

# What impedes business in Russia?

How endemic are the problems of corruption and the weight of bureaucracy in Russia today? And are such problems being addressed or are they contributing to a deteriorating investment climate? Leading and experienced business people, lobbyists and consultants analyse the pervasiveness of the problems – the very issues which a reality TV show would expose

**Boris Titov, Chairman of the National Public Organisation Delovaya Rossia**  
**“Impunity makes bureaucrats feel that they are masters of life”**

The difference between Russia and most European countries is not the existence of bureaucracy, but that Russia lacks a law which considerably limits its greed. In Russia, functionaries do not account for their deeds by law: corruption is still in full swing; to take bribes is a matter of course; if you can buy elections, you can certainly buy all the rest.

Impunity makes bureaucrats feel that they are masters of life. Whether a business is in the wrong or not, a bureaucrat can always find a fault with the businessman and open a criminal case. If a bureaucrat is under suspicion, the worst that can happen to him is that he will be reshuffled, and in the case of a high level official, usually get a promotion!

It is possible to do business in Russia without bribing, but be prepared to spend much more time and energy. I have built my office without a single bribe. It was an experiment and a successful one. But in many situations, decisions have to be made very quickly and one has to consider the alterna-

tives: to bribe or to loose profits. I would say that entrepreneurs accept illicit and informal extortions by the state agencies, federal and local authorities as extra costs, as business conditions, not as business losses.

There is a ray of hope, however. The people in power have realised that the development of civil society is absolutely necessary to secure progress. If the power is brought under control, if the power sets a high value on its name and realises the level of disgrace it will have to face in case of law neglect, deceptive behaviour, the corruption will be reduced to a level where it no longer endangers the economic development of the country. It will become an exception rather than the rule. With this in mind, the President has initiated the establishment of the Civil Chamber and Delovaya Rossia plans to take an active role in its development. If the project becomes a reality, I believe that corruption will be a hot issue to address.

**George Pachikov, CEO, Parallel Graphics**

**“Why have we not heard from the government that this bureaucrat took Khodorkovsky’s money?”**

You know how Russian drivers behave on the road? It is amazing. It is exactly how our economy works. Everyone is racing to pass each other, and the traffic police – rather than regulating the traffic - just take money from the drivers. This is exactly how the whole country works. The behaviour on our roads is like a mirror for the whole economy.

It is a very difficult environment in which to work. I don’t know why the government doesn’t want to change anything. If you have very good relations with someone, and you are ready to share the revenue, this is more important than the technology!

The story of the day is Khodorkovsky, but the real question is not about Khodorkovsky. He may be a bad guy. He may have

paid many bribes to the bureaucracy, but why have we not heard from the government that this bureaucrat, or that, took Khodorkovsky’s money?

We should shoot them [the bureaucrats]. If the government wants to fight, they should fight not with the businessmen who gave the money, but with the bureaucrats who took it. At the moment, people are just trying to take money out of the country. Why should British businessmen invest in Russia, if Russian businessmen are taking their own money out?

Putin is building a birdcage – a cell. The vertical of power has been built, and now they are building the horizontal. In the near future, the ‘power-cage’ will be complete!

## Sergey Borisov, President, OPORA RUSSIA

**“Businessmen have got used to working in adverse conditions”**

President Putin has suggested that those who dare to open their own business should be given a medal. Russian businessmen call the conditions of their activity “the run with obstacles”. Though burdensome, dealing with corruption and bureaucracy is already habitual, which means that - combined with the absence of state support - the 12-14% contribution of small business to GNP surprises nobody.

To change this negative situation, there must be a responsible state policy directed at cultivating a layer of small enterprises.

A powerful antimonopoly policy, laws on small business and support with starting a business are all still necessary. Large enterprises are also capable of giving a necessary start to the development of small businesses.

Despite many problems, small business does have a future in Russia. Russian businessmen have got used to working in adverse conditions and do not dramatise the situation. If we want to live in a normal, prospering, country where stability is a basis of well-being, it is necessary to support Russian enterprise.

## Victor Sedov, Executive Director, The US Russia Center for Entrepreneurship

**“There has been almost no change ... in the number of individuals starting their own businesses”**

No matter how hard people in Russia have tried to increase the spirit of entrepreneurship and the number of individuals starting their own businesses, there have been almost no changes in this vital area of the Russian economy in the last decade.

This discouraging news was reflected in the results of a large-scale survey into business conditions for small business. Most respondents feared bureaucratic interference the most, with almost 70% of the 4,350 respondents in 80 Russian regions expressing their inability to defend their business against the corrupt influence of regional authorities. In comparison with previous surveys, the majority of Russian entrepreneurs (67.7%)

are mostly now annoyed by tax authorities at different levels, while solicitations by MVD structures (The Interior Ministry) has shifted into second place. Against this background of general business “bespredel” and unlimited abuse of bureaucratic power, only the Tulskeya Oblast was identified as a real oasis. I remain convinced, however, that the clientele that we have been working with at the U.S. Russia Center for Entrepreneurs for the past three years – ie, mid-sized business owners - is the right one. Owners of mid-sized companies have the ability and desire to grow and provide the best possible results for the overall economy and community, not only in the future, but also at present.

## Tatiana Kruglova, General Director, Targo Group

**“Russian business community is divided into groups and clans”**

In the context of increasing discussion of a deterioration economic environment in Russia, analysts often talk about an external ‘challenge’ to business on behalf of the state: political risks, administrative pressure, flaws of the judicial system.

The role of political factors in determining the conditions for business should not be exaggerated, however. During the last ten years, Russian companies learnt to exist and develop in specific conditions of political risks and administrative pressures. Immunity to politics has been developed at the level business.

The inconsistency of Russian legislation is one of the key obstacles for business development. However, the main problem

for Russian business is a social one. The key factor of Russian economic development is entrepreneurship. The Russian business community is divided into groups and clans, there is no consolidation inside business elite. Large business is gradually turning into a closed class, it does not protect interests of small and medium businessmen, notwithstanding the existence of some serious business associations. The Russian bourgeoisie is yet to comprehend itself as a class. If a union of the business community were to be formed, then the improvement of legislation and removal of administrative barriers would not present intractable problems.