

**Efforts of Business Associations to Improve the Business and Legal Climate
for Entrepreneurial Activity in the Region
Accomplishments and Barriers**

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In 2000, as part of a project for “Improvement of the business climate and creation of a coalition,”¹ the Northern Chamber of Commerce and Industry surveyed personnel from different businesses and entrepreneurs, as well as district residents, with regard to various aspects of the business climate in the region. In particular, personnel of 73 businesses were asked to rate the impact of various factors on the development of entrepreneurship in the Murmansk district on a 5-point scale (1 – no adverse effect, 5 – very strong adverse factor). The results of the survey are presented in the Figure 1 below.

Figure 1

Factor	Mean Rating
Criminalization of the economy	2.6
Corruption	3.5
Poorly qualified labor force	3.2
Difficulty in gaining access to property and equipment	3.3
Difficult access to funding resources	3.8
Inadequate information	2.8
Overall political and economic situation in the country	3.7
Tax burden	4.7
Administrative barriers	3.3
Inadequacy of regional laws	3.8
Inadequacy of federal laws	4.1

Virtually all those surveyed rated the tax burden (mean rating 4.7) as the most negative factor. Furthermore, this factor has been rated the same for many years. (The Northern Chamber of Commerce and Industry has conducted four surveys since 1995 and entrepreneurs have always assessed the existing tax climate very negatively.) Despite recent assurances by the authorities, hardly anyone believes that anything will change for the better in the tax climate this year. In the opinion of many entrepreneurs and experts, a taxation policy motivated by revenue generation will continue in the near future and is very unlikely to be replaced by taxation policies directed at stimulating economic growth.

¹ This project is being implemented with the support of the Center for International Private Enterprise (CIPE, USA).

The factor that was second most negatively rated with respect to adverse impact on development of entrepreneurship was the inadequacy of federal and regional laws. The other factors ranking in the top five were difficult access to funding and corruption.

It should be noted that the rated impact of various factors on entrepreneurship was similar for all the groups surveyed: whether respondents worked in a large or small business, or whether they were the heads or employees of a business.

It is interesting to compare these results with the data from a survey conducted in the Murmansk district among 230 residents who varied with regard to social and professional background. A total of 67.4 % of those surveyed identified tax burden as a problem that impedes the development of entrepreneurship; approximately the same number cited criminalization of the economy; and 58% named corruption.

As part of the chamber's research, we undertook to discover the opinion of members of the business community as to the reason for the low efficacy of laws regulating entrepreneurial and economic activity. We discovered that, in the opinion of more than half of those surveyed, the most important causes are the inconsistencies and contradictions among the standards in different regulations pertaining to the same legal relationships, as well as the enormous number of instructions promulgated by different executive agencies. Almost half of the respondents believed that the laws that have been adopted fail to meet the basic needs of businesses and entrepreneurs.

The absolute majority of business people surveyed (86.4%) believe that, in order to improve the quality of legislation and give fuller recognition to the legal rights and interests of businesses and entrepreneurs, the Northern Chamber of Commerce and Industry and other business associations should be granted the right to introduce legal initiatives. Eighty percent of the respondents think that it should be mandatory for all regulations in the area of entrepreneurial and business activity to undergo expert evaluation by business associations.

A very recent example attests to the importance of a constant dialogue between business and the authorities, consultation with the business community, and consideration by the authorities of the entire range of opinions. As of January 1 of the current year, a law went into effect "Regarding a single tax on imputed earnings for certain types of entrepreneurial activities." This law, despite the length of time it took to write and pass it-- more than 2 years -- and the numerous discussions of it, generated a storm of disapproval on the part of many entrepreneurs and gave rise to a number of conflicts. The Members of the District Duma were compelled to make some emergency revisions, but they were still unable to quell the dissatisfaction, which was fully justified in my opinion. Without going into all the details, it can be stated that there would have been significantly fewer conflicts and even simple misunderstandings if the developers of the law had listened to the opinion that was expressed more than once by entrepreneurs, to the effect that the objective of this law should have been not increasing tax pressure, but bringing new taxpayers into the taxation process. In the Murmansk district alone there are several thousand of these. The businessmen and their associations also have a lesson

to learn from this. First of all, they must not remain indifferent, passive observers, but instead should participate actively in evaluation of draft laws, make proposals, and defend them before a law is passed, and not, as the saying goes, after the train has already left the station. The Chamber and other business associations should argue more convincingly for their point of view, recruiting representatives of the executive branch and deputies to support them.

Speaking of the participation of entrepreneurs in the preliminary evaluation of regulations at both the federal and the regional level, I would like to note that these expert evaluations should be performed by experts who are truly independent, and not those who are close to the authorities, and for whom participation in this process is just one more way to obtain special benefits for themselves and their business. It is certainly no secret that a rather characteristic trait of the Russian entrepreneur is the fact that, rather than utilizing business associations to organize lobbying efforts on behalf of group interests, they frequently resort to relying on their individual contacts in executive and legislative agencies.

