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The Development of Small Entrepreneurship in Russia

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Abstract

The paper summarises the findings of field research projects on emerging Russian entrepreneurship carried out by the author over a six-year period. The main stages of small and medium enterprise (SME) formation in Russia since the late 1980s are considered. Then, the dynamics of the SME sector are analysed, using available official statistics. Major market entry problems are reviewed, followed by an analysis of the institutional system for the development and support of SMEs. Specific issues of SME involvement in the informal/shadow economy are reviewed. Finally, the most recent trends in small entrepreneurship development are considered.

The study offers answers to the following challenging questions: How has the profile of small entrepreneurship changed within the last decade? Why did expansion of the SME sector stop in the mid-1990s after dramatic increases during the early years of the decade? Are the administrative and economic barriers to market entry becoming stronger or weaker for small entrepreneurs? What are the outcomes of the policies and measures intended to build up a system of institutional support for SMEs? To what extent are small enterprises involved in the informal economy? How did the August 1998 financial crisis affect the SME sector? Both quantitative and qualitative data are used for tackling these issues on a national and regional level, and particular emphasis is given to the Tomsk region.

Keywords: entrepreneurship, private sector, SME, transition

JEL classification: M13, O17, P5, P52, P31

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1 Introductory remarks

Small and medium enterprises (SMEs) have developed into a relatively important force in the Russian economy and have become the object of special policy measures. At the federal level and in most of the regions a system of state and non-state support institutions for entrepreneurs has been created. Still, it is widely acknowledged that the development of the SME sector is facing serious obstacles and that the support policies are not very effective.

This paper summarises some of the findings of six years of research on emerging Russian entrepreneurship, based on empirical data collected in the course of surveys of entrepreneurs and managers (in this study we do not distinguish between entrepreneurs and managers). A detailed description of the data sources is provided in Appendices 2 and 3. Since a regional dimension is very important for SME policies, we draw on the experience of the Tomsk region, where we conducted detailed studies in 1997–9.

The paper has six parts. We begin by considering the main stages of the SME formation in Russia since the late 1980s. In the second part we analyse the dynamics of the SME sector, using available official statistics. Market-entry problems are reviewed in the third section, followed by analysis of the institutional system for support and development of SMEs. Specific issues of SME involvement in the informal/shadow economy are treated in the fifth part. Finally, we consider the most recent trends in the development of small entrepreneurship.

Each of the six parts is structured around a challenging problem which together make up the main points of concern in this study. How has the profile of the small entrepreneurship changed within the last decade? Why did the expansion of the SME sector stop in the mid-1990s after increasing dramatically during the early years of the decade? Are the administrative and economic barriers of market entry becoming higher or lower for small entrepreneurs? What are the outcomes of the policies and measures intended to build up a system of institutional support for SMEs? To what extent are small enterprises involved in the informal economy? What was the impact of the August 1998 financial crisis on the SME sector?

2 Main stages of SME formation in Russia

The small enterprise sector never played a decisive role in the developed Soviet economy. On the contrary, progressive concentration and centralization of capital and labour resources to large-scale enterprises were the norm. Regulation of the economy was dominated by the paradigm ‘large is beautiful’. In the mid-1980s there were fewer than 100,000 in Russia. Small entrepreneurship started to spread only in the late 1980s and its fast development was predominantly linked to the rapid expansion of the non-state economy.

From the viewpoints of macroeconomic policy, legislation and institutional changes, the small enterprise sector has struggled through at least four distinct stages within the last decade.

2.1 The first stage (1988–91)

Formally, the 1986 USSR Law on ‘Individual Labour Activity’ was the first legislative act encouraging new small entrepreneurship. Strong legal support was then provided by the 1988 Law on ‘Cooperation in the USSR’, which is the conventional starting point for the new development of entrepreneurship in Russia.

According to state statistics, the year following the 1988 Law the number of cooperative enterprises increased five-fold, employment eight-fold, and output thirteen-fold. A diversity of non-state enterprises developed under the legal status of cooperatives, accompanied by arrangements to lease state-run enterprises and joint ventures.

During the first stage, reform of the legislative system primarily concerned liberalization, the purpose of which was to allow the creation of new business activities (including SMEs). By 1991, all forms of non-state activity, including individual private enterprises and closed joint-stock companies, had gained legal status. At the time, small enterprises were not distinguished from medium and large-scale entities in either legal or statistical terms. Except for the first unions of cooperatives no special institutional SME-support system was introduced.

Economic conditions favoured enterprise creation. The state-run sectors had left many niches in the production and services markets, and it was possible to obtain bank loans at reasonable terms. Imports of competing goods were limited. Because of low wages in the large state-run enterprises it was possible to attract the most skilled workers to the newly founded SMEs. SMEs were expanding in almost ‘virgin areas’ of the emerging market, focusing largely on the production of consumer goods, housing construction, communal services and catering.

The characteristics of the first stage were:

- i) political liberalization and introduction of the new legislation for the non-state sector;
- ii) spontaneous privatization;
- iii) accelerated growth of the SME sector; and
- iv) a virtual absence of institutional support.

2.2 The second stage (1992–4)

The initial liberalizing legislative reform measures were largely completed in 1992. The number of cooperative enterprises declined, and many adopted other organizational forms. Privately owned enterprises started to flourish.

Implementation of the government privatization programme started in 1992. Under this programme, small retailing, catering and consumer services enterprises owned by municipal authorities became the focus of mandatory privatization through auctions and commercial tenders. The majority of these enterprises, about 100,000 SMEs, were privatized by March 1994. Assets were largely transferred into the hands of ‘insiders’. Workers’ collectives won more than two-thirds of the auctions and tenders. Enterprise liquidation before sell-out occurred in less than 10 per cent of the cases (Lieberman and Rahuja 1995: 23–5). At that time SMEs remained the principal channel for converting

state-owned resources into private holdings, since privatization of large-scale enterprises was only beginning.

Since 1991 small enterprises have become the distinct policy target for legal regulation. First measures were introduced in the form of tax privileges, which contributed to a boom of small firms. The first systematic attempts to elaborate SME-support programmes and target legislation were made at the federal and regional levels. Many of these attempts failed, and no support system for SMEs was created. However, by the end of this phase, a number of SME-support foundations and associations had developed. The Russian Federation State Committee on Statistics (Goskomstat) began to classify SMEs as a distinct category for statistical purposes.

The second stage was characterized by a fast increase in the number of small enterprises in the economy. The most remarkable growth period was in 1992–3, after which the increase of SMEs decelerated and finally stopped by the end of the period in 1994. It is remarkable that the SME expansion was taking place at the same time that macroeconomic conditions deteriorated. Monetarist policies initiated by the new federal government at the beginning of 1992 imposed hard budget restrictions and limited access to credit resources, and were accompanied by heavy burdens of profit tax, VAT and other taxes. This led to inter-enterprise payment arrears, production curtailment and, in particular, investment decline.

