Smirnov, Sergej; Cheberko, Eugeniy

Conference Paper
Current Stage of Entrepreneurship Development in Russia From 2014 Up To 2017: Main Issues and Trends

Provided in Cooperation with:
Governance Research and Development Centre (CIRU), Zagreb


This Version is available at:
http://hdl.handle.net/10419/180001

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Current Stage of Entrepreneurship Development in Russia From 2014 Up To 2017: Main Issues and Trends
Sergej Smirnov, Eugeniy Cheberko
SPbGU, Saint-Petersburg, Russia
sergej-smir@yandex.ru, tceberko19540@yandex.ru

Abstract
During the past four-year period Russian economy was markedly different from previous 2000th and early 2010th. A mix of factors including imposed economic sanctions, a growth of the public sector in the Russian economy, sufficient efforts of government agencies and Central Bank of bringing SME out of the shadow had a deep impact on different elements of the entrepreneurial ecosystem.

The aim of the paper is to analyze the qualitative and quantitative changes, and explore the current trends in Russian entrepreneurship field since 2014 up to 2017. In this study, we have analyzed the latest entrepreneurial statistics and review recent researches on entrepreneurial development in Russia. To gain a more complete picture we have also considered the data of Global Entrepreneurial Monitor (GEM) and Russian entrepreneurial climate index (OPORA). A special examination was given to the informal sector’s reflection in the entrepreneurial statistics. On this issue, we have collected and summarized expert opinions. Having combined information from different sources we came to the finding that despite the current negative institutional environment, despite the range of negative political factors and warning statistics of decline in the number of enterprises, the gradual development of national entrepreneurship continues.
Pending the weakening of negative factors in the mid-term period we forecast that a prompt development of entrepreneurial ecosystem is highly probable in the nearest few years.

Keywords: entrepreneurial climate, statistics of entrepreneurship, mass entrepreneurship in Russia, entrepreneurship and digital transformation

Track: Entrepreneurship

Word count: 5.212

1. Introduction
During the period from 2014 to 2017 Russian economy has been facing considerable economic turbulence. It was the result of several factors combination: the imposition of economic sanctions and reciprocal countersanctions plus substantial decrease in the world oil and energy prices. These negative factors were reinforced by economic stagnancy which was emerged two years earlier since 2012. For the last four years Russian economy is negatively influenced by mix of unfavorable factors and the private sector can’t escape its adverse impact.

In this framework public authorities carry out the policy of hidden economy’s nationalization, which lead to the growth of state regulation in many industries and implies shrinking market opportunities for independent entrepreneurs. At the same time there is a noticeable growth of informal sector of Russian economy, which is poor regulated by the state and lies outside its direct control. Development of digital technologies, which are
extensively being adopted by local entrepreneurs, also restricts possibilities of the state to control the economic processes. As a whole, the current situation seems to be upstable and contradictory due to factors which can support or can inhibit the development of entrepreneurship in the country.

In this paper we will analyse these factors and tendencies during present intricate period. The analyses will be based on available statistic data supported by our interpretation of recent government regulatory measures in the entrepreneurial sphere. In the final part of our paper we will describe possible scenarios of further entrepreneurship development in Russia in mid-term prospective.

2. A new stage of entrepreneurship’s development in Russia

State policy has always strongly influenced on the entrepreneurship’s development in Russia. The period after sanctions’ imposition (2014) markedly differs from the previous ones. There is a de facto serious deterioration of external environment for businesses independence from the state caused by following multidirectional factors:

1. The drop of real monetary incomes of population per capita from October 2014 till May 2017 reached 19.2% [Ovcharova et al, 2016]. Such significant decline in the indicator of real monetary income has led to decrease in payable demand, and most part of negative impact effected mass market industries. Other important economic indexes also demonstrate non-positive trends. In particular, the investment recession has been observed from 2012 till 2016, and was interrupted only in 2017.

