



NATIONAL RESEARCH UNIVERSITY  
HIGHER SCHOOL OF ECONOMICS

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# **LOCAL GOVERNMENT AND SMALL BUSINESS: MISMATCH OF EXPECTATIONS**

BASIC RESEARCH PROGRAM

WORKING PAPERS

SERIES: PUBLIC ADMINISTRATION  
WP BRP 04/PA/2013

This Working Paper is an output of a research project implemented at the National Research University Higher School of Economics (HSE). Any opinions or claims contained in this Working Paper do not necessarily reflect the views of HSE.

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## **LOCAL GOVERNMENT AND SMALL BUSINESS: MISMATCH OF EXPECTATIONS<sup>3</sup>**

The article summarizes the data from a few tens of interviews with entrepreneurs – representatives of a small business. The purpose of the interview was to discover expectations and suggestions from entrepreneurs to the local and state government. Interview data reveal the profound contradictions between the business and the authorities. These contradictions are based not only on results of the local administration's actions, but also on the specific current status of local (self-)government that makes it impossible to effectively interact with the business. On the other hand, the development of local businesses has led to a peculiar configuration of the business community, also making it difficult to communicate with the authorities. As a result is trying to get protection from the local government that leads to inadmissible merging of business and government and monopolizing of business in almost every district. Direct consequences of such a merging are government inefficiency, lack of incentives for business development, and stagnation.

Some “evolutionary stable strategy” has been developed, that does not allow winning any of the actors yet saving them from loses in competition with the outside players. Understanding of the inefficiency and dead-end of such an interaction by some entrepreneurs forces them to raise claims to local authority. Interviews analyses resulted in the list of complaints and suggestions on how to optimize an interaction between the local business and local authorities.

JEL Classification: H73.

Keywords: municipal government, local self-government, small business, business-government interactions, partnership between municipality and business.

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<sup>3</sup> This study comprises research findings from the “*Will the economically active population of the municipal government's ally? Analysis of the disorders in the interactions between institutions of local societies and local government*”, research grant No 11-01-0063, carried out within The National Research University Higher School of Economics' Academic Fund Program in 2012/2013. Some field studies data were gathered within the project 2011-003 “The structure of the Russian provincial society” funded by the foundation “Khamovniki”. We are very grateful to our respondents for their sincere interviews. They have spent a plenty of time sharing their problems with us while having little hope these will ever be solved and life of local society will eventually become stable and flourishing. We hope our publications can be at least a little helpful for the restoration of our social life.

## Introduction

The current interaction between the authorities and the local business resembles a well-known model of interplay from one Russian fairy tale “The Fox and the Crane”. Mutual treating does not satisfy either of them and constantly alternates with insults and complaints. The existing interactions are weak, asymmetrical, and unjust; they seem to circulate permanently like this. But there is always a threat that fox will eat the crane. In order to understand the reasons for insults and complaints, and to analyze an existing interaction from a new angle, we have conducted this research.

The existing relationships between the institutes of local self-government and local business are reputedly not optimal (Peregudov, 2007; Chepurenko, 2008; Vdovenko, 2011). It may seem that this interplay is just disastrous for the local business (Kordonsky et al., 2011). Throughout last 15 years the heads of the local governments, both current and former, have been controlling all the main resources of their districts. Moreover, they have total control over the access to local entrepreneur communities: it is not possible to launch any new project without their approval, even for local people (see: Plusnin et al., 2009). A certain class relationships have been formed resembling structures of clans or estate society (Kordonsky, 2008, 2010)

This total dependence of local business community from the local authorities creates much indignation and does not allow building a stable relationship between them. The disorders of the relationships are determined by the “non-canalized” activity of local (see: Plusnin, 2012). Development of local entrepreneurship – multidirectional and free in its essence – meets constraints of the local government. Government’s actions are determined by their personal interests in business rather than by their officially declared duties. This creates a certain bias in business development hampering the progress of businesses of those entrepreneurs who are not included in “governing clan”. Quite often it is a real clan consisted of relatives.

This kind of interaction between authorities and business should be classified as segregative, leading to ‘institutional deficits’ at the local level. Businessmen are trying to change this situation – to get rid of such an injustice. Thereby, they endeavor ‘to heal’ the economical and social spheres of local societies. Actions of local government that actively hinder these moves are seen as barriers in that progress both by entrepreneurs and the rest of society. At the same time nobody doubts the necessity of police and socio-economic functions performed by the local government. This results in suggestions proposed by active population on how the relationships between the authorities and certain social groups should be modified. These suggestions form ‘the list of complaints’ that is surprisingly short, but is very pithy, substantial

and concerns the basic functions of local government. This allows thinking of a strong, conscious determination of active part of a population to develop a real local authority that will be able to substitute its semblance that exists now.