Under these circumstances, an increasing number of SMEs chose to place at least some of their resources into trade and intermediary activities, which required less start-up capital and provided faster returns. This stage was marked by the emergence of commercial banks, commodity exchanges and stock markets. Easy fortunes were made from wholesale trade, especially in transactions involving foreign goods, and currency exchange dealings. There were subsequent waves of activity involving profitable imports of computers, food and alcohol, electronics and other consumer goods.

The second stage was defined by:

- i) economic liberalization at the macro-level;
- ii) official privatization of large enterprises and mandatory privatization of SMEs;
- iii) deceleration of growth of the SME sector; and
- iv) tax privileges for SMEs and indifference to SME institutional support.

2.3 The third stage (1995–7)

During this era, small entrepreneurship had become the target of a complex series of legislative and regulatory measures. This was followed by intensive efforts at both federal and regional levels to build institutions to support the SMEs. International donors initiated many important technical and financial assistance programmes, which are considered later in more detail.

Parallel with this institutional creativity, a relatively sharp decline in the growth of small enterprise numbers occurred since 1994. The SME sector stabilized in size and, apart from some year-to-year fluctuations, has not changed much up to the present time.

Privatization of the SME sector came almost to a stop because most major areas had already been fulfilled. By the time the official large-scale privatization programme was initiated by federal authorities, the SME sector was losing much of its economic importance (see part three of this paper). The centralization of economic assets was progressing and the leading firms were establishing oligopoly positions and dividing the main markets. Markets became more 'regulated' and market-entry costs increased.

Rapid accumulation of capital was prominent during this period, as an increasing portion of resources was directed into various forms of financial speculation with stocks and foreign currencies, state and non-state securities, and short-term high interest loans. Production activities, with the exception of those that utilized existing facilities and already had stable market niches, were considered unprofitable.

Two principal groups of small businesses became apparent. On the one hand, there was a group of intermediaries 'servicing' large enterprises by trading their goods, arranging their mutual settlements (*vzaimozachety*) and chains of barter transactions. Informal linkages with top managers of large firms and officials of the regional and municipal authorities gave these intermediaries monopoly positions, high profits and concealment from tax authorities. On the other hand, there were the small independent businesses producing goods and services for local needs at the grassroots level. These were rather unprofitable businesses, vulnerable to market fluctuations and bureaucratic extortion. There were also individuals who started businesses without establishing their operational legality. Small-scale shuttle traders (*chelnoki*), delivering scarce commodities from abroad are a good example.

During this period some signs of economic stabilization appeared, including decreasing inflation and an increase in the real disposable income. There was a widely shared impression that a stable system of economic and financial institutions had already been built up.

This stage was characterized by:

- i) relative economic stabilization;
- ii) a decline of small-scale privatization;
- iii) stabilization of the number of firms operating in the SME sector; and
- iv) a boom in legislative initiatives and institution-building in the field of SME at the federal and regional levels.

2.4 The fourth stage (1998–)

The belief that economic stabilization had been achieved collapsed in August 1998 with the failure of the 'financial pyramid' that had been built on the state short-term securities. The crisis introduced many difficulties for the SME sector, while support for SME policy declined at the same time. We return to this issue in more detail in the final part of this paper.

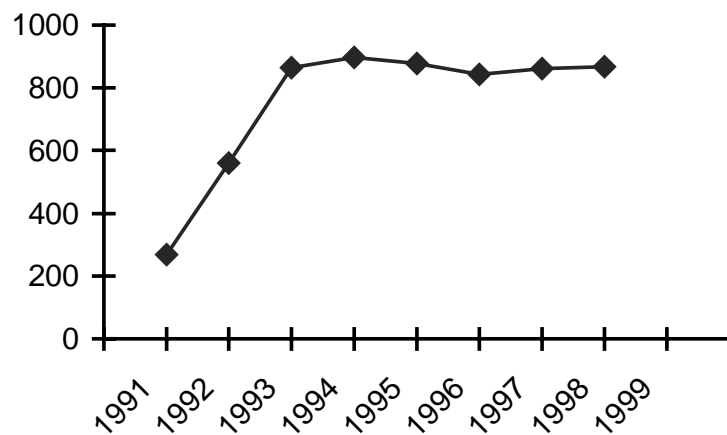
Thus, the fourth stage is marked with:

- i) economic and financial crisis;
- ii) the re-division of SMEs markets; and
- iii) the curtailment of SME-support programmes.

3 Breakdown of the SME growth rates

According to the official data presented in Figure 1, the number of SMEs grew by 1.5–2 times per year during 1992–3, but then levelled off at roughly 900,000, with small fluctuations in the ensuing years. As of 1 January 1999, there were 868,000 SMEs in Russia, employing 6.2 million full-time and 1.2 million part-time workers. There are no comparable data on the period before 1991.¹

Figure 1 Number of small enterprises in Russia, 1991–9 ('000)



Source: Goskomstat (1996: 13; 1999: 14).

What accounts for the slack in growth rates in 1994, after the fast increase of the SME sector in prior years? How should the subsequent stabilization of SME numbers be explained?

Experts have suggested many hypotheses. Let us start with several explanations, which, in our opinion, are not valid.

- i) It is incorrect to assume that the number of SMEs had reached the 'point of saturation' from the standpoint of economic efficiency. In addition to the fact that such a 'saturation point' is not easily defined in principle, the existing number of SMEs in Russia remains relatively small by international standards. For instance the much smaller economy of Poland has 2 million SMEs.

¹ For an analysis of discrepancies in the official statistics of the Russian SME sector, see OECD (1998: 134–7) and Radaev (1998a: 317).

- ii) The crisis of the Russian SME sector is often explained by the country's unfavourable macroeconomic situation and government monetarist policy. While it is true that financial resources are still severely limited for SMEs, such unfavourable conditions did not prevent the SME sector from its rapid expansion in 1992–3. In addition, the decline in SME growth was clearly observed not only in production and construction but also in trade and services.
- iii) The lack of institutional support and infrastructural services to meet SME needs is also not a very strong argument. Paradoxically the most intensive increase in the sector occurred when this institutional system was virtually absent and sector development stopped when active SME policy was being introduced.

We would like to offer several more credible complementary explanations for the breakdown of the SME sector growth rates, namely:

- i) The rapid growth rate at the beginning must be seen in relation to the low level from which it began.
- ii) Initial growth resulted from the fact that a wide range of opportunities had opened up. Once the initial division of the markets was completed, economic barriers to entry developed, limiting opportunities for new start-ups.
- iii) SMEs lost their exclusive position. Different 'rules of the economic game' were established during the first stages of privatization to favour small enterprises, giving them more liberal price and wage formation rights as well as tax privileges while at the same time weakening administrative control over their activities. Further liberalization since 1992 has levelled price and income opportunities for establishments of varying sizes. Liberal government policy, did not particularly favour small businesses, aiming to create equal opportunities for all.

The privileges enjoyed by the SMEs at that time became insufficient to sustain development.

