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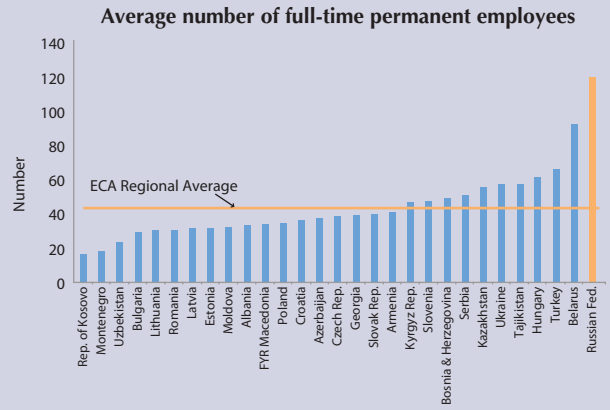
RUSSIAN FEDERATION

Running a Business in the Russian Federation

The Russian Federation has, on average, the largest firms in the Eastern Europe and Central Asia (ECA) region (figure 1). Despite having large numbers of employees, a relatively small percentage of Russian firms are exporters. In addition, the fraction of firms that have an internationally recognized quality certificate, at 12 percent, is lower in the Russian Federation than the ECA average. Senior managers in the Russian Federation spend 20 percent of their time dealing with government regulations. This puts them in the second worst position in the region. Corruption and crime have been another constraining factor for Russian firms. Incidents where informal payments were requested are much higher in the Russian Federation than in ECA. However there have been improvements regarding the incidence of corruption. The percentage of firms expected to give gifts or make informal payments decreased since 2005.

The Enterprise Surveys[1] use standard survey instruments to collect firm-level data on the business environment from business owners and top managers. The surveys cover a broad range of topics including access to finance, corruption, infrastructure, crime, competition, labor, obstacles to growth and performance measures. The survey is designed to be representative of a country's private non-agricultural economy, and firms sampled are stratified by size, location[2], and sector (figure 2)[3] to ensure that most major types of firms are covered. Only firms with five employees or more are included in the sample. In the Russian Federation, 1,004 firms were surveyed from September 2008 to March 2009.

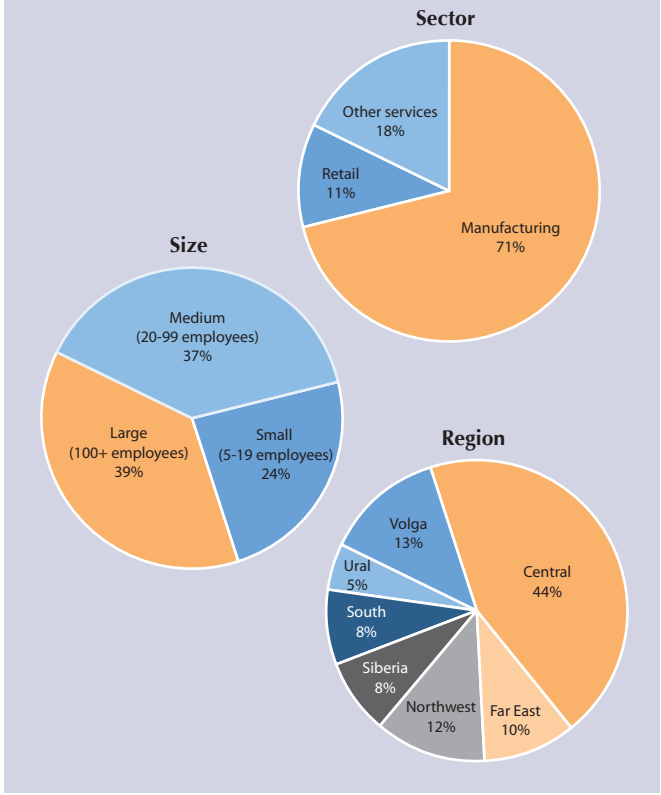
Figure 1 The Russian Federation has the largest firms in the ECA region



Source: Enterprise Surveys.

The information collected refers to the characteristics of the firm at the moment of the survey or to fiscal year 2007.

Figure 2 Characteristics of the firms interviewed



Source: Enterprise Surveys.

What is the average firm in the Russian Federation?

The Russian Federation ranks relatively low in female participation in firm ownership and management. Firms with government ownership[4] are roughly twice as likely to have female ownership participation than fully private firms—64 percent vs. 32 percent. Firms with government ownership, female participation in ownership, or female top managers are more likely to employ women than their counterparts. Government ownership may be correlated with employing more women and with female participation in ownership; however, less than 1 percent of firms with government ownership have a female top manager while nearly 15 percent of the fully private firms do. Similarly, less than 1 percent of foreign-owned[5] and exporter firms have female top managers compared with their counterparts; on average, 15 percent of domestically-owned and non-exporter firms have female top managers.

