

REFORM Case Study

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Strengthening Local Democracy in Russia: The Case for Business Associations

- To help associations advocate for a better business environment, the Center for International Private Enterprise facilitated the creation of business coalitions in 17 Russian regions.
- These regional coalitions have identified local barriers to business faced by their members and have organized local advocacy campaigns to encourage regional governments to implement reforms.
- Coalition work has produced legislative reforms in the areas of taxation, enterprise finance, and the reduction of administrative burdens. It has also produced mechanisms for the defense of entrepreneurs' rights and infrastructure for training and informing entrepreneurs.



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CIPE's "SME Policy Advocacy Program" was conducted with the support of the U.S. Agency for International Development.



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Introduction

When Russia began its transition to a private enterprise economy, one of the most pressing challenges was to develop a strong small- and medium-sized enterprise (SME) sector. Small private firms and entrepreneurial energy were vitally needed to stimulate the economy and create jobs in place of contracting state-owned enterprises.¹ They are equally needed today for the development of a healthy civil society upon which democracy depends. Voices of independent business are rising to counter the increased government ownership and control of the economy embodied in “state capitalism.”

Russia’s federal leaders took steps in the late 1990s to establish policies for SME development. Yet these policies, enacted without input from the business community, often hindered the growth of small business instead. The process of forging policies and institutions to sustain economic growth, moreover, was greatly complicated by a governance gap between the federal and regional governments. In many cases regional legislation contradicted federal legislation and consequently lacked

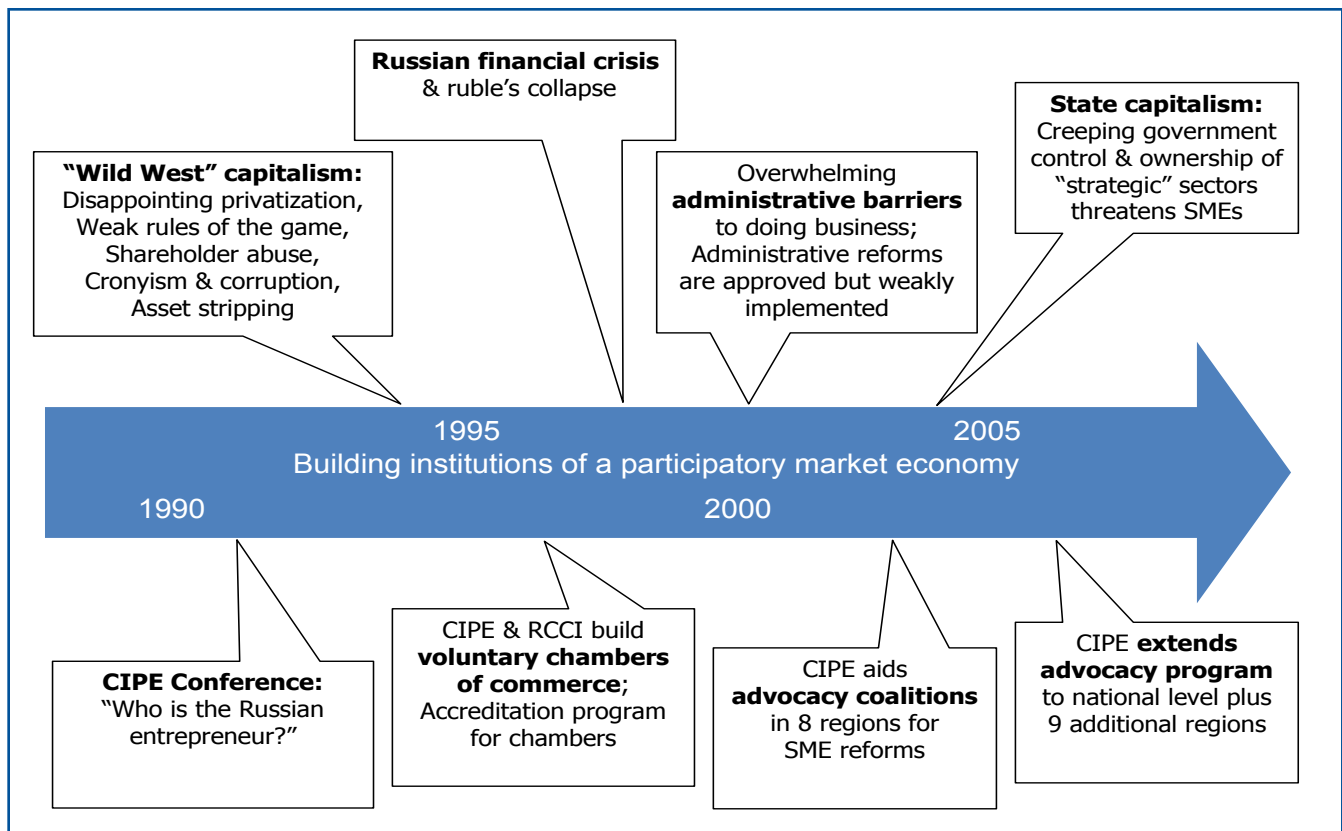
enforcement mechanisms. Effective implementation thus required changes to conform local laws to federal ones, as well as administrative changes at the regional level and better communication with the business community. Since all these were lacking, a gap emerged between the law on paper and the actual administration of business policy.

