MODERNIZING RUSSIA PROJECT

Part I: Society's View of Doing Business in Russia

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April 2020
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The Issue

From the Editor: The Russian political system has several distinctive features: it is patrimonial (power and money/property are thoroughly mixed); the rule of law is so weak that it cannot, as in the West, separate power and property; property rights are weak and unstable; and informal, personal politics often trump formal politics since institutions are also weak. The distribution and redistribution of property among elites — often more than differences over issues — is thus a central dynamic of the system. On the one hand, these characteristics make the emergence of state-dominated oligarchic business almost inevitable. On the other hand, strengthening property rights may help foster the development of a middle class where small and medium businesses are the foundation of a more pluralistic political system. In this CEPA/Levada brief, the authors explore popular attitudes toward business and how they may be changing.

The end of the Soviet Union brought increased opportunity for private business, which had only operated in limited capacity before 1991. But for private enterprise to flourish in Russia, market-based reforms — including the rule of law and reliable property rights — were needed. Boris Yeltsin introduced some of them, but many businesses in the 1990s were still forced to depend on protection rackets and relationships with criminals and security services in order to operate. Under Vladimir Putin, conditions temporarily improved but the business environment has largely deteriorated as unjustified criminal prosecution of entrepreneurs spread in the country followed by the 2008 financial crisis. What are the implications for Russians wanting to do business today?
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Only 14% of Russians have experience running their own business and that number has declined over the years. About a quarter of the population (27%) would like to open their own business. This group of respondents includes the youngest Russians, respondents with previous business experience, and more educated and economically better-off citizens. Those who want to start their own business think that it will provide unique opportunities for self-realization and the formation of a sense of independence from the state, and even open the possibility of moving to another country.

Almost three-quarters of those polled found it difficult to open a new business in Russia. And only a fifth of the population thought that the business environment in Russia was improving.

A majority of respondents thought start-up capital, connections to the authorities, and state support were key preconditions to creating a successful business. Most named economic problems (high taxes, corruption, lack of start-up capital and high loan rates) as key impediments to doing so.

While respondents did not mention the wide prevalence of illegal “raider” seizures of business in Russia as a key obstacle to success, over a third of our respondents were aware of such practices. In addition, 40% mentioned unjustified criminal prosecution of entrepreneurs as impediments. Half of the respondents reported a prevalence of unlawful pressure on businesses from various inspection bodies. The majority thought the attacks of security officials on entrepreneurs are driven by the self-interest of state officials rather than desire to enforce the law. However, only 6% of Russians were able to name specific cases of unlawful pressure on entrepreneurs.

Overall, the findings indicate modernizing attitudes of Russians toward private enterprise. Most respondents think highly of businessmen and their contributions to the development of the country. These views are particularly pronounced among younger, better educated, and economically better off respondents. This contrasts sharply with Putin’s own beliefs that most businessmen are crooks, as well as the state’s ongoing policies of prosecution and seizure of private enterprises in Russia. The results indicate the deepening divide between the attitudes of the authorities and those of the Russian population more broadly.

Contrary to general belief, Russians’ attitudes toward entrepreneurs are positive and have improved in recent years. Today they are at their highest point (over 80% of respondents believed that small and medium-sized businesses benefited the country) in the 16 years since the Levada Center began measuring responses to that question. In addition, many Russians believe that some of the most intelligent, talented, and capable people in Russia work in business. Respondents see the main contribution of Russian entrepreneurs to the development of the country as the creation of jobs and the contribution of taxes to Russia’s budget.

At the same time, trust in the business sector is much lower than that in other public and political institutions — the army, president, security services, and the church. This is probably due to the widespread belief that entrepreneurs evade taxes. Also, among the most respected Russian businessmen, respondents primarily named state-linked oligarchs rather than entrepreneurs who developed their own business from scratch.

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INTRODUCTION

Russia’s experience with entrepreneurship is relatively short-lived. Throughout most of the Soviet era, private business activity was banned. By the end of the Soviet Union in 1991, the state allowed a limited number of market-based small businesses. Still, the conditions needed for private enterprise to develop, such as the rule of law and durable property rights, were absent. The environment improved under Boris Yeltsin, the first president of the Russian Federation, who launched multiple free-market reforms, including privatization and trade liberalization. A society emerged in which private business and entrepreneurs were a significant and necessary component.