It is true that, at the regional level, no law obliges the lawmakers to send their draft laws for evaluation to the Chamber of Commerce and Industry or other business associations. Business associations, like all other nonprofit and noncommercial organizations, cannot introduce legal initiatives. Nevertheless, as the Northern Chamber of Commerce and Industry's experience has shown, such organizations can and must affect the creation of regulations regulating economic activity and directed at improvement of the business climate for entrepreneurial activity in the region.

Approximately two years ago we began to implement a project "On improvement of the legal climate for entrepreneurial activity in the region" (supported by the Eurasia Foundation). One of the main goals and objectives of this project was to create a mechanism enabling regular participation of entrepreneurs and specialists employed by businesses in expert evaluation of laws and other regional regulations so as to create favorable conditions for business development. What was our initial step? First of all, we convinced the leadership of the district Duma that participation of the Chamber of Commerce and Industry and other business associations in evaluation of laws was legitimate. The Chamber and the Duma executed a collaboration agreement that made the relationship between the authorities and the chamber and its participation in drafting of regional legislation explicit and understandable. To implement this process, a Center for Evaluation of Laws and Aid to Entrepreneurs was set up as a structural division of the chamber and a Council of Experts consisting of jurists, economists, financial experts, and other specialists in business was likewise set up. In addition the Chamber organized a Committee for Evaluation of Laws and Improvement of Legislation, whose membership came not only from the heads of business, i.e., members of the chamber, but also from deputies of the District Duma, and members of Duma staff, and specialized committees of the District Administration. At one of the meetings of this committee, there was a lively discussion between interested businessmen and regional legislators on interaction for the purpose of improving legal conditions for development of entrepreneurship and economic activity in the Murmansk District. The positions of the Northern Chamber of

Commerce and Industry, the Regional Union of Industrialists and Entrepreneurs, and the members of the district Duma were reconciled and a draft plan for the law drafting process, and the participation of business associations in the passage of laws were discussed. In 1999-2000 more than 50 entrepreneurs and business people who were members of the Northern Chamber of Commerce and Industry participated in discussions and expert evaluations of draft laws and other documents (concepts, programs); that is, they made specific proposals. The Chamber formulated and sent to the District Administration and the District Duma more than 90 proposals, comments, and amendments, including 47 revisions of draft district laws, of which 21 were incorporated in later versions of the laws. Expert evaluations were conducted of seven regulations and draft laws, including the district law "Regarding sales tax," draft district laws "Regarding the "Murmansk shipyard" economic development zone" and "Regarding state support of the development of entrepreneurial activity in the Tersk and Lovosersk regions of the Murmansk District." A number of the ideas expressed by the entrepreneurs on increasing the efficacy of existing components of the infrastructure, support of small business, development of innovational, marketing, and information-consulting services became part of the program for state support of small business in the Murmansk District for 2000-2004.

An important tool with which entrepreneurs can influence improvement of business practices is the use of public hearings on draft laws, conferences and "round tables," at which representatives of businesses and business associations can discuss the most acute problems impeding business development with specialists from government and regulatory agencies. During the last two years, nine such events were organized at the initiative of the Chamber. In particular, "round table" sessions considered such important problems as the interaction of business associations and government agencies in eliminating administrative barriers to development of entrepreneurship; antitrust policies and the creation of a competitive environment; and the economic security of business and the problem of corruption. Of course these discussions do not always produce immediate results or effects, but the role of direct and constructive dialogue between business and government must not be underestimated. For example, our last survey showed that the number of those who felt that administrative barriers to registering and licensing entrepreneurial activity have a strongly negative impact on the development of entrepreneurship decreased by approximately one third compared to those who replied to the a similar survey question three years ago. Furthermore, approximately 30-40% fewer respondents currently believes that the climate for entrepreneurship has failed to change for the better.

On September 19, 2000, a "round table" session on "Antitrust policy and fostering a competitive environment as important factors in the development of small and mid-sized businesses in the region" was held at the Northern Chamber of Commerce and Industry. This session was part of the Chamber's project for "Improvement of the business climate and creation of a coalition." Aside from the Northern Chamber of Commerce and Industry, the organizers of the "round table" included the Union of Industrialists and Entrepreneurs of the Murmansk District, the Department of Economics of the Murmansk District Administration, the Territorial Board of the Russian Ministry for Antitrust

Policy, and the State Foundation for Development of Small Business in the Murmansk District. Session participants were informed of the survey results and then discussed the barriers to competition and monopoly in the district, and the interrelationship and interaction of the large and small business. The importance of information and its accessibility, as well as providing entrepreneurs with access to information resources were emphasized. The participants exchanged views on award and use of regional and municipal orders as a tool for creating a competitive environment and a level playing field for entrepreneurial activity. The following statistics demonstrate that this is an area beset with a large number of problems. A total of 61% of those surveyed believe that the district lacks the appropriate conditions for fair and honest competition among all businesses. Almost half of the business people reported that they did not consider the awarding of regional and local orders transparent and fair. Ultimately, the participants in the “round table” session concluded that the problems of antitrust policy and the creation of a competitive environment are pressing ones for the relevant government agencies and also for business and that collaborative action is required to resolve the accumulated problems and encourage development of small and mid-sized business in the region. The entrepreneurs hope that the actions of government agencies in awarding regional and local orders will be more open and transparent and that such orders will be awarded to those who will best and most cheaply fulfill them, rather than those who have the closest relationships with the authorities.

