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Realizing Russia's Potential
PRESENTATION OF THE WORLD BANK'S 'DOING BUSINESS' SUBNATIONAL
REPORT FOR THE RUSSIAN REGIONS
Briefing

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Moderator:

Alexander Pirozhenko, Partner Network Development Director, Agency for Strategic Initiatives

Panelists:

Andrei Belousov, Minister of Economic Development of the Russian Federation

Augusto Lopez-Claros, Director for the Global Indicators and Analysis Department, The World Bank

A. Pirozhenko:

Colleagues, we are going to begin.

Today's briefing is dedicated to presenting the results of the World Bank's Doing Business report in the Russian regions. This is the first large-scale research project of the business climate of 20 Russian regions, where no such research had yet been carried out according to international methodology. The work took nearly a year, and today the results will be announced: the rating of regions and comparisons of indicators of the investment climates, including indicators for other countries. Preceding the presentation of the distinguished World Bank representative, Mr. Augusto Lopez-Claros, Director for the Global Indicators and Analysis Department, I would like to say that the results have turned out to be quite interesting, and perhaps even unexpected. They will be discussed not only today, but most likely for the next few months. We hope they will help improve the investment climate in Russia.

We launched this project in order to understand more about the investment climate in the regions of the Russian Federation. When compiling the Doing Business rankings, the World Bank compares indicators for large cities in various countries. Therefore, the regions are evaluated through the cities. We have a large number of regions, and the climate in them varies considerably. It will be interesting to see how much of a difference there is. And, of course, it is important for us to understand what regional authorities, along with federal authorities, can do to improve the investment climate.

Additionally, Doing Business is needed in order to measure the height of administrative barriers: this methodology allows us to evaluate in figures, in days, and in money the concrete roadblocks which Russian businesspeople are overcoming. According to the World Bank's research, managers of Russian companies on average spend 20% of their time on addressing various administrative barriers and on interacting with the state: that is twice the time spent by their colleagues from the EU with transitional economies.

Actually, this was the reason the joint project was launched. We would like to find out about the results and conclusions the World Bank has made in its study. Augusto, would you say a few words?

A. Lopez-Claros:

Good afternoon. It is a pleasure to be with you today. I have been asked to speak slowly and clearly so that our interpreters have an easier time in expressing my thoughts in Russian.

I want to begin by making a few general comments. Over the last 50 years, we have learned a great deal about what is important for sustainable economic development and economic growth. We have often asked ourselves what are the factors, what are the policies, what are the institutions that will allow a country to enter a path of economic growth and prosperity, which will boost productivity and improve competitiveness, and will allow the country to find a place in the international market.

For instance, we understand that careful management of the macro economy, especially public finances, is tremendously important. The crisis in Europe that we see at the moment is very much linked to the very high levels of public debt that have been accumulated over the last several decades, and we see the problems that the authorities are having in these countries in restoring confidence on the part of the investment community, and in laying out the foundation for prosperity and for economic growth.

The macro picture is necessary, but it is not sufficient. We need to do more. And so, over the last several decades, we have come to understand that, for instance, countries need to invest in education. They need to boost the skills and the capacities of the labour force, this is tremendously important for competitiveness. In the 21st century, in the age of technology and scientific innovation, we also understand that, for instance, how governments and the business community integrate into their everyday activities the use of the latest technologies, Internet,

broadband, and all the new technologies that are coming on stream, is also very, very important for improving productivity, for boosting competitiveness.

Now, why do I mention this? Because one element of this approach to economic growth and to sound policies that will allow countries to prosper, has very much to do with the quality of the rules and regulations that underpin the relationships between the government and the business community. In the World Bank, for many, many years we have been doing surveys of the business community in a large number of countries, and we ask the entrepreneurs and business heads and executives in more than 100 countries, what is important to you? What are some of the most important obstacles that you face as you try to carry out your economic activities? And the answers that they give us actually do not change very much from country to country. All over the world, no matter what the time zone, no matter what the region, they will tell us that things like access to finance are very important, that the quality of the tax system is tremendously important, for instance, whether the tax administration and the rules underpinning the preparing, the filing, and the paying of your taxes are easy or cumbersome. They tell us that the operation of the courts, how the judicial system is able to operate whenever there is some kind of disagreement between a company and a supplier or some other client, is important. If they have a difference of view or a difference of understanding as to what the contract says and they need to go through the court system, can this be done in a way that is relatively effective, that is relatively cheap, that does not take forever to resolve; or does it take years and years to settle a case?

