State-Business Relations in Russian Regions: What has changed in 2000s?*

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Abstract: According to official statistics Russian economy is booming last 8 years. But what are drivers of this development – only high oil prices or real changes in incentives and modernization at firm level? What is the role of regional authorities in this process? We try to answer these questions using the data of two surveys conducted in 2000 and 2007 in eight Russian regions. 500 respondents from all sectors of economy took part in each survey.

We analyzed the strategies of enterprises and their interrelations with regional and local authorities. We can state that quality of institutions did not changed and in certain matters (such as firms' assessment of regional and local officials) the situation has even turned absolutely worse. Although corruption has become worse, it is far from being a top position in the list of problems the business in facing (pressure from natural monopolies or shortage of skilled workers are much more important). The high share of unrecorded turnover (more than 20%) is combined with high level of trust to other businessmen in the same region. Many firms have formal and informal link with government (via participation at advisory councils, invitation of managers with government job experience, co-ordination of market behavior with authorities etc.).

We can assume that new steady "rule of the game" are being established, although these rules are mainly informal. So, external competition can be resisted with new protective mechanisms, such as informal state-business networks. They are convenient for the most part of insiders, but they can be the barriers for outsiders and they can put obstacles in the way of modernization at firms' level.

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The second presidential term of Vladimir Putin is ended. After his retirement as the head of the state, a significant phase in the life of the nation has closed. This was not only the era of economic growth, increasing wages and favorable condition of the oil market. This period was also marked with active efforts of the authorities to change conventional “rules of the game”, together with their commitment to streamline the relationships between the federal government, regional authorities and business under slogans calling for strengthening of the “vertical axis of power” and for establishment of the rule of law.

In this paper we are willing to look at the changes that took place in this country through the eyes of representatives of the Russian business community. What new dimensions were added to relations between the government and economic agents in the last eight years? What legacy did received new president Mr. Medvedev in this sphere? What, as businessmen believe, should the government bring into focus in the next political cycle?

Data

Our paper is based on the data of two large-scale surveys conducted by the Levada Center in 2000 and 2007 in eight regions in European part of the Russian Federation, including Moscow, Bashkortostan, the Voronezh, Nizhny Novgorod, Novgorod, Sverdlovsk, Smolensk and Tula regions. The concrete range of regions was specified in 2000 so as to have different types of units of Federation presented in the sample: donors and recipients of the Federal budget, the more conservative and more liberal ones in terms of economic policy, those that have and have not changed their governors since the start of economic reforms.

Five hundred respondents took part in each survey to represent enterprises and organizations in all industrial sectors except agriculture and services (public health, education etc.). The sample structures were representative of economies of the regions in question with a correction for a rather higher share of industrial enterprises and a rather lower share of commercial trade than in the structure of the general set. So, in contrast to many studies of big business and “the oligarchs”, our surveys reflect the views of the ranks of Russian business.

We have used the method of personal interviews with our respondents who were top managers of the enterprises. The questionnaire had more than 150 questions describing condition and efficiency of public institutions, influence of the business on economic policy and ways of the government’s influence on the business.

The starting point

The 2000 survey was aimed at identifying the key elements of Russia's business environment with a special emphasis on such issues as efficiency of public institutions, influence of the business on public policy and aftereffects of government regulations on the business. Moreover, the survey was focused on relations between business and government because many previous studies asserted that in Russia the government was captured by private business (Hellman, Jones, Kaufman (2000) etc). In other words, the business has become so influential that it is able to dictate policies to regional authorities.

However, the 2000 survey has shown that relationship between private companies and regional authorities can be defined as "exchange" rather than "capture". For instance, according to the survey, those firms that were supported and subsidized by regional and municipal administrations in turn provided services to regional and local authorities bearing additional costs.

Our survey has also revealed that the firms trust the existing system of courts of arbitration fairly high for their ability of to protect their rights in conflicts with other private firms. However, they were much less confident about their own ability to defend their lawful interests in court in legal controversy with the government. Moreover, those firms that had their doubts about prospects for defending their property rights in court were much less willing to invest in their own businesses than the rest of our respondents.

Among other results of the 2000 survey, we can point out that the respondents regarded courts of general jurisdiction, bailiffs and the police as inefficient, especially in comparison with their much more positive assessment of courts of arbitration. Among the major impediments to expansion of their businesses, the respondents mentioned high taxes, tough competition and troubles in obtaining loans. In addition, the firms complained about shortage of competent managers and lack of support from local authorities (for more detailed information about the results of the 2000 survey see Frye (2002), Frye (2003) and Frye (2004)).