## **Hypothesis, methodology and research materials**

We have conducted empirical observations in order to define a possibility and directions of constructive dialogue between the institute of local authority and various stakeholders of the local society. Specific targets of the study were: to determine the causes of interaction disturbances and to define the factors contributing to segregative interplay between the local authority and active part of population.

The object of the research is an interaction of local authorities with local society with focus on the (economically) active population. The subject of investigation is perturbations of interaction between local government and active population. Perturbations are manifested in different forms of segregation of active population, primary entrepreneurs. Segregation shows itself in obstructing entrepreneurship by setting different administrative barriers that leads to modifications in conditions for business, or simple blockage of projects development.

### **Working hypothesis**

The ‘institutional deficit’ in authority-business interaction creates a profound distortion in the whole government system at the local level. It is expected that overcoming this deficit by means of finding and establishing mechanisms of effective interaction between local government and active population will result in a certain development of local authority that is characterized by origination of institute of civil society and its involvement in local governance. This study focuses on:

- (1) understanding specific disturbances in the authority-business interaction, and
- (2) gathering recommendations from the active population on how to correct this situation.

### **Methodology**

Used methodology is based on the structural-functional approach and qualitative sociological analysis that assumes conducting case studies and in-depth interviews. Investigation of interaction between institutes of local authority and local society requires understanding the

essence of the problem rather than searching for statistical correlations. That defines the research methods – direct observation and interviews.

## **Observations**

Direct observation requires being at the researched location, observing the everyday life of local society, getting acquainted with local people, their business, and administrative routine that requires a considerable amount of time. Observation data is collected and summarized in partly formal research diaries.

For the purpose of the study 6 North-East districts of Kostroma region (Makariev, Manturovo, Kologriv, Pyschug, Vokhma and Oktyabr'sky) were visited in September and October 2012. The nature of entrepreneurship is similar in all six districts, and the difficulties businessmen have are alike. Management tasks are similar for local authorities in all six districts. That allows gathering and analyzing data from these six districts altogether.

## **Interviews**

Expert interview with entrepreneurs and officials focused on issues of economic development and initiatives of local society. Interview aimed to reveal peculiarities of interactions between local business and local authority: its nature, mechanisms of communications, problems.

Respondents were interviewed in comfortable, relaxing atmosphere, usually at the respondents' territory. Interviews were recorded with respondents' consent. The duration of interview varied from 20-30 minutes to more than 2 hours, being on average around 40-50 minutes. Interview guide consisted of 45 topics, although interviewers did not have to follow the guide precisely – it was rather important to stress those topics that respondent seemed to be more aware about and interested in. Guide was divided in three blocks:

- (1) development of local entrepreneurship (included 23 topics);
- (2) development of elementary institutes of civil society as a basis for society-authority interaction improvement (17 topics);
- (3) interaction between local authorities and local small business (5 topics).

Every interview was recorded, deciphered and saved as a separate file. All in all 53 interviews with entrepreneurs and officials were conducted, 33 of which were recorded by dictaphone. It is important to mention that some officials were previously businessmen as well as some entrepreneurs had been working in the local administration previously. This allowed some respondents to describe an interaction between authorities and business from both points of view.

We were primarily looking for those entrepreneurs who are involved in production of goods or provide services. There are only 10 respondents in our study sample who are pure merchants, despite the fact, that entrepreneurs-merchants ratio in real life is around 1:9. In addition to their main business many entrepreneurs also keep shops, so they know situation both in production and sales quite well. In every studied district we also interviewed 3-4 local government employees including heads of administration, and ex-heads when possible.

## **List of expectations vs list of complaints: inconsistency of views on interaction between business and authorities**

Conducted interviews and direct observations allowed to collect a large number of expectations, suggestions and complaints from the entrepreneurs regarding their interactions with the local government and vice versa. The data were summarized in several groups by topics representing the most acute problems. The chart below has two columns where businessmen complaints (on the right) and authorities' expectations (on the left) are listed.

**Table. List of mutual expectations of local self-government to local business, and business to authorities**

<i>Authorities' expectations</i>	<i>Businessmen complaints</i>
<p><i>Employment</i></p> <p><i>Corporate social responsibility</i></p>	<p><i>Administrative barriers</i></p> <p><i>Too hard control of business</i></p> <p><i>Excessive bureaucratization</i></p> <p><i>Informational deprivation</i></p> <p><i>Lack of professionals</i></p>

We have noticed that entrepreneurs address quite many complaints to the authorities, whereas authorities have no complaints to business, but only expectations. The reasons for that are quite obvious:

*“But what the authorities should do if they have nothing? If they come to entrepreneurs as a suppliant – how then it will be treated? – like a beggar! Everything has been taken away from it by now”*

The business community while having many complaints for the authorities does not assume any interaction. We have intentionally presented both lists in a form of chart in order to show a discouraging fact of their mismatch. Let us firstly describe the right part of the table. What do these five short statements mean?

1. Administrative barriers. Normative and administrative barriers for the new business enterprise are just insuperable. Current situation differs significantly from the 90s and even beginning of 2000s. During last years these extremely high administrative barriers also affect already existing business.

