



Russia Small- and Medium-Sized Advocacy Program

A Briefing Paper on Interim Results

February 2005, Moscow, Russia.



Background

During its economic transition of the past decade and a half, Russia faced significant economic challenges. The key among them has been the transition to a private enterprise economy and development of a strong small and medium-sized enterprise (SME) sector. While Russia's federal leaders have begun to recognize the importance of creating a policy environment for SME development, some argue that newly adopted policies intended to promote small business growth have actually stymied it. The key to creating conditions favorable to SMEs is policy development with the input from the business community itself. However, before the private sector can effectively participate in public policy, it must have the will and the mechanisms through which it can affect change. These mechanisms – effective business associations, chambers of commerce, and other business support organizations – provide the business community with tools critical to the success of advocacy programs.

To help build a better business environment in Russia and to contribute to USAID's strategic objectives in SME growth and participatory decision-making, in 2002, the Center for International Private Enterprise (CIPE) initiated a multi-faceted program of training, technical assistance, grants support, and information resources.

The Program

Through various activities, CIPE made a successful effort to build the capacity of business associations, coalesce the business community around critical issues, and then provide them with tools to have a voice in policymaking and advocate successfully for improvements in the administrative and policy environment affecting SMEs in Russia. Specifically CIPE:

- Assessed the needs of the business community and capabilities of business associations in eight regions of Russia.
- Implemented several capacity-building programs for business associations to strengthen regional associations and equip them for policy advocacy on behalf of their members.
- Engaged associations in coalition building and strengthening regional business networks.
- Provided regional coalitions with the necessary tools to develop Regional Business Agendas (RBAs) – documents outlining priority issues and reforms for the business community.
- Supported regional and national policy advocacy efforts.

- Participated in the creation of the Russian Enterprise, Association, and Chamber Terminal (REACT) information clearinghouse, which supports private sector SME development initiatives.
- Disseminated Russian-language materials providing ongoing tools for associations.
- Provided grants to associations and chambers of commerce.

In its efforts, CIPE did not limit itself to one specific region of Russia. Recognizing the importance of a local approach to reform in various regions and working in cooperation with the Russian Chamber of Commerce and Industry (RCCI) and the non-profit partnership “Russian Union of Business Associations” (OPORA), CIPE is providing training programs, technical assistance, and support to business association coalitions in the Volgograd, Irkutsk, Krasnodar, Perm, Primorsky, Samara, Saratov, and Khabarovsk regions.

STRATEGY

- Assess the needs of the business community
- Help associations build their capacity and provide small grants
- Support the development of regional coalitions
- Develop Regional Business Agendas
- Engage in private sector advocacy
- Develop an effective communications strategy

Approach

CIPE’s approach to strengthening business advocacy and private sector development in Russia is based on ten years of experience in working with the Russian business community and its organizations. In the early stages CIPE realized that to succeed in improving the business environment it is absolutely necessary to address the dual challenge of identifying barriers to change and also working with the business community to effectively advocate for needed reforms. Based on its Russian experience and its extensive background in working with business advocacy in other transitional economies, CIPE implemented a coordinated *four*-pronged program, which was carried out in the following areas:

1. Train and Equip – CIPE set out to train and equip managers from local business associations and chambers of commerce to conduct effective advocacy work and improve organizational sustainability. Building on its own experience in working with Russian association managers in the past and using its own training programs, volunteer technical assistance, and other resources, CIPE provided the skills needed to improve the ability of associations to develop advocacy programs and build membership. CIPE supplemented this stage with a small grants program to allow local associations to undertake their own advocacy and organizational strengthening projects.

2. Promote Policy Reform - Through RBAs CIPE utilized its proven approaches to build local business advocacy coalitions to improve the local business environment, while coordinating efforts to reinforce local initiative with national-level efforts when appropriate. CIPE worked to develop a series of eight RBAs, which brought together elements of the business communities in each region (both associations and leading individuals) to develop an advocacy program for improved private sector growth. CIPE complemented these regional efforts by working through the RCCI and OPORA networks to advocate policy change on the national level that will also address local challenges. Through the use of regional and national media, CIPE and RCCI assisted regional groups in raising awareness among the general public of the policy issues affecting SMEs and the understanding of why a strengthened SME sector is vital for Russia’s democratic and economic growth.

3. *Build Information Networks* - CIPE provided local chambers with advocacy information and linkages through the new REACT network. The information network is hosted by the RCCI and provides members Internet-based access to information on reforms, policy proposals, and other advocacy efforts around the country. CIPE and RCCI have a long history of working together to provide information to regional chambers of commerce and business associations that will aid them in their development as strong advocates for their business communities. Under this initiative, CIPE and RCCI compiled all of their existing materials and administered the development of new ones, both of which benefited and will continue to benefit business associations and chambers throughout the country. This information clearinghouse has already become a valued resource for its visitors and will continue to serve as a lasting product beyond this project.