Formulating hypotheses for the 2007 survey we took into consideration, along with the results obtained from analysis of the 2000 data, the results received from two large-scale enterprise surveys conducted by the State University – Higher School of Economics in 2005—2006 (Dolgopyatova & Iwasaki (2006), SU-HSE (2007)). Although the latter two surveys were focused on competitive power of Russian industry and evolution of corporate governance, they revealed essential differences between the successfully growing and the "troubled" firms in the way they ranged their priorities when faced with barriers to expansion of their businesses.

A conclusion that in recent years the pattern of government support had been changing, and that it was less frequently given to weak and inefficient firms, was one of important results of these projects. Meanwhile, the firms valued support coming from regional authorities higher than that coming from federal agencies. The SU-HSE and Hitotsubashi University project also gave new confirmation to the hypothesis put forward by Timothy Frye about establishment of a system of “exchange” between firms and regional administrations (see Yakovlev (2007)).

All the above results enabled us to formulate a number of new hypotheses in addition to the tendencies that were revealed by Frye in his 2000 survey, and to include into our questionnaire new items about ways, causes and extent of support that the enterprises provided to regional and local authorities, and about financial and organizational aid given to the firms by regional and municipal administrations, etc.

A generalized portrait of the responding firm

Our sample represented industrial and service firms in almost equal shares. Numerically, they were mostly small-scale ones. For example, 50% of the surveyed industrial firms had less that 200 employees, another 18% had 200 to 500. In services, a third of all firms employed less than 50 and another third, from 50 to 150.

About 60% of the surveyed industrial firms were established before 1991. In services, the share of such firms was much lower – only 32%. It is also worth mentioning that one fifth of all enterprises in our sample was established after 1998 (in the industry, their share was 10%, and in the services, it reached 28%).

The absolute majority of the surveyed firms (about 70%, while 17% had difficulties in answering) had a dominant owner who maintained control over the enterprise. The share of state-owned (state and municipal unitary enterprises) was 6% of the sample, while foreign juridical and physical persons had only 2.5% of all firms under their control.

The respondent enterprises are fairly steady. For instance, 39% of industrial and 64% of service firms described their financial and economic condition as “good” and “very good”. The share of the firms that had doubled their sales in 2000-2006 was 38% in the industry and 55% in the services.

What was measured, and how?

We examined answers given by our respondents to four blocks of questions related to (a) conditions of running enterprises; (b) changes in political environment; (c) efficiency of public institutions, and (d) relationship between government and firms. At this stage, we recorded disparities in the answers by two consolidates sectors represented by industry and services, and by enterprise scale. In each sector we used a specific ranking by scale. We also tried to take into account a possible effect of “excessive optimism” of our respondents, which could be caused by their business success in recent years (in 2006, 52% of the respondents improved their financial and economic conditions in general, and 46% more than doubled their sales since 2000). In order to eliminate this effect on dynamic comparisons, we made additional checks of the revealed tendencies using “control groups”, which were represented by the firms whose financial condition had been fair or poor in 2000 and 2007.

One more essential procedural note is that in principle, changes in assessments from one survey to another may have occurred for two reasons. On the one hand, firms may have reacted to objective changes in business environment. On the other hand, different assessments in the two surveys may be due to changing subjective feelings that motivated their answers. For example, in the discussion of activities of public institutions their “fair” mark (or “three” on a five-mark scale) could have had different meanings in 2000 and 2007 if their idea of “normal” quality of public services had changed.

Unfortunately, “value changes” of this kind can be hardly revealed in any other way but either in-depth interviews or a special survey, which both were impossible for us in 2007. Nevertheless, we can suppose that under high economic growth of recent years, the firms could somewhat elevate their criteria of “normal” quality of public services and business environment. Consequently, the 2007 survey may to a certain extent underrate, in comparison with the 2000 survey, positive changes in activities of public institutions and in business environment.

Conditions for running business enterprises

In this block, we used the questions related to intensity of competition, share of shadow turnover, major impediments to running business enterprises and trust of respondent firms in their business partners.

