



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

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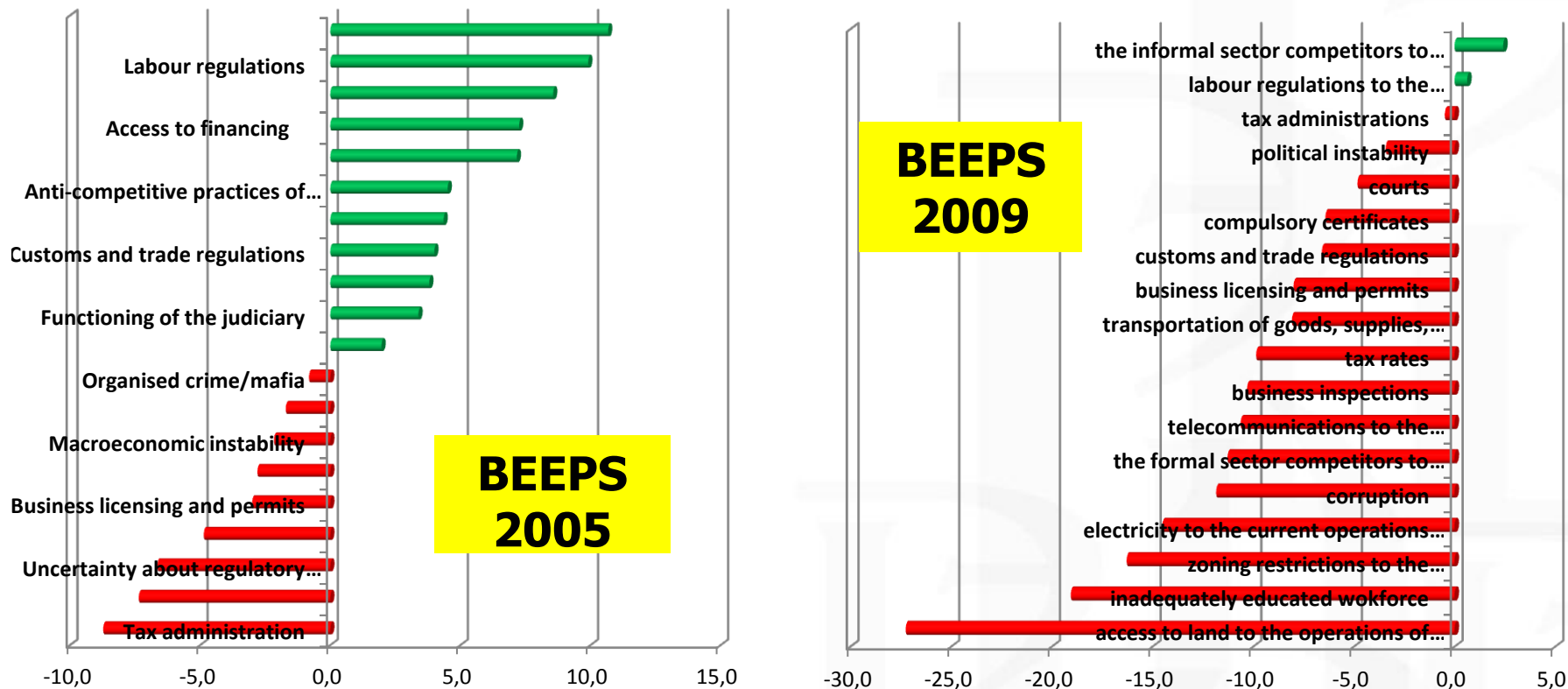
International context:

- Globalization of 1980-1990s opened new opportunities for investors at emerging markets → strong increase in FDI flows → interest of scholars to investment climate issues in different countries
- Large comparative projects initiated by World Bank and EBRD – Doing Business and BEEPS. Dozen of papers in leading journals using these empirical data [Hellman et al (2000); Djankov et al (2002, 2003); Botero et al (2004) etc.]
- Since 2000s – recognition of importance of efforts at regional level for improvement of business climate → sub-national DB projects (starting from Mexico in 2004, now about 20 countries, including Russia in 2008 and 2011) as well as broader BEEPS samples in some countries providing opportunities for interregional comparative analysis (Russia in 2011).