2. The substantial increase of interest rates caused by sharp rise of the Russian Bank key rate at the end of 2014. At the height of the crises in 2015 cost of borrowed funds for small and medium businesses could reach 30% per annum [Krylov, Makarova, 2016]. Even at the beginning of 2018 an average credit rate for businesses was 16.7%. The actual level of interest rates in the economy doesn’t allow enterprises to expand basing on borrowed resources.

3. According to FAS report state’s share in economy reached 70% and continues to grow [FAS, 2016]. Several reasons exist which could be used to explain this fact. Firstly, it is the result of actual nationalization of bank and insurance industries. Secondly, it was caused by the market share redistribution from independent companies towards state and semi-state companies. Over the past three years more than 200 bank licenses have been withdrawn and many businesses have lost their money, which were on settlements accounts and on deposits in banks. May be the most notable example of this process is air companies. The bankruptcy of two largest independent airlines "Transavia" and "Vim-avia" has led to increase of “Aeroflot’s” market share. Thirdly, the result was when the most successful independent companies were bought by state-owned companies. As an example, we can remind the transition of “Tatneft” under control of “Rosneft”. Processes of capital concentration continue in Russia mainly because big companies are easier to control and prevent of tax evasion. As a result the government agencies continue the process of economy monopolization.

4. Besides the above listed factors, the development of independent entrepreneurship is effected by traditional for Russia problems of corruption, property protection, judicial system, high bureaucracy of state regulation.

5. However, along with evident deterioration of business climate there are factors which weaken all these problems and their impact in real economy. One of such factor is the growth of shadow sector in Russian economy. Experts estimate its size from 30 to 40% of
GDP. At the same time, there is a tendency for its growth over the past 15 years [Gurvich, Suslina, 2015]. According to the survey [Sociological survey, 2018], more than 44% of the total employed population (over 30 million people) are involved in the non-criminal labor market. The shadow sector is growing due to the labor’s flow from hired employees to the self-employed, worked in the informal sector, unemployed, part-time and unskilled employment without formal registration.

Among the reasons for increase in the informal economy sector are usually called the following: high tax burden on labor, administrative and regulative barriers for business, poor quality of labor market regulation, illegal migration problems, corruption among inspection bodies representatives. There wasn’t any noticeable progress in solving these problems during the past fifteen year. Instead, the state authorities are struggling with cashing out. The sharp decline in the quantity of banks is largely related with this process. The growth of the shadow sector in the economy, coupled with the fight against illegal cash-out, creates the preconditions for an accelerated development of cryptocurrency settlements in the Russian economy. Moreover, local entrepreneurs are actively developing the digital business models as a response to challenge of poor quality of the institutional environment. State regulation in the Internet commerce and rendering of services lags behind, which means that environment for business development in these spheres are more favorable.

3. Recent studies review on Russian entrepreneurship

Despite the fact that the period 2014-2017 is quite different from previous years in terms of doing business, public policy, foreign policy, we did not find in the scientific literature direct research aimed at a comprehensive analysis of the changes that have occurred over the past 4 years. In general, this is due to inattention to the political economic aspects of the Russian entrepreneurship ecosystem among Russian scientists. Although the works of Russian authors often criticize state policy in entrepreneurship, there are no works systematically showing the purposefulness of the restraint policy that aimed on independent entrepreneurial activity in Russia.

Meanwhile, the paper [Chepurenko, 2013] is devoted to an earlier period, in which the author examines the development trends of Russian entrepreneurship until 2011. The paper presents the periodization of Russian entrepreneurship since the early 1990s, presents the main characteristics of Russian entrepreneurship at the end of 2010. In another more recent paper, the same author attempts to analyze and explain differences in the ecosystems of the CEE countries, proposes an original typology of entrepreneurial ecosystems [Chepurenko, 2017]. Despite the fact that the paper is not directly devoted to Russia, the features of the Russian entrepreneurial ecosystem are described in a concise form.