- iv) In the initial stages, small-scale privatization and start-ups of newly established firms remained the principal channel for the conversion of state-owned resources into private holdings. By the time of the official large-scale privatization programme the SME sector had lost much of its importance. Apart from those used for financial speculation, the most flexible SME economic resources were withdrawn from the sector for reallocation to the large joint-stock companies. This, over time, led to a decline in the number of start-ups.
- v) During the first reform stages, small enterprises had many opportunities to attract the most skilled workers and professionals from the large state-run establishments. This became more difficult after liberalization because the existing wage gap between large and small enterprises had diminished.
- vi) Official statistics recognise only legally certificated small enterprises. At the same time at the grassroots level, there has been a progressive re-organization, as SMEs take on the form of 'individual entrepreneur without legal entity', who are not registered as 'enterprises'. This formal conversion allows a simplification of the tax system and provides certain tax privileges for individual entrepreneurs. As the 'individual entrepreneur' is not officially a

statistical category a large part of the SME sector was—and still is—concealed from official statistics.

We emphasise the last point, which may be the main reason for the drop in SME growth rates. For example, according to Goskomstat data the number of small enterprises in Moscow at the beginning of 1999 was 175,000 and seems to be decreasing, while the number of registered individual entrepreneurs has reached 195,000 and seems to be increasing (Moscow Register Chamber, unpublished report). Based on regional tax inspection data in the Tomsk region in 1998, the ratio between individual entrepreneurs and small enterprises was 4.2 : 1. There is evidence to indicate that an increasing number of these small enterprises now exist in individual entrepreneur form, and according to an educated guess, there were 3.5 million individual entrepreneurs in 1999. However, the state tax inspection offices, as owners of the relevant data, are reluctant to share these with anyone.

The problem of the SME sector dynamics is closely interrelated with the changing functions of this sector over the period. The following summarises these trends:

- Initially, major parts of small firms were established to take over the resources of larger state-owned enterprises. Today the small business sector is more aimed at providing services, including mediating and subcontracting activities, to large establishments.
- Originally, the main function of SMEs was primarily to accumulate private capital. Today the new non-state SME sector focuses largely on obtaining a competitive advantage through tax evasion and concealment of profits.
- At the initial stage small businesses expanded to fill the market void with goods and services in scarce supply. Today success is no longer based on scarcity, but rather on flexibility and lower transaction costs.
- At the beginning, small businesses were absorbing the most skilled and energetic managers and workers who were looking for new opportunities, albeit those with high political and economic risks. Today small business increasingly serves to defuse labour market tensions for vulnerable groups.

It is important to take these changes in the profile of the small business into account in order to better understand the prospects of the SME sector.

4 Confronting the barriers

We address the problem of economic and administrative barriers for small entrepreneurs in this section. What are the most important needs of small entrepreneurs nowadays? The results of three surveys conducted within the last decade offer some answers.²

² These included the following:

- 1993 survey of Moscow entrepreneurs (see Appendix 2 for details)
- 1996 nation-wide survey of Russian small entrepreneurs (see Appendix 2 for details)
- 1998 survey of small enterprises in four regions of Russia (Russian Independent Institute for Social and Ethnic Studies).

Table 1 shows how the different groups of respondents rank the most important problems facing SMEs. There are many similarities in the responses despite the different survey instruments used.

There is no great difference in how the managers of small- and large-scale enterprises formulate the problems they face. Small enterprises confront difficulties similar to those of the larger firms, but which may be more damaging and harder for the SMEs to accept. There are also some differences. Small entrepreneurs complain more about high taxation, lack of financial resources and difficulties with the registration and licensing of their activities, while medium- and large-enterprise managers point more frequently to the gaps in legislation and property issues (Radaev 1997b: 160).

Table 1 Small entrepreneurs rank the importance of problems facing them in 1993, 1996 and 1998

	1993 ^a	1996 ^a	1998 ^b
Taxation	1	1	1
Legislation, property rights	2	4	2
Finance and credit	4	3	4
Bureaucracy	3	2	7
Access to equipment and premises	5	5	6
Business security ^c	8	6	3
Business information	6	7	5
Business training	7	8	8

Sources: ^a Unpublished sources; ^b Chepurenko (1998: 164).

Note: ^c The fluctuations of the rating reported for business security are largely caused by differences in survey methods. The question was confined to 'racketeering' in 1993, extended to include 'business security' in 1996 and further expanded to include 'business and private security' in 1998.

4.1 Tax burden

Experts report that if all taxes and payments are included, the taxation burden in many cases absorbs more than 100 per cent of profits. The continuous instability and complexity of the taxation system are frequently mentioned as the major obstacles to SMEs development.

Revisions of the tax system are not able to resolve the problems. For example, a new law on single tax on imputed income was introduced in many regions in 1999. Payment rates are based on the assessment of physical assets with numerous correction coefficients. Instead of simplifying the system, it created a new level of sophistication and provokes further instability, thus encouraging further bureaucratic barriers and corruption.

4.2 Legislative gaps

The gaps in the legislative and regulatory base are considered by the entrepreneurs as the most demanding issues. They are caused by the following reasons:

- Additional legislation is required because of the insufficient regulatory base. At the same time many draft laws are not adopted for years, as in the case with laws on registration, leasing, and mutual credit associations;
- Many adopted laws require amendments and corrections from the very start (e.g., the 1998 law on single tax and the 1998 law on licensing);
- Some of the adopted laws contradict each other or the civil and tax codes;
- The absence of mechanisms for implementing the law presents an even bigger problem. Some adopted laws have indirect action (*nepryamogo deistviya*) and need therefore additional documentation to become effective (for example, the 1995 basic SME Support Law);
- Apart from legal enforcement, mechanisms for the implementation of legislation are often lacking. A prominent example of the bureaucratic way of thinking is the provision in the 1995 SME Support Law that urges the government to allocate no less than 15 per cent of state orders (*zakazi*) to small enterprises. It is no surprise that the mechanism for this resource allocation has not been created yet.

It is important to raise the effectiveness of the legislative base by adopting legislative acts that are complete and can be applied directly as regulatory instruments.

4.3 Limited access to finance

The lack of capital is a severe problem for start-ups, especially in the case of small enterprises involved in production. Credit conditions are not favourable for SMEs, and interest rates are not affordable for any medium- or long-term production investment. Banks are reluctant to lend to SMEs that lack a credit history, a guarantee (*zalog*) or a professional business plan. Loans are provided predominantly for current working capital and to enterprises dealing with trade and mediating activities. Arrangements for equipment leasing are only in the planning stages.

Consequently, the majority of small entrepreneurs have to rely on personal savings to set up their enterprises. According to a 1997 Goskomstat survey of 4,339 small enterprises in 14 regions of Russia, one-third refrained from applying for any external financial support. Only 8.6 per cent received bank loans and 1.5 per cent received state financial support. After the start-up phase, 20 per cent of small entrepreneurs applied for financial support from the state authorities, but only 4 per cent of the applicants were successful. It is noteworthy that state support is more often provided to privatized SMEs than to the newly established ones because of links existing between state administration and enterprise managers. Commercial bank loans were applied for by one-third of the SME managers; only 15 per cent managed to obtain them (State Committee on Statistics 1997).

