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The review provides a detailed analysis of main trends in Russia's economy in 2008. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Vladimir Dashkeev, Andrey Kaukin, Lev Freinkman

Restrictions to Industrial Growth in Russia on the Eve of the Crisis

In September 2008, the IET's Department for Economic Situation Surveys conducted a business survey among Russian industrial enterprises aimed at identifying the existing obstacles to successful economic development. Within the business survey's framework the directors of enterprises were offered questions concerning their assessment of the influences of various factors on their enterprises' development. The factors potentially restrictive to development were subdivided into 3 groups: *resource-linked restrictions, administrative restrictions and macroeconomic restrictions*. These questions were fully or partly answered to by the directors of 545 enterprises. In this connections, the questions concerning the first group of restrictions were answered on the average by 97.7% of the respondents; those concerning the second group – by 96.7%; and those concerning the third group – by 97.4%.

It should be emphasized that the business survey took place in September, i.e. during the period when the real sector of the national economy was still faced with only minimum negative effects produced by the global financial crisis. Evidently, as the crisis aggravated, the perception of obstacles to production development underwent rapid changes, and so towards the end of 2008 it, most probably, already became markedly different from that demonstrated by the business survey results. Nevertheless, the analysis of the “pre-crisis” answers of enterprises is still of significant interest, since it reflects the ways the obstacles to growth in industry were viewed at the end of the period of relatively successful economic development of 2000 – 2008, and also in a certain sense determines the structure of obstacles as it emerged in the framework of a certain specific development model (characterized by high prices of raw materials, relatively easy access to external financing, and the State's increasing participation in economic life).

The distribution of enterprises' answers by each factor group included in the business survey is shown in *Fig. 40* and in *Table 33*. *Fig. 41* presents the balance (as%) of the answers relative to each group, i.e. the difference between the number of enterprises pointing to a given factor as a significant obstacle to the development of their production and the number of those not regarding that factor as an obstacle.

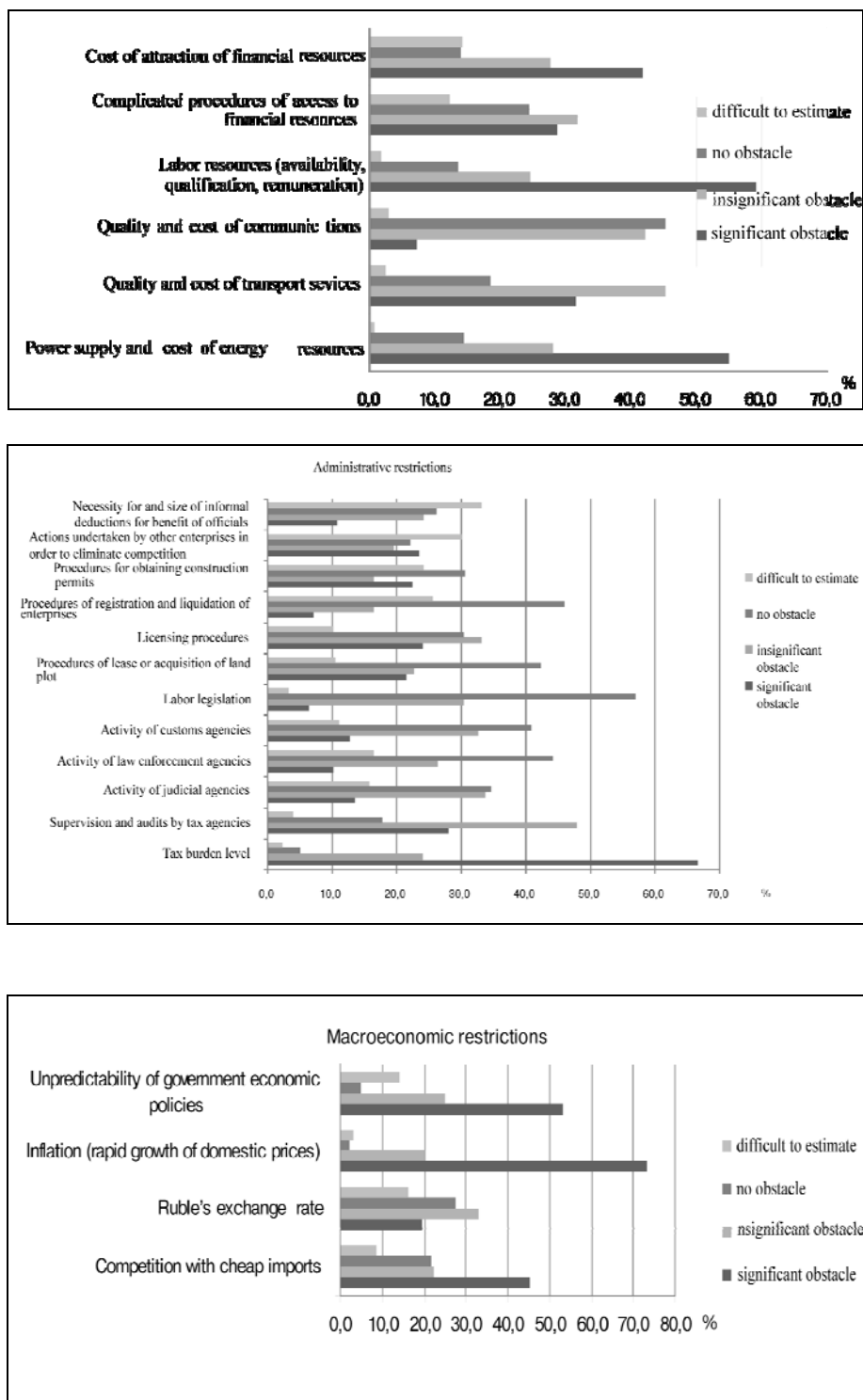


Fig. 40. Restrictions to production development, as% of the number of enterprises participating in the business survey