In 2000 and 2007, the questions about competitive environment were formulated in different ways, making dynamic comparisons difficult. In 2000, the respondents were asked only to show “geographical origin” of their major market rivals. In 2007, the respondents were asked to assess the intensity of competition (in the terms “very tough”, “not very tough”, “practically absent”) with five categories of their potential rivals. Aggregated results of both surveys are shown in Tables 1 and 2.

Table 1. “Main Competitors of Your Enterprise are…” (Answers of respondents (%))

2000	Industry	Services
Firms in your region	46,3	84,0
Firms in other regions of Russia	53,3	14,2
Firms in CIS countries	17,8	2,7

Firms in countries other than CIS	23,3	2,7
No competitors in last two years	10,4	8,4

Table 2. Firms with Different Intensity of Competition from Enterprises of the Same Region, Other Regions of Russia, CIS countries, Developed and Developing Countries

Answers of respondents (%)

2007	Industry	Services
Strong competition exists at least in one segment	62,2	55,9
In all segments, competition is not very strong or practically absent	28,2	33,1
Competition is absent practically in all segments	8,0	6,9
Difficult to answer	1,5	4,1

Although the enterprises mention high competition as one of conspicuous obstacles to their growth, the number of firms facing practically no competition is constant. In 2007, they were 7.5% of all respondents, while 2.8% found difficulties in answering, against 9.5% in 2000 (the option "difficulty in answering" was not included at that time). At the same time about 30% of firms faced only weak competition.

To estimate the share of shadow turnover, we asked our respondents: "What approximate share of real turnover of funds is indicated in accounts presented by other enterprises (organizations) in the same business in your region?" First of all we have to mention that in 2007, the share of those who found difficulty in answering has declined almost to a half (from 47% to 27.5%). Calculation of average figures without inclusion of those who found difficulty in answering revealed that in 2000, official records reflected approximately 76% of real turnover, both in industry and in services. Accordingly, shadow turnover was about 24%. In 2007, as our respondents believe, the unrecorded turnover remained at the same level in services, but markedly declined in industry (to 19%). Meanwhile, the estimates made by firms of smaller scale (under 200 and 201-500 employees in industry and fewer than 50 in services) grew better, while the assessments made by the largest enterprises grew worse, especially in services.

Analysis of obstacles to running business was based on answers of the respondents to a question that included a closed list of such factors. Each factor was offered to be evaluated on a five-mark scale where "one" was no obstacles, and "five" meant very serious obstacles. Table 3 shows the share of firms that have pointed out high and very high value of the corresponding factors in 2000 and 2007. We can note that business enterprises have stepped up the general level of their requirements. For instance, in the industry in 2007, referring to all factors on the average, 35.4% of all respondents against 31.5% in 2000 pointed them out as “significant” and “very significant”.

In total, three parameters showed substantial improvements in 2007 from 2000: tax rates, availability of credit, and frequency of changes in laws and regulatory enactments. An insignificant improvement was also observed in such a parameter as government interference in enterprise activities.

Deterioration in conditions for running business was related to growing shortage of managerial personnel, tougher competition and rising degree of corruption of officials. In addition, absence of support from regional and local authorities grew into a more acute problem for industrial enterprises, and underdevelopment of infrastructure became a more serious constraint for service enterprises.

In total, high tax rates still are still the top obstacle to expansion of business both in the industry and in services. However, shortage of skill workers has grown into a comparable problem in the industry, and this factor comes first if smaller enterprises with less than 200 employees are excluded. Pressure from natural monopolists is the third in the rating of obstacles to expansion in the industry. In services, the second and the third place are shared by “strong competition” and “frequent changes in laws and regulatory enactments”.

As far as other differences are concerned, corruption of officials remains a factor of little significance for industrial enterprises (the seventh place out of ten in 2000, and the ninth out of thirteen in 2007), although it’s absolute assessment grew a little worse. It should be mentioned that other studies of Russian business elite also pointed at corruption as smaller evil for running business enterprises in comparison with high taxes, unpredictability of regulation and some other factors (Hendley, Murrell, Ryterman (2000), Hellman et al (2000)). For service firms, on the contrary, corruption can be regarded as a factor of medium importance (the fifth place both in 2000 and 2007, in spite of a larger range of factors in the questionnaire).

The data describing levels of trust in business partners look unconventional against the background of toughening conditions for running business. For instance, contrary to a persistent notion that trust is a matter of total shortage in the Russian economy and society, as early as in 2000 most of our respondents (more than 70%) in both sectors were inclined to trust other business people in their city in the belief that they would meet their obligation to business partners. Differences in assessments of our respondents by enterprise scale were insignificant.