4. *Provide Technical Assistance* – CIPE’s experience in other transitional economies was also brought to this program. Building on the success of business association coalitions in effecting change in countries like Romania and Bulgaria, CIPE set out to develop effective business advocacy coalitions at the local level in Russia. The CIPE approach placed an emphasis on the process of building strong business coalitions, developing sound policy, and working effectively with local government. Experts from CIPE’s business advocacy training center in Romania and advocacy volunteers and professionals from the United States worked with their Russian counterparts on the basics of coalition building, issue identification, policy development, and advocacy.

Results

For the past two years, the eight regional coalitions have worked to identify the local business barriers faced by their members and have organized local advocacy campaigns to push regional governments to implement reforms. Regional business agendas developed by coalitions have improved the public perception of the business community and scored several victories in their drive to improve business life.

Working with the RCCI and OPORA, these coalitions have organized the national advocacy campaign “Small Business 2004” to address needed reforms and changes at the federal level, and provide their implementation at the local level.

Coalition work has resulted in successes in legislative reform, notably in the areas of taxation, enterprise finance, and reduction of administrative burdens. These, along with valuable non-legislative impacts and some unexpected results, provide evidence of considerable progress made and the potential for further successes in improving the regions’ enterprise environment.

Regional Success Stories

Khabarovsk Region In the course of the project, one new member joined ten business associations that formed the coalition.

- The Coalition developed recommendations for the introduction of a “single window” procedure for small business registration. The “single window” procedure for obtaining permissive documents for reconstruction and construction of a small space, for manufacturing SMEs, was secured by decree of the Khabarovsk mayor.
- The Coalition developed amendments to the regional legislation on tax reduction for transport organizations. Amendments and addenda were introduced into the “Law On Transportation Tax In Khabarovsk Region” in Fall 2004. Tax rates for transport

RESULTS AT A GLANCE

- **737 businesses and 68 associations surveyed** (measured against a benchmark of 100 businesses and 35 associations)
- **62 association managers from 5 regions trained in advocacy** (measured against a benchmark of 50 association managers from 4 regions)
- **46.8% participation of women in training programs** (measured against a benchmark of 30%)
- **79 of the organizations trained during the project period are formal members of the coalitions** (measured against a benchmark of 25)
- **31 focus group meetings held by the eight regional coalitions** (measured against a benchmark of 8)
- **17 roundtables held by the eight regional coalitions** (measured against a benchmark of 8)
- **45% growth of coalitions' membership** during the project period
- **8 regional coalitions have successfully advocated a number policy issues on:**
 - *Administrative Barriers*
 - *Taxation*
 - *Micro-credit*
 - *Protection of Entrepreneurs' Rights*
 - *Rental Costs*

organizations providing services for pensioners have been reduced and completely eliminated on services for disabled persons.

- The Coalition members suggested amendments to the Khabarovsk Regional Law “On the Taxation System Based on the Imposed Income Tax for Certain Business Activities,” which resulted in a reduction of the tax.
- On July 30, 2004, the recommendations of the Coalition were included in the “Decree on Crediting Policy for Small Businesses” and the “Decree on Microfinancing of Small Businesses.” As a result, access to credit was simplified, and in July – September 2004, businesses received 23 credits in the amount of 9.7 million roubles (about \$346,430).

Irkutsk Region – In the course of the project, five new members joined eight business associations that formed the coalition.

- The Coalition took an active part in developing and advocating the “Program of Support and Development of Small Business in the Irkutsk Region (2003-2005).” The Legislative Assembly of the Irkutsk Region adopted the Program.

Krasnodar Region – In the course of the project, three new members joined 26 business associations that formed the coalition.

- The Coalition led an advocacy campaign in support of retail businesses that had temporarily lost their retail space due to reconstruction of certain public areas. The Coalition worked with the Krasnodar Regional Administration on a decree providing retail businesses affected by the reconstruction with retail space in the same municipal district as their permanent location.