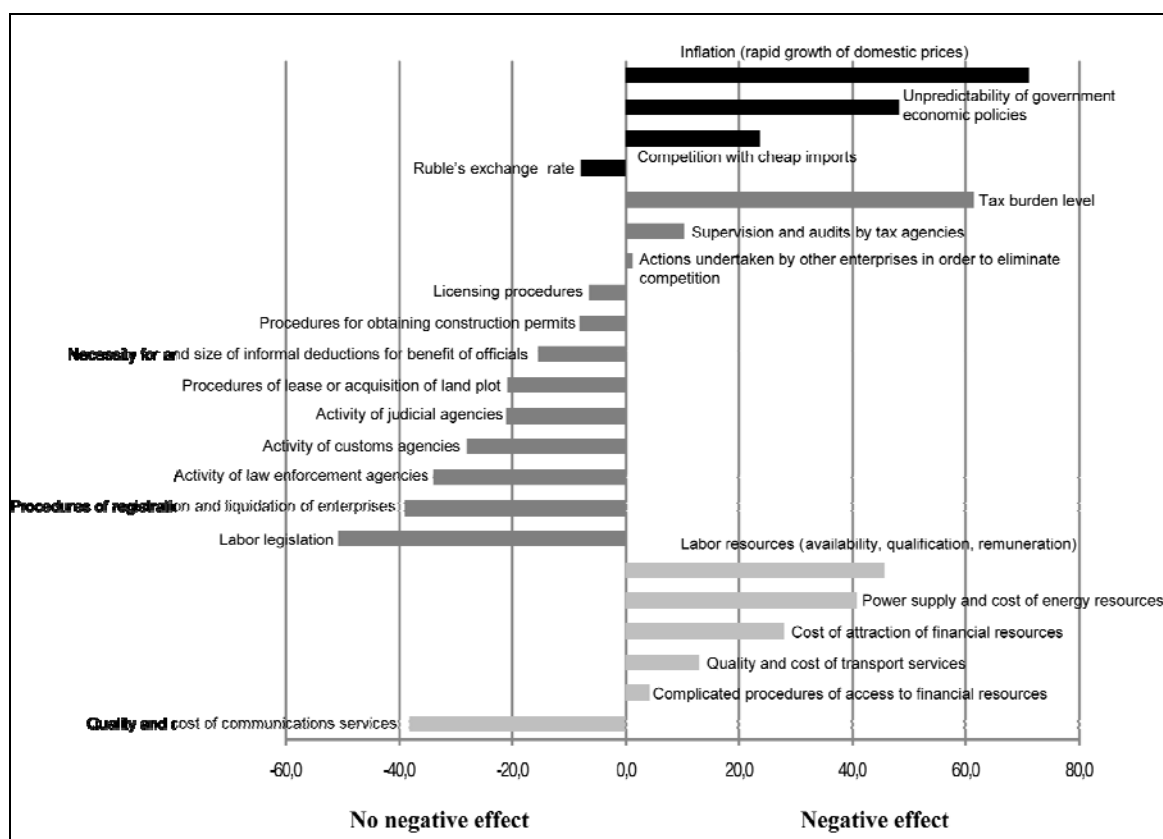


Fig. 41. Balance of answers (difference between answers “significant obstacle” and “no obstacle”) concerning the degree of seriousness of obstacles for the development of enterprises by separate components, as%

Table 33

Results of the business survey concerning restrictions to production development

How serious, at present, as obstacles for development of enterprise are:	Distribution of answers across groups, as% of sample:				% of enterprises that have answered this questions	
	significant obstacle	insignificant obstacle	no obstacle	difficult to estimate		
Resource-linked restrictions	Power supply and cost of energy resources	55.0	28.1	14.3	0.7	98.2
	Quality and cost of transport services	31.6	45.1	18.5	2.4	97.6
	Quality and cost of communications services	7.2	42.2	45.3	2.8	97.4
	Labor resources (availability, qualification, remuneration)	59.1	24.6	13.4	1.8	98.9
	Complicated procedures of access to financial resources	28.6	31.7	24.4	12.1	96.9
	Cost of attraction of financial resources	41.8	27.5	13.9	14.1	97.4

How serious, at present, as obstacles for development of enterprise are:	Distribution of answers across groups, as% of sample:				% of enterprises that have answered this questions	
	significant obstacle	insignificant obstacle	no obstacle	difficult to estimate		
Administrative restrictions	Tax burden level	66.6	24.0	5.1	2.4	98.2
	Supervision and audits by tax agencies	28.1	47.9	17.8	4.0	97.8
	Activity of judicial agencies	13.6	33.8	34.7	15.8	97.8
	Activity of law enforcement agencies	10.3	26.4	44.2	16.5	97.4
	Activity of customs agencies	12.8	32.7	40.9	11.2	97.6
	Labor legislation	6.4	30.5	57.1	3.3	97.2
	Procedures of lease or acquisition of land plot	21.5	22.8	42.4	10.6	97.2
	Licensing procedures	24.0	33.2	30.5	10.3	98.0
	Procedures of registration and liquidation of enterprises	7.2	16.5	46.1	25.7	95.4
	Procedures for obtaining construction permits	22.6	16.5	30.6	24.2	93.9
	Actions undertaken by other enterprises in order to eliminate competition	23.5	19.6	22.2	30.1	95.4
	Necessity for and size of informal deductions for benefit of officials	10.8	24.2	26.2	33.2	94.5
	Macroeconomic restrictions	Competition with cheap imports	45.3	22.4	21.7	8.4
Ruble's exchange rate		19.4	32.8	27.3	16.1	95.8
Inflation (rapid growth of domestic prices)		73.4	20.2	2.2	3.1	98.9
Unpredictability of government economic policies		53.2	25.0	5.0	14.1	97.2

On the whole, the economic environment in September 2008 can be described as moderately satisfactory. Among the 16 factors included in the business survey, five were named as significant obstacles to production development by more than half of the enterprises participating in the business survey. Another seven factors represent either significant or insignificant obstacles more than half of the enterprises across the sample. Only one factor out of 16 (prevailing labor legislation) is described as no obstacle to development by more than half of the sample. At the same time, the significance of the three different groups of factors is by no means similar: according to the respondents, resource-linked and macroeconomic restrictions were producing much stronger influence on the development of enterprises than administrative (institutional) restrictions did. This latter finding is rather unexpected. Traditionally, it has been believed that it is the institutional restrictions, linked to the State exercising its regulating and supervisory functions that are the most restrictive to the development of the real sector of Russia's national economy¹.

Among the factors of the first group, which are associated with *resource-linked restrictions*, the majority represented significant obstacles to the development of enterprises.

¹ V.V. Dashkeev, L.M. Freinkman. *Rossia v 2007 godu: riski zamedleniia ekonomicheskogo rosta na fone sokhraniia i ushcheisia institutsional'noi stagnatsii*. [Russia in 2007: risks of slowdown in economic growth against the background of persistent institutional stagnation.] *Voprosy ekonomiki* [Issues of Economics], 2008: 4: 75–93.

The strongest concern of the directors of enterprises was the shortage of labor resources: 59.1%² of the respondents named it as a ‘significant obstacle’ to growth; 24.6% - as an ‘insignificant obstacle’; and only 13.4% of the respondents regarded it as no problem at all. Next in importance³ among the restrictions to growth, according to most of the enterprises, were problems with power supply and the cost of energy resources – in 55.0% and 28.1% respectively of all answers this factor was described as a ‘significant’ or ‘insignificant obstacle’, and only 14.3% of the enterprises has no problems with power supply. The quality and cost of transport services, the cost of attracted financial resources and difficult access to these resources were also restricting production development at a majority of the enterprises being surveyed, although with regard to these three factors the difference between the answers ‘significant obstacle’ and ‘no obstacle’ is smaller than in case of the first two factors. It is also noteworthy that a considerable portion of the respondents could not assess the effect on their production of the cost of attracted financial resources and difficult access to them (14.1% and 12.1% respectively). The only factor in the group of resource-linked restrictions that presented no obstacle for the development of a majority of the enterprises in September 2008 was the quality and cost of communications services.

