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Briefing
THE SMALL BUSINESS ENTREPRENEURIAL ENVIRONMENT: OPORA
RUSSIA INDEX IN 2010–2011

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St. Petersburg, Russia
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Moderator:

Alexander Ivlev, Country Managing Partner for the Russian Federation, Ernst & Young

Panelist:

Sergei Borisov, President of the All-Russian Non-Governmental Organization of Small and Medium-Sized Business, OPORA RUSSIA, Deputy Chairman of the Government Commission on SME Development

V. Klimov:

In particular, the key issue is energy. The issue is not quality. Small and medium-sized Russian companies are more or less satisfied with the quality of the power supply. The problem is, I think, no secret. It is a problem with production facilities and a problem with tariffs, which is something of particular relevance this year. For many years, land and real estate have remained a problem for entrepreneurs, and unfortunately this situation is also changing relatively slowly. While there is a degree of visible progress with regard to offices and warehouses, it cannot be denied that a large proportion of companies are still experiencing problems with production premises. As I said earlier, there are also administrative barriers, but many of those problems have been resolved. In 2008, when the previous ratings were compiled, more than half of entrepreneurs thought that this issue was a serious burden for business. Today, this figure has fallen to one third of respondents, which is telling.

It is clear that small business is concerned about corruption. It is a serious problem. It manifests itself in two main forms: firstly, companies complain of unfair competition, and secondly, there is the problem of corruption when accessing key resources such as state contracts, land, real estate, or various tax breaks. There is good news. At the beginning of our journey, in 2004 or 2005, businesses placed their wastage—meaning, in fact, bribes—at 10% of a company's total revenue. This year, it turned out that the figure had dropped to about 5%.

Furthermore, 10% of the companies that we surveyed are involved in programmes to support entrepreneurship. Is this a high figure or a low one? You know, again, when compared with what goes on elsewhere in the world, considering the indicators in this area, this is really not such a bad result. It has to be acknowledged that the Ministry of Economic Development managed to put together an action plan in 2005. Regional and local authorities began to make significant strides forward. Yesterday, we held a press conference devoted to this study, and one journalist asked us the following question: "There are support programmes in place. Do you think that they correspond to today's priorities or

not, and to which segment should efforts and resources be redirected?" Unfortunately, there are no resources to redirect at the moment: the support programmes are fairly modest. As you know, the Ministry of Economic Development and regional authorities have managed to create the most basic essential support tools. The amount of funding and the number of support and development tools for small business must not only increase, but be upscaled. This certainly requires new priorities, and we can talk about a whole new generation of programmes that will focus on cluster development, the targeted support for certain companies in a competitive environment, and cooperation in the completion of particular clusters in specific regions.

And, perhaps the most important thing that needs to be done in terms of development for small and medium-sized businesses is to change perceptions. Currently, unfortunately, most regional governments and an element of the federal government have this vision: they see this as a country with a large economy, with taxes, resources, and large companies. Small business stands apart, as though in its own reservation, always dissatisfied, and perennially in need of assistance. The fundamental problem is that this approach to and vision of the economy is, more likely than not, out of date. If you follow this model, the goal set by the president where by 60% of employment should be in small businesses by 2020 is probably unattainable. It needs to be fundamentally understood that small and medium-sized businesses are the economy, and we need to work on this basis. As I understand it, we do not have anyone with us today from the Ministry of Economic Development, but nevertheless, I would like to... **<no sound>**

...something is changing: the fact that today this session on small and medium-sized businesses is being held as part of the International Forum in St. Petersburg is probably an indicator of this. There are changes. And there is one more thing I would like to say, rounding off my presentation. I hope—and this is something that we try to convince regional administrations of every year—that the ranking we have created, the OPORA index, will not become a political football which the regions will use to compare themselves against each other,

and to determine who is in first place, who is in last place. I very much hope that this ranking will become the subject of serious analysis and will, first and foremost, serve as a real working tool for regional administrations. Thank you.

A. Ivlev:

Thank you very much. I would just like to spend a moment talking about the notion that by 2020, 60% of jobs in the country should be created by small businesses. In fact, this would be a very good situation for us. If you look at how many jobs small and medium-sized businesses provide in other countries, it is about 70-80%. If we could reach 60%, this would be a great success. I would also like to say that the state has recently been paying a great deal of attention to the problems of small and medium-sized businesses, and recently, we have been seeing intensive dialogue between the Ministry of Economic Development and various business associations representing small and medium-sized businesses. The trend is good, and hopefully it will continue to develop. As for how the studies were conducted, I think we should know about the methodology for compiling this ranking, this index. I would like to ask Alexei Prazdnichny to comment.