At the World Bank, for the last 10 years we have been building indicators that track some dimensions of the business environment. Here is a list of some of the indicators that we look at. We look at indicators in various phases of the life of a company from starting a business. There is an entrepreneur, he has a bright idea, and he would like to open up a company. Is it easy to do that, or are the obstacles so insurmountable, is the cost so high, that he is forced to take his idea somewhere else, to some other country in some other part of the world, and become part of the

brain drain that has been a characteristic of many countries in many different parts of the world?

The Doing Business Report is perhaps most well-known because, once a year, we do a global ranking of 183 countries. Some of you will have seen the launch of our reports, the rankings. Here is a list of the 10 top performers in the last report issued in October. You see on the right hand side the indicators that we use to track the performance of these countries with respect to these indicators.

Now, the global report is focused on the largest business city in each country. So, although we list the country as England or Sweden, what we actually mean is the quality of the business environment in London or in Stockholm, or in the specific case of Russia, in Moscow. We take that as a proxy, as an approximation of the quality of the business environment in the country as a whole.

Now, because over the years we have discovered that there are regional variations in the quality of the business environment within a country, especially if the country happens to be large, like Russia, or like Brazil, or like India, we have very often carried out what we call sub-national studies. This means basically that we take our methodologies, we take our indicators, and then we measure them, we estimate them in a sub-national or in a city setting. We have found this exercise tremendously useful. We have done it already in more than 50 countries, and I will tell you the reasons why we find this useful.

First of all, when you go into a country like Russia and you calculate some of these indicators for a large number of cities, it establishes a benchmark, a point of comparison, a starting point with respect to which you can then begin to evaluate performance over time. In countries where we have repeated sub-national studies a number of times, what we have discovered is that we can actually track progress in these different dimensions of the business environment over time. That is one benefit.

The second benefit is that very often what we discover is that there is actually a very interesting degree of variation in the quality of the investment climate across different cities or regions of a country, that some countries actually have regions

that already have quite good practices by international standards, even though perhaps the largest business city may lag somewhat behind. So the sub-national studies allow regions or cities to compare their performance, not just *vis-à-vis* each other, but also *vis-à-vis* other countries and the rest of the world. But more importantly, when we deliver the data on these indicators to the regions then they can compare notes, they can get together in conferences and what we call peer-to-peer learning events, and then they can actually share their experiences and try to understand why it is that the business environment in some regions is actually better than it is in other regions of the country. So this becomes a very powerful tool. We have seen how it works.

In Mexico, to give you an example of sub-national studies, initially we had 10 of the states involved. Now we have all 31 of the states. Mexico is a federal state, like Russia, and all 31 of the states are involved in this process. We have already released the results of the fourth study, and it becomes a very powerful tool for promoting business regulation, not just in the capital city, the largest business city, but across the country.

I think that was very much the motivation and the thinking behind our reason for doing a sub-national study in Russia.

We have basically chosen a group of thirty cities, which you can see on the map. We did a sub-national study in 2009, which covered 10 cities, and on this occasion, we have expanded the coverage of this study to a total of 30 cities. The criteria that we have used for choosing the cities reflect a number of factors. They have tended to be those that have a larger GDP, that make a bigger contribution to national wealth, but the Ministry of Economic Development has also sought to have a little bit of regional diversity, so we have regions represented from different parts of the country and also a little bit of ethnic diversity, given the diversity of the country.

Let me tell you some of the lessons that have come out of this study. One of the things that we discover in sub-national studies in general, and this applies to Russia as well, is that there is a kind of interesting regional diversity in performance with respect to the indicators that we are tracking. In this study in particular, we are

looking at four indicators in Russia. We are looking at starting a business, the procedures and the cost and time associated with getting a business started. We are looking at getting electricity. Getting a connection to the grid is a tremendously important concern for the business community everywhere in the world. How long does it take, how many procedures, how much does it cost? We look at the question of construction permits. Very often when you set up a business you want to expand, you want to build a warehouse, you want to be able to get some infrastructure in place, and for this you have to obtain a variety of permits and you have to have interactions, typically with the city government. Finally, we also look at the issue of property registration.