Doing business in the 1990s was challenging. The absence of law enforcement forced many business people to seek out protection rackets from criminals and security services. Violent clashes between business competitors and illegal business practices spread. Yet the 1990s featured a rapid rise in the number of enterprises — briefly interrupted by the 1998 financial crisis — mainly due to lower levels of state interference in the economy.

After Vladimir Putin became president of Russia at the end of 1999, business conditions temporarily improved. A sharp spike in commodity prices launched an extended period of economic growth, while the government introduced several economic reforms to diversify the economy (such as the 2001 tax reform).

Soon after, however, Russian authorities started exercising increasing pressure on businesses. At first the attacks focused on big Russian oligarchs and media-magnates, such as Boris Berezovsky, Vladimir Gusinsky, and Michael Khodorkovsky, who were either forced to leave the country or put in jail. Over time, attacks on businessmen by state authorities or state-linked businessmen spread to smaller companies. This has been coupled with a process of deprivatization in which the state increasingly nationalized formerly private enterprises. The Federal Antimonopoly Service of Russia estimated that the share of the state and state-owned companies to GDP doubled from 2005 to 2015 from 35% to 70%. At least in part, these actions by the Russian authorities were intentionally designed to increase Russian citizens’ dependence on the state.

Originally these developments were offset by a booming economy. However, following the 2008 financial crisis, economic growth in Russia slowed down dramatically. This has contributed to more interventionist policies by the state at the expense of economic reforms. These trends further undermined the business climate and the country’s long-term growth prospects. The economic situation further deteriorated after Western countries imposed sanctions on Russia following the illegal annexation of Crimea and the war in Donbas.

All these factors have led to the worsening of the business environment in Russia. The share of small and medium-sized businesses in Russia’s GDP has remained two or three times lower than that in developed countries: around 20% compared to 50-60%. As of January 2020, the share of SMEs fell in 2018 to its 2015 level. From August 2018 to August 2019, about 7,000 enterprises closed in Russia.

Did these troubling developments undermine the willingness of the Russian population to do business? How do Russians view business, and what role does the Soviet legacy of seeing businessmen as crooks play in it? Few in-depth empirical studies have attempted to answer...
that question. To do so, CEPA and the Levada Center ran a survey of the Russian population designed to evaluate how Russians view entrepreneurship, and what factors they name as key obstacles to doing business in Russia.

Most studies that have examined the development of entrepreneurship in Russia have concentrated on entrepreneurs in large businesses (Guriev and Rachinsky 2005; Hoffman, 2002; Freeland, 2000; Hanson and Teague, 2005; Frye, 2002). Few have analyzed the societal attitudes toward entrepreneurs in Russia, as well as factors that Russians view as obstacles and preconditions to running a successful business.

**METHODOLOGY**

In 2019, CEPA and the Levada Center developed a joint public opinion survey to gauge the state of civil society in Russia. Three questions were designed together, and then were fielded in Russia. Topics included attitudes of the Russian population toward entrepreneurs, the rule of law, and civic activism among the Russian youth. The study is based on the results of a nationwide representative survey of the country’s adult population in November 2019. 1,600 people were interviewed. The margin of error does not exceed 3.4%.

This analysis is complemented by results from earlier Levada Center and VTSIOM surveys, whose results have been published in both countries.

**ATTITUDES TOWARD ENTREPRENEURS**

Popular attitudes toward entrepreneurship in Russia today are at their highest point in the 16 years since Levada began measuring responses to that question. Moreover, attitudes...
have been consistently improving over the past seven years. Views were especially favorable toward small and medium-sized enterprises. About 80% of those polled believe that such activity benefits the country. Attitudes toward big business are traditionally lower, but a positive attitude toward them has prevailed since 2013.

Positive attitudes toward small and medium-sized businesses are found most often among young, financially well-off Russians who can afford to purchase durable goods. The most negative opinions are among low-income citizens who barely have enough money for food — that is, among those who cannot imagine themselves as entrepreneurs and probably have an aversion to wealthy people.