In contrast to the first group, *administrative restrictions* are not regarded by the majority of the enterprises surveyed as a serious obstacle. The most important growth-restricting factors in this group were the size of the tax burden and the supervision and audits conducted by tax agencies. The shares of enterprises estimating the first of these factors as an obstacle - either a ‘significant’ or an ‘insignificant’ one - are 66.6% and 24.0% respectively, and only 5.1% respondents did not see any problems in their taxation level. Tax audits were regarded as a source of serious worries by a somewhat smaller number of enterprises – 28.1%; nevertheless, the fact that the estimation ‘insignificant obstacles’ constituted nearly half (47.9%) of all the answers to that question demonstrates that this factor was also restricting development to a significant degree. It is necessary to note that the much higher significance for enterprises of the obstacles associated with the actual level of tax burden, as compared to the problems of tax administration, was one of the unexpected findings resulting from that business survey. This finding differs from the results of earlier business surveys among Russian enterprises and therefore, no doubt, requires further monitoring⁴. We think it rather unlikely that any dramatic improvements could have occurred lately in the quality of tax administration in the Russian economy.

The other administrative restrictions were not regarded by the majority of respondents as serious obstacles to the development of their enterprises. The most favorable, from this point of view, were the administrative procedures reflecting the situation with labor legislation and the procedures registration and liquidation of enterprises. A total of 6.4% and 7.2%

² The statistical significance of the shares of respondents that gave certain specific answers to the questions concerning different factors is sufficiently high in all the cases, if not stated otherwise in the text. We applied the standard test for the difference between two population proportions.

³ It should be noted that the statistical significance of the differences between the shares of enterprises that gave the answers “significant obstacle” and “no obstacle” in regard to various pairs of factors is also sufficiently high in the majority of cases.

⁴ Thus, for example, in BEEPS survey (2005) the number of enterprises considering tax administration to be an obstacle to their business (60%) was higher than the number of those believing the levels of tax rates to be such an obstacle (54%) (see *Table 38*). The available comparable international data based on the 2006 estimates also point to the relatively favorable character of the Russian situation with regard to tax rates, while tax administration, by contrast, appears to be complex and cumbersome (Paying Taxes 2008. The Global Picture. The World Bank and PricewaterhouseCoopers. 2007).

of enterprises respectively encountered serious problems caused by the effect of these factors; on the contrary, 57.1% and 46.1% of the respondents experienced no difficulties in these spheres. At the same time, it should be noted that an unexpectedly high percentage of directors of enterprises failed to offer any estimates of the influence on production of many administrative factors, such as the necessity to make informal deductions for the benefit of government officials (33.2% of answers), actions undertaken by other enterprises in order to eliminate competition (30.1%), the procedures of registration and liquidation of enterprises (25.7%), the obtaining of construction permits (24.2%), and the activity of law enforcement (16.5%) and judicial agencies (15.8%).

In the group of *macroeconomic restrictions* the first place, by its negative effect on the development of enterprises, is inflation: 73.4% of the respondents pointed to rapid growth of domestic prices as being a significant obstacle, and only 2.2% did not consider inflation to be a restricting factor. Second came the factor of “unpredictability of government economic policies” (53.2% и 5.0% respectively), and the third place was occupied by competition with cheap imports (45.3% and 21.7%). In this group only the ruble’s exchange rate was named by the majority of respondents either as an insignificant obstacle to their development (32.8% of the answers) or as no obstacle at all (27.3%).

Also of interest are the differences between the answers offered by directors of enterprises depending on how they estimated their prospects for increasing output (*Table 34*). Significant⁵ differences are noted in the estimations of the effects of many of the factors in all the three groups of restrictions. On the whole, the optimistically-minded directors (i.e. those expecting an increase in their production) gave more positive estimations of their economic environment and noted less restricting factors with regard to their production development than their more pessimistic counterparts (i.e. those expecting a fall in output). The difference in the corresponding balances of answers was between 8 and 20 p. p.

Table 34

Distribution of answers depending on prospects of increasing output*

How serious, at present, as obstacles for development of enterprise, are:		Significant obstacle, as% of sample		No obstacle, as% of sample		Balance of answers, as% of sample		Significance of differences	
		expect increase in output	expect declining output	expect increase in output	expect declining output	expect increase in output	expect declining output	Z - statistics	P - value
Resource-linked restrictions	power supply and cost of energy resources	52.47	53.45	12.96	16.38	39.51	37.07	0.41	0.6808
	quality and cost of transport services **	27.16	37.07	22.22	18.97	4.94	18.10	-3.54	0.0005
	quality and cost of communications services	8.02	10.34	49.38	45.69	-41.36	-35.34	-1.01	0.3113
	labor resources (availability, qualification, remuneration),	61.73	51.72	11.73	15.52	50.00	36.21	2.28	0.0232
	complicated procedures of access to financial resources	28.40	33.62	21.60	24.14	6.79	9.48	-0.82	0.4129
	cost of attraction of financial resources	40.74	43.97	11.11	12.93	29.63	31.03	-0.25	0.8016
Institutional restrictions	tax burden level	63.58	68.97	3.70	7.76	59.88	61.21	-0.22	0.8232

⁵ At significance level of 5%.

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How serious, at present, as obstacles for development of enterprise, are:	Significant obstacle, as% of sample		No obstacle, as% of sample		Balance of answers, as% of sample		Significance of differences	
	expect increase in output	expect declining output	expect increase in output	expect declining output	expect increase in output	expect declining output	Z - statistics	P - value
supervision and audits by tax agencies	24.69	30.17	14.20	18.10	10.49	12.07	-0.41	0.6811
activity of judicial agencies	11.73	12.93	32.72	39.66	-20.99	-26.72	1.11	0.2661
activity of law enforcement agencies	7.41	8.62	45.68	45.69	-38.27	-37.07	-0.20	0.8385
activity of customs agencies	8.64	12.93	40.12	47.41	-31.48	-34.48	0.53	0.5994
labor legislation	8.02	6.03	53.09	60.34	-45.06	-54.31	1.52	0.1294
procedures of lease or acquisition of land plot	19.14	25.00	41.36	42.24	-22.22	-17.24	-1.02	0.3081
licensing procedures	24.07	19.83	35.19	33.62	-11.11	-13.79	0.67	0.5015
procedures of registration and liquidation of enterprises	6.17	6.90	47.53	50.00	-41.36	-43.10	0.29	0.7715
procedures for obtaining construction permits	22.22	26.72	32.10	28.45	-9.88	-1.72	-2.72	0.0069
actions undertaken by other enterprises in order to eliminate competition	17.28	25.00	28.40	16.38	-11.11	8.62	-5.39	0.0000
necessity for and size of informal deductions for benefit of officials	9.88	10.34	29.01	31.03	-19.14	-20.69	0.32	0.7487
competition with cheap imports	40.12	47.41	24.07	25.86	16.05	21.55	-1.17	0.2435
ruble's exchange rate	18.52	22.41	25.93	32.76	-7.41	-10.34	0.86	0.3906
inflation (rapid growth of domestic prices)	74.07	73.28	3.70	0.86	70.37	72.41	-0.37	0.7108
unpredictability of government economic policies	49.38	62.93	6.17	3.45	43.21	59.48	-2.68	0.0079

* Answers were received from 162 enterprises expecting increase in their output and from 116 enterprises expecting drop in their output.

