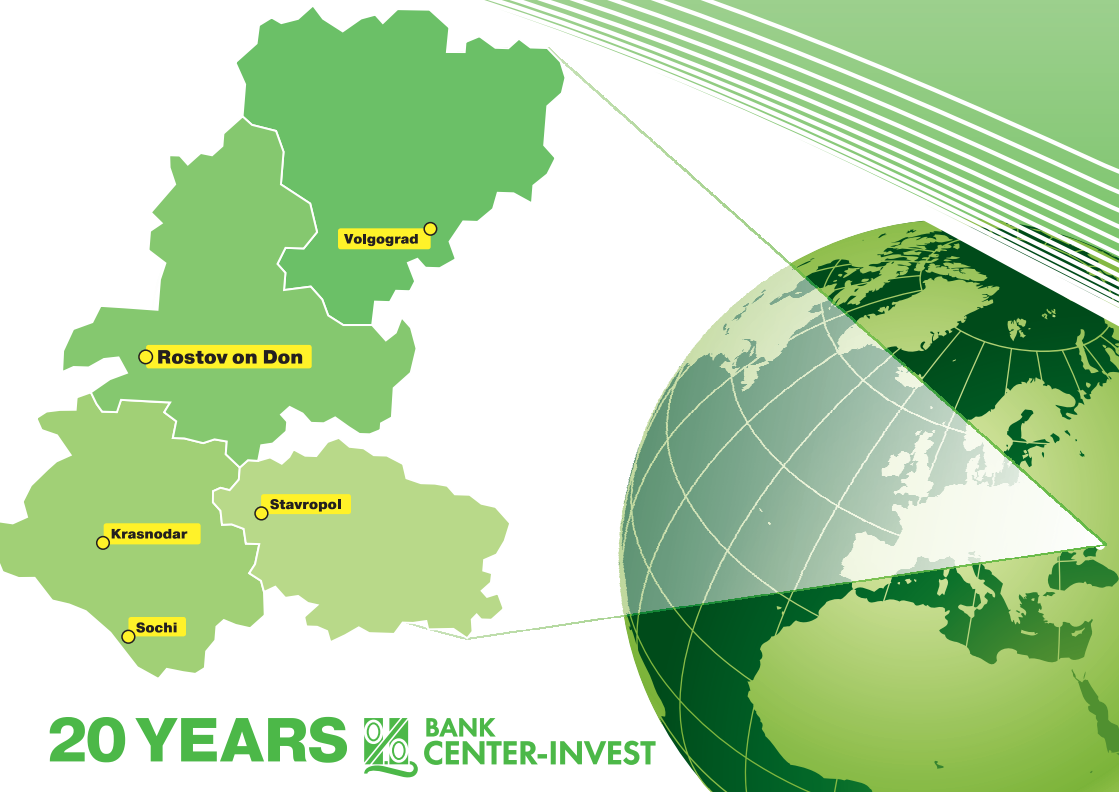


Dr. Vasily Vysokov

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Dr. Vasily Vysokov

Start up Don, Start up!

A Theoretical and Practical Handbook

Rostov-on-Don
2012

UDC 338.24 (470.61)
B 93

Reviewer: Doctor of Economics, Professor
Honoured Academic of the Russian Federation
Vladimir Zolotarev

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This book presents the author's latest research-based thinking about enterprise training and his proven business methods for preparing the next generation of entrepreneurs. It provides an overview of the key economic and social development challenges facing the Rostov region, equips the reader with a basic understanding of the workings of small business, and includes information about new loan programmes for entrepreneurs. It also looks at international best practice in promoting entrepreneurialism, and its implementation at the regional level. This book has been written specifically for schoolchildren and their parents, students, teachers and lecturers. It will also be of interest to anyone who is concerned about the future development of entrepreneurialism.

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The Don Region, That's Where Our Hearts Lie

The 75th anniversary of the founding of the Rostov region is being celebrated on a grand scale, with everyone declaring their love for their home region. But love can take different forms: being a dutiful spouse; feeling jealous of a neighbour, or envying Copernicus. Of course, the latter presupposes, as well as emotional engagement, a certain level of knowledge, of astronomy at least.

To assess our place in the world, it will suffice here to compare the standard of living and labour productivity of the Rostov region with that of other countries.

Country/region	Gross domestic product (GDP) / gross regional product (GRP) (per capita)
United States	100
Austria	82
Russia	29
Rostov region	15

If we are happy enough with these figures, we can rest content, believing that we have performed our duty to our beloved home region, and we can leave it to our children to make further progress. However, if we have stronger patriotic feelings and we wish to overcome this gap, then we must analyse the situation carefully¹.

Despite its favourable climate, advantageous geographical location, relatively well-developed infrastructure, and unique entrepreneurial potential, the per capita output of the Rostov region is five times lower than that of European countries sharing the same latitude. Production of goods for export is forty times lower. Correspondingly, no economic sector in the Rostov region can offer decent salaries and standards of living compared to European standards.

Population and life expectancy. Despite the measures being taken, the population of the Rostov region is falling by 3-4% annually. Life expectancy in the Don region² is 10 years less than in Europe (almost fifteen years less for men), and the infant mortality rate is double that of European countries.

Housing. Living space per person in the Rostov region is 30% (7m²) less than in Europe, and the level of utilities provision is 25-30% lower.

1 Here and hereafter the figures provided are from the Federal State Statistics Service (www.gks.ru) and the author's own calculations.

2 In Imperial Russia, "the Don" was the name given to the territory of the Don Cossacks. It roughly coincides with today's Rostov region (oblast), and the Don, or the Don region, is still frequently used to refer to this area of the Russian Federation.

Way of life. Food accounts for 34% of the expenditure of Rostov region residents (almost four times more than in Europe). However, we spend proportionally less on housing, fuel, health, education and culture.

Production. While industry in the Rostov region accounts for roughly the same percentage of our gross regional product (GRP) as in European countries (about 20%), the share of agricultural production in our GRP is very high (11%). At the same time, the agricultural sectors in European countries with similar natural and climatic conditions to the Rostov region are twice as efficient as ours. In terms of technology and equipment provision, we lag four times behind Europe.

As in many European countries, the relative share of machine building is high (more than 30% of manufacturing output), as is that of the metals industry (more than 20%). However, in contrast to many European countries, food production accounts for 20% in the Rostov region.

Transport. Rail density in the Rostov region is five times lower than in European countries, and road density is nine times lower. Compared to Europe, there are half as many cars per 1000 people. Therefore, the burden on the road network is five times higher in the Rostov region than in Europe.

Services. The share of financial services in the Don region's GRP is three times lower than in European countries, but it is precisely this that saved us from the worst effects of the global crisis. Compared to European countries, we have half the amount of social services, but the volume of other services, including government services, is almost double.

Trade. The share of trade, hotels and restaurants (20%) is roughly the same as in Europe, but we must not forget that personal incomes in the Rostov region are five times lower.