At the same time, during this period large number of works were published on related topics. In particular, several studies are devoted to the impact of economic sanctions on the entrepreneurial climate. The crisis could not but affect the level of entrepreneurial intentions, an increase in the number of necessity-motivated entrepreneurs with the simultaneous withdrawal of some part of large and medium-sized companies from the markets. In the paper of Dmitriev and Starova a general explanation of the negative impact of sanctions on entrepreneurship development is given [Dmitriev, Starova, 2015]. The authors come to the conclusion that economic sanctions slow down economic activity, hamper the development of entrepreneurship in general, and especially hinder innovative entrepreneurship. Also the paper contains information about sharp decrease in quantity of companies which have taking place since August-September 2014. The problem of general reduction of working enterprises in the economy is also analyzed in this work [Zilbershtein, Shklyar, Nevstruev, 2017]. Some
authors insist that this is one of the negative consequences of Central Bank’s actions in late 2014. As a result the devaluation of the national currency occurred, instability arose and the cost of loan capital increased up to 25%-30 % per annum.

The quality problem and sufficiency of official business statistics is addressed in Goncharova’s work. In particular, she notes that a small quantitative growth in the number of organizations is often occurred due to the desire of large companies to optimize tax expenses, also with the help of artificially splitting of business.

The total number of medium-sized enterprises in the Russian Federation for the period from 2008 to 2016 was annually reduced by an average of 0.8%. At the current level of development, small business is mainly able to provide self-employment of the population [Goncharova 2017]. Also in that work noted that during the economic downturn, funding for SME support programs is declining. For the period from 2017 to 2019 the fall was 43%.

Quite noticeable results of sociological research are shown by the authors in the paper [Motyshina, Gemazudinov, 2013]. Surveys show that about 70% of entrepreneurs estimate the conditions for business development as unfavorable, about 90% of respondents answer that policy makers were not interested in strengthening the institute of entrepreneurship as itself. The actual figures of the poll strongly differ from the official position of government agencies, which formally make great efforts for the development of entrepreneurship in the country.

Entrepreneurship in Russia – it is an activity associated with the risk of freedom’s loss. Tens of thousands of criminal cases of economic direction are annually instituted, thousands of entrepreneurs are arrested. According to experts, a significant part of these criminal cases is custom-made and is a consequence of corruption in law enforcement agencies. The study about gender aspects of entrepreneurial activity has never been in the direct focus of researchers, especially since the 2000s when the situation has normalized itself and the share of women entrepreneurs has increased significantly. Growth in the number of entrepreneurs among women in Russia is still showing a positive dynamics, and in 2016 this index reached 48.6%. At the same time, in some works gender aspects of entrepreneurial behavior are still considered. In particular in the paper the authors conclude that there are significant gender differences [Pozdnyakov, Titova, 2014]. The ability to take risks is more significant in the activity of male entrepreneurs, while in the activity of women entrepreneurs - the ability to gain access to people.

The situation is fare worse with the innovative activity among Russian entrepreneurs. The authors of the paper state that the most important problem is the low demand on innovations from the private and public sectors, and also that it is not possible to increase significantly the innovative activity of enterprises, and create a competitive environment that stimulates the innovations [Babkin, Chistyakova, 2014]. According to the indicators of innovative entrepreneurship Russia is far behind the advanced countries. Foreign authors also show interest and quite precisely describe the situation with entrepreneurship in Russia from a more general position. In particular, in the paper the authors review the existing views on the entrepreneurship development in Russia and argue that the entrepreneurship underdevelopment in the country is mostly related to the Soviet legacy and to the general quality of institutions [Aidis, Estrin, Mickiewicz, 2008]. The authors of another paper consider the characteristics of Russian politic-economical system: etatism, deliberализation of the 2000s, and patrimonialism. They also note the increasing role of "siloviki" in the Russian economy [Becker, Vasileva 2017]. These features of the Russian political–economic system are the obstacles for the development of independent business in the country. Both Russian
and foreign authors are concerned about the reasons for the lack of dynamics in the entrepreneurship. Despite the favorable macroeconomic situation during the 18 years of Putin’s era Russian entrepreneurship has not reached the level of the developed countries.

