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5 Stories From Put-Upon Small Business in Moscow

By Alexander Panin

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Becoming mayor in 2010, Sergei Sobyanin began clearing street kiosks, leaving many owners dispossessed. **Vladimir Filonov**

Before Mayor Sergei Sobyanin came to power in 2010, Guram Bolkvadze, a businessman from Georgia, owned 24 kiosks at bus stops across Moscow.

Then one day, he was given just a few hours to get his goods out of the shops before the bulldozers came in and leveled 18 of them.

In an attempt to clear the crowded and chaotic sidewalks of Moscow's main thoroughfares and the areas in front of future transportation hubs, kiosks and street markets, labeled by Sobyanin's City Hall as "dirty," were, as a surgeon deals with body-parts infected by gangrene, amputated.

But while the medical operation saves the patient's life, in the case of kiosks it is killing

a whole sector of the economy.

While Russian officials extoll the virtues of small business as a key driver of growth in the real economy and have repeatedly pledged to support it, in reality the sector has been shriveling as ever more assets are brought under the umbrellas of a handful of ultra-rich, well-connected businessmen.

The economy, meanwhile, is inert — for the next two decades, GDP growth will lag behind the world, struggling to rise above 3 percent per year, according to government forecasts.

"I remember the days when there were 1,200 individual entrepreneurs who were active members of a small business union in Moscow's Northern district alone. Now there are 150, and the vitality they had has vanished," said Ilya Kuznetsov, who owns two flower shops and two bakeries in Moscow.

Small-scale retail tops the list of the most popular businesses that individual entrepreneurs are engaged in. In second place are various services ranging from barber's shops to household repairs.

Despite an array of state programs to support small businesses, and the government's stated goal to increase the number of people employed in the sector by at least 50 percent by 2020, the number of individual entrepreneurs in the country continues to tumble.

Figures vary depending on agency, but over the first 9 months of 2013, the number of individual entrepreneurs has decreased by between 200,000 and 500,000, down from about 4 million registered small businessmen at the beginning of the year.

The main reasons for this, most businessmen say, are excessive bureaucracy, too many invasive government overseers, and the social security tax levy, which was doubled this year. Together, these factors force them either to close their businesses or start working under semi-legal or fully gray economic schemes, paying salaries in envelopes to avoid the social security taxes and decreasing their income tax burden by concealing their real profits.

The result is predictable: "Of 86 million people of working age in Russia, only 48 million are employed in sectors that are transparent to us," said Deputy Prime Minister Olga Golodets in April.

The quote instantly became the target of sarcastic remarks in the Internet and on the streets.

Here are five stories from small business-people trying to make a living in Moscow.

Waiting For Compensation

Kuznetsov is a Muscovite. He has a Ph.D degree, but was forced to go into business more than 20 years ago when that seemed the only way for a scientist to survive and feed his family after the breakup of the Soviet Union.

His previous place of employment was a big open air market near the Petrovsko-Razumovskaya metro station in north Moscow. The market has been demolished and its owners are suing the city authorities for damages.

Kiosk owner Bolkvadze, who met Kuznetsov at a small business conference last month, is also seeking compensation from the city, though the scale of his claim is much smaller than the market's.

"We are still waiting for a refund on our demolished property. The kiosks were set up legally and at our own expense under previous Mayor Yury Luzhkov, whose office signed all the necessary official documents," Bolkvadze said.

He is also hoping to get some of the money he paid upfront to rent the land under the kiosk, but said he was not optimistic.

"If you do not like it here, just go back to Georgia," Kuznetsov told him, smiling.

Though he used the common hateful expression of natives telling all the *ponayehavshiye*, or those who flowed in from former Soviet republics to fill Moscow to the brim, there was no anger in his voice.

Kuznetsov and Bolkvadze are in the same boat. And the vessel, they are both sure, is sinking.

"I have set up various small businesses in my life only to have them demolished. But like a phoenix, I have managed to start anew. This, however, is becoming harder and harder to do," Kuznetsov said.

For example, after flattening the old kiosks, the city authorities are granting permission to set up new, nicer ones, often on the same site. But the upgraded, bigger containers are three to four times more expensive than the old ones were, and no refunds or assistance are on offer to help evicted former kiosk owners get back on their feet.

Negotiating With The Police

Long-time cooperation with the authorities was what kept another kiosk-owner out of trouble. Or, to put it more precisely, left him in controlled trouble.

Rustam S., who owns a small but very profitable kiosk at the beginning of Leningradskoye Shosse in the center of Moscow that has so far avoided the Mayor's demolition drive, told a story of how he managed to keep his business running.

Not wishing to attract unwanted attention from authorities, he asked that his last name not be published.

"Once a year, I have police investigators knocking at my door. What they want is material to file a case on, which they can then solve and look good in reports," Rustam said.

This system, which is called getting *palki*, or tick marks, in police reporting of solved criminal cases, whether they actually occurred or not, is what started this absurd practice.

