

BISNIS Bulletin



Facilitating Commercial Success
in Eurasia

September/October 2004



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U.S. Department of Commerce
International Trade Administration

BISNIS 2004 Survey: Update on Financing Deals

by Philip H. de Leon

Weak banking systems and underdeveloped financing environments in Eurasia create problems for U.S. companies trying to conduct trade transactions and conclude investments deals. In 2003, BISNIS representatives in Eurasia conducted a unique survey on how deals are financed in Eurasia and found that the lack of available financing is a major hurdle to the development of trade with Eurasian companies. The goal of the 2003 survey was to help U.S. exporters gain an understanding of from where financing could come and to whom it could go. In 2004, BISNIS conducted a new Eurasia Finance Survey to check on progress, look at new trends, address the issues of consumer credit and credit history, and widen the survey by including Tajikistan and Uzbekistan. Overall, the 2004 Survey shows that improvements have taken place in financing deals in Eurasia, but the speed of change is uneven across the region and many obstacles to financing deals remain.

The Survey

The 2004 BISNIS Finance Survey was conducted in eight countries (Armenia, Azerbaijan, Georgia, Moldova, Kazakhstan, Kyrgyzstan, Tajikistan, Ukraine, and Uzbekistan) and in nine major Russian cities (St. Petersburg, Nizhny Novgorod, Samara, Yekaterinburg, Novosibirsk, Tomsk, Khabarovsk, Vladivostok, and Yuzhno-Sakhalinsk). It featured a comprehensive list of questions on how Eurasian companies finance purchases of U.S. goods and services.



Kazkommertbank in Almaty, Kazakhstan

Photo courtesy of Philip de Leon.

The survey included such questions as: How is business financing obtained? Is leasing a significant vehicle for business finance? Is consumer credit available in your country/region? The survey also sought to capture information about the banking systems in Russia and Eurasia.

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BISNIS Director's Message

As many BISNIS clients return from summer vacation, I want to take this opportunity to update you on key developments at BISNIS. In early August, BISNIS became a unit of the Commerce Department's U.S. Commercial Service (CS). Together with our CS colleagues, we see great opportunities for this merger to provide U.S. companies with easier access to an array of services and resources that can facilitate business activities in Eurasia and worldwide. (See article on page 3 to learn more about the Commercial Service.) Although BISNIS already collaborates with the CS offices in Eurasia—in Russia, Ukraine, and Kazakhstan—and throughout the United States, the merger will allow us to expand and intensify this cooperation. Meanwhile, BISNIS will continue to work to produce concrete U.S. exports and business activities in Eurasia.

During the next year, BISNIS will transition to an all-electronic format of the *BISNIS Bulletin*. We seek to convert all *Bulletin* readers to receive this unique publication via email or the Internet by early spring, when our print version will cease to be sent by mail. However, BISNIS clients will still be able to print a reader friendly version of the *Bulletin*. The conversion will allow us to put increasingly scarce resources toward our core programs and activities.

Longtime BISNIS clients are now well familiar with our autumn call for information on how BISNIS has assisted your business development and other activities in Eurasia. This year, hearing from BISNIS clients is more important than ever. BISNIS is operating in an increasingly challenging budget environment of shifting U.S. government funding priorities. Producing results is our primary way of showing that we are worthy of receiving funding. Hearing from clients whom we've helped is central to this effort.

I feel extremely lucky and proud to be a member of an outstanding multinational team that is dedicated to expanding U.S.–Eurasian commercial partnerships that benefit both regions. This team is committed to ensuring that BISNIS remains a flexible and dynamic organization, and we are very interested in our clients' input on ways to improve our impact for clients work and build on the results we have generated. Please feel free to share any results stories or ideas with us at bisnis@ita.doc.gov or through your "favorite" BISNIS trade specialist.

Best regards,
TANYA SHUSTER
Acting Director

BISNIS

Facilitating Commercial Success
in Eurasia

BISNIS is the U.S. government's primary market information center for U.S. companies exploring business opportunities in Eurasia. A part of the Department of Commerce's **U.S. Commercial Service**, BISNIS disseminates information in print form, electronically, and through consultations by its staff of trade specialists.

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BISNIS Joins the Commercial Service!

BISNIS is pleased to announce that, as part of the reorganization of the U.S. Department of Commerce's International Trade Administration (ITA), BISNIS has moved from ITA's Market Access and Compliance unit to its new Trade Promotion arm. The reorganization places BISNIS with the U.S. Commercial Service and all other trade promotion resources in ITA in order to improve the efficiency, effectiveness, and customer service of these operations.