Now, some of the lessons that have come out of this study are first, there is a great deal of regional diversity across Russia. We have some regions that are already performing quite well by international standards. This is actually quite encouraging, because it suggests that it is possible in the Russian context to have a relatively good investment climate. I think that this is a very encouraging lesson that comes out of this study.

In a couple of the indicators, starting a business and property registration, we discovered that in Russia the costs of doing that are actually quite low, which again is a very encouraging result. I will show you in a couple of minutes some interesting statistics which compare the numbers for Russia in an international setting.

The table which I am showing you now shows the results for the 30 regions in Russia, across the four indicators that we have tracked. As you can see, for instance, in starting a business, St. Petersburg has taken first place. St. Petersburg among the 30 cities is the place where it is easiest to start a business, although Volgograd and Ulyanovsk are close behind in second and third place. For dealing with construction permits, we have Surgut as being the city in Russia that has the easiest, most transparent, and least costly procedures, although Stavropol and Kaliningrad also come closely after in second and third place. For getting electricity, we have Saransk, and for registering property we have Kaluga in first place, followed by Vladikavkaz and Vladivostok in second and third place.

So, this provides you with a summary of some of the highlights of the performance of the 30 regions with respect to the four indicators. I want to show you that there is a whole report, 150 pages of it, that has all the data for all the indicators for all the cities, and it is actually a very, very valuable reference book, because it identifies every single one of the procedures. It provides a great deal of micro-level data which can then be used by the governments to see how they can make improvements over the next few years.

There are other encouraging results. There are 10 cities that were part of the 2009 study and are now part of the study in 2012. What we have seen is that in the three indicators that are common to both studies, there have been improvements since 2009 nearly everywhere. In fact, out of 30 possibilities (10 cities times three indicators: that is 30) there have been 27 improvements over the last three years. I find that very encouraging because it suggests to me that as these studies are done over the next few years, we are providing incentives, we are creating a framework for reform in the area of business regulation at the local level.

Very quickly, let me share with you a few more slides. I am looking at my watch and I know that we are under some time constraints. I told you, for instance, that starting a business is relatively inexpensive in Russia. It takes 1.7% of GNI, Gross National Income per capita, to get a business started, which is relatively low by international standards. You can compare that with something like 4.7% in the case of the 10 countries in Central and Eastern Europe that are members of the European Union, or let us say something like 47% of GNI in the case of India, which is on the extreme right hand side. So this is good news.

I have here another slide that shows you St. Petersburg as being in the number one position for starting a business. They have a one-stop shop that basically has consolidated many of the procedures associated with starting a business in one location. As a result of this, it is working very well. St. Petersburg does well, not just in Russia, but internationally as well and again this is encouraging.

One of the wonderful things about these sub-national studies is that they highlight the best experiences and best practices, which then can be replicated and copied in

other parts of the country. Saransk, on the other hand, which is in 20th place, has a system that tries to replicate the experience of St. Petersburg, but still could be improved a little bit by further consolidation and gains in efficiency.

Let me show you a couple more slides. This is a slide that shows you that construction permits remain a challenge in Russia. There are all kinds of regional variations in terms of the number of procedures before, during, and after construction. But in general the procedures tend to be high by international standards, and in some places as you can see at the bottom, in Moscow, they are unusually high. So, here there is a large amount of scope for gains in efficiency.

Let me show you a couple more slides. This is trying to bring an international perspective to property registration. Here I am presenting to you data not just for some of the cities in Russia that are part of the sub-national study, but I am also bringing in practices from other countries. So for instance, in terms of the number of procedures that are involved in property registration, we see that the average in Russia is four, which is already less than what you get in Eastern Europe and Central Asia, where the number is six. It is a lot less than what is found in Brazil, with thirteen procedures, but it is still somewhat higher than, for instance, the experience of places like Finland and Saudi Arabia, which are among the best in international practice.

If you look at the middle column which captures the time associated with property registration, again we see that in Russia it takes about 35 days on average to register property, which is not bad. It is certainly a little better than Germany and Brazil, but it is not quite as good as places like Turkey. However, what is interesting here is that you have cities like Kaluga where it takes 19 days, which is actually quite respectable by international standards. This is one of the nice things about these sub-national studies, that beyond comparisons across the country, it allows you to benchmark your city with respect to international practices as well.