2. Unfounded, too hard administrative control of business. A number of various inspections sent to the factories and shops by the government are enormous. Moreover the prosecution inspections have spread widely as ‘an administrative rent’ or a raider seizure of business mechanism.

3. Excessive bureaucratization of business procedures becomes one of major hindrance to entrepreneurship outrunning heavy taxes and various ‘social exactions’ from the government.

4. Informational deprivation. This important problem is an acute shortage of important information for business projects as well as lack of communication between different business structures.

5. Lack of professionals. Many entrepreneurs mention a low level of education of workers and name a serious deficit of professionals among most important problems for current business. Entrepreneurs expect local authorities to support and develop educational system predominantly in economical and legal education but also for general management, analytics and logistics.

Local authorities do not have a similar “list of claims” to entrepreneurs. Instead, they have some expectations from the local entrepreneurship. One of these expectations comes from ordinary used complain about ‘lack of social responsibility’:

*“There was a story, a quite known one, when the administration asked local entrepreneurs: – Help us to build the bridge. In that place, across that river. And we will help you as well. Most of businessmen didn’t respond. But there was one who believed. He believed, and here he is preparing the wood (the bridge was supposed to be wooden) for his own money, then hiring a brigade for his own money and building this bridge. And there was a promise: Well, for that we will help you with a piece of woodland or pay you money. And that’s all. They all deceived. He was coming to administration for over a year for that money. – When will you pay me? Nobody ever paid him. At the end this businessman spit on all that, he was tired of abasing himself and he said: – I will never ever help you with anything anymore!*

*It's not just about this businessman, but that everybody got to know this story... That is such a consumer-type attitude towards businessmen from the authorities: well, you make good money, you won't lose much if you give us. But time is different now, it isn't possible to build any cooperation on that kind of relationship"*

Another expectation concerns employment. Local administration expects entrepreneurship to help with job placement of at least some part of able-bodied citizens. In fact, the problem with employment reflects low efficacy of local authority itself.

Analysis of interviews with officials suggests the main reason for such expectations is an assurance of good indices that local authorities have to report to the regional state administration. The point is that according to the Presidential decree (The President of Russian Federation 607 Decree from 28.11.2008) the most important measures of effectiveness of local authorities are listed in 30 indices where contentment of people ranks in the last 30th place. Recently the list was expanded (Government decree 1313) with another 31 indices – “additional measures of efficacy”. At least 11 indices from these two lists (almost 20 percent, that is quite a few!) are directly related to the local entrepreneurship and oblige local authorities to arrange the conditions for local business development. So if the effectiveness of local entrepreneurship is low, the overall indices are low as well. Despite the relative independence of local authorities from the state authorities this will likely lead to troublesome consequences for them. These motives are seen both directly and indirectly at the argumentation of the local authorities on their possible interaction with the entrepreneurship.

As there are quite serious complaints from the entrepreneurship and nothing comparable from the side of authorities – it could be concluded that entrepreneurship suffers the most from the current situation (for exs. see: Karpushkina, 2009). Here we have an “institutional distortion”, the sign of inefficiency of existing interactions (Mochalnikov, 2010). But real causes of such a distortion in interaction are related to lack of trust to the local administration:

*“What kind of interaction could be? None. Everyone is for himself. Our authorities do not work with business for many years. And relationship between authorities and business are such that business does not trust authorities”*

*“...With the local authorities? But we have no relations with them at all. So what? When they need some money for anything – for the school or kindergarten – they come and ask. And we give them. We go our way and they go theirs. We don't see them and don't hear them... They aren't interested in us. We do not expect any help from them. At all. ...They go to us only on business, we never go to them... Small business is on its own. Authority is on its own. We do not see each other. And after all small business is a basis of district economics”*



The list of claims implicitly sets an action program for both entrepreneurs and authorities. This action program is an acute necessity for the entrepreneurs and most of them understand quite clearly where and how these changes should take place. For the authorities however such action program is an attempt to violently change the state of things that have had developed for over a two decades:

*“Anyways, the distrust is at the heart of our economics. It is how it used to be... After the Soviet times, from the very beginning of the local entrepreneurship, the authorities treated businessmen as an enemies – it was everywhere and especially in remote areas. Well now they can’t get anywhere, now they treat us differently. But it’s not cooperation”*

The change of local authorities’ attitude towards local entrepreneurship is only possible if it is directed by the higher authorities – the state government (see: State regulation..., 2009). But this direction should be guided by the entrepreneurs’ list of claims and complains rather than wish of local authorities to keep things as they are. The change towards new form of local authority that starts from the grassroots does reflect the intellectual representation of ideal local self-government. Let us consider the entrepreneurs’ list of claims in more details.