- The Krasnodar coalition led an advocacy campaign to simplify land transactions. The governor of Krasnodar Region signed a decree that regulates procedures of land transaction – simplifying them based on the “single window” principle. All Coalition members created Centers for SME Development Support that monitor terms and procedures of documentation processing and render consultations.
- The Coalition led an advocacy campaign to give access to small and medium-sized business to information on municipal properties that can be rented or sold and initiated creation of open registers of municipal properties for rent/sale of municipal properties.
- The Coalition developed mechanisms to facilitate access of SMEs to micro-credit. The regional administration adopted regulations that provide compensation from the regional budget to credits that in 2001 – 2004 were given to legal entities and individual entrepreneurs.
- The Coalition led an advocacy campaign to provide access to SMEs to information on state contracts. A program on providing state and municipal contracts through systems of electronic trade at Centers for SME Development created by Coalition members is being implemented in the Krasnodar Region.
- The Coalition created Centers for SME Development in all municipalities of the region that monitor protection of entrepreneurs’ rights during inspections. The Centers provide face-to-face consultations to entrepreneurs and maintain a telephone hotline on protection of entrepreneurs’ rights. Since their inception, the Centers have provided legal advice to over 17,500 entrepreneurs. The Centers helped win five court cases on illegal fines, prevented one attempt of illegal confiscation of goods, reconciled on a pre-trial basis two disputes regarding administrative procedures, and prepared eight lawsuits on illegal inspections.
- The Coalition published and disseminated among entrepreneurs recommendations on administrative procedures for registration and inspections. The recommendations were also forwarded to the regional administration. Based on the Coalition’s recommendations, entrepreneurs prevented five illegal inspections. In Belorechensk and Gulkevichi Districts, local police departments brought regulations of inspections into conformity with the regional legislation.
- The Krasnodar Coalition encourages and assists in the creation of sectoral business associations based on the Coalition’s own experiences and on the VBA (Virtual Business Association) information resources. As a result, several sectoral associations were formed in the region, including: the Union of Agricultural Manufacturers, the Professional Union of Booksellers, the Association of Real Estate Traders, the Union of Barbers, Hairdressers, and Cosmetologists, the Association of Tourist Companies, the Union of Landscape Architects, and the Clubs of Businesswomen.

Perm Region – In the course of the project, eight new members joined seven business associations that formed the coalition.

- The Coalition initiated reduction of imposed income tax rates paid by owners of pavilions, stands, and kiosks. The regional administration introduced amendments to the regional law “On Taxation in the Perm Region” that were based on the coalition’s suggestions.

- The Coalition spearheaded an arbitration case to demonstrate the relevance of the local government's inspections that control availability of patents for local vendors to trade. Trading in Perm without paying a duty for the right to trade or without having paid a patent fee is not considered to be a violation of tax regulations. The case was approved as a precedent by arbitration decision N A50-400/2004 A11.
- The Coalition contested in court amendments to the regional law "On Taxation in the Perm Region" that created an unfavorable situation for certain categories of taxpayers who used pre-reduction rates of imposed income tax. These amendments were abolished by arbitration decision N A50-9760/2003-A3.
- The Coalition identified effective mechanisms to provide SMEs with access to credits. Seven municipal micro-credit foundations were set up in the region that give credits to SMEs from budgetary funds and attract off-budget means. Based on their success, local administrations began to allocate funds for SME crediting. At present, 20 such foundations work in the Perm Region.

Primorsk Region

- The Coalition advocated against a 250 percent increase of rental cost in Vladivostok City. As a result of Coalition activities, a reduced 0.4 rate for rental of municipal premises by small and medium-sized enterprises was introduced. It was secured by the decree of the Vladivostok City Administration.
- The Coalition led an advocacy campaign to reduce the imposed income tax rate by amending the regional law "On Imposed Income Tax." The tax rates take into account specifics of certain businesses including range of goods and services, seasonality, downtime, and profit. The Coalition advocated providing equal participation of SMEs in state contracts and initiated adoption by the governor of Primorsk Region of a regulation "On Participation of SMEs in Manufacturing & Supply of Commodity/Services for State Needs of Primorsk Region." A procurement committee was established, and representatives of the Primorsk coalition were appointed to the committee to make selection and to oversee competition process.

Samara Region - In the course of the project, 14 new members joined six business associations that formed the coalition.

- The Coalition led an advocacy campaign to reduce the imposed income tax rate by amending the regional law "On Imposed Income Tax." The tax rates take into account specifics of certain businesses including range of goods and services, seasonality, downtime, and profit.
- The Coalition took active part in the development of the Samara Regional Program of SME Support and initiated introduction of amendments to the Samara regional law "On Samara Regional Program of SME Support," under which annual program funding was increased from 12 to 32 million rubles.
- The Coalition advocated for introduction of reduced working hours for women who have children. The Coalition initiated adoption of Governor's Decree #238 of March 18, 2004, "On Introduction of Reduced Working Day and Week for Specific Categories of Employees."

- The Samara Coalition developed a mechanism that provides access for SMEs to credits. It was introduced for agricultural businesses. The mechanism provides partial reimbursement from regional budgetary funds of bank rate (50% of Central Bank refinancing rate).