Special attention of researchers is drawn to the analysis of factors that determine entrepreneurial intentions. In particular, the paper empirically studies the problem of transition from aspirations to the actual establishment of a new business based on a sample made up of Russian students [Bogatyreva, Shirokova, 2017]. Studying of students is a promising direction for Russia, since it significantly reflects the future generation of entrepreneurs, which will create enterprises already in the new digital era. The work focuses on the factors that influence such a transition. The authors note that many factors influence this transition, among which the factor of involvement of the student family in entrepreneurial activity is of the greatest interest.

Another empirical study reveals the subject of entrepreneurial intentions in Russia more broadly [Aleksandrova, Verhovskaya, 2015]. Among the results of the study is a portrait of the person who have intentions. It is more likely that it is a full-time working man aged 18 to 34 living in a large city (over 1 million people). Also, the authors state that the variation in the values of the entrepreneurial intent index weakly correlates with the economic situation in the country. However in the mentioned works, also as in other works on this problem the specifics of the current post-sanction period of entrepreneurial intentions is not reflected [Petrovskaya, Zaverskiy, Kiseleva, 2017].

Another topic which is closely connected with the actual condition of entrepreneurship in Russia is the studies on shadow entrepreneurship. This topic is becoming more relevant as the crisis in the Russian economy deepens. An increasing number of SME’s are forced to go in the shadow sector of economy in order to maintain their businesses. Actually the Russian economy has a significant growth potential, which lies in the shadow sector [Goncharova, 2017]. The paper provides an overview of known facts about the share of shadow small entrepreneurship. According to the Ombudsman for the protection of entrepreneurs’ rights, about 22 million Russians are the unregistered entrepreneurs who do not pay taxes and social contributions.

The analysis of the external environment for the small business development is often based on the results of international (GEM, Doing Business) and Russian projects on monitoring entrepreneurship and the business environment [OPORA, 2018, HSE index 2018]. Despite the significant progress on the Doing Business index, according to which Russia rose from 124 places in 2011 to 40 in 2016, the actual business conditions deteriorated and surveys indicate the crisis stage of development. GEM data for the period 2007-2016 also do not show a close relationship between business intentions and the economic situation in Russia [GEM, 2018]. GEM data, built on polls, more adequately reflect the ongoing processes in Russian entrepreneurship, although they show a contradictory picture in general.
On the one hand, during the time of observation (since 2002), the indicators of entrepreneurial activity have significantly increased.

An exception is the indicator of "entrepreneurial intentions". This indicator’s value is still at an abnormally low level, and according to this indicator, Russia is consistently in the last places among the surveyed countries. The interpretation of this indicator requires special attention because it can clarify the reasons for the insufficient entrepreneurship development. According to the indicators of early entrepreneurial activity and the level of the established entrepreneurs’ activity, Russia is also at the end of the list without rising above the 10th place from the end of the list. A positive characteristic is the low degree of gender inequality that is traditionally typical for Russian entrepreneurship. Among the regular Russian studies, the RSBI Index, which monitors the business activity of small and medium-sized businesses on a quarterly basis. The index shows a quarterly change in the business activity of small and medium-sized businesses. This index recorded a significant decline in business activity in 2015 -2016, the data of subsequent reports shows a slight increase in optimism among SMEs, caused by some sales and investments increase.

While 21% of the interviewed entrepreneurs in 3 square of 2017 has increased investments in the business due to their own profits, 8% of them announced to reduce it. In the report for the third quarter of 2017, there are data that banks refuse to issue loans to representatives of SME’s in 39% of cases. Much higher availability of loans is for medium-sized businesses, the reject rate is only 14%. The index of economic sentiment (the HSE Index), which is compiled on the basis of surveys of about 19,000 enterprises and organizations, in general shows stagnation. The latest available report shows a slight increase of 0.4 points relative to the previous quarter. Despite the gradual recovery, reported by statistics of Federal State Statistics Service (FSSS), the Russian economy remains in the zone of an unfavorable business climate and operates under the scenario of "positive stagnation"[Index of economic sentiment, 2017].