The positive responses probably also can be explained by respondents’ own experiences and ability to imagine themselves as small entrepreneurs and self-employed. Focus groups with younger Russians conducted in the summer of 2019 showed that the boundaries between legal and illegal entrepreneurship are being blurred. Many small businesses can exist in a gray zone without officially registering their business. As an example of such companies, respondents cited the resale of goods purchased from the firm AliExpress, the provision of cosmetic services at home or on social networks (“info-business”), and other types of business that are harder for authorities to detect. Such companies allow owners to avoid paying high taxes and communicating with government agencies, which in the views of many respondents are associated with corruption.

In addition to having a positive image of entrepreneurs, many respondents also thought that some of the most intelligent, talented, and capable people in Russia work in that sector (a view shared by 33% of the population). Only the category of “scientist” was above “entrepreneur” on the list of professions that are attractive to the smartest people. This view was shared by over 40% of young (aged 18-24), well-off respondents, as well as those respondents with experience running their own business or wanting to open one. Entrepreneurial status is an important goal for this part of the population.

At the same time, according to other measurements, confidence in business among the overall population is relatively low. This is

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**Figure 2. Support for Business in Russia is at an All-Time High.**
especially the case when compared to their high confidence in other public and political institutions — the army, the presidency, security services, and the church. Only a quarter of respondents trust small business unconditionally; only 16% trust large business. These results suggest that ordinary citizens also have a more complicated view of Russian entrepreneurs: while people say they have a positive attitude to business, not everyone is ready to trust individual entrepreneurs. This finding is probably connected to widespread, continuing belief in the dishonest behavior of business people, that they evade taxes, and try to claim state assistance. In the case of large businesses, this idea is a legacy of the belief that the 1990s were a period of the unjust and unlawful enrichment of elites rather than the still prevailing view that one cannot honestly get rich in Russia, as about 70% of Russians said in a 2015 poll.\textsuperscript{10}

Figure 3. Where Russia's Smartest, Most Talented People Work.

What is The Main Contribution of Russian Business to The Country's Development?

Figure 4. Contributions of Russian Business to Development.
However, the suspicious attitudes toward big business did not prevent Russians from identifying Russian businessmen, primarily those associated with state corporations, as among the most respected figures in the country. This view includes the so-called “oligarchs” who made their fortunes in the 1990s: Roman Abramovich, Alisher Usmanov, Mikhail Prokhorov, and Mikhail Khodorkovsky. Entrepreneurs who independently created their own business from scratch — Sergey Galitsky, Pavel Durov, Oleg Tinkov, Evgeny Chichvarkin — were not named in the top places in our “rating.”

Interestingly, this list includes Pavel Grudinin among the most respected businessmen. Grudinin became famous after having participated in the 2018 presidential race as a Communist Party candidate. In the eyes of respondents, he seems to be an example of a socially responsible businessman: he makes money and builds housing for his employees.
The top five “most respected” businessmen, according to respondents who want to start their own business, are as follows: Roman Abramovich, Pavel Grudinin, Mikhail Prokhorov, Alisher Usmanov, and Pavel Durov. Muscovites primarily named Mikhail Khodorkovsky, Alisher Usmanov, Pavel Durov, Roman Abramovich, Mikhail Prokhorov, and Pavel Grudinin. Residents of large cities were more likely to mention Roman Abramovich, Mikhail Prokhorov, Alisher Usmanov, and Sergey Galitsky. Respondents, particularly those who wanted to start their own business, much more frequently named state-linked businessmen rather than people who launched their own business from scratch. This suggests that respondents prioritized state-connections to other important business qualities, such as talent and innovative ideas.

According to the survey, only 14% of Russians have experience running their own businesses — primarily those who are self-employed or those who are owners of small and medium-sized enterprises. People in this group are usually between 30 and 55 years of age and have a higher education. This proportion includes those 3% of respondents who are currently running their own business and another 11% who have had such experience in the past. The data also suggest that very few people in Russia were running their own business at the moment of the survey.
However, over two-thirds of respondents (67%) do not want to open their own business, while only 27% want to do so. When interpreting these results, it is important to note that this intent to open one’s own business does not necessarily translate into action. Only a few will eventually do so. Moreover, the number of people who are willing to open their own business in Russia has declined since 2008, as demonstrated by VTSIOM survey data, which has traced this over time.\textsuperscript{11}

Younger respondents and respondents who already had business experience (below the age of 25) at the time of the survey demonstrated a higher willingness to open their own business. This finding is confirmed by the data in other studies.\textsuperscript{12} Among these groups, the number of people who want to start their own business exceeds the sample average almost twofold (over 50% in each group). Also, men more often than women, as well as more educated and better-off social groups, tend to indicate more often their interest in opening their own business.