Russian context:

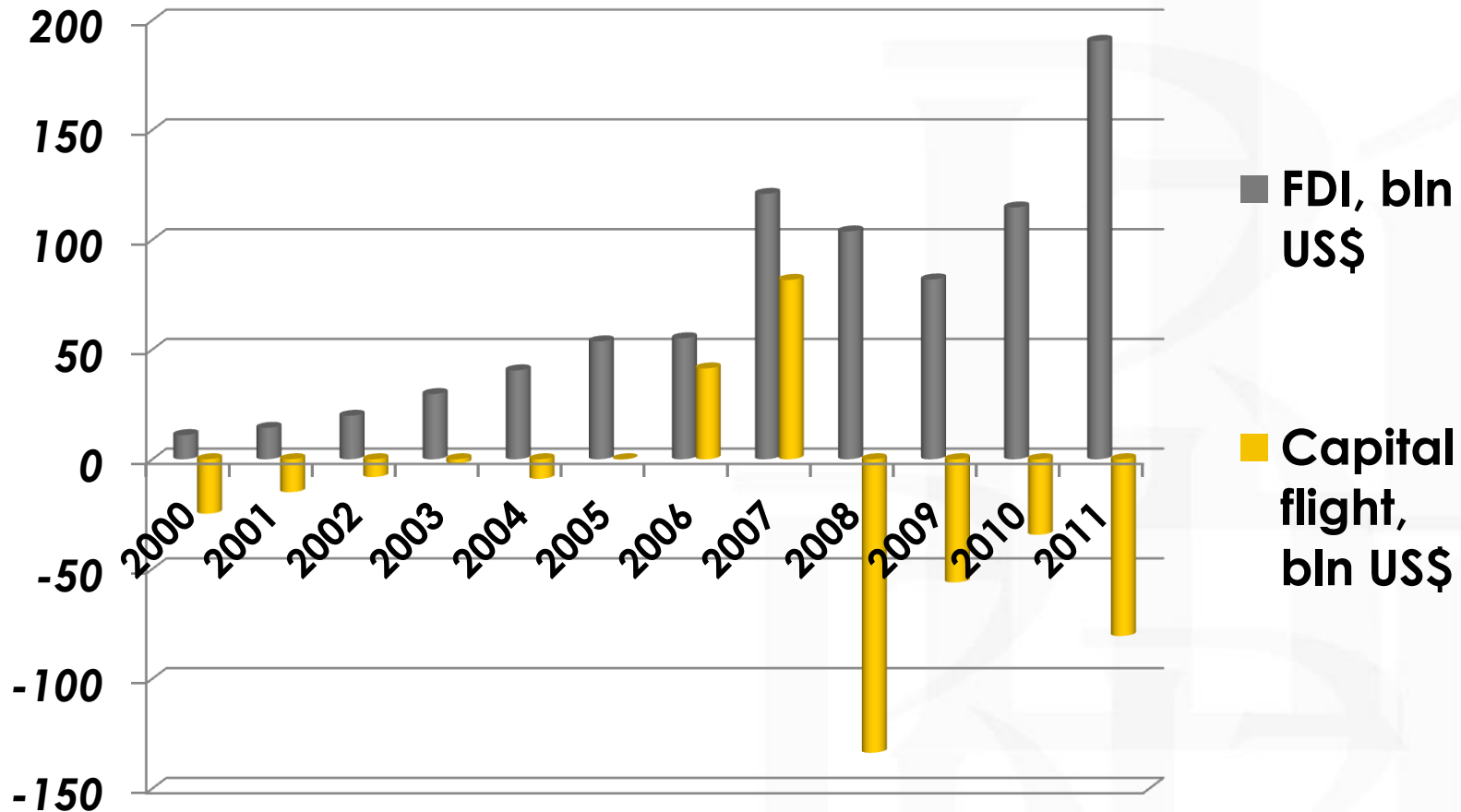
- 1990s: 'state capture' and poor business climate as barriers for economic growth and investment in Russia and CIS countries - Puffer et al (1998); Hellman et al (2003); Yasin et al (2006).
- 2000-2003: a number of significant economic reforms based on negotiations with big business – simplification of tax regulation and reduction of tax rates (Luong & Weinthal, 2004), deregulation of business activity (Auzan & Kryuchkova, 2005), reform of custom regulation etc. Monitoring of barriers for small business by CEFiR – because SME faced stronger pressure from predatory state
- However: Yukos affair damaged the dialogue between state and business, increase of oil prices and strong FDI inflow led to decline of political interest to the problems of investment climate (despite clear worsening of Russia's positions in DB ranking and in BEEPS data)