** Hereinafter the rows are marked where differences are significant for two groups of enterprises.

Thus, among the optimistic directors the balance of answers with regard to the factor 'quality and cost of transport services' was 4.9 p. p. whereas among the pessimistic ones – 18.1 p. p. The optimistic directors also have noticeably less complaints concerning problems with obtaining construction permits (the balance answers: – 9.9 against – 1.7), with the actions undertaken by other enterprises in order to eliminate competition (– 11.1 against + 8.6), and with the unpredictability of government economic policies (43.2% against 59.5). Probably, these differences can be explained by the fact that pessimistically-minded directors are inclined to blame external factors for the intrinsic problem of their enterprises.

At the same time, the directors of enterprises expecting an increase in their output were confronted by a more acute shortage of labor resources: the balance of their answers with regard to that factor is 50.0 p. p., while the corresponding index of the pessimistically-minded ones is only 36.2 p. p.

Similar differences were also noted in the answers received from enterprises with different forms of ownership, of different size and belonging to different sectors (Tables 35, 36 and 37 respectively). Thus, state-owned companies complain less often than private companies of the problems associated with power supply, transport and personnel, as well as with

relations with tax, judicial and law enforcement agencies. Bigger enterprises, on the whole, complain less often than smaller ones (with the total number of staff less than 100 persons) of their economic environment. In particular, small-sized enterprises perceive as more problematic such issues as credit accessibility and ease in obtaining licenses and construction permits. Besides, small-sized enterprises believe more often than big ones that the development of their activity is suppressed by the unpredictability of government policy and competition with imported commodities. At the same time, small-sized enterprises voice far less complaints relating to the level of tax burden which, quite evidently, can be explained by their opportunities for applying simplified taxation regimes.

Table 35

Distribution of answers depending on enterprise's size*

How serious, at present, as obstacles for development of enterprise are:		Significant obstacle, as% of sample		No obstacle, as% of sample		Balance of answers, as% of sample		Significance of differences	
		State-owned companies	Private companies	State-owned companies	Private companies	State-owned companies	Private companies	Z-statistics	P-value
Resource-linked restrictions	Power supply and cost of energy resources	34.38	56.34	18.75	14.04	15.63	42.30	-2.98	0.0030
	Quality and cost of transport services	25.00	31.97	31.25	17.74	-6.25	14.23	-3.26	0.0012
	Quality and cost of communications services	6.25	7.21	40.63	45.61	-34.38	-38.40	0.45	0.6494
	Labor resources (availability, qualification, remuneration)	46.88	59.84	18.75	12.87	28.13	46.98	-2.08	0.0383
	Complicated procedures of access to financial resources	34.38	28.27	25.00	24.37	9.38	3.90	1.49	0.1355
	Cost of attraction of financial resources	37.50	42.11	15.63	13.84	21.88	28.27	-0.78	0.4345
Administrative restrictions	Tax burden level	65.63	66.67	6.25	5.07	59.38	61.60	-0.25	0.8021
	Supervision and audits by tax agencies	18.75	28.65	21.88	17.54	-3.13	11.11	-2.53	0.0116
	Activity of judicial agencies	12.50	13.65	50.00	33.72	-37.50	-20.08	-2.34	0.0195
	Activity of law enforcement agencies	6.25	10.53	59.38	43.27	-53.13	-32.75	-2.36	0.0185
	Activity of customs agencies	0.00	13.65	59.38	39.77	-59.38	-26.12	-4.06	0.0001
	Labor legislation	0.00	6.82	75.00	55.75	-75.00	-48.93	-2.86	0.0044
	Procedures of lease or acquisition of land plot	12.50	22.03	56.25	41.33	-43.75	-19.30	-3.31	0.0010
	Licensing procedures	21.88	24.17	40.63	29.63	-18.75	-5.46	-3.02	0.0027
	Procedures of registration and liquidation of enterprises	9.38	7.02	37.50	46.59	-28.13	-39.57	1.29	0.1981
	Procedures for obtaining construction permits	15.63	23.00	43.75	29.82	-28.13	-6.82	-4.29	0.0000
	Actions undertaken by other enterprises in order to eliminate competition	25.00	23.39	25.00	22.03	0.00	1.36	-0.67	0.5063
	Necessity for and size of informal deductions for benefit of officials	3.13	11.31	21.88	26.51	-18.75	-15.20	-0.54	0.5902
Macroeconomic restrictions	Competition with cheap imports	46.88	45.03	34.38	20.86	12.50	24.17	-1.51	0.1313
	Ruble's exchange rate	18.75	19.49	25.00	27.49	-6.25	-7.99	0.35	0.7230
	Inflation (rapid growth of domestic prices)	65.63	73.88	3.13	2.14	62.50	71.73	-1.12	0.2636
	Unpredictability of government economic policies	34.38	54.19	9.38	4.68	25.00	49.51	-2.69	0.0073

* Answers were received from 32 state-owned and 513 private companies.