In 2007, the situation changed to the better. Answering to this question, 90% of our respondents in industry chose “yes, can be trusted” of “most likely can be trusted”. In services, 82% gave similar answers. Meanwhile, large service enterprises (employing more than 150) had somewhat less trust in other businessmen about their willingness to meet obligations than those in small and medium-scale firms in our sample.

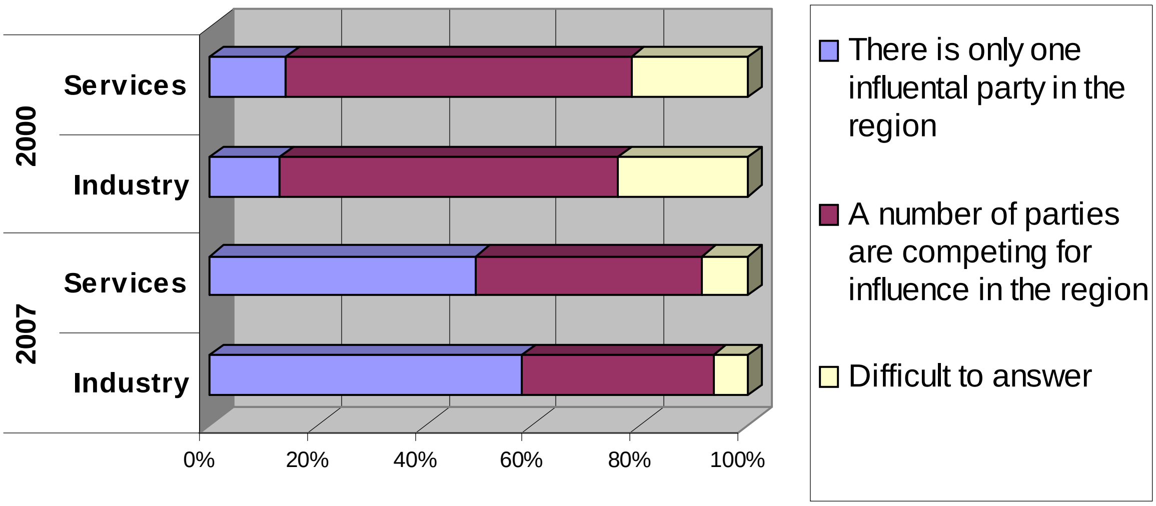
Changes in the political environment

We used answers of our respondents to a large block of questions in order to make a description of political situation in the eight surveyed regions. The questions covered inter-party rivalry for political influence, freedom of regional mass media, consensus of regional governor, legislature and mayor of a provincial capital about economic policy, and also consistency of the existing political parties with personal views of our respondents.

As seen from Figure 1, assessments of political competition underwent a fundamental change since 2000. At that time, most respondents believed that several parties were competing for political influence in their region, but at present, more than 50% believe that only one party has real influence. We can single out, among interesting tendencies, a visible decline in the number of those who had difficulties in answering, and also disappearance of substantial differences by enterprise scale. In 2000 top managers of large companies, both in the industry and in services, more frequently spoke about inter-party competition, and among smaller firms there were more those who found difficulty in answering. In 2007, these differences generally faded.

However, we cannot declare that the tendency towards lower political competition is strongly blamed by our respondents. For instance, in 2000 the majority of survey participants (61% of the entire sample, and about 70% large companies in both sectors) had believed that governors of regions were surely to be elected, but in 2007 the supporters of appointment of the governors already prevailed over the advocates of election (49% against 43%). Another indirect indicator is consistency of party programs with personal views of our respondents. The data of the 2007 survey indicate that influence of Communist Party of the RF, Yabloko and the Union of Right Forces suffered a sharp decline (the combined rate of their support in the industry was 12% and in services, 10%, against, correspondingly, 45% and 42% in 2000), but the United Russia generally increased its influence, coming close by its positions to the views of 40% of the respondents. However, the share of businessmen whose interests are reflected by no one of the existing parties has also considerably increased (from 28% to 41%). We can also point out that our respondents associate themselves with the United Russia much more frequently in the industry, particularly in the group of enterprises with more than 500 employees.