I will not share with you the data on the right hand side, which has to do with the cost of property registration, but you get some of the same flavour and you can look at it in the presentation of which there are copies available.

This is the kind of thing that I find very, very encouraging. These are the 10 cities that were part of the 2009 study, and we have seen that everywhere, in all of the 10 cities, between 2009 and 2012 the speed of property registration has increased significantly. The blue bar is the 2009 study; the orange bar is the 2012 study. As you can see there has been a reduction, quite remarkable in some cases, in the time that it takes to register property. This is excellent, we should congratulate the authorities of these regions, number one. Number two, they should look at this, and the other 20 regions that are part of this study but were not part of the 2009 study, should look ahead for the next few years and see how they are going to make the same improvements.

This is perhaps a little cumbersome, a few too many numbers. This is yet another way of comparing in the first two columns Russia's performance in the global report, which as you know captures Moscow, and then the next two columns present data for some of the regions of Russia. There you can see how Kazan, Murmansk, Kaliningrad, Vladikavkaz, a number of cities in Russia are already operating at levels of efficiency that are quite a bit above that of Moscow.

Now, let me conclude by saying the following. We are not looking in this study at the whole range of Doing Business indicators that we have in our global study. We have a total of 11 indicators. We have looked at four, which provides you necessarily with a limited perspective on business regulation. My hope is that over the longer term, as we have done in a number of other countries, we will broaden the scope of the indicators. We can look at other areas which are also important for business regulation. We can possibly expand the number of cities over which the study is done to capture an even picture. But more important is that these studies are done on an ongoing basis, maybe every two or three years. You do not need to do them annually because the business regulation environment does not change dramatically from one year to the next. But if you do them every two or three years, then you begin to build a very interesting database, which becomes richer and richer as time passes by, and which allows countries to use the data to promote business regulation in a very proactive way.

I was present an hour or two ago at a speech given by President Putin, and I noted with interest that he has come again and he has referred to the Doing Business indicators. In fact he listed virtually all of the Doing Business indicators that we use, and highlighted the importance of improving the business climate as a very, very essential component in establishing a foundation for solid, rapid economic growth in Russia.

You ask me, do I think that Russia could grow at 8%, 9%, 10% per year for the next 10 years, at rates that are closer to India and China rather than the 4% that you have now? The answer to this question is absolutely yes. There is no reason why Russia could not double its economic growth rate and therefore push the growth of income per capita at a much faster pace to converge to levels that we see in the European Union. Is this going to happen automatically? Of course not. It requires a concerted policy effort, it requires consistency, and it requires coherence. But, I am very encouraged by the fact that your government seems to have recognized that the quality of the investment climate in Russia needs to improve, and that this is an element of its long-term economic strategy.

A. Pirozhenko:

Thank you very much, Augusto.

The project was sponsored by the Ministry of Economic Development of the Russian Federation, and it was financed in partnership with the federal centre and the regions. Fifty percent of the funds were provided by the Ministry and 50% by each of the regions, which has largely been the guarantee of the independence and objectivity of the research.

Mr. Belousov, what have you heard today that is important for your ministry? Can we expect that this rating will find practical application in the work being conducted by the Ministry to improve the investment climate in the regions?

A. Belousov:

Thank you, Alexander.

When I was listening to the presentation, a philosophical thought entered my head: our view of reality is so relative! If the capital of Russia were not Moscow, which was ranked a respectable 30th in the rankings, but instead, for example, Ulyanovsk, which took first place, then, perhaps, we would have already fulfilled the President of the Russian Federation's order, and the country would have moved in the Doing Business rankings from 120th place, to, if not in the 20s, than at least in the 50s. Of course, for our investors, for businesses, it is unlikely that that would be a great consolation. Move the virtual capital every year, and then you can achieve absolute progress. That is real Russian know-how.