The increasing insolvency of customers and periodic resurgence of payment arrears compound financial tensions. Expanding barter exchange, currently constituting more than 50 per cent of all transactions, is one form of adaptation.

4.4 Administrative barriers

Administrative barriers and the transaction costs caused by these barriers constitute yet another challenging problem. Regulatory documents, which in normal circumstances are issued periodically, do not point to concrete solutions. The special decree of the Russian Federation President on 'Measures for Abolishing Administrative Barriers for the Development of Entrepreneurship', issued on 29 June 1998, is a good example. And the situation is getting even worse for the entrepreneur.

Officials conduct numerous and spontaneous 'controlling surveys' (*proverka*) that can destroy a prosperous firm. Bribery is a widespread phenomenon today: according to our data, 65 per cent of small entrepreneurs face bureaucratic extortion; 21 per cent confront it frequently (Radaev 1998b).

Although enterprise registration is not a big problem at present, the licensing of activities is more problematic. In order to get a license from the State Licensing Chamber, one has to submit numerous documents from a dozen institutions: fire surveillance, sanitary surveillance, standardization committee, state statistics committee, architectural department, communal service, and many specialized branches responsible for cognate economic activity.

The complaints of many small entrepreneurs are not concerned so much with the policy of regional and local administrations, as with the fact that several dozen federal state ministries and committees still have branch offices in all regions of Russia. These branches are supposed to pursue an integral state policy and exercise control over their area (overseeing, monitoring and surveillance). They also have the prerogative to license and certify certain activities.

Federal authorities often do not have sufficient funds to maintain these regional departments, but are also reluctant to close them down. Instead, they are provided with a certain 'freedom' to function on their own. The worst elements of a bureaucratic system are caused by autonomous state institutions operating on a self-accounting basis, since they develop many administrative barriers and start to live off the rent.

Establishing new regulations and 'coordinating' their activities for the mutual enforcement of their rights and privileges, expands the list of entrepreneur requirements—to obtain permission from one controlling agency, permissions must be secured from other agencies as well, and vice versa. These agencies, as the state monopolists in their specific areas, feel secure and price their 'services' rather arbitrarily, presenting a direct route to bribes.

The long awaited federal law on 'Licensing of Certain Activities' adopted by the State Duma on 16 September 1998 did not facilitate matters. The list of activities subject to licensing was not reduced; on the contrary it became even longer. Furthermore, the Law contains elements that can cause serious controversy. For example, it specifies the necessary documents for licensing, and puts a cap on licensing fees. However, at the

same time, it includes a clause which leaves the door open for any sort of bureaucratic voluntarism, stating that ‘Depending on the specific character of the activity, submission of other documents proving that the applicant is meeting the licensing requirements can be introduced in the special provisions on licensing of certain activity’.

The State Committee (now Ministry) for Anti-Monopoly Policy has collected a lot of embarrassing facts proving that regional and local authorities are enforcing barriers which are prohibited within the federal law (Tsyganov 1997).

4.5 Business security

The use of force and criminal intimidation developed into a painful issue in Russian business life. Relationships today are ‘more civilized’ than during the ‘wild market’ era of the first half of the 1990s. This means that:

- i) the use of open violence in business relations has diminished;
- ii) rival groups are sharing market segments, and
- iii) the majority of conflicts are solved through the efforts of security agencies.

According to our data, although 43 per cent of SME managers complain that they have become subjects for coercion or threats in their own field of activity, only 3 per cent report that this is frequent (Radaev 1998b: 173–4).

The decline in open violence does not necessarily mean that criminalization in business is disappearing; it is changing instead. Violence is being routinized and is becoming a ‘normal’ element of economic relations.

4.6 Reliability of business partners

Infringement of business contracts is another widespread negative phenomenon. According to our 1997–8 survey data, 80 per cent of entrepreneurs have personal experience of agreement violations; 30 per cent face it frequently. In terms of their contractual relations with each other and with larger establishments, the small businesses in our sample—especially when faced with the probability of contract infringement—are split in two distinct groups. Let us review each in turn. For detailed quantitative data and comparisons with large and medium-sized enterprises, see Appendix 4.

The first group, comprising about 40 per cent of small entrepreneurs, has serious difficulties in their contractual relations. It is largely made up of the new non-state businesses (94 per cent). Wholesale trade and retailing, catering and consumer services, finance and market services are main areas of economic activity here. Nearly all of these entrepreneurs (98 per cent) consider infringement of business contracts to be frequent in Russia, and as many as 70 per cent are faced with it often. There is a high level of risk and uncertainty in business partner relationships in firms of this group and they are pessimistic in their assessment of recent trends.

Entrepreneurs in the first group have developed specific strategies to respond to this environment. Only a few (13 per cent) would have an arbitration court intermediate in cases of cheating. A relatively significant share (20 per cent) of the respondents would try to use force while 7 per cent would just leave matters as they are. The majority of entrepreneurs (57 per cent) prefer to settle disputed issues by means of informal negotiations. It should also be added that in case of threats and violence, the representatives of this group would enlist the help of security agencies or illegal contacts rather than the police.

The situation in the *second group*, which accounts for about 60 per cent of small businesses, is radically different. Most of the enterprises in this group are new non-state businesses, although 17 per cent are privatized enterprises. A large share, 36 per cent, of the new enterprises were started during 1996–7 (Radaev 1998b: 146–55). Only 10 per cent of the entrepreneurs in this group are aware of frequent contract violations. As for their personal experience, no-one (!) admits to facing these violations often. A low risk level, but also uncertainty in their business relationships, characterises the small businesses of this group.

Representatives of the second group are also inclined to use informal ways to obtain a settlement with a business partner (56 per cent). But in contrast to the first group, fewer respondents would use force (11 per cent) and more are willing to accept an arbitration court (21 per cent).

4.7 Information, training and counselling

Entrepreneurs normally rank shortages of skilled personnel and the need for professional training at the bottom of the problem list. Yet, the SMEs often have difficulty in dealing with commercial banks and Western investors, but at the same time are unable to afford training programmes. From the donors' standpoint, one of the reasons for the paucity of financial resources in the SME sector is the lack of skilled financial project managers.

The undeveloped business infrastructure makes it difficult for small enterprises to build up efficient networks. Detailed information on funding sources and foreign contractors is required. Up-dates on changes in the regulatory rules and tax provisions are not effectively distributed, as current information is not always available. Generally, the absence of formal data sets is compensated by the extensive informal networks through which managers search for clients and suppliers, or negotiate with banks and large enterprises.

There are also issues of vital importance, which are not emphasized by the entrepreneurs at all. A good example is the under-regulated area of *labour relations* in the new non-state sector, which allows the unrestrained exploitation of the workforce.

It is noteworthy that small-enterprise managers associate their major problems with external, mainly macroeconomic, factors. The influence of the mass media, which discusses the economic crisis on a daily basis, is evident here. It is characteristic of all of the respondents to stress shortcomings that are beyond their control. In referring to the unfavourable environment, SME managers often are not yet fully sensitive to the effects of their own policies.

