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Wealthy Pessimistic on Business Climate, Corruption

By Howard Amos

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UBS analysts highlighted rising corruption in Tuesday's report. **Andrei Makhonin**

Russia's super-rich think that the country's business climate is deteriorating and that corruption is currently more of an acute problem than in recent years, according to a survey released Tuesday by Swiss banking giant UBS and Campden Research.

As many as 95 percent of the wealthy respondents believe that the current environment is not encouraging innovation and entrepreneurship, up from 42 percent in 2011 and 36 percent in 2009.

Nor is corruption easing. While just 4 percent of those contacted in 2009 identified graft and bribery as a key challenge for their businesses, this year that figure has risen to 55 percent and become the most pressing problem, ahead of cash flow, slowing demand and access to credit.

The research polled 22 businessmen domiciled in Russia who have a net worth of about $50

million each. The total revenue of the businesses of 14 of the respondents was between $50 million and $100 million. In 2011, the survey sampled 19 people in a similar wealth bracket.

As in recent years of the UBS-Campden project, participants show a marked reluctance to develop long-term plans for when they cease to personally control their businesses. And they are not bothered by an unwillingness on the part of their children to become involved in the family assets.

In 2011, 90 percent of respondents said they had not implemented a succession plan; this year the figure was 95 percent.

And the country's super-rich have not lost any of their traditional preferences: Switzerland was the favored offshore wealth management location for 89 percent of those surveyed. Over 90 percent said that if their children are educated abroad, they'd choose schools in Britain.

In a departure from previous years, however, outside private equity investors are seen as a growing source of capital by the richest businessmen.

Private equity overtook debt in this year's research as the funding source of choice for 46 percent of those surveyed, but it was still behind internal cash flows at 68 percent. In 2009, just 12 percent were considering private equity.

"Sources of liquidity have become scarcer, and ... international markets are becoming more difficult," said Gregg Robins, head of wealth management for UBS in Russia.

On the bright side, philanthropic traditions are becoming more entrenched. One in three identified themselves as patrons of the arts, compared with one in 10 in 2009.

Forbes estimates that Russia's 200 wealthiest businessmen have a net worth of $499 billion. Moscow has more resident billionaires than either London or New York.

In contrast, 13.5 percent of the country's population, 19.1 million people, are surviving on less than 6,307 rubles ($204) per month, according to the latest available data from the State Statistics Service.

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