Innovation. Compared to European countries, research and development spending in the Rostov region is 2.5 times lower when calculated as a percentage of gross product, and 1.5 times lower when based on the size of the working population. The number of patents obtained per capita is roughly the same, yet the percentage of organisations engaged in innovation (7.3%) is five times lower than in Europe, and only 20% of companies and organisations have websites, which is four times less than in Europe.

Education. The number of students per capita in the Rostov region is 1.4 times higher than in Europe.

Health. For the following indicators: number of doctors, hospital beds and disease incidence, the figures for the Rostov region are lower than the Russian average, but higher than the European average.

When abroad, I often catch myself wondering, “Why is it that they work less than us, but they live better than us?” The simplest and most honest answer to this question is: “They don’t do rubbish work!” Developed countries also have administrative barriers, corruption and bureaucracy, but they waste less energy on fighting one another. Consequently, they have plenty of energy left to work together for their mutual benefit. If we in the Rostov region also pool our efforts, using our region’s advantages to the full, the effect obtained will be truly remarkable, with an impact that extends to global markets.

The realisation that, in terms of its development, the Rostov region lags behind Europe and indeed Russia as a whole, should in itself give commercial organisations, NGOs, government bodies and local authorities a powerful incentive to work smarter. This realisation should be the focal point around which the whole Rostov region unites in order to maximise the region’s competitive advantages, guided by best international practice.

Case study 1. *In 2008, television channels worldwide were reporting nothing but bad tidings from the market. In a live interview with Bloomberg, I passed on just a few of the opinions about the crisis voiced by Center-invest Bank customers.*

The crisis:

- is the painful process of giving up the addiction to making lots of money, quickly and cheaply.
- is not the first, nor will it be the last: it is just the latest one.
- only exists for foolish people.
- will be over as soon as you have your own post-crisis development programme.

Even the deepest crisis is not universal!

Enough talk about the global crisis: we have enough foolishness of our own!

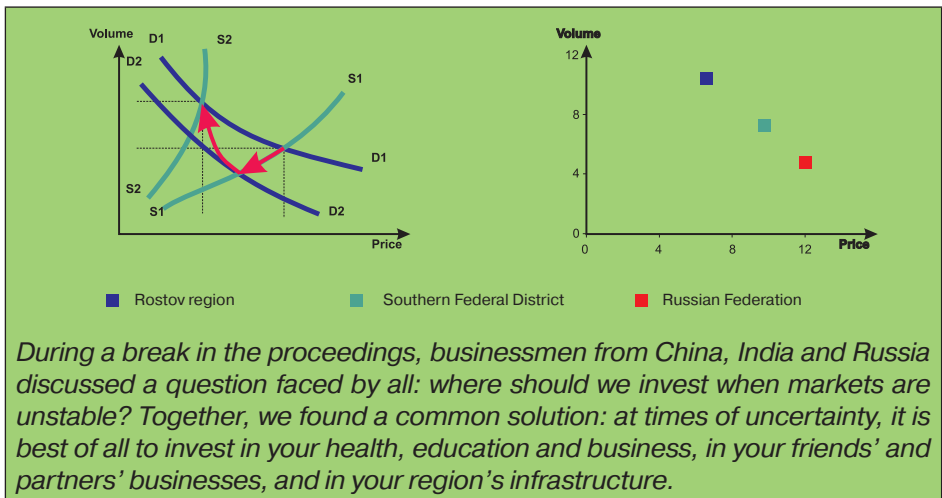
At Bloomberg there are screens on all the walls, broadcasting the latest news for various countries. To my surprise, when I returned from the studio to the room for interviewees, half a dozen journalists were already there, and they were all asking the same question: Where exactly is this “South of Russia”?

Case study 2. When Jean Lemière, former head of the EBRD, first visited Rostov-on-Don, he quite rightly noted: “Southern Russia provides a model for the future Russian economy: diversified by sector, and with a good level of enterprise.” The opinion of this respected banker is borne out by the statistics: per head of population, the number of entrepreneurs in the Rostov region is 1.5 times more than the national average.

Rostov Region as a % of the Russian Federation	Total	SMEs	SIs
Population	3.0		
Industry	1.6	2.3	3.9
Agriculture	4.8	5.3	7.1
Construction	1.5	2.3	3.9
Trade volume	2.8	2.8	2.8
Employment	2.8	2.8	3.8
Sales revenue	1.7	2.4	3.1
Number of enterprises	1.9	2.7	4.4
Investment in fixed capital	1.7	2.1	2.2
Own fixed assets	1.6	2.5	2.2

SMEs – small and medium-sized enterprises
SIs – self-employed individuals

Case study 3. At the BRICS business forum held in Hainan (China) in April 2011, I was invited to talk about our experience of lending to finance energy efficiency projects. Observing diplomatic protocol, I sought approval to invite the forum participants to Rostov. After consideration, it was decided that I could indeed issue an invitation, but I was told there was no guarantee it would be accepted. During my presentation I showed a slide setting out the following proposition: the way out of the crisis is to achieve new supply and demand by switching to new technologies and increasing production, while also reducing producers’ costs. This is exactly what was happening in BRICS countries, and so everyone was pleasantly surprised when they saw from my presentation that southern Russia plays the same role in the Russian economy as the BRICS countries do in the global economy. The invitation to visit Rostov was subsequently included on the agenda, and the forum was held in Rostov in autumn 2011.



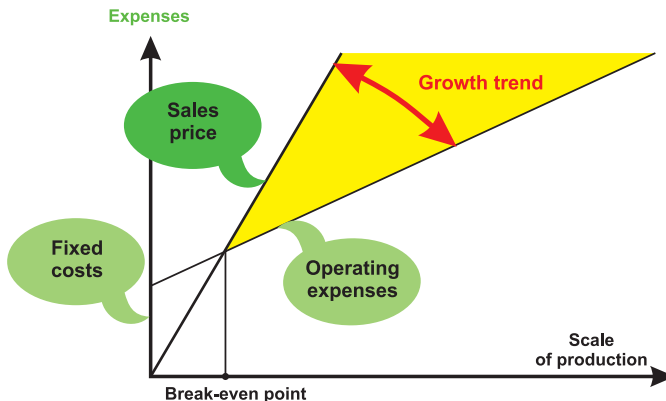
Therefore, thanks to our natural optimism, entrepreneurial spirit and traditions, diversified economy, and ability to adapt quickly to new conditions, the Don region has significant advantages in terms of global competitiveness.

Economics of small business

Enterprise for All. Every modern person should have a sound knowledge of the principles of entrepreneurship. To be considered accomplished, a person should be competent in basic mathematics and arithmetic. Equally, he should be able to compare costs and results, and have a good understanding of the relationship between the production, marketing, personnel and financial management functions. As part of its “Enterprise for All” project, Center-invest Bank has produced both teachers’ workbooks and textbooks for schoolchildren and students (www.centrinvest.ru/ru/about/pub.html). The bank regularly provides consultations for new entrepreneurs, and it holds an annual competition for teachers who are running elective courses in the principles of entrepreneurship. More than 9,000 copies of the textbook “Small Business: Enterprise for All for Schoolchildren” have been distributed free-of-charge to school libraries in the region.