Our general conclusion is that economic barriers for market entry have risen significantly while administrative barriers largely remained unchallenged.

5 The rise and fall of SME support policy: what explains the collapse?

5.1 The rise of the SME-support policy

At the beginning of 1990s, support for SMEs was moving from political indifference to the first policy initiatives. It began at the federal level with the introduction of tax privileges for SMEs operating in ‘first priority’ sectors (mainly production). Then after a long delay, the first two-year national SME-support programme for 1994–5 was finally adopted in 1995. The second phase for 1996–7, classified as a special federal programme, was adopted by the State Duma. The fundamental law of 14 June 1995 on SME state support provided an integral legal basis for SME policy. The special State Committee for SME Support and Development was established, and the Federal Foundation for SME Support and Development was restructured as an independent institution responsible for the financial support of SME programmes. An abridged system of taxation and reporting was introduced for a part of the SME sector at the end of 1995.

Intensive SME-support programmes and legislative initiatives were undertaken at the regional level at the same time. Special state institutions dealing with SME support were established in more than 70 regions over several years. Although SME policies were heavily influenced by federal authorities, differentiation in policy across Russia today is rather significant. There are a number of regions, which have an advanced infrastructure for the SME sector (Moscow, St Petersburg, Ekaterinburg, Nizhnii Novgorod, Samara, Tomsk, etc.) while in other regions these infrastructures are still undeveloped (Chita, Magadan, Northern Caucasus, etc.). Progress depended largely on the regional authorities and, most of all, on the governor.

International institutions (EBRD, EU-TACIS, USAID and others) started large-scale support programmes was in 1992–4. These efforts stimulated the involvement of Russian commercial banks, the creation of business centres and consulting and training agencies for small entrepreneurs. Prospects of the SME-support policy looked very promising at the time and culminated in the First Russian Congress of SME Representatives in February 1996, which was held in the Kremlin and opened by the Russian Federation President Boris Yeltsin.

5.2 The decline of policy

There was however an obvious retreat since the beginning of 1996 in SME policy, at least at the federal level. The special federal SME-support programme was not funded in 1996, was under-financed in 1997 and a new programme for 1998–2000 was elaborated but not adopted. There were continuous disputes between the Federal SME Support Committee and the Federal SME Support Foundation about their respective roles and finally in 1998 the Committee was dismantled and the activities of the Foundation suspended.

Tax privileges and federal budget allocations for SME support have been lost, as was the 5 per cent of privatization revenues federal legislation directed to SME-support programmes. Institutional systems of SME support at the regional level remained intact, but financial support from federal sources was largely withdrawn and a number of international programmes were terminated, or had their resources reduced.

An additional important source of funding in the 1990s was the Federal Employment Service that accumulated considerable resources through the compulsory collection of 1.5 per cent of all enterprise wage payments. It supported 'employment foundations' responsible, among other tasks, for supporting the development of entrepreneurship. However, the amount of subsidies directed towards establishing new businesses diminished over the years and most of these funds were redirected to pay unemployment benefits. Of the roughly 20 per cent currently allocated for the Foundation and its specialists, only a negligible part is directed to the so-called *active employment policy*, which includes training programmes and subsidies for business start-ups.

The crisis of 1998 and the ensuing severe depression of the banking system had a further negative effect on the financial support for SMEs. Policymakers could not designate guaranteed funds for SMEs, and as a result started to seek 'non-monetary' entrepreneurship support measures.

Responsibility for the coordination of SME-support policy was transferred to the Ministry of Anti-Monopoly Policy and Entrepreneurship Development where a special department was established, however a new 1999–2001 programme for SME support was still incomplete in mid-1999.

5.3 Reasons for the breakdown

The major reasons for the breakdown in Russian SME policy in 1998 and 1999 include:

- i) uncertainty and instability of federal SME policy;
- ii) lack of coordination of SME policy at all levels;
- iii) lack of special-purpose funding, particularly after the 1998 crisis;
- iv) conservatism in SME financial support policy which emphasized direct assistance to individual projects;
- v) the absence of influential political forces to lobby for the interests of small entrepreneurs, and
- vi) political factors connected with the major electoral campaigns.

During 1995–6, regional level development of SME-support legislation and institutions was largely guided by federal policy. With the current uncertainty of federal policy SME support policy is largely dependent on regional and municipal authorities. It is acknowledged that the coordination of SME policies is weak at both federal and regional levels. Duplication of functions and parallel initiatives are very frequent. Resources to the SME sector are being directed through various channels: apart from the special SME Support Committee, the State Committee on Industrial Policy is conducting a programme on innovative business and the Ministry of Economy is implementing a scheme on engineering, etc. All of these deal with different aspects of

SME development, so there much is overlap. Parallel institution-building can also be observed at the regional level, where it affects non-state programmes, including those with international assistance.

The 1998 financial crisis compounded the effects of the prior lack of funding and the SME-support system now is in a critical state. The collapse of the banking system, and the advancement of barter forced 'live' money (cash) out of market transactions. There were strong hopes for financial support from the Federal Foundation and some assistance did materialise in 1997. But federal support was withdrawn in 1998, and currently regional authorities have to rely mainly on themselves, so budget allocations for SME-support programmes are shrinking.

The example of the Tomsk *oblast*, where SME-support policy has been and is very active, shows this tendency to reduce financial support. The share of liquid financial assets of the Tomsk Foundation diminished and 'live' money was replaced by surrogates like state securities and mutual cancellation transactions (*vzaimozachety*) (Radaev 1999).

There are two distinct policy approaches for SME support: direct assistance to SMEs (case-by-case support) and indirect assistance (creating a favourable environment). In 1995 it was widely announced that SME policy in Russia was shifting from the first to the second approach. This would have been particularly important given the current lack of financial resources, but SME support institutions are reluctant to give up direct assistance to individual projects because this reduces some of their authority with regard to distributive capacities.

Although dozens of business associations claim to lobby, SME policies have quite limited political representation (apart from one Member of Parliament, Ivan Grachev). There is an absence of distinct SME-support groups in the parliament. The low level of participation of small entrepreneurs in business and political associations is another reason. Many entrepreneurs prefer to lobby their interests on an individual basis.

The rise of SME-support policy was, in some ways, connected with the *political campaign of 1995–6* that preceded the presidential elections. At that time, small entrepreneurs were considered an important electoral force, but after the elections, political interest in the SMEs largely faded. A new opportunity for intensifying SME-support was presented by the State Duma and presidential elections in 1999–2000. Promises made by the State Duma and the federation government have gone unheeded and the prospects of state support for SME are very uncertain today.

6 Deep in the shadows

In this part we use our 1997–8 data to explore the extent of small enterprise involvement in the informal economy and the difference between small and large establishments in terms of their involvement in shadow transactions.

One may find it surprising, but differences between the managers of small and large enterprises in estimating the influence of informal relationships are not dramatic. Their views on the extent of bureaucratic extortion and the prevalence of the use of violence among partners are essentially the same.