Business leaders needed to take local action to improve policymaking and the regulatory environment for SMEs. It fell upon regional business leaders to speak for the private sector by engaging in grassroots democratic development. For this purpose, they needed to build coalitions and open channels for communication with the government. They also needed to establish effective mechanisms such as business associations and chambers of commerce to serve as the foundation for successful advocacy.

To help associations advocate for a better business environment in Russia’s regions, in 2002 the Center for International Private Enterprise (CIPE) initiated a multi-faceted program of training, technical assistance, grants support, and information resources. With the support of

RESULTS AT A GLANCE

- 17 regional coalitions have successfully advocated a number of policy changes addressing:
 - Administrative barriers
 - Corruption
 - Taxation
 - Micro-credit
 - Protection of entrepreneurs’ rights
 - Rental costs
- 44 out of 94 legislative recommendations were implemented.
- Over 800 conflicts between businesses and inspectors were resolved, and more than 40 lawsuits were settled in favor of entrepreneurs (Krasnodar Coalition).
- Implementation of the “single window” principle simplified and expedited small business registration and other transactions in four regions.
- The private sector’s recommendations were incorporated in a 2007 federal law that sets a framework for SME development and recognizes the rights of business organizations to advocate for SME interests.
- 667 out of 2,500 businesses were saved from demolition by the city administration (Nizhniy Novgorod Coalition).
- 45 percent growth in coalition membership during the project period



the United States Agency for International Development (USAID), CIPE began working with business coalitions in eight regions, and has since expanded the program to encompass 17 regional coalitions, representing over 200 business associations. These regional coalitions have identified local barriers to business faced by their members and have organized local advocacy campaigns to encourage regional governments to implement reforms. Regional business agendas developed by the coalitions have improved the public perception of the business community and have scored several victories in their drive to improve the business environment.

The regional coalitions also worked with the Russian Chamber of Commerce and Industry (RCCI) and the non-profit partnership "The Russian Union of Business Associations" (OPORA) on a national advocacy campaign entitled "Small Business 2004" to address needed reforms at the federal level and ensure their implementation at the local level. Coalition work has produced legislative reforms in the areas of taxation, enterprise finance, and the reduction of administrative burdens. It has also produced mechanisms for the defense of entrepreneurs' rights and infrastructure for training and informing entrepreneurs. These are evidence of

considerable progress and indicate the further potential for improving the regions' business environments and democratic decision-making process.

The Regional Business Environment: Identifying the Problems

In the late 1990s, small businesses in Russia were operating in an extremely difficult environment characterized by numerous administrative barriers and weak instruments of support. Unlike in Central Europe, the private sector in Russia had little history of a market tradition. Would-be reformers in the private sector confronted deeply entrenched legal and institutional obstacles. In 2003, the Chamber of Commerce and Industry of the Russian Federation (RCCI) identified a set of fundamental problems that had to be tackled in order to establish a legitimate framework for a market economy and a positive environment for private enterprise as a whole. The same issues surfaced repeatedly in RCCI's survey of regional business communities:

1. **Administrative barriers to doing business**
Businesses had to comply with a multitude of onerous rules before being granted legal access

to markets. Registration, licensing, certification, issuance of permits, and other authorization procedures frequently prevented the launching of business operations, provoked businesses to “escape” into the informal sector, or even shut them down entirely. Frequent changes in laws exacerbated confrontations between the SME community and government agencies for audit, reconciliation, and oversight. Businesses often lacked access to current information on relevant legislation and obligations. Administrators, for lack of codified rights and duties, were prone to regulate economic processes according to their own interests, and fiscal agents, standing to gain from the imposition of fines, often failed in their duties to explain tax procedures to their constituency. Confrontations developed into infractions and monetary penalties, which were frequently disastrous for the SMEs. Appeals, directed at the government agency responsible for the barriers in the first place, were fruitless.

In Samara, for example, businesses faced excessive inspection and other administrative barriers, with 40 percent of SMEs claiming dissatisfaction with laws and regulations governing licensing, tax statutes, and accounting requirements. Thirty percent reported clashes with government agencies. Shortcomings and contradictions were rife in the legal and administrative systems for the regulation and development of small business.

2. Widespread corruption

In many regions, entrepreneurs often found it easier to “come to an understanding” with officials rather than pursue a legal solution to a problem. One segment of the business community established close private ties with government, thus gaining preferential treatment, while others who did not “play the game” were left out in the cold. Corruption thrived in this system that divided businesspeople into insiders and outsiders. In the view of the local business community, corruption mainly stemmed from excessive regulation.

Accordingly, coalitions emphasized the need to draft and enact an anti-corruption law; to develop

alliances with non-governmental organizations, the media, and government agencies to fight corruption; and to determine the susceptibility of existing laws to abuse by government officials. Many businesspeople felt that a wider use of “single-window service” would ease the processes of registration, licensing, leasing, and the granting of permits, thus limiting opportunities for bribery. They also felt that a reduction in inspection requirements would eliminate much of the source of corruption and would clear the path for new business creation.

3. Complicated tax codes

The enterprise tax burden was improperly skewed. For example, the tax revenues paid by the SME sector to the regional budget in the Irkutsk region were split equally between the regional and municipal authorities. A better breakdown, according to the business community, would be a 30-70 split, with the greater share going to the municipalities, which is where the real development of small business occurs. Tax policies also tended to be excessively rigid, thus encouraging evasion. In the Primorsk region, 67 percent of the region’s businesspeople considered taxes to be a leading problem, and 30-50 percent of business activity was conducted in the gray market. Specific issues included the lack of choice among taxation schemes, a lack of restriction on overall burdens, double reporting requirements (accounting and tax), and the single imputed earnings tax.