Firms with government ownership have more than five times as many permanent employees as firms that are privately owned.

The average firm[6] in the Russian Federation is nearly 15 years old. Firms with government ownership are nearly two and a half times as old than privately owned firms (39 years vs. 14 years). Small and medium firms are younger with an average age of 11 and 12 years, respectively, compared to large firms, which have an average age of over 25 years. Medium and large firms are more common in the Russian Federation: the average firm has 118 full-time permanent workers, while 50 percent of the firms have 30 permanent employees or less, and 5 percent of firms have 500 or more permanent employees. Both the size and the composition of the workforce differ across firm types. For instance, firms with government ownership have, on average, more than five times as many permanent employees as firms that are privately owned.

Three-fourths of the firms in the Russian Federation that have five or more employees are closed shareholding companies. Private domestic ownership as a percentage of total ownership in female-managed firms is 99.6 percent, which is significantly higher than the 95.7 percent exhibited in male-managed firms. Female-managed firms have a lower share of government ownership. Although less than 5 percent of firms have any foreign ownership participation, 1.5 percent of firms are entirely foreign-owned. The average firm has only 2.7 percent foreign-owned equity; within ECA only the Republic of Kosovo and Turkey have lower percentages (table 1). Government participation in the ownership of private sector firms is 0.9 percent, which is a bit lower than the ECA average (table 2). Overall, 93 percent of the firms are fully private domestic firms.

Table 1 How does the Russian Federation 2009 compare within Eastern Europe and Central Asia

Ranking 1 assigned to the largest value	Descending ranking (out of 29 countries)
Percent of firms formally registered when started operations in the country	24
Private domestic ownership (%)*	3
Private foreign ownership (%)*	27
Government/state ownership (%)*	12
Percent of firms with female participation in ownership	20
Bank finance for investment (%)	26
Percent of exporter firms	26
Domestic sales (% of Sales)	2
Percent of firms with internationally recognized quality certification	25
Percent of firms with annual financial statement reviewed by external auditor	11
Capacity utilization (%)	17
Percent of firms using their own website	14
Percent of firms using email to communicate with clients/suppliers	11
Ranking 1 assigned to the smallest value	**Ascending ranking (out of 29 countries)**
Value of collateral needed for a loan (% of the loan amount)	10
Number of power outages in a typical month	14
Senior management time spent in dealing with requirements of government regulation (%)	28
Average number of visits or required meetings with tax officials	16
Incidence of graft index **	25
Losses due to theft, robbery, vandalism, and arson against the firm (% of Sales)	27

Source: Enterprise Surveys.

Table 2 The Average Firm in the Russian Federation 2009

	Russian Federation	ECA†	EU-10‡
Age (years)	14.7	14.0	14.1
Percent of firms formally registered when started operations in the country	94.7	96.8	98.7
Most common legal form	Closed Shareholding Co.	Closed Shareholding Co.	Closed Shareholding Co.
Private domestic ownership (%)*	96.3	91.3	90.2
Private foreign ownership (%)*	2.7	6.2	7.5
Government/state ownership (%)*	0.9	1.2	0.5
Percent of firms with female participation in ownership	33.1	36.7	39.1
Percent of firms with female in top management position	14.3	19.1	22.7
Experience of the top manager (years)	14.5	16.1	17.1
Average number of temporary workers	11.5	5.7	3.4
Average number of permanent, full-time workers	118.0	44.0	37.3
Percent of full-time female workers	41.6	38.7	40.5

Source: Enterprise Surveys.

How do businesses operate in the Russian Federation?