However, some more or less significant distinctions also exist. SME heads appear to be more pessimistic about bureaucratic pressures. A successful business cannot be maintained without bribing officials, according to 40 per cent of the SME directors (27 per cent for large and medium firms). Another difference is evident in that managers of larger enterprises more frequently than SME managers identify their role as initiators of bribery. There are grounds for concluding that larger enterprises have more funds and seem to pursue a more active strategy in the area of informal relationships with officials.

Contract infringements are faced less frequently by small rather than large enterprises. Of small enterprise managers 80 per cent report some infringements; 30 per cent experience it frequently, compared to managers of the large and medium enterprises who report 92 per cent and 40 per cent, respectively.

Some small firms have greater difficulties in obtaining bank loans, as Table 2 shows, there are large differences in the sources of external funding between large and small establishments. Support from state authorities and commercial bank loans is provided mainly to the large and medium enterprises and the role of public associations is rather insignificant. Small firms suffer from discrimination in the formal economy but are active in the informal credit markets. They often need to borrow from private individuals and other firms; borrowing from other enterprises is particularly common in high-risk segments of the small business sector.

Table 2 Sources of financial support by enterprise size (%)

	Size of enterprise	
	Large and medium	Small
State authorities	19	4
Commercial banks	60	18
Public funds	5	5
Other firms	17	16
Private persons	2	35
	100	100

Source: Radaev (1998b: 251).

Table 3 Sources of business information by enterprise size (%)

	Size of enterprise	
	Large and medium	Small
Formal sources		
Professional media	47	43
Mass media	54	39
Professional agencies	26	9
Informal sources		
Business partners	42	51
Friends, relatives	15	31
	100	100

Source: Radaev (1998b: 263).

The differences in the sources of business information between small and large enterprises are evident from Table 3. The heads of larger establishments use formal sources of information more actively while small firms are more inclined to utilise their informal networks, both professional and personal.

In many aspects of business life small enterprises seem to be involved more deeply in the informal economy. This is illustrated by the following observations:

- Small entrepreneurs enter the ‘grey’ market more easily. More than two-thirds (69 per cent) believe it is better not to violate ‘awkward’ laws as long as they are not serious obstacles to one’s strategy. About 15 per cent of entrepreneurs tend to ignore these laws completely (the corresponding figures for medium and large enterprises are 64 per cent and 9 per cent, respectively).
- Small entrepreneurs estimate the risks resulting from violations of the law to be relatively low; only 38 per cent (versus 60 per cent for medium and large enterprises) consider this risk high. Thus, they experience less external control from the legal viewpoint and feel less accountable.
- SMEs are more involved in tax evasion. Although state tax inspection authorities are reported to have ‘plans’ for the collection of taxes and fines, it is no surprise that they focus on larger establishments rather than small clients who, above all, tend to disappear. Investigating SMEs is a time-consuming task, which results in relatively modest collected taxes and fines. As a result, small firms enjoy more lenient tax control, and this situation is deliberately used for tax evasion (Yakovlev 1999).
- Small entrepreneurs also exploit informal credit networks more often. Almost 35 per cent obtained loans from private sources over the last two years while only 12 per cent of medium and large enterprises used this source. This is a reflection of the limited access of SMEs’ to state subsidies and commercial bank loans, which are targeted more for the larger enterprises.

- Small entrepreneurs are only one-third as likely as large enterprises to approach an arbitration court in cases of contract violations (16 per cent versus 52 per cent among larger enterprises). Instead, small entrepreneurs prefer to try to negotiate with the other party (58 per cent versus 44 per cent) or to use force (13 per cent versus 0 per cent).
- Faced with threats small entrepreneurs prefer to try to cope with the problem on their own (35 per cent) or to enlist illegal contacts (17 per cent), while for medium and large enterprises the corresponding figures are 30 per cent and 4 per cent, respectively. In contrast, larger enterprises appeal to the police relatively more often.
- Small entrepreneurs pay for protection more frequently than larger enterprises (55 per cent versus 45 per cent). Eighteen per cent of SMEs report that they incur relatively high expenditures for various ‘informal services’ (compared to 2 per cent for medium and large companies).
- Small business ventures more frequently have significant expenditures for informal business services, as compared to large- and medium-sized enterprises (18 per cent and 3 per cent, respectively). In absolute terms these expenditures are higher for larger establishments, but in relative terms, they loom much larger for small firms.
- Small entrepreneurs, compared to their larger counterparts, attract more informal sources of business information, obtaining it either from their business partners (51 per cent versus 42 per cent) or friends (31 per cent versus 15 per cent).

In summary, it can be stated that the assessment by small entrepreneurs of the situation in the informal economy does not differ much from the observations of the medium- and large-scale enterprises who, in many cases, complained even more. However, there is clear evidence that small enterprises are more involved in various informal activities, which by no means are entirely illegal. It was also demonstrated by crossing various variables that the propensity for criminal action was evident in one way or another in nearly 15 per cent of the enterprise managers.

7 Re-division of markets: recent trends in small enterprise development

It is vital to appraise the situation of the SME sector as it actually existed in the aftermath of the devastating 1998 financial crisis. Was the effect of that crisis as damaging as is believed? In which segments were the effects most significant? What new prospects have opened up since the crisis? Understanding these issues is essential for the development of entrepreneurship today.

To answer these questions, we conducted 15 interviews with small entrepreneurs in Moscow, Tomsk and Novosibirsk during January–February 1999. The entrepreneurs represented fields such as high-tech production, light industry, food industry, transportation, communication services, wholesale trade, retailing, business investment consulting, patent and intellectual property consulting, and farming.³

³ We thank Svetlana Barsukova for conducting some of these interviews.

7.1 Is small business really dead?

Many myths were born out of the 1998 financial crisis, including the one claiming that most small businesses had been ruined. In spite of payments arrears, the bankruptcy of a number of commercial banks and a dramatic shrinkage in effective demand, the sector is active. According to preliminary estimations, about 30 per cent of small enterprises were forced to close their operations after August 1998. Almost 10 per cent will wither away altogether. No less than 50 per cent of the ‘shuttle-traders’ (*chelnoki*) were driven out of business due to the three-fold rise in the exchange value of the dollar and the resulting dramatic increase in the price of imported goods. The situation was most critical in September and October and a partial recovery was observed by the end of 1998.

It is worth noting that negative trends in the SME sector had started before the 1998 financial crisis. According to survey data, the financial indicators of SME activities had been deteriorating for the two preceding years and the crisis merely aggravated tensions (Chepurenko 1998: 110, 177), though not as bad as was originally thought. More importantly, it affected various market segments differently.

7.2 Winners and losers

It is now evident that the same economic factors have produced opposite effects: some small businesses suffered and others found opportunities for expansion. Neither it would seem that the size of the enterprise nor the main area of activity is the decisive criterion, although some specific areas (for example the tourist trade) experienced a sharp decline. Losers develop because of individual reasons, reflecting, for instance poor management and/or choice of bank. Some enterprises and individual entrepreneurs lost money as accounts of closed commercial banks were frozen.

