

# Doing business after the crisis

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**ALEXANDER SHOKHIN** is the President of the Russian Union of Industrialists and Entrepreneurs (RSPP) and President of the State University Higher School of Economics. During the course of his long and varied career Mr Shokhin has held senior positions in business and government including that of Chairman of the Supervisory Board of the Russian investment group Renaissance Capital (2002-05), Vice-Premier of the Russian government (1998), Minister of Economics and First Deputy Premier of the Russian government (1994), and Minister of Labour and Employment (1991-93), among others.

**T**he crisis slowed down the rapid rate of growth in Russia just when we had almost reached our target, namely to double GDP in 10 years. However, the crisis has given Russian business and the overall economy another opportunity for change.

The organs of government have been dealing with 'entrenched' problems, such as improving the investment climate, increasing energy efficiency, eliminating red tape, encouraging innovations and reforming the financial sector for a long time now. A number of laws that are of vital importance to the business community have been passed, namely on decriminalising economic activity, overhauling the system of technical regulations, clamping down on the abuse of controls, promoting energy conservation and several others.

Virtually all the admissible methods of providing assistance to companies have been used, ranging from assistance to individual companies (provision of state guarantees, interest rate subsidies and other forms of assisting companies) to systemic, universal assistance (reduction of the profits tax, stimulation of domestic demand and so forth).

However, notwithstanding all the efforts undertaken, the past year has not been overly successful for the Russian economy according to official statistics and assessments by entrepreneurs. Russian business is continually plagued by five major problems: two of them concern the manufacturing process, three of them cooperation between business and government.

In 2008, the year before the crisis, entrepreneurs were experiencing major problems in the manufacturing sector: a dearth of qualified staff (60 per cent of companies surveyed by the Russian Union of Industrialists and Entrepreneurs and by the All-Russian Public Opinion Research Centre), as well as inflation (52 per cent). The second set of problems related to cooperation between the business community and government authorities: around 40 per cent of businesses complained of excessively high taxes and inefficient management, corruption and excessive red tape.

In 2009, the year when the crisis gripped Russia, two problems from the second set mentioned above came to the fore, namely cooperation between the business community and the authorities: corruption and excessive red tape, when the slump in manufacturing was found to be caused by an enormous shortfall of qualified

staff. The falling rate of inflation was one of the most positive outcomes in 2009 and the beginning of 2010. The concern with the issue of corruption does not mean that the situation is deteriorating; it is an expression of the desire by the Russian business community to 'play' according to the rules in the West.

The cautious assessment by the business community of cooperation with the organs of government is corroborated in the results of the monthly index for the business sector produced by the Russian Union of Industrialists and Entrepreneurs, and so far in 2010, despite all the efforts by the government, the indicator of cooperation with the organs of government has frequently been in negative territory.

The positive factors also deserve a mention, however. In 2009, the majority of Russian entrepreneurs rated the success of the development of their own business with a 'plus'. Although typically for the last two 'prosperous' years, the predominance of successful companies over unsuccessful ones has fallen significantly, the situation as a whole is fairly positive.

The business community is satisfied with the implementation of the recovery programmes, which not only enabled it to survive the crisis, but also to complete the investment plans that had been initiated, develop new products, albeit against an unsatisfactory macro-economic background.

The macro-economic statistics also reveal steady growth of 3.9 per cent in the first quarter of 2010 and, according to the official forecast, annual economic growth is likely to be 3.5-4 per cent. Moreover, international institutions and analysts are issuing even more optimistic forecasts. For example, Goldman Sachs forecasts GDP growth in Russia in the region of 5.8-6.1 per cent in 2010-11.

The fact that companies are aware of the need to modernise is undoubtedly good news. According to a survey, companies that have updated their technology have experienced increased competitiveness against a background of improved levels of productivity and reduced energy consumption and expenditure on materials. Technological renewal creates an enormous demand for new equipment, transport infrastructure and, more importantly, new education.

Furthermore, it is not only modern, high-quality staff training that is important, but the ability to manage a business according to contemporary standards. Inviting

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and exchanging specialists and sending staff to train in foreign companies are the most common forms of international cooperation employed by domestic companies. In this respect it may be said that Western markets are accessible to our companies, listing on international stock markets and foreign investments play a positive role in developing a general corporate culture in Russia.

Transparent annual accounts prepared in accordance with Russian standards and International Financial Reporting Standards have become normal practice for the majority of large companies. New technologies, including logistics and storage systems for database management are all the result of cooperation with companies in the West.

It should, however, be mentioned that if the application of modern methods of corporate management has apparently now become standard practice for the majority of private corporations, it is not all plain sailing for small and medium-sized enterprises and nationalised companies.

The administrative and fiscal conditions that exist at present do not promote increased transparency and development of companies although everyone recognises that small and medium-sized enterprises must play a key role in the Russian economy. At the beginning of 2009, small and medium-sized enterprises accounted for over 25 per cent of total gross output, which is an extremely low figure compared to Western countries, where this category of companies generates innovative products in particular.

I wish to emphasise once again that the pace of modernisation and innovation is an issue that is hotly debated in society, business circles and government alike. The elaboration of modernisation and innovative strategies, clear goals for innovative companies and projects and the most effective measures to stimulate the economy are an essential part of the dialogue between the government and the business community.

Discussions are being conducted on the form that innovative development should take. The government is adopting a wide range of approaches: technology parks as well as technology development zones, preferential tax treatment and venture capitalism. The

‘innovation city’ in the Moscow suburb of Skolkovo is yet another way to promote innovative business practices. The Russian Union of Industrialists and Entrepreneurs supported this project and included it in the list of priorities for the Russian Federation. Viktor Vekselberg, who sits on the Management Board of the Russian Union of Industrialists and Entrepreneurs, was appointed coordinator of the project by the business community.

The innovation city in Skolkovo is in fact a public-private partnership. Representatives from the science and-business communities (Russian and foreign researchers as well as businessmen) and the government participated in its implementation and, more importantly, in its management. Skolkovo is designed to create an incubator for ‘start-ups’, as well as to create scientific research centres for major companies. This is where the interest of the business community lies.

Innovators will receive a range of benefits that are unique to Russia, including tax benefits. Red tape will be eliminated as well and companies will be given the opportunity to work according to the standards that prevail in the West. I am convinced that the work performed within the framework of the project in Skolkovo, and throughout Russia, will be extremely relevant to British companies.

The Russian Union of Industrialists and Entrepreneurs networks and has contacts with business circles in Great Britain. Moreover, we naturally have a tradition of good relations with the Confederation of British Industry. We meet periodically, discuss general problems and endeavour to make the voice of the business community heard at the UK-Russia Intergovernmental Steering Committee on Trade and Investment. At the level of organisational leadership we play an active role in the G8 and G20 business summits.

Those British companies that already have a presence on the Russian market can confirm that they are among the most privileged, despite the current problems.

The Russian Union of Industrialists and Entrepreneurs has an open-door policy – an organisation such as the International Council for Cooperation and Investment (ICCI) has already been in existence for over two years. This Council examines the problems that are faced by almost all foreign companies that do business in our country. Such problems are the investment climate, taxation, customs and migration issues. The representatives of governmental organisations pay enormous attention to the activities of the ICCI, and willingly attend its meetings. Experience has shown that we have succeeded in creating a really useful and practical tool.

We look forward to welcoming increasing numbers of British and other foreign companies in Russia! **F**

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