In December of the past year, the Chamber, jointly with the Russian Chamber of Commerce and Industry and other interested organizations, held a conference on “A system for supporting entrepreneurship. The role of chambers of commerce and industry, business associations, government agencies, and organizations of business infrastructure in its development and progress. Accomplishments, problems, and prospects.” This is a major area of activity for government agencies as well as business associations. Almost every second respondent to a survey that was conducted believed that the improvement of business infrastructure is critical to development of small business. Our analysis showed that the majority of cities and regions of the district do not have informational consultation centers either for novice entrepreneurs or for those who want to further develop their businesses. Little is done on the local level to stimulate small business, and introduce a system to help them gain access to funding and property. Access of entrepreneurs to information available to federal and local authorities and in oversight and monitoring organizations is also not without problems. Entrepreneurs have a very negative attitude toward the numerous inspections conducted, as well as the excessive fees that various types of monitoring and other managerial organizations exact for their services.

Uniting and coordinating the efforts of chambers of commerce and industry, unions and associations representing business and entrepreneurs in the service of more efficient operation and to further the common interests of business, especially small business, are very important to the solution of these and other problems. The Chamber has taken the initiative in putting together an informal coalition made up of the leadership of business associations and other organizations that provide support to small business with regard to defending and representing their interests. Several meetings of this coalition took place

last year. Joint initiatives included: having an Entrepreneurs' Day for the Murmansk District in the City of Apatity, preparation of proposals for holding a district-wide competition for "Entrepreneur of the Year," discussion of various problems facing businesses at "round table" sessions, including one on the topic of Business, Government, and the Press. A legal initiative is underway to develop a law "Regarding the nonprofit organizations representing regional businesses and entrepreneurs."

In conclusion, I would like to discuss one more factor -- that of corruption and the role of business association in preventing it. Corruption is a serious phenomenon and one that is relatively firmly rooted in Russian economic life. However, objectively it goes counter to the interests of entrepreneurs and businesses to have an environment that fosters corruption. This is easy to understand. Bribes and various sorts of gifts and tributes increase illegal payments and, generally, add to the cost of goods and services. Manifestations of corruption foster the growth of a shadow economy, force entrepreneurs to enter "black" and "gray" areas in their activities, and to keep two sets of books. Individual entrepreneurs and the businesses become vulnerable to any kind of audits, and at any time may be caught on a bureaucratic hook; they live in constant danger, and must maintain a double standard.

Relationships with civil servants are a major issue for entrepreneurs. According to the results of regular surveys, civil service red tape is perceived as one of the foremost problems impeding entrepreneurship, second only to excessive taxation and lack of funds. To a question concerning the forces pushing business into the shadow economy, answers distributed as follows: excessive tax burden – 90%, administrative barriers, and the enormous number of oversight organizations – more than 40%. Almost 60 % of those surveyed believe that corruption is a strong adverse factor in the development of entrepreneurship.

What should be done to prevent corruption, decrease its scope and consequences? No one is likely to come up with a magic bullet, but evidently it is possible and necessary to undertake steps and actions directed at creating an environment conducive to civilized business dealings, fair competition, decrease in the dependence of businesses on decisions of the authorities as to whether to permit or forbid, and decrease in the influence of individual civil servants on the award of resources and benefits. In our view, it is most important to try to prevent corruption at the legislative development level, when various regulations affecting relationships between businesses and the government, regional, and local authorities are being defined. The fewer provisions there are in the laws that allow the civil servant to award, coordinate, regulate, permit, or forbid, the fewer opportunities will there be for extortion and development of unprofessional relationships.

At all levels, the authorities must pass laws requiring those in power to conduct independent evaluations of all regulations that affect entrepreneurial and business relationships. The very participation of entrepreneurial associations must be transparent; the results of the evaluations must be known, open, and available to all participants in the business cycle.

Government authority must listen to the opinions of entrepreneurs on minimizing bureaucratic barriers in economic life and must transfer more of their responsibilities related to regulating business relationships to chambers of commerce and other nonprofit organizations representing businesses and entrepreneurs. The latest statements by the officials from the Ministry of Economics and Antitrust Policy concerning deregulation of the economy, registration of businesses using the “single registration authority” principle, and decrease in the number of categories of businesses requiring licensing instills some confidence that changes for the better can be expected in the business environment of today.