

BUSINESS ENVIRONMENT IN RUSSIA. ASSESSMENTS AND REALITY

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Russia has been upgraded 19 places, from 111th to 92nd, out of the 189 countries covered by the recent Doing Business 2014, the report made by the World Bank and the International Finance Corporation. The performed work has shown tangible results. However, a sober attitude towards assessing the real effect of this very important work on the business environment at large is needed. This country has been ranked behind the 100th place for 5 of the 10 areas and behind the 150th place for 2 areas covered by the Doing Business ranking. The 12-place upgrade for Russia on such an essential area as the ease of starting a business ignores that corruption at the local level is one of the main obstacles in the country. It refers to some other areas too. Most importantly, the Doing Business ranking covers major characteristics pertaining to business environment, leaving aside such most painful ones as protection of entrepreneurs' ownership and individual rights, poor judicial system, corruption etc. No real success can be achieved unless all of the lagging institutional areas undergo systemic reforms.

It is known that the Russian policy towards business environment is basically aimed at improving the conditions reflected in the **Doing Business** ranking made by the World Bank (hereinafter – the WB) and the International Finance Corporation and dedicated to the assessment of regulation of small and medium-sized enterprises¹. It can be recalled that President Putin set a task to upgrade Russia's ranking from 120th to 20th by 2018. We noted in our previous reviews that this ranking – for all its significance and a fairly wide coverage of specific procedures which constrain entrepreneurship – ignores a few of the most relevant business environment characteristics constricting business in Russia, namely poor protection of ownership and personal rights of entrepreneurs, a disastrous situation in the judicial system, high level of corruption, defense and law enforcement agencies' pressure, etc. All this have to be recalled to provide a 'sober' assessment of the potential effect of progress in this type of ranking on real situation in the business environment and behavior of businesses.

Indeed, the progress is evident: according to the recently published **Doing Business Report 2014**, Russia has been upgraded 19 places in 2013, from 111th (according to the revised data) to 92nd, leaving behind

China (96th) and other BRIC countries (Brazil has been ranked 116th, India – 134th). However, the South Africa is ranked 41st. Furthermore, Russia is behind its partners within the Customs Union: Kazakhstan has been ranked 50th, Belarus – 63rd. Russia is behind Albania (90th) and Barbados (91st), followed by Serbia and Jamaica. The two former Soviet republics, Georgia has been ranked 8th (from 9th) and Armenia – 37th (from 39th) behind Belgium (36th) and ahead of France (38th). The leader is Singapore followed by Hong Kong, New Zealand, the United States, Denmark.

Going back to Russia, notwithstanding the lag in the implementation of the corresponding road maps which were mentioned in the previous review, certain visible results have been achieved.

The most significant improvement has been achieved in the ranking for the ease of **getting electricity**, where Russia was upgraded 71 places, from the second-to-last 188th up to 117th. The improvement concerns the introduction of a standard tariff of getting an electricity connection, and elimination of a series of previously applicable procedures. As a result getting an electricity connection now takes 5 procedures, 162 days and 293.8% of annual income per capita. Getting an electricity connection is easiest in Iceland, where it takes 4 procedures and 22 days and costs 14.4% of income per capita². The difference is evident. In China the foregoing procedure takes a bit less time than in Russia, but 499% of income per capita.

Russia has been upgraded 29 places, from 46th to 17th, having joined the long-cherished top-20 club for the ease of **registering property**. Now registration

¹ This ranking includes 10 parameters which describe economic regulation areas in which small and medium-sized businesses are facing most typical constrains. This approach is distinguished by its specificity which helps identify more or less business-friendly procedures and assess positive and adverse changes in these areas. In general, the number of required procedures or documents, the duration and cost of the registration process are assessed for each area. The assessment is based on the legislation, its amendments, and business surveys at respective countries. Assessments of specific areas are combined in a common index in order to rank a country on the basis of the ease of doing business. The ranking of the Doing Business Report 2014 covers 189 countries. The data refer to mid-2013.

² An interesting comparison of several countries by specific indicator was made on the basis of a report published by *Finmarket Information Agency* on October 29, 2013 09:33 See.: <http://www.finmarket.ru/economics/article/3532882>

takes 4 procedures, more than three weeks (22 days) and 0.1% of annual income per capita. The same procedure in leading Georgia is provided for free and takes 2 days. It is characteristic that Belarus has been ranked 3rd in the world, where registration is free too and takes 4 days.

Russia has been ranked as one of the top-20, even top-10 countries, for the ease of **enforcing contracts**. Like in the previous year, Russia has been ranked 10th (although it requires 36 procedures which take 270 days and cost 13.4% of the value of the claim).

The next improvement in the ranking for Russia concerns the ease of **starting a business**. With regard to starting a business Russia has been upgraded 12 places from 100th to 88th. For all the progress made here, the situation still remains ugly. According to the WB, registration of a new company in Russia requires 7 procedures and takes 15 days and costs 1.3% of income per capita. Furthermore, the registration requires an initial capital being equal to 1,2 of the same income. In New Zealand, the leader, starting a business requires a single procedure which takes half a day and costs 0.3% of income per capita. The United States have been ranked 20th, but the situation with starting a business depends on a particular state. For instance, in Delaware they adopted an extremely simplified procedure under which a firm even may be opened by mail. The runner-up is Canada which has a single procedure which takes 5 days and costs 0.4% of income per capita. Armenia with 2 procedures which take 4 days and cost 1.1% of income per capita (the country has been upgraded 4 places to 6th), Georgia with 2 procedures which take 2 days and cost 3.5% of income per capita (8th) are among the leaders. Belarus has been ranked 15th (5 procedures which take 9 days and cost 0.8% of income per capita). China has been downgraded 5 places from 153rd to 158th, where business registration requires 13 procedures which take 33 days and 2% of income per capita.

However, the situation with starting a business needs to be given more comments. The WB links Russia's progress in this area with a simplified procedure for opening a bank account, i.e., updating the legislation, which, of course, only can be welcomed. It is known, however, that the key constraints for starting a business, especially a small one, are related here not only to legislative procedures, but first of all rent-seeking at the local level of power. The ranking in question ignores this essential factor. This is another illustration of how an upgrade in ranking may be rewarded for making no real progress. The same is true with a series of other areas covered by the ranking.

The next improvement, a 7-point upgrade from 63rd to 57th, concerns the ease of **paying taxes**. The tax pay-

ment procedure in Russia requires 7 payments within a year and takes 177 hours. According to the WB's estimates, total tax burden for businesses accounts for 50.7% of commercial profit. In Ukraine it takes 28 payments, 390 hours, and costs 54.9% of commercial profit, in China – 319 hours and costs 63.7% of commercial profit. The leader is the United Arab Emirates – 4 payments, 12 hours, and 14.9% of commercial profit.

Russia has been upgraded 5 places for the ease of **trading across borders** in response to the introduction of an electronic system for submitting export and import documents and elimination of a series of procedures for physical inspections of cargo. However, Russia is still far behind in this area: it has merely been upgraded from 162nd to 157th. The export procedure requires nine documents, 22 days of registration, and export of a standard containerized cargo costs \$2615. The import procedure requires 10 documents, 21 days of registration, and \$2810 respectively.

A similar situation is observed with the ease of **dealing with construction permits**, where despite 2 extra "scores" Russia has been upgraded merely from 180th to 178th, the lowest place among the 10 areas covered by the ranking in question. A construction permit requires 36 procedures, 297 days (a bit less than 10 months), and costs 89% of annual income per capita. Ukraine has achieved an impressive breakthrough in this area. It has been upgraded 41 places, from 186th to 145th. In Ukraine, a construction permit can be obtained within 73 days, although it costs 607.1% of income per capita. In China, it takes a bit less time (270 days) than in Russia, but the cost is 344% of income per capita.

Russia has been downgraded 2 places, from 113th to 115th, for the ease of **protecting investors**, which a very essential indicator, especially if one recalls the frustrating situation with investments in this country. Russia was downgraded too in the previous Doing Business Report. This is alarm signal, given that investments represent the root of opportunities for economic growth. Here Russia is behind Belorussia which has been ranked 98th. Out of the 10 scores: Russia has been awarded 6 scores for the extent of disclosure index, 6 scores for the ease of shareholder suits index, and 4.7 scores for the strength of investor protection index. The leader, New Zealand, has been awarded 10, 10, and 9.7 scores respectively. In China which has been ranked 98th, the extent of disclosure index has been awarded 10 scores, the ease of shareholder suits index has been behind the Russia's one – 4, and the strength of investor protection index has been just a bit better than the Russia's one – 5 scores.

Russia has been downgraded 4 places, from 105th to 109th, for the ease of **getting credit**. The downgrade process has been evident for the two consecutive

years. The strength of legal rights index (let's recall the situation with the judicial system) has been awarded 3 scores out of 10, while the depth of credit information index – 5 scores out of 6. Private credit bureaus cover 59.2% of adults. The Great Britain ties with Malaysia for the first place: both countries have been awarded 10 scores for the strength of legal rights index, max. 6 scores for the depth of credit information index. The private credit bureaus cover all adults in the Great Britain and 77.2% of adults in Malaysia.

Russia has been ranked 55th for the two consecutive years for the ease of *resolving insolvency*.

How to assess an overall effect of the ranking in question on the business environment?

The progress is evident. However, this country has been ranked behind the 100th place for 5 of the 10 areas and behind the 150th place for the 2 areas covered by the Doing Business ranking. The scope of work to do speaks for itself. Most importantly, this ranking covers only a part of the essential factors with govern the business environment, fails to provide its integrated, systemic enhancement, which means it eventually can have a weak effect on the business health and behavior. ●