4. Poor protection of property rights

SMEs faced difficulties in gaining access to nonresidential building stock. Although many factories and buildings had been privatized, the land on which they rested was still owned by regional or municipal authorities intent on maintaining a revenue stream from rental payments.² A lack of competition in the granting of leases and opacity in information, such as the terms of obtaining leases, clouded the market. Rents were high, lease agreements short-term – typically one year with no guarantee of extension and no option to buy – and lessees saw no

incentive to invest in the maintenance and repair of premises. In Primorsk region, for example, one in three businesspeople cited renting property as the most labor-consuming and expensive task they faced. Steep increases in rental rates, a lack of sound procedures to calculate rent, no accounting system for repairs, and unfair practices in contracts rendered the property market opaque and strongly detrimental to business activity.

5. Limited access to information

Many small businesses indicated their activities were hampered by a lack of information resources and of a reliable process by which the business community could review and comment on draft legislation. In leasing, tenders, policymaking, and other areas, the empowerment of the business community depended on increased transparency and the creation of information channels. Many SMEs would benefit from expanded communication about business opportunities

Concerns and Needs Cited by Eight Regional Coalitions

Concerns and Needs	Irkutsk	Khabarovsk	Krasnodar	Perm	Primorsk	Samara	Saratov	Volgograd
Information access and transparency		◆	◆	◆	◆	◆	◆	◆
Finance and credit		◆	◆	◆	◆	◆		◆
Administrative barriers	◆	◆	◆			◆	◆	
Confusing legislation	◆			◆	◆			◆
Rent and production facilities	◆	◆	◆					◆
Skills and training		◆			◆			◆
Infrastructure for business support	◆	◆			◆			
Mechanisms for public-private dialogue	◆		◆					◆
Public image			◆	◆				◆
Taxes	◆				◆	◆		
Over-inspection			◆					◆
Courts				◆				
Ecological problems					◆			
Entrepreneurial culture		◆						
Prices and production costs							◆	
Shadow economy							◆	

and funding sources. Entrepreneurs also required education about their rights in the federal Civil Code and advocacy techniques. A business infrastructure for information and communication would foster open debate, collective problem solving founded on reliable data, and constructive relationships with government and society.

6. Limited access to financing sources

Banks distrusted small businesses and were often unwilling to extend credits and micro-credits to would-be borrowers, many of whom were hobbled by a lack of credit history and sub-standard skills in preparing and presenting financial data. In the Perm region, for example, there were only ten companies involved in micro-financing. Since the 1998 default crisis, many entrepreneurs were absorbed with trying to stem the erosion of cash or working capital and did not devote much time to raising capital investment as a means of improving productivity.

In the Samara region, faced with high costs of capital that discouraged improvements in productivity, businesses had limited access to lending because of insufficient collateral and credit history. Fewer than 25 percent of SMEs were able to obtain bank loans, and more than 60 percent required external funding to support current operations and investment projects. In the Volgograd region, complicated bank loan procedures and lack of trust created the need for an alternative loan system to be implemented through credit unions.

7. Poor perception of business

The public often did not perceive the positive contributions that businesspeople make to growth and community well-being. Labeled “new Russians” and “petty thieves,” they were looked upon with suspicion. Businesspeople often contributed to the problem, being either carelessly self-confident or falsely comforting themselves with gestures of philanthropy. The business community was in dire need of “positive publicity,” which would require training, programs involving the media, systematic marketing, and public-relations events.

The problems enumerated above became cyclical and self-perpetuating. Failure of the state to provide a stable and predictable legislative environment forced businesses to disregard laws, burdensome registration and inspection policies forced businesses to operate without registering and to find ways around inspections, and heavy tax burdens forced businesses to evade taxes. Illicit business behavior in turn motivated the state to increase its demands on business. What the business community needed were credible and capable non-state support organizations able to address common concerns and provide necessary services, in other words, *viable business associations*.

Profile of Business Associations

The associations in all regions have been working against tremendous odds with very limited resources. In January 2003, RCCI surveyed 68 business associations with a small business orientation across the original eight regions to identify their main characteristics, activities, and needs. Membership ranged from four businesspeople (the Fund of Small Business Assistance of Nytvenskogo, Perm) to 3,500 (the Saratov Public Organization of SME Employees). Eighty percent of the associations surveyed belonged to coalitions such as RCCI, OPORTA, the Russian Union of Industrialists and Businessmen, or a regional association dedicated to small business development. The rest acted independently.

Association activities ranged from working with a regional governor’s council on small business assistance to organizing protests. They worked with local administrations and legislative committees, commenting on policy and draft laws and trying to influence budgetary decisions. Associations made presentations at legislative councils; conducted surveys; arranged training programs; organized demonstrations and competitions; joined in discussion groups, conferences, seminars, and congresses; participated in press briefings, television programs, and other media events; and, in a few cases, developed specialized internet sites and hotlines. They provided contacts with courts of arbitration, helped the unemployed find work or start their own businesses, and assisted in creating business support centers, which provided new channels of assistance to the business community.