The U.S. Commercial Service is a Commerce Department agency that helps U.S. companies—particularly small and medium-sized businesses—sell their products and services overseas. The U.S. Commercial Service's network includes 108 U.S. Export Assistance Centers throughout the United States and more than 150 international offices around the world. These offices assist U.S. companies,

particularly small and medium-sized exporters, through counseling, market research, assistance in finding international partners, and trade events. To learn more about CS export assistance, visit www.export.gov/cs.



Commercial Service Offices in Eurasia

Moscow, St. Petersburg, and Vladivostok, Russia

Web site: www.buyusa.gov/russia/en

Kiev, Ukraine

Web site: www.buyusa.gov/ukraine/en

Almaty Kazakhstan

Web site: www.buyusa.gov/kazakhstan/en

Upcoming Catalog Shows in Eurasia

The U.S. Commercial Service offers a Product Literature Center program as a low-cost but effective and easy way for your company to evaluate market potential, gain exposure, and explore business opportunities. Commercial specialists in Eurasia attend selected trade events and invite local buyers and distributors to view U.S. company product literature, collect leads, and send them directly to a U.S. company for follow-up.

International Exhibition of Banks, Investments, Insurance and Consulting BISK 2004

Dates: November 1–5, 2004

Location: Moscow, Expocenter on Krasnaya Presnya

Description: BISK' 2004 is the first major exhibition in the field of banking, investments, finance, insurance, consulting and audit to be held together in one representative forum in Russia. Leading banks, financial and investment companies and institutions from Russia, CIS, USA, Europe, Asia, Southeast Asia, Japan, and China will exhibit at the show and participate in the event.

CS Contact: Oganés Sarkisov
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Web site: www.bisk.ru

Public Health 2004

Dates: October 27–30, 2004

Location: International Exhibition Center in Kiev, Ukraine

Description: Public Health 2004 will feature a wide range of medical equipment (including dental, clinical laboratory, and optical) and pharmaceuticals. The exhibition will include the medical products of more than 300 companies.

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BISNIS 2004 SURVEY continued from page 1

Positive Changes Are Noticeable

Compared with the 2003 BISNIS Finance Survey, the recent study found some positive changes taking place in the financing and banking situation in Eurasia. Some of these key developments are:

- Higher minimum capital requirements for banks are leading to a consolidation of the industry through mergers and acquisitions.
- Leasing is becoming more popular and, as a result of growing competition, procedures are being simplified and margins are being cut.
- Access to funds from international financial institutions, such as the European Bank for Reconstruction and Development (EBRD) and the World Bank's International Finance Corporation (IFC) and channeled through local bank has been increasing.
- Greater competition is broadening the range of available banking services, such as investment and retail banking, mortgages, and consumer loans.
- Measures are taken to increase the role of banks in assisting small and medium-sized enterprises (SMEs) development as a means to foster economic growth.
- Banks are opening branches outside large cities, increasing access to financial services.

But Striking Disparities Exist

These positive trends should not mask major disparities between countries and very often between cities of the same country. The reality remains that, in most Eurasian countries, the banking system is underdeveloped. Difficulties that are faced include:

- For most countries, a shortage of medium and long-term capital is a major constraint to finance private businesses. The existing credit supply is far too small to provide a suitable environment for the development of SMEs.
- The lack of trust in banks and the absence of guarantees given to depositors have resulted in large amounts of hard currency that are unaccounted for and untapped by the financial markets.
- The absence of credit bureaus and the inability of banks to assess the creditworthiness of "new" clients lead banks to be very conservative, demanding unattainable collateral requirements and using dissuasive interest rates for short-term lending only. As a result, self-financing by internally generated cash is, for many companies, the only option available.
- Restrictions imposed on foreign banks eager to enter the market prevent competition from being a motor for change.