### **Complain 1: Administrative barriers for a new business**

Despite the twenty years long history of development of small business and existing difficulties, entrepreneurs still see some possibilities for new business projects (Chepurenko, 2008). Realization of these business opportunities will allow to increase the level of service provided for citizens. However, these business opportunities are under control of the local authorities that rarely show any signs of interest in development of these new options.

*«We do have quite many opportunities for good business projects now. But who would help to organize it? That economical department (of local administration) should gather folks and tell them: it is possible to organize this and that, and what is needed for that”*

However the local administrations either purposefully or just with the connivance creates different obstacles for new business. It is a well known example when officials run business themselves and hence are not interested in raising competitors (this could be seen almost in every municipality). But they might as well impede development of other business projects, not related to their own. This happens because of simple indifference or due to illegal financial interests – the result is equally lamentable as citizens cannot get products and services they could have got.

*«There are opportunities for new business – I know of them... Organization of local scrapheap for example is a very profitable project. And important as well. And the economical department could help with that. But they don’t do anything. Instead... Here we had sausage factory. Regional budget owed it 700 thousands. And it’s gone. But the*

*sausage was natural. The sausage was great! When remember this sausage – I just drool over... There was a private farming and they produced this sausage and milk products. And what? – It's all gone! They took a loan, 700 thousands. And the local administration had to pay the interest by the contract. But they didn't. That's it. Factory has closed up. Here's the help from local administration. Does anybody think of that?"*

Both entrepreneurs and local officials do understand quite clearly economical and social importance of the small business. Therefore people in the provinces are just amazed by the short-sighted and incompetent steps the state administration takes. Recognizing the incompetence of the federal authority leads to doubts on its legitimacy. And with growing number of incompetent decisions such doubts are not far from confidence. Let's take a look at one long, but typical example:

*«We pay all the taxes in time. But taxes are being increased to disgraceful! They rise and rise endlessly. Today we live very hard. All business lives very hard today...*

*Today our small business gives about a half of all taxes plus it provides the majority of jobsites here. It pays salary to people. And this small business we beat with all our might. And we look at this small business only as a source of money. And we never think how to support it, to help...*

*Entrepreneur provides job sites for the whole district and he is clutched by these huge taxes. If it expands it will give more job sites and will pay "white" salary... We had 14 percent social fee. So they increased it to 34. We paid seven and a half thousands every month – and now we pay twenty. Every month. Apart from this social fee we pay for electricity, communications, uniform etc. I ask my accountant: how much do we pay? – A heck of a lot! (the woman at the next table answers) – A heck of a lot!*

*We got some income and then we pay all and sundry. The taxes have raised sharply – consequently the income has fallen sharply. You think I'll show my real salary? Why would I? This social fee is subtracted from the salary. So it leads to "grey" salaries at any private enterprise. And employees agree with that. Why? But where will they go? They understand that if the business crashes down they will have nowhere to go. Folks are content that they are paid, that they could feed their families. If the business crashes – they will have no salary. Where will they go? Nowhere.*

*And what? They understood. Entrepreneurs stepped forward. So authorities said – we will lower taxes for the small business. Did they? How much, what you think? – they lowered it to 28 percent. It's not 34 now, but 28. But if you guys said it's gonna be 20 then make it twenty! Why do you do so?"*

As S. Pavlenko noted recently (in commentary to the our report at the XIV International Congress “Modernization of Business and Society” in Moscow, 2-5 April, 2013): “The manifold increase of the social fee turned out to be a paradoxical way of development of local business. Business and local society appeared to be at the same side of the barricades – both were interested in business illegal falling into the shadow as it saves the livelihood.”

The local authority is close and easier. But when it starts to block harshly new business enterprises, the local population considers it as illegal ways for fighting the business competitors.

Administrative barriers at best could be considered as signs of shortsightedness, incompetence, stupidity. During our research we, regrettably, elicited many facts of hindering the small business by means of various administrative barriers. This is a very important complain especially now, when local business provides around half of all job sites in municipal district. And if the employees of budget organizations take around 40-50 percent of all district population, then all the rest are small business workers:

*«Do not knock down the small business in the provinces – let it develop. Instead of bowling it to death at the very beginning – give it an opportunity for development. When developed it will bring considerable money both local and federal budget. If it's gripped during development – it will close up with no profit for no one»*

## **Complain 2: Superfluous administrative control over the small business**

All the interviewed entrepreneurs have pointed out the increased number of inspections carried out by different control commissions. The growth was especially noticeable during last 3-4 years. Moreover, the nature and purpose of these inspections have been changed. Instead of declared goals (detection of violations and control for keeping the rules) supervision instances are now fully aimed at punishing the businessmen, independently of the presence of any violations. Thus, the instrument has substituted the purpose. To fine the businessmen at any cost is the main purpose of the different control commissions now.