4. Entrepreneurial statistics analyses

Examine available entrepreneurial statistics provided by Federal State Statistics Service (FSSS). In the period 2014-2016 there is a noticeable decrease in the number of legal entities [FSSS, 2018] It should be taken into account that FSSS statistic data on overall quantity of legal entities do not fully reflect the entrepreneurial dynamics. Some of the included into statistics companies are actually technical units created for legal and tax risks optimization. In particular, some medium-sized and even large entities with the goal of avoiding social payments (30% of the wage fund) are the initiators of the creation of a large number of pretended individual entrepreneurs, in which the "entrepreneurs" are really hired employees. It is difficult to assess the real scale of this phenomena, we have not found any data or even experts estimates on it. Some of the companies (mainly in the form of LLCs) are also technical and do not conduct independent business. On the other hand, some of the actual individual entrepreneurs are not officially registered and act as self-employed. This is especially common in agriculture, where cash payments are typical.

At the same time, the total actual number of individual entrepreneurs and legal entities can act as an indicative metric of the entrepreneurship development. Let's consider dynamics of available indicators for 2014-2016. As can be seen from the graph below, the number of individual entrepreneurs smoothly decreased during the period from 2010 till 2016.
The graph shows that there has been a steady decline in the number of individual entrepreneurs. It is caused by a large number of factors, among which there is a withdrawal from the market of de facto not working individual entrepreneurs and ones that have been used in tax evasion schemes. However, the overall decrease in the number of IPs is accompanied by an unfavorable demographic of legal entities. The graph presents data on the establishment and liquidation of legal entities over the past 13 years. The graph shows that since 2006 the number of newly created organizations is not growing, and during crisis - is noticeably falling (2008-2009, 2014-2015). It is interesting to note that 2005-2006 is the period of the beginning of the economy nationalization and the launching of the state corporations coincides with the break in the trend.

Figure 2: Business demography 2005-2017 [FSSS 2018]

If we consider the dynamics of excess of the enterprises birth rate over their liquidation, we will see the following revealing graph.
This chart shows a steady reduction tendency in number of legal entities. Figures of business demographics are indirectly confirmed by the statistics of bankruptcies, which is analyzed in the report of the Center for Macroeconomic Analysis and Short-Term Forecasting. In the third quarter of 2017 the number of bankruptcies in the economy again increased by 3.0% compared to the previous quarter and by 12.4% - against the third quarter 2016. The level of bankruptcies reached by the end of the third quarter even exceeded the peak value of March 2015, and also only 2.1% below the historic maximum (October 2009) [Rybalka, Salnikov, 2017]. The existing statistics figures are not supported by GEM data, which in 2016 saw a significant increase in the involvement rate of creation and management of new companies. According to GEM 2016 the number of owner-managers of an established business has also grown in Russia and it reached 5.3% of the adult population, this is also the highest value of this indicator for the entire period of the study in Russia. Despite the progress made in the doing business index and the positive data of the GEM 2016, the period 2014-2016 in a whole can not be considered as favorable for independent entrepreneurship. Practically there is a growing tension in all spheres of the external and internal environment that prevents the development of business and creation of new ones. The hostile state policy, the increased tax burden (especially for individual entrepreneurs), regulatory measures that bring the cash desks under automatic fiscal control, measures of struggle with a shadow sector, growth of transport industry’s fees – all this promote further monopolization of the Russian economy. At the same time, irreversible changes have not yet occurred, the shadow non-criminal sector has not ceased to exist, the private independent from the state sector still occupies a significant share of the economy. In some regions of the country the development of private entrepreneurship continues despite the unfavorable situation. Based on the current situation we will try to forecast further scenarios for the development of Russian business. According to our opinion the following development scenarios are possible: an inertial scenario, further tightening of requirements and scenario of liberalization and deregulation.  

**Inertia scenario**

Inertia scenario supposes entangled and contradictory signals and actions of the elites and government. The main instrument of state policy is still the nationalized banking sector.
The scenario means further measures aimed on restricting of cash settlements in the economy, increased pressure on shadow sector and growth of actual tax burden on private enterprises. It is possible to predict further expansion of public sector in the economy that will be accompanied by a private sector share reduction and hidden unemployment rise. Gradual unemployment rise worsens the social and economic situation. The stagnant private sector is looking for opportunities to optimize processes based on digital technologies.

New form of regulated economy

This scenario supposes further nationalization and tougher regulation of the economy. The actual nationalization of the banking sector allows to take under control the most economic activity. Already now economical elites and siloviki (officials of law-enforcement agencies) are finding a new version of regulated form of economy which will be independent from necessity of entrepreneurship. This can be facilitated by the means of contemporary digital technologies which generally support the process of markets monopolization. Market expansion of existing state companies and creation of new large state and semi state companies allow to take under control most attractive industries and market segments. Increasing complexity and share reduction of cash settlements can lead to a reduction in the shadow economy sector, bankruptcy of a large number of small shadow enterprises (internet shops, educational projects, social services, construction and repair). In these force majeure conditions crypto-currencies will receive the accelerated development, as an alternative to the state banking system. It is possible to predict the emergence of internet platforms for financial and informational support of the enterprises in shadow sector that would not be controlled by the state. In general, the scenario means a growing backlog from the leading countries, the archaization of economic and further social deterioration.

Denationalization and deregulation scenario

If political economic policy in the country changes - the deregulation program, actual tax burden reduction, weaken of pressure on the shadow economy, creation incentives for small businesses for voluntary exit from the shadow will be essential. This scenario is unlikely to arise until the current political-economic environment remains the same. During the period 2014-2017 the existing trends of government policy became ever-more obvious and the priorities of state capitalism become have been made clearly formulated. But this period is transitional in essence. In the nearest months it will become clear which scenario will actually be implemented. The inertial scenario is not sustainable and will evolve either towards a new regulated economy or towards liberalization.

5. Conclusion

The entrepreneurship development in Russia is a state-regulated process, the priorities and instruments of which are originated from the existing political economic system. The conduction of sanctions and then the anti-sanction regime, along with following currency and banking crises, have significantly influenced the state policy in the field of entrepreneurship. Among its main goals - is limitation of business community influence on the political and economic institutions, narrowing of space for private and independent from the state entrepreneurship, nationalization of the most attractive industries, increasing of tax burden, a significant reduction of the shadow economy, and further strengthening regulation of private business. A number of large and strategically attractive industries, including banking and insurance, air transportation and construction are experiencing a period of open or hidden nationalization.
Over the last four years we can declare an actual reduction in the number of operating enterprises. The process of companies’ liquidation was especially accelerated in the second half of 2016 and 2017. Despite the active pressure measures on the informal sector of the economy, there is a steady tendency of decreasing the number of employees in the economy, increasing in hidden unemployment and the steady growth of self-employed. About 40% of citizens receive partly or wholly shadow tax-free incomes. The rapid development of digital technologies and elements of the peer-to-peer economy to some extent mitigates the consequences of state actions. However, not all data indicate negative trends. The business environment monitoring indexes do not show a significant deterioration, moreover Russia has a significantly progress in the Doing Business index. The analyzed period is essentially a transitional period, in the nearest months it will become clear which of the scenarios will be implemented in the future: inertial, a new regulated economy or liberalization.

References


Chepurenko A. 2013. The Development of Entrepreneurship in Russia: Main Trends and the Status Quo. Social Stratification of the BRIC Countries: Change and Perspective *Handbook On Social Stratification In The Bric Countries: Change And Perspective.*


Krylov A. A., Makarova V. A. 2016. Osnovnye instrumenty gosudarstvennogo regulirovaniya processa vzaimodejstviya real'nogo i finansovogo sektorov ehkonomiki rossijskoj federacii. Finansy i kredit, 6, 37–51


Sociological survey "Dynamics of shadow employment"
