

Small Businessmen Squeezed, Eye Exit

By [The Moscow Times](#)

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Dentist Yemelyanov finds petty bureaucratic demands very distracting. **Alexander Zemlianichenko**

Dentist Sergei Yemelyanov is being smothered in red tape.

Every day, Yemelyanov and his staff have to take time off from tending patients to fill out official log books on health and hygiene. It is repetitive and pointless work but required by law — and vital if Yemelyanov, who has co-owned his Moscow clinic since 1992, wants to avoid a hefty arbitrary fine from inspectors.

Along with many of the small struggling businesses in Russia, Yemelyanov knows this comes with the territory.

"Regulatory authorities, armed with current rules and regulations, are free to do whatever they want with us," he said. "Every inspecting body is tailored to levy fines from businesses. Even if you abide by all the rules, they will always find something to fine you for."

There are growing concerns that Russia's burdensome bureaucracy and corruption are

holding back the country's economy, which has become increasingly reliant on massive oil and mining companies.

According to the International Monetary Fund, Russia is the world's eighth-largest economy, just behind Brazil, with an annual gross domestic product of some \$2 trillion. While it exports a large part of Europe's and Asia's energy needs, it also helps fill in the order books of companies across the globe.

However, as leaders of 20 of the world's biggest economies gather in St. Petersburg for their annual summit this week, Russia is raising concern. The country's economic growth has been on a downward path since the start of last year. The Economic Development Ministry estimates that it will only be 1.8 percent this year, the slowest rate since 1999. Economic Development Minister Alexei Ulyukayev has also warned of the risk of recession.

With Russian oil and gas exports slowing, the best hope lies with small- and medium-sized businesses, Ulyukayev said in an interview with the Kommersant business daily last month. "Russian exports can no longer be the key driver of economic growth," he said.

But businessmen like Yemelyanov claim that the government is not backing its words with action.

When President Vladimir Putin was campaigning to win his third term as president in 2012, one of his promises was to increase the pay and benefits of state employees, who make up to 40 percent of Russia's total workforce. Soldiers saw their pay more than double last year, while teachers got a 14 percent raise. While this lavish spending has improved the lives of millions of Russians, it has put a strain on the country's budget.

The private sector has seen its tax burden increase. The government has doubled employers' contributions to the state-run pension fund, which small business association Opora estimated had caused about half a million small businesses, or 15 percent of the total, to shut down.

"Putin is trying to understand what's going wrong, but he doesn't get it," said Yana Yakovleva, who heads the advocacy group Business Solidarity.

State Supremacy

Since coming to power in 2000, Putin has fostered state-owned conglomerates like gas company Gazprom and oil producer Rosneft, showering them with tax breaks and encouraging them to expand. Entire industries, including banking and transportation, have become dominated by state-controlled companies, which account for at least 50 percent of the Russian economy.

Small- and medium-sized businesses account for only about 22 percent of Russia's economy, compared with 46 percent generated by small businesses in the United States.

"Huge parts of the economy have gone back to their more-or-less previous state where they were controlled by a very, very small group of people," said Bernard Sucher, an American who has been running businesses in Russia since 1993. "This means that Russia is internally

noncompetitive and, of course, in global terms it becomes less and less competitive as an economy.

"If Mr. Putin really wants Russia to be a great power, this is a losing game he's playing."

In a survey of 6,000 businessmen conducted last year by Opora, a business advocacy group, 42 percent of respondents reported "severe difficulties" in starting a new company. That is not just due to the usual struggles, such as finding new customers, but the added cost of corruption — 27 percent of the respondents said that frequent inspections by regulators led to bribes being paid. Opora said its survey had a margin of error of plus or minus 5 percentage points.

Sergei Borisov, chairman of Opora's advisory board, says business owners' struggles with red tape and taxes are driving them into the black market. He is convinced that most of those who wound down their businesses due to recent tax increases have merely stopped paying taxes and are now working illegally.

"The government is losing the taxes of people who could have been paying them," Borisov said. "This has boosted the illegal market and it is boosting the corruption coffers of law enforcement agencies."

Rules to Break

On top of bureaucracy, criminal prosecution is another all-too-real problem for Russia's businesses. By 2011, one in six businesspeople in Russia had faced criminal charges, according to research by the Moscow-based Center for Legal and Economic Studies. About 120,000 people are serving prison sentences in Russia for economic crimes.

Yakovleva, the head of the business advocacy group, was a co-owner of a chemical company in 2006 when she was thrown in jail. She spent seven months in custody before her case was dropped. She claims the charges were brought by anti-narcotics police after she and her business partner refused to pay kickbacks on sales of an industrial solvent used in drug production.

"It doesn't matter if you abide by all the laws," said Yakovleva. "[Officials] can always pay you a visit and accuse you of any absurd thing, which will then be approved by a court."

Boris Titov, who was appointed by Putin last year as an ombudsman for businesspeople, said he was amazed to learn with what disregard many police officers and prosecutors view private business owners.

"They often doubt that doing business is necessary at all and that the country needs a class of entrepreneurs," Titov said at Russia's top economic conference in June.

This view is largely a legacy of the Soviet Union, when people were sent to prison for trying to make profit. The murky privatizations after the 1991 Soviet collapse reinforced the idea that fortunes were never made honestly.

Shipping Out

The difficulties of doing business in Russia are pushing many to try their luck elsewhere. In one week in July, two of the five most-read stories on the website of the popular business weekly Kommersant Dengi were about how to settle abroad.

Sucher, the American businessman who is now on the board of directors of investment company Aton, said that during his 20 years in Russia he had seen many of his Russian friends leave or lay the groundwork for emigration.

"The guys work in Moscow, but their wives and families spend most of their time overseas," he said.

That might work for the wealthier people. For many others, the options are fewer and tougher.

According to Yakovleva, there's a joke being shared by many business owners in Moscow:

"What's the best kind of business in Russia?"

"The one you've sold."

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