OPINION

Putin's Economy of People

By Brook Horowitz

Despite the rapid emergence of small businesses since 1991, there are still too many obstacles for the entrepreneur in Russia. The bureaucracy around setting up and registering a company, the bribery required for obtaining approval from various government agencies, and the unpredictability of the overzealous tax police make market entry and ongoing operations costly. Moreover, loans are difficult to come by, and finance or business training for newcomers is not readily available. For the small entrepreneur in a world overshadowed by big business and big bureaucracy, the risks are high and the incentives low.

While the government has expressed its support for small business, in reality the attention has been on the bustions of Russian industry — mainly oil, gas, metals and defense. As a result, we have seen little of the much-discussed diversification of the economy.

The crisis is prompting a reassessment of the role of small business in mitigating a potentially explosive situation.

The question is how to do this without provoking social upheaval and destroying the already fragile social cohesion in the regions. U.S.-style mass layoffs are not an option — particularly because Russians are less able to relocate to new cities for employment opportunities.

Experience in other countries has shown that local partnerships in stimulating small business development can alleviate the immediate short-term effects of recession. For example, the Fnyion Suburbs' project was initiated following the riots of November 2005. It offers microcredits to unemployed people to set up their own businesses, and mentoring is provided by BNP Paribas.

In Russia, there are some modest examples of such approaches. A number of business-led initiatives, managed by the International Business Leaders Forum, are stimulating entrepreneurialism and employability in the regions. For example, Royal Bank of Scotland and Oxfam are piloting a microfinance and mentoring scheme for young entrepreneurs in Kaluga. In 12 cities, local companies and non-governmental organizations are working together to help develop young employability schemes. At a national level, a financial literacy program called Azbuka Finansov — led by Citi and Visa with the involvement of the Finance Ministry, the World Bank and the State Duma — is encouraging banks to educate their customers, corporate volunteers to teach in schools and colleges and young entrepreneurs to obtain advice through an online help desk.

During his speech at the January World Economic Forum in Davos, Prime Minister Vladimir Putin said, "The 21st-century economy is an economy of people, not of factories." By scaling up the efforts to stimulate an entrepreneurial and diversified business environment, the Russian government, the local administrations on the ground and the major corporations can share the short-term costs of weathering the current financial storms and reap the long-term benefits of transforming Russia into an advanced and diverse economy of the 21st century.

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