RCCI drew a composite picture of 24 business associations, three selected from each of the eight regions, by identifying ten categories to describe associations working on small business development issues.

- Budgets ranged from 72,000 rubles (the Association of Bakers of the City of Vladivostok, Primorsk region) to 28 million rubles (Krasnodar Chamber of Commerce and Industry).
- All associations claimed to be working with authorities, ranging from correspondence to joint actions with local administrations and participation in working bodies.
- Use of mass media, again cited by all associations, included participation in radio and television programs and newspaper and proprietary publications.
- All associations claimed to have ongoing programs of representation and protection of small business interests.
- All claimed to have experience in joining forces in a coalition or with other associations.
- 20 of the 24 participated in the legislative process.
- 20 of the 24 assisted in the improvement of the business climate and competitiveness of enterprises.

The Approach

In the early stages, CIPE realized that to improve the business environment in Russia, it was necessary to address the dual challenges of identifying barriers to change and working with the business community to effectively advocate for needed reforms. CIPE implemented a coordinated four-pronged program comprising the following elements:

1. Train and Equip

CIPE set out to train and equip managers from local business associations and chambers of

commerce to conduct effective advocacy work and improve organizational sustainability. CIPE supplemented this portion of the program with a small grants program to allow local associations to undertake their own advocacy- and organizational-strengthening projects.

2. Promote Policy Reform

CIPE used its proven Regional Business Agenda (RBA) approach to build local business advocacy coalitions. Modeled after an effective national program used by the U.S. Chamber of Commerce, a regional business agenda is a tool through which a business community can advocate for market-oriented reform and democratic governance, focusing business, government, and media attention on a set of immediate action priorities defined by the business community. RBAs require business communities to use grassroots techniques to establish priorities, reach agreement, and then develop an effective advocacy strategy aimed at senior policymakers. CIPE brought together business associations and leading individuals in each region to develop a series of agendas for improved private sector growth. CIPE complemented these regional efforts by working through the RCCI and OPORA networks to advocate for policy change at the national level that will also address local challenges. Through the use of regional and national media, CIPE and RCCI assisted regional groups in raising public awareness of the policy issues affecting SMEs and furthered the understanding of why a strengthened SME sector is essential for Russia's democratic development and economic growth.

3. Build Information Networks

CIPE provided local chambers with advocacy information and linkages through the new REACT (Russian Enterprise, Association, and Chamber Terminal) network. Hosted by RCCI, the internet-based network gives members access to information on reforms, policy proposals, and other advocacy efforts around the country. CIPE and RCCI have a long history of working together to provide advocacy resources in Russian. Under this initiative, CIPE and RCCI compiled all of

their existing materials and developed new ones for the continuing benefit of business associations and chambers throughout the country.

4. Provide Technical Assistance

CIPE assisted the associations in the processes of building strong local business coalitions, developing sound policy, and working effectively with local government. Experts from CIPE's business advocacy training center in Romania and advocacy volunteers and professionals from the United States worked with their Russian counterparts on the basics of coalition building, issue identification, policy development, and advocacy.

Accomplishments of the Regional Coalitions

Administrative barriers

In four regions, coalition-led advocacy campaigns propelled the local administration to adopt decrees implementing the "single-window" principle. According to this principle, the government established a single point of service for businesses. This should not only make transactions more convenient for businesses, it can also aid in streamlining administration and clarifying who within government is responsible for providing services. It is further hoped that these reforms will reduce opportunities for corruption. The governor of the Krasnodar Region signed a single-window decree simplifying land transactions. The decree stated that all documents for land transactions in the region must be reviewed in the Center for Business Support in the regional administration. Although the number of required documents stayed at 20, the time for reviewing the documents was reduced from a range of 6-24 months before the decree to a range of 2-6 months after the decree. The Mayor of Khabarovsk signed a similar decree on November 30, 2003, introducing a single-window procedure for small business registration. This decree reduced the time for registration procedures from 30 to 7-15 days.

The Primorsk coalition crafted suggestions for legislation incorporating single-window registration

procedures and presented them to the vice governor and the region's Economic Development Committee. As a result, since November 2004 only one department reviews all required documents. Now entrepreneurs need to prepare only one set of documents instead of seven, and the review time has been reduced from 40 to 7 days. The Saratov coalition pushed for the simplification and shortening of procedures for conversion of living quarters into business premises. This caused the Saratov Regional Duma to legislate the following changes on July 14, 2004: (1) all required documentation is now reviewed in one department, as opposed to three previously; and (2) applicants are informed of the administration's decision within two months. Previously, the law did not specify a time frame.

Further streamlining of administration occurred in Irkutsk, where the coalition advocated for simpler and shorter licensing procedures in the alcohol retail trade and developed an amendment to licensing regulations. The proposed amendment, adopted by the regional administration in February 2005, reduced the time between applying for and receiving a license from three months to 45 days. In Volgograd, in September 2003, the Duma adopted amendments drawn up by the coalition that lengthened the time allowed for labor contract submission from three days to 12 and reduced the number of required documents from nine to three.

In Saratov, the coalition advocated for enforcement of antimonopoly legislation and succeeded in having declared invalid a decree that had regulated operation of private passenger traffic in Balakov District. Based on the coalition's recommendation, traffic routes are now distributed through an open competition. Over 250 private passenger traffic companies were positively affected by this decision. The Irkutsk coalition advocated for the rights of Irkutsk City passenger traffic companies to independently determine minibuses routes and itineraries based upon market demand, without intervention by the city administration.