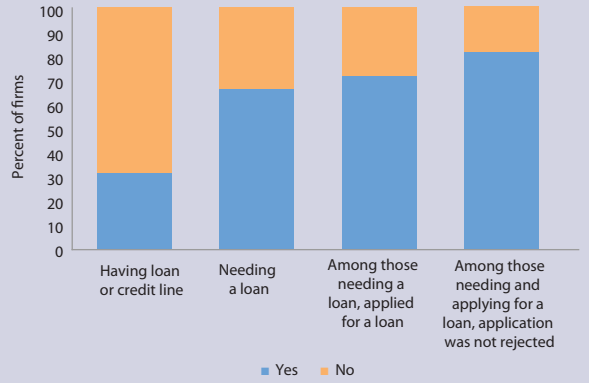
The use of internal financing is common in the Russian Federation as compared to the rest of the ECA region. At 73 percent, the Russian Federation has the fourth highest level of internal financing for investments and, at 12 percent, the fourth lowest level of banking financing in the region (table 3). Only Albania, the Republic of Kosovo, and Uzbekistan have higher levels of internal financing at 77 percent, 85 percent, and 92 percent, respectively. Thirty-one percent of firms use bank financing for investments and less than a third of firms have a line of credit or bank loan. Firm size is associated with the likelihood of having a bank loan or line of credit. Sixty-four percent of large firms have a bank loan or line of credit while 25 percent of medium firms and just 17 percent of small firms have a bank loan or line of credit. Sixty-six percent of Russian firms are in need of credit. Of that 66 percent, 72 percent have applied for loans, and, among them, 83 percent report their applications as not being rejected (figure 3). With 42 percent of sales sold on a pre-paid basis, the Russian Federation ranks third highest on this measure; only Uzbekistan and Kazakhstan have more pre-paid sales at 54 and 47 percent, respectively.

Firms with a female top manager use bank loans less often and are required to provide collateral more often. Only 17 percent of female-managed firms have a bank loan or line of credit compared to 34 percent of male-managed firms. Meanwhile, significantly more female-managed firms are required to provide collateral for bank loans or lines of credit compared to their male-managed counterparts (97 percent vs. 83 percent).

Firms in the Russian Federation trade relatively little with the rest of the world (table 3). Only 7 percent of Russian firms are exporters, ranking the Russian Federation fourth from the bottom on this indicator ahead of Uzbekistan, Azerbaijan, and Kazakhstan at 2 percent, 4 percent and 5 percent of firms exporting, respectively. Within ECA, at just 1.6 percent, the Russian Federation trails only Uzbekistan at 0.7 percent for the lowest percentage of exported sales. Not only are there fewer exporters, Russian firms also export less intensively than the average firm in the ECA region. The share of sales generated through exports is less than half of the share generated in the ECA region and almost one-eighth of the share in EU-10 countries. Likewise, the Russian Federation, at 81 percent, trails only Ukraine with 84 percent and Uzbekistan with 83 percent in material inputs of domestic origin.

The Russian Federation is below the regional average for international quality certification, ranking 25th in this indicator between Montenegro and Kazakhstan. The use of quality certificates is more common among exporters as compared to non-exporting firms (53 percent vs. 10 percent) and large firms as compared to small firms (28 percent vs. 6 percent). Large firms are also more likely to

Figure 3 Credit needs of Russian firms



Source: Enterprise Surveys

Table 3 Choices by the average firm in Russian Federation 2009

	Russian Federation	ECA†	EU-10‡
Internal finance for investment (%)	72.9	62.2	62.3
Bank finance for investment (%)	12.3	23.8	26.7
Value of collateral needed for a loan (% of the loan amount)	116.5	132.8	124.6
Loans requiring collateral (%)	84.0	81.1	74.3
Percent of firms with a checking or savings account	98.1	88.9	85.2
Percent of exporter firms	6.9	21.8	28.3
Domestic sales (% of sales)	98.4	91.0	88.6
Sales exported directly (% sales)	1.2	7.0	9.2
Sales exported indirectly (% sales)	0.4	2.0	2.2
Sales that are pre-paid (%)	42.4	22.9	10.9
Sales sold on credit (%)	39.0	49.4	66.5
Percent of firms with internationally recognized quality certification	11.7	19.9	25.6
Percent of firms with annual financial statement reviewed by external auditor	41.1	37.9	38.7
Capacity utilization (%)	74.1	73.7	81.3
Percent of firms using their own web site	55.3	48.5	63.4
Percent of firms using email to communicate with clients/suppliers	86.0	73.2	88.5

Source: Enterprise Surveys.

have their financial statements reviewed by an external auditor. Eighty-three percent of large firms, 41 percent of medium firms and 14 percent of small firms have their financial statements reviewed by an external auditor.

The Russian Federation firms perform well on internet usage compared to the ECA region. Some firms make better use of the internet than others, with more than 90 percent of both exporters and foreign-owned firms using their own web site compared to just 54 percent of their counterparts. Large firms and firms with government ownership are also more likely to use their web site than smaller firms and firms that are fully private. The patterns for using web sites also hold true for using email to communicate with clients and suppliers; 100 percent of exporter firms and firms with partial government ownership report using email for business compared to 85 percent of non-exporters and 86 percent of fully private firms.

Only 7 percent of Russian firms are exporters, ranking the Russian Federation fourth from the bottom on this indicator.

What constrains firms in the Russian Federation?

In Russian firms, senior managers spend, on average, 20 percent of their time dealing with government regulations (table 4); this is almost twice the ECA regional average and is the second highest value in the ECA following Turkey (27 percent). Almost half of the firms spend more than 10 percent of their time dealing with government regulations. The amount of time spent varies based on the firms' trade orientation and size. The managers of non-exporters spend one and one-half times more time than exporting firms (20 percent vs. 13 percent). Medium and large firms spend around 8 percentage points more time than small firms (24 and 22 percent vs. 14 percent) in dealing with regulations.

Another indicator where the Russian Federation performs poorly is on the Incidence of Graft index. In the Russian Federation, the percentage of instances where firms were requested to make informal payments is nearly twice the ECA regional average and almost five times higher than the EU-10 average. The Russian Federation ranks 25th in this indicator between Kazakhstan and Kyrgyz Republic. There is considerable variation across regions within the Russian Federation in corruption related indicators. In the Northwest and South regions, firms are more likely to make informal payments to "get things done" (figure 4) compared to the Volga Federal District or Far East regions.

The number of power outages faced by Russian firms is roughly half the average number of outages in ECA. Among Russian firms, however, non-exporters have more difficulties with power outages than exporters. To get an electrical connection, non-exporters have to wait an average of 61 days, which is three times more than the average waiting time for exporters. Moreover, non-exporters have four times more power outages per month than exporters (3 outages vs. 0.7 outages) and these outages last longer (5.7 hours vs. 2.3 hours). Note that these results refer only to the nine exporting firms vs. the 109 non-exporting firms.

Table 4 **Constraints on the average firm in the Russian Federation 2009**

	Russian Federation	ECA†	EU-10‡
Number of power outages in a typical month	2.9	5.8	2.5
Senior management time spent in dealing with requirements of government regulation (%)	19.9	10.6	9.5
Average number of visits or required meetings with tax officials	1.6	1.7	1.1
Percent of firms expected to pay informal payment to public officials (to get things done)	29.4	16.8	7.4
Incidence of graft index**	18.3	9.9	4.7
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	0.8	0.5	0.4
Percent of firms paying for security	77.7	57.7	62.0

Source: Enterprise Surveys.

Another constraint for Russian firms is loss due to theft, robbery or vandalism. These losses, as a percentage of sales, are high in the Russian Federation. The Russian Federation ranks third from the bottom on this indicator followed by Estonia and Kazakhstan, respectively. Seventy-eight percent of Russian firms pay for security which is 20 percentage points higher than the ECA average. In the retail sector, almost 59 percent of firms identify crime, theft and disorder as a major constraint compared to only 27 percent among manufacturers and 37 percent among other services.

How has the business environment changed over the past three years?

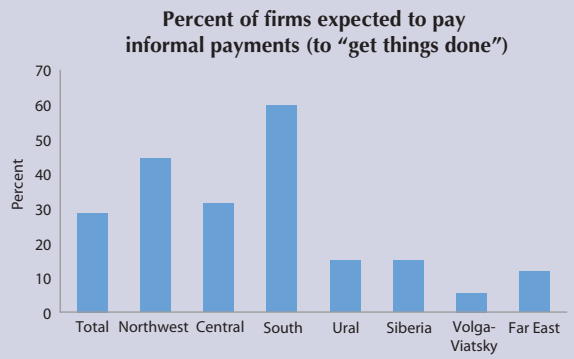
The Enterprise Surveys data provide the tools to monitor changes in the business environment across different rounds of surveys. In the Russian Federation, of the 1,004 firms surveyed in 2009, 57 were surveyed in 2005.[7] Since the same firms were re-interviewed over time, this subset of data is more appropriate for evaluating the evolution of the business environment and the impact of business environment reforms than the full data sets for both years. Considering the full data sets would introduce effects that are the result of variations in the sample composition over the two years.[8] Therefore, the following analysis refers only to those firms that were interviewed in both rounds of surveys.

Firms interviewed both in 2005 and 2009 report an increase in the percentage of investment financed through supplier credit from 3 percent to 20 percent. Meanwhile, these same firms reported that the percentage of sales sold on credit rose from 18 percent to 35 percent. Firms were less likely to have external auditors review their financial statements; the rate of review fell from 57 percent to 34 percent. Note that these results refer only to the 57 firms interviewed in both rounds.

Compared to 2005, exporting in the Russian Federation has deteriorated (figure 5). The proportion of exporters decreased more than three fold. The decrease observed is more dramatic for foreign-owned firms (by 4.5 times). Another export related indicator that worsened is the percentage of sales generated from exporting. It decreased from 6 percent to 1 percent during the three years.

However, there have been improvements in dealing with corruption. The percentage of firms expected to give gifts in meetings with tax officials decreased dramatically since

Figure 4 **Firms in the Northwest and South regions face a more corrupt business environment**



Source: Enterprise Surveys.

Figure 5 **Exports have decreased dramatically since 2005**

Source: Enterprise Surveys.

2005 (down from 52 percent to 20 percent). A similar improvement is seen in the percentage of firms expected to make informal payments to "get things done." During the three-year period, the percentage more than halved from 76 percent to 32 percent. A similar decrease is seen among foreign-owned firms. Among firms in different size classes, the only significant decrease is observed in medium-size firms where the incidence of bribery decreased from 56 percent to 11 percent.

Although there are some signs of improvement within the firms interviewed in both years, the overall picture in Russia is still not very favorable for firms operating in the private sector.

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Notes

1. The Enterprise Surveys, implemented in Eastern Europe and Central Asia countries, are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and are jointly conducted by the World Bank and the European Bank for Reconstruction and Development for this geographic region.
2. The major cities in each of the 7 Russian regions are as follows: Central Region: Moscow, Voronezh, Podolsk, Korolev, Twer, Serpukhov, Lyubertsy, Kaluga, Kolomna, Kursk, Samara, Obninsk, Zelenograd; Far East Region: Vladivostok, Artem, Nakhodka; Northwest Region: Saint Petersburg, Lyubertsy; Siberia: Novosibirsk, Krasnoyarsk, Krasnodar; South Region: Rostov-on-Don, Novosibirsk, Krasnodar; Urals: Perm, Yekaterinburg, Chelyabinsk; Volga Federal District: Novosibirsk, Perm, Ufa, Dzerzhinsk, Samara, Nizhniy Novgorod.
3. This figure presents the unweighted distributions by size, sector and location of the firms interviewed without any inferences to the whole economy.
4. Firms with >= 5% and < 100% of government/state ownership are defined as having government ownership.
5. Firms with >= 10% of foreign ownership are defined as foreign-owned.
6. The term "average firm" is used to convey the average firm characteristics from the Russian Federation 2009 Enterprise Survey. The sample of firms interviewed is representative of the manufacturing and services sectors of the economy. For more information on the survey methodology please consult http://www.enterprisesurveys.org/Methodology/.
7. The information collected in 2005 refers to the characteristics of the firm at the moment of the survey or to fiscal year 2004.
8. The firms surveyed in both years may not be representative of the Russian Federation's private non-agricultural economy since these are a subset of the full sample. Firms with fewer than five employees may be included among the firms surveyed in both years. The analysis presented is purely descriptive and does not aim at establishing causality between reforms and their intended effects.

* The ownership variables represent the average ownership composition within a firm. These variables do not represent the ownership composition across firms.

** Incidence of Graft Index is the proportion of instances in which firms were either expected or requested to pay a gift or informal payment over the number of total solicitations for public services, licenses or permits for that country. The Graft Index is defined in Gonzalez, Alvaro S., Ernesto Lopez-Cordova, J., and E. Valladares, Elio, The Incidence of Graft on Developing-Country Firms. World Bank Policy Research Working Paper Series, 2007.

† ECA includes Albania 2009, Armenia 2009, Azerbaijan 2009, Belarus 2008, Bosnia and Herzegovina 2009, Bulgaria 2009, Croatia 2009, Czech Republic 2009, Estonia 2009, Georgia 2008, Hungary 2009, Kazakhstan 2009, The Republic of Kosovo 2009, Kyrgyz Republic 2009, Latvia 2009, Lithuania 2009, FYR Macedonia 2009, Moldova 2009, Montenegro 2009, Poland 2009, Romania 2009, Russian Federation 2009, Serbia 2009, Slovak Republic 2009, Slovenia 2009, Tajikistan 2008, Turkey 2008, Ukraine 2008, and Uzbekistan 2008.

‡ EU-10 includes 2009 data from Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

The Enterprise Surveys measure the business environment in more than 100 countries in the world. A standardized questionnaire, universe under study, and implementation methodology is used to make sure information is comparable across countries and time. The full data and documentation explaining the methodology are available at www.enterprisesurveys.org.

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