare parts, electronics, consumer electronics, medical equipment, passenger ships, textiles, footwear, printing trade

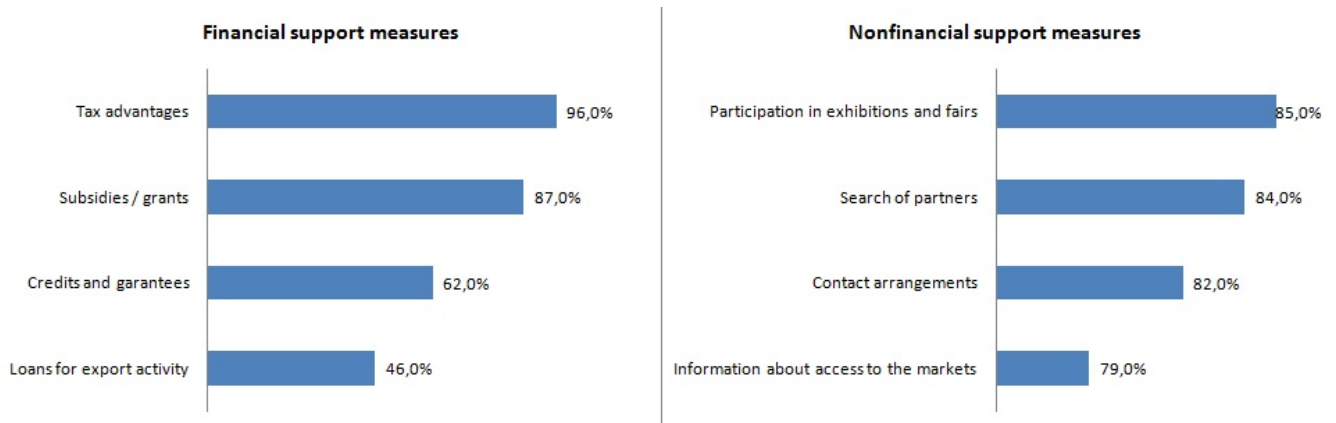
It should be noted that small and medium business cannot compete with large corporations in the export of raw materials, so these companies need to consider other non-resource sector whose potential for development today is significant - in Russia there are huge growth prospects due to deeper processing of raw materials: mineral fertilizers, chemical industry and petrochemistry, wood processing, tremendous opportunities for development in the food industry, agriculture, mechanical engineering (production of various machinery and equipment), metallurgical industry.

High export potential for SMEs is remained in such areas as provision of telecommunications and satellite communications services, satellite navigation and positioning services, product of processing of remote sensing information, information technology, software, security systems, diagnostic systems, laser systems and equipment for medical and other purposes, intelligent systems, development and production of synthetic super-hard materials, microelectronics, etc.

Serious export potential exists in such industries as processing and high-tech industries, medicine and biotechnology, nanotechnology, optics and photonics, space technology, aviation and shipbuilding, microsystem technologies in manufacturing and engineering processes, environmental protection and ecological safety, alternative energy sources.

Key partners in the field of export for SMEs in Russia are - in terms of decreasing priority - the CIS countries, Western Europe, East Asia, Middle East and North Africa, South and Southeast Asia, Eastern Europe, North America and Latin America.

Export development of by SMEs is complicated and labor-intensive process in which SMEs would like to receive a variety of support from the state. One of the priorities is the need for information of different nature - Chart 5:



In addition in the frame of the present project it was carried out special research and analytical work on the export potential of SMEs in Russia - 406 companies from 20 regions of the country were polled about their current export activity and export potential of this sector of the economy as a whole.

The activities of the main part of Russian SMEs are focused primarily on the domestic markets, but at the same time the process of business development in Russia is more influenced by numerous external factors, including Russia's accession to the WTO and the need for SMEs to operate in open global markets in the context of economic globalization, therefore the increased demands on the overall competitiveness of enterprises and their products / services in international markets, compliance with international standards of quality and business management, effectiveness of the activity and promotion, etc.