Inspections

Illegal inspections are one of the most pernicious forms of corruption that shackle Russian small businesses. Since entrepreneurs often fall into traps

as a result of contradictions between local and federal legislation, or the appearance of new legislation, the Krasnodar and Irkutsk coalitions created telephone hotline advisory services for entrepreneurs. Prompt advice from legal experts is now available on emerging administrative barriers and illegal inspections and penalties. The Krasnodar Coalition assisted over 3,600 entrepreneurs through its hotline, and its centers for SME development helped resolve over 800 conflicts between business and inspectors. The coalition has won more than 40 lawsuits in favor of entrepreneurs. Another 1,000 entrepreneurs received consultations via the Irkutsk hotline service, and 100 of them signed contracts for legal support with several coalition members. Over 450 entrepreneurs who received consultations managed to prevent illegal inspections and penalties.

The Irkutsk coalition published and disseminated a brochure, "If an Inspector Comes to You." The brochure contained a detailed list of organizations that have the right to inspect SMEs (including local departments of the Ministry of Internal Affairs, Fire Inspections, Sanitary Inspections, State Trade Inspection, and the Labor Department), types of documentation that can be requested for inspection (including registration, goods certification, and balance statements), inspection procedures (including reports on violations, types of violations and associated fines, number and types of witnesses), and the measures that can be taken by the entrepreneurs to prevent unwarranted inspections. Similar brochures published by the Krasnodar and Volgograd coalitions helped entrepreneurs prevent 30 illegal inspections.

Property rights

The Coalition in Nizhny Novgorod took action when the city administration decided to eliminate temporary trade premises, where small trade owners had their shops. Unexpectedly, 2,500 traders were threatened with the elimination of their pavilions. The coalition's advocacy attracted wide media coverage and resulted in a reprieve until 2010 for 667 businesses, while the elimination of other pavilions was also slowed.

The Primorsk Coalition drew public attention to a corrupt, unfair land privatization auction that had

resulted in more than 2,000 entrepreneurs losing their businesses. As a result of the coalition's advocacy, four criminal cases were opened, 180 illegal premises were seized, and business owners regained their right to lease the premises they were previously forced to vacate. Earlier, the Primorsk coalition successfully campaigned on behalf of small businesses for the cancellation of a 250 percent increase in rental rates in Vladivostok.

The Kamchatka Coalition defended fishermen from arbitrary seizures and fines. Authorities were applying penalties – without court approval – on all products at the cost of the finished product as opposed to the cost of the maritime resource. The coalition brought abuse cases to court and publicized the market costs of the perishable goods, thus adding transparency to Kamchatka's largest industry. This directly benefited 73 fishing industry SMEs and their 3,000 employees, as well as numerous companies along the supply chain.

Leasing arrangements with municipalities had a large impact on the cost of doing business and the overall security of small businesses. The Krasnodar coalition submitted a model agreement on the rental of municipal premises, featuring provisions for the cost of capital repair and preferential extension of rental agreements for tenants in good standing. The coalition also proposed the establishment of a registry of municipal property with guaranteed open access and advocated for the use of economically justifiable, competitively based rates for rental of municipal property. Specialists provided technical assistance to entrepreneurs on leasing documentation, and project work has highlighted the role of business incubators in providing start-ups with physical and capacity infrastructure on preferential terms. The coalition also pushed for the revision of municipal leasing rate factors, which were lowered for some entrepreneurs, such as small trading businesses.

Information

To address the information gap, coalitions in Irkutsk, Perm, Khabarovsk, and Krasnodar created information resources, web sites, and registries hosting data on potential partners, tenders, state orders, banks, investment funds, grants programs, professional service firms, and city-owned facilities. In 2004, the

Perm Chamber of Commerce and Industry's website registered 32,945 hits and 6,467 visitors. Coalitions published handouts, press releases, and digests on small business development. Some coalitions held regular seminars to equip business association leaders with management tools and familiarize them with current techniques in representation and protection of members' interests. Over 100 seminars in Krasnodar attracted 8,500 regional entrepreneurs who came to learn about laws, rights, and responsibilities. Some coalitions have also tracked legislation affecting SMEs as well as the legislative drafting process to afford businesses an opportunity to comment on proposed laws.

The Saratov coalition developed an electronic trade system to provide entrepreneurs with equal access to state and municipal contracts. It also forwarded a supporting draft law, "On Distribution of State and Municipal Contracts through E-Trade," to the Regional Legislative Assembly, detailing the registry of state and municipal contracts, the rights and obligations of state customers and private bidders, the required documentation for participation in the tender, and the procedures for reviewing applications.

Finance

Mechanisms proposed by the Khabarovsk coalition were included in the "Decree on Crediting Policy for Small Businesses" and the "Decree on Micro-Financing of Small Businesses," issued on July 30, 2004. The coalition suggested that the regional government encourage regional banks to extend short-term and small credits (under \$30,000) to SMEs. As a result, credits totaling 9.7 million rubles (roughly \$300,000) were extended between July and December 2004.

