

## **Measurement of business climate in Russia: who did perceive the changes and how these changes are related to Mr. Putin?**

Starting from the comparative papers by Hellman et al (2000), Djankov et al (2002 & 2003), Botero et al (2004), the analysis of the investment climate causes large interest all over the world and in the developing economies especially. Many large international projects were devoted to this topic, e.g. BEEPS and Doing Business. Data of these monitoring projects, as well as the results of numerous other research projects indicate low quality of the investment climate in Russia (see, e.g. Puffer et al (1998), Hellman et al (2003), Kuznetsov and Kuznetsova (2003) and other).

However, high rate of economic growth in the decade of 2000s, especially huge inflow of foreign investment in 2006-2007 allowed the government not to take this problem seriously. Economic crisis of 2008-2009 changed the situation and lead to significant changes in the policy of Russian government (Yakovlev, 2014). It was admitted by the authorities that sustainable economic growth in Russia is not achievable without serious improvement of the investment climate. As a result in February 2012 the President of Russia Vladimir Putin announced the '100 steps program' aimed to improve the position of Russian Federation in the World Bank Doing Business ranking from 120<sup>th</sup> to 20<sup>th</sup> rate. A special post of the ombudsman for entrepreneurs at the President's administration was introduced. This was followed by the elaboration of the 'road maps' for simplification of access to electricity and getting construction permits, changes in the custom regulation and export promotion. At September 2012 a special decree on governors' performance indicators based, among other factors, on regional business climate assessment was adopted. In 2013 amnesty for entrepreneurs convicted for economic crimes was introduced. According to the World Bank Doing Business report published in October 2014 Russia moved in the rating of doing business conditions to the 62<sup>nd</sup> position, showing better performance than China (90<sup>th</sup> position), Brazil (120<sup>th</sup> position) and India (142<sup>th</sup> position).

However, to what extent do these government efforts and changes in normative environment lead to real improvement of investment climate from the point of view of business? In this paper we exploit data of representative survey of 2000 large, medium and small manufacturing firms conducted in Russia in summer-autumn of 2014 to answer two questions.

First we want to understand to what extent did business climate changed in 2012-2014 in the perception of economic agents present on the market. For this

purpose we use answers of the respondents to the question about dynamics of the investment climate in their regions. We analyze factors which can affect differences in answers of the respondents, such as firm size, sector, year of establishment, property structure, investment activity.

Second, using experimental design, we analyze to what extent the wording of the question about changes in business climate affects the respondents' answers to this question. In particular we estimate the effect of reference to the point that the initiative for business climate improvement came from Russian President Vladimir Putin. In the survey for half of the respondents wording of the question about business climate change contained reference to the initiative of President Putin, while for the other half it did not. We estimate the differences in answer for firms of different size, property structure, investment behavior, etc.

Preliminary results of our analysis indicate that despite the significant government effort no real improvement of the business climate was noted by manufacturing firms. More than half of the respondents did not observe any change at all. 22.5% of the respondents reported business climate deterioration in their regions. Positive tendencies were pointed by about 20% of the respondents. At the same time we could observe strong differences between small, medium and large firms. For small firms (less 100 employees) the balance of positive and negative answers was -6%, for middle-sized firms (101-499 employees) it was +6% and for large firms (above 500 workers) almost +23%.

Reference to the President's Putin initiative in the wording of the question in average led to more positive responses about business climate change. However, in the regression analysis this variable was highly significant only for middle-sized firms (101-249 workers) reporting on the improvement of business climate. Also firms, which received financial or administrative support from regional and local governments in 2011-2013, rather reported on business climate improvement. Investment activity, ownership structure and membership in industrial associations were non-significant.

Explaining these results we can note that larger firms usually have better access to government and they more quickly could use for their own interests the initiative of Mr. Putin on improvement of business climate. Concerning the strong impact of reference to Mr. Putin on evaluations of middle-sized firms we suppose that in this case our respondents reacted mostly not on dynamics of investment climate itself but rather on consequences of geopolitical trends of 2014 for their businesses. Russian embargo on import of food products from EU and devaluation of ruble provided new opportunities for many Russian firms – especially large and mid-sized. All these consequences are associated with politics of Mr. Putin. However large firms usually have longer planning horizon and therefore they can be more sceptic about long-term consequences of such policy.

