

The entrepreneurial climate in Russia: the present and the future

Vladimir Ivanovich Malyshkov and Yulia Vyacheslavovna Ragulina

Moscow Academy of Entrepreneurship under the Government of Moscow, Planetnaya street 36, 125319, Moscow, Russia

Abstract. The entrepreneurial climate in the country can be assessed using various international ratings, such as the World Bank's Ease of Doing Business ratings and the Heritage Foundation's Economic Freedom Index. However notional various ratings and however different the methodology for their construction may be, assessments of various aspects of the entrepreneurial climate are universally oriented, close, and produce quite a realistic impression.

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Introduction

In assessing the present-day state of the economy of the Russian Federation, regard must be paid to substantial obstacles that affect the country's economic development, which are directly associated with retardation in the development of market institutes and the unfavorable state of the institutional environment and the entrepreneurial climate. The economic stagnation of the Russian economy indicates that business definitely has no confidence about the future. The President of the Russian Federation has set the goal to climb up the World Bank's Ease of Doing Business ratings from 120th to 20th spot by 2018. The ratings presented here are distinguished by being specific and characterize the level of barriers in the major areas of business activity. The significance of clearing excessive barriers is apparent.

The analysis of the unfavorable aspects of the entrepreneurial climate, including those reflected in various international ratings, indicates that the issue is much bigger. The stagnation stems, above all, from the unprotectedness of property, corruption, and lack of independence with the judicial system.

The past year's results indicate that industrial growth has stopped, the volume of investment and freight turnover has been declining, there has continued to be some increase in retail turnover, albeit by modest rates in recent years. Exports have been declining while imports rising. Demand has been steadily low, showing no growth. Nor has the utilization of production capacities been improving, which have remained underutilized, as a result of which the profitability index has been dropping. Many enterprises with monetary assets prefer not to invest them in the development of production but keep them in time deposits in banks – which constitute the majority of corporate deposits –

and subsist on interest, however modest it may be. Monthly net capital outflows from Russia have continued. All this has been happening despite the fact that oil prices, with some fluctuations, have been high [1].

The government, too, realizes that the situation in the area of the entrepreneurial environment is alarming. It is important to create for business conditions that are not worse than those in developed countries on average, which are holding a decent number of spots past the top 20 as well. The experience of particular countries indicates it is possible to achieve principal progress within 7-9 years of hard work. In conjunction with this, the objective set by the RF President – to achieve a leap in the World Bank and the International Finance Corporation's Ease of Doing Business ratings from 120th to 20th spot by 2018 – is deemed feasible.

There are lots of various kinds of assessments and ratings for different aspects of the entrepreneurial climate, conducted by various international institutions. They inevitably come with some kind of convention. Some specialists fear that discrimination for political reasons can affect the way those are implemented. However, such assessments and ratings are put together based on true and tried methods by highly qualified and practiced experts, with surveys normally conducted inside various countries.

Let us analyze several international-level ratings that assess the situation in the Russian economy in terms of the entrepreneurial climate.

We shall begin with the Ease of Doing Business ratings. These are inclusive of 11 parameters characterizing specific areas of economic regulation, wherein we can encounter typical barriers that impede the process of putting together and running small and medium business. The approach is

distinguished by being specific, which makes it possible to identify procedures more or less favorable for business, and assess positive and negative changes in those areas. For each area, one normally takes account of the number of used procedures or documents, the time for, as well as the cost of, processing. Needless to say, striving to improve these ratings is of major significance.

According to the 2013 Ease of Doing Business report, Russia has moved up, compared with the previous year, from 118th to 112th spot among 185 countries. Prior to that, there was a steady worsening in Russia's ratings: from 78th in 2006 down to 123th in 2011, based on the results of the 2012 report. Note that the methodology used for these ratings has changed and some specific data from the ratings can only be compared with that for 2013, but not previous years. However, the trend derived when the former methodology was in force has been quite conclusive [2].

Based on the report's assessments, Russia has been doing best in the way of settlement of disputes relating to making good on contracts – Russia ranks among the top 20 and has moved up from 13th to 11th spot. Whereas the most substantial improvement has been achieved in the area of taxation: from 105th to 64th spot. This may be associated with a relative decrease in the size of insurance premiums, which were raised abruptly the year before. Progress has been observed in the area of bankruptcy procedures – from 60th to 53rd spot – and the speed of registration for new companies – albeit here it has just been a move from 105th to 101st spot. While this change is almost unnoticeable, things have been relatively better in the way of property registration – 46th spot. Credit accessibility has dropped – from 97th to 104th spot, as has, what is especially significant in terms of the condition of the business environment, investor protection – from 114th to 117th spot [2].

However important these ratings may be, the question remains: Do these ratings do a sufficiently good job covering the fundamental characteristics of the entrepreneurial climate on which the behavior of business depends? In other words, if we assume that the country will be able to achieve some progress in the Ease of Doing Business ratings, which economic policy in that area relies on, will it be enough for clearing all the problems business is plagued with in the adverse environment, boosting its confidence about the future, and really changing its behavior?