Figure 1 Assessments of Political Competition in the Surveyed Regions



Meanwhile, answers of our respondents about freedom of mass media in their regions gave reason to doubt that real political competition existed at the regional level in 2000. For instance, by 2000 63% of the respondents in both sectors believed that regional press wasn't independent. In 2007, there was a slight discrepancy in assessments by sectors (71% in the industry and 60.5% in services), but the average share of such answers remained practically unchanged.

Taking these conditions into account we can suppose that even by 2000, the regions rather witnessed collisions among interests of different bureaucratic groups, which were dividing influence and control over resources under a cover of various "political programs". Today, one of such groups has gained dominance over regional structures of power, getting an advantage of pursuing more consistent economic policy.

A much higher degree of consistency between key government bodies in their approach to major issues of regional economic strategy can give evidence that this version is correct. While in 2000 about 30% of the respondents believed that positions of their regional governor and legislature were conflicting and another 20% found difficulty in answering, in 2007 both indicators has declined by a half. The same shifts could be observed in assessments of traditionally controversial relations between a governor and a mayor of a provincial capital. Although in 2000 only about 48% of our respondents believed that strategic ideas of their governors and mayors generally coincided, while 36% gave a negative answer to this question, in 2007 the share of positive answers ("definitely coincide" and "most likely coincide") has grown to 63%, and the share of negative ones had decreased to 28%.

Assessment of efficiency of the government

Poor efficiency of the government and corruption of officials were and still remain one of the major arguments used by opponents of the "state capitalism", the system Russia is steadily moving toward to in recent years. The authorities, on their side, took and are still taking efforts to get out of this "bad equilibrium", initiating judicial and administrative reforms, withdrawing interior affairs administration from supervision of regional authorities, etc. The answers given by our respondents enable us to partially evaluate the outcome of these policies.

Table 3 shows that general evaluation of activities of regional authorities (on a five-mark scale from "very poor" to "very good") appears practically unchanged after seven years, remaining slightly below the "fair" mark. Meanwhile, weights of both positive and negative assessments have notably declined (approximately to a half), while the weight of neutral answers has increased.

Table 3 Answers of Respondents to the Question "How Can You Evaluate Activities of Public Administration in Your Region (Republic)?

	2000		2007	
	Industry	Services	Industry	Services
Balance of positive and negative estimates	-8,9	-9,3	-3,1	-5,3
Share of "fair" marks	50%	48%	59%	58%

The assessment of individual governmental authorities gives even a little better impression. For example, average balance of estimates given to 14 authorities that were asked to be evaluated by our respondents in 2000 and 2007 went slightly up from +3.1 to +4.5. Meanwhile, evaluation of regional authorities (the governor, regional legislature and administration) went up, and evaluation of local authorities (the mayor, his administration and local legislature) went down. In 2007, positive balances of estimates were typical of law enforcement authorities (court of arbitration, common law courts, and public prosecutor's office), except police whose balance of positive and negative estimates stood fairly below zero. In general, while in 2000 our respondents gave the highest marks to tax inspectorate, the mayor and city administration, in 2007 three leaders in the same range of authority were tax inspectorate, court of arbitration and the governor.

In addition to general issues, the respondents were asked to estimate by six parameters the activities of three authorities their firms had most frequently to deal with. This implied regional officials, police and court of arbitration. The respondents were asked to tell how much these authorities tended to be objective, professional, free of corruption, easily accessible and independent in their decision-making. Table 4 shows balance estimates of activities of regional officials, police and court of arbitration, averaged over the above mentioned six parameters.

As seen from the data in this table, our respondents regard the activities of officials and police as negative, and firms in services give still lower marks. In 2007, attitude towards police remained practically unchanged, but the opinion of our respondents about regional and local officials went much worse. On the contrary, court of arbitration got a rather positive score even in 2000, and in 2007 its estimates went even better, although only in the group of industrial enterprises.

Table 4 Averaged Balance of Positive and Negative Assessments of Activities of Regional Officials, Police and Court of Arbitration

	2000		**2007**	
	Industry	**Services**	**Industry**	**Services**
Officials of regional and city administrations, and of various, inspectorates	-14,2	-20,9	-24,1	-36,9
Police	-20,7	-26,2	-19,2	-28,0
Court of arbitration	7,9	10,3	19,0	9,6

Thereby, according to the assessments made by our respondents today, court of arbitration happens to be one of the most advanced public institutions. On the other hand, as both surveys revealed, effectiveness of judicial protection depends a great deal on whoever is your opponent in court (see Table 5). As our respondents believe, it is the least probable to champion one’s interests in a judicial contest with federal agencies (38% of the respondents in the industry and 41% in services). On the contrary, the probability to win in a legal controversy with other private firms is estimated to be very high, doubted by only 6% of the surveyed enterprises while 11% found difficulties in answering. At the same time, large enterprises are typically more self-confident in controversies, both with private counterparts and with public agencies.