Changes in business climate



Conditions for doing business in Russia: “green = better” and “red = worse” comparing to CEE average indicators in BEEPS 2005-2009

Russia: FDI and capital flight



FDI in Russia: the case of Italian middle-sized company



- Family company from Verona
<http://www.zuegg.com/>
- Main products: confiture, juices
- First time started business abroad in East Germany in 1991
- 2002 – France, 2010 – Austria, first negotiations in Russia in 2006, registered the subsidiary in 2007.
- In 2011 started production in Afanasovo (village close to Kaluga)
- Total amount of investment = 35 mill Euro
- 70 employees in Afanasovo plant, in 2013 sales of Russian subsidiary about 15 mill Euro, start of export to Kazakhstan

Passione per la frutta, amore per la vita

Crisis 2008-2009 as turning point

- **Margins vs. costs of doing business:** Before 2008 high demand in global & domestic market provided enough incentives for investment and growth in spite of poor conditions for doing business in Russia. After 2008 – high uncertainty and low confidence in economic policy
- **Policy response:** Short-term – huge increase in social spending in 2009 (resulted in budget deficit now). As a next step → search for new model of economic development: **dialogue with business & elaboration of Strategy-2020**
- Some steps already in 2009-2011 (liberalization of Criminal code, introduction of RIA procedures, creation of ASI). But as the most comprehensive part – **National entrepreneurial initiative** announced by Mr. Putin in February 2012 with idea to improve Russia's position in DB ranking: elaboration of relevant 'road maps', introduction of ombudsman for entrepreneurs, decree on new criteria of governors performance evaluation, WTO accession etc

Doing business in Russia–2012

City	Aggregate Rank	Starting a business	Construction permits	Getting electricity	Registering property
Ulyanovsk	1	3	4	5	8
Saransk	2	20	8	1	8
Vladikavkaz	3	27	11	2	2
Rostov-on-Don	4	26	15	3	4
Kazan	5	4	14	17	4
Kaluga	6	17	9	15	1
Stavropol	7	4	2	9	19
Yaroslavl	8	7	17	6	16
Surgut	9	30	1	19	8
Irkutsk	10	8	6	10	18
Petrozavodsk	11	6	16	21	8
Kirov	12	13	5	4	20
Omsk	13	19	20	13	4
Vyborg	14	10	23	12	8
Vladivostok	15	18	22	23	3

City	Aggregate Rank	Starting a business	Construction permits	Getting electricity	Registering property
Volgograd	16	2	27	26	4
Voronezh	17	15	28	16	8
Tver	18	21	25	14	8
Kaliningrad	19	11	3	22	22
Tomsk	20	15	6	10	25
Samara	21	22	24	28	8
St. Petersburg	22	1	9	24	27
Khabarovsk	23	24	29	8	17
Yekaterinburg	24	29	13	19	20
Perm	25	13	12	18	27
Murmansk	26	12	19	27	23
Kemerovo	27	28	21	7	29
Yakutsk	28	8	26	25	30
Novosibirsk	29	23	18	29	24
Moscow	30	25	30	30	26

Doing Business 2015 vs. 2012

DB ranking 2012:

1	Singapore	91	China
4	United States	97	Guatemala
19	Germany	100	Greece
26	France	118	Nicaragua
37	Slovenia	119	Cape Verde
47	Kazakhstan	120	Russian Federation
55	Armenia	121	Costa Rica
59	Bulgaria	122	Bangladesh
62	Poland	137	Madagascar
81	Moldova	152	Ukraine

DB ranking 2015:

51	Slovenia
56	Italy
59	Luxembourg
60	Tunisia
61	Greece
62	Russian Federation
63	Moldova
64	Cyprus
90	China
120	Brazil

But what kind of changes business can see in reality?

Research questions

- How did change business climate in Russia in framework of governmental efforts to implement '100 steps' program?
- How important for businesspeople was personal involvement of President Putin in this reform?