Expected Developments

Little by little, each country is making positive changes, often initiated and/or aided by foreign development agencies and multi-lateral development institutions. Examples of important efforts to improve the banking and financing situation in Eurasia include:

- The EBRD's Trade Facilitation Program, whereby the EBRD provides guarantees to international confirming banks and, thus, takes on the political and commercial payment risk of transactions undertaken by issuing banks. This program has been instrumental in making small deals come through, including enabling a local bank in Tajikistan to finance the import of foreign equipment.
- Azerbaijan is working on the development of payment systems, such as a national card-processing center for the payment of wages and pensions. This will increase non-cash payments and indirectly strengthen the banking system.
- Leasing is seen as having great potential in some countries, particularly if it focuses on some of the strong industries of the country, such as agribusiness and food processing in Moldova and Tajikistan. The IFC, through its Private Investment Partnership technical assistance program, works on building local leasing expertise and has already trained thousands of leasing professionals, bankers, entrepreneurs, and government officials across 35 of the 89 regions of Russia and has a web site for leasing issues in Russia at www.ifc.org/russianleasing. The program also worked with public and private partners in Armenia, Georgia, Kyrgyzstan, Tajikistan, Ukraine, and Uzbekistan to draft new leasing laws and amendments and advocated for their passage.
- Russia, with a growing middle class, is seeing an increased demand for consumer credit to purchase cars, electric household appliances, and medical services, or to renovate an apartment. New areas for consumer credit are to finance vacations and annual fees for health clubs.

The consolidation of the banking system and the adoption of adequate and enforceable legislation is expected to continue to be a top priority for 2005. The trend in many Eurasian countries and regions of Russia is toward SME development, as well as toward greater affordability of and accessibility to financial solutions. Staying informed about what financial options are available to potential importers in Eurasia could be the key to concluding a successful export transaction. U.S. companies should consider the financing situation of potential Eurasian customers instead of simply focusing on solutions generated in the United States and Western Europe.

The complete survey is available at BISNIS Online at www.bisnis.doc.gov/financesurvey2004.cfm. Reports are available by country or Russian city, and by question.

Philip de Leon is acting deputy director of BISNIS in Washington, D.C.

Foreign Capital in Moscow Commercial Real Estate

by Vladimir Kovalenko

According to Russian business publications, the volume of capital investments into the construction industry in Russia grew by more than 12 percent in the first half of this year, compared with the same period of 2003, and the construction volume in the Moscow market alone increased up to 14 percent. The interest of foreign investors in Russian real estate is on the rise—some large global corporations and real estate developers have already entered the market, while a number of western funds have declared that they are considering the possibility of investing in this market segment in Russia. There are evident reasons for this upsurge in activity: the retail, office, and warehouse segments of the real estate market have been booming since 2000. And although investment activity in the construction industry is still in its infancy, the completion in the last 12 months of a number of large institutional investment transactions suggests—and many experts agree on this—that the Moscow real estate sector will now develop very quickly. Moreover, this construction and real estate boom is both spurred by and spurring great activity in other parts of the Russian economy.

Where there are opportunities, there is also risk. Maxim Kunin, the head of the Real Estate Department of Fleming Family & Partners Russia (www.ffandp.com), believes that problems arising during a commercial real estate transaction often are a consequence of non-transparency of legal documents and ambiguities of Russian legislation. As a result, according to Kunin, a foreign investor often has to follow a somewhat unusual procedure: instead of buying an office building itself, the investor has to buy a company, which owns the building. Then, besides evaluating traditional criteria, such as location, income stream, and the lessee's financial history, the investor also has to analyze the transparency of the building ownership history, current ownership structure, and the status of the land on which the building is built. In the end, the cost and the complexity of the transaction increase significantly. Russian real estate professionals say that when an investor buys a company in Russia, he acquires its history—and responsibility—as well.

A director of the Commercial Real Estate Department with Colliers International (www.colliers.com), Oleg Myshkin notes that, as anywhere else in the world, the commercial real estate

market in Russia is not limited to business centers. There are also hotels, retail centers, warehouses, and industrial premises. Unlike office space, these segments of the real estate market have not yet enjoyed investment flow comparable to that of office buildings. However, the interest of Western investors in these markets, especially industrial, is growing, and it takes less time to enter this market than that of office premises. As Zeki Isin, general director of JSC Moskva Krasnye Holmy said, "Although Moscow is one of the most frequently visited cities for corporate business travelers, there is a noticeable shortage of high-class business hotels."

Many large foreign companies active in the Russian real estate market prefer to work with experienced Russian partners who take responsibility for adjusting a foreign developer's project to the requirements of the Russian market. This saves both time and money.

Among the most prominent foreign developers that have established their positions in the Russian market is Hines (www.hines.com), founded in 1957 in Houston by Gerald D. Hines.

