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**Improvement of business climate
in Russia in 2011-2013:
plans and outcomes**

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Strategy – 2020: key proposals on business environment

Changes in incentives system

- Incentives for regional administrations to improve conditions for doing business
- Disclosure of conflict of interests and control of expenses for public officials

Security of property rights:

- Reform of law enforcement for economic crime
- Ombudsman for entrepreneurs

Cost of doing business

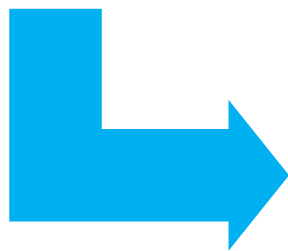
- Broader implementation of RIA procedures
- Support of ‘backward links’ with business – via business associations
- Overall simplification of business activity regulation

What is done already?

- 2011:
 - Agency for Strategic initiatives (ASI), Putin as chairman of ASI supervisory board
 - Center ‘Business against corruption’ with idea to limit ‘violent pressure’ on business (initiative of ‘Business Russia’ association supported by top people in government)
- 2012:
 - ‘100 steps program’ to improve position of Russia in DB ranking → ASI roadmaps for access to electricity, construction permits, export promotion etc.
 - RIA procedures for taxation and custom regulation + for regional regulation
 - Appointment of Boris Titov to the position of ombudsman for entrepreneurs
 - Presidential decree on new criteria of governors performance evaluation
- 2013:
 - Amnesty for entrepreneurs
 - Improvement of Russia’s position in DB ranking from 120th to 92nd place
 - Release of Mikhail Khodorkovsky from the prison
- 2014:
 - First annual public report of ombudsman for entrepreneurs
 - National ranking of regions (with results announced in last week)

But what about final outcomes?

	2011	2012	2013
Real GDP, percent growth	4.3	3.4	1.3
Investments, percent growth	10.8	6.6	-0.3
Net inflow/outflow of capital, billion dollars	-83.0	-55.8	-60.7



Why there is no impact of new 'investment climate policy' on economic performance?

An other side of coin

- Strong increase in social spending in 2009 → budget deficit → attempts to balance incomes and expenses → increase of taxes for individual entrepreneurs (IE) since January 2013 → about half million of IE stopped the activity in 2013
- ‘Experts case’: criminal investigation (by Investigative Committee) about the reasons for review of second criminal case against Khodorkvsky and Lebedev (provided on the request of Presidential Council of human rights in 2011) – with interrogation, search and seizure of documents → emigration of Sergei Guriev, well-known economist and one of economic advisers of Dmitry Medvedev
- Initiative to return to Investigative Committee the right to initiate criminal cases on tax evasion without any approval and confirmation from Federal Tax Service → strong opposition of leading business association and also from the government → long consultation between government and Kremlin → draft of Investigative Committee was supported by Mr. Putin with minimal changes
- Merger of Highest Arbitration Court (responsible for commercial disputes) with Supreme Court (criminal and civil justice) → strongly opposed by leading legal firms and by business but without any success

Different visions of future

- New version of Strategy 2020 was prepared in 2011 by big group of liberal experts coordinated by HSE and ANE with involvement of hundreds experts on direct request of Mr. Putin.
- Many measures on investment climate improvement proposed in Strategy-2020 were implemented by the government
- But there is also another 'vision of the future' shared by some groups in Russian elite – with focus on mobilization for 'Major Breakthrough' → Izborsk Club – as think tank providing analytical support for this line of thinking. Sergei Glaziev – as one of representative in public domain
- And this strategy also is implementing → strong increase in military spending, law on 'foreign agents', anti-offshore measure, prohibition to have accounts in foreign banks for public officials etc.

Conclusion

1. Russia (a big and very non-homogeneous market) has huge potential for economic development – long-term growth at 5-6% per year is possible
2. But: different understanding of strategic goals and priorities by different groups in political elite → deep contradictions in economic policy → high uncertainty for the business → declining investment and expectations of economic stagnation
3. Comprehensive ‘vision of the future’ and relevant strategy shared and supported by main groups in elite and by broader social groups – as key precondition for economic development