Methodological approach

- Two main approaches to measure investment climate: technical conditions for doing business (time and cost spent for some procedures) measured by professional experts vs. overall evaluations made by business people. Doing Business and BEEPS as the most famous applications
- However: increasing critics of the first approach – due to serious simplification of reality. Independent Panel Review (2013) and changes in the methodology by WB.
- In our case – big survey of Russian manufacturing firms (RuFIGE project) in 2014 → opportunity to ask top-managers on changes in conditions of doing business (*like in BEEPS*). But we used only one simple overall question (*contrary to BEEPS asking detailed questions of separate components of business climate*).
- Additional important point – the link of this initiative personally to Vladimir Putin → the idea to measure the influence of this link: **survey experiment** with changes in the wording of relevant question

Methodological approach

Survey experiments with references to famous names – long history:

- Rugg & Cantril (1944) – question on broader US support for France and UK (with and without reference to ‘the fight against Hitler’) 22% vs. 13%, stronger effect among older (above 40 years) respondents and in lower income groups
- Smith & Squire (1990) – support for candidates to Supreme court in California (with and without reference to governor): stronger effect in lower income groups
- Lockerbie & Borrelli (1990) – on US support for contras in Nicaragua (with and without reference to President Reagan)
- Myagkov (2001) – question on Russian support to Iraq in the war with US (with and without reference to Vladimir Zhirinovsky): 13% vs. 37%.

However: All studies – in the field of political sociology. No references (as we know) to studies in economics or political economy.

Survey experiment

- The question about changes in business environment:
“During 2012-2014 Russian Government took measures for improvement of investment climate in Russia. In your opinion, under these conditions business environment in your region in 2012-2014:
 - improved
 - rather improved
 - did not change
 - rather worsened
 - worsened”
- Experimental setup – for every 2nd firm question was worded as:
“During 2012-2014 at the initiative of President of Russian Federation Vladimir Putin the measures for improvement of investment climate in Russia were taken. In your opinion, under these conditions business environment in your region in 2012-2014...”

Balance tests for groups (1)

Basic characteristics

	Basic question	Reference to President's initiative	Difference between column 2 and 1 (T-test)
Age of respondent	45,8 (N=1171)	45,7 (N=916)	0,297 (0,77)
Firm size	354,7 (N=1103)	339,5 (N=873)	0,221 (0,83)
Male respondents	0,589 (N=1174)	0,605 (N=918)	-0,739 (0,46)
CEOs	0,437 (N=1174)	0,431 (N=918)	0,256 (0,80)
Membership in business-association	0,166 (N=1058)	0,188 (N=839)	-1,248 (0,21)
Investments in 2011-2013	0,488 (N=1151)	0,495 (N=890)	-0,324 (0,75)
Foreign ownership (fully or partly)	0,055 (N=958)	0,052 (N=727)	0,275 (0,78)
State ownership (fully or partly)	0,045 (N=958)	0,039 (N=727)	0,644 (0,52)

Federal Districts

	Basic question	Reference to President's initiative	Difference between column 2 and 1 (T-test)
Central Federal District	0,262 (N=1174)	0,253 (N=918)	0,455 (0,65)
Northwestern Federal District	0,161 (N=1174)	0,154 (N=918)	0,460 (0,65)
Volga Federal District	0,262 (N=1174)	0,281 (N=918)	-0,955 (0,34)
Southern Federal District	0,077 (N=1174)	0,102 (N=918)	-2,064 (0,04)
North Caucasian Federal District	0,015 (N=1174)	0,008 (N=918)	1,610 (0,11)
Ural Federal District	0,107 (N=1174)	0,087 (N=918)	1,537 (0,12)
Siberian Federal District	0,093 (N=1174)	0,092 (N=918)	0,105 (0,92)
Far Eastern Federal District	0,023 (N=1174)	0,024 (N=918)	-0,145 (0,89)

Balance tests for groups (2)

Sectors

	Basic question	Reference to President's initiative	Difference between column 2 and 1 (T-test)
Food	0,233 (N=1174)	0,219 (N=918)	0,782 (0,43)
Textile	0,073 (N=1174)	0,104 (N=918)	-2,443 (0,02)
Wood	0,114 (N=1174)	0,116 (N=918)	-0,095 (0,93)
Chemical	0,108 (N=1174)	0,101 (N=918)	0,508 (0,61)
Nonmetal	0,094 (N=1174)	0,075(N=918)	1,504 (0,13)
Metal	0,117 (N=1174)	0,133 (N=918)	-1,116 (0,26)
Machines	0,133 (N=1174)	0,131 (N=918)	0,145 (0,89)
Electro	0,069 (N=1174)	0,070 (N=918)	-0,064 (0,95)
Transport	0,059 (N=1174)	0,052 (N=918)	0,640 (0,52)