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Upcoming Conferences

Emerging Investment Opportunities in the Russian Railways Sector

October 25–26, 2004

Moscow, Russia

Consumer Credit in Russia

November 25–26, 2004

Moscow, Russia

Organizer: C5

Web site: www.c5-online.com

Russian Telecoms

November 30–December 2, 2004

St. Petersburg, Russia

The Russian Food and Beverage Industry

November 15–18, 2004

Moscow, Russia

Organizer: Adam Smith Conferences

Web site: www.asi-conferences.com

MOSCOW COMMERCIAL REAL ESTATE continued from page 4

The firm, which today is one of the largest privately held real estate development, investment, and management companies in the world, has been operating in the Moscow market as an asset and property management company for 11 years. After developing seven large real estate projects in Russia, it recently announced plans to develop an industrial park in the northern part of Moscow.

Turkish ENKA (www.enka.com) is another large foreign developer in Russia. It began its first construction project in Moscow in 1988, and has been working in the commercial Moscow real estate market since 1991. ENKA became a dominant developer of Class A office space in Moscow. Currently the company owns and manages 165,000 square meters of commercial office space in 18 buildings. An additional 135,000 square meters of space will be built for the Moscow City Project, which will be completed between 2005 and 2007. ENKA has also gained a high standing in construction of warehouses and retail projects.

Among other foreign developers in Russia are AIG/Lincoln, which has been successfully operating in West European and Central European markets, GE Capital/Colub, PHI, Africa-Israel, Lotte-L&L Development, Tobtim, Brunswick, Metrusto, Invesco. All of them are considering the possibility of developing new business centers in various commercial real estate segments in Moscow.

Jones Lang LaSalle (www.joneslanglasalle.ru), a leading global provider of integrated real estate and money management services, predicts that one can expect a large number of new buildings on the market by the beginning of 2006. Even in 2004, investments in office space are expected to exceed \$500 million. In its recent research of Moscow real estate market trends, Jones Lang LaSalle concludes that currently the market in Moscow experiences significant undersupply in retail, office, and warehouse space, and as a result the market has a lot of potential for developers and investors who are coming to Moscow.

Moreover, analysts are observing the increasing growth of foreign investors' activities in various regions in Russia outside of Moscow and St. Petersburg. There are 13 cities in the country with population over 1 million and 33 cities with a population between 500,000 and 1 million. Fast growth of disposable income of the Russian population has pushed retailers to start looking at expanding into those cities. As Sergey Riabokobylo, a principal with a real estate company Styles & Riabokobylo (www.commercialproperty.ru), notes, regional authorities in these cities are becoming increasingly interested in attracting real estate developers and seek to make conditions more favorable for them.

Vladimir Kovalenko is director of U.S. operations for Mikhailov & Partners (www.mnp.ru), a Moscow-based Russian consulting group. The article is based on information published in the Russian media.

U.S. Department of Commerce SABIT 2005 Group Program Calendar

SABIT offers organizations an opportunity to network with Eurasian counterparts, and expose their products and services to potential business partners or customers. The Group Program brings delegations of non-English speaking managers and technical experts to the United States for four weeks of industry-specific training at sites across the country.

Web site: www.mac.doc.gov/sabit

Oil Pipelines

January 15–February 12

Healthcare Administration for Western Eurasia and the Caucasus

January 29–February 26

Road Construction for Western Eurasia and the Caucasus

February 26–March 26

Water Resource Management for Central Asia

March 12–April 9

Oil and Gas Offshore Exploration and Production

April 17–May 15

Insurance for Central Asia

April 23–May 21

Residential & Commercial Construction for Central Asia

May 21–June 18

Timber and Wood Processing for Russia

June 4–July 2

Healthcare Administration for Russia

August 6–September 3

Refining

August 13–September 10

Dairy Processing & Packaging for Western Eurasia and the Caucasus

August 20–September 17

Energy Efficiency in Construction for Siberia and the Russian Far East

August 27–September 24

BISNIS Interview: **Basics of Business** **Development in Eurasia**

BISNIS trade specialist Marianne Drain spoke to Tim McQuillin and Lyudmyla Zabroda of ROMDEL CIS, a Berkeley, California-based company that helps small and medium-sized U.S. manufacturers capitalize on business opportunities in Eurasia, about current opportunities and advice for U.S. companies interested in the CIS markets.

What opportunities do you see for U.S. products in the Eurasian market?