There is also the Economic Freedom Index maintained by the Heritage Foundation, an independent institution that receives no government support. The index is constructed based on the analysis of ten major areas of the economy and law,

which define the business environment (we shall examine them below), covers 185 countries, and ranges from 0 to 100, where 100 corresponds to maximum freedom. Countries with an index of 80 to 100 are considered free, 70 to 79.9 – predominantly free, 60 to 69.9 – relatively free, 50 to 59.9 – predominantly non-free, and below 50 – countries with repressed freedom. In assessing the index for 2013, information from mid-2011 to mid-2012 was mainly used. For many years the top spot has been held by Hong Kong with an index of close to 90, which it has reached on rare occasions. In 2013, the US placed 10th with an index of 76.0, Great Britain – 14th (74.8), Germany – 19th (72.8), Japan – 24th (71.8), and France – 62nd (64.1). In the post-Soviet space, Estonia has taken the lead in 13th spot (75.3), and, apart from the Baltic states and Georgia, there is Kazakhstan, placed 68th (63.0) [3].

Russia placed 139th with an index of 51.1, i.e. among countries at the bottom of the predominantly non-free group. Note that the index went up 0.6 points compared with the previous year. It reached the maximum value in 2004 (52.8) – that is, over the preceding years the worsening of the situation had prevailed. The highest score was achieved in the way of fiscal freedom – 86.9 (38th spot), which improved by 4.4 points as of the end of the year. This is especially due to a low level of taxes on the income of physical persons, while the improvement may be associated with a decrease in the excessive size of insurance premiums. Next comes the index for freedom in the area of commerce – 77.4 (83rd spot), which went up more than all the other indexes – by 9.2 [3]. This is associated with a relatively low average level of customs payments and the country's joining the WTO, although many nontariff barriers have persisted, which impede free movement of goods and services [4].

Next, there is the index for freedom in the area of business, meaning, above all, freedom from direct interference by the government – 69.2 (75th spot), with a 4.1 point improvement. Having said that, the business environment has improved negligibly, and bureaucratic regulation remains excessive, which makes business solutions unreliable. The freedom index in the monetary area is assessed at 66.7 (152nd spot) and went up 0.4 points [3]. A low placing while the index is relatively more decent than on average means that the majority of countries have a better index in this position than Russia. Here, the drawbacks include the government's considerable influence on prices through multiple subsidies and a large number of state-owned enterprises [5].

Thus, Russia's economic freedom index is also very low; it identifies quite clearly and adequately the weakest segments of Russia's

entrepreneurial climate, including those not covered by the Ease of Doing Business ratings.

However notional various ratings and however different the methodology for their construction may be, assessments of various aspects of the entrepreneurial climate are universally oriented, close, and produce quite a realistic impression. When, for instance, there have been instances of claims raised by taxation authorities in violation of the limitation period and those cases, despite their illegality, lost in court, when there have been instances of property taken away from firms with law-enforcement establishments involved, there emerges an atmosphere wherein it is dangerous to work successfully. When prosecutors and courts arrogate to themselves the right to set, in conditions of the market economy, the level of the so-called fair price deviations from which are construed as damage, and the whole amount of the deal starts counting as that damage, there is plenty of room for abuse of discretion, and just about any entrepreneur can get hit by it. In such conditions, private business not affiliated with the state finds itself unprotected and gets the ground knocked out from under it, both in terms of its faith in the government and confidence about the future [6].

The reaction expressed in the form of the flight of capital and business overseas comes as no surprise. There is a profound downturn in the way of protection of property and the area of the law-enforcement and judicial systems – it is here, and not only in terms of the extremely needed simplification of procedures forming those barriers in the way of entrepreneurs, that the roots of stifling the use of the country's economic potential are laid down [7]. And, consequently, the roots of doing away with these inhibitory practices. Only hard, system-wide, goal-oriented, relatively long work aimed at comprehensive revitalization of the institutional environment, starting with its most neglected areas, can have a positive impact in the way of a better use of the country's economic potential. Otherwise, ambitious hopes of achieving tangible progress in the Ease of Doing Business ratings will, too, remain just a virtuous wish.

Business's lack of confidence is also caused by the inconsistency of a number of regulatory actions by the government. This was most demonstrably reflected in abrupt increases in the size of insurance premiums in 2011 from 26 to 34% to salaries, with a subsequent decrease down to 30%. According to Minister of Finance A. Siluanov, the state did not win from that increase and even incurred losses. That said, in 2012 insurance premiums were raised for individual entrepreneurs now, which resulted in reduction in their numbers through, most

likely, their migration into to the shadow economy [8].

The economic totals of the past part of the year are well attesting to that the dismal state of the entrepreneurial climate not only leads to underuse of the potential for the country's development but, in a direct sense, obstructs the prospects for economic growth [9]. It looks like instead of carrying out serious work in the way of comprehensive improvement of this climate, one is striving to achieve growth through state megaprojects co-funded by, inter alia, the National Wellbeing Fund. We are talking about solutions relating to construction of the Moscow-Kazan high-speed thoroughfare and the Central Ring Automobile Road and reconstruction of the Trans-Siberian Railway. This increases the strain, exorbitant as it is, on the state budget, violating the accepted budget rule and augmenting budget risks in case of drops in oil prices. It is hard to have faith in that projects are going to be properly substantiated and evaluated [10].

What comes to the forefront is systemic transformation of the institutional environment and creation of favorable conditions for business as the decisive condition for preventing the country from sinking down in the ratings for the level of economic development and helping improve its standing.

Corresponding Author:

Dr. Malyshev Vladimir Ivanovich
Moscow Academy of Entrepreneurship under the Government of Moscow
Planetnaya street 36, 125319, Moscow, Russia

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