Government relations

	Basic question	Reference to President's initiative	Difference between column 2 and 1 (T-test)
Support to government	0,430 (N=1113)	0,458 (N=854)	-1,242 (0,22)
Financial support from federal government	0,062 (N=1123)	0,054 (N=877)	0,826 (0,41)
Financial support from regional government	0,077 (N=1129)	0,102 (N=876)	-1,927 (0,05)
Financial support from local government	0,071 (N=1126)	0,080 (N=878)	-0,732 (0,46)
Organizational support from federal government	0,059 (N=1118)	0,051 (N=875)	0,734 (0,46)
Organizational support from regional government	0,103 (N=1125)	0,103 (N=874)	0,010 (0,99)
Organizational support from local government	0,123 (N=1124)	0,117 (N=874)	0,414 (0,68)

Main hypotheses

1. Larger firms perceive changes in business environment more positively (due to better access to politicians they more quickly can exploit new opportunities opened by changes in the policy of government)
2. Reference to the President Vladimir Putin as the initiator of the relevant program should increase the share of positive estimations and decrease negative ones (due to his very high personal popularity)

Data

- “Russian Firms in a Global Economy” survey
- May – October 2014
- 1950 small, medium and large manufacturing firms from 9 sectors and 60 regions
- Respondents – upper level managers (CEO or his deputy)
- Sample close to nationally representative by size and industry, but large firms are overrepresented (otherwise the number of large firms in the sample would be too small to allow statistical analysis within the group of large firms)
- To re-establish sample representativeness we use sampling weights in the analysis
- Additional factors – international sanctions against Russia (most important in late July) and Russian food embargo (early August)
➔ control for date (month) of interview

Descriptive statistics

Variable	Number of obs.	Mean
Number of employees	1833	97.3
-- subgroup: 10-100 employees	1034	31.7
-- subgroup: 101-249 employees	288	163.4
-- subgroup: 250-499 employees	157	327.2
-- subgroup: 500+ employees	354	1380.4
Firm carried out investment in 2011-2013	1899	0.40
Firm received support from federal government in 2012-2013	1851	0.05
Firm received support from regional or local government	1862	0.15
Firm is a member of business association	1767	0.12
Firm is state-owned (fully or partly)	1588	0.03
Firm is foreign-owned (fully or partly)	1579	0.02
Firm positively estimates changes in business environment	1690	0.20
Firm negatively estimates changes in business environment	1690	0.22



Perceptions of changes of business environment in the region

Business environment in the region in 2012-2014

	Improved	Worsened	Balance of estimates
Small enterprises (10-100 employees)	17.9%	23.8%	-5,9%
Medium enterprises (101-499 employees)	24.5%	18.5%	+6,0%
Large enterprises (500+ employees)	33.5%	10.9%	+22,6%
Whole sample	19.6%	22.5%	-2,9%
Whole sample, reweighted with account for employment at the firm	34.0%	17.3%	+16,7%

Perceptions differ significantly depending on the firm size

Treatment and perceptions

Firm size	Business climate improved or rather improved		Business climate worsened or rather worsened	
	Control group	Treatment group (with reference to Mr. Putin)	Control group	Treatment group (with reference to Mr. Putin)
10-100 employees	17.8%	18.4%	25.3%	21.9%
101-249 employees	18.6%	33.0%	18.0%	19.2%
250-499 employees	25.7%	24.6%	16.8%	23.1%
500+ employees	26.4%	36.6%	10.4%	10.0%

Empirical strategy

- The set of probit-regressions with two dependent binary variables: ‘all positive answers vs. the rest’ and ‘all negative answers vs. the rest’
- Treatment (with reference to Mr. Putin) as main explanatory variable
- Controls for sector, region, personal characteristics of respondent (age, gender, position), size of the firm, support from government, investment activity, ownership structure, membership in business associations, type of settlement (big cities vs. towns) etc
- Due to the differences between firms of different size → interaction term between treatment & 4 size groups

