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**OECD WORKSHOP
INVESTMENT AND BUSINESS CLIMATE IN THE RUSSIAN FEDERATION:
A REGIONAL PERSPECTIVE**

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**INVESTMENT AND BUSINESS CLIMATE
IN THE NORTH-WEST REGION¹**

Introduction

1. The study examines the performance of the North-West Region in attracting foreign investment compared to other Russian regions. It considers the Region's comparative advantages and drawbacks for foreign investors from the point of view of its natural resource endowment, infrastructures, availability of infrastructures and human resources. It also reviews regional efforts to promote and facilitate foreign investment and suggests several options to improve attractiveness of the Region for foreign investment that could be adopted at the national, regional as well as local levels.

2. The study is based on the materials provided by Office of the Presidential Plenipotentiary Envoy to the North West Federal District of the Russian Federation and Administrations of the Subjects of the Russian Federation. It also uses the data provided by the Ministry for Economic Development and Trade and the Federal Service for State Statistics. The study also comments the results obtained from eleven foreign investors, which were contacted by the North-West Investment (Development) Agency and responded to the OECD investor survey carried out in the first half of 2005.

1. Investment activities in Russian regions

1.2. Domestic investment

3. In the recent years, Russia has achieved significant progress in its social and economic development as attested in particular by successful macroeconomic stabilization. This favourable situation has also been confirmed by sustained investment growth observed in Russia as a whole and in individual federal districts (Table 1).

¹ The study was prepared by Slava Khodko, Alexey Varfolomeev and Filipp Chayka from the North-West Investment (Development) Agency (ANO). Ms. E. Khazova, Chief Adviser of the Office of the Presidential Plenipotentiary Envoy to the North-West Federal District, and A. Karlik, Head of the Chair for Economics of Enterprise and Production Management of St. Petersburg State University of Economics and Finance also contributed to this report. The views expressed in the study are those of the authors and do not necessarily reflect those of the OECD or the governments of its member countries.

Table 1. Investment in fixed assets in federal districts of Russia

	2002	2003	2004	1st quarter of 2005
Millions of roubles				
Central Federal District	435 800	532 900	689 000	122 300
North West Federal District	199 100	261 900	330 900	69 700
Southern Federal District	185 700	200 100	238 500	36 600
Volga Federal District	294 500	344 300	429 500	69 000
Ural Federal District	383 400	448 600	448 000	93 000
Siberian Federal District	150 100	188 200	237 400	48 000
Far Eastern Federal District	113 800	176 500	170 000	56 100
Russian Federation as a whole	1 762 400	2 186 500	2 729 800	517 800
Millions of USD				
Central Federal District	13 897	17 375	23 915	4 391
North West Federal District	6 349	8 539	11 486	2 503
Southern Federal District	5 922	6 524	8 278	1 314
Volga Federal District	9 391	11 226	14 908	2 478
Ural Federal District	12 226	14 627	15 550	3 339
Siberian Federal District	4 786	6 136	8 240	1 724
Far Eastern Federal District	3 629	5 755	5 901	2 014
Russian Federation as a whole	56 199	71 281	94 752	18 592

Note: The total for the whole of the Russian Federation includes some investment which could not be attributed to specific districts, therefore it is higher than the sums of the amounts for individual districts.

Source: Federal Service for State Statistics

4. According to the Ministry for Economic Development and Trade, investment in fixed assets decreased in January 2005 due to the lower economic activity, but recovered since February. However, investment growth has been generally slower in 2005 compared to the previous years, due in particular to:

- effect of the previous period marked by a strong investment growth due to a decrease in tax burden in 2004 which allowed firms to dispose of significant investment resources;
- relatively high commercial credit costs despite relatively low financial market rates and gradual decrease in refinancing rates;
- insufficient development of the stock market and institutions of collective investment, in particular insurance companies and pension and investment funds.

5. Although influenced to a great extent by general investment trends in Russia, the investment activity in Russian regions varies considerably due to specific local conditions. Recent developments in North-Western Federal District have been favourable as its share in the overall Russian investment has increased. In the 1st quarter of 2005, the share of the North West Federal District ranked third after the Central Federal District and Ural Federal District (Table 2). In terms of per capita investment, the North West Federal District has been since 2002 third after the Ural Federal District and the Far Eastern Federal District, which both benefit from rapidly growing investment in raw material sectors. The North-West average is higher than the general average figure for Russia (see Table 3).

Table 2. Shares of federal districts in total investment in fixed assets (in percentage)

	2002	2003	2004	1 st quarter of 2005
Central Federal District	24.7	24.4	25.2	23.6
North West Federal District	11.3	12.0	12.1	13.5
Southern Federal District	10.5	9.2	8.7	7.1
Volga Federal District	16.7	15.8	15.7	13.3
Ural Federal District	21.7	20.5	17.9	18.0
Siberian Federal District	8.5	8.6	8.7	9.3
Far Eastern Federal District	6.5	8.1	6.2	10.8

Note: The total for the whole of the Russian Federation includes some investment which could not be attributed to specific districts, therefore it is higher than the sums of the amounts for individual districts.

Source: Federal Service for State Statistics

Table 3. Per Capita investment in fixed assets in federal districts

	2002	2003	2004	1 st quarter of 2005
In roubles				
Central Federal District	11 946	14 043	18 259	3 241
North West Federal District	13 963	18 775	23 923	5 076
Southern Federal District	8 649	8 741	10 438	1 604
Volga Federal District	9 307	11 069	13 899	2 247
Ural Federal District	30 623	36 292	39 704	7 574
Siberian Federal District	7 307	9 395	11 929	2 425
Far Eastern Federal District	16 179	26 422	25 626	8 509
Russian Federation as a whole	12 243	15 081	18 935	3 609
In USD				
Central Federal District	381	458	634	116
North West Federal District	445	612	830	182
Southern Federal District	276	285	362	58
Volga Federal District	297	361	482	81
Ural Federal District	976	1183	1378	272
Siberian Federal District	233	306	414	87
Far Eastern Federal District	516	861	889	305
Russian Federation as a whole	390	492	657	130

Source: Federal Service for State Statistics

1.2. *International investment*

6. In parallel with domestic investment, international investment into Russian economy has also continued to grow. By the end of the first quarter of 2005, international capital accumulated in Russian economy was USD85.1 billion, an increase of 49.1% compared to the same period of the previous year. In the 1st quarter of 2005, Russian economy received USD6.0 billion of foreign investment, i.e. 2.4% less compared to the 1st quarter of 2004. However, this was caused by lower amounts of other and portfolio investment, while direct investment grew in the first quarter by 30% compared to the 1st quarter of 2004 and its share in the total amount of international investment increased from 23.9% to 31.9%.

7. In the first half of 2005, international investment inflows to Russia further increased: as of the end of June 2005, international capital accumulated in Russia's economy was worth of USD 90.8 billion, i.e. 37.4% more compared to the same period of the previous year. The major share (52.1%) in the accumulated international capital was constituted by other investment (loans of international financial

institutions, trade credits, etc.), followed by foreign direct investment (46.1% as against 40.7% in the same period in 2004) and portfolio investment 1.8% (2.1% in 2004).

8. These recent developments show that international investment has been more dynamic than domestic investment and indicate that international investors assess now more favourably Russia's investment climate. Russia was awarded investment grade rating in October 2003 by Moody's, in November 2004, by Fitch, and in January 2005, by Standard and Poor's.

9. Although Russia's overall performance in attracting international investment has recently improved, the North West Federal District's situation as a recipient of international investment has deteriorated. The Region, which was in the first quarter of 2005 at the 3rd position in terms of total investment in fixed assets and in per capita terms, was in the same period only at the 5th position among Russian regions for foreign investment both in overall and per capita terms (Tables 4 and 5). The regional average of international investment per capita in the North West Federal District is also substantially below the Russian average level.

Table 4. International Investment in federal districts (millions of USD)

	2002	2003	2004	1st quarter of 2005
Central Federal District	9 526.3	15 664.3	19 276.6	2 735.7
North West Federal District	1 593.9	1 877.4	2 869.1	363.1
Southern Federal District	586.8	665.8	688.7	194.4
Volga Federal District	1 448.7	944.7	2 415.5	250.4
Ural Federal District	2 538.7	5 561.8	7 032.9	440.5
Siberian Federal District	2 944.1	2 138.0	3 153.6	662.5
Far Eastern Federal District	1 141.5	2 846.8	5 072.5	1 374.8
Russian Federation as a whole	19 780	29 699	40 509	6 021

Source: Federal Service for State Statistics

Table 5. International investment per capita (in USD)

	2002	2003	2004	1st quarter of 2005
Central Federal District	261	413	511	73
North West Federal District	112	135	207	26
Southern Federal District	27	29	30	9
Volga Federal District	46	30	78	8
Ural Federal District	203	450	571	36
Siberian Federal District	143	107	158	33
Far Eastern Federal District	162	426	765	209
Russian Federation as a whole	137	205	281	42

Source: Federal Service for State Statistics

10. As a result, the position of the North West Federal District in total international investment inflows in Russia has weakened: after having represented more than 8% of Russia's total international investment in 2002, the share of the District decreased to 6% in the first quarter of 2005 (Table 6).

Table 6. Shares of federal districts in total international investment (in percentage)

	2002	2003	2004	1 st quarter of 2005
Central Federal District	48.2	52.7	47.6	45.4
North West Federal District	8.1	6.3	7.1	6.0
Southern Federal District	3.0	2.2	1.7	3.2
Volga Federal District	7.3	3.2	6.0	4.2
Ural Federal District	12.8	18.7	17.4	7.3
Siberian Federal District	14.9	7.2	7.8	11.0
Far Eastern Federal District	5.8	9.6	12.5	22.8
Russian federation as a whole	100	100	100	100

Source: Federal Service for State Statistics

11. Within the North-West District, St. Petersburg is the leader in attracting international investment, followed by the Leningrad Region, Vologda Region and the Nenets Autonomous Area. In recent years, investment inflows were particularly dynamic in the Nenets Autonomous Area and Komi Republic, due to their reserves of oil and gas. Investment growth in St. Petersburg, Kaliningrad, Vologda and Arkhangelsk Regions has also outpaced the Russian average investment growth.

1.3. Sectoral structure of foreign direct investment

12. In general, international investment flows go mainly into manufacturing, followed by retail trade, transport and communications. In Russia, foreign investment targets mainly the natural resource sector (exploitation and processing) and food industry. However, the structure of foreign investment in the North West Federal District is not the same, due to its specific industry structure. It has also evolved considerably in the recent years.

13. For example, in **Karelia** most international investment goes into processing industry (60.5%) and forestry (29.5%). In the **Komi Republic**, foreign investment went mainly to the fuel (mostly oil) industry in which a number of joint ventures and new facilities were created. Until 2001, the fuel industry was the most attractive for international investors and represented more than 96% of the total foreign investment in the Republic. However, starting 2002, foreign investment has also developed in pulp and paper industry (notably in connection with the purchase by the Austrian holding Mondy in late 2001 of OJSC Syktyvkarsky LPK). As a result, almost one quarter of foreign investment stock in the Komi Republic is now concentrated in this sector, partly in the form of direct investment and partly as portfolio investment.

14. In the **Vologda Region**, foreign investment went mainly to iron and steel industry (38.8%) and transport (39.8%). In the **Archangelsk Region**, the major destination of foreign investment is the forestry, pulp and paper and wood processing industries, representing 90% of total foreign investment in 2003 and 70% in 2004.

1.4. Geographical structure of foreign direct investment

15. Major investors in the North West Federal District are the US, Germany, UK, Finland, the Netherlands and Cyprus. This is similar to the geographical structure of foreign investment in Russia in general. According to the Federal Service for State Statistics, the main investors in the 1st half of 2005 were Cyprus, Luxemburg, the Netherlands, Germany, UK, US and France, which represented together almost 82% of Russia's total foreign investment stock and 80% of its foreign direct investment stock.

16. In the North West Federal District, most foreign investment comes from Western Europe and offshore areas (Cyprus, British Virgin Islands, etc.). Investors from Scandinavian and Baltic countries are

also well represented thanks to their geographical proximity. There is also a certain relationship between the origin of investment and the regional industrial structure. In particular, the regions with developed forestry industry receive significant investment from Canada, Austria and other countries with interests in wood processing.

1.5. Foreign investors in the North West Federal District

17. Many major international companies are already active in the North West Federal District. The following companies may be cited as examples:

- wood processing and pulp and paper industry: Pfleiderer, Stora Enso, Mondy, UPM Kymmene, International Paper, etc.;
- car industry: Ford, BMW and Toyota;
- food industry (including tobacco industry): Cadbury, Pepsi, Coca Cola, Wrigley, Heineken Kraft Jacobs, Philip Morris, British American Tobacco, JTI;
- household appliance manufacturing: Merloni, Bosch, Electrolux;
- retail trade: IKEA, Metro.

18. After having completed successfully the first stage of their projects, many of these international corporations have started to upgrade their production facilities, expand their product range and open new sales outlets.

2. North-West Federal District: Advantages and disadvantages for foreign investment

19. In general, foreign investors' decisions results from two main motivations: (i) developing facilities in countries with lower production costs and (ii) seeking new markets for their production. The region's advantages and disadvantages should thus be viewed from this double perspective.

2.1. Advantages of the North West Federal District

Geographic situation and natural resources

20. The North West Federal District is the only Russian District having direct borders with the countries of Central and Northern Europe and with access to the Arctic and Atlantic Oceans. Five regions of the North West Federal District (Republic of Karelia and Kaliningrad, Leningrad, Murmansk and Pskov Regions) have land borders with the European Union. St. Petersburg and the Kaliningrad and Leningrad Regions have maritime borders with the European Union.

21. Key highways, railways and air and water ways connecting the Russian Federation to European countries and Russia's largest domestic markets (Moscow and St. Petersburg) cross regions of the North West Federal District. One of the consequences is comparatively low transport costs in trade with neighbouring European countries, easy access to European programs in the fields of environment, technical assistance, personnel training, etc.

22. An important competitive advantage of North-Western Russia is large reserves of natural resources. The District has 16% of oil reserves, 20% of prospected gas reserves, 60% of woods of European Russia, over 90% of the world's amber reserves, most of prospected Russian reserves of apatite

and slate, Europe's largest Pechora coal basin and Russia's unique manganese ore reserves. The Republic of Komi alone has natural resources worth of USD11 billion.

Legal and regulatory framework

23. The District's investment policy and regulations seek to promote an open and attractive investment environment by developing good infrastructure and offering comparatively favourable tax conditions. This policy encompasses several aspects which are decisive in attracting international investment, in particular:

- ensuring political stability in the North West Federal District;
- guaranteeing stable legal conditions during the implementation of investment projects;
- providing equal rights to Russian and foreign investors;
- simplifying gradually administrative procedures.

24. Investment legislation in different parts of the Region allows local authorities to use various investment incentive instruments. Investment regulations of the Leningrad and Novgorod Regions are particularly advanced as they were developed in co-operation with international consulting companies. According to the national rating agency Expert RA, their legislation belongs among the most advanced in the Russian Federation.

Transport and communications

25. The North-Western Region has a highly developed transport infrastructure including all maritime ports of European Russia, the Northern Sea Way, major transport roads and a highly developed network for different transport means. The District has over 80 airports including 7 international airports. The highway network is long of 110 thousand km. The railway network has 12 931 km and internal river routes 13 660 km. Density of railways, highways and river ways is above the Russian average.

26. Telecommunications is one of the most dynamic industries in Russia and also in the North-West Federal District, thanks to its high innovation potential and profitability. Over the last years, the District has developed the quantity and quality of its communication services. It is connected by automatic telephone communications to all countries of the world and regions of the Russian Federation. Almost all towns and regional centres in the North West Federal District have been digitalized. Services of cellular communications are provided by all major Russian companies and local operators. Cellular communications is represented by the standards GSM-900/1800 and TDMA-800. In a number of areas radio telephone communication of the standard NMT-450 is available.

27. Some dozens providers connect the District's companies and individuals to the Internet by commuted and dedicated access. New technologies that have been intensively developed include transmission of video pictures, multiservice networks and televoting.

Financial Infrastructure

28. Almost all professional stock market players are represented in the North West Federal District, including brokers, dealers, managing companies, depositaries, clearing companies, trade organizers, stock exchange, registrars, and companies licensed to manage investment funds, share investment funds, private

pension funds and private equity plans. The main share trade venues in the North-West are St. Petersburg Stock Exchange and partly St. Petersburg Currency Exchange.

29. A system of institutional investors consists in particular in:

- Banks: The bank industry of the North West Federal District includes more than 90 active credit organizations and 400 branches of credit organizations. An important role in the financial market is played by credit organizations of St. Petersburg, the Kaliningrad and Vologda Regions. Recent development of banking has been very dynamic and more rapid than in other sectors.
- Insurance companies: Over 130 insurance companies are registered in the North West Federal District. A number of representative offices of non-resident insurance companies are also active in the District.
- Share Investment Funds: Both open share investment funds and interval share investment funds are active in the North West Federal District. All of them are registered in St. Petersburg.
- Private Pension Funds: Some 30 private pension funds are active in the North West Federal District. The pension reserve makes up about 4% of the total Russian amount.

30. Among other market infrastructure organizations operating in the District are Trade and Industry Chambers, state and private business support funds, leasing and consulting companies, investment agencies, etc.

Human potential

31. Human resources of North-Western Russia are characterized by multi-profile and high-level qualifications and social mobility. The situation in the registered employment market has recently stabilised. The official unemployment level in the North West Federal District varies from 0.7% to 4% of economically active population. On the whole the District's unemployment level is lower compared to the Russian general average.

32. An important share of the economically active population has higher and professional secondary education. The high employee qualification reflects the high concentration of science-intensive productions in several cities of the District. It is worth noting that St. Petersburg's labour force represents some 3 million people and the city has approximately 100 institutions of higher education.

2.2. Disadvantages of the North West Federal District

Nature and Climate

33. Most of the District's territory lies in a zone favourable for living and economic activities. However, large portions of the Archangelsk and Murmansk Regions and the Republic of Komi lie in the Extreme North and the neighbouring areas.

Investment Potential

34. Several factors affect adversely the District's investment potential:

- expensive fixed assets in specific industries;
- slow pace of production modernization;
- limited consumer market mainly due to low income of the population.

Transport and communications

35. Some outlying areas in the North West Federal District require further transport development and modernization. For example, the transport network in the Nenets Autonomous Area is one of the least developed in Russia since its transport sea and river roads can be used only during a limited period of the year. The same applies in some other remote areas within the District. The transport industry also needs considerable investment to modernize truck fleet and rolling stock and build new highways.

Financial infrastructure

36. The financial market of the North-West has a number of problems as many institutions and instruments have not yet been sufficiently developed. For example the share of the North West Federal District in Russia's stock market does not exceed 4%. This means that the stock market of the North West Federal District is unable to respond to investment needs of regional companies and does not reflect the North West Federal District's position in Russia's economy.

Human potential

37. Despite the strength and a relatively high qualification level of regional workforce, the District has various problems that characterises Russia's labour market in general. Managerial instruments of regulating the labour market are in an early stage of development and the capacity and orientation of the education and training system do not respond to ongoing and expected technological changes. The system of professional education is deteriorating and many companies experience shortages of qualified employees in numerous fields. The immigration flows consist mainly in low-qualified workforce, which implies a further decrease in the general education level in the District.

3. Facilitation and promotion of foreign direct investment

3.1. Lowering of administrative barriers

38. Lowering of administrative barriers is legitimately viewed at both the federal and regional level as one of the key investment policy tasks in enhancing business and investment environment. In this context, several administrative procedures have been identified as priority areas:

- Improving accessibility and quality of information on investment objects;
- Establishing clear procedures for licensing and other required authorisations;
- Defining precisely the criteria for tenders of land plots;
- Developing a clear mechanism for title evaluation.

39. Given that administrative barriers are still frequently mentioned by domestic and foreign investors among most harmful obstacles to their activities, Russian authorities have intensified the efforts to deal with these problems. For example, the number of activities subject to licensing has been recently reduced in accordance with the Federal Law on Licensing of Specific Business Activities from 208 to 103, and in the regions of the Russian Federation, from 18 to 9. Any additional administrative requirements cannot be requested in addition to those stipulated by the licensing law.

40. The North West Federal District is streamlining its practices of business monitoring in accordance with Federal Law No. 134-FZ on Protection of Rights of Corporate Entities and Individual Entrepreneurs in Connection with State Control (Supervision). In accordance with the Federal Law No. 185-FZ on Amendments in Legal Acts of the Russian Federation to Improve Procedures of State Registration and Incorporation of Legal entities and Individual Entrepreneurs, which came into effect in January 2004, several areas of the North West Federal District establish a “one stop-shop” facility.

41. Pursuant to the Federal Law No. 129-FZ on State Registration of Legal Entities and Individual Entrepreneurs, registering bodies shall provide within five working days after the date of official registration information contained in the unified state register of legal entities and the unified state register of individual entrepreneurs to state non-budget funds for registration of legal entities and individual entrepreneurs.

42. In this context, it is also important to mention the reform of technical regulation, which aims at creating conditions for business development by harmonizing the domestic and international standards. The relevant federal law has been adopted and auxiliary acts are under preparation. In December 2004 the President of the Russian Federation signed the City-planning Code of the Russian Federation, which regulates territorial planning, city-planning zoning, territorial planning, architectural construction design and capital construction and reconstruction. All simplified special tax modes allowed by the applicable laws are used in the Region.

43. In accordance with the state policy of standardizing the regulatory functions of the state and reducing administrative interference with corporate affairs, certain measures to lower administrative barriers have been undertaken in specific areas of the North West Federal District. A number of areas in the North West Federal District have created interdepartmental structures designed to lower administrative barriers. For example, a Decree No. 151 issued on 8 August, 2005 by the Head of the Archangelsk Region Administration created a commission to remove administrative barriers that impede the development of business in the Region and approved the commission’s statute and its composition. The commission is a standing deliberation and consultation body responsible to prepare and implement measures intended to reduce administrative requirements affecting business activities, such as the processes of licensing, certification, registration, control and supervision and application of licenses.

44. The Republic of Karelia has created a system of support for business projects implemented in its territory. Projects are followed by a working group, created in 2004 and headed by the Prime Minister of the Republic of Karelia, has to promote and attract investment in the Republic. The group’s main goal is to review the implementation of the projects in the Republic and assist investors in resolving problems depending on executive authorities at different levels.

45. To coordinate services involved in the process of land plot distribution, the administration of Veliky Novgorod created a “one-stop shop” facility and several other areas of the region have also started creating the same system. Regional Law No. 85-OZ on Procedures of Issuing Licenses to Build Real Estate in the Novgorod Region, which came into effect in November 2002, establishes the maximum delay for issuing a license one month from the date when requested documents have been submitted. Another working body, the regional commission for business development and support, was created to promote

small- and mid-sized businesses. This structure also acts to remove administrative barriers and includes representatives of territorial divisions of federal executive authority, supervising structures and divisions of executive authority of the Novgorod Region.

46. Furthermore, several research projects, in particular by the World Bank and the OECD, have been undertaken to identify most harmful administrative barriers and the means to reduce them. The results of this research are transmitted to state authorities and used in designing and implementing investment policies.

3.2. *Improvement of the legal framework*

47. Since 1999, many regions within the North West Federal District have adopted laws encouraging investment activities and improving investment climate, in particular:

- On Investment Activities (On State Support of Investment Activities) in the Archangelsk, Vologda, Kaliningrad, Leningrad, Murmansk, Novgorod and Pskov Regions, Republic of Karelia, Republic of Komi and St. Petersburg;
- On Tax and Investment Tax Credits in the Archangelsk, Leningrad and Murmansk Regions and other areas of the North West Federal District;
- On Procedures of Real Estate Provision in St. Petersburg and the Leningrad Region;
- Laws stipulating regional tax benefits for investors, in almost all regions of the North West Federal District.

48. These legal acts adopted by regions of the North West Federal District establish the rules and modalities for state support and protection of investors. In particular, they stipulate tax benefits for investors and state guarantees for investment loans and regulate budget expenses for investment purposes and the creation of infrastructure required by companies. Many areas in the North West Federal District have adopted laws prohibiting any changes in regional investment conditions during the implementation of investment projects. A number of regions have developed legal measures to lessen the tax burden on investors. This concerns in particular land tax and corporate property tax and the regional portion of profit tax.

49. Along with documents directly pertaining to investment activities, the regions within the North West Federal District have adopted regulations concerning city-planning, land, property and other matters. For example, they create land and wood cadastres; prepare new general plans of territorial development, etc. These measures will also simplify companies' access to real estate and reduce costs of land and areas for corporate use.

50. Development of investment laws in regions of the Russian Federation is pursued in the context of harmonization between regional and federal laws. This creates additional stability and legitimacy for investment attraction instruments used in the North West Federal District.

3.3. *Information support and contribution to creating a positive image of the North West Federal District*

51. Several organisations participate in developing a positive image of the North West Federal District, in particular the Office of the Russian President's Envoy, administrations of the regions of the North West Federal District and non-governmental structures involved in implementing economic policies

including investment attraction agencies, chambers of trade and commerce, etc. For example, the Office of the Russian President's Envoy in the North West Federal District organises regularly the presentations of the Region abroad. Such presentations have taken place in Germany (in 2002 and 2005) and Italy (in 2003). The next presentation shall take place in Austria in December 2005. The delegation participating in such events is headed by the Envoy of the President of the Russian Federation in the North West Federal District and includes heads of federal regions and representatives of companies and firms operating in the Region.

52. The II Investment Forum «The North-West: New Investment Opportunities» is currently prepared. The Forum should become a platform for creation investor-friendly climate both for Subjects of the Federation and for the District, by promoting business contacts and dialogue among all investment policy actors. The official organiser of this event is "North West Investment (Development) Agency" (ANO). In addition, the Region takes an active part in international projects, conferences, seminars, exhibitions and fairs as well as in EU international programs (Tacis, Interreg, etc.).

53. Information on regional economy, leading companies, investment projects and investment laws is published in the official websites of the North West Federal District, local administrations and other resources in the Internet. Specific areas of the North West Federal District are also regularly presented outside the Russian Federation. Annual catalogues of investment projects are published and distributed at official meetings with representatives of international delegations and during visits of state officials abroad.

54. The Region's companies take an active part in exhibitions and fairs, foreign investment forums and scientific conferences organized within and outside the District. The efforts to attract large international companies and organizations into the Region have been intensified. For this purpose, visits of managers of major international companies to North-Western Russia are organized either individually or as part of so-called "trade missions", "business days" and other similar events.

3.4. *Infrastructure Development*

55. As many other Russian regions, the North West District has also started paying more attention to the preparation of the production sites and the construction of new infrastructures and communications. Contrary to the period 2001-2002, during which any investment in infrastructure was not undertaken, the Government of St. Petersburg put in place a 2005-07 prospective financing plan, which sets up as a key task the infrastructure investments. In 2004, the city budget allocated funds for engineering preparation of the Neudorf industrial estate (village Strelna). The City's Government is also actively involved in reforming natural monopolies in view to develop regional markets of electrical and thermal energy. This de-monopolisation process should open equal access to infrastructure to all manufacturers and consumers.

56. Recently, the Republic of Karelia has built the railway from Ledmozero to Kochkoma, which allowed reducing the distance from the Republic of Komi to the Botnic ports by 500 km. It also constructed several sections of highways connecting Karelia to the neighbouring Archangelsk, Vologda and Leningrad Regions. Among other important infrastructure achievements, there are the Karelian section of the Oktyabrskaya Railway, the gas pipeline from Petrozavodsk to Kondopoga, the passenger terminal of the airport Besovets in Petrozavodsk and a number of other sites. In addition, the region also develops its customs infrastructures. After the creation of two international passage corridors at the Russian-Finnish frontier opened in the 1990s Vartsila and Lytta, TACIS programme provided USD6 million to open a new frontier corridor Suopera in Northern Karelia. Similar corridor will be opened in Syvaoro in Southern Karelia. The Federal Road Agency has started preparing the construction of a high-speed highway from St. Petersburg to Moscow.

57. Following the adoption of the new Federal Law on “Special Economic Zones in the Russian Federation”, several regions of the North West Federal District started preparing proposals to create such zones at their territory. These proposals have to be submitted to the Ministry for Economic Development and Trade and its new agency for special economic zones management.

4. Foreign investor survey: Replies by foreign investors operating in the North West Federal District

58. Eleven companies with foreign participation operating in the North West Federal District participated in the OECD investor survey carried out in the first half of 2005. The questionnaire focused on several issues important for foreign investors during their establishment and operations. This section analyses the replies of surveyed foreign firms under three main headings: (i) availability and sources of information; (ii) effectiveness of international investment policy; and (iii) the role of various supervisory and monitoring agencies.

4.1. General characteristics of surveyed firms

59. Five of the 11 surveyed companies are large firms with 500 and more employees and the remaining 6 firms have 50 to 500 employees. Seven companies are located in St. Petersburg and Leningrad Region, other are based in the Pskov and Kaliningrad Regions.

60. Except one trading firm, all other surveyed companies are involved in manufacturing. Eight companies are 100% foreign-owned; in two firms, the foreign equity represents between 50-90% of capital and in one firm the foreign participation is between 10-50% of total equity. Nine firms have a single production unit in Russia. All 11 surveyed companies cover their inputs needs from the domestic market. Seven firms export their products: two of them export more than 50% of their production and five firms export less than 50% of their production.

4.2. Availability of information (Annex, Section I)

61. According to the investor survey, the investors meet difficulties in obtaining of the following types of information (see Annex, Table A 1):

- Procedures for purchasing real estate for business purposes (73% and 37% of the companies at the federal and regional level respectively);
- Laws on mergers and acquisitions (20% of the companies at the federal and 30 % at the regional level faced difficulties in this area);
- Work permits for expatriates (50% at the federal and 60% at the regional level).

62. On the other hand, foreign investors consider that information is easily available at both federal and regional levels in the following areas (see Table A 1):

- Licensing of certain types of activities;
- Foreign exchange regulations;
- Information on tax exemptions granted by local authorities to foreign investors;
- Possibility to establish branches, subsidiaries or joint ventures (90% of respondents).

63. Surveyed investors do not see generally serious difficulties for obtaining information on foreign investment policy at the regional or federal level, but 46% of respondents feel nevertheless that it is more difficult to get information on changes in this area especially at the regional level for the following types of regulations:

- Customs regulations;
- Work permits for expatriates at the local level;
- Environmental requirements.

64. The 91% of respondents found easily available federal laws, codes, bylaws, regional acts and bylaws, acts and ordinances of local authorities pertinent to regulation of foreign investments in the Russian language. However, federal laws and bylaws (decrees and recommendations of various federal agencies, services, etc.) are available in English only to 18-27% of the companies. Regional acts and bylaws, acts and ordinances of local authorities, are not available in the English language. One company reported to face great difficulties in obtaining of information on regional and local acts both in Russian and English (Table A 4).

65. Among various information sources on laws and regulations, the surveyed firms declared to use mainly state sources of information (72% of companies), followed by business press (54%) and personal contacts. Russian non-governmental sources, including consulting and legal companies and free web sites are relatively less frequently used (45% of the companies) (Table A 5).

66. Only 36% of the companies use international governmental sources, while international non-governmental sources (consulting and legal companies) are used relatively rarely (18% of the companies). Similarly, information provided by business associations or local partners is used only to a limited extent (18% of the companies).

67. The surveyed firms ranked the frequency of their use of various governmental sources of information as follows:

- i) Official governmental newspapers published in Russia;
- ii) Official contacts with governmental officials;
- iii) Governmental web sites in the Russian language;
- iv) Informal contacts with governmental officials;
- v) Special enquiry point established by the government;
- vi) International agreements signed by Russia, and governmental web sites in the English language.

4.3. Effectiveness of investment policy (Annex. Section II)

68. A majority (63%) of the surveyed companies considered the Russian governmental policy regarding promotion and attraction of foreign investments relatively effective whereas the remaining 37% of the sample see it as insufficiently effective.

69. Only 20% of the companies believe that a “one-stop shop” can be an effective tool in assisting foreign investors to establish in Russia and its regions, whereas 70% consider this mechanism rather

ineffective, and 10% as completely ineffective. Several companies observed that such facility does not exist in the North West Region.

70. Surveyed firms were critical about notification/consultation procedures undertaken by Russian authorities prior to taking any new measures and regulations. They observed in particular that these procedures are not open enough to all parties concerned such as foreign investors (90% of the companies). Restrictions on access to notification/consultation procedures are considered not to be clearly defined (Table B 3).

71. A large majority of companies (90%) agree that the investment policy and available incentives do not sufficiently compensate for economic shortcomings and business risks of foreign investors in Russia. Only 10% of the companies believe that governmental investment policy and available incentives are more or less effective. According to the respondents, Russian foreign investment policy and incentives do not fully comply with international obligations, in particular with bilateral investment treaties.

72. In general, the ability of different governmental levels to manage and monitor investment policy and incentives was assessed by surveyed firms as insufficient, especially at the federal and local levels.

- Federal authorities: their abilities were assessed as insufficient and ineffective by 64% of the companies;
- Regional authorities: they are considered not to be fully capable of monitoring and controlling foreign investment policy and incentives by a majority of respondents (73% of the companies);
- Local authorities: 82% of the companies think that at this level, the authorities are not fully capable of monitoring and controlling the policy and incentives;
- Only one company assessed work of officials as effective at all levels (Table B 5).

73. The Foreign Investment Advisory Council, and ombudsman for FDI matters (nominated in the Russian government in 2004) were considered effective by 45% of the companies, 33% see them as moderately useful and effective in their assistance provided to foreign investors. 22% of the surveyed companies in the Region consider them absolutely ineffective (Table B 6).

74. All surveyed companies declared to receive tax exemptions for a period of over 2 years. As to other incentives (e.g. in the area of customs), there were not available for 20% of the companies and other companies benefited from them for a period of 12 to 24 months.

75. The 56% of companies declared that received tax exemptions and other granted privileges did not practically affect their situation vis-à-vis their local competitors. However, compared to international companies entering the market, these privileges produced a relatively modest effect. The granted exemptions and other favourable conditions had a significant effect in the case of one company.

76. The survey showed that foreign investors see the following priorities for improving investment policy in Russia:

- i) Improving administrative structures: 100% of the respondents;
- ii) Better training of officials: 72% of the respondents;
- iii) Investing into new technologies (e.g. computer technologies in customs administration): 54% of the respondents.

77. Approximately half of the surveyed foreign companies believe that appropriate parliamentary bodies and national audit courts are effective in designing and evaluating investment-related policy and incentives (respectively 45 and 60% of the companies). The role of industry associations is however seen as less efficient (73% of companies) and most firms (80%) consider that general public at large plays a minor role in this area (Table B 11).

78. All companies consider that distribution of responsibilities among authorities at various levels of government is insufficiently clearly defined. Most companies (some 70%) also think that the role of federal authorities in implementation and management of investment policy and incentives that affect business is not clearly identified. Similarly, the role of regional and local authorities and specialized investment agencies is also considered not to be sufficiently clearly defined (Table B 11).

4.4. Role of supervisory and monitoring agencies (Annex, Section III)

79. Regarding registration and licensing procedures, the surveyed firms expressed the following appreciations (Table C 1):

- Registration and licensing costs represent medium problem for 50% of companies and insignificant problem for 40%. 10% of respondents have not encountered the problem in this area.
- Serious delays in registration and licensing procedures were noted by 40% of the respondents; 50% of the companies had faced medium problems and 10% no problems in this area.

80. General rules of sanitary inspection were assessed as insufficiently clear and transparent by 75% of the surveyed companies.

81. Some pressures aimed at obtaining of illegal fees during inspection procedures were reported by 55% of the companies, serious pressure by 27% of the companies. 18% of the companies said not to meet any problems in this area.

82. As regards customs procedures, most companies noted that:

- Information on document requirement, and general rules of customs authorities, are not sufficiently clear and transparent.
- Uniform application of the rules at all customs posts is often not ensured.
- Some pressures aimed at obtaining of illegal fees during customs procedures were noted by 55% of the companies and serious pressure by 18% of the companies. 27% of the companies had no problems at all in this area.

83. 27% of companies with foreign capital declared not to have any problems in applying to the courts or contesting administrative resolutions of Russian authorities. However, the same percentage (27%) reported serious difficulties in this respect. Foreign investors (55% of the sample) assess the rules and procedures of appeal and arbitration bodies as not being uniform and impartial. These companies also consider the arbitration proceedings generally ineffective and time consuming.

5. Proposals to improve investment attractiveness at the national and regional levels

5.1. At the level of the Russian Federation

84. Although foreign investors envisaging to invest in Russia consider that the country's investment climate has been gradually improving, they also stress that the main risks in Russia are political given that the business community does not have confidence in the state and considers the attitude of the authorities to business and FDI unclear.² In response to this criticism, the federal government should minimize such risks and define clear and unambiguous rules for access of foreign capital to Russia, especially in sectors such as fuel, financial services, insurance, defense and aircraft. At present, there are no clear legal provisions authorising or limiting the entry of foreign capital in these sectors and such access is often given on an ad hoc basis and on political grounds. Such methods influence negatively the investment community's opinion on the business climate in Russia.

85. Investors also often mention high risks related to the legal framework and its enforcement. One of the key tasks is therefore to strengthen the legal stability and create an efficient system of courts. Selective interpretation and application of laws should be eliminated.

86. The current system of natural resources development through Production Sharing Agreements is also of concern. A number of such agreements have been concluded but foreign investors often face the risk to see their production licenses being revoked. Foreign companies also consider that their treatment is discriminatory compared to their Russian counterparts. The state should therefore revise current procedures or propose a new mechanism for cooperation with foreign investors in the area of exploitation of natural resources.

87. Tax policy is another area in which federal authorities should pursue their efforts. At present, federal tax incentives to attract investors are not available. Phasing out of tax exemptions at the federal level was mainly justified by the need to equalize tax payers' rights, but the result of this measure was rather negative. The following measures are therefore to be considered in view to improving tax policy and its administration:

- simplification of tax forms and tax reporting documents;
- modification of the rules of tax controls, especially reducing substantially the list of documents which may be requested by tax authorities and prolonging the delays for submitting such documents.

88. The state should also pursue a consistent and predictable tariff policy. Companies are currently unable to design their business plans and evaluate their investment projects, due to frequent and unpredictable changes in tariffs applied by natural monopolies. As regards customs tariffs, the central authorities should put in place a policy that would encourage the development of processing industries. Russia's accession to the WTO will contribute to resolve some of these issues and in general improve the predictability of Russia's policies in many areas.

89. Migration policy and regulations also require considerable adjustments. Procedures of granting employment permissions, registration of foreign nationals at places of their residence and issuing of migration cards have to be simplified. It is also necessary to improve technical and human resources of state agencies in charge of these procedures.

² See, for example, the materials in the *Kommersant* of 23.09.2005.

90. Another important problem is the protection of intellectual property rights. Investors note that while infringement of intellectual property rights appears in a number of other countries, the situation in Russia is aggravated by the impossibility to protect rights in the courts. It is therefore necessary to put in place adequate legislation and improve court practices to protect intellectual property, not only of foreign investors but also of Russian researchers and producers.

91. Steps should be undertaken also in the field of corporate management. First of all, it is necessary to intensify the process of the adoption by Russian companies of international financial accounting standards. Foreign investors often have problems in making decisions on investment into specific companies on the basis of documents which are made in accordance with the Russian accounting system. Stricter requirements on the disclosure of corporate management information by companies are also necessary, because many international and also Russian investors hesitate to invest into companies due to their insufficiently transparent management system.

92. Russia must also use more efficiently its state resources in the investment process, relying not only on existing procedures, such as the system of state orders, federal target programs or state guarantees. It should also develop new mechanisms which have not yet been tested, for instance investment fund, special economic zones or concession agreements. At present, state funds are often not used properly both at the state and business level. On the one hand, it is difficult to get access to such resources due to complicated procedures and unclear criteria of the selection of projects. On the other hand, business is not always interested in being involved in such investment projects. To improve the situation in this area, two basic conditions should be met:

- define clear and transparent rules of access to state resources, especially regarding tender procedure, requested documentation and conditions for participation;
- design an efficient system of selecting investment projects, in particular determine the criteria of selection of such projects (e.g. sectors and volume) and participants (e.g. specialists in relevant official agencies and professional advisers from the investment and professional communities).

93. It should be taken into account that the investment climate is a complex phenomenon as investors' attitude is influenced by almost all aspects of social and economic development in the country. Therefore, state policy aimed at attracting foreign investment has also to pay attention to the following key aspects:

- improvement of key macroeconomic indicators, such as the level of public debt and control of inflation pressures;
- implementation of structural reforms, including of civil administration and the judiciary system;
- social policy, especially investing in human capital by ensuring adequate state spending for education, health and research activities.

5.2. *At the Level of the North West Federal District*

94. The main tasks of the North West Federal District's authorities and organizations in promoting and attracting foreign investment are coordination and implementation of investment policies within the Region. To make their role more effective, several improvements could be envisaged.

95. **Creation of an investment-friendly environment:** the authorities and organisations should help establishing contacts between investors, companies and regions interested in attracting investment. They

should also be more active during the implementation of investment projects. This role could be realised through a “one stop shop” principle, in particular by centralising information required by investors (e.g. on legal issues, availability of available sites, labour market conditions, etc.). The basic network of investment agencies, business associations and consulting companies offering their services to international investors already exists within the Region. It is formed on the basis of “North West Investment (Development) Agency” (ANO) and the authorities of the North West Federal District should encourage co-operation among these different elements and ensure their co-ordination.

96. **Development of strategies and/or programs to attract foreign direct investments:** successful investment promotion supposes an integrated and coherent investment strategy, assigning a well-defined role to all key players. Such a strategy of the District is to be developed on the basis of the Basic Directions of Social and Economic Development Strategy in the North West Federal District till 2015. Furthermore, it is necessary to establish mechanisms to implement such a program in particular develop and adopt legal acts and target programs. The strategy should also define the priorities of social and economic development of the North West Federal District and related large-scale investment projects. This implies a coordinated use of natural and human resources as well as other production factors not only within the North West Federal District but also with the neighbouring areas.

97. **Promotion of large-scale regional investment projects and priority programs at the federal and international levels:** Local authorities also have the role in this respect by interacting more closely with federal authorities and establishing contacts with major Russian and international investors. In performing this task, the authorities and organisations should also present the District abroad and develop international cooperation between the District and foreign countries.

98. **Regulatory and methodological support of investment policies in the areas of the North West Federal District:** The North West Federal District’s authorities should be able to provide methodological support to the regions when they develop their investment promotion programs, the legal and regulatory framework for investment activities and create business infrastructure. For this purpose, it is important to build up corresponding expertise and share it with other regions also through collecting information on investment policies pursued in other parts of Russia and harmonising investment policies within the District and the whole country. It is also essential to keep in mind that investment promotion is closely linked with overall economic trends and strategy and therefore its realisation depends on overall sectoral developments and orientations in the country as well as within the regions.

5.3. *At the Level of the regions of the North West Federal District*

99. The responsibilities of individual regions within the North West Federal District in investment promotion and facilitation are already relatively important and should be further developed to allow them to play an active role in particular in the following areas:

Creation of a positive investment image of the regions:

- presentation of the regions abroad, development of partner relations with foreign countries and their regions;
- cooperation with leading international rating agencies to obtain investment and credit rating grades;
- encouragement of the participation of companies and organizations domiciled in the regions in international programs, exhibitions, etc.;

- provision of information on a permanent basis to the investment community on investing conditions in the regions, in particular by issuing printed materials, creating dedicated websites, organizing press conferences, etc.

Improvement of the legal and regulatory framework:

- adoption of regional programs to attract investment and development of implementing regulations;
- adoption of clear rules of land use and development, simplification of procedures of licensing and establishment of including the “one window” facility in the regions;
- development and adoption of modern general plans and other city-planning documents.

Tax and financial policies:

- granting tax benefits to investors in accordance with the applicable federal and regional laws;
- extension of tax and investment tax credits: these methods could be particularly efficient in the case of companies which have valuable projects to expand or reconstruct their production facilities and need to attract banking loans.

Direct participation of the regions in implementation of investment projects:

- provision of governmental guarantees to attract loans;
- extension of short-term loans or credits from the budget;
- construction of engineering and transport infrastructure.

Other aspects:

- promote higher efficiency in the use of natural resources and production facilities available in specific regions, including through tax and tariff policies;
- prepare proposals to create special economic zones in specific regions of the North West Federal District;
- develop better system of professional education and professional training, including through co-operation with universities and international companies.

ANNEX

I. Availability of the information to foreign investors in Russia

Table A1. Availability of information

Type of information	At the federal level		At the regional level	
	<i>Information readily available</i>	<i>Information difficult to obtain</i>	<i>Information readily available</i>	<i>Information difficult to obtain</i>
<i>Information on possibilities to establish branches, subsidiaries or joint ventures</i>	91%	9%	91%	9%
<i>Information on licensing procedures for activities in specific sectors</i>	100%	-	100%	-
<i>Information on real estate acquisitions for business purpose by foreign firms</i>	27%	73%	63%	37%
<i>Information on foreign exchange regulations</i>	100%	-	100%	-
<i>Information on the levels of regional and local taxes</i>	90%	10%	91%	9%
<i>Information on tax exemptions granted by local authorities to foreign investors</i>	100%	-	100%	-
<i>Information on customs regulations and procedures</i>	81%	19%	81%	19%
<i>Information on legislation concerning mergers and acquisitions</i>	80%	20%	70%	30%
<i>Information on environmental requirements (e.g. treatment of environmental liabilities)</i>	80%	20%	60%	40%
<i>Information on work permits for expatriates</i>	50%	50%	40%	60%
<i>Information on legal obligations regarding the disclosure of information and the rights of shareholders</i>	88%	12%	77%	23%

Table A2. Obtaining of the information on changes in governmental policy and regulations concerning foreign investors

	Not a problem	Minor	Medium	Serious	Very serious
At the national level	-	73%	18%	9%	-
At the regional level	-	54%	46%	-	-

Table A3. Areas in which (among those mentioned above) investors met most serious difficulties obtaining information on changes in relevant legislation and regulations

- customs regulations and procedures
- work permits for expatriates
- environmental requirements.

Table A4. Availability of the information on the different types of legislation

	Not available	Available in Russian	Also available in English	Also available to foreign investors in their home countries
Primary legislation (e.g. federal laws, codes)	-	100%	27%	-
Secondary legislation (e.g. regulations issued by federal agencies and services, such as Federal Customs Service)	9%	91%	18%	-
Legislation and regulations issued by regional authorities (e.g. specific regulations on licensing procedure applied in regions)	9%	91%	-	-
Legislation and regulations issued by local authorities (e.g. specific local requirements)	9%	91%	-	-

Table A5. Most frequently used sources of information on laws and regulations

	The most frequently used sources
Russian governmental sources	72%
Russian non-governmental sources	
• Consulting/law firms	45%
• Websites/databases	
○ Provided free of charge	45%
○ Provided on a commercial basis	
Your home country's governmental sources	36%
Foreign non-governmental sources	
• Consulting/law firms	18%
• Websites/databases	
○ Provided free of charge	
○ Provided on a commercial basis	
Business newspapers	54%
Business associations	18%
Local partners	18%
Personal contacts	54%

Table A6. Information sources used by foreign investors [from the most frequently used (1) to the least frequently used (7)]

Official legal gazettes published in Russia	1
Formal contacts with government officials	2
Government websites in Russian	3
Informal contact with government officials	4
Special enquiry point established by the government	5
International agreements signed by Russia	6
Government websites in English	7

II. Effectiveness of Russian governmental international investment policies

Table B1. Effectiveness of Russian governmental policies to attract and promote foreign investment in Russia

Very effective	Effective	Sufficient	Insufficient	Totally ineffective
-	-	63%	37%	-

Table B2. Effectiveness of a “one-stop shop” facility to assist foreign investors prior to their establishment and during their operations in Russia

Very effective	Effective	Sufficient	Insufficient	Ineffective
20%	20%	50%	-	10%

Table B3. Assessment of the Russian authorities’ efforts to consult planned laws and regulations before their introduction and implementation

	Sufficient	Insufficient
Notification/consultation procedures are undertaken by Russian authorities sufficiently before the introduction of new measures	10%	90%
Notification/consultation procedures are open to all interested parties , including foreign investors	10%	90%
Exceptions to accessibility to notification/consultation procedures are clearly defined and delimited	10%	90%

Table B4. Assessment of the existing foreign investment-related policies and available incentives to compensate the economic shortcomings and business risks faced by foreign investors in Russia

Very effective	Effective	Sufficient	Insufficient	Ineffective
-		9%	91%	-

Table B5. Assessment of the capacities of Russian authorities at different levels of government to manage and monitor foreign investment-related policies and incentives

	Very effective	Effective	Sufficient	Insufficient	Ineffective
-					
At the federal level	-	9%	27%	55%	9%
At the regional level	-	27%	-	64%	9%
At the local level	-	18%	-	64%	18%

Table B6. Effectiveness and utility of the consultation forums

	Very effective	Effective	Sufficient	Insufficient	Ineffective
Foreign Investment Advisory Council	-	12%	33%	33%	22%
Ombudsman for FDI matters (nominated in the Russian government in 2004)	-	12%	33%	33%	22%

Table B7. Duration of available incentives

	Not available	One year	Two years	More than two years
Fiscal incentive	-	-	-	100%

Table B8. Impact of incentives on the company position vis-à-vis its (potential) competitors

	No impact	Minor	Moderate	Significant	Very significant
Your position vis-à-vis domestic firms	56%	11%	22%	11%	-
Your position vis-à-vis foreign firms entering into the market	45%	11%	33%	11%	-

Table B9. Consistency of Russia's current foreign investment-related policies and available incentives with the international commitments (for example bilateral investment treaties)

Not a problem	Minor	Medium	Serious	Very serious
-	55%	36%	9%	-

Table B 10. Priorities areas for Russian government's efforts to improve its policy towards foreign investors and its implementation [ranked from the most important (1) to less important (3)]

	Rank from the most important (1) to less important (3)
Improve the <i>administrative structure</i> (e.g. establishment of a one-stop shop facility for foreign investors)	1 - 100%
Develop <i>training</i> of officials at all levels of government	2- 72%
Invest in <i>new technologies</i> (e.g. computer technologies in customs administration)	3 - 54%

Table B11. Effectiveness and possibilities of available consultation forums to discuss and evaluate foreign investment-related policies

	Very effective	Effective	Sufficient	Insufficient	Ineffective
Appropriate parliamentary body	9%	27%	9%	55%	-
National audit courts	-	-	60%	30%	10%
Industry associations	-	9%	18%	73%	-
General public	-	-	20%	10%	70%

Table B12. Roles of different levels of the Russian administration in managing and implementing policies that affect investor's business

	Very clear	Clear	Sufficiently clear	Insufficiently clear	Totally unclear
Role of federal authorities	-	-	27%	64%	9%
Role of regional authorities	-	-	18%	73%	9%
Role of local authorities	-	-	20%	70%	10%
Role of specialised investment agencies	-	-	-	64%	36%
Distinction of economic responsibilities among different levels of government	-	-	-	82%	18%

III. Role of various supervisory and monitoring agencies

Table C1. Experience with registration and licensing formalities

	Not a problem	Minor	Medium	Serious	Very serious
Monetary costs of registration/licensing	10%	40%	50%	-	-
Delays in registration/ licensing formalities	10%	20%	30%	30%	10%

Table C 2. Experience with sanitary inspections and administrative controls

	Not a problem	Minor	Medium	Serious	Very serious
Clear and transparent general rules for inspection/administrative controls (e.g. regarding their periodicity)	27%	-	64%	9%	-
Uniform and impartial inspection/administrative control procedures	-	18%	55%	27%	-
Pressures for illegal payments in conjunction with inspection/ administrative control procedures	18%	18%	37%	9%	18%

Table C 3. Experience with customs procedure in Russia

	Not a problem	Minor	Medium	Serious	Very serious
Clear and transparent general rules for customs procedures (e.g. information on required documentation)	-	27%	64%	9%	-
Predictable and impartial customs procedures (e.g. uniform rules applied in all customs posts)	-	-	91%	-	9%
Pressures for illegal payments in conjunction with customs procedures	27%	9%	46%	9%	9%

Table C4. Foreign investors' legal rights to contest Russian authorities' administrative decisions

	Not a problem	Minor	Medium	Serious	Very serious
Access to appeal and arbitration procedures by foreign firms	27%	19%	27%	27%	-
Rules and proceedings of appeal and arbitration bodies are clear and transparent	18%	18%	37%	27%	-
Rules and proceedings of appeal and arbitration bodies are uniform and impartial	18%	9%	18%	55%	-
Appeal and arbitration procedures are rapid and effective	-	10%	30%	40%	20%