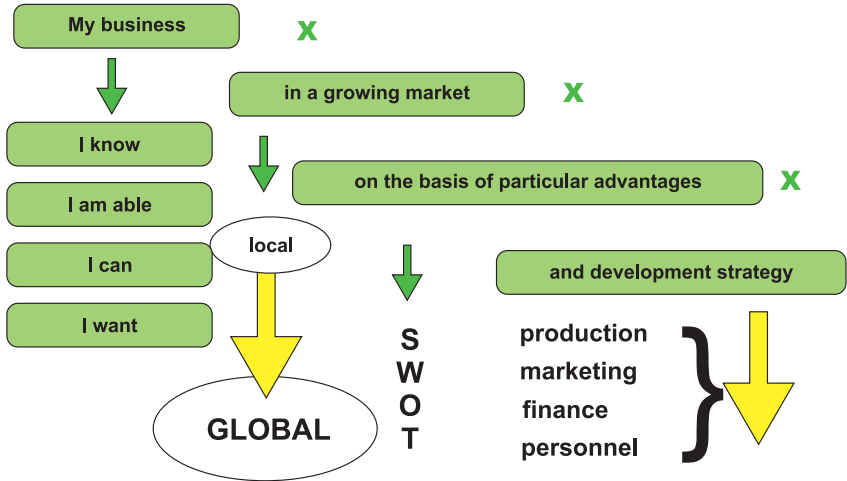
Man comes into this world to change it for the better. The highest expression of public recognition of any human activity is profit, i.e. the difference between the results achieved and the cost of achieving them. Big business makes profit by becoming even bigger. For a small business, public recognition is dependent on efficiency: it must be efficient from the outset.

Small business: growth through efficiency



The secret of success for a small business is simple: you must know your own business, your markets and your advantages in these markets. You also must have a development strategy.

Formula for success:



Even oligarchs, waking to a feeling that all is lost, will start by thinking through and completing the table: I KNOW, I AM ABLE, I CAN, I WANT. Half an hour later and a competent entrepreneur will be ready to embark on new undertakings, in search of public recognition and profit.

All processes require management of production, marketing, personnel and finance. For each management function an entrepreneur must know not only the strengths but also the weaknesses, and he must be able to see both the opportunities and the threats.

Business: Production X Marketing X Finance X Personnel

Strengths	Weaknesses	Opportunities	Threats
Production			
Marketing			
Finance			
Personnel			

To develop a strategy for your business, you must find the most effective combination of solutions for each of these four management functions. It is best to start with the function that contains the business’s main advantages. Weaknesses and threats in one of the four functions can be neutralised using the strengths and opportunities in another. By repeatedly setting out, combining and contrasting various combinations for the four management functions, an entrepreneur will find the best solution to launch his business.

Development strategy

Management function	Production	Marketing	Finance	Personnel
Production				
Marketing				
Finance				
Personnel				

Various solutions for each management function are presented in the tables below.

Marketing. The following table provides the most succinct yet comprehensive summary of the information contained in weighty marketing textbooks. It presents a marketing strategy that allows you to take different market segments and combine various options for products, pricing, distribution channels and sales drivers.

Market segment	Product	Price	Distribution channels	Sales drivers
Family and close friends				
Friends-acquaintances-neighbours				
Local population and companies				
Consumers in other towns/cities				
Foreign partners				

Production. Putting together a production plan entails selecting the technologies that will best allow you to transform resources into goods for which there is demand.

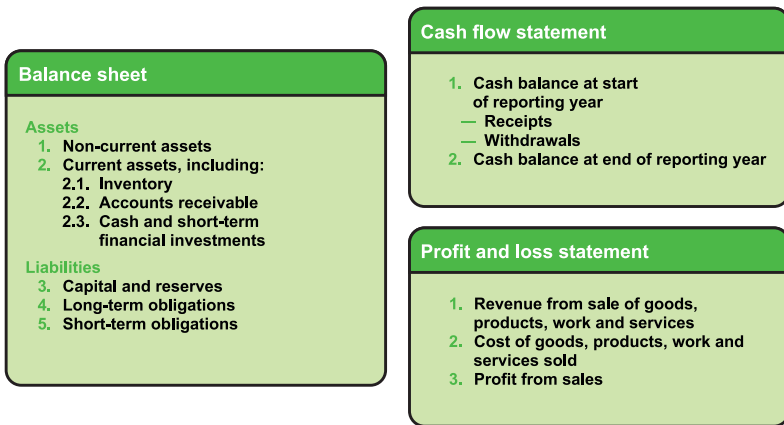
	20__	20__
1. Output		
— by type		
2. Resources		
— land		
— buildings and structures		
— machinery and equipment		
— raw materials and supplies		
— personnel		
— information		

Personnel. While every person is priceless, the entrepreneur does have to determine the value of human labour. When doing so, he must give consideration to the legal requirements, including the minimum wage and social security contributions, basic pay, bonuses, and any special conditions.

Finance. This is the entrepreneur's least favourite management function. When thinking about market behaviour and tackling production and personnel issues, entrepreneurs must be careful not to forget about three interrelated financial documents:

- Balance sheet: This shows the business's resources and the sources thereof as at the reporting date (own resources and borrowed).
- Profit and loss statement: This allows an entrepreneur to assess the extent to which his work has enjoyed public recognition in a given period.
- Cash flow statement: This shows cash inflows and outflows and the available cash balance for a given time period.

To develop a business (increase sales revenues) it is often necessary to borrow money (which increases the bottom line in the balance sheet), but this comes at a cost (increased expenditure, reduced profit) and debt must be repaid on time (with due regard for cash flow).



For all the apparent simplicity of these principles of entrepreneurship, you must not underestimate your business's weaknesses and threats. At the same time, you should not fear them excessively, as they will be outweighed by the opportunities.

Small business SWOT analysis

Strengths	Weaknesses	Opportunities	Threats
“on their marks” (can get off the ground quickly)	ограниченный рынок	выход в большой бизнес	полная утрата бизнеса
	limited market	become a big business, including through amalgamation	business could fail
highly efficient	limitation of growth opportunities	balanced growth	growth reaches a dead end
flexibility	dependency on the market	“your niche” in a growing market	competition
independence	lack of “protection”	maximise your capabilities	defencelessness

It is important that you do not just study small business, but that you actually take the first step towards setting up your own business. Center-invest Bank’s experts have produced a “roadmap” for new entrepreneurs.

Step 1. Design your business. You must identify your personal potential and find a sphere, service or product where your business will be unparalleled. Identify your long and short-term objectives: product types and production volumes.

Step 2. Calculate the profitability of your business. You must estimate how much it will cost you to set up your business, find sources of funding to cover these costs, identify how many employees you will need, and also identify and eliminate any risks that could prevent you from implementing your business plan.

Step 3. Identify a site or premises for your operations. This could be purchased, rented or leased.