Table 5. Will the Firm Be Able to Defend its Legal Interests in Court in Contest with…?

	«yes» or «probably yes»	«no» or «probably no»
2000		
1) public agencies	39,2%	41,3%
2) other enterprises	76,4%	6,0%
2007		

1(a) federal agencies	39,3%	47,2%
1(b) regional and local agencies	45,4%	41,7%
2(a) with state-run enterprises – business counterparts	69,6%	16,6%
2(b) with private enterprises — business counterparts	83,0%	6,1%

However, if a firm has won court litigation against the government, probability of this judicial decision to be executed is much lower than in a case when the respondents are private counterparts. On the other hand, the situation has slightly improved in 2007. In particular, 38.5% of the firms believe that they will be able to make the decision given in their favor executed in contest with federal agencies, and 44%, in contest with regional authorities (in 2000, their share was only 28%).

Relationship between the authorities and business

Tendencies in this sphere were analyzed on the base of questions about acceptability, scale and specific practices of lobbying, about governmental regulation of enterprise activities, about strength and ways of support that firms receive from the authorities, and also about scale, ways and reasons for rendering assistance to local and regional authorities by firms in the framework of social development in their areas.

Practices of lobbying. By the time of our second survey, the share of firms which practice lobbying in order to defend their business interests has declined. For example, the share of firms which try to influence the content of laws and regulations has declined from 40% of the total sample in 2000 to 29% in 2007. At all levels of government large firms visibly prevailed among such firms.

Price regulation. The share of industrial enterprises which experienced certain attempts of authorities to influence their output prices in 2007 was, on the average, 19-21% at various levels of management, against 27-29% in services. In all cases, the larger enterprises experienced stronger regulations. For example, federal agencies made substantial or even very strong pressure on prices of 40% industrial firms with 1000 and more employees, but in the group of small and midsize firms (under 200 and 201-500 employees) such pressure was faced, correspondingly, by 12% and 13% of the respondents.

Although there is still a fairly large share of enterprises which experience pressure of authorities on prices of goods and services of their supply, the situation has changed to the better since 2000. In 2000, regional administrations were the most active regulators of prices for the output of our respondents: they influenced, to one extent or another, prices of 42% of industrial firms and of 42% of firms and businessmen in services. In 2007, the corresponding figures declined to 21% and 29%.

In general, we may speak about a certain kind of symmetrical movement: influence of enterprises on enactment of laws and regulations is getting weaker, and the sphere of direct administrative pressure in private enterprise activity is becoming narrower. Therefore, we can suggest that the system of "interchange" between enterprises and regional administrations is still alive, but its scale is smaller.

Support of enterprises from the authorities. In 2007, the number of enterprises which got one or another type of support from regional and local authorities was much smaller than in 2000. As seen from the data of Table 6, in 2000 26% of industrial firms received support on the regional, and 30%, on the local level, but in 2007 the corresponding indicators went down to 20% and 18%. In services, support given to enterprises by regional and local administrations reduced in scale still more.

Table 6. Support of Enterprises from Local and Regional Authorities (%)

	Industry		**Services**	
	2000	**2007**	**2000**	**2007**
Got certain support from regional administration	26,4	20,2	20,6	11,0
Got certain support from local administration	30,0%	17,9	31,6%	14,0

To analyze the nature and ways of governmental support in more details, in the 2007 survey we used a number of special questions about financial and organizational support, and also about its effectiveness. Analyzing the answers given by our respondents, we can state the following:

- Regional administrations are more active in rendering financial support, and this support is more frequently given to industrial enterprises on the regional as well as on the municipal levels. Regional authorities more often support midsize industrial enterprises (with 201-500 and 501-1000 employees), and municipal administrations prefer to support large firms (with more than 1000 employees). In services, the largest companies get financial support much more often.
- From the offered list of means of support, industrial enterprises most often received tax benefits and tax deferrals, and preferential credit or guarantees against bank lending. In services, the most frequently used tools were preferential rates for lease of premises and land.