Table 36

Distribution of answers depending on enterprise's size*

	How serious, at present, as obstacles for development of enterprise, are:	Significant obstacle, as% of sample		No obstacle, as% of sample		Balance of answers, as% of sample		Significance of differences	
		personnel number <100	personnel number >100	personnel number <100	personnel number >100	personnel number <100	personnel number >100	Z - statistics	P - value
Resource-linked restrictions	Power supply and cost of energy resources	65.52	54.56	10.34	14.56	55.17	40.00	1.62	0.1063
	Quality and cost of transport services	31.03	31.65	13.79	18.83	17.24	12.82	0.69	0.4915
	Quality and cost of communications services	10.34	6.99	37.93	45.83	-27.59	-38.83	1.21	0.2257
	Labor resources (availability, qualification, remuneration)	48.28	59.81	17.24	13.01	31.03	46.80	-1.66	0.0981
	Complicated procedures of access to financial resources	37.93	28.16	24.14	24.47	13.79	3.69	2.63	0.0088
	Cost of attraction of financial resources	37.93	42.14	13.79	13.98	24.14	28.16	-0.47	0.6392
Administrative restrictions	Tax burden level	41.38	68.16	3.45	5.24	37.93	62.91	-2.69	0.0073
	Supervision and audits by tax agencies	24.14	28.35	24.14	17.48	0.00	10.87	-1.87	0.0613
	Activity of judicial agencies	17.24	13.40	34.48	34.76	-17.24	-21.36	0.53	0.5974
	Activity of law enforcement agencies	13.79	10.10	37.93	44.66	-24.14	-34.56	1.15	0.2494
	Activity of customs agencies	10.34	13.01	44.83	40.78	-34.48	-27.77	-0.78	0.4342
	Labor legislation	10.34	6.21	65.52	56.50	-55.17	-50.29	-0.51	0.6092
	Procedures of lease or acquisition of land plot	20.69	21.55	37.93	42.52	-17.24	-20.97	0.48	0.6302
	Licensing procedures	37.93	23.30	24.14	30.68	13.79	-7.38	4.16	0.0000
	Procedures of registration and liquidation of enterprises	10.34	6.99	44.83	46.21	-34.48	-39.22	0.51	0.6107
	Procedures for obtaining construction permits	27.59	22.33	24.14	31.07	3.45	-8.74	2.29	0.0221
	Actions undertaken by other enterprises in order to eliminate competition	20.69	23.69	17.24	22.52	3.45	1.17	1.06	0.2889
Necessity for and size of informal deductions for benefit of officials	6.90	11.07	10.34	27.18	-3.45	-16.12	1.84	0.0668	
Macroeconomic restrictions	Competition with cheap imports	65.52	44.08	3.45	22.72	62.07	21.36	5.03	0.0000
	Ruble's exchange rate	10.34	20.00	13.79	28.16	-3.45	-8.16	0.91	0.3611
	Inflation (rapid growth of domestic prices)	72.41	73.59	0.00	2.33	72.41	71.26	0.13	0.8939
	Unpredictability of government economic policies	72.41	52.04	0.00	5.24	72.41	46.80	2.69	0.0074

* Answers were received from 29 enterprises with personnel of no more than 100 persons and from 515 enterprises with personnel of more than 100 persons.

Table 37

Distribution of answers depending of enterprises' types of activity

How serious, at present, as obstacles for development of enterprise, are:		Significant obstacle, as% of sample		No obstacle, as% of sample		Balance of answers, as% of sample		Significance of differences	
		extracting industry	processing industry	extracting industry	processing industry	extracting industry	processing industry	Z - statistics	P - value
Resource-linked restrictions	Power supply and cost of energy resources	52.63	55.45	15.79	14.34	36.84	41.11	-0.37	0.7104
	Quality and cost of transport services	57.89	30.78	10.53	18.74	47.37	12.05	4.46	0.0000
	Quality and cost of communications services	21.05	6.50	26.32	46.27	-5.26	-39.77	3.04	0.0025
	Labor resources (availability, qualification, remuneration)	31.58	60.23	31.58	12.43	0.00	47.80	-4.11	0.0000
	Complicated procedures of access to financial resources	26.32	28.68	31.58	24.09	-5.26	4.59	-2.01	0.0448
	Cost of attraction of financial resources	31.58	42.26	21.05	13.77	10.53	28.49	-1.72	0.0868
Administrative restrictions	Tax burden level	73.68	66.73	5.26	4.97	68.42	61.76	0.59	0.5570
	Supervision and audits by tax agencies	26.32	28.11	21.05	17.59	5.26	10.52	-0.74	0.4602
	Activity of judicial agencies	31.58	13.00	21.05	35.18	10.53	-22.18	3.39	0.0007
	Activity of law enforcement agencies	21.05	9.94	21.05	44.93	0.00	-34.99	3.17	0.0016
	Activity of customs agencies	10.53	13.00	36.84	40.92	-26.32	-27.92	0.15	0.8786
	Labor legislation	15.79	6.12	47.37	57.36	-31.58	-51.24	1.68	0.0927
	Procedures of lease or acquisition of land plot	47.37	20.65	36.84	42.64	10.53	-21.99	3.38	0.0008
	Licensing procedures	31.58	23.71	15.79	30.98	15.79	-7.27	3.73	0.0002
	Procedures of registration and liquidation of enterprises	10.53	7.07	42.11	46.27	-31.58	-39.20	0.67	0.5038
	Procedures for obtaining construction permits	15.79	22.94	21.05	30.78	-5.26	-7.84	0.41	0.6801
	Actions undertaken by other enterprises in order to eliminate competition	15.79	23.90	42.11	21.41	-26.32	2.49	-6.88	0.0000
	Necessity for and size of informal deductions for benefit of officials	10.53	10.71	10.53	26.77	0.00	-16.06	1.90	0.0579
Macroeconomic restrictions	Competition with cheap imports	21.05	46.27	31.58	21.03	-10.53	25.24	-3.55	0.0004
	Ruble exchange rate	21.05	19.50	21.05	27.53	0.00	-8.03	1.29	0.1990
	Inflation (rapid growth of domestic prices)	63.16	74.19	0.00	2.29	63.16	71.89	-0.83	0.4073
	Unpredictability of government economic policies	57.89	52.77	0.00	5.16	57.89	47.61	0.88	0.3784

* Answers were received from 19 enterprises in the extracting industry and 523 enterprises in the processing industry.

There are also some differences with regard to several factors between enterprises belonging to the extracting and processing industries. However, in all these cases any interpretation of the obtained results must be done with caution, because the groups of enterprises vary considerably in number (the business survey encompassed 32 state-owned and 513 private companies, 29 small-sized and 515 big enterprises, 19 enterprises in the extracting and 523 in the processing industries).

Of separate interest in the comparison of the results of the IET' business survey with those of similar surveys conducted by the World Bank in 2002 and 2005⁶ (Table 38). This comparison points to significant improvement of the economic conditions in industry: as compared to the years 2002 and 2005, in 2008 a number of factors were producing a far less marked negative influence on the development of Russian enterprises. These factors are: the quality and cost of communications services; difficult access to financial resources and the cost of their attraction; the functioning of tax, judicial and customs agencies; the actions undertaken by other enterprises in order to eliminate competition; too complicated licensing procedures; bribe-extolling by officials; and the unpredictability of the government's economic policy.