Step 4. Register your company. You should register as self-employed or as a limited liability company. You must also register with the tax authorities and then learn to navigate the tax system.

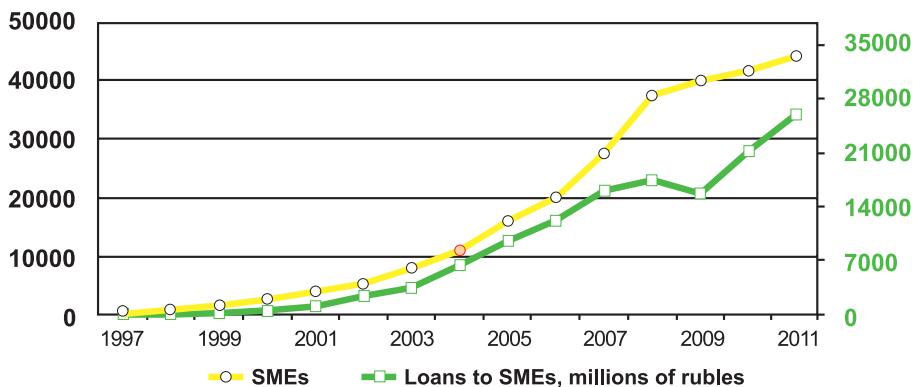
Step 5. Open a current bank account. This is essential for customer and supplier payments and for the accumulation of profit, which is, after all, the very reason you are setting up your own business.

Start-up Loans

Center-invest Bank introduced its first programme to support small business in 1997. In addition to banking services and loans, the programme provided legal support for entrepreneurs, advice on tax, business planning and marketing, and outsourced accountancy services. The programme needed 150 participants to break even: after just two months, more than 400 businesses were taking part! Today, approximately 50,000 small businesses and self-employed individuals are Center-invest Bank customers.

During the 2008-2009 crisis period the bank did not raise interest rates on its loans to SMEs and it did its utmost to help its customers complete their existing investment projects. The subsequent growth in lending reflects the processes of modernisation that are underway in southern Russia's SME sector. The bank is helping SMEs to acquire equipment and technologies that will increase their efficiency three- to fivefold and allow them to produce goods that can compete in global markets.

Center-invest Bank: SMEs



Based on performance in 2011, Center-invest Bank was recognised as the best partner in Russia for SMEs¹, and it was ranked 5th in Russia for volume of SME lending². Center-invest Bank is playing a leading role in the modernisation of SMEs in the real sector: the bank accounts for 40% of all investment loans³ made to SMEs in the Rostov region⁴.

1 www.finistconsult.ru

2 www.rating.rbc.ru

3 Here and hereinafter "investment loans" is used to mean long-term loans made to companies to enable them to upgrade production equipment and facilities.

4 www.mbdon.ru

Center-invest Bank's share of SME lending in the Rostov region in 2011 and 1H 2012



32%
for number
of loans made
2 202 loans



24.4%
for value
of loans made
9,4 billion rubles



40%
for number
of investment loans
400 loans



37%
for value
of investment loans
1,9 billion rubles

Center-invest Bank is first to bring out new products for SMEs, and these products incorporate best international practice. Together with traditional forms of lending (overdrafts, leasing, loans against receivables, loans for investment projects), the bank actively lends on preferential terms to SMEs requiring finance for energy efficiency projects and to cover tax and customs payments.

The bank offers women in business a 25% discount on the standard loan interest rate. In just the last six months more than 70 women have taken advantage of this, borrowing a total of 50 million rubles.

The bank launched its “Start-up” programme for new entrepreneurs in summer 2011. Under this programme, customers can borrow up to three million rubles on preferential terms to finance investment projects. The loans are granted for terms of up to three years, with special repayment schedules, including a six-month grace period. Customers receive free business banking for one year, including access to the Bank Client online banking system. More than 120 entrepreneurs have already participated in the programme, borrowing a total of 150 million rubles.

Besides affordable finance and loan programmes for individual groups of customers, through our Advice Centre (opened at head office in 2011) Center-invest Bank also provides entrepreneurs with free-of-charge consultations on business planning and tax and legal issues (www.centrinvest.ru/seminar).

Youth Business Russia

The success of our Start-up programme has received international recognition. In February 2012, government bodies, NGOs and higher education institutions from the Rostov region signed an agreement setting up a Youth Business Russia programme. This programme is being run with assistance from the International Business Leaders Forum (IBLF).

Youth Business Russia partner organisations

- International Business Leaders Forum, Russian branch – Elena Klimovna Trakhtenberg, tel.: +7 (499) 929-79-55
- Center-invest Bank – Lyudmila Olegovna Labunko, tel.:+7 (863) 2-000-000
- Investment and Enterprise Department of the Government of the Rostov Region – Polina Vitalevna Korestieva, tel.: +7 (863) 240-55-52
- Rostov Region Committee on Youth Policy – Svetlana Mikhailovna Gavri-sheva, tel.: +7 (863) 244-23-41
- Rostov Region Enterprise Support Agency (not-for-profit organisation) – Natalia Yurevna Krainova, tel.: +7 (863) 262-35-15
- Rostov Region Guarantee Fund (not-for-profit organisation) – Lyudmila Valerevna Tarasova, tel.: +7 (863) 290-79-01
- Rostov State Economics University – Vladimir Mikhailovich Dzhukha, tel.: +7(863) 267-41 -83
- Southern Federal University – Irina Anatolevna Soldatova, tel.:+7 (863) 282-19-36
- Don State Technical University – Mikhail Aleksandrovich Izotov, tel.: + 7 (863) 238-13-11
- South Russian State Technical University – Yuri Terentevich Chebakov, tel.: +7 (8635) 255-2-35
- Institute of Management, Business and Law – Imran Gurruevich Akperov, tel.:+7 (863) 245-28-90
- Rostov Region Chamber of Commerce and Industry – Nickolai Ivanovich Prisyazhnyuk, tel.: + 7 (863) 268-76-00
- Rostov Region Department of the State Employment Service - Valeria Ruslanovna Ezerets, tel.: + 7 (863) 244-22-56
- Rostov Region Union of Employers – Victor Fedorovich Netesanov, tel.: + 7 (863) 261-86-83
- OPORA Russia (Russian Organisation for Small and Medium Enterprise) – Dmitry Valerevich Kumpan, tel.: +7 (863) 263-37-77

- Administration of the City of Shakhty – Maxim Vladimirovich Medyannikov, tel.: +7(8636) 22-31-82
- Shakhty Municipal Small Business Assistance Fund – Irina Vladimirovna Yanina, tel.: +7 (8636) 22-60-79

The Rostov Region Coordinator of the Youth Business Russia programme is Mikhail Igorevich Koltunov, tel.: +7 (863) 301-20-01, mik@brain-media.ru, Offices 11-15, 3rd floor, 42/50 Budenny Avenue, Rostov-on-Don, 344002.