*“And also there are very many controllers nowadays. Too many control inspections. They were before as well, but not so many. Now it's just too much. fire control, “Rosпотребнадзор”<sup>4</sup>, sanitary control... Prosecution commission used to make inspections twice a week...*

*There was 294<sup>th</sup> Federal law<sup>5</sup> that ratified small business inspections three times a year. All kind of inspections. We could check out the inspection schedule on the Internet –*

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<sup>4</sup> Federal service on customers' rights protection and human well-being surveillance.

<sup>5</sup> Federal law # 294 “On protection of legal entities and individual entrepreneurs during state control (supervision) and municipal control implementation” (26.12.2008).

*so we knew when the next inspection is gonna be. But... we now have permanent license – so how will they inspect us three times a year? Well, they now have corrected the 99<sup>th</sup> Law<sup>6</sup> and “Roszdravnadzor” is permitted to inspect us every year.*

*I am sorry, but they come all the time! Like once there was an inspection here - I had a pressure rise that day. They examined everything – all was fine. And when they were about to leave, they got a phone call: How is it going there? – Everything is alright – No, it can't be! You have to find something! Come back and find a violation! ... So, it means if they didn't find any violation – then they did their job poorly. So they have returned. “Rospotrebnadzor”. They checked up everything – all is fine. But they needed something – so “no ventilation” they said. What ventilation?! It is required in the drug-store when there is a production of medication, but we only sell medicine. So what ventilation you are talking about?!.. but they found what they wanted*

*So, some supervision instance makes an examination and imposes a fine. the fines are huge! I think it should be done like that: commission checks up first, and then issues an injunction on what should be changed and how. But now the purpose of the examination is to punish the entrepreneur, to impose a fine. Lots of small businesses are weakening now – why? Because they are being pressed all over. When the examination is made, the next step should not be a fine imposition, but rather an injunction. It used to be like that before. After the inspection they said what violations had been found and so what must be done and when. Then they came back after some time – and if you had not eliminated the defects – then they imposed a fine. And if you had eliminated it – then it's ok, nobody fines you. The purpose of the control inspection is to improve the quality of the work, but not to strip the entrepreneur of everything. And now what? If I want to have good results out of all these inspections – I have to bribe the inspectors!“*

The majority of supervising authorities are territorial departments of the federal and regional state governments. Thus, the inspections represent a tool of administrative control over the entrepreneurship (State regulation of entrepreneurship activity, 2009). But the local administration have take an active part in such controlling. If some head of the local administration shows an independence of regional authorities (that is supposed to be according to the law), it risks to get a thorough inspection of his own cabinet and affairs. It runs into absurdity when regional officials visit the local administration along with representatives from the police, Emergency control or Sanitary inspection – in order to find some violation for sure:

*“...The main criminals in the provinces are the heads of the local administration. We are being sued all the time and for any reason. Here, couple of days ago I was sued – for*

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<sup>6</sup> Federal law # 99 “On Licensing Certain Types of Activities” (2011.05.04).

*what? For the non-execution of the Federal law 131<sup>7</sup> concerning the maintenance of roads. So, prosecutor and Traffic police came here and made some measurements: 1 km of asphalt road with a 15-centimeter hole in it. Here's a violation! According to law I am held responsible for roads - as a district head. But where will I take money from? We had some money from this transport fee, but it was taken away from us last year. Regional administration now has it. No money. And I am sued. The judge opens Federal law 131 and says: "You are obliged to keep the roads in order!" – I answer him: "I agree, I am obliged. But where should I get money from?" The judge tells me then: "Well, you can go to entrepreneurs and ask from them" Well, yes, I can. But what kind of authority is that if it goes and begs for money? This is not an authority"*

Many heads of local administrations have to show up in the court almost every week as they are being sued as a result of various inspections or because of non-execution of purely absurd orders. For example, the prosecutor of the city K. has issued an order on March 3 to fix the river dam and to pave the carriageway by the April 3. Clearly the time period given for such serious projects is too short. Moreover, neither dam repair, nor pavement cannot be done in spring when rivers overflow their banks. But the goal of the order is not to solve these problems – it rather aims at imposing fines over the local administration, plus demonstration of eagerness to higher authorities. One district attorney has once said: *"...if we do not demonstrate the results of active work – we will be simply fired!"*.

Regional administration often give orders to local administration that are impossible to carry out or just useless. For instance, an order to renovate an abandoned building that has no tenants as well as no roof. Or to pave the path towards draw-well in a village with less than 10 inhabited houses located 20 km from the nearest asphalt road. Inspection authorities always find a pretext for such orders: in the former case it is the fact that the house has not been written off on time, whereas in the latter case it is the state law that obliges municipality to make such pavement. The law however misses an important point – the crucial differences between life in big cities and in the countryside. Nevertheless, it always makes small business to pay big fines and local authority to have legal proceedings with risk to be jailed. Wise and experienced heads of administration understand quite well they hardly could do anything to protect local businessmen from this tyranny.

*"If you want authority cooperates with business (protect them and all other things) authority has to be powerful first of all. It must have some levers. Or there must be a mutual benefit...like creating municipal co-ownership enterprises – I think this might be a*

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<sup>7</sup> Federal law #131 « On general principles of local self-government in the Russian Federation» (2003.10.06).