The Perm coalition worked with the regional administration to create municipal funds offering micro-credit to SMEs. The coalition suggested that these funds serve as guarantors for SMEs and cover 7-9.5 percent of the interest levied on borrowers. At present, 27 municipal funds throughout Perm provide loans to SMEs. A similar proposal to create municipal funds was submitted by the Krasnodar coalition and adopted by a decree of the regional governor in March 2005. Also in Krasnodar, the Ust-Labinsk Chamber of

Commerce and Industry arranged with the Regional Fund and the Credit for Small Business bank to make available 467,000 rubles (roughly \$120,000) in credits. It was the first such credit program for the city of 47,000 residents.

Taxes

Based on the recommendations of business coalitions, regional administrations in Perm, Samara, Saratov, and Volgograd amended tax laws to reduce the income tax factor (K2) levied on selected small businesses, including food producers, auto accessories producers, pharmaceuticals producers, footwear producers, publishers, retail stores, parking lots, and personal services firms. According to the Samara coalition, these measures generated a migration of entrepreneurs from the shadow economy to the formal sector. In 2004, the number of applications for business registration in the region increased by 20 percent.

Public image

To nurture a positive image of entrepreneurs, which is essential to successful business advocacy, the Khabarovsk coalition held a regional "Entrepreneurs Day" on December 12, 2004, featuring contests and consultations with representatives of the local inspection office. Contest winners were chosen according to criteria such as originality, personal leadership in operations, quality of business, social partnerships, number of jobs created, and productivity. Governor Victor Ishaev commented, "This competition is essential to the development of the region, especially to high-tech production, infrastructure, and attracting investment." Similar events were also hosted by the coalitions in Primorsk and Krasnodar.

Capacity and services

In Krasnodar, local centers for the promotion of small enterprise development that had been created by coalition members joined to form a regional coalition. These centers began implementing aspects of the government's Program of Support for SMEs, providing a range of services including consulting; assistance in registration, licensing, and leasing; legal

advice; professional development; promotion; and organizing exhibition fairs. In 2003, they provided services in response to more than 10,000 requests from entrepreneurs. Services not only provided valuable benefits to entrepreneurs, they also served to build the membership and capacity of business associations.

The Reform Process

The regional business agendas served as an instrument to move chambers toward proactive problem identification and solutions. In early 2005, leaders from the regional coalitions forged these agendas in a series of seminars entitled “Business Association Governance: Advocacy and Protection for Small Businesses.” Participants worked in small groups with colleagues from their region to identify common obstacles and key development objectives. They then mapped out strategic coalitions to address individual issues. Upon return from the seminars, they led roundtables and focus groups in detailed studies of the issues, especially as they related to business association members.

With the regional business agenda in hand, the Perm coalition – to cite one example – approached the chairman of the Perm legislative assembly and other deputies who were positively inclined toward small and medium business development. After several meetings, the coalition was rewarded with the adoption of a new regulation that all legislation affecting entrepreneurship must undergo expert review by public organizations supporting the development of entrepreneurship in the region. The Perm coalition was recognized as a public expert, and subsequently submitted opinions on legislation governing urban development in Perm City, renting of state-owned land, self-regulating organizations, and other topics of concern to local entrepreneurs.

The coalition in Primorsk tried a different approach, also with positive results: it went to the regional executive. The governor of Primorsk responded by establishing a Council for Small Enterprise. A leading member of the business coalition, Marina Shemilina, was chosen as chairman of this council. The council held roundtables on issues of entrepreneurship development, to which government authorities were invited. In conjunction

with the roundtables, the business coalition prepared and sent analytical notes to officials and deputies.

The key change was that the business community in each region stopped reacting to laws and became more proactive about legislation. This movement did not occur overnight; however, when businesspeople saw policy results from advocacy they were motivated to participate in the collective process.

Building relationships and trust among business leaders took time, and so did the process of building credibility and influence with government. Advocates of economic reform had to overcome a bureaucratic mindset focused on implementation, not on public input. Government resistance to input from business derived in part from previous bad experiences with businesspeople complaining about government policies but not providing constructive solutions. For advocacy to be better received, coalition members needed to work on getting their numbers straight, getting their policies together, demonstrating the impact, and setting priorities.

One creative and instructive process for combating corruption was devised by the Krasnodar Coalition of Business Associations. Previously, each member association had addressed the corruption problem individually. Coordination within the coalition enabled a common approach and a long-term program, greatly improving efficacy. Coalition members now had an opportunity to share experiences, engage in joint decision-making, and combine their efforts. Protecting individual entrepreneurs’ rights by a common voice not only got results on a case-by-case basis, it prevented similar violations and encouraged officials to reform procedures. This generated a positive effect for the business community as a whole.

The methods that the coalition developed to handle complaints about police inspections illustrate the forcefulness of collective action in protecting entrepreneurs’ rights. Its repertoire of responses included the following:

- Examination by coalition experts of a complaint filed by a business related to a violation of law by

the police. The coalition always tried first to arrange pre-trial settlement of conflicts.

- Consultation with both parties involved in the dispute as to their rights and duties.
- Written communication to a superior official of the relevant inspection body. If this communication was ignored, the coalition issued a written complaint to a higher government body.
- When inspection officials agreed to negotiation, the coalition provided legal support.
- If all attempts at pre-trial settlement proved ineffective, the coalition prepared materials for court proceedings. At this stage, the coalition could also arrange media coverage of the issue to raise public awareness.