In the first of these annual trials, in order to provide the grounds for a case on illegal alcohol sales, Rustam bought a box of vodka that had no excise duty stamps. Then he called a police officer in on the deal.

The officer arrived, arrested him with the box of vodka, and a illegal alcohol sale case was opened.

"I went to court, and the ruling was either pay a 36,000 ruble ($1,000) fine or face a suspended sentence," Rustam said.

He chose to pay the fine.

The next year, the situation repeated itself.

This time Rustam bought a carton of Marlboros that had no excise duty stamps, gave it to his pregnant wife, and then called the police again.

Because his wife was not employed and therefore had nothing to lose by having a criminal record, the couple saved on the fine and agreed to a suspended sentence.

When Rustam ran out of relatives, he talked the salesmen into taking turns to be fined for counterfeit alcohol.

"All of this, although painful, kept other overseers away. The only ones I had to deal with were those same police officers I knew. No-one else bothered me," was his resume of his experience of doing business in Moscow.



Vladimir Filonov / MT

A woman considering brightly colored stockings in a Moscow underpass.

Connections Matter

Kuznetsov and Bolkvadze got acquainted at a conference organized for small business by Moscow United Electric Grid Company in November, a gathering designed to show how easy it was for businesses to get an electricity connection.

Businessmen can now allegedly get connected to the grid in just under 150 days, almost twice as fast as a few years ago, provided they need no more than 150 kilowatts of power, which is enough to keep the lights on and refrigerators, heaters and other conventional electric equipment running. Managers at the grid company consider this a great achievement.

It was also one of the headline achievements that facilitated Russia's rise from 111th place to 92nd in this year's Doing Business rating, an international barometer of the ease of commerce released by the World Bank in October, which the government trumpeted as a game-changing event and evidence of new momentum in the country's charge to the top 20 in the rankings.

At the same time that the link-up period has shrunk, the amount of time the electricity provider can spend reviewing a request for a connection has been limited to one month.

In reality, however, success depends on whether there is any spare electricity available nearby.

"The city auctions off land where an entrepreneur may set up a business. But there is no guarantee that the site is connected to electricity or has access to it in the vicinity," Bolkvadze said.

If it does not, as he experienced recently when trying to set up a small shop in the center of Moscow, the businessman can be sure that the answer to a hook-up request from the grid company in exactly one month will be "no," and he will have to make the connection from the closest transformer at his own expense.

This means that, besides paying the costs of putting up the line itself, the businessman would have to hire an electrician and draw up a blueprint for the link-up, which would have to be approved afterwards by the grid company.

And while these procedures add up to create a significant time-lag before a business can start to function, there is no postponement on land rental payments.

Then, when these first obstacles are overcome and the business starts generating revenue, other costs begin to squeeze, and the inspectors come.

The Restaurant Job

Lilya owns a small, clean restaurant outside the Garden Ring in central Moscow. She declined to disclose her last name or the exact whereabouts of her business for fear of possible retaliation from the authorities.

The restaurant is bustling, but the impression that business is going well is a false one. From April this year, the cost of rent per square meter has increased three times over. Next

year, it is expected to triple again.

"It is methodical. The authorities may say they support small business, but at the same time they are quietly killing it," Lilya said.

The price of rent is the same for small-time cafes and chain restaurants. The difference is that a restaurant chain can cover these expenses with its overall profit margin, while a single cafe has to fork out what it can alone.

The result: unable to compete with the chains, small places are forced to close. Lilya is already pessimistic about the future of her restaurant.

In the same category of costly irritants for small businesses are sanitary inspectors.

"Nowadays anyone can choose to become a member of Consumer's Rights Watch, a nongovernmental organization designed to protect consumer rights. Members gain carte blanche to arrive at any food outlet and demand that they be allowed to perform a thorough check. One leaves, then another comes, and you cannot turn them down or be rude to them," Lilya said, wincing as if in pain.

She said there were cases when people came in showing fake IDs demanding to check her business, and she had to call the police to throw them out.

"They obviously wanted a bribe, but do not even think of doing that. If they get you on the hook once, they will come again and again for more."

Blossoming Business

Despite its romantic nature, even the flower business is prone to falling victim to abuse of power.

Ilya Kuznetsov recalled a visit from a fire inspector.

"A young woman officer came in and showed documents confirming she was a fire inspector. I showed her the fire extinguisher and the evacuation plan for my three-by-two-meter shop, but she was still not satisfied," he said.

A new law mandated him to take firefighting courses. He resisted, but found himself six months later taking the course under court order.

"I had to pay six or seven thousand rubles for a half an hour lecture on what to do in the case of a fire, which seemed totally useless to me."

When the lady fire inspector appeared again to check whether he had completed his education, the businessman asked her why was she so harsh on him. She replied that her predecessor had left a note suggesting special scrutiny was needed for his particular flower shop.

"I remembered that a few years back that previous inspector came by and asked for eight sets of flowers — free of charge — for some kind of an event he had to attend," said Kuznetsov. "I

refused because I was low on money at the time. Forcing me to take the course was his revenge."

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