*serious incitement. But now there are no relationships at all. Relationships must be secured by the law... ”*

It is not a common knowledge that most of Russian settlements use seventh part of their budget (and sometimes even more) to remove snow from the roads in winter (for information: big cities with much bigger budgets do spend around 0.5-1 percent of it for snow removal). Community services that usually perform this work exist only in large municipalities. In the small ones all this kind of functions – snow removal, disposal of ordure, water and fuel supply etc – are performed by the local entrepreneurs. And these people risk their monthly income with every new control inspection. One day an entrepreneur leaves this “minefield” and thus local citizens lose necessary services. That is how the state government (of course, represented by single individuals) cuts off the sprouts of local initiative and do not allow to perform vitally important functions.

### **Complain 3: Excessive bureaucratization**

Another problem that also concerns both – small business and local self-government – is an excessive bureaucratization. The number of various bureaucratic reports entrepreneurs and local officials have to submit to government regional departments is huge. This number increases every year.

*“It is necessary to decrease the amount of bureaucratic work done by administrative employees. This usually unnecessary work takes much time that could have been used to solve the real problems”.*

The amount of the reports reaches 2000-3000 papers annually! It means that every working day the local officials and entrepreneurs have to prepare 10-15 documents! Every preparation requires gathering of certain information. Because the time given for the submission of the papers is usually too short for any data collection, most of the provided information is simply fabricated:

*“...Here’s an example: once in the evening – around 5 – we’ve got a phone call – the governor inquired an information on those citizens who worked away from the district. The information had to be provided by 6 o’clock that same day! How many of them? Where do they work? What are their professions? How much do they earn? Are they ready to work at their home district? Six questions. And all this for 1 hour. So we, heads, called each other, discussed, weighted – and provided them with the numbers. Precise. Completely fabricated”.*

This aspect of interaction between the state and the local administration and local business reveals poor or absent connections between different departments in the regional

administration. If there were good or at least any connections between the departments, it would not be necessary to submit the same documents for many times. Local authorities and entrepreneurs complain of excessive and chaotic requirements for data submission. It appears such frequent need for useless information is coming not from the governor, but some clerks from the regional administration who may just invent different tasks to demonstrate their importance.

Excessive paper work overburdens both local authorities and local businessmen. But if the authorities could allot some worker to handle this document circulation (who is usually busy the whole day long) – the small business hardly could find unengaged employee to do that:

*“For about three year now it has been really bad. We are constantly overloaded by different paper work. She (the accountant) submits documents without rest – instead of consulting younger employees. All the time we get emails from them – all the time we have to provide some information. She sits the whole day here, counting this and that, how much we have sold and all. Lots and lots of useless information”*

The inquiries for the document submissions are often duplicated:

*“All this bureaucratic runaround must be cut loose. And of course these replicated requests for the same information must be cancelled. Let it be so that I submit one document and it got copied there and moves to all the departments it needs to be. Now I run for twenty times to submit the same paper in different offices”.*

We think that one of the main reasons for this disorganized activity is the absence of the official municipal statistics as such. It does not exist at all since there is no official law that regulates it (Kordonsky, 2010; 2011). As a result, the government requires any documents they want from the small business and local authorities basing not on the law, but on the arbitrariness. Importantly, most of the local entrepreneurs and officials are simply not aware of illegality of such claims. Those single individuals who just by accident have found it out are afraid to refuse these claims: *“...because if you refuse them, then they will grip you in a vice big time!”*.

Thus, entrepreneurs understand this excessive bureaucratization as an attempt of the regional government to make it looks like they do control the situation whereas in reality it is far from it. So the rational suggestion that arisen from it is to shift all the control proceedings down to the local level:

*“The local authorities should be in charge of local situation. They should make requests to small business on what documents have to be submitted – not the regional government that does not know the situation in a district. The federal government should, in turn, analyze the data received from the local administrations rather than impose their own will – millions of requests that does not suit us”.*

Excessive bureaucratization hits both the local authorities and the local business. Local administration writing numerous reports loses the time it might use for solving real problems of the municipality. Local business loses even more because submission of ceaseless reports makes it impossible to run business that stagnates or even deteriorates:

*“this enormous paper work stops everything... We could’ve launched the business a long time ago – but we can’t! Millions of documents, agreements and all... I was compiling this document package for six-seven months... I am pensioner and I have to learn everyday...”.*

#### **Complain 4: Information deficit**

The enormous amount of chaotic reports, rapid alterations of the legislation and frequent changes in the business environment have its positive sides as well. All this makes people to search for answers and to learn new things almost every day. However entrepreneurs say even though such information is essential for business, it takes too much time to look for it. Getting new education in economics, accountantships or management – even though it would be undoubtedly advantageous for the business – is just impossible for businessmen because of lack of time or simple unavailability of such education in the region they work in. So entrepreneurs ask local administration for informational help. Local administration is legally obliged to provide necessary information for population. Entrepreneurs could be given information on fundraising, crediting and solving or avoiding various difficulties in their work. While getting no legal and financial aid from local authorities, the businessmen expect them at least to provide some useful information:

*“Small business would surely grow faster and more successfully if there is informational help from the local authority”.*

Most local administrations have departments that could provide this kind of information. But they do not do it:

*“There must be a certain department at the local administration that deals with the local businessmen. We had it before. The department was doing alright, helping entrepreneurs to solve their problems, consulting them on economical, legal and other issues. They also were elaborating on the question of local business development together with local entrepreneurs”.*

Most of entrepreneurs we interviewed know well (or at least surmise) that local authorities are obliged to assist small business. Meanwhile local authorities are trying to avoid this legal obligation:



*“... we have enough laws in the country. If we talk about the prospects of small business development – I have to be able to walk in an office at the administration and get help. If I have problems in some issue – they should help me. I am a beginner and do not know much in the entrepreneurship – but I have good ideas and some money – they should help me with advice – where to start, how to start, what are possible directions of my project, what would be most useful for our district. In reality it’s all by opposite – you walk in the office – you walk out. No help at all.”.*

*“They shouldn’t try to catch businessmen who make mistakes because of little knowledge. They shouldn’t aim at imposing fines over these businessmen. Instead, they should inform the businessmen on all the changes in the legislation in advance”.*

It was not like that all the time though. In the 90s and beginning of 2000s there was a support for the entrepreneurs at the local level. (It was destroyed with the creation of Putin’s “power vertical” in 2000s that led to huge bureaucratic distortions). Interestingly, such support system also existed in Soviet time, and again the main role was played by the local authority:

*“Rural area differs from big cities also by availability of new information – as it is not that well connected to mass media and outer world. There used to be an experience exchange program in Soviet times. Folks visited their neighbors in nearby districts. They were talking, discussing their work, difficulties and successful solutions – good experience exchange. Organizing such trips cost copecks. People travelled to big cities visiting different factories, exhibitions. It is easy to organize, but effect is substantial”.*

*“We used to have association of entrepreneurs. We have organized it at the time I was working at the local administration. We regularly taught local entrepreneurs all the innovations – in economics, law etc. Laws change all the time. We had the economical department that was teaching our local businessmen. We used to gathered all entrepreneurs together and talked to them. We had a separate bank account where local businessmen were transferring money. Only those who were able to transfer money did so. We never rook our businessmen, we knew they had a hard life. So we used to gather small businessmen and discuss various issues with them. What problems did they have, what did our district need, what should we do to increase salaries of local workers. There was a period when salaries were low and they have started to officially report real salaries instead of “grey”. Then the government hit it hard with 34 percent taxes instead of 14 – and all the salaries again became “grey”. Well they up there never think about it. Today we again drive our local business – where? – nowhere!”.*

For some reasons (one of them is that such advices were purely formal, having no significance for the business) this support of small entrepreneurship by local administration went

down. Departments that were consulting businessmen have been closed up one by one. Associations of entrepreneurs also went down.

*“There was so-called ‘directors workshop’ and we gathered regularly. And it was useful for the head of administration also. There was an exchange of experience in all areas. Now he isn’t calling anymore. It was initiated by the administration. Now seems like they don’t need it. It was sure good for the district. One is you are begging everybody for money, and quite another matter is to have your own budget. You make decisions on your own. Well... Now we have no points of contacts with the administration”.*

The need for information among local entrepreneurs is acute. It became even more prominent with the new legislation. Businessmen know what local authority can do to help it:

*“...There is a need in educational programs. These programs have to be updated all the time. They should launch such programs... What can local authorities do at this stage? This is one of the most acute problems in our region. What can they do? They can support an information field... Informational help. It costs nothing. Gratis. But it’s very very important. For any businessman. Because young people have to be engaged”.*

Currently the situation is near desperate. It burdens entrepreneurs even more:

*“... everyone is boiling in his own pot... We should have exchanged the knowledge. We know our problems but it’s not enough. Somebody needs something and he is searching and searching and could not find... there is a severe lack of professionals...”.*

## **Complain 5: Lack of professionals**

Indeed, there is a severe lack of professionals. At the dawn of private entrepreneurship in Russia there were many people with very good soviet professional education. Also, there was no need in uncommon, rare specialties. The situation has changed dramatically since then. Late 2000s and early 2010s were marked with a threatening growth of two serious problems. First, the shortage of professionals in different areas has become very acute for three reasons:

- (a) a number of well-educated soviet specialists has decreased during last 20 years by natural reasons;
- (b) the system of young specialists assignment was dropped off;
- (c) the system of vocational education has been crushed.