Structural reasons are however, more important here, in particular one crucial parameter according to which the impact of the crisis should be measured—the extent of involvement in import transactions and the use of imported resources. The dramatic devaluation of the Russian rouble, losing nearly 70 per cent of its dollar exchange value in a few months, undermined the activities based on either imported raw materials or imported finished products. Trade and production firms using imported inputs suffered the severest losses. At the same time, those oriented toward the use of local inputs found themselves in an advantageous position, since the volume of imported goods declined sharply and then prices increased. Given the lack of consumer demand, this created a new range of opportunities for local producers and related trading firms.

The *chelnoki* who supply the clothing and food markets with imported goods are a prominent example. It is a widely shared expert assumption that the autumn 1998 crisis seriously damaged ‘shuttle-traders’. In September 1998, many of the trading stalls in the clothing and food markets, which had been fiercely competitive prior to the crisis, were empty, and the quantities of goods sold at these sites fell by nearly two-thirds. However, popular declarations about the ‘demise of the informal trade’ can now be considered as exaggerations. Informal business started to recover by the end of the year and in general proved to be more stable than the trading organizations. Important shifts in favour of locally produced goods have certainly been observed.

7.3 Shifting to local products

Locally produced goods have been substituted for imported goods, albeit on a rather selective basis. Consumer choice seems to be guided by the following factors:

- i) The price of goods has become more important than ever. More expensive consumer goods of European origin (France, Italy, Germany, etc.) are no longer in demand and the market is filled with an inflow of lower quality cheaper goods. For example, in case of some Siberian regions, imported goods mainly from Turkey, Saudi Arabia and the European countries shipped via Moscow have been replaced with imports from China and Korea coming through Novosibirsk markets.
- ii) The choice of product depends on the elasticity of other products. Vital necessities (milk, butter, etc.) are bought regardless of whether they are imported or not. At the same time in the Tomsk region, the market for mineral water for which SMEs were famous dropped to less than half. Trade in expensive imported furniture has almost come to an end.
- iii) The quality of Russian goods—as potential substitutes for imports—is important. Initially after the crisis, consumers switched to cheaper local products, particularly in foodstuffs, but were dissatisfied with the quality and returned to imported items.
- iv) Competitive advantage for local producers depends largely on their capacity to maintain the gap in the price level between Russian and imported goods. Many entrepreneurs increase prices of locally produced goods almost to the level of imported items; this strategy was a failure. Efforts to stimulate local patriotism with ideological slogans such as ‘Let us buy Tomsk products’ (*Pokupaite Tomskoye*) have not been very efficient so far. Consumers are influenced to a great extent by price-versus-quality considerations.

7.4 A return to the early 1990s

Any crisis forcefully shifts market relationships. According to our interviews with the entrepreneurs, the post-crisis situation resembled in many ways the situation of the early 1990s. In some respects there has been a retreat to the conditions of a ‘juvenile market’ with many open niches and the lack of established conventions.

Before the 1998 crisis there was a tendency for business circles to become more exclusive. Nearly everyone knew one another in his/her area of activity, and reputations were built up for years within these business networks (Radaev 1998b: 137–42). Now many market segments have become de-monopolized and therefore more accessible. The breakdown of long-term partnerships makes the economic situation chaotic as new agents are entering these markets. Shortage of liquid resources (‘live money’) becomes more severe and was partly replaced by barter exchanges. Consumption patterns became more primitive, resembling those at the beginning of economic reform in 1992.

We are also witnessing some resurgence of ‘wild market’ relations. Attempts to take advantage of partners, often carried out with references to ‘objective circumstances’, are more frequent. As a result, the threat of violence or its actual use is becoming an instrument for settling disputes.

There is also a certain revival of administrative regulations seen earlier in the 1990s. For instance, to protect local consumers during periods of shortage, regional authorities set up administrative and economic barriers to prevent the export of goods from the district. In the mid-1990s, the import of some goods (strong alcohol spirits is one prominent example) to a region was limited to protect local producers. After the crisis the Anti-Monopoly Ministry recorded many incidents of increased inter-regional export barriers. It will not take half a decade to stabilise the market structures and re-establish business norms. They will be restored much faster, as the algorithms are already known. However, concurrently as new opportunities are being opened, a certain retreat to the past is also evident.

7.5 A time of new opportunities

By and large, the period following the August 1998 crisis was a time of new opportunities. Local producers, including SMEs, had at least a year's grace after the crisis to take advantage of the opportunities.

Major markets were largely monopolized starting from the early 1990s, making it hard for newcomers. After the crisis additional fields became relatively accessible, offering the chance for small businesses to invade the space left by larger establishments. It is a promising time for home producers and for operations based on local inputs. And of course, all enterprises will be forced to look for additional resources and to revise their management strategies.

The crisis made bank credit cheaper, as interest rates in roubles decreased to a negative level, but due to the lack of resources, there has been no improvement in loan availability. Small enterprises selling products to the people have the advantage of obtaining 'live money' and thus severing the chain of barter exchange.

Some costs have also decreased. For example, labour became cheaper because workers, due to tensions in the labour market, were more willing to accept wage cuts and delays. At the same time management has become more sensitive to the opportunistic behaviour of employees. Furthermore, the middle management of firms have become wary of bribes and favours. Internal control within firms is tighter, and the risk of losing one's job over misbehaviour is greater.

Above all, the Russian economy has experienced impressive economic growth since the middle of 1999: GDP and industrial production has increased by 3 and 8 per cent, respectively, and by the beginning of the 2000, the latter had risen to 12 per cent. The effects of the rouble devaluation and import substitution had faded for the SMEs by mid-year 2000. The rate of economic growth is declining and its sustainability is now dependent on the rate of investment, foreign and domestic, which, to date, has not been sufficient. Emerging from the post-crisis period calls for an evaluation of SME policies, which may need to be re-defined to correspond to the new demands.

8 Conclusions

The SME sector evolved through four distinct stages within the last decade. *The first stage* (1988–91) covered political liberalization and spontaneous privatization, with accelerated growth of the SME sector in an environment of virtual absence of

institutional support. *The second stage* (1992–4) was characterized by economic liberalization and mandatory privatization of many SMEs by municipalities. Despite the stimulation provided by tax incentives for SMEs, this was a period of slowed SME growth. *The third stage* (1995–7) brought relative macroeconomic stabilization and permanence of the SME sector in terms of enterprise numbers. At the same time there was a boom of legislative initiatives and institution-building for SME support at the federal and regional levels. Following the 1998 financial crisis, *the fourth stage* (1998–) was accompanied by a re-shuffling of SMEs markets and a curtailment of SME support programmes.

A slowdown of SMEs growth rates appeared in 1994, following two years of rapid expansion. This reflects several causes. An increasing part of the SME sector (individual entrepreneurs and unregistered enterprises) was concealed from official statistics. SMEs also lost their exclusive position and easily transferable economic resources were withdrawn from the sector. The slowdown is closely related to changing functions of SMEs in the Russian economy as well.