It is noteworthy that the desire to do business is also significantly higher among those who are

\textit{Society’s View of Doing Business in Russia, 8}
aware of instances of attacks on business. The respondents believe that such cases happen primarily to large businesses (the below data on specific examples of such attacks on business seems to confirm this hypothesis). Hence these respondents likely believe that such attacks will not affect them personally.

In our focus groups with young people run in the summer of 2019, respondents who said they wanted to start their own business think that it provides unique opportunities for self-realization and the formation of a sense of independence from the state, and even the possibility of moving to another country. Earlier studies by Levada report similar findings: a poll run in August 2018 showed that the main incentive for Russian respondents to start their own business was not so much the opportunity to earn money, but the desire to be independent and to work for themselves.\(^\text{13}\)

Moreover, only one in five Russians (19%) believes that it is easy to open a new business in Russia today; the majority (72%) holds the opposite opinion. The results coincide with the results of a comparative study by Global Entrepreneurship Monitor: only about 20% of Russians believe that opening a business in the country is easy.\(^\text{14}\) This is significantly lower than in Western Europe (in France this figure is a little less than 40%; in the United States 45%; in Sweden, Poland, and the Netherlands above 70%).

Somewhat more optimistic are people who want to start a business (27%) and those with business experience (70%). Moreover, the same 19% of optimists believe that the conditions for doing business in Russia over the past 10-15 years have rather improved. Most think that these conditions are likely to worsen (38%) or will not change (29%). Those who already have business experience (as well as respondents who are currently working as entrepreneurs or managers) have worse assessments of the situation on this issue. Up to 60% of such respondents believe the situation will get worse; it has become more difficult for them to conduct business.
What preconditions are needed to start a successful business in the view of our respondents? Most of our respondents primarily named starting capital (63%). Then, by a large margin, about a quarter of the respondents named government connections and the presence of state support (27%); entrepreneurial talent, and a good business idea (26%); perseverance and determination (24%). Russians do not deem special business education or previous business experience necessary to open their own business.

When analyzing the results of the study, we noticed a dramatic difference in views between those who think about starting a business and those who already have a business. The former more often name start-up capital, a need for a good business idea, and psychological qualities like persistence (the youngest respondents under 25 have similar views: start-up capital and a need for a business idea). The latter group, those with experience in doing their own business, name completely different conditions for success. In addition to starting capital, respondents commonly named other factors important for starting a successful business: government connections; state support; and only then a need for a good business idea. Against the background of such answers, the views of respondents without any entrepreneurial experience may seem idealistic and naive. How many of them will succeed if they enter the business with wrong expectations?

Almost a third of our respondents chose state support as a necessary precondition for a successful business in response to the above question. To elaborate on this issue, we asked them an additional question about who is worthy of such assistance. Almost all (93%) agree that the state should provide support to small businesses. Indeed, virtually all respondents could find themselves in the position of a small entrepreneur. Against such assistance were, above all, the lowest-income respondents.
Popular attitudes toward businesses under international sanctions are less clear. While most respondents (55%) back state support for sanctioned Russian businesses, a significant share of them (38%) are against it. Opinions are almost evenly divided on the issue for state-owned companies: negative sentiments slightly prevail (51%), but 44% are still in favor. And in both cases, respondents probably refer to large companies, which (in the opinion of many Russians) do not require assistance.

We also asked our respondents which factors complicated doing business in Russia. Respondents most frequently named high taxes as the main impediment to doing business in Russia: 42% of respondents chose this answer. Among other answers, they named corruption and the need to pay bribes, the lack of start-up capital, and high-interest rates on loans. These answers were named by over a quarter of respondents (26-29%).

Less often, respondents named low consumer demand and population insolvency, that is, low purchasing power of the population (22%), overregulation of the economy, lack of proper state support, and poor economic conditions (16-19%). Only one in ten respondents named pressure on business by security officials, and only 5% mentioned Western sanctions.