Table 38

Comparison of the results of the business surveys conducted by the IET and BEEPS

		Percentage of enterprises considering factor to be 'significant obstacle'		
		BEEPS 2002	BEEPS 2002	BEEPS 2002
Resource-linked restrictions	Power supply and cost of energy resources	10.22	11.51	55.05
	Quality and cost of transport services	12.00	12.46	31.56
	Quality and cost of communications services	12.45	8.13	7.16
	Labor resources (availability, qualification, remuneration)	32.24	37.37	59.08
	Complicated procedures of access to financial resources	44.83	35.94	28.62
	Cost of attraction of financial resources	43.39	45.42	41.83
Economic environment	Tax burden level	56.00	54.10	66.61
	Supervision and audits by tax agencies	61.57	59.59	28.07
	Activity of judicial agencies	26.62	30.41	13.58
	Activity of law enforcement agencies	–	–	10.28
	Activity of customs agencies	27.74	25.51	12.84
	Labor legislation	9.92	17.06	6.42
	Procedures of lease or acquisition of land plot	28.43	24.40	21.47
	Licensing procedures	31.85	34.04	24.04
	Procedures of registration and liquidation of enterprises	–	–	7.16
	Procedures for obtaining construction permits	–	–	22.57
	Actions undertaken by other enterprises in order to eliminate competition	36.83	39.02	23.49
	Necessity for and size of informal deductions for benefit of officials	29.12	39.34	10.83
	Macroeconomic factor	Competition with cheap imports	–	–
Ruble's exchange rate		–	–	19.45
Inflation (rapid growth of domestic prices)		–	–	73.39

⁶ World Bank Business Environment and Enterprise Performance Survey – BEEPS. Additional information concerning BEEPS can be found, e. g., in: Raj M. Desai and Itzhak Goldberg, Eds. 2007. Enhancing Russia's Competitiveness and Innovative Capacity. The World Bank. Washington, DC.

On the contrary, if we take some resource-linked factor, there was a dramatic deterioration of the existing situation – in terms of the quality and cost of transport services, and the availability of labor resources and power supply. By comparison with 2005, the share of enterprises noting a growing number of obstacles represented by these factors increased by 19.1, 21.7 and 43.5 p. p. respectively.

Especially noteworthy is the fact that the IET's business survey has revealed a significantly lower level of dissatisfaction on the part of enterprises with the existing administrative restrictions than that demonstrated by BEEPS' results. Thus, for example, the share of enterprises viewing as a serious obstacle to their development the factor represented by the supervision and auditing conducted by tax agencies decreased by 31.5 p.p. by comparison with 2005; the factor of bribes to officials - by 28.5 p.p.; the factor of the activity of judicial agencies – by 16.8 p.p., the factor of the actions undertaken by other enterprises in order to eliminate competition – by 15.5 p.p., and the factor of the activity of customs agencies – by 12.7 p.p. This is a rather unexpected finding, for which we can offer several mutually supplementing explanations.

Firstly, it should be recognized that in the past 4 or 5 years there were some evident improvements in the quality of economic environment. This, in particular, was demonstrated by the results of monitoring of the administrative barriers in the way of development of small businesses conducted by the Center for Economic and Financial Research (CEFIR)⁷. Some of these improvements were directly linked to the adoption, in 2002 – 2003, of federal laws on registration, licensing, inspections and simplified taxation. The slight improvements that took place after 2003 were explained by the CEFIR's researchers with better enforcement of these laws, with the resulting gradual reduction in direct violations of prevailing legislation – such as, for example, unlawful demands that enterprises should license their activity. Below we present more detailed comparisons between our results and those obtained by the CEFIR.

However, the improvements that actually occurred in economic environment are obviously insufficient. This is testified to by the following facts:

- the scale of improvements in Russia falls behind that characterizing the business climate in the majority of East European countries, which is confirmed by studies across countries. In the prestigious international rankings on the ease of doing business published by the World Bank, Russia ranks low, and does not seem to be able to change it in any marked degree (106th out of 178 countries in 2007)⁸;
- the improvement of economic conditions had varying effects on different groups of enterprises. The greatest benefit from the improvements was gained by bigger and well-established enterprises, which have for many years been operating on their relevant markets and learned how to effectively deal with the administrative problems they are now and then have been confronted with. The economic conditions for the functioning of small-sized enterprises, as follows from the business survey results, are noticeably less favorable. Besides, we assume that the terms for the entry on the market of new players are very hard, just as before. That is why we see so few newly emerging enterprises and such a low level of competition. However, this latter assumption cannot be verified on the basis

⁷ Monitoring administrativnykh bar'eroev na puti razvitiia malogo biznesa v Rossii. [Monitoring of the administrative barriers in the way of small businesses' development in Russia.] Round 6. CEFIR. June 2007.

⁸ Doing Business 2008. World Bank. 2007

of only the data obtained through our business surveys, because those failing to get through the “entry” barriers do not participate in them;

- in 2007–2008, Russian industrial enterprises were confronted with relatively new resource-linked restrictions to their growth (first of all, shortages of labor and energy resources). Against this background it appears rather natural that the estimations of traditional administrative restrictions became less prominent. The changes in the level of administrative obstacles to development might have actually been rather moderate, but in face of the new problems their significance for the enterprises noticeably diminished. It seems that the results of the IET’s business survey have demonstrated only a relative, and not absolute (as compared to the effects produced by other factors) decrease in administrative barriers.

Secondly, the differences between the results obtained by the IET and BEEPS are also linked to the differences in the properties of relevant samples. The BEEPS’ business survey encompasses a greater number of small-sized enterprises (only 34% of them having their staff in excess of 50 persons), while the IET’s sample displays a strong shift towards big enterprises (94% of enterprises with staff of more than 100 persons). Besides, all the 545 enterprises in the IET’s panel are industrial ones, whereas in the BEEPS’ 2005 business survey only 40% were in industry. Therefore, the much lower level of complaints concerning administrative restrictions revealed by the IET can largely be explained by the fact that among the respondents there are too few small-sized enterprises, such restrictions being much more important for the latter category. This means that the scale of the actual reduction in administrative barriers in the Russian economy in the period of 2005 – 2008 was, most probably, markedly lower than that displayed in *Table 38*. In other words, the results of the IET business survey, because of the sample’s structure, underestimate the problems relating to the still existing administrative restrictions.

Thirdly, as has been mentioned earlier, the unexpectedly high share of respondents in the IET business survey failed (“found it difficult”) to answer the questions concerning the influence of administrative factors on the development of their enterprises. This has led us to the assumption that administrative restrictions actually represent a more serious problem in industry than it can be concluded on the basis of the business survey results, but in the present situation the directors of enterprises are by far not so ready to openly discuss it than they did back in 2002 or 2005. This, in our opinion, also attests to the fact that the business survey results indeed underestimate the scope of the problems associated with administrative restrictions.