- In the most frequently demanded forms of organizational support on both levels of government, we can single out “help for preparation and support of investment projects”, and “assistance in allotment of plots of land, connection to engineering infrastructure” (the latter is more important for the firms in services). On the regional level, industrial enterprises most often mentioned “assistance in contacting with federal agencies” (this was mentioned by almost every second of the firms that had received organizational support). Our respondents in the industry also talked rather often about assistance in contacting with Russian partner firms, Russian banks and financial institutions and about help in their search of Russian investors. Interestingly, the same help in contacting with foreign partners and investors was given to a very limited number of enterprises.
- While effectiveness of governmental support is generally assessed as not so high (about a half of all surveyed firms tell that they got no support at all, and 18 to 23% of the firms think that it was ineffective), the measures of organizational support are generally held in a higher esteem. In particular, medium and high effects of organizational support on regional and municipal levels were declared by 14.6% and 14%, correspondingly, against 10.5% and 7.7% in the assessment of financial support.

Rendering assistance to local and regional authorities by firms in the framework of social development in their areas. Very detailed questions on this subject were added to the questionnaire in 2007 because besides the papers by Frye, a number of other studies (Haaparanta et al (2003); Ivchenko, Liborakina & Sivaeva (2003); Juurikkala & Lazareva (2006)) displayed links between assistance of enterprises to authorities, potential lobbying and governmental support of enterprises. We included in our questionnaire a list of possible direction of help to authorities, a question about reasons for giving this help, and also estimated amount and dynamics of expenditures on social development made by the enterprises (as a percentage of their sales).

Considering assistance to authorities, we can point out the following trends.

- Large enterprises render help to authorities much more frequently than the smaller ones (among small enterprises, the share of giving no help to authorities is 9% higher than in the total sample; large industrial enterprises, on the average, chose 5.9% of possible directions against 2.8% chosen by small ones; the same differences, though less pronounced, are found in services).
- The prevailing direction of assistance to authorities (measured by frequency of mentioning), both in the industry and in services, is “help to schools, hospitals, orphanages and other social institutions that are not listed in accounts of the

enterprises" (42% and 39%), and "waste removal, planting of greenery in municipal land adjacent to enterprise sites, repair and reconstruction of facilities on this land" (46% and 39%). Industrial enterprises most often give help to veterans of wars, the disabled and other groups of socially unprotected people related to the enterprises (46% of the respondents). In services, firms most often give help to veterans of wars, the disabled and other groups of socially unprotected people unrelated to the enterprises (32% of the respondents).

On the average, the respondent enterprises spend 0.45% of proceedings from their sales on help to local and regional authorities (about 0.6%, if the firms giving no help are excluded). In the industry, these expenditures are higher at large firms (with more than 500 employees). On the contrary, in services the smallest and the largest firms bear the greatest burden. In comparison with 2000, the absolute majority of respondents told that their expenditures on social development in their areas were either stable or growing (usually at a moderate rate).

Conclusion

Summing up our preliminary results, we come to the following major conclusions.

Modernization at the firm level. Our macroeconomic data ate generally in line with the data of official statistics. The majority of our respondent firms have their sales volumes notably expanded (particularly in services). Their investment activities are scaling up. Companies are vigorously engaged in modernizing production and management, including purchases of new equipment (about 80% of the respondents), product innovations and launching of new businesses (76%), upgrading skills of their employees (79%), getting certified in conformance with an ISO 9001 standard (29%).

Closed nature of regional markets. At the same time, our survey shows that most enterprises are closed in their regional markets (this tendency is confirmed with data of other recent studies). Only 17% of firms in our sample are facing tough competition from producers from far abroad. The share of firms with foreign stakes in capital is still very low. This gives an impression that firms, as well as regional and local authorities have little interest in external, both foreign and Russian investors.

Government. The system of public institutions and regulatory agencies on the regional and municipal levels is generally steady. There has been some progress in it since 2000 because price regulation was scaled down; claims to taxation decreased and legislation became more stable. Bank credits have become more easily available. Quality of arbitration in courts has become rather better – our survey shows that they can already help to protect property rights and to secure that court decisions in legal controversies with counterparts could be serviced.