Saratov Region – In the course of the project, five new members joined seven business associations that formed the coalition.

- The Coalition led an advocacy campaign to reduce the imposed income tax rate by amending the regional law “On Imposed Income Tax.” The tax rates are calculated for different business activities and territories.
- The Coalition developed the concept of an electronic trade system to provide entrepreneurs with equal access to state and municipal contracts and a draft law “On Distribution of State and Municipal Contracts through E-trade.” The draft law was forwarded to the Samara Region Legislative Assembly and is expected to be adopted in Spring 2005. The text of this draft law was passed to State Council of the Republic of Chuvashia and to the Sverdlovsk Union of SMEs upon their request.
- The Coalition advocated simplification and shortening of procedures for conversion of living quarters into non-residential premises to be used for entrepreneurial activity. The Coalition developed amendments to the “Regulations on Conversion of Living Quarters into Non-residential Premises.” The amendments were developed with the help of INDEM experts (CIPE\National Endowment for Democracy project partner). These amendments were partially incorporated into the Decree of the Saratov Regional Duma dated July 14, 2004.
- The Saratov Coalition advocated for enforcement of antimonopoly legislation. The Coalition’s efforts resulted in the Saratov Regional Department of the Antimonopoly Ministry declaring invalid the Decree of Balakov District Administration on regulation of private passenger traffic. Per the Coalition’s recommendation, traffic routes are distributed on a competitive basis.

Volgograd Region – In the course of the project, three new members joined six business associations that formed the coalition.

- The Coalition led an advocacy campaign to reduce the imposed income tax rate. The tax rates are calculated for different business activities and territories. The Volgograd Duma adopted amendments to the regional law “On Imposed Income Tax” in May 2003.
- The Coalition advocated changes in regulations regarding reduction of requirements to labor contracts. As a result, the regional Duma adopted amendments to the regional law that increased the time frame for labor contract submission from three to 12 days and reduced the number of required documents from nine to three.
- The Volgograd Coalition advocated simplification of licensing for pharmacies (individual businesses). A regional decree regulating licensing of pharmacies was amended based on the Coalition’s recommendations.
- The Volgograd Coalition advocated protecting SMEs’ rights that are violated by telephone communication and electrical energy supply monopolies that impose unacceptable contracts, reduce limits, and introduce penalty provisions. The Coalition introduced a hotline service

for entrepreneurs who suffered violation of their rights by administration and inspections. The Coalition and the Volgograd Regional Duma developed amendments to the related federal legislation.

- The Volgograd Coalition published instructions that describe rights and responsibilities of inspection bodies and also contain comments on their legal and illegal actions. Dissemination of this brochure helped businesses in protection of their rights, namely, it helped five businesses to prevent cases of illegal confiscation of goods and of closure.

A Changing Attitude

The program is not only strengthening local business associations and introducing business-friendly reforms, but it is also changing the attitude of local government officials toward business. They are realizing that in order for their regions to succeed, they have to work together with the business community to introduce needed reforms, because a strong private sector brings a host of economic and social benefits for their regions.

A Look Ahead: Building on Current Success

Based on the successes of the eight regional coalitions, CIPE has decided to extend project activities to four new Russian regions. Starting in April 2005, business associations in the Kamchatka, Kirov, Nizhniy Novgorod, and Smolensk regions will work on creation of regional coalitions to advocate jointly for better business environment in their regions.

After the period of support for the current project is over and its goals are achieved CIPE proposes to continue activities in selected (pilot) regions of the current USAID-funded “SME Policy Advocacy” project that will be aimed at promotion of democratic principles of governance on regional and municipal levels through further consolidation of civil communities to provide much broader support to regional development initiatives. The goal of this initiative is development of an effective regional/municipal model of building democracy and improving competitiveness through consolidation and strengthening of civil communities.

CIPE proposes to establish Community Development Councils that will be coalitions of NGOs, business associations, leading local businessmen, think tanks, universities, hospitals, media, and local governments. The Councils will determine local development strategies and priorities and will take upon themselves tasks that local governments do not want or cannot carry out due to lack of finance or expertise. This is where the Councils will step in and take the leading role. The Councils will make arrangements for necessary projects and rally for financial support to carry these projects out.

In the system where democracy is weakening, the Councils will be the alternative system of broad public/private partnerships. These Councils may become the only viable venue through which the voice of business can be heard and democracy may develop. These Councils will represent grass roots-driven community development strategies and will build democracy on the local level through promoting democratic and development.

Also, through these Councils, CIPE and USAID will be able to identify community leaders and bring together leadership to represent voice of business. Since these Councils will be grassroots-driven, after the initial help from USAID, they will become self-sustainable and can thus pursue long-term goals.