Fourthly, the low level of concern displayed by the respondents with regard to administrative (institutional) restrictions can also be explained by the extremely favorable market situation in Russian industry in the period from 2006 to the first half-year 2008. The high growth rate, coupled with a comparatively low level of competition on the domestic market, provided the majority of enterprises with high and sufficiently stable profits. In that situation of stable and considerable financial improvements, institutional restrictions were treated by managers as a secondary problem, especially by comparison with the resource-linked factors which were acting as direct obstacles to production expansion in a situation of high economic demand. As a consequence, in view of such favorable conditions businesses were displaying only minimum demand for institutional reforms.

Within the framework of this latter explanation, enterprises are found to be more sensitive to the limitations of their institutional environment, when on the markets become tougher, and so even small excessive costs associated with superfluous administrative barriers may be

of critical significance for their competitive capacity. If this interpretation can indeed accurately explain the prevailing sentiments among Russian industrial enterprises, it means that, as the financial crisis of 2008 – 2009 deepens, the relative importance of administrative restrictions will become higher. And thus the demand on the part of businesses for reforms aimed at strengthening the key market institutions will become much greater.

At the same time, this IET business survey addressing the problems faced by Russian businesses is by no means the first one where the answers of respondents pointed to a rather low level of concern with the scope of corruption in this country. Thus, for example, the surveys among small businesses conducted in 2005 and 2006 by “Buttress of Russia” and the All-Russian Center for Public Opinion Studies (VTsIOM) have shown that, although corruption is a widespread phenomenon and represents a source of significant expenditures (on the average taking up between 8% and 10% of their aggregate proceeds), in that period it was not regarded by companies as a serious obstacle to development. In particular, in answer to the question as to the most important threats to the development of a business, only 16% of respondents classified corruption as being such a threat. By contrast, such factors as increasing taxes and rent payments were estimated at the level of 63 and 61% respectively⁹.

Also of some interest is the comparison between the results of the IET’s business survey and those of the CEFIR’s monitoring. It is worth emphasizing that, with regard to a number of factors, there exist considerable discrepancies in the estimates as to the direction of the changes observed: the CEFIR’s monitoring recorded an improvement in the situation over time (between 2004 and 2006), while the IET business survey (2008) points to an improvement by comparison with the BEEPS’ results (2005). These factors are as follows:

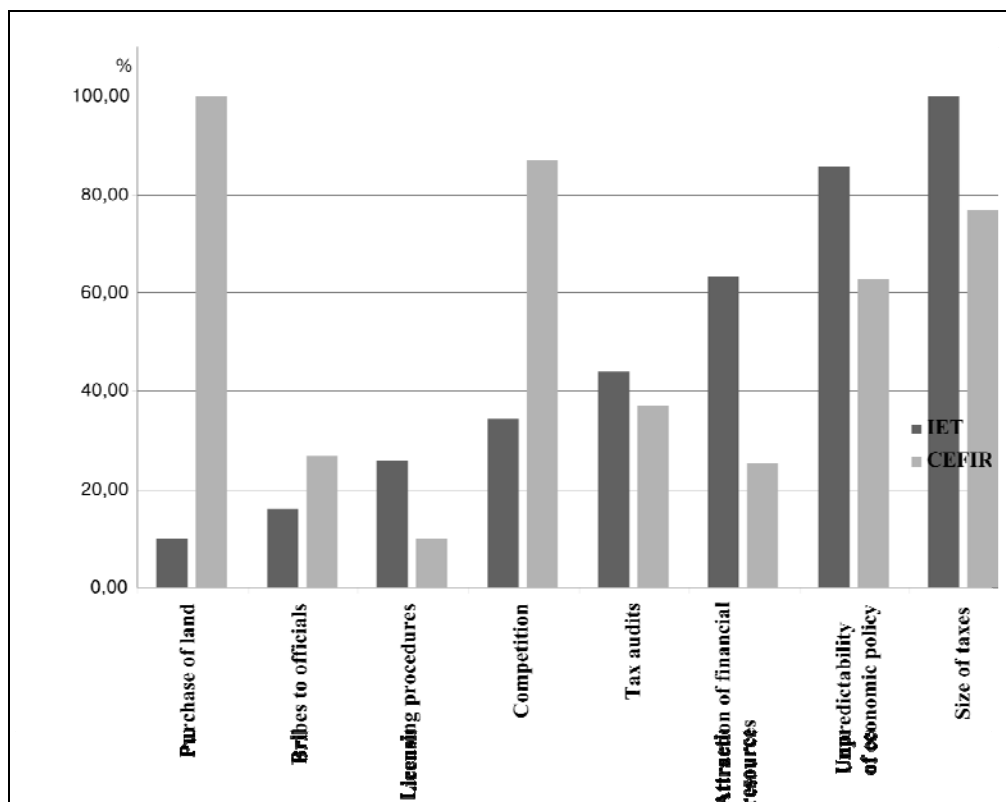
- taxation level (the average estimate of negative effect in the CEFIR’s monitoring decreased from 2.78 to 2.65 by five-point scale),
- lack of economic stability (from 2.89 to 2.54),
- tax administration (from 2.59 to 2.34),
- difficulties in attracting capital (from 2.42 to 2.25),
- formalization of lease of land (from 2.68 to 2.52),
- licensing (from 2.22 to 2.13).

Besides, the presence of considerable differences should also be noted in the results of the business surveys conducted by the IET and the CEFIR. In *Fig. 42* the different factors applied in these two business surveys are ranged in accordance with the strength of their negative effect on the development of enterprises (in terms of per cent, 100% represents the most unfavorable factor). The important quality-linked similarities of the results of the two business surveys are as follows:

- tax issues are considerably more significant for the development of enterprises than the problems associated with corruption or licensing. The last two factors are not perceived by enterprises as significant restrictions to their development;
- the level of tax burden is perceived as more negative than the quality of tax administration;
- the factor of uncertainty (unpredictability of economic policy) appears to be very significant in both business surveys.

⁹ Usloviia i factory razvitiia malogo predprinimatel’sstva v regionakh Rossii (The conditions and factors of the development of small businesses in Russia” Moscow: OPORA ROSSII and VTsIOM (“Buttress of Russia” and the All-Russian Center for Public Opinion Studies), 2006.

At the same time, the estimations of the other three factors are fundamentally different. The complicated procedure of land acquisition and the character of competition with other enterprises appear to be very important for the participants of the CEFIR's business survey, but are not regarded as significant restrictions to growth in the IET business survey. A directly opposite picture emerges in respect of the factor 'terms for the attraction of financial resources'.



* 100% represents the most unfavorable factor.

*Fig. 42. Ranging of restrictions in business surveys conducted by the IET and CEFIR**

Just as in the case of the BEEPS' business survey, certain departures from the results obtained by the CEFIR can be explained by differences between the samples studied. As mentioned earlier, in the IET business survey all respondents are industrial enterprises, and predominantly big ones. As for the CEFIR's business survey, it encompasses only small-sized enterprises, mainly in the services sector (those producing industrial goods constitute only 9.9% of the sample).