Seriously though, the results are very interesting, and they require interpretation. Our Minister has already drawn a few obvious conclusions. First, the registration of property is very important to me. The Federal Service for State Registration, Cadastre, and Cartography, which is administered by the Ministry, is responsible for this. I was very pleased to know that the situation with this is not so bad: I had assumed that it was much worse. But the big difference in the indicators of even just the 30 selected cities, of course, suggests they use very different technologies and standards. When I return to work, the first thing I will do is ask our territorial management, "Why does this happen? Where did such a big difference come from?" I think the conclusions will be no less interesting than those which can be drawn from this presentation.

All of us remember that in December of last year the Prime Minister (who is the current President of the Russian Federation), Vladimir Putin, addressed the Business Russia Forum with the National Business Initiative. The first step in the implementation of this initiative was the development of standards of conducting business and investment climate standards in pilot regions, a task that was executed jointly by Business Russia and the Agency for Strategic Initiatives. Among these pilot regions were those in which there is a city that is now at the head of the rankings – Ulyanovsk, Kaluga, and Kazan – and those where there is a city that is near the bottom: for example, Perm or Ekaterinburg. That result also requires

analysis, since we already have sufficient experience implementing this initiative, as opposed to the other four initiatives, which have only just started.

The second very important result which was obtained is the method itself. I want to work out to what extent it can form the basis for the compilation of ratings of regions in order to develop a competitive environment and to create a favourable climate for business. I understand the Doing Business method envisages many more indicators (here only four of them were used), but we nevertheless need to explore the possibilities of its use, especially now that the compilation of ratings of the regions has become a task for us that is not only theoretical, but also extremely practical. There is a corresponding order that has been issued by the President, and in the near future we will arrive at a system in which the funding of regions will depend on the business climate in the region and on its position in the ranking.

Of course, I would also like to hear Andrei Sharonov's opinion: how does he evaluate the results? If we had not had 30 cities, but instead, for example, 80, where would Moscow have ranked?

Thank you.

A. Pirozhenko:

Thank you very much, Mr. Belousov. I think we need to give the floor to Sergei Morozov, Governor of the region that came first in the rating. Mr. Morozov, how did this news make you feel? What is the secret of your success?

S. Morozov:

Thank you very much, Alexander. And thank you, Mr. Belousov.

I would like to thank the Ministry of Economic Development, and the World Bank for their wonderful research, which will give us, despite our top position in the rating, a lot of food for thought. Of course, this was very pleasing news for our current team to see and hear because we have been striving toward it for seven long years. It took many days and nights, weeks and months to implement the best practices known in the Russian Federation and Europe manually, as they say, thereby

creating our business climate. Of course, at the same time, if the Agency of Strategic Initiatives had not invited us to work together, if Business Russia had not helped in Ulyanovsk Region, there would not be a business climate.

Much of what we have found out today from this report makes us look differently at our work. On Saturday I will already be holding a regional government meeting, and we will determine what action should be taken first not only on this rating, but also on all other indicators.

Thank you very much! I am filled with pride. We are still not used to coming in first place all the time everywhere, but I think that this is a good beginning, and we will gradually get used to it. And we really will not disappoint anyone, because we have a very good business and investment climate.

A. Pirozhenko:

Thank you very much. Let us have a round of applause for Mr. Morozov.

I would like to ask Mr. Sharonov what his feelings are. Before that though, I would like to say that, despite the irony in Mr. Belousov's voice, Moscow has recently, according to World Bank estimates, made significant changes for the better. These concern the barriers to starting construction: this indicator is very often criticized in Moscow. In 2009 you had to carry out 61 procedures; today, only 47 are needed. The length of time it takes to receive construction permits was reduced by nearly half, from 600 days (almost two years) to 400 days.

Mr. Sharonov, if you will.

A. Sharonov:

Unlike some representatives of federal agencies, I will not offer our personal rating as a response to our low rating; instead I will try to figure out why it happened. Moscow is a desirable place to do business, appealing from the point of view of market size, demand, diversity, and so on. It is also a very difficult place to do business. In part, we have traditionally proceeded from the fact that we have lined up a long queue of investors: if you do not like one, there are ten waiting behind

him. The procedures for receiving permits for construction and connection to the power grid show that all the difficulties of the bureaucratic system are more often than not artificial: they are connected with a large number of discretionary decisions which are made by mid- and low-ranking officials.