People with entrepreneurial experience primarily name high taxes, high-interest rates on loans, and low consumer demand (that is, the relative poverty of the population) among key obstacles to doing business in Russia. Opinions of Muscovites differ quite substantively from the sample average. In their answers about the problems of Russian business, Muscovites primarily named corruption and bureaucracy. High taxes was only the third most popular response.

Overall, according to the average Russian citizen, economic problems (high taxes, corruption, lack of start-up capital, and high loan rates) are the critical impediment to running one’s own business. When it comes to their relations with the Russian state, respondents are primarily concerned about corruption, the inability to avoid bribes in resolving issues, and insufficient state support.

By contrast, in a different Levada study of large business representatives, respondents...
primarily emphasized the problems of state interference. In that survey, respondents complained about the lack of guarantee of private property, exposure of Russian courts to the influence of big businesses and prominent officials (the notorious “administrative resource”), the threat of losing business as a result of a raider seizure, pressure from security officials, etc. Therefore, we decided to ask a few additional questions about what ordinary citizens think about the possible pressure on business from various government bodies.

**PRESSURE ON BUSINESS**

We asked our respondents about how common, in their opinion, the following illegal actions are in Russian business today, and whether entrepreneurs themselves evade taxes. A third of respondents (33%) said that illegal “raider” seizure of someone else’s business is widespread in Russia (the sum of the answers “are ubiquitous” and “fairly common”). Even more (40%) spoke about the prevalence of cases of unjustified criminal prosecution of entrepreneurs. About half of our respondents (49%) named the practice of unlawful pressure on business from various inspection bodies and inspections. In the view of ordinary citizens, this is the most common form of influence on business by state bodies.

Importantly, respondents with business experience cite the prevalence of all four phenomena more often than the general population. Also, Muscovites, respondents with higher education, and also those who are personally aware of cases of pressure on business by security officials name these problems relatively more often than other groups. This is probably because these social groups belong to more politically informed social strata in Russian society.

Despite the widespread belief that entrepreneurs evade taxes, more than half of
our respondents (53%) believe in the selfish motives of law enforcement agencies. Only 30% of respondents think that the actions of security officials are a response to the illegal actions of businessmen. A noticeably larger number of respondents (40%) believe that the actions of the security forces are driven by the desire to extort a bribe or squeeze out a business.

Russians are only vaguely familiar with cases of raider seizure of business (a common practice in Russia of illegal seizure of business entities by state authorities and security services). Only a quarter of respondents (25%) mentioned that they knew of specific cases of pressure on the business by security officials. And only a quarter of them (that is only about 6% of Russians) were able to name specific names of businessmen or companies who have been subjected to such pressure. Among most often mentioned were Yevgeny Chichvarkin and the Euroset case, Sergey Petrov and the Rolf group, and Mikhail Khodorkovsky and the Yukos case. Pavel Durov and Pavel Grudinin were mentioned less often, and only a few respondents mentioned Yandex, the bankruptcy of Transaero Airlines, and the Baring Vostok cases. Better familiarity of respondents with the cases of Yukos and Euroset may have to do with the fact that both took place back in the 2000s when the media in Russia was more independent and hence people had more access to information about illegal attacks on business by state authorities.

Respondents with business experience provide contradictory opinions. On the one hand, they confirm the common belief that Russian entrepreneurs often evade taxes. And yet they still explain law enforcement agencies’ prosecution of business by the desire “to extort a bribe, to squeeze out a business.”

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Figure 13. Prevalence of Illegal Practices in Russia.
Regardless of how justified these beliefs are, they negatively affect business climate, create significant obstacles to opening new businesses, and constrain the entrepreneurial activity of the population.

**QUESTIONS FOR FURTHER STUDY**

- From where does the discrepancy between the positive view of businessmen and lack of trust toward businessmen come?
- What specific steps can be taken to best build a functioning regulatory regime to govern Russian business?
- Some democratic countries — France for example — have a large state role in business. Can Russia build a functioning free market economy based on that model?
- Would more effective business education cure some of the perennial problems of state-business relations?

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Endnotes


6 *Ibid*.


Ibid.