Second, technological development has brought many new professions that are necessary for modern business. These professionals are entirely absent in rural areas and there are no educational institutions in there which could prepare them. These are programmers, lawyers, managers, logistic specialists and auditors.

When lack of professionals has just been seen in the provinces firstly in the 90s, an effective solution was found. Local authorities had been paying (from the district budget) for the education of young people who had to return to the district after the graduation and work there for several years. The deficit of specialists at that time was not as severe as it is now because there were still good old-school professionals:

*“Nowadays we have extreme shortage of specialists. Nobody can even write a contract properly. But what about assignment of young specialists – like it used to be? It is not realistic now. Nobody would do it now. The law does not allow it. But there is another way. It is possible to send students to some educational programs. Here we have a girl who is about to graduate from medical institute. Also there’s a guy who is studying transportation. The district budget covers their education. The girl wants to study but it is difficult for her family and the district is paying for her. She is coming back one day. Will work in the district by contract. ...And it’s often kids from poor families – they can’t pay for the education and kids are coming back home. That’s the way to solve this problem now”.*

Even though this way really seems to be effective, it has a serious shortcoming. Young graduated specialists who return to their district need an accommodation:

*“Local administration can send youth for studying the core professions that are important for the municipality. For covering his education expenses the student is obliged to return to his/her home district and work there – as a doctor, accountant, teacher, whatever... We have such examples. But here’s another important issue. In order to return here and settle the young specialist does need an accommodation. Look – this girl is coming back and she’s bringing her husband or boyfriend with her. Where are they supposed to live? With her parents? In two-room apartment? Well, here we need a federal budget help. The district can pay for education, but building new houses is too much for it”.*

Another important issue in this topic is vocational studies. Young people in the provinces do not want to get vocational education and training because of its low prestige:

*“We have to raise the prestige of vocational studies. For example, it could be done by means of mass media. Then youth will go studying, others will learn right at the workplace. This way we could grow a real good professionals in several years”.*

Overall, small business is now got stuck with these acute deficit of specialists and it does not see a way out. The only hope is for local authorities. However they do not want to take up challenges like this.

## **What to do? Small business possible strategies in unfavorable conditions**

Indeed, what should small business do today? The data we have gathered reveal deep contradictions between business and authority. Some of these contradictions are hidden from the external observer, whereas others are on the surface. Most of these contradictions are based not only on motives and actions of local authority, but also on the specific current status of local government that makes it impossible to effectively interact with local business. The local authority is clamped between the local society which it is supposed to govern and protect, and regional authority which it is not supposed to obey, but from which it is entirely dependent. Local authority is not just financially dependent on regional administration, but is also under its complete control since regional authority is responsible for local one to the federal power. This total dependence of local authority naturally leads to weakening of its responsibilities for the local society including small business. Local authority does not feel itself being in charge of local entrepreneurship which it actually is obliged to support and develop.

On the other hand, the development of local businesses has led to a peculiar configuration of the business community, also making it difficult to communicate with the authorities. Peculiarity of contemporary Russian North business is its total focus on the use of natural resources. Single-industry raw material specialization of the entrepreneurship as well as very narrow and underdeveloped segment of service makes entrepreneurs completely dependent on arbitrariness of local authorities. This, however, does not protect them from the territorial invasions and capture of the market by big outside mining and network companies. The local authority could hardly support local entrepreneurs as it has lost control over the distribution of natural resources.

As a result of such two-sided attack local business is trying to get protection from the local authority that leads to business-authority merging. In almost every municipality the largest business belongs to a former or current (through his relatives) head of administration. This leads to inadmissible coalescence of business and administration and consequently to the monopolization of business in almost every municipal district. This coalescence results in authority's inability to create favorable conditions for local business. Also local entrepreneurs lose motivation for the development (*"if I know for sure I cannot outrun our administration head in this business – then why would I try that hard?"*) that leads to stagnation and quite often recession of all entrepreneurship in the municipality.

Some kind of “winning-less evolutionary stable strategy” has been developed, that does not allow either of the actors to get advantage. The model of interaction indeed resembles the plot of famous Russian fairytale “The Fox and the Crane”: everyone expects from the other something different that he could offer. However this strategy also saves them both from losing in competition with the outside players. That is why being minimal it is still stable. If the existing situation in district is not disturbed by any external influences that could significantly change the current relationship between the authority and business, these relationship could last ad infinitum. There are such examples everywhere: in majority of districts the “leading clans” have been governing for 15-20 years and even since the Soviet times. They also control all the local business.

At the same time understanding of the inefficiency and dead-end of such an interaction by some entrepreneurs forces them to raise claims to the local authority. It is ruefully that the “list of claims” although being short looks really depressing: “it is impossible to launch business, impossible to run it, impossible to develop it”. And behind all three impossibilities is the institute that was assigned – as an institute of local authority – for creation of the environment maximally favorable for the local business. Since only this active part of society – and not at all the government with its social security programs – is able to set up economic advancement, establish well-grounded householding and secure the social stability.

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