Young entrepreneurs can apply to the programme for funding for their business plans. Applications are assessed by a panel of experts. Center-invest Bank has produced guidelines to enable the panel to score proposed business plans on the basis of the following: originality, current return on equity, cost benefits, strengths, weaknesses, opportunities, threats, the interrelationship between the production, marketing, personnel and financial management functions, the amount of investment and the payback period¹.

These guidelines can also be used for self-assessment of proposals, when defending university term papers and dissertations, and for business plan competitions. This year's youth forum "Rostov 2012: 100% Energy" (previously StartUp Don) included a competition for the best business idea. The forum participants were able to assess their peers' proposals themselves, and they were suitably objective and self-critical in doing so: the average mark awarded was 3 out of 5.

¹ See page 32.

The Future of Entrepreneurship

Khutor modernisation. From the perspective of the beau monde of Moscow, anyone living beyond the prestigious residential area of Rublevka is provincial. As for living in a “khutor”, well that is seen as almost no better than being “of no fixed abode”.

KHUTOR – *In contrast to a village, a khutor is a solitary homestead that is situated on its own plot of land, which is at the disposal of the owner.*

The khutor settlement system offers considerable technical advantages compared to the village-based system. It gives free rein to the owner’s individuality, allowing him to organise his farmstead as he sees fit, to quickly adapt to modern, changing market conditions, and to assimilate the new techniques offered by agronomic science.

Brockhaus and Efron Encyclopedic Dictionary

KHUTOR (from the Hungarian, *hatar*). A solitary land plot on which the owner’s homestead sits.

Ushakova Dictionary

“Around Poltava there are khutors, surrounded by his gardens”

From the poem “Poltava” by Alexander Pushkin

The tsarist government gave the kulaks sizeable loans to purchase land and set up khutors.

History of the Communist Party (Bolsheviks)

For the Cossacks of the Don and Kuban regions in the Russian empire, a khutor was a settlement on the territory of the “yurt” (the land that belonged to the Cossack stanitsa).

Wikipedia

In fact, to survive life in a khutor, you must be fit and healthy, strong in mind and body, capable of finding your own solutions to problems, and able to work without the need for party or government instructions. Here are a few examples of khutor modernisation.

- Even on the asphalt roads crossing the steppes of southern Russia, you can go for an hour without encountering a car coming in the opposite direction. But after 300-500 kilometres you might well see a small office renovated to European standards, well-tended fields with the very latest tractors and combine harvesters from leading international manufacturers, a farm producing marbled beef, or a modern mill.
- Driving past a municipal rubbish dump, we arrive at the premises of a customer who we helped set up an energy-efficient brickworks. Next door, on the same site, a company is producing energy-efficient boilers. German consultants are helping them both to reduce their costs and optimise their

manufacturing processes. A French firm is buying up their high-quality products.

- Several years ago, when stumps were being extracted from an abandoned orchard, corpses were found that had been dumped there during the wild excesses of the 1990s. Today, the trees in the orchard are heavily laden with apples. The fruit are grown using Italian methods, and the yield is three times higher than the average for the region.
- In former repair workshops just outside a khutor, a company is manufacturing high-quality toilet paper from paper waste. Its products are being snatched up by retail chains.

The final brushstroke to add to each of these pictures: today, the children of the founders of these khutors are working alongside their parents. Having studied abroad, this younger generation are fluent in English.

The main feature of khutor modernisation is that it is an independent process. People are carrying out this process in their own ways, using their own capabilities, and despite the “assistance” of the government. There is little media coverage of this modernisation, either in the press or on television. Khutor modernisers are not particularly interested in PR, and not just because they are used to counting every kopeck: they have already built up their businesses and so will only decide to expand or advertise after very careful consideration. Of course, if they catch the eye of out-of-town “investors” or one of the numerous government inspectors they risk losing a successful business. Modesty is a means of self-preservation.

However, in many cases, a khutor moderniser will manage to preserve their business for the simple reason that their chosen path is a difficult one, a path on which there are no competitors. By virtue of this, Khutor modernisation should be not just a few per cent more efficient, but many times more efficient. It is precisely this efficiency gap that distinguishes scientific and technical progress from efficiency proposals.

The percentage of the workforce that is engaged in research and development is roughly the same in Russia as in Europe. In Europe R&D spending as a share of GDP is double that of Russia. Furthermore, in developed European countries more than half of companies are involved with technological innovation, whereas in Russia less than 10% of companies are innovative. As a result, labour productivity in Russia is five times lower than in Europe.

Khutor modernisation is very unlikely to be reflected in official statistics, as it is based not on patents, but on the acquisition of mass-produced equipment of a type that is already often used in Europe. Yet it is this very equipment and technology that can increase efficiency three- to fivefold in comparison with the manufacturing base inherited from the first wave of Russian privatisation.

Outdated production equipment, facilities and methods are causing a bottleneck on the road to the modernisation of Russia. Khutor modernisation is helping to remove this blockage. Even if the equipment introduced in khutors is obsolete by international standards, it is still better than having deserted khutors. Besides, the experience obtained by a new generation of khutor residents, who in recent years have had the opportunity to study abroad, creates scope for modernisation that does in fact conform to the rules of the global market. Here also there is enormous growth potential, especially in southern Russia. Before the crisis, exports per capita in Russia were about 3,000 US dollars, and imports about 2,000 US dollars. For southern Russia, the pre-crisis figure was approximately 1,000 US dollars, which is 20-50 times less than for European countries. Therefore, the obvious, and indeed anticipated next step for the khutor modernisers will be to enter global markets. The business model for this is suitably sustainable: you go to the global markets to buy technology and equipment that is more efficient, and then you go back to the global markets and sell products that are more efficient (in terms of price to quality).

There are already examples of khutor modernisers from southern Russia successfully entering global markets. Grain and sunflower oil producers from southern Russia are competing on equal terms with producers from other countries. Even in textile and apparel manufacturing, before the crisis southern Russia accounted for more than 4% of Russian exports. Center-invest Bank, the regional bank of southern Russia, is recognised internationally as a leader in sustainable banking.

For the time being, khutor modernisation and government-driven modernisation are proceeding in parallel. To dovetail these processes, within 12 months of being adopted, all the legislative initiatives concerning the Skolkovo project (the Russian “silicon valley”) should be applied to all investment in the Russian regions, either as they stand or in a modified form. It would be useful to take stock of federal and regional programmes, to carry out an inventory as it were, in order to exploit the potential for public private partnerships. If we could only increase the road density (and the number of roads!) in southern Russia tenfold, bringing it up to the European average, this would be a start. (We currently have just 100-200 kilometres of road per 1000 square kilometres.) Finally, we should also unleash the potential of the numerous federal supervisory agencies: as well as inspection certificates, these agencies should issue recommendations on how to run a business not only in compliance with Russian legislation, but also in accordance with best international practice. All of these initiatives should be set in motion by government bodies, while the khutors, guided by Solzhenitsyn’s survival advice: “Don’t trust, don’t fear, don’t ask”, should get on with developing their own businesses.