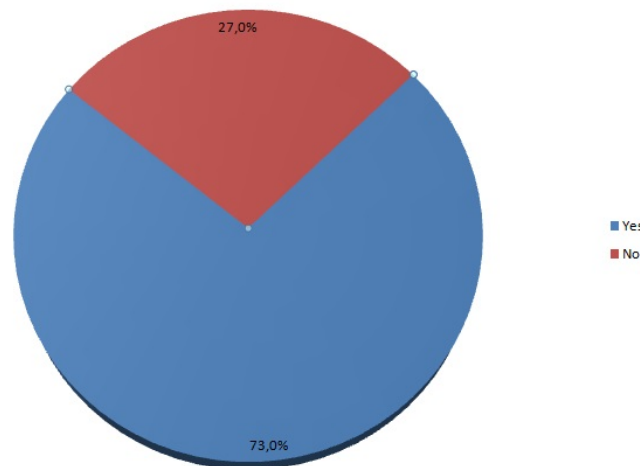
Currently the vast majority of Russian SMEs are not quite ready to take an active outlet and activities in foreign markets; from the point of view of experts the reasons are in the following:

- lack of information and knowledge about the situation in the international markets, development trends and existing niches (promising areas and development, supply and demand in various sectors of activity, etc.);
- lack of qualified professionals of promoting into international markets and of foreign trade;
- weak skills in the field of export of the goods out of the region and the country (the inability to identify target markets, lack of knowledge of specific local markets abroad, lack of culture of international business correspondence and negotiations, weak skills in the field of marketing in foreign markets, etc.);
- lack of or poorly organized process of commercialization of research results and innovative solutions for enterprises (absence or lack of access to the necessary information, lack of financial resources, lack of knowledge of international regulations and standards, etc.);
- weak skills in the field of international marketing and creating brand / product brands (lack of information about existing approaches to advertising materials, poor foreign language skills, lack of creativity, lack of regular marketing policy, etc.);
- insufficient attention to the need to protect intellectual property in international markets;
- inadequate management of production processes (low quality control, failure to reduce costs, outdated equipment, etc.);
- lack of knowledge of existing capabilities of the state program to support SMEs, including in the field of promotion of international markets and low motivation for their use;

- lack of financial resources for SMEs to implement the strategy for entrance to international markets;
- underdeveloped SMEs' access to long-term financial and credit resources for development activities (high interest rates, the need for large bail, etc.).

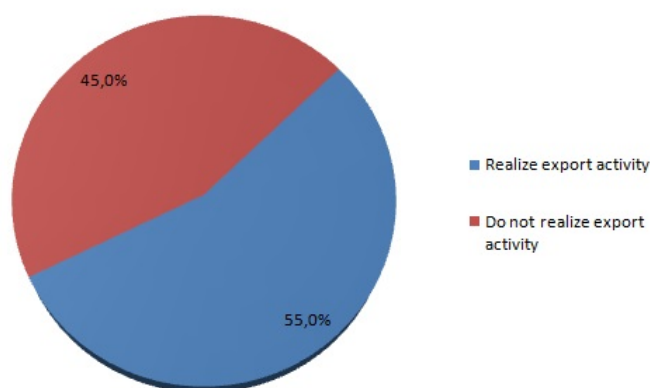
However, among 406 respondents of Russian SMEs in response to the question "Does your company / your company's products has export potential?" 73% (296 enterprises) gave a positive response and 27% (110) are not sure in the availability of necessary resources and capabilities for entrance in foreign markets at the moment (Chart 6).

Chart 6 - export potential of enterprises, %



At the same time among the surveyed SMEs of the Russian Federation, more than half - 55% (223 enterprises) already engaged in export activities (Figure 7).

Chart 7 - export activities of enterprises, %



Export activities are not carried on by 45% (183 enterprises) of surveyed SMEs.

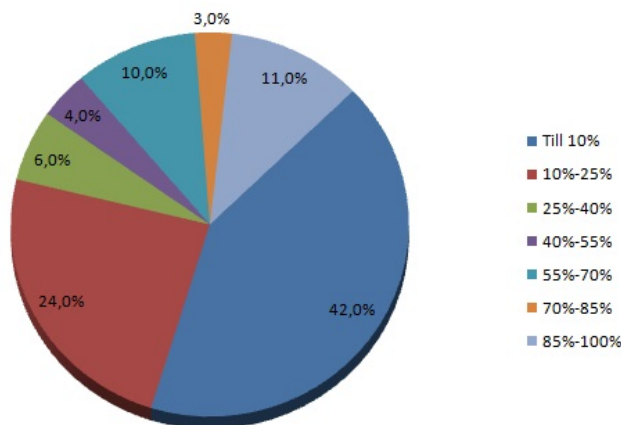
14% (31) of the surveyed SMEs engaged in export activities for more than 10 years, at that up to 3 years - 24% (56 organizations), at the same time there are also 14% (31 companies) of the companies sell its products to foreign markets for 1 year.

Table 3 – temporary characteristic of export activity of Russian SMEs

Indicator name	Quantity of enterprises	Quantity of enterprises, %
Up to 1 year	31	14
Up to 3 years	54	24
Up to 5 years	47	21
Up to 7 years	25	11
Up to 10 years	35	16
More than 10 years	31	14
Total	223	100

Only 11% (27 companies) of 223 SMEs involved in foreign economic activities, carry on almost one hundred percent export activities, while 42% (87) of the surveyed companies receive from exports only 10% of total sales; quarter of the proceeds from the sale due to the implementation of production abroad form 6% (18) SMEs (Figure 8).

Chart 8 - the structure of revenues from exports of SMEs in Russia, %



Geographical characteristics of the export activity of the surveyed enterprises of the Russian Federation is quite extensive (more than fifty countries), the main number supply to the European Union - 48% (107 enterprises).

Country in which surveyed SMEs mostly export - is Kazakhstan - 29% (65 SMEs), the second place takes Belarus - 19% (42 companies) (Table 4).

Table 4 - Geographical characteristics of Russian exports of SMEs, the number of enterprises

No.	Name of the country	Quantity of enterprises	Quantity of enterprises, %
1	Abkhazia	4	2
2	Austria	2	1
3	Azerbaijan	4	2
4	England	2	1
5	Armenia	2	1
6	Belarus	42	19

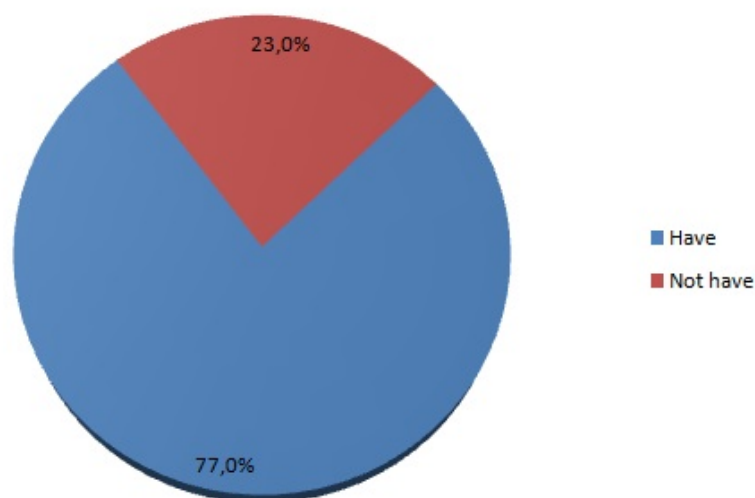
7	Bulgaria	6	3
8	Hungary	3	2
9	Venezuela	2	1
10	Vietnam	2	1
11	Germany	25	11
12	Greece	4	2
13	Egypt	4	2
14	Georgia	4	2
15	Israel	4	2
16	Spain	5	3
17	Italy	7	3
18	Iraq	2	1
19	Iran	11	5
20	India	9	4
21	Indonesia	4	2
22	Yemen	4	2
23	Kazakhstan	65	29
24	Canada	2	1
25	China	29	13
26	Korea	7	3
27	Cuba	2	1
28	Kyrgyzstan	9	4
29	Latvia	4	2
30	Lithuania	7	3
31	Luxemburg	3	1
32	Moldova	7	3
33	Mongolia	20	9
34	The Netherlands	7	3
35	Norway	3	2
36	UAE	9	4
37	Poland	7	3
38	Serbia	4	2
39	Syria	2	1
40	Singapore	4	2

41	Slovakia	6	3
42	USA	11	5
43	Tajikistan	9	4
44	Taiwan	2	1
45	Thailand	2	1
46	Turkmenistan	4	2
47	Turkey	11	5
48	Ukraine	27	12
49	Uzbekistan	18	8
50	Finland	3	1
51	France	3	1
52	Croatia	4	2
53	Czech Republic	4	2
54	Sweden	3	1
55	Estonia	5	3
56	South Africa	7	3
57	Japan	11	5

Also worth to note considerable percentage of enterprises exporting the products to Germany and China - 11% (25 companies) and 13% (29 companies), respectively.

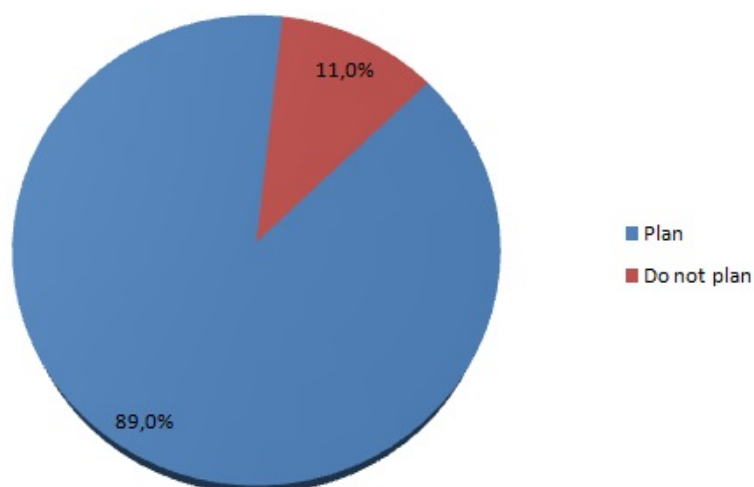
77% (141) of 183 SMEs in Russia (45% of respondents), which do not carry on currently export activity, say that their SMEs have export potential (Chart 9).

Chart 9 - presence of export potential of SMEs, %



89% (125) of the total number of SMEs respondents who say that they have export potential plan to start export activity in the next 1 - 2 years (Chart 10).

Chart 10 - intention of SMEs in Russia to launch SME export activities in the next 1-2 years, %



Main barriers and blocks to the development of export activities according to executives of 406 surveyed companies from 20 regions of Russia are as follows (Table 5).

Within the study it is known that the main barrier for Russian SMEs to develop export activities is the lack of information on the possibilities and requirements of foreign markets - 43% (174) of the respondents gave this reason.

Second place takes shortage of funding for start / conducting export business as the main barrier which in the opinion of 37% (151) of companies prevents development of export potential. 36% (146) of enterprises believe that the lack of information about potential partners is a serious block to the development of export activities of SMEs in Russia.

Table 5 - main barriers and blocks to develop export activities of SMEs in Russia

No.	Indicator name	Total number of answers	Total number of answers, %
1	Lack of information about possibilities and requirements of foreign markets	174	43
2	Lack of information about potential partners	146	36
3	Product discrepancy to the requirements of foreign markets	72	18
4	Lack of product certification according to international standards	104	26
5	Lack of financial resources to start / conducting export activities	151	37
6	Lack of knowledge / skills of employees for conducting export business	78	19
7	Outdated equipment and production technology	34	8
8	Lack of opportunities to promote	99	24

	products to foreign markets (business missions, exhibitions, fairs, B2B meetings, etc.)		
9	Insecurity of intellectual property	60	15
10	Absence / lack of development tools / export insurance mechanisms (FEA) / export risk minimization	53	13
11	Lack of competitiveness of products for the price in the importing country	42	10
12	The presence of restrictive measures in the importing country	31	8
13	High political risks of doing business in the importing country	24	6
14	High commercial risks of doing business in the importing country	48	12
15	High cost of administration of foreign trade	36	9
16	Unavailability to deal with foreign counterparties on terms of delay in paying	48	12
17	Other	7	2

About a quarter of respondents highlighted such barriers to export of SMEs as the lack of certification of products according to international standards - 26% (104) of the respondents indicated this reason and the lack of opportunities to promote products to foreign markets (business missions, exhibitions, fairs, B2B meetings, etc.) - 24% (99 companies) answers.

Respondents who represent 406 SMEs from 20 subjects of the Russian Federation were asked about the required range of services by the organizations of infrastructure which SMEs of Russia need for the successful conduct / development of foreign trade (export activity).

According to 54% (219) of respondents SMEs mostly need promotion, participation in international exhibitions / fairs / conferences, etc.

Second place by demand was taken by the following services - information on various aspects of FEA / access to international markets (foreign markets' condition; legal requirements; data of potential business partners, etc.); consulting and support on various topical issues of FEA (logistics, customs, contracts, etc.); subsidizing the costs of SMEs in the field of foreign trade by the government - 50% (203 enterprises), 49% (199 enterprises) and 47% (191) of the respondents relatively indicated these three types of assistance. 32% (130 SMEs) is the proportion of respondents who indicated both assistance in attracting of funding (loans) activities in the field of foreign trade as training of staff on the subject of foreign economic activity as an essential service.

Assistance in certification according to international standards and assistance to decrease of the cost of management of foreign trade deals was considered important by 28% (114 enterprises) and 19% (77) of the respondents respectively. 2.2% (9 companies) were undecided. "Other" was pointed also by

2.2% (9) of the respondents which for example in the Primorsky Territory mentioned marketing in importing countries as well as market analysis.

It should be noted that subsidizing a part of the costs associated with participation in exhibitions and fairs abroad is not only a popular measure of state support for SMEs, but also according to the regions is the most necessary service from infrastructure organizations for the conduct of foreign trade.

Table 6 - services of infrastructure's organizations needed by SMEs for the effective conduct of foreign economic activity

No.	Name of service / point	Quantity of answers, %	Quantity of SMEs
1	Promotion (participation in exhibitions, fairs, conferences, business missions, etc.)	54	219
2	Information on various aspects of FEA / access to international markets (foreign markets' condition; legal requirements, data of potential business partners, etc.)	50	203
3	Consulting and support on various topical issues of FEA (logistics, customs, contracts, etc.)	49	199
4	Sponsoring of the costs of SMEs in the field of foreign trade of the state	47	191
5	Assistance in attraction of funding (loans) activities in the field of foreign economic activity	32	130
6	Training of employees / staff training on the subject of foreign economic activity	32	130
7	Assistance in certification according to international standards	28	114
8	Assistance in reducing the cost of management of foreign trade deals	19	77
9	Assistance in the protection of intellectual property	16	65
10	Assistance in attracting insurance products / services to minimize the political / commercial risks	14	57
11	Difficult to answer	2.2	9
12	Other	2.2	9