

# Low Trust, High Rates Stifle Growth

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Russia's elite are the least likely out of 22 nations to trust their country's business institutions. Only 41 percent of those surveyed expressed confidence in businesses, says the Edelman Trust Barometer, which produces an annual report on public trust around the world.

The same survey revealed that developing nations seem to trust Russia more than developed ones.

Analysts see a direct link between distrust in public institutions and business growth. The country slipped 1 percent lower since last year and lags behind the world average of 58 percent — and the United States with 46 percent.

The survey revealed that Russians are also wary of their political and social institutions, with confidence ratings falling at least 14 points below the world average in each category. Nongovernmental organizations got the highest confidence vote, 42 percent. But only 39 percent of the elite trust the government, while only 37 percent believe the media.

The Edelman Trust Barometer surveyed 200 members of the Russian elite — policymakers, or people that directly or indirectly influence business. Edelman, a global public relations firm, has included Russia in the survey since 2007.

Edelman head Alan Vandermolen said Russians exhibit “a healthy skepticism” when it comes to establishments in their country, and are reluctant to “offer a high degree of trust.”

The Edelman barometer is the latest survey to highlight the poor domestic business climate. The Heritage Foundation’s annual economic freedom rating ranked Russia 143rd out of 183 at the end of last year.

According to an independent Levada Center survey from last summer, nearly half of those polled believe that big business is somehow detrimental to the country, while 21 percent believe the same about small business.

An absence of trust in business and law enforcement contributes to higher interest rates on loans, said Jason Hurwitz, senior analyst at Alfa Bank.

“As companies that need investment capital seek funds, trust obviously plays a substantial role in the interest rate that they must be willing to pay,” Hurwitz wrote in an e-mail. “A lack of trust thus pushes up costs for virtually everything.”

Higher perceived risk levels play a substantial role in determining how much a company is worth, especially risks due to perceived corporate governance issues, Hurwitz said.

Interest rates in Russia are high compared with interest rates worldwide, at 7.75 percent, while the United States and Britain have much lower rates of 0.25 and 0.50 percent respectively.

Ineffective law enforcement institutions create an environment that is conducive to mistrust and corruption, said Yana Yakovleva, head of Business Solidarity, a nongovernmental organization that protects entrepreneurs.

“Laws don’t get enforced, promises aren’t fulfilled through action — hence the low level of trust,” Yakovleva said.

Big companies have a habit of not paying smaller ones for their services, and not being punished, she said.

Small business does not trust big business, but small entrepreneurs trust one another for the most part, said Alexander Chipurenko, an economics professor at the Higher School of Economics. It is easier for entrepreneurs to assume that a business partner won’t cheat them rather than investing in the costs of checking a partner’s bona fides or reputation in advance.

But business in general does not trust the government.

“If the first thing that comes to mind is corruption, then its clear that governing institutions work very badly,” Chipurenko said. Disreputable business practices “fade in comparison with how the government behaves,” he said.

The judicial and law enforcement systems rank highest in corruption according to a survey by the Russian Union of Industrialists and Entrepreneurs, a full version of which will be published in April.

Since businesses don't trust the courts to resolve their differences fairly and efficiently, they find it hard to trust one another, according to one industry expert.

Despite low confidence in the judicial branch, 90 percent of more than 350 companies asked by the union said they used the courts to resolve some business issues. Confidence in a successful trial depends on whom you're suing — or who you're being sued by. If it is another business owner, then respondents believe they have a 50-50 chance of winning. But in case the conflict involves a government official, business owners believe they will probably lose.

Another reason for dismal confidence rates in Russia is that there is no clear set of national values, Chipurenko said. Forming professional norms without definite values is a difficult task.

While Russian business continues to inspire relatively low levels of trust around the world, at 38 percent on average, the good news is that countries where Russians have engaged in business show a remarkably high level of confidence. Mexico, the United Arab Emirates and Brazil all trust Russian business, at 62 to 75 percent — which is much higher than Sweden, Britain and the United States, who rank confidence toward Russian businesses from 12 to 15 percent.

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