However, certainty of the firms that their legal interests can be effectively protected in court falls sharply down as soon as the issue is their conflict with public institutions. In general, our respondents are inclined to believe that the system of public institutions is rather stagnant, and in certain matters (such as their assessment of officers in regional and local administration) the situation has even turned absolutely worse.

Greater degree of certainty of environment. In comparison with 2000, the number of firms that felt difficulty in answering to out questionnaire has radically declined. If we also take into account relative stability of legislation, which was mentioned by out respondents, we can conclude that steady "rule of the game" are being established, although these rules are for the most part informal. In favor of this assumption we can refer to the share of unrecorded turnover that is still high (more than 20%), while other businessmen in the same region enjoy high level of trust. In this context, this may create barriers to entry of "strangers" into regional markets. At the same time, although corruption has become worse, it is far from being a top position in the list of problems the business in facing (in the industry, it is number 9 out of 13, and in services, number 5). In essence, corruption is a meaningful problem only for small firms and for new entrants who are not adequately built into confidential relations in the world of established business networks.

Key problems and policy challenges. At first glance, top items in the list of impediments to business have changed since 2000: troubles in obtaining loans have become insignificant; on the contrary, shortage of skilled personnel is acute, and pressure from natural monopolies has grown heavier. However, it appears that the key policy issue is the same: how to ensure favorable conditions for modernization under the increasing global competition?

In the 1990s, mechanisms of the "barter economy" on unprecedented scale were nor just a mode of reaction to inadequate policy of the government. They were also a way of protection from external competitive pressure. In the early 2000s, Russian economy could get out of the "barter trap" due to the devaluation effect in 1998 and to sensible macroeconomic and fiscal policies. The firms got access to resources they needed for modernization, including higher level of their own profits and availability of borrowings. However, our policies are again at crossroads under heavier external pressure.

Growing competition can be resisted with new protective mechanisms, such as informal business networks, which have, to all appearances, taken shape in the regions. Modernization will continue in this case, but it will be mostly self-reliant and wary about any external investors, either foreign or coming from another region. This tactics can probably bring some results in a near-term outlook. On the other hand, its long-term outlook will be loss of momentum. Russian companies will make progress, but weaker competitive pressure will give them fewer incentives for improvement than involvement in global competition is giving companies from Brazil, Mexico, South Africa, China and other countries that are comparable with the resent-day Russia by the level of development.

Judging by the data of our survey, in a situation when mobility of labor and productive resources is still limited and inter-regional competition remains weak, regional and local authorities choose the option of this particular “conservative” policy line. Is there an alternative to this line?

The answer to this question is beyond the boundaries of this project. Nevertheless, we believe that the alternative may be offered by the following measures that should be taken by the federal government:

- Lowering of entry barriers into regional markets for new participants (the first step should be to simplify procedures of allotment of land plots and co-ordination of new construction projects, and to make them more transparent);
- Extension of programs for support of small and midsize companies (our survey has revealed that they get less support than large companies, but particularly the smaller ones create competitive environment and have the strongest growth potential);
- Creation of conditions and incentives for “training the firms” in a wide sense (sharing the burden of expenditures on advanced personnel training, on R&D and technological innovation, on entrance to export markets);
- Assistance for upgrading of public administration in the regions (launching an analog of the Presidential program of managerial training for regional and local officials, widening the federal share in competitive bidding for contracts for expenditures on regional projects for upgrading public services);
- Provision of incentives for attraction of capital investment to their territories (using federal transfers taking into account improvement of local business climate and finding out and popularizing the best practice of co-operation with investors, etc.).

Apparently, inefficient state machinery can pose a risk of “government failure” to these measures (particularly to those that give incentives to and share financing of activities by firms and regional administrations). Such risks cannot be avoided, but they can be diminished. This, in particular, is evident from the experience of new industrial economies, which are comparable to Russia in terms of development of public institutions but nonetheless have ensured steady economic growth relying on measures of “new industrial policy” (Rodrik (2004)).

Understanding of their experience, together with concentrated efforts of skilled and honest public officials (who, regrettably, are one of the scarcest resourced in Russia today) in solving a limited number of key problems that are restraining economic growth can be much more effective than mass campaigning against corruption or former oligarchs. Such measures can be successful only upon consideration of interests of the economic agents who are practically engaged in the programs for modernization. Therefore, in order to adequately design the proper instruments of federal policies, the federal government will face a necessity to co-operate with powerful business associations, which represent collective interests of successful companies, and with active regional leaders.

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