A. Prazdnichny:

Good morning, esteemed colleagues. Victor talked largely about the methodology of the project. I would like to draw your attention to several key projects. Unfortunately, when discussing this project, there is often a debate: can we trust the opinion of entrepreneurs? And how better to measure the entrepreneurial climate: to measure how many square metres of new office space have become available this year in a region, or to ask entrepreneurs whether they can find affordable and high quality real estate in this region? I have studied this topic for more than ten years, and am more and more inclined to view the opinion of entrepreneurs as often being much more informative, more interesting, more meaningful and more useful for the development of

priorities than the cold, abstract figures which are collected by regional administrations.

Take healthcare, for instance; how can we measure it? We can count how many beds there are in each region and compare the regions to each other. In my opinion, it is better to ask the population this: do they consider the quality of healthcare and its availability to meet their needs? Surveys are, then, subjective instruments used to obtain an objective and qualitative picture. They are of great importance. What is unique about this project? The fact that it relies exclusively on surveys of entrepreneurs makes it the best litmus test for assessing the business climate.

Now, a few words about the survey. As Victor said, this is one of the largest surveys in Russia: more than 6,000 companies were surveyed in 40 regions. This year it consisted of two parts: a survey on the quality of the business climate in 40 regions, and something new for this year – an additional survey on the situation in 11 major Russian cities. I would like to talk a little about the cities. If we talk about the regions, then there is always a difficult discussion about who to rely on: big business? Small and medium-sized businesses? Regions differ in their structure. In some regions large and medium-sized enterprises are more important, while small and medium-sized enterprises are more important in others. But if we talk about cities, then there should not be any need for such a debate.

If you look at the structure of the economy in the world's most competitive cities, then small and medium-sized businesses are at the fore. Thus, the conditions for small and medium-sized businesses are critical for the regions, but even more critical for Russia's major cities. We do not have a slide, but page 13 shows the ranking of Russian cities in terms of conditions for small and medium-sized businesses. I would like to make just one very serious conclusion: the two largest Russian cities—Moscow and St. Petersburg—are not leaders in this ranking. This leads us to many other conclusions. In my opinion, it will be very difficult for these cities, world-class cities, to become leaders and compete with the world's major cities in building an innovative economy, if Russia's cities, even

the largest and most competitive, do not offer favourable conditions for the development of small and medium-sized businesses.

One last comment. The issue of how the rankings are composed is always a complex question. In my opinion, the most interesting part of the report starts on page 56, where detailed breakdowns are given for the company survey results in each region. I think these pages can serve as a very important, usable tool to enhance the effectiveness of regional support programmes for small and medium-sized businesses. According to our estimates, almost all regions have programmes to support small and medium-sized businesses, but, unfortunately, these programmes have not achieved the results entrepreneurs and residents of the regions expected of them. In my view, I repeat, this index is not a beauty pageant. This is primarily a tool for regional and city administrations: to help refocus regional programmes to support small and medium-sized businesses, to help make them more effective. Thank you.

A. Ivlev:

Thank you very much. When I read the study, I made notes for myself and among other things formulated one question which I would like to take the opportunity to ask you now. The study indicated that about a quarter of companies, including small and medium-sized businesses, see high tariffs for internet access as an obstacle to their development. Frankly, I think that the tariffs are not that high. Is this not disingenuous?

A. Prazdnichny:

No. It is not disingenuous, and it corresponds to the results of other surveys. When the firm Koko conducted a survey on the availability of the internet for business, on the online presence of companies, the results were more or less the same. In developed countries, broadband coverage—and the most advanced countries in this respect are Sweden and Finland—is more than 70–80%. In Russia, even in major cities, coverage is somewhat lower: 50–60%. This is not the situation in Moscow and St. Petersburg, but rather in the regions. In the

regions, unfortunately, tariffs for internet services are set by a single monopoly provider. So these respondents are not being disingenuous. It is, unfortunately, true. Thank you.

A. Ivlev:

Thank you. The next question I have is about how our regions can use this engine in order to change how much they interact with and support small and medium-sized businesses. I would like to ask Linar Yakupov, chairman of the Investment Promotion Agency of the Republic of Tatarstan, to comment on this topic. Thank you.

L. Yakupov:

I have worked in public service for the past three months, or a little longer. For the previous ten years I was involved in private business: in small and medium-sized businesses, in fact. One of the problems of business appraisal, both from the point of view of the state, and from the private sector, is always performance targets, and how we achieve these targets. This study was carried out by OPORA RUSSIA. Literally over the past half hour, I looked through all of the data relating to the Republic of Tatarstan, and came to a very important decision on how our performance can be improved in the future.