Economic barriers to market entry have become significantly steeper while administrative barriers have remained largely unchallenged in Russian business during the last decade. Small entrepreneurs complain of high taxation, the complexity and instability of the tax system, gaps and inconsistencies in the legislative base, lack of financial resources and, most of all, bureaucratic pressures.

The major reasons for the breakdown of the Russian SME-support policy in 1998 and 1999 can be summarized as:

- i) uncertainty of the federal SME policy;
- ii) lack of coordination of SME policy at all levels;
- iii) the lack of special-purpose funding and conservatism in the SME financial support policy;
- iv) the virtual absence of influential political forces to lobby the interests of small entrepreneurs; and
- v) the existence of political elements in conjunction with major electoral campaigns.

In comparison with large and medium-sized firms, small entrepreneurs in Russia—perhaps estimating the risks of violating the law to be relatively small—are more involved in the informal economy. Small entrepreneurs exploit informal credit networks more often than their bigger counterparts. They are also less willing to submit to arbitration and spend relatively more on ‘informal business services’. SMEs are also more commonly involved in tax evasion.

The impact of the 1998 crisis in Russia was not as intense as first appeared and it affected the various market segments differently. The degree of involvement with import transactions and the use of external resources played a major role in separating the winners and losers of the crisis. There was a certain retreat to the 1990s, the age of juvenile markets characterized by many opportunities and no established conventions. The crisis also created new possibilities for small businesses to take over some of the void left by larger establishments.

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Appendix 1

Definition of the small enterprise in Russian Federation

Small entrepreneurship is defined according to the federal law of 14 June 1995 on ‘State Support of Small Enterprises in the Russian Federation’. It includes small enterprises and individual entrepreneurs. Employment limits differentiated by industry have been introduced as the main criteria for identifying small and medium enterprises, namely:

Industry	Maximum number of workers
Industrial production and construction	100
Transport	100
Agriculture	60
Non-production activities	50
Wholesale trade, retailing, services	30
Science and technology	60
Others	50

The law also specifies that to qualify as a ‘small enterprises’ the share of SME equity capital owned by federal subjects, public and religious associations, and charity foundations should not exceed 25 per cent.

It is noteworthy that medium-sized enterprises are not distinguished in legislative documents and major statistical forms in Russia.

Appendix 2

Main data sources

Studies at the Institute of Economics:

The author is the head of a research team at the Institute of Economics, Russian Academy of Sciences. Projects, funded by the InterCentre (Moscow), include:

- Two standardized surveys covering 277 and 281 Moscow entrepreneurs (1993);
- Standardized survey covering 115 Moscow entrepreneurs (1995);
- In-depth interviews with 100 Moscow entrepreneurs (1995).

Studies at the Russian Federation Chamber for Commerce and Industry:

The author participated in the survey conducted by the Chamber for Commerce and Industry at the First Russian Congress of SME representatives:

- Standardized survey of the heads of 887 small enterprises and 210 medium and large enterprises from all regions of Russia (1996).

Studies at the Centre for Political Technologies:

The author directed a research programme of the Centre for Political Technologies in Moscow).⁴ The US Centre for International Private Enterprise (CIPE) funded the research. The database includes:

- Standardized survey involving 227 questionnaires of entrepreneurs from 21 regions of Russia, collected in 1997–8;
- Semi-standardized survey involving 96 in-depth interviews with entrepreneurs, recorded in 1997–8 (see Appendix 3).

Studies at Organization of Economic Cooperation and Development (OECD):

- Working as an OECD consultant on issues relating to Russian entrepreneurship, the author conducted several studies on SME development, which included the Russian Federation and various regions.

Russian Federation studies:

- Small Enterprise in Russia: Current Status and Development Policy (1996);
- Informal Economy in Russia: Main Evidence and Policy Lessons (1998);
- Small Entrepreneurship in Russia After the 1998 Crisis (1999).

⁴ We are grateful to the researchers of the Centre for Political Technology, headed by Igor Bunin, and to Vladimir Gubernatorov of the Russian Federation Chamber of Commerce and Industry for valuable support in organizing this project.

Regional studies:

- Entrepreneurship in Tomsk Region: The State of Small Business (1997);
- Entrepreneurship in Tomsk Region: Two Years After (a follow-up study, 1999).

Supplementary sources:

- Official statistics from federal and regional State Committees on Statistics;
- Federal and regional legislative documents;
- Survey data produced by the other research institutions;
- Interviews with officials and experts dealing with SME support policy;
- Analytical reviews and media reports.

Appendix 3

Selected sampling characteristics of the 1997–8 surveys

A *standardized survey* was conducted in November 1997–January 1998. A total of 227 completed questionnaires were collected from the heads of non-state enterprises in 21 regions (mainly in the central European parts of Russia). All the main areas of economic activity were represented. Basic parameters of enterprises and entrepreneurs are given in Appendix Table 1.

In-depth interviews were conducted from May 1997 to April 1998, during which 96 interviews were recorded. They included 27 interviews with those who were questioned in 1993 by the Centre for Political Technologies. The focus was on the emerging areas of non-state business. The sample included the managers of several firms providing transaction cost services in the markets.

Appendix Table 1 Selected parameters of enterprises and entrepreneurs in the 1997–8 survey

Selected parameters	Percentage represented
Privatized state enterprises	18
Non-state enterprises since creation	82
Small firms	79
Large and medium-sized firms	21
Male entrepreneurs	75
Female entrepreneurs	25
University education	83
(One of the) owners of the enterprise	79
Members of business associations	28
Moscow entrepreneurs	19

Appendix 4

Business contracting and entrepreneurial types

Using the data from our 1997–8 survey, we observe four main factors which together explain 78.5 per cent of the variance and used two factors for clustering, namely:

- The frequency of business contract infringement (general estimations and personal experience), and
- Type of enterprise (size, ownership status).

As the outcome, we obtained three main entrepreneurial groupings:

- | | |
|---------------------------------------|-------------|
| — Large and medium business | 15 per cent |
| — Small business (high-risk segments) | 33 per cent |
| — Small business (low-risk segments) | 52 per cent |

Here, we defined risk as the probability of facing business contract infringements. The major characteristics of these groups are summarized in Appendix Table 2.

Appendix Table 2 Infringement of business contracts by type of entrepreneur

	Large and medium businesses	Small businesses	
		high-risk segments	low-risk segments
Number of enterprises (units)	24	54	84
Infringement of business contracts:			
Frequent in Russian business	63	98	10
Frequent in personal experience	50	70	0
More frequent in the last 2–3 years	39	32	17
Impossible to avoid paying bribes	0	11	13
Reaction to attempted fraudulent deals by business partners:			
Negotiate and persuade partner	25	57	56
Approach arbitrary court	71	13	21
Try to use force	0	20	11
Significant expenditures incurred:			
On business information	26	26	18
On business security	0	22	15
On informal business services	0	24	8
Better to ignore inconvenient laws	9	20	11
Relations with business partners:			
Financial support from other firms	5	23	15
Financial support from private sources	10	50	27
Type of enterprise:			
Privatized state enterprises	63	6	17