It should be noted that the coalition did not act this way in every case when entrepreneurs' rights were violated. Rather, the aim was to accumulate information on typical cases; develop recommendations to address recurring violations; disseminate these recommendations within the business community and forward them to inspection bodies; give businesspeople the opportunity to protect themselves; and bring inspection bodies to understand that the coalition was always ready to involve itself in the protection of entrepreneurs' rights.

National Impact

The regional efforts reinforced a national campaign, "Small Business 2004," assisted by USAID and CIPE. Recommendations made by CIPE partners RCCI and OPORA were incorporated into federal laws signed by President Vladimir Putin in July 2005. The laws improved the SME taxation system, reduced the list of business activities that require licensing from 125 to 103, extended the protection of entrepreneurs' rights to cover inspections by state licensing bodies, and guaranteed SME participation in state contracting competitions.



A representative of the Perm coalition presents a T-shirt reading "Bribes Are for Dummies" to a representative of the Altai coalition. Building widespread consensus for reform is key to advancing change.

In 2007, CIPE's federal and regional partners advanced recommendations that were incorporated into a new law on self-regulating organizations. The law creates the unprecedented right of associations to regulate their own industries and advocate for SME interests. It is expected to enhance the role of associations while reducing regulatory burdens on businesses.

The private sector's policy recommendations yielded still further national results:

- The law "on amendments to the Russian Federation code on administrative delinquencies" ensured that only a judge can decide to suspend business activity when there are legal violations.
- A federally funded SME credit program has lent 5 billion rubles (\$211 million) to SMEs.
- A new law requires that 10-20 percent of government procurement come from SMEs.

There is a growing recognition and acceptance in Russia that the business community has a constructive role to play in the policymaking process and that business is a legitimate segment of society worthy of protection and promotion. It has also become apparent, as the business community matures, that the issues it is addressing are broad-based, and that government needs the input of experienced businesspersons in formulating and implementing laws that affect the business and economic environment.

Through training, building organizational capacity, and making information widely available, these coalitions have been contributing to a process whereby businesspeople synthesize resources and experiences for the common good. The activities pursued by the 17 coalitions in this project have equipped business association staff and leadership with greater confidence, motivation, and skills in identifying, articulating, and communicating areas of common interest to government. In consequence, the coalitions have forged productive relationships with local governments, leading to a more transparent and participatory democratic process.

Irkutsk

- Coalition founded in April 2003
- 15 members: chambers of commerce, regional branch of OPORA, entrepreneurs' support organizations, NGOs dedicated to women in business, trade union
- Coalition coordinator: East Siberian Chamber of Commerce and Industry, 250 members