A New SME Ideology

For Center-invest Bank, the SME sector is not a new, opportunistic market segment. We launched our first programme for SMEs back in 1997. Under this programme, which was called “Support for Don Small Enterprises”, we provided not only banking services, but also advice on legal issues, accountancy, business planning, marketing and personnel. To break even the programme needed 150 participants: just two months after it was launched, 450 customers were taking part. Today, more than 50,000 SMEs and self-employed individuals are customers of Center-invest Bank.

The programme’s success was so notable that in 1998 a team from Center-invest Bank was invited to carry out the financial restructuring of the Federal Small Enterprise Assistance Fund. This task was completed in less than six months, and during this work Center-invest Bank acquired unique experience and insight into the mechanisms of state assistance for enterprise. I discuss this experience in my book “Small Business: Made in Russia”. (www.centriinvest.ru/ru/book/0201.html). Published in 1999, this book enjoyed such high demand that today it is hard to find a spare copy.

Working at the federal level, we saw up close how corruption mechanisms are being used within the state support system. This led to our conviction that state assistance for small business is in itself a small business for government officials.

Firstly, the state should support the sick and the weak. When the state supports business, either business is weak or the state is sick.

Secondly, the amount paid out to small business in the form of state assistance is no more than 3% of the amount paid by small business in taxes. Government officials take money away from companies that are doing a good job, and give it to companies that are doing badly, but that enjoy favour for other reasons.

Thirdly, state assistance programmes provide jobs for bureaucrats. If one fine day all the problems of small business were to be solved, the first people to be made redundant would be those working for state assistance agencies. Therefore, it is in bureaucrats’ interests that small businesses have problems for all eternity, and for this reason they propose ever more “intricate” forms of state assistance.

Thanks to our many years of working with SMEs, we have been able to reject the old stereotypes and formulate a new ideology for small business.

Small business is ineffective.

New ideology:

- Small business growth is based on efficiency rather than growth in size.
- Small business will exist in any economy.
- Small business is an equal business partner, not a small one.

Small business is part of the shadow economy.

New ideology:

- A shadow is cast on small business by bad laws.
- The nature of business is dictated by the nature of the government.
- The extent to which small business operates in the shadow economy is an indicator of the level of corruption.

Small business needs state support.

New ideology:

- The government needs the support of small business.
- If small business did not stand between the authorities and the people, the people would demand a change in the ruling power.
- The legalisation of small business is an economic growth factor.

Globalisation is destroying small business.

New ideology:

- Small business makes better use of the advantages of global technologies.
- International policy is increasingly taking into account the interests of small business.
- International projects subcontract work to small business.

What is the new ideology changing? First and foremost, the mentality is changing, i.e. society's attitude to small business: the status of small business in the economy, the social and political sphere, state-building and international relations is being raised. Also, the mechanisms for interaction between the state, big business and small business are changing. Lastly, from an outsider in the shadows, small business is becoming an economic growth driver.

In their words and actions, politicians, officials and corporations should consistently give public recognition to small business. Political parties should not be allowed to take part in elections unless their manifestos set out a clearly formulated position on small business. Government officials with responsibility for development in a given sphere should not simply be holders of information: as a priority, they should be taking responsibility for developing entrepreneurship in these spheres. It should be mandatory for corporations to include a "Small Business Policy" section in their corporate governance codes.

Public monitoring of the position of small business will be essential if the love for small business and the new ideology are to be more than a passing fad. Public monitoring should include: a requirement for politicians, officials, large corporations, and companies with natural monopolies to include information about small business in their official reports (saying, for example, what they have done to support small business); assessment of professional non-governmental associations; independent monitoring of research organisations; and media coverage.

At the international level, all foreign policy documents should seek to promote cooperation among not only the officials, but also the SME sectors of different countries, for the mutual benefit of all.

The Latest Ideology

While recent years have seen a fight to legalise and properly establish small business in the Russian economy, globally, there has been a sea change in perceptions of the role of small business. The Startup America programme is a good example of this. Put forward by the American president in 2011, this programme is supported by a specially-created non-commercial partnership that brings together regional administrations, large corporations, universities and business associations.

The Startup America programme makes it easier for talented young people to access the following: the knowledge and experience of business leaders, mentors, advisors and managers; the customers and markets of large corporations; and new sources of funding through crowdfunding. (Crowdfunding enables entrepreneurs to obtain funds from an unlimited network of people via an online application.) But the most important feature of this programme is the attitude towards new entrepreneurs that it embodies: respect and high regard for start-ups are core American values; start-ups are “national heroes”, drivers of the national economy; and it is start-ups that create the most attractive jobs. If only our entrepreneurs were to receive such accolades, they could move mountains.

Although many years of work lie ahead, we can already see that small business is creating products and services and making a profit, like big business. But it is also creating new start-ups and new products, conquering new markets, and using new resources and new means of production. Small business is not only helping to solve the problem of job creation (by reverting from diggers back to shovels, this is actually the area in which it is easiest to succeed), it is also creating new technologies. Networks of small businesses cooperating at an international level will come to replace transnational companies. Instead of requesting state assistance, small business will help the government to address social issues. Instead of lamenting the tax burden, small business will be more actively involved in ensuring that public money is used effectively at all levels.

Market approach	Latest ideology
Small Business	
Removing the distinctions between big and small business	Exclusiveness of small business
Creating jobs	Creating new technologies
Competition between independent businesses	Cooperation between small businesses
Refraining from state assistance	Sustainable, socially responsible business
Reduced tax burden	Effective use of public funds

A Conversation with a Minister



Earlier this year, Dmitry Livanov, the Russian Minister for Education and Science, visited the Southern Federal University. During his visit we had an open and constructive discussion about the ways in which Center-invest Bank and the Endowment Fund for Education and Science in the Southern Federal District have been promoting the education and training of the personnel required for the innovative development of the Rostov region.

Unfortunately, the stereotype persists that regional universities and institutes are only meant to train personnel for regional businesses. It is hard to imagine that the Lord Mayor of Oxford would set the rectors of Oxford University such a limited task. For the County of Oxford, world-class specialists are export products. Businesses and graduates from the Rostov region should be capable of competing in global markets, and once there, they should help one another to succeed. Center-invest Bank has already risen to the challenge of ensuring that this is the case.

Today we are recognised as a leader among the international banks and financial institutions that are applying international best practice and sustainable banking principles. We train bankers from the CIS, North Africa and the Middle East, and we offer work experience placements to students from universities in Vienna and London.

In contrast to the speculative headhunting approach, Center-invest Bank nurtures and develops people for its own operations and for its customers. Many years ago now, a consultant sent a “coded message” back to his World Bank headquarters, saying, “Even the bottom 10% of Center-invest Bank’s employees could be senior managers at any Russian bank.” So it could even be said that we train people for our competitors.

Every year approximately 100 students from the Don region take up work placements with Center-invest Bank. They study modern banking technologies, international standards, and best international practice in corporate governance. Those who stay on with us become first-class specialists in just two years. Working in the bank, they are constantly acquiring new knowledge and mastering new products and technologies. They attend in-house and external training courses and seminars, including training held abroad.