Also of interest is the comparison between the results of two surveys of industrial enterprises conducted by the IET in 2007¹⁰ and 2008. In the first one the heads of enterprises were offered the question as to how the situation with various restrictions to growth had changed in the last 7 years; in the 2008 survey the emphasis was placed on comparative estimations of

¹⁰ V. Dashkeev, L. Freinkman. 2008. *Institutsional'nye i obshcheekonomicheskie ogranicheniia ekonomicheskogo rosta (rezul'taty oprosa promyshlennykh predpriatii)* (The institutional and general-economic restrictions to economic growth (the results of a business survey of industrial enterprises)) // *Ekonomiko – politicheskaiia situatsiia v Rossii* (The economic and political situation in Russia), IET, February, pp. 45–46. <http://www.iet.ru/files/text/trends/02-08.pdf>

the importance of different restrictions to growth existing at that moment. Thus, a comparison of the results of two surveys makes it possible to pool the estimations of current levels and dynamics of the quality of the economic environment.

On the whole, the 2007 survey demonstrated that Russian industrialists were not satisfied with the changes in the economic environment that had taken place in the previous years. An improved situation was noted with regard to only 2 (access to financial resources and labor legislation) out of the 13 components of economic environment included in the survey. The other 11 components were estimated to be negative. In this connection, a positive estimation of changes in the access to financial resources was typical only of big and medium-sized enterprises (the balance of answers is +26 p. p.), while no improvement was observed by the small-sized ones (the balance of answers is -7.9 p. p., indicative of worsening access). The most serious worsening of the economic environment was observed in the following spheres: shortage of labor resources (this was the most significant negative development; 50.4% of the respondents pointed to a deteriorating situation in this sphere, whereas only 8.0% noted its improvement); power supply (49.3% of the answers were indicative of a deteriorating situation, while only 12.0% - of its improvement); and the actions undertaken by other enterprises in order to eliminate competition (25.6% and 4.4% respectively). It is noteworthy that all the groups of enterprises, irrespective of their form of ownership, size or sectoral distribution pointed to the large-scale character of the negative changes occurring in these three spheres.

Besides, it was revealed that the more optimistic managers (those expecting increased output volumes) were less negative than the pessimists in their estimations of the changes in the main factors acting as restrictions to output – power supply and labor resources (the corresponding balances of answers being different by more than 30 p. p.). This finding is well correlated with the results of the 2008 survey mentioned above.

It should be noted that although, with regard to a number of administrative restrictions (the operation of judicial, customs and law enforcement agencies), the summary results of the 2007 survey are indeed negative, the scale of the observed deterioration is not large (the balances of answers being within the range of -10 p. p.). Nevertheless, this result, in our opinion, confirms the earlier conclusion that it is still too early to speak of a consistent lowering of the administrative barriers in the way of economic growth.

On the whole the results of the 2007 survey demonstrate a noticeable – from the point of view of the enterprises – deterioration of the conditions for their economic existence. The fact that the enterprises did not express any serious concerns about the existing administrative restrictions to development in the extremely favorable economic situation of mid-2008 should by no means be interpreted as lack of such concerns in view of the medium-term prospects for the development of the economic environment in the future.

The comparison of the results of the two surveys (*Table 39*) has demonstrated that fairly recently the only growth factor demonstrating significant improvement while simultaneously not posing as a significant restriction to development at the time of the 2008 survey was that of labor legislation (the difference between the answers ‘the situation improved over 7 years’ – ‘the situation worsened over 7 years’ being approximately +13 p. p.; more than 50% of the respondents believed that in September 2008 that factor was not restricting their development). Favorable changes were also noted in the factors relating to access to financial resources and the cost of their attraction (the balance of answers concerning the situation’s dynamics amounting to approximately +20 p. p.). However their estimates received in mid-2008 are not unanimous: the cost of attraction of financial resources remained a serious problem (the balance of answers ‘significant obstacle’ – ‘no obstacle’ amounted to +27.9 p. p.), whereas the

procedure of gaining access to them was found to be problematic by a far lesser number of enterprises (the corresponding – +4.2 p. p.). This leads to the conclusion that, despite the continuing decline in the cost of attraction of resources, the scale of that decline was still too small to satisfy the respondents.

Table 39

Current status (September 2008) and changes (over the period of 2000 – 2007) of each economic environment component, as estimated on the basis of the IET’s 2007 and 2008 business surveys

		Changes in 2000–2007	
		Improvement	Deterioration
2008	Not a significant obstacle	Labor legislation	–
	A significant obstacle	Cost of attraction of financial resources	Tax burden level, Supervision and audits by tax agencies, Power supply and cost of energy resources, Availability of labor resources

* The table shows the factors for which the difference in the balances of answers stating their positive or negative influence (or either improvement or deterioration) amounts to more than 10 p. p.

And finally, several factors simultaneously demonstrated a deterioration of the existing situation by comparison with that of 2000 and the prevalence (at the time of the business survey in September 2008) of the estimations ‘significant restrictions to growth’. This was true of the availability of labor resources, tax burden level, supervision and audits by tax agencies, and power supply and cost of energy resources.

* * *

- The results of the IET business survey (September 2008) recorded the estimates offered by enterprises with regard to the existing restrictions to their development as of the moment of the onset of the financial crisis. Thus, these results represent a useful baseline for monitoring further development of the situation involving the barriers in the way of growth during the impending period of crisis.
- On the whole, the economic environment can be characterized as moderately satisfactory. The resource-linked (labor, energy) and macroeconomic (inflation, lack of policy stability) factors are perceived by enterprises as key restrictions to growth. Most of the administrative barriers (including corruption) are not regarded by enterprises as serious obstacles to their development.
- There are grounds to believe that, by comparison with the earlier half of this decade, the administrative obstacles to the development of enterprises have become weaker. At least, operating enterprises have by now learned how to effectively deal with them. However, this improvement does not apply equally to all the groups of enterprises. Small-sized enterprises have a higher level of complaints concerning their economic environment. Besides, the business survey results have provided no grounds for a statement that there are presently less barriers in the way of new enterprises’ entry into business.
- A comparison between the results of business surveys conducted in 2007 and 2008 makes it possible to note that, although the enterprises did not perceive the majority of institutional restrictions to growth as significant, in the medium term they, nevertheless, note a certain deterioration of the situation associated with such restrictions.
- It can also be assumed that, when faced with a deepening financial crisis and deteriorating financial situation, enterprises will become to display a much less tolerant attitude to-

wards the traditional limitations of the institutional environment – in contrast to their formerly rather relaxed treatment of such problems in the period of rapid growth and high rates of return. If this observation proves to be correct, in the next few months one may expect a noticeably increased demand for institutional reform on the part of the organized business community.