The region has roughly the same population as the United States, so it presents a large potential consumer market for U.S. goods. The Russian and Ukrainian economies are by far the most developed in the CIS, and have shown steady and impressive growth over the past several years. This growth has led to annual double-digit increases in disposable incomes, forming a small yet growing middle class whose standard of living and purchase priorities can be compared to that of the American middle class of the early 1960s. They are increasingly looking for high quality, affordable goods that reflect their growing, albeit modest, prosperity. Popular items include home furnishings, home renovation supplies, clothing, health and healthcare-related products, and entertainment. Competition from Europe is tough, but only a handful of major brands are present, leaving opportunities for new players. Additionally, in some categories, such as furniture, American brands are practically nonexistent, leaving this niche wide open.

What are the key components for small and medium-sized companies to capitalize on these opportunities?

First, some prior international experience would help a company avoid the most basic mistakes and also decrease time to market entry. Second, internal support of senior management is critical because they can ensure the necessary time and financial resources are made available to pursue this new market. Third, take a win-win attitude toward potential customers and business partners, just as one would with any business relationship. Fourth, have a business or marketing plan with realistic payback periods and sales goals. Finally, demonstrate to potential local partners that your company has a long-term interest in their market. Credible local partners will distrust and avoid doing business with companies they feel are only looking for a quick buck. Tangible signs of a long-term interest include flexible terms

of sale, a co-op advertising program, a local presence, and the ability to operate within the local culture, customs, and language.

Can you give an example of how you've helped bring a company successfully into this market?

A good example is a client of ours, a leading U.S. furniture producer, which was already an experienced exporter. We created a turnkey sales representative relationship with them in order to establish a diversified and sustainable distribution network in Russia and Ukraine. We conducted market research, screened potential dealers through phone conversations and in-country meetings, developed a strategic marketing plan, negotiated terms of sale, and managed fulfillment. We are also currently planning their participation in a trade show next year.

Any final words on doing business in Eurasia?

When thinking about doing business in the region, I am often reminded of some lessons I learned as a volunteer business consultant in Ukraine with MBA Enterprise Corps. First, a good local management team is worth its weight in gold. By good I mean skilled, motivated, trustworthy, and having a good rapport with their American partner. Second, U.S. companies have to be adaptable and flexible. Any company looking to do business in a foreign market must adapt itself and its product to the local market if it wants to succeed. Circumstances can change quickly and unexpectedly in developing countries, so U.S. businesses must keep long-term goals in mind in order to remain flexible in the short-term. It sounds textbook and easy, but you'd be surprised at how many American managers have a lot of trouble in these areas.

ROMDEL CIS can be reached at info@romdel.net or (510) 549-2414.

Sakhalin Oil and Gas 2004

November 16–18, 2004
London, United Kingdom

Pre-conference Workshop
"Doing Business on Sakhalin"
November 15, 2004

Organizer: **IBC Global Conferences**

IBC's 8th annual event will include discussions on project contractor and supplier perspectives, Russian content, logistical challenges, infrastructure and housing needs, obtaining a skilled workforce and advice on how to enter the market.

Web site: www.ibcenergy.com

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11th annual 2004 CIS and Eastern Europe Business Forum

“Success in the CIS in
Eastern Europe”

November 4–6, 2004
Tucson, Arizona

Organizer: **The University of Arizona**

This event is designed for those who are planning to do business in countries of the former Soviet Union and Eastern Europe or who are currently doing business there. The program includes case studies of successful businesses, presentations on support programs available, and analyses of current legal, political, cultural, and economic issues.

Web site: <http://russian.arizona.edu>

Trade Events Calendar

Power Kazakhstan 2004 Organizer: Web site:	November 3–5, 2004 ITE Exhibitions www.caspianworld.com	Almaty
ConsumerExpo Uzbekistan Organizer: Web site:	November 23–25, 2004 TNT Productions, Inc. www.tntexpo.com	Tashkent
PAP-FOR Russia 2004 Organizer: Web site: Sectors:	November 23–26, 2004 E.J. Krause & Associates, Inc. www.ejkrause.com Pulp, paper, forestry	St. Petersburg
Russian & CIS Oil and Gas Investment Forum Organizer: Web site:	December 1–2, 2004 Energy Exchange Ltd. www.energyexchange.co.uk	Moscow
Interior and Comfort 2004 Organizer: Web site: Sectors:	December 8–12, 2004 Sibexpocenter www.sibexpo.ru Furniture and fixtures	Irkutsk

This notice is provided solely as an informational resource and does not constitute an endorsement by the U.S. Department of Commerce. For a complete listing of Eurasia trade events, visit <http://bisnis.doc.gov/bisnis/events.cfm>.