To be competitive in the new global world, our children will need to be 20 times wiser than us. To meet this challenge it will not suffice to simply change the range of subjects studied and rearrange timetables. Education methods need to change so that the grade “satisfactory” (in Russia, 3 out of 5) is only awarded to students who can display knowledge of fundamental definitions, the grade “good” (4 out of 5) is for those students who can create a jigsaw from these definitions, and “excellent” (5 out of 5) is reserved for those who can approach the terms like a Rubik’s cube.

If the Rostov region’s innovation potential is presented in a graph it will take the form of an upright rhombus: a low level of funding for research; a disproportionately large number of undergraduate, postgraduate and doctoral students; a significant number of patent applications; and only very limited introduction of innovation in production. Innovation is not just a matter of bringing together science, technology and money: it is a very profound social problem. With the old technology, an employer can tell his subordinates: “I am the boss, so let’s just see if you get to stay!” but with the advent of new technology there is no guarantee that the boss will get to stay. If Don higher education institutions can become expert at training students in the theory and practice of introducing innovation, their graduates will be in demand worldwide. For a start, every term paper and dissertation should include practical recommendations that the student can, and indeed should, sell to their friends, neighbours, local entrepreneurs and local government bodies. For these purposes, the Rostov region can serve as a unique training ground, with its vast entrepreneurial potential, diversified economy, and ability to respond positively to proposals in all sectors of the economy and the social sphere.

Center-invest Bank actively implements these principles and approaches. Back in 1999, we set up an Internet Centre, which has provided free training for more than 3,500 schoolchildren. During a three-hour course, the children learnt Internet basics, created a website for their class, and wrote a letter to a friend. At the end of the course, students received a textbook on how to navigate the Internet independently.

In 2008 the bank organised a series of open lectures entitled “Southern Federal University Strategy 2020” in which leading scholars and university lecturers talked about their research work and promising areas for the university to

focus on in the future. Each lecturer received a grant of 100,000 rubles from Center-invest Bank.

In 2010-2011, the bank gifted 9,000 copies of its textbook “Small Business: Enterprise for All for Schoolchildren” to schools in the region. For the third year in a row, together with the Rostov Region Institute for the Advanced Training and Retraining of Education Workers, the bank is holding a competition for the schoolteachers who are running courses in the Principles of Entrepreneurship. The total prize fund is 500,000 rubles.

Center-invest Bank manages three endowment funds. Thanks to the application of a sustainable banking business model, these funds retained their value during the acute phase of the most recent crisis. For the ninth year in a row, Center-invest Bank and the Endowment Fund for Education and Science in the Southern Federal District are awarding scholarships of 20,000 rubles to the 250 top students from Don higher education institutions. Every year, more than five million rubles is set aside for this purpose, and for every scholarship, there are six candidates. This year a ball is being held in honour of the winners.

Having learnt of Center-invest Bank’s activity in this sector, the Russian Minister for Education and Science thanked the bank warmly for its work to support and develop education in the Rostov region.



Validimir Kuznetsov, Besarion Meskhi, Marina Borovskaya, Dmitry Livanov, Igor Guskov, Vladimir Zolotarev, Vasily Vysokov.

Enterprise for All in Schools and Higher Education

For the third year in a row, Center-invest Bank, together with the Rostov Region Institute for the Advanced Training and Retraining of Education Workers, is holding an open competition for the Don teachers who are running courses in the Principles of Entrepreneurship in local schools. The competition is held as part of Center-invest Bank's educational programme "Enterprise for All", which was launched back in 2009.

Traditionally, the award ceremony is held on the eve of World Teachers' Day. To date, more than 100 teachers from the Rostov region have taken part in this competition. This year, the entrants presented the jury with sets of resources that they had used successfully in their schools. Websites, blogs, webinars, forums and the online learning space Openclass have all been used to deliver these courses.

The level of attainment of the students themselves, and cooperation with local businesses and NGOs were also taken into account. The portfolios of materials were authenticated with appropriate documentation (for example, confirmation from the school that the course took place, certificates, media coverage).

The annual prize fund is 500,000 rubles.

In 2012 the winners were:

- **Aleksandra Avilova** (Gymnasium No. 10, Shakhty),
- **Galina Romanenko** (Secondary School No. 2, Bataisk),
- **Marina Lukyanova** (Zimovnikovsk Secondary School No.1, Zimovnikovsk district),
- **Svetlana Gerasimova** (Lycee No.24, Volgodonsk),
- **Elena Ivanchenko** (Sinyavsk Secondary School, Neklinovsk district).

Runners-up prizes were awarded to teachers from the Aksaisk district, the Egorlykisk district, Semikarakorsk, Taganrog, Rostov-on-Don, Zernograd and Kamenolomni.

More information about the competition entries is available on the competition organisers' website www.roipkpro.ru and at www.centriinvest.ru.

The teachers taking part in the Enterprise for All project have said that in the last three years there has been a fourfold increase in the number of pupils in Don schools wishing to study the principles of entrepreneurship. Deputy Education Minister of the Rostov Region, Svetlana Mazayeva, has said that the prerequisites

for these courses to be rolled out across the Rostov region are: a desire among pupils to study this subject, a willingness among teachers to run the courses, and an interest among parents, who should submit requests to the Rostov Region Ministry of Education.

It is not only schools that wish to tap into the experience of the Enterprise for All teachers. The Rostov Enterprise Support Agency and Center-invest Bank enlist these teachers to give talks at the Advice Points located in Center-invest Bank branches in the Rostov region.

Next year, the Enterprise for All project and the associated competition will be continued on the basis of further, more profound development of Internet technologies.

I would like to express my gratitude to the parents who helped us three years ago to provide schools with free copies of the textbook “Small Business: Enterprise for All for Schoolchildren” (www.centriinvest.ru/pdf/vseobuch-se.pdf). I would also like to thank local businesses for regularly inviting schoolchildren to visit their companies to learn first hand about the traditions of enterprise in the Don region.

Just like the founders of the Startup America programme, Center-invest Bank believes that the Rostov region’s entrepreneurs are its main competitive advantage. The bank regularly holds training events for entrepreneurs, and it draws on best international practice to promote job creation on the basis of new technologies. Every year, I hold open lectures for students from southern Russia’s leading higher education institutions and youth forum participants.

In October of this year, I gave a lecture at Don State Technical University, which was attended by media students from across the Don region. To quote from my lecture: “My objective is to convey to a new generation of journalists the modern concept of entrepreneurship so that they have a correct understanding of the current situation. As the Don economy is very diversified, we can develop any area of it. But it would be wrong to make big changes suddenly. With help from small business, we should develop the regional economy step by step, introducing new technologies and new products. This is the only way in which real economic modernisation can take place.”

Vladimir Kolodkin, head of media communications and multimedia technologies at Don State Technical University, noted, “It is common international practice to have eminent individuals giving lectures for students from various educational institutions. Dr. Vysokov has done a lot for the economy of southern Russia; he has made a big contribution to the development of the SME sector, and our students always have something to learn from him.”

Center-invest Bank has worked with small business since 1997. The bank helps companies in southern Russia to modernise their operations and enter new markets.

In 2011, the bank began offering targeted support to start-ups, with the launch of its Start-up programme. Under this programme we have lent new businesses approximately 150 million rubles on preferential terms. More than 120 entrepreneurs have participated in the programme so far. Every year the bank's Advice Centre holds 50 free-of-charge seminars, which have been attended by more than 600 people to date.

Supporting and developing enterprise in southern Russia is one of the priorities of Center-invest Bank's "Strategy for the Modernisation of SMEs in Southern Russia". It is also fundamental to the bank's own sustainable development in the region.

Guidelines for business plan competitions for new entrepreneurs

Center-invest Bank has produced these guidelines on assessing entries in business plan competitions run by local authorities, non-governmental associations and organisations, and educational establishments. These guidelines are intended to assist competition judges reach well-founded decisions based on a systematic approach to assessment using a clearly defined set of criteria.

The competition judges should assess entries using the following criteria:

I. Entrepreneurial originality (according to Joseph Schumpeter)

	Marks awarded by assessor (1-5)
1. New product	
2. New method	
3. New market	
4. New raw materials	
5. New organisation of production	
Total	

II. Costs and Results

1. Income from the sale of products, services (taking into account demand)														
2. Operating expenses (by cost item and group)														
Equipment depreciation														
Raw materials and other materials														
Salaries and deductions														
Taxes														
3. Profitability (line 1 – line 2) / line 2														
Range of profitability	<table border="1"> <thead> <tr> <th>«0</th> <th>0«0,1</th> <th>0,1«0,2</th> <th>0,2«0,3</th> <th>0,3«0,4</th> <th>0,4«0,5</th> </tr> </thead> <tbody> <tr> <td>Marks awarded by assessor (from 0 to +5)</td> <td>0</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	«0	0«0,1	0,1«0,2	0,2«0,3	0,3«0,4	0,4«0,5	Marks awarded by assessor (from 0 to +5)	0	1	2	3	4	5
«0	0«0,1	0,1«0,2	0,2«0,3	0,3«0,4	0,4«0,5									
Marks awarded by assessor (from 0 to +5)	0	1	2	3	4	5								
Marks awarded by assessor (from 0 to +5)														

III. Success Factors

1. SWOT analysis of management

Strengths (from +1 to +5)	Weaknesses (from -1 to -5)	Opportunities (from +1 to +5)	Threats (from -1 to -5)	Total
Production				
Marketing				
Finance				
Personnel				

2. Interrelationship between production, marketing, financial and personnel management

The assessor's marks for the SWOT analysis of each management function are inserted in the diagonal boxes. The other interrelationships are graded from -1 to +1 depending on whether they strengthen, weaken or are neutral for the management function in the row in question.

Management function	Production	Marketing	Finance	Personnel	Total
Production					
Marketing					
Finance					
Personnel					
Total					

IV. Money today – income tomorrow.

						Total
1. Project investment costs						
2. Anticipated profit over next 5 years (by year)						
3. Return on investment (line 2 / line 1)						
Marks awarded by assessor (1-5)						

The competition winner is determined by totalling the marks awarded for each section.

Center-invest Bank

- since 1997, has been helping SMEs in southern Russia to modernise on the basis of a new ideology (<http://www.centriinvest.ru/ru/book/0301.html>).
- in the first ten months of 2012, made more than 4,000 loans to SMEs for a total of 47 billion rubles.
- accounts for 40% of all investment loans made to SMEs in the Rostov region.

Programmes:

Self-modernisation: Helping our customers to purchase equipment, technology and management systems from global markets that are three to five times more efficient than their existing resources. This then allows them to produce goods and services that can compete on global markets.

Start-up: Includes free consultations for new entrepreneurs. In 2011-2012 the bank held more than 100 seminars, which were attended by 450 people, and it made 120 loans with a total value of 150 million rubles.

Youth Business Russia (together with the International Business Leaders Forum (IBLF): loans of up to 300,000 rubles, maximum maturity of three years, 12% interest per annum, no security or guarantee required.

Training for entrepreneurs, students and schoolchildren. Every year, more than 9,000 schoolchildren study the principles of entrepreneurship using the textbook “Small Business: Enterprise for All for Schoolchildren”. www.centriinvest.ru

The bank’s Advice Centre at our head office in Rostov-on-Don regularly holds free consultations for new entrepreneurs on business planning and tax and legal issues.

For more information about Center-invest Bank’s business advice service, lectures and training, please see www.centriinvest.ru/seminar or contact our information service: (863) 2-000-000, 8-800-200-99-29 (calls are free of charge within the Russian Federation).

In November 2012 Center-invest Bank opened new Advice Centres in branches in Taganrog, Volgodonsk and Shakhty. This project is being run in partnership with the [Rostov Regional Enterprise Support Agency](#).

Supporting and developing enterprise in southern Russia is one of the priorities of Center-invest Bank’s “Strategy for the Modernisation of SMEs in Southern Russia”. It is also fundamental to the bank’s own sustainable development in the region.

If you have any questions about how to use the recommendations contained in this book, or if you would like more detailed information about Center-invest Bank’s loan programmes, please contact us.

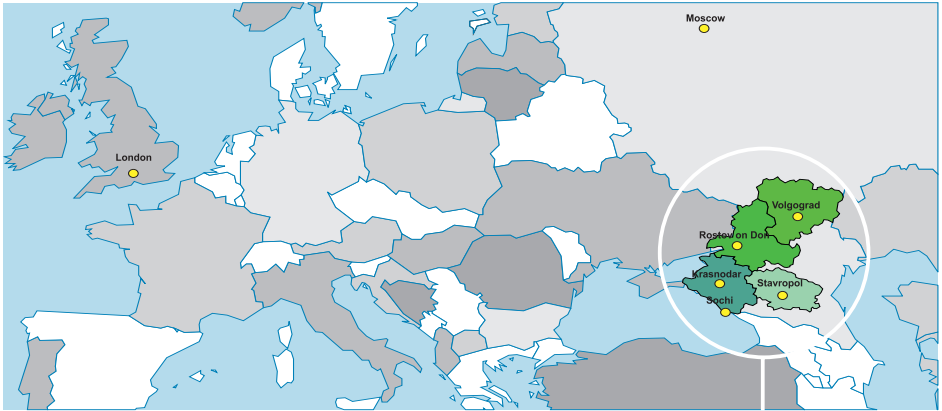
Start up. Don! Start up!

A Theoretical and Practical Handbook

Dr. Vasily Vysokov

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Center-invest Bank's branch network comprises 140 branches and sub-branches throughout southern Russia (Rostov-on-Don, the Rostov region, Krasnodar, Krasnodar Krai, Volgograd, Volgograd region, Stavropol and Stavropol Krai). We also have representative offices in Moscow and London. Our head office is located in Rostov-on-Don.