However, there is reason to believe that our ranking in the next rating will be better. First, the current rating is based on the results of 2011, and in the meantime, much has been done in the second half of 2011 and the first half of 2012. With regard to connections to electricity, since we seriously failed at connecting non-stationary trade points, we have held a large number of tenders. Currently, we need to connect several thousand small retail trade sites. Ninety percent of them are already connected, and the time it took to do that ranged from fifteen days to six months. The times to connection are not checked by us; business associations are responsible for this. Businessmen come to us and report at the head office. The head office was established at the request of Mayor Sobyenin, since we were drowning in complaints. We sold places with connections, but connections were not actually possible, and this led to the creation of that mechanism. Unfortunately, it works like an emergency room, but it has managed to solve many issues related to connections.

I think that the results of the ratings for all of 2012 will be much better in this regard. The upper management of Moscow's large electricity companies is also making a great effort to stop this mayhem in the middle and lower levels where the hindrances are. I would like to point out that regulation is performed by companies, not the city.

As for the length of time it takes to issue construction permits, Alexander quite correctly pointed out that we have managed to cut them in half; we have completely eliminated some of the procedures. The administrative commission carried out a detailed analysis of all the steps, and found that an authority (which shall remain nameless) had replaced one procedure with thirty-eight, which made all the internal steps mandatory for the applicant. Rather than apply the 'one window' principle, in which all internal agreements are made by the officials themselves, they sent the

applicants in a circle: they had to go to various parts of related organizations and receive permits. Here it will be more difficult, but we will reduce this term, probably by about a third.

For objectivity's sake, I want to say that in Moscow, the situation is more complex than in other cities, for example, because of the topography. We have many layers of infrastructure – pipes, the metro – which most other cities do not have. This all requires the creation of additional agreements, and the city does not always have the necessary information, so coming to an agreement requires considerably more time. I can also say in our defence that Moscow is an expensive city; this is reflected in the cost of procedures. Take, for example, the analysis made by international organizations in relation to Mexico. It turns out that the capital of that country, Mexico City, is in second-to-last place in the city rating. The capital of the Philippines, Manila, is in last place. This is the situation with huge cities. Maybe it is a weak defence, but such is the case.

Still, I want to say that for us, it is a serious jolt. Moscow has long lived in such conditions, but now the city has adopted an Economic Activity Stimulus Programme. Improving the business climate and support for small and medium-sized enterprises are amongst our priorities. Let us look at the rating for 2012; maybe we, instead of Mr. Morozov, will be the first to speak.

Thank you.

A. Pirozhenko:

Thank you very much, Mr. Sharonov.

The remaining regions should very carefully follow the best practices about which Mr. Sharonov spoke. There really is a chance that Moscow will be back on track very soon.

From the audience:

I think that Mr. Sharonov is absolutely correct. The situation in the capital is not comparable with the situations in non-capital cities, and in compiling these kinds of rankings, I would propose that the capital not be considered.

A. Pirozhenko:

I would now like to give the floor to Andrei Yakovlev, who was the head of the project from the Russian side, for his short comments.

I have one question. Much can be said about the results of the research, but Vladikavkaz is in third place, to the surprise of many. How can you explain that? Is there something here connected to the methodology, or is it an objective reality?

A. Yakovlev:

Experience participating in this kind of project was very interesting to us from the standpoint of developing methodology. It is important to understand the following: the methodology is definitely focused on a certain simplification of reality in order to ensure comparable results, especially on an international scale, and therefore there is no need to view the results in absolute terms. In my opinion, the value of the results is not due to qualitative indicators, but to two other aspects.

The first aspect is the idea of benchmarking. In this sense, I found the regions' reactions curious, because when preparing the first rating in 2008 (it was published in 2009), we also provided a right of reply: having received a description of procedures, representatives of the regions could respond, agree or disagree, and give their comments. As far as I know from what my colleagues said (I did not participate back then), of the 10 regions, only four responded. This year, representatives of 28 of the 30 regions specially came and quite actively argued, defended their point of view, and put forth arguments. The project prompted the regional authorities to compare their region with others, analyse practice, and improve the business processes of their own territory based on the experience of other regions.

