

Growing Beyond

# Entrepreneurs speak out

A call to action for G20 governments

The Nice Côte d'Azur 2011  
Entrepreneurship Barometer

Produced for the G20 Young Entrepreneur Summit,  
October 2011

## Country digest

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# Russia

## Still tough challenges to tackle

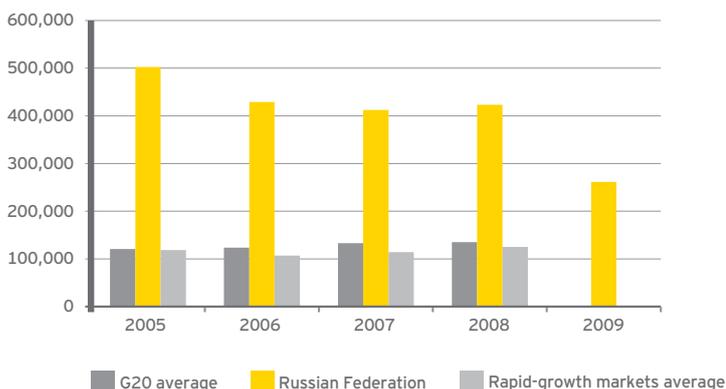
Russia presents a very challenging environment for young entrepreneurs, with only 12% of respondents describing the country as the best place for them. Moreover, 36% look to the United States, praising it as the most favorable environment for young entrepreneurs.

There are different reasons for this pessimism. For example, the country's spending on public education is low, and its entrepreneurs do not believe they receive adequate support. Moreover, different indicators suggest a sharp decline in scientific activities that threatens not only the country's place in an increasingly integrated and competitive global knowledge economy, but also may undermine Moscow's ambition to develop a Russian 'Silicon Valley' in Skolkovo.

The latest figures available indicate recent stagnation in research and development (R&D) spending as a share of GDP and outright falls in both scientific journal articles and number of researchers in R&D per inhabitants – this, while the G20 as a whole and often its rapid growth markets, have improved in these categories.

The total of new businesses registered in Russia fell sharply by 47.9% between 2005 and 2009. While the scale of the fall was largely influenced by the global crisis of 2008-09, a declining trend preceded it – there was a drop of 18% from 2005 to 2007. As a consequence, the country's new business density (the ratio of new businesses registered per year to inhabitants aged 15-64) fell from 4.9 in 2005 to 4.2 in 2008 and 2.6 in 2009.

### New business registered



Source: World Bank. Data not available for US, China and Saudi Arabia

### SWOT – SMEs environment

#### Strengths

- ▶ Several ways of accessing funding have improved in recent years
- ▶ The proportion of young people receiving tertiary education in Russia is among the highest in the G20
- ▶ Government support for Venture Capital (VC) and Private Equity (PE) investments in nanotechnologies and for innovation in general
- ▶ New instruments for growth companies launched at the united Moscow Stock Exchange

#### Weaknesses

- ▶ Small and medium enterprise (SME) bank loans are just over one-third of the G20 average
- ▶ Public spending in education is significantly below the average in the G20 as a whole and in its rapid growth markets
- ▶ Low per capita income

#### Opportunities

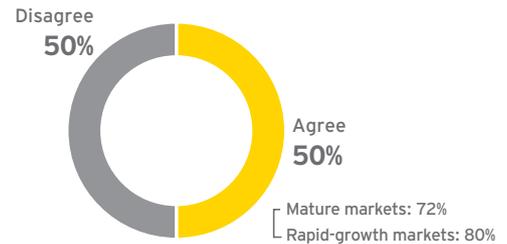
- ▶ Technology-focused companies can benefit from the Government's plan to create a Russian 'Silicon Valley'
- ▶ The low level of state debt
- ▶ The labor market is less burdensome than in other G20 countries

#### Threats

- ▶ The ease of doing business is improving less quickly in Russia than in the G20 average and in the mean of the group's emerging markets
- ▶ Scientific decline threatens growth in an increasingly competitive global knowledge economy
- ▶ Competition from other emerging nations for VC/PE capital

# The need for promotion

Do you think that the culture of your country encourages entrepreneurship?



Source: The Nice Côte d'Azur 2011 Entrepreneurship Barometer by Ernst & Young

According to our survey, Russia needs to promote entrepreneurship to restore a positive image.

**50%** of Russian entrepreneurs feel their culture encourage entrepreneurship against the G20 76%

**3.3%** reduction in scientific and technical journal articles from 2005 to 2007

Entrepreneurs identify many options that could facilitate improvement in the entrepreneurship culture – for example, promoting the career opportunities offered by entrepreneurship, foregrounding the role of entrepreneurs in job creation, and sharing success stories. The positive influence of entrepreneurs on their

immediate environment was seen as effective in supporting the perception of entrepreneurship.

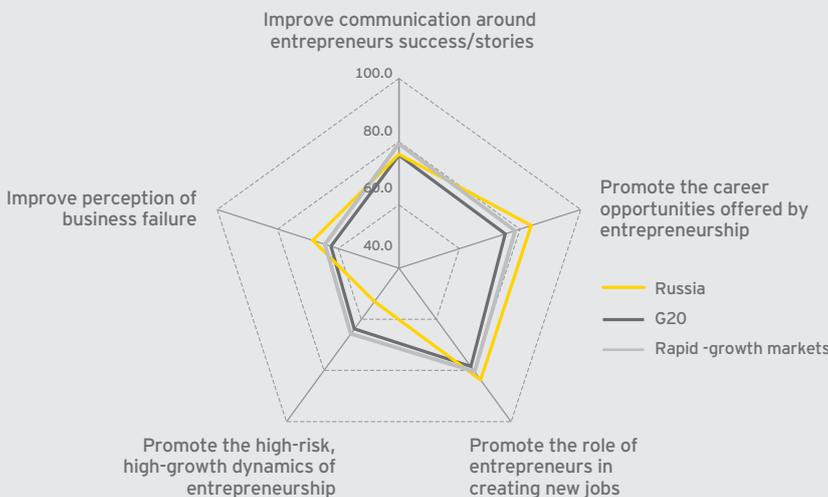
Today, only half of our respondents believe their country's culture encourages entrepreneurship. This is a result significantly under the average of

the G20 emerging markets (80%) and the group as a whole (76%).

In recent years, Russia's innovative environment has declined. For example, the number of scientific and technical journal articles fell by 3.3% between 2005 and 2007, and R&D expenditure as a share of GDP stagnated near 1% between 2005 and 2008. This represents only two-thirds of the G20 average (1.5%), which rose by 0.14 percentage points in the period. In other words, Russia is not only below the G20 mean in R&D investment, but falling further behind.

Furthermore, the number of researchers in R&D per million inhabitants also fell – by 1.7% – in 2005-08. This also contrasts with the 21.9% increase in the G20 developing countries and the (much more modest) 0.5% rise in the group's mean. However, the Government is now addressing the challenge of innovation and has launched an ambitious Russian 'Silicon Valley' program to attract technology companies to the region of Skolkovo. But even if infrastructure and other resources are provided, a high-tech economy will face difficulties growing in the absence of strong R&D investment.

To improve the entrepreneurship culture in your country, which impact will have the following key priorities in the next three years?



Source: The Nice Côte d'Azur 2011 Entrepreneurship Barometer by Ernst & Young

	Russia		G20 average	
	2007	Change 2005-07	2007	Change 2005-07
<b>Innovative environment</b>				
R&D expenditure (%GDP) 2005-08	1.0	-0.03 p.p.	1.5 <sup>1</sup>	+0.14 p.p.
Scientific and technical journal articles (number of publications)	13,953	-3.3%	31,376	+6%
Researchers in R&D (per million of population) 2005-08	3,191	-1.7%	2,340 <sup>2</sup>	+0.5%

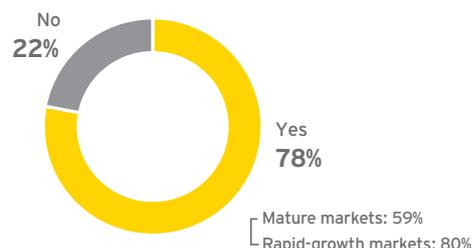
p.p.: percentage points

1. Average based on the 17 countries for which data is available for 2007  
 2. Average for the 13 countries for which data is available for 2007

# Dedicated training crucial

Russians feel that dedicated training is crucial to becoming an entrepreneur. Indeed, 78% of our respondents agree with this statement.

Do you think that students need to follow specific training to become entrepreneurs?



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young

**78%** of respondents find specific training useful to become entrepreneurs

There is a high level of satisfaction regarding developments in specific education. For example, 90% observed recent improvements in entrepreneurship conferences and seminars. Furthermore, 82% held a similar view about universities, business schools and coaching for entrepreneurs.

On most cross-G20 measures of education, Russia does not play in the same league. Public in education is deceitful with just 3.9% of GDP invested in 2006, against the G20 4.8% and rapid-growth markets' 4.5%. Furthermore, the 84.8% secondary school enrollment ratio in 2007 was not only lower than the averages for the G20 and its emerging markets, but also increasing more slowly than both.

The positive exception for Russia is the equivalent figure for tertiary education, in which it achieved 77.2%, with an increase of 5.4 percentage points between 2005 and 2008. Both the overall level and the rise were substantially higher than those observed in the G20 as a whole and in its emerging markets.

	Russia		G20 average	
	2008	Change 2005-08	2008	Change 2005-08
Public spending on education, total (% of GDP) 2005-06	3.9	+0.1 p.p.	4.8	+0.3 p.p.
School enrollment, secondary (% gross)	84.8	+0.3 p.p.	95.9	+1.6 p.p.
School enrollment, tertiary (% gross)	77.2	+5.4 p.p.	53.5	+1 p.p.
Tertiary-type A and advanced research programs (number of graduates)	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	8% <sup>3</sup>

*n.a.* : Data not available  
 p.p.: percentage points

3. Based on 11 countries for which data is available

# Positive entrepreneurs

Russian global access to funding seems to benefit from a more positive perception on other G20 countries. If data largely backs these statements, difficulties remain.

**250%** rise of business angels' networks from 2005 to 2010

**56%** of entrepreneurs think debt equities will highly impact their business growth in the next three years. However, with 5.2% of GDP in SMEs bank loans, Russia lags the 14.1% G20 average

Sixty-eight percent of respondents described positive developments of bank loans in the last five years. However, SME bank lending as a share of GDP (5.2%) hardly compares to the G20's 14.1%. This is a key handicap. Indeed, 56% of Russian entrepreneurs view bank loans as having a high impact on their future long-term growth. This rate is above the 45% of the whole group and the 53% of the developing country members.

A recent evolution in other methods of accessing finance presents a more favorable picture. For instance, the deal volume in PE – an instrument that 48% of Russian entrepreneurs surveyed consider to have a high impact – rose by 125% between 2005 and 2010 (to US\$124 million), compared with a 22% fall in the G20 as a whole. By contrast, the average emerging market in the group had an increase of 295%, but that figure was largely influenced by Brazil's rise of 5,348%. In the same period, the number

of networks of business angels in Russia rose by 250% (albeit to 14, a modest figure). The increase in networks for the seven G20 countries with available data was only 48%.

An example of government action to improve financing conditions for SMEs in Russia is the expanding SME Access to Finance program. This was launched in 2002 with the objective of analyzing the current situation and the prospects for an increase in SME financing. Surveys of the business environment and SMEs were conducted in six Russian regions, and an overview of lending best practices was made. The national Government used the analytical materials and recommendations to design the Federal concept for SME development.

Focusing on public equities, the MICEX Stock Exchange formed a new stock exchange segment in 2009 called the Market for Innovations and Investments

(MICEX RII) with Rusnano,<sup>4</sup> a state-owned corporation. This stock exchange is designed for innovative SME IPOs. Rusnano has currently 30 co-invested projects in innovative nanotechnology. They are planning to have up to 90 such projects by 2013. MICEX RII is seen as a platform for the future exit of Rusnano and other investors.

In addition, MICEX launched a platform aimed at fostering start-up access to venture and seed capital. This platform provides a sounder alternative to angel investment, which remains quite low in Russia.

	Russia		Perception barometer 2005-10	G20 average		Perception barometer 2005-10
	2010	Change 2005-10		2010	Change 2005-10	
Business angels (number of networks) <sup>5</sup>	14	+250%	++	n.a.	+48%	+
Venture capital (VC) (US\$m)	146	+14.5%	+	n.a.	+17%	+
SME bank loans (% of GDP) <sup>6</sup>	5.2%	n.a.	++	14.1%	n.a.	+
Private equity (PE) (US\$m)	124	+125%	+	n.a.	-22%	+
SME stock markets (number of listed companies)	n.a.	n.a.	+	n.a.	+22%	+
IPOs in main stock market (number of deals)	5	+67%	+	n.a.	+12%	+
IPOs in SMEs stock market (number of deals)	3	n.a.		n.a.	-33%	

n.a : Data not available

4. The Russian Corporation of Nanotechnologies (Rusnano) is a \$5bn sovereign fund that co-invests in nanotechnology projects with high commercial potential or social benefit

5. G20 average of the seven countries for which data is available through The European Trade of Association for Business Angels (EBAN)

6. G20 average of the 14 countries for which the indicator is available

## Ease of starting a business still in progress

Russia does not rank as a high performer in terms of the ease of its start-up process. However, Russian entrepreneurs see this improving. While numbers back this perception, improvements remain slow compared with the rest of the G20.

**3.6%** income per capita to start a business is very cheap. But the numerous procedures and the delay are still much higher than the G20 average

The number of procedures only fell by one in Russia from 2005 to 2010. Meanwhile, the rest of the group cut its procedures by 1.4 and 1.8 for rapid growth markets. As for the number of days required to complete the process, it dropped by 5 in Russia, 18.1 in the G20 and 31.8 in developing countries.

But if they improved, Russia's business creation figures still resemble that of G20 developing countries. Nine procedures and

30 days are required in Russia against 9.5 procedures and 33.2 days. This compares with the average 7.7 procedures and 22.3 days for the rest of the group.

On a more positive note for Russia, the cost of starting a business as a share of income per capita (3.6%) is significantly lower than the G20 average (10.6%) and, since 2008, the SME corporation tax rate has reduced from 22% to 18%.<sup>7</sup>

Russian entrepreneurs surveyed also perceived a recent improvement in intellectual property protection in the country. The 2005-09 increase in the number of patents filed in Russia (19.6%) almost doubled the figure for the G20 countries for which data is available (10.1%) – suggesting that the optimism over intellectual property is justified.

	Russia	G20		Russia		G20 average	
	Perception barometer 2005-10			2010	Change 2005-10	2010	Change 2005-10
Innovation incentives	+	+	Tax subsidy rate for US\$1 of R&D, SMEs – 2008	-0.012	<i>n.a.</i>	0.148	<i>n.a.</i>
Tax incentives	-	+	Start-up incentives (% of GDP) 2005-08	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Ease of starting a business	+	+	Number of procedures to start a business	9	-1	7.7	-1.4
			Time to start a business (days)	30	-5	22.3	-18.1
			Cost to start a business (% income per capita)	3.6	-5.2 p.p.	10.6	-9.8 p.p.
Intellectual Property (IP) protection	+	+	Number of patents 2005-09 <sup>8</sup>	38,564	+19.6%	126,375	+9.6%
Business regulation	+	+	Time spent on tax issues (hours per year)	320	-128	367.1	-72.4
Labor market rigidity	+	+	Cost of hiring	0.14	<i>n.a.</i>	0.3	<i>n.a.</i>
			Notice period	8.7	<i>n.a.</i>	5	<i>n.a.</i>
			Severance cost	8.7	<i>n.a.</i>	12.2	<i>n.a.</i>

*n.a.* : Data not available  
p.p.: percentage points

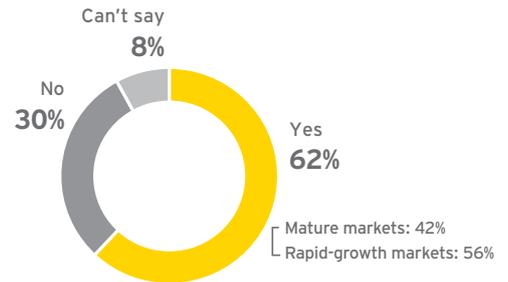
7. The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Response, OECD, 2009.

8. G20 average based on 12 countries and the European Patent Office for which data is available in 2005 and 2009

# Tailored but needs to gain efficiency

Providing tailored support to young entrepreneurs seems to be widespread in Russia, say 62% of the respondents. This ranks higher than the 56% average in G20 rapid growth markets and the 49% average of the whole G20.

Do young entrepreneurs benefit from tailored support in your country?



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young

**62%** of respondents say young entrepreneurs benefited from a tailored business support. However, only 53% qualified it as efficient. The lowest rate comparing to the 76% G20 average

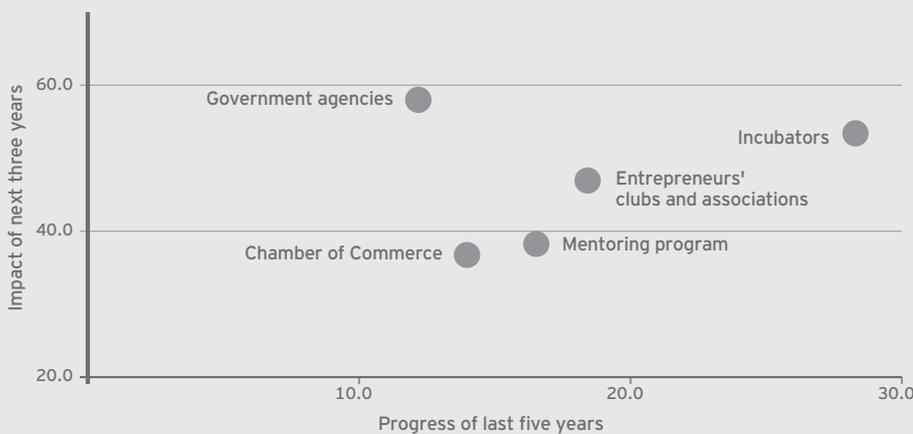
As tailored as it is, it leaves entrepreneurs with mixed feelings, with a limited 53% finding the support efficient. Such figures do not meet the 76% averages of G20 rapid growth markets and of the whole group. Attitudes about the level of effective coordination of this support are also divided among Russian entrepreneurs. Only 42% of them judge the support to be well coordinated, while 58% thought it was poor. Again, these perceptions rank lower than in G20 developing countries. There, 51% believe collaboration is good. The whole group records a 46% satisfaction rate regarding support synergy.

Russian entrepreneurs have, by and large, also expressed dissatisfaction with recent developments in the support provided by different organizations. Only incubators were seen by more than half of these surveyed (56%) as having improved the quality of their support in the last five years. Nevertheless, only 24% think that incubators have a high impact on long-term growth. Forty percent were satisfied with improvements in the support offered by entrepreneurs' clubs and associations over the last five years, while the assessment of government agencies and chambers of commerce (36% each) and mentoring programs (30%) was even worse. Fifty-eight percent of Russian entrepreneurs surveyed,

however, believe that collaboration and cooperation between these organizations improved over the last five years.

There are initiatives to improve support to SMEs. For example, they benefit from a service that the Russian SME Resource Centre (RCSME) launched in 2002, consisting of a website and mailing system for regional business support organizations and SMEs. This service was created to facilitate information exchange between the regions and federal and regional organizations supporting businesses.

Coordinated support entrepreneurs' perception of progress and future impact



Source: *The Nice Côte d'Azur 2011 Entrepreneurship Barometer* by Ernst & Young

# Selection of Government leading practices

	Launch date	Main application area
<b>Expanding SME access to finance</b>		
The objectives of the project were to analyze the current situation and prospects of expanding SME access to finance, with special emphasis on lending by banks, as well as credit guarantees, microfinance, leasing, and venture finance. The analysis was made on the basis of surveys of SMEs and the business environment in six of Russia's regions, representing typical developed, medium-developed and undeveloped regions. An overview of best practices in lending to SMEs was made. The analytical materials and recommendations were later used by the Government when designing the federal concept for SME development, which the Federal Government adopted in 2002.	2002	Coordinated support
<b>Grants program for unemployed</b>		
The first program will encourage unemployed people to set up businesses by offering RUB60,000 (US\$2,080) grants, while the other will assist individuals seeking work outside of their hometown. This is a permanent scheme announced by the Russian Government to encourage entrepreneurship.	June 2010 (announcement date; set to be implemented by 2012)	Access to funding
<b>One-stop-shop system for new projects</b>		
The Nizhny Novgorod region has implemented a start-up scheme to provide guidance for investment projects. Nizhny Novgorod is the fifth largest city in Russia. The investment project start-up system is based on a one-stop-shop principle, which means that, to obtain a land site, the investor has only to contact one office – the Ministry for Investments. With this policy, new investment projects can reduce the unofficial relations, which cause unnecessary delays for new projects.	2005	Regulation and taxation
<b>The RUSMECO project, (within the 6th Framework Program)</b>		
The aim of the EU-funded project RUSMECO was to raise the competitiveness of innovative Russian SMEs through establishing an inter-regional network, the Community of Practice (CoP), between SME clusters in Moscow, St. Petersburg and Ekaterinburg. The intention of this CoP is to enable SMEs and other interested organizations to share knowledge and experiences on subjects of common interest and thereby to enhance individual management capabilities and SME performance, particularly with regard to accessing external markets.	April 2005	Coordinated support
<b>Skolkovo Innovation Center (Russia's 'Silicon Valley')</b>		
Skolkovo Innovation Center (also known as Russia's 'Silicon Valley' in Skolkovo) is a planned high-technology business area to be built at Skolkovo near Moscow, Russia. This project aims are comparable with the Silicon Valley city in the United States. The main purpose is to provide innovative companies with all the necessary support they need to develop their own ventures successfully. It aims to implement this by utilizing the infrastructure, resources and other features of the technopark.	12 November 2009 (announcement)	Access to funding, entrepreneurial culture, regulation and taxation, and education and training
<b>SME news, events and information exchange system</b>		
The Russian SME Resource Center (RCSME) has developed a service – website and mailing system – for regional business support organizations and SMEs. This facilitates information exchange between the regions, as well as between federal and regional business support organizations.	2002	Coordinated support, regulation and taxation



# Entrepreneurs speak out

A call to action for G20 governments

**1** Through five key enablers, the entrepreneurship barometer analyzes entrepreneurs' perception as well as government leading practices in order to provide key recommendations to governments and entrepreneurs.

**2** The country profiles explore the specificities of country entrepreneurship environment to provide a better understanding to entrepreneurs considering international expansion.

**3** Highlighting the main conclusions of the report, the barometer website provides further Government leading practices and entrepreneurs success stories.

► [www.ey.com/entrepreneurship-barometer](http://www.ey.com/entrepreneurship-barometer)



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**Growing Beyond**

In these challenging economic times, opportunities still exist for growth. In Growing Beyond, we're exploring how companies can best exploit these opportunities – by expanding into new markets, finding new ways to innovate and taking new approaches to talent. You'll gain practical insights into what you need to do to grow. Join the debate at [www.ey.com/growingbeyond](http://www.ey.com/growingbeyond).