Regression analysis - 1

	Business environment rather improved			
	Yes	Yes	Yes	Yes
Interaction: Treatment & 4 size groups	0.04**	0.03*	0.03*	0.03
Employment, log	(0.02)	(0.02)	(0.02)	(0.02)
Investments in 2011-2013	-0.01	-0.01	-0.01	0.00
	(0.03)	(0.03)	(0.03)	(0.03)
Support from regional or local government in 2012-2013		0.14***		
		(0.04)		
Membership in business-association			-0.04	
			(0.03)	
State ownership (fully or partially)				0.02
				(0.07)
Foreign ownership (fully or partially)				0.06
				(0.06)
Control for the respondent position, age, gender; settlement status; month of the interview; sectoral and regional dummies	Yes	Yes	Yes	Yes
Number of observations	1,507	1,461	1,366	1,207

Regression analysis - 1

Treatment effect by size groups:

		Business environment rather improved			
Group 1 (10-100 employees)	marginal effect	0.01	0.02	0.01	0.01
	statistical significance (p-value)	0.59	0.50	0.70	0.85
Group 2 (101-249 employees)	marginal effect	0.21***	0.22***	0.18***	0.19***
	statistical significance (p-value)	0.00	0.00	0.01	0.01
Group 3 (250-499 employees)	marginal effect	0.03	0.01	0.01	0.03
	statistical significance (p-value)	0.65	0.92	0.92	0.67
Group 4 (500+ employees)	marginal effect	0.05	0.04	0.03	0.06
	statistical significance (p-value)	0.27	0.39	0.45	0.25

Regression analysis - 2

	Business environment rather worsened			
	Yes	Yes	Yes	Yes
Interaction: Treatment & 4 size groups	0.01	0.01	0.01	0.00
Employment, log	(0.02)	(0.02)	(0.02)	(0.02)
Investments in 2011-2013	0.02	0.03	0.03	0.01
	(0.03)	(0.03)	(0.03)	(0.04)
Support from regional or local government in 2012-2013		-0.03		
		(0.04)		
Membership in business-association			-0.00	
			(0.04)	
State ownership (fully or partially)				0.08
				(0.09)
Foreign ownership (fully or partially)				-0.02
				(0.09)
Control for the respondent position, age, gender; settlement status; month of the interview; sectoral and regional dummies	Yes	Yes	Yes	Yes
Number of observations	1,470	1,380	1,306	1,205

Regression analysis - 2

Treatment effect by size groups:

		Business environment rather worsened			
Group 1 (10-100 employees)	marginal effect	-0.05	-0.06*	-0.06*	-0.05
	statistical significance (p-value)	0.11	0.08	0.07	0.19
Group 2 (101-249 employees)	marginal effect	0.02	0.00	-0.00	-0.01
	statistical significance (p-value)	0.84	0.91	0.87	0.93
Group 3 (250-499 employees)	marginal effect	0.07	0.09	0.09	0.05
	statistical significance (p-value)	0.47	0.42	0.45	0.67
Group 4 (500+ employees)	marginal effect	0.05	0.06	0.08	0.11
	statistical significance (p-value)	0.53	0.55	0.42	0.26

Main results

- Size matters:
 - Larger firms are more likely to estimate change in business environment positively → Hypothesis 1 is supported
- Reference to initiative of President Putin for the improvement of business environment:
 - Increase the share of positive estimates but the effect is statistically significant only for **medium-sized firms with 101-249 employees**. Reference to President's initiative does not affect share of firms that estimate changes of business climate negatively. → Hypothesis 2 is supported only partially
- Other factors:
 - Firms received support from regional or local government in 2012-2013 are more likely to estimate change in business environment positively. This effect is strong and significant.
 - Membership in business associations and presence of state or foreign property does not affect estimates of changes in business environment. Firms that carried out investment in 2011-2013 do not differ in their estimates of changes in business environment from those who did not invest.

Possible explanations of results

- 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. → No real improvement of business climate on average, but after weighting results on the number of employees overall effect of regulatory reforms for the economy is rather positive
- Strong impact of reference to Mr. Putin on estimations of middle-sized firms: different ideas (Russian food embargo and different effects of sanctions for different firms, differences in planning horizon between SME and large firms etc.) but no clear support for them → we would be grateful for comments and new ideas



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for your attention!