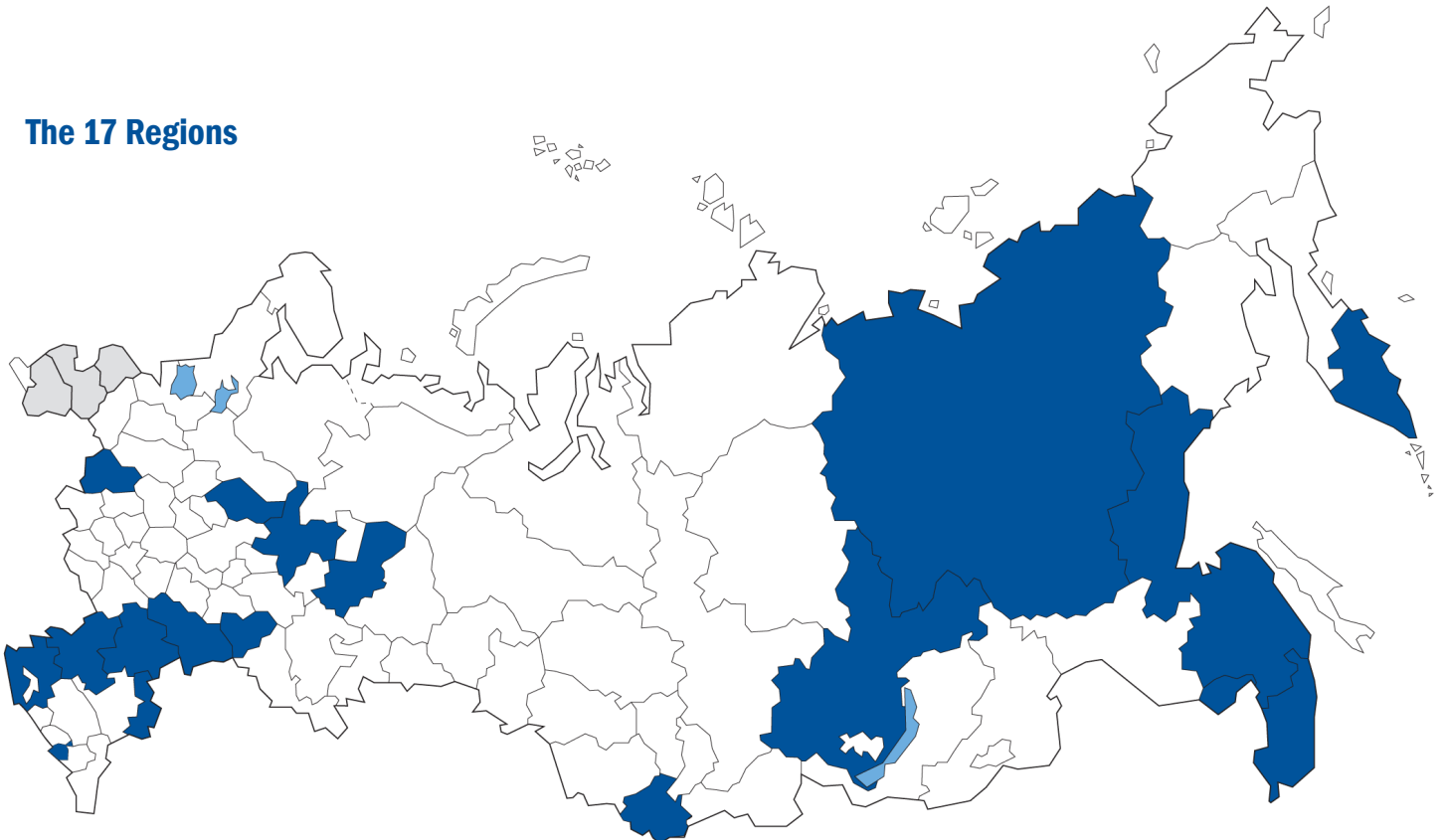
Khabarovsk

- Coalition founded in April 2003
- 9 members: community chambers, sectoral associations, union, association of businesswomen, NGO
- Coalition coordinator: Far East Chamber of Commerce and Industry (Khabarovsk), 180 members
- In 2006, 9,000 small businesses in Khabarovsk employed 150,500 people (21 percent of the region's total employment)

Krasnodar

- Coalition founded in March 2003
- 33 members: community chambers, sectoral associations
- Coalition coordinator: Sochi Chamber of Commerce and Industry, 150 members, including 97 SMEs and various chambers of commerce and industry

The 17 Regions



- Coalition represents more than 3,000 businesses in the region
- In 2006, roughly 217,000 SMEs in Krasnodar employed 540,000 people (26 percent of the region's population)
- 10 percent of these businesses are owned by women and 50 percent by ethnic minorities.
- Prior to this project, 20 of the coalition members had established local centers for the promotion of small entrepreneurship development.
- The regional administration adopted a "Program of State Support for Small Entrepreneurship in Krasnodarskiy Krai for 2003-2005," envisaging 50 million rubles in support from the 2004 regional budget.

Perm

- Coalition founded in February 2003
- 12 members: chamber of commerce, entrepreneurs' support organizations, trade union, funds dedicated to SME development
- Coalition coordinator: Perm Chamber of Commerce and Industry, 430 members, including businesses and individuals
- In 2006, some 130,600 SMEs in Perm employed more than 200,000 people (only 6 percent of the working population)
- SMEs provided only 11 percent of total regional tax revenues in 2002. This region lags behind others in terms of small businesses' size and influence in the economy.
- The regional administration adopted a "Concept of the Regional Policy on SME Development for 2002-2006."

Primorsk

- Coalition founded in April 2003
- 12 members: chambers of commerce and industry, regional branch of OPORA, entrepreneurs' support organizations, professional associations
- Coalition coordinator: Primorsk Chamber of Commerce and Industry, 132 members
- In 2006, some 13,190 enterprises in Primorsk employ 97,000 thousand people

- The region's small business sector contributed 14 percent of the gross regional product in 2002.
- The regional administration adopted the program "Development and Support of Small Business in Primorsky Region in the Period 2003-2005."
- The Primorsk and Khabarovsk coalitions, in order to address common issues more effectively, formed a union called the Far East Congress of Business Associations.

Samara

- Coalition founded in February 2003
- 19 members: regional branch of OPORA, local chambers of commerce, entrepreneurs' support organizations, professional associations, non-commercial funds, local business associations
- Coalition coordinator: OPORA's regional branch
- In 2006, nearly 130,000 SMEs in Samara accounted for 27 percent of the region's total employment
- Small businesses generate about 10-12 percent of the region's total goods and services.

Saratov

- Coalition founded in February 2003
- 9 members: regional branch of OPORA, trade unions, professional associations, entrepreneurs' support organizations, businesswomen's associations, local business associations
- Coalition coordinator: Saratov Chamber of Commerce and Industry, 343 members.
- In 2006, 16,000 enterprises in Saratov employed a mere 110,000 people
- The share of small business in the region's total product remains insignificant and SMEs are therefore not in a position to influence the regional budget.

Volgograd

- Coalition founded in March 2003
- 12 members: local chambers of commerce, regional branch of OPORA, trade union, professional association, fund dedicated to SME support, local associations of entrepreneurs

- Coalition coordinator: Volgograd Chamber of Commerce and Industry, 450 members
- In 2006, 17,000 SMEs in Volgograd employed some 83,000 workers, although over 125,000 people were involved in small business.

The newest wave of coalitions

- Altai: 9 member associations
- Astrakhan: 13 member associations
- Kamchatka: 7 member associations
- Kirov: 13 member associations
- Nizhniy Novgorod: 11 member associations
- North Ossetia: 5 member associations
- Rostov on Don: 4 member associations
- Sakha/Yakutia: 4 member associations
- Smolensk: 15 member associations

Notes

¹ Leonid Polishchuk, "Small Businesses in Russia: Institutional Environment," Center for Institutional Reform and the Informal Sector Working Paper 240 (College Park: University of Maryland, 2001).

² William E. Pomeranz, "Whither Russian Property Rights?" Center for International Private Enterprise Economic Reform Feature Service, (Washington, D.C.: CIPE, 11 March 2004).