One of the challenges for the Republic of Tatarstan is limited access to warehouse premises. I have always believed that we have enough warehousing, but since the issue has been raised, it should be considered and explored. Maybe the logistics centres which we are building around Kazan are not fulfilling the expectations of small and medium-sized businesses? Another problem has always been access to financial resources, from both federal and regional authorities. If you take the experience of the Republic of Tatarstan, then the current programmes, grants and other forms of support reach only 2% of entrepreneurs. We have 170,000 representatives of small and medium-sized businesses, and unfortunately only 2% have been able to gain access to the resources provided by federal and regional authorities. For us today, it is very

important that the programmes—leasing, for example (we will be inviting a large number of leasing companies to work with us)—that we are working on this year have a snowball effect. We want the guaranteed funding programme to attract a large number of banks and encourage them to work with small and medium-sized businesses.

I believe that in order to effectively use the resources that we have, we will of course need to look for different paths. It is very important, based on the report that we see today, to see what areas a particular region specializes in. Cooperation between regions is not very well-developed. Regions must determine who will specialize in what, who has greater potential and better access to natural resources. There is a shortage of human resources and professionals, and it is felt in all regions. Therefore small and medium-sized businesses probably need to focus on more hi-tech, capital-intensive projects. But how to do this remains a big problem, and this forum is precisely the place where we can discuss it. Thank you very much.

A. Ivlev:

We have already been told this several times: the main problem is that there are not enough qualified personnel in the market. I would like to look at this subject in more detail. If you look at the major Russian cities—Moscow and St. Petersburg—then, according to the results of this study, they do not number amongst the 15 most attractive cities and regions of Russia for small and medium-sized businesses. This is probably a problem. For our company, where I work, this is the main factor limiting growth today. Another problem is the shortage of skilled, high-quality staff. So this is a problem not only for small and medium-sized businesses, but also for major banks. I would like to ask Denis Semykin, head of the OPORA Youth project, to comment.

D. Semykin:

I would like to thank Victor and also ourselves, OPORA RUSSIA, for this fabulous index. Unfortunately, in my opinion, it is insufficiently heeded not only by the

regional authorities, but also by the federal government. OPORA RUSSIA developed a concept for Russian immigration policy, a concept for the development of small and medium-sized businesses. Three years ago we said that the staffing problem was one of the most basic issues, and the financial crisis has done nothing to solve this problem. Russia's unemployment problem has only made it harder to find personnel. So, in 2007, about 6 million work permits were issued in the Russian Federation. During the crisis, this figure fell to 2 million, and this year, when the economy ostensibly began to gain momentum, the number of permits fell by half, to 1 million. Naturally, this had the greatest effect on small businesses. Unfortunately, enterprise is not, shall we say, a desirable profession for Russians. All Russian citizens dream of finding a job in a large company, or in the government. By the way, probably the only addition to the index is the desire of Russian citizens to participate in small business. But the problem remains. OPORA RUSSIA conducted a large study last year. We collected about 150,000 applications from small and medium-sized businesses, and submitted them through the existing procedure. Oddly, only 1% of the requests was satisfied. All other regions said that they did not need personnel, because, apparently, they already had them. this study shows...

V. Klimov:

Applications to employ immigrants, we ought to specify.

D. Semykin:

Yes, this study shows that they have no personnel. And, as has been rightly noted, the main problems are in the cities, where it is said more than anywhere else that there is a good labour market. We are talking about Moscow and St. Petersburg. Yuri Luzhkov repeatedly spoke of these immigrants and how they are not needed, in less than polite terms. Not for the first time, we are proving that this is not so. And I would very much like the Ministry of Health and Social Development to hear this, because small businesses can no longer tolerate this situation. There is nobody to work in the country.

A. Ivlev:

I honestly do not know to whom I should address this question. The financial sector? The issue of finance, I think, is also very important, because, again, if you look at the problems faced by business, we see that they are financing and how government programmes operate in this regard. This is probably something we should discuss. I would like to invite Sergei Kryukov, chairman of the management board of SMP Bank, to comment on this question. Thank you.

S. Kryukov:

Thank you. Good afternoon, esteemed colleagues. For us, the issue is a very relevant one, as we are, on the one hand, engaged in implementing financial support programmes for small and medium-sized businesses via the state corporation Vnesheconombank, and, on the other hand, working with the NGO OPORA. Financial support does not solve all of the problems that small businesses face, and our experience of implementing our programme fully confirms this. Our work with OPORA, and in particular the project which has been presented today, gives us feedback; an understanding of where the state succeeds and where it does not in terms of support mechanisms.

Our programme now covers almost all regions of the Russian Federation. The information that we derive from OPORA, in its index, is not the first of its kind. The index is well established, and it shows that regions differ greatly. Both financial support programmes and non-financial business support mechanisms vary precisely because of the attitude of a given region's administration towards entrepreneurship in their area. And we are highly aware of this, since our bank assesses risk: the higher the administrative barriers, the less the administration pays attention to business support; the greater the risks, the higher the lending rates, but the desire of the banks to lend is not so great as, say, in a neighbouring region. Understanding this feedback loop and assessing the situation in a given region helps our bank to interact with other instruments of state support, and to find the loan product that is in demand among

entrepreneurs in that region. Business structures also differ significantly from region to region, and this should be taken into account in the credit products offered by the banks.

It is namely the combination of different support mechanisms, synergy, that allows us to achieve better results. A simple example: we are talking about financial support. If you take the products which our bank offers, then we have, as you know, different mechanisms for non-credit-based support through subsidies, grants, business incubation and the like. You need a combination of these two main vectors: on the one hand, funding from the federal budget and regional budgets, and on the other, credit. I will focus on this synergy. For example, in a region in which the OPORA index shows a very complex situation—and the entrepreneur evaluates this by his vote for or against this or that criterion—the state should design its support accordingly. If there are high administrative barriers, if there are complications for businesses, then simply lowering interest rates through banks cannot solve this issue. All the same, the risk remains too high and banks will not lend to these entrepreneurs in this region. Consequently, measures should be taken to create an infrastructure to support small and medium-sized enterprises, addressing the issues that will improve this climate and reduce the risk component. But, with regard to funding costs, it is clear that the state should provide entrepreneurs with the most favourable environment possible, even if that means using the state budget. It should use non-lending and credit support to ensure a reduction in the cost and availability of this resource for entrepreneurs.

Our cooperation, particularly with OPORA, means that we can launch this synergy mechanism. If you look at a year or two ago, we started our programme with four or five loan products. Now there are already 17. Most of the products which were introduced recently relied largely on feedback from the business community. Primarily, this came through the NGO OPORA and its index, through round-table discussions with entrepreneurs, and through live link-ups, which we also use rather often. This allows better orientation in a 'client-bank' situation in a particular region, because our programme is based on partner banks, on

infrastructure. And we should be very clear about who our audience is, and about the climate in which this audience, small and medium-sized entrepreneurs, conducts its business in this or that region of our vast country. Sergei Ivanovich told an interesting story about his first experience of implementing this tool: those regions that found themselves at the bottom of this table of rankings were very upset, and there were a lot of calls and messages asking why this had happened. That is, the survey did not go unnoticed, which is very important, because it is by combining our efforts that we can move this big issue from a standstill.

And the challenge is to create an accommodating business environment. To do this, NGOs, banks, and the administration have to work as one team, as strange as this may seem. It seems that everyone has different problems, but nevertheless, only the union of different stakeholders with a single purpose—to create a more accommodating business environment—will allow banks to act more boldly, provide more credit, and increase the availability of resources, primarily through a reduction in interest rates. So for us, this project is very important. We really value our collaboration with OPORA, and it is only right that the president of OPORA, Sergei Borisov, is a member of the supervisory board of our bank, providing an understanding of how the programme is implemented. But the main thing for us is to convey all the aspirations and woes of the business community so that we adjust our policies in time to ensure that our resources are required and that coverage is more or less uniform. There should not be undue concentration, as often happens in big cities, because all types of businesses are important, and we have an obligation to pay due attention to all of them. Thank you.

A. Ivlev:

Thank you very much. Given the fact that this topic is very important, noted as one of the major problems for businesses, I propose that we ask Sergei questions. Are there any questions from the hall?

S. Kryukov:

They will raise their hands.

A. Ivlev:

There are no questions. I think questions will arise when we return to this topic. A question, perhaps, for Victor: reading the research, I saw a unsettling figure: only 10% of the companies that we surveyed said that they did not see corruption in their region. More worryingly, many companies say that there are more problems from law enforcement than from criminal organizations. The question is this: how do you assess this situation? And secondly, where do small and medium-sized businesses go to talk about the problems that arise from this situation? Or is everyone resigned to let things take their course and work within the status quo?

V. Klimov:

Thank you, that is a good question. I talked about this in my presentation. Indeed, corruption is a concern for small businesses, and they suffer from this evil much more than medium-sized and large companies, because they have fewer resources, and they are less well protected. Often, they are unable to hire qualified professionals, as large companies do, in order to build a defence against tyranny and lawlessness. Indeed, the situation you spoke of regarding law enforcement and criminal structures is something that has been observed practically since the earliest studies. Unfortunately, for a very long time, and especially before 2004 (when the first restrictions were adopted under the Police Act), law enforcement officers often acted outside the scope of their authority. They interfered with business processes by threatening to seize documents and computers. They also threatened businesses with criminal proceedings and engaged in abuses of power, hence such assessments. It should be noted that the situation has changed radically: a whole series of measures and laws were adopted that restrict the ability of law enforcement officers to unfairly interfere in the affairs of small businesses. And we hope that soon we will be able to take

this issue off the agenda, that the question, 'Who are you more concerned about: criminals or the law enforcement system?' will cease to have any meaning.

How can this line of defence be built? It is clear that, like any business, small and medium-sized businesses depend upon themselves. But the trend towards business communities and business associations defending the rights of individual entrepreneurs is increasingly gaining momentum. I hope that this trend will continue and that in the near future we will see the participation of business associations, at least of the 'big four'—the Chamber of Commerce and Industry (CCI), the Russian Union of Industrialists and Entrepreneurs (RSPP), OPORA RUSSIA, and Delovaya Rossiya—in government decision-making. We need to make sure that we can voice our opinion and participate more actively in the protection of entrepreneurs from abuses. This should happen early on, during the process of drafting and editing new legislation, and during government decision-making (primarily where those decisions have an impact on business).

A. Ivlev:

Thank you. That is the first time that I have heard the term 'big four' applied to business associations, you might like to know. Thank you. Perhaps we shall proceed as follows: shall we open the debate to all of the participants in today's session? If you have any questions, please go to the microphone, introduce yourself, and ask them. There are regional representatives here today who have studied this issue, and you may want to comment on the results of the study. So I invite you to open the discussion.

E. Tsereteli:

Can I speak from here? Elena Tsereteli, chair of the Public Council for Small Business Development under the Governor of St. Petersburg. I am a very active entrepreneur; this is my public duty. Of course, I am saddened by our placing in the rankings, although Mr. Klimov hinted that there was no need to pay

particular attention to it. But of course, this cannot fail to hurt, especially in the case of a city as ambitious as St. Petersburg. It seems to me that the support system in our city could be a very good example for other regions of similar status.

With regard to the situation with inspections: in response to your last question, I will just outline one element of our support system. We have created St. Petersburg's first on-call legal service. It was established using public money long before the appearance of Federal Law No. 294. The service works as follows: if an inspector comes to an entrepreneur's premises, he calls this service and receives specific advice on what he should do. If this has no real effect, then our lawyer travels to the site. According to statistics, the number of calls fell sharply during the last financial period, and even I was puzzled: was there a need for us to keep this service? But I think that we should. As soon as the entrepreneur says that he is calling the operational service of the Public Council under the Governor, the inspection process changes.

This is one of the elements that may be adopted by the regions. As you know, Federal Law No. 294 does not apply to law enforcement agencies, but at the regional level, we came to an agreement with high-level law enforcement officers and the prosecutor's office and developed a procedure. If law enforcement officials come to a site, then they must always show some kind of warrant for the inspection: this is our internal, regional document, and this affects the subsequent course of events. These are just the broad strokes. There is another important thing: once every three months we meet with the governor, and believe me, these meetings involve all members of the administration, all district heads. This is very important, because at these meetings, we make decisions that are then turned into legislative initiatives and become regional bylaws.

Still, if we are discussing today what to improve in the region's work, we must begin with the federation. Colleagues, well, isn't that crafty? The federation sets the tone for what goes on throughout the regions. How can we speak of entrepreneurial optimism when the cumulative burden of insurance premiums is crippling, so crippling in fact that only the least forward-thinking fail to criticize

them – and this expense is then compounded by rising tariffs? This is all the product of federal machinations. Today, the situation is criticized by analysts, and the Finance Minister himself says that it was all clearly a mistake. And after this, we want entrepreneurs: a) to show confidence in the government, and b) to try to create something new. So, perhaps, we should start from there. In part, OPORA is here today representing the federal government. You will join the Popular Front, the entrepreneurship front, and this gives us great expectations and hope for change. Thank you.

A. Ivlev:

Victor. Perhaps you should comment.

V. Klimov:

A few comments. First, OPORA does not represent the federal government. We are an NGO, and believe me, our dialogue with the federal government, as with the regional authorities, is a challenging one. There are partners, there are organizations, with whom we have our differences. You very rightly talked about the increased burden due to the deregulation of tariffs, and to the ill-conceived decision—we openly declare this at all levels—to change the tax rate for insurance premiums. In our opinion, this was a mistake that has not produced the anticipated results in terms of funding the pension system and developing a sustainable mechanism for its funding. This is on the one hand. On the other hand, it greatly undermined the confidence of entrepreneurs and forced many of them to return to various optimization schemes. You know, it was quite interesting: entrepreneurs knew that they could retreat into the grey market, but they chose not to. Those businessmen from the regions in OPORA who organized a large public campaign on Entrepreneurs' Day, a street campaign under the banner of OPORA RUSSIA, are precisely those who did not want to and do not want to engage in semi-legal activities. They are accustomed to working within the law and want the state to create adequate conditions for them to continue doing so.

You are also absolutely correct on the issue of emergency aid and inspections. This once again confirms the conclusion which I, perhaps, did not clearly voice in my presentation: the conclusion that today, inspections are not the biggest problem faced by businesses. Indeed, in this respect, much has been achieved: Law No. 294 was adopted, along with Law No. 293 on limiting powers; a whole host of decisions were made regarding the law enforcement system; then there was the Code of Administrative Violations... I think that you know all of this better than I do. The problems have moved to another plane. About three years ago we carried out a focused analysis of small companies – not like in this index, not small companies from the regions, but of those who work in a particular system of cooperation in industrial clusters. We studied agro-processing in Krasnodar, engineering in Tatarstan, chemical plants in Perm, and so on; that is, small firms and their place in the system of industrial relations. And it suddenly became clear that the inspections were not the main problem; that real entrepreneurs conducting business live in different realities, they care about other issues. They care about their relationships with the main supplier, the system of regulation standards which allows unfair competition, and so on.

My last comment is about the rating and position of St. Petersburg. In 2003, when we started this project, I was invited to a public advisory council on small business in the Moscow administration. And in front of cameras, journalists, and experts who work in the support system for small businesses, they started to explain that we did not know how to conduct a survey, that Moscow could not possibly be at the bottom of the rankings, that regional authorities are doing a lot, and that the city was home to a solid support system and many small businesses. This is all true, but something else is true too: in Moscow and St. Petersburg today there is great competition for the resources that are critical for small business: property, real estate, and infrastructure. Competition in the market is huge. Currently, staffing problems are a very serious issue for small businesses. Therefore, the rating should not be treated like a beauty pageant; the rating indicates the roadmap for work. I really like the position of Tatarstan. The republic is supporting this project not for the first time and not for just one

year. They are using it as basis to allow them to reflect on the situation for small businesses in their region. Thank you.

A. Ivlev:

Another comment. Please.

O. Sitnikov:

Thank you. City of Novy Urengoy, Yamalo-Nenetsky district, Oleg Sitnikov of OPORA RUSSIA.

The first thing that I wanted to say is thank you to Victor and Sergei for the progress they have made, for what we have achieved. This has depended largely upon you. Nowadays, a simple 22-year-old inspector, fresh out of university, can no longer come along and shut down production. We were given the right to conduct an independent examination. In fact, I would go so far as to ask those who have experienced this to applaud. This kind of progress was hard to imagine just a few years ago. God grant that we achieve this in other areas. Now I would like to turn to the issue of police raids. The heart of the matter is this: law enforcement agencies have targets, and in order to reach them, they go looking wherever is easiest. Where is law enforcement going to go? First of all, to the business that is working within the law, the business that has a sign above its door; the business that is in plain view. Like in that old joke: a man is crawling around under a streetlamp, looking for something. They ask him: what are you looking for? A watch. And did you lose it here? No, it's brighter here! Law enforcement agencies go where things are more accessible, and achieve their targets. But it is harder to handle the crooks sitting in the basement. It is harder to hunt down the swindlers; the real criminals who interfere with small, medium-sized, and larger businesses.

Things are more or less the same at the prosecutor's office. It will not ask questions either. This may just be my subjective opinion, but I think they have one task: earning their paycheck. Nobody is fighting real crime. I think the police

reach their targets – but they do so by preying on legal small and medium-sized businesses. Thank you.

A. Ivlev:

Any more comments?

From the audience:

Can I ask a question?

A. Ivlev:

Yes, go ahead.

From the audience:

I work for the company Rudo, and also represent Delovaya Rossiya. Our organization is allied with yours, and this is the question that has been on my mind: your efforts are now directed at monitoring the environment and understanding what interferes with small businesses. In my view, your position is reactive. You were given money, you conducted studies, and you worked out where things were a little better and where they were a little worse. This is my question: have you ever thought about whether, rather than adopting a reactive position, you could take up a more proactive position? You could ask yourself: what can be done to change the environment? The governors I have encountered, the ones I have run up against – these people are, essentially, stupid. This is the reality: you and I would not be able to find smart ones if we tried. And when you receive technical project documents from these people...

For example, we are involved in a state programme for the sugar industry. And this thought comes to mind: if I do everything by the book, then under Russian law, I cannot build a sugar factory. I need to find ways around the law, and I will end up going around the law even where it is not necessary to do so – our legislation is simply mindless. I ask the bankers, at the level of the deputy chairman of the Russian Agricultural Bank: why will you not provide project

financing? Why will you not provide an interest holiday during construction? They say that these are our tax laws. From my point of view, this is nonsense, but I am hardly a leading expert in the banking industry and cannot presume to give advice. But if we take a comparable Western bank, it would certainly give us a holiday during the construction period. You want to build a large plant, but during the construction period you must repay your loan. How are you going to do this – especially if you are a small entrepreneur?

The second limitation which you will encounter is equity, or rather, not equity, but collateral base. When you move from one stage to another, you will always have stress associated with the transition from one collateral base to another. If there is no fund, no external support, you will hang around in this weight class for decades, until gradually, over time, you scrape together equity. This is the second limitation.

The third limitation is the standard on equity: in some cases it is 25%, in some, 30% of the project. I have a medium-sized business. If we are talking about a small-sized business, the process is even more painful. How do you resolve this? You are looking for anyone in the market so that you can forge alliances and cover this equity requirement with his funds: "I have a great friend, he and I have reached this agreement: I rely on him". In my case, I almost ended up working with a group of criminals. There were official-looking people sitting there, and then, when we dug a little deeper, we discovered the truth: they were former crooks. So I closed a deal with him because I needed to show the bank that I had raised enough capital, and as a result, I shoulder the risks. On the other hand, everything that I am saying now is elementary. We could sit down and bash out this law, if not within a week, then within a month.

I have been a participant in this project since 2009, and I have a feeling that there is no progress here: that they just remain in this ridiculous situation, just sitting still! The programme to build sugar mills that I was speaking about was adopted on October 23, 2009, and 20 mills were supposed to be built. Last week, I was at Kursk, where the project in question is being presented, and I am able to say that my factory and I were the only ones who presented! All of the

others talk, walk, and discuss things, but so far, as far as I understand it, no one has managed to overcome these obstacles. I went to see Herman Gref in the central office, and I talked with someone who handles particularly large clients. What do they tell me? They tell me: you know, these problems, everyone has them. And for all that, no-one suggests how to solve these problems, not even in terms of organizing a debate. From my perspective, the situation is not just stupid, it is a circus: we are all sitting around waiting for something. In this country, everything is meant to double or treble within ten years – things are meant to just sort themselves out. But they won't sort themselves out if we don't do something!

What makes your firm good? You have public funds, so you are supported. What are you as such a person doing? It seems to me that going to the government and saying that these problems exist, and that they are not easy to eliminate, but can be eliminated – this is something we must do. If we need to provide figures—calculate risks and suggest corresponding mechanisms—then this is not difficult. As a result, those things which you call obstacles will begin to look, well, if not laughable, then not far from it. If what I am saying now is introduced as a system, then business will breathe a sigh of relief, and, I assure you, it will be a very deep sigh of relief. Thank you.

V. Klimov:

Evidently, we should comment on this. I do not even know where to start.

A. Ivlev:

On public money.

V. Klimov:

Public money should probably be discussed at the end, not at the beginning. First of all, you are right about these issues: they exist, and we might fight them; in fact, there are many more than you just listed. There are companies which try and fail for years to implement projects. Here, in this hall, there are

entrepreneurs who are in this group and are trying to change something. But you are wrong in assuming that OPORA does not raise the subject, does not deal with this problem. We are doing this. Sergei Borisov, who is not here today (as we speak, he is in a meeting with Vladimir Putin) is raising these issues at various levels, including in the governmental commission on small business, where he is the deputy chairman. The situation is slowly changing, but it is not changing as fast as we would like. It would be wonderful if, as you say, new laws could be adopted here and now. This probably will not happen. We are calling for constructive, consistent work.

Now there are other concerns about this project, this study. The topic of today's round table has been the presentation of this specific study. This is not OPORA's only study; believe me, it is far from unique. We have a great deal of expert know-how, and we work in many formats, including with local authorities. We include municipalities in our work with small businesses. Our Business Success programme is being conducted in the regions, and it is very good at helping to identify who is leading and who is lagging behind on the local level. We work with regional authorities, and with federal authorities, with everyone, using public funds.

Speaking of the reactive position and our backlog... This is history, so you might say. In 2004, the then Prime Minister, Mikhail Fradkov, learned (and I hope the journalists will not distort this, but I will go ahead and say it) – learned the word 'cluster' thanks to OPORA-RUSSIA. And the cluster policy, this infection, this virus, was brought to the government by us and by experts who work on an international level. We understand how to build the economy. This is not about small business, and now, for our economy, for our authorities, regional and federal alike, there is a new future, there are new opportunities. Only last year—between 2004 and 2010 six years passed—did the first cluster projects appear. The Ministry of Economic Development announced a competition and supported them, literally only a few. After six years, we have somehow managed to break the deadlock, and we are getting results today.

If we talk about our current view of the future, we will participate in the work that is being done under Strategy-2020, but we don't really share the idea itself: it is, as is plain for all to see, beginning to be confined to a short-term government plan of action for the next six years. We participate and give our recommendations, just like your organization. We suggest changes on the structural level of individual statutes. But along with this, OPORA is implementing a major foresight project: Small business, 2020–2040. We want to look into the distant future—foresight technology provides for this—in order to understand which trends to expect, what problems we will face, not in the distant future, but on the way there, that is, tomorrow and the day after tomorrow. Our aim is not simply to declare our active position and conduct yet another study. Foresight provides for public discussion, and will even invite Delovaya Rossiya to participate. This is a public discussion on the creation of a new view of the economy, a new view of the development of problem areas and ways of solving problems.

Finally, as I promised: on public money. AROPO receives no public money. There are regions and organizations here that help us. They all know that we achieve everything as a result of complex negotiations. They are convinced that our product is interesting, that it will be useful to them, good for the development of small business. Thank you.

A. Ivlev:

Victor, thank you. I have a question for you, as we will soon start talking about what OPORA does in general and which projects it conducts. At the moment, a Strategic Initiatives Agency is being set up. To what extent do you see an opportunity for OPORA to cooperate with this agency, and what forms might this cooperation take?

V. Klimov:

Well, first of all, the agency announced—everyone probably knows about this—a public competition for the positions of director and his deputies. I know that

some entrepreneurs who are activists for OPORA RUSSIA are trying to participate in this contest, trying to bring their ideology to the job, their understanding of how the agency should work. They want to compete, and are less interested in occupying the post itself than in making use of the opportunities it offers. I think that as with other infrastructural programmes aimed at supporting individual projects, the biggest problem the new agency will face is the lack of clear, good, high-quality projects that meet all of its criteria. This is an issue that OPORA will collaborate on with the agency.

I think that a large branch of the network will be just that. This will be one of the areas of cooperation between OPORA's large regional network and the large industry network. Through us, people will receive information on what support is available at the agency and how to access it. We will help entrepreneurs to meet, communicate, and meaningfully cooperate on this issue. We will allow them to influence how people think. Forms of support that do not work will need to be replaced by forms that will work and be effective. So I think that gives you a rough outline.

A. Ivlev:

Thank you. Further questions, please.

V. Guriev:

Vladimir Guriev, Leningrad region, board member of the Chamber of Commerce and Industry of the Russian Federation. I think that one of the major constraints for the development of small and medium-sized businesses is, of course, the increase in tariffs for natural monopolies. More and more businesses go bankrupt simply because of rising tariffs and unpredictable outlays. Fines, penalties: it is all snowballing. Here is the suggestion of the 'big four' that you spoke of, which includes the Chamber of Industry and Commerce, for whom I speak: let us step up efforts to reduce tariffs. Thank you.

V. Klimov:

I will comment very briefly: we are making serious efforts on this issue. We are engaging with various partners: not only on the federal level, with the Federal Antimonopoly Service and the Ministry of Economic Development, but also with the major stakeholders of this situation, this market, by which I mean manufacturers, distribution companies, and end-sellers. Some regions are also demonstrating that they are very engaged on their own level. There have even been some successes working with regional energy commissions. For example, in the Chelyabinsk region, as a result of the serious uproar late last year about the expected increase in tariffs, invoices for January were significantly adjusted.

A. Ivlev:

Thank you. Another question.

From the audience:

A short comment on this matter. As far as tariffs are concerned, you are absolutely right. There are two rates for electricity, and two for gas: an official rate, and a higher rate. Russia even let Ukraine off the hook over this. I think that we have quite enough power to put an end to this state of affairs.

V. Klimov:

The real problem is broader and more serious. I think it will require the consolidation of the entire business community: it is clear that the rise in gas prices will immediately lead to an increase in electricity, because the two are interrelated. Besides this, there is, in fact, a completely unregulated area: tariffs for local monopolies. I am talking about connection to utilities: water and so on. This is also a serious problem, and we have not yet started on the road to finding a solution. Serious problems exist with Russian railway tariffs for small and medium-sized producers. The guys from the Urals provided data: they have a brick factory. The cost price of bricks is RUB 5–6; the cost of transportation by rail, of shipping to the customer, is as much again. It is not possible for the

economy to develop like this. Here, indeed, they need to seriously curb both local and large natural monopolies.

A. Ivlev:

Thank you. Any more questions or comments? I think that we have had a good discussion and shed a good deal of light on the topic. There are many reasons to continue this discussion during the St. Petersburg Economic Forum. There will be many sessions involving the issues that we have discussed today. For example, tomorrow there will be a session discussing issues related to immigration law. Given the fact that we do not have enough professionals and skilled workers, it will be necessary to import them from abroad. There will be a very interesting discussion on this topic. So, tomorrow at 14:00 there will be a briefing on immigration. I would invite all of those who are interested in this issue to attend the briefing. Thank you to all the participants in this discussion, thank you Victor, and thank you OPORA RUSSIA. See you at the other Forum sessions.