The second aspect is connected to Moscow. I would make an analogy with sports: in football, there is the premier league, the first division, and the second division. The ratings, in a way, reflect the results of work by state authorities in a region and how their economic policies are carried out. But regions vary. That same Moscow, with its nominally poor indicators, has been and remains a centre of investment: there is great demand, infrastructure, and human resources there. So, in the future, it would probably be more appropriate to make comparisons between regions which are comparable in size. I do not agree that Moscow should be excluded. It needs to be compared to Ekaterinburg and St. Petersburg.

However, Vladikavkaz certainly needs to be compared to cities of a different group. We understand that it is located in the North Caucasus, which is, to put it mildly, an unsafe area. We need to understand that this was not considered in these ratings. This region is located near areas where, in general, there is a war. People there do not think about connections to electricity, but instead about their physical safety. If someone has already gone there and has been able to start a business, then perhaps the local authorities are unlikely to try to take money from him and put barriers in the path of the business. This also needs to be considered.

The creation of the ratings is not an end in itself. The ratings are a specific tool, one possible working tool. We can think about adapting it to our conditions and about the development of our own tools, which would be more numerous and better take into account Russia's economic reality.

Thank you.

A. Pirozhenko:

Thank you very much. Nikita Belykh, your region came in 12th place. What are your thoughts?

N. Belykh:

Friends, in accordance with tradition, I wanted to say that immediately upon my arrival back home I will call a government meeting and discuss this rating. Suddenly

I had the thought: what will I discuss with my colleagues? If you take the table which was presented to us, it appears that the work of the regional government very seriously affects the second and third indicators: ease of obtaining construction permits and ease of connecting to the electrical grid. For those we are in fifth and fourth place, while the leader is fourth and fifth. We are seriously dragged down by business registration and property registration.

Then I ask myself the question: what should I do? Call the Chief Registrar and the Head of the Tax Service in and reprimand them? Excuse me, but they are representatives of federal agencies. And the next day the Prosecutor General's Office will come to me (not to mention other law enforcement agencies) and ask, "Why am you getting involved in matters which are under the purview of the Federal Government?" Would it not be better to build a special relationship with them, after which the Prosecutor General's Office and the Federal Security Service will not pay me those kinds of visits?

If we conduct this rating after the proposed decentralization programme is carried out, and part of the powers that by implication should belong to the regions is transferred to them, then there will be a point to both the rating and the incitement to practical actions. But right now, I am not sure what conclusion I should reach. When I get home, I could write to Mr. Belousov, asking him to fire the Registrar, because she clearly cannot cope with her responsibilities. Should I do that? That nice lady tries to do what she should, but apparently she did not achieve what she ought to have. I could write a letter, let us say, to Mikhail Mishustin and Anton Siluanov regarding the heads of the Tax Service. If this is included in the responsibilities of a head of a region in creating a favourable business environment, we will do it. But it seems to me it would be much more correct and effective to compile ratings based on an expanded list of criteria.

It is obvious that, despite the importance of the four criteria taken into account, how attractive a region is for investors is not determined by them. There are a lot of problems concerning, for example, safety, and a place like Vladikavkaz really causes a lot of problems. It is difficult to imagine sustaining investors in Vladikavkaz,

who would be trying to build something under the whistle of bullets, and to register their property in that republic.

In my opinion, it would be more correct, first, to conduct similar research on a regular basis. I think the most valuable thing in this study is the analysis of the changes in the ten regions which were evaluated in 2009 and in 2011. Of course, it would be good to achieve the decentralization of authority and have the Ministry of Economic Development act as a lobbyist on the issue of the transfer of some powers to the regional level. Moreover, we need to expand the list of criteria according to which the regions are evaluated, taking into consideration what truly does depend on regional leadership, and we need to see indicators that characterize the situation in comparison with the previous period. Then we could say that fully-fledged work had been done.

I would like to add my voice to the warm words addressed to my senior associate, Sergei Morozov, and to congratulate Ulyanovsk Region on its honourable first place in the research results.

Thank you.

A. Pirozhenko:

I would like to come to the defence of the Republic of North Ossetia–Alania. Let us refrain from discussing bullets; no one here needs their name blackened. I understand that the competition is heating up between regions, but let us be more careful about what we say.

Mr. Nikitin, how can this rating be used by an agency in implementing a standard of action for regional executive bodies?

A. Nikitin:

Esteemed colleagues, I would like to express my opinion on today's figures. In the first place, it seems to me that the Doing Business rating allows a given decision to be taