

What are the challenges for cross border business development ?



Kristin Høiby, Partner – Sherpa Konsult a.s.

Some advise to business activities in Russia

- Russia is different from i.e. Sweden or Germany. You have to adapt your way of thinking
- Things take longer time than what you are used to
- If your are not a patient person, with good nerves, Russia is not for you. Risk taking and long term commitment is necessary
- Things are much more complicated than what you are used to
- You have to be present, management by fly-in-fly out is not good enough
- Personal connections and network is crucial
- There is always a way, to find a solution, usually it is a detour
- Ask for help, «I did it my way» usually do not work in Russia
- Don't lecture your Russian partners, don't try to outsmart them – they are smarter than you are...and have connections
- Learn the language,- while you do so, use your own interpreter. A lot is «Lost in translation»
- Try to follow the law and the correct procedures, even the unwritten ones..

I am not in the least afraid of foreign capital, since I consider it is in the interests of our country. No country has been developed without foreign capital.

What I am afraid of is just the opposite, that our way of doing things has such specific characteristics, so different from the way things are done in civilized countries, that not many foreigners will want to do business with us.

Sergej Witte, Russian Prime Minister (1905-06)

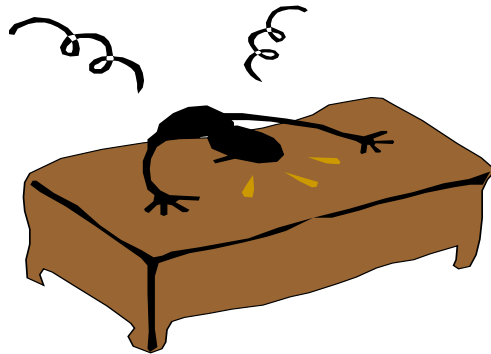
Axioms of post-soviet business life;

- All firms work without profit (vse rabotaiut på nuliam)
- All firms keep double books (u vsekh dvoinaia bukhgalteriia)
- One has to share profits through payouts (nada delit'sia)
- One has to respect the informal order (nada uvazhat' poniatiia)
- One has to make and keep friends (nado imet' druzei)
- One should avoid dealing with formal institutions by reaching informal agreements with their representatives

«Everybody in Russia who did not spend the last decade staying in bed has willingly or unwillingly violated the law»

Boris Berezovskij (to Frankfurter Allgemeine Zeitung, July 18, 2000)

UN assessment of Russian SME sector



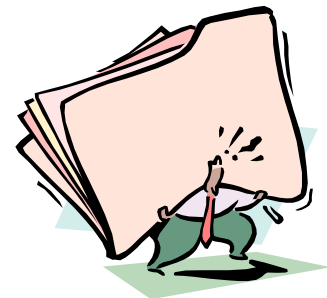
“Too much red tape drives much legitimate business activity into the untaxed poorly documented world of the informal sector. The economic impacts are felt especially hard by SMEs, which lack big businesses’ resources and political influence for finding solutions.”

IFC SME Department

”administrative barriers”

.. Work permit, migration control,,,

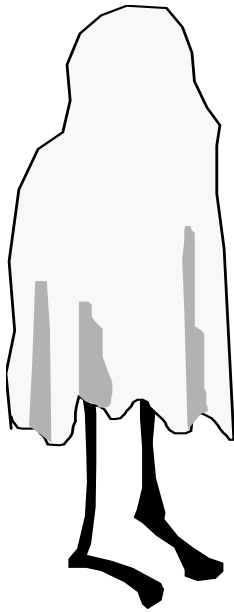
Investments approvals, procedurs for registering a company, tax reporting, payments, salaries, audits, payments of pensions and insurances, municipal approvals, certificates, access to land, long term leases, construction approvals, access to electricity and water, heating, production certificates, state approvals, fire and sanitary approvals, customs, VAT, export and import certificates,



Shadow economy

45 % of the Russian economy is in the «Valley of shadows»

Vladimir Makarov, Deputy head of Ministry of Interiors economic crime department.



The real number of employees in SME sector is underreported with 1/4

Only 1/3 of the salary is reported to the authorities

The companies turnover is underreported.

Shell firms operate as owners or partner companies for transfer of money or barter deals

Russian specifics

- What's the identity of the company? Who is the owner?
- Shell firms (Pustyshki)
- Monkey firms (Martyshki)
- Firms on the side (levye firmy)
- Shadow schemes;
 - Backdating (*zadnim chislom*)
 - Issuing false invoices or empty receipts (*vydat pustuiu kvitantsiiu*)
 - Over and under reporting of income
 - Back up pack of falsed documents (*paket podlozhnykh dokumentov*)

Often schemes are designed to formally comply with the law, but at the same time they violate its spirit

Anyone who doubts whether Russian entrepreneurs have adequate talent to make the transition to capitalism cannot but marvel at the ingenuity and resourcefulness deployed in putting together barter deals.

Inevitably, operating in a high-risk environment also means that such entrepreneurship is used up in circumventing difficulties and churning to go around formal rules and procedures rather than focusing on improvements and innovation.

Alena V. Ledeneva, 2006 Cornell University (The informal practices that shaped post-soviet politics and business)

Contracts are not easy...

- **6. Circumstances of Force Majeure**
- **6.1** The Parties are free of responsibility under the Present Contract in case of Force Majeure. Circumstances of Force Majeure is defined as: natural disasters, acts of war, civil disorders and **unforeseen measures taken by the Government of the Russian Federation.**

Ølen Betong a.s. in Murmansk



2011 - Ban on foreign ownership on land in border areas, - regions in Murmansk included



60 mill NOK invested in production facilities and purchase of land

Norwegian-owned hotel in Murmansk won court case

2011-03-18

Poliarnie Zori hotel



The Norwegian-owned Hotel Park Inn Polyarnye Zori has for the second time won a court case against the Alcohol Licensing Department in Murmansk.

In September last year, the hotel lost its license to sell alcoholic beverages after an anonymous tip led to an unannounced control of the hotel's bar.

Later it became clear that the tip was fabricated and that the hotel had done nothing illegal in connection with the sale of alcohol.



Reinertsen NWR

- 45 pipe racks and modules (3000 tons) are fabricated here and transported to Norway.
- And a 400-ton module that has just been shipped to Norway for installation at the Mongstad refinery

- ❖ about 400 persons are working at the fabrication site and 99% are Russian employees.
- ❖ Five years experience in the Russian company has shown Russian employees to be highly competent, perform good quality and productivity which is internationally competitive.

Border crossing – a bottleneck



52 % increase in border crossings in May 2011, with an all time high at 16.500 people. Total border crossings in 2010 was more than 140.000

Urgent needs for upgrading on the Norwegian side, cost: 23 million NOK. (more passport controll windows, more staff, more lanes for vehicles)

St.Petersburg is more and more the main border crossing point for the business community, not Murmansk. Heavy machineries, trucks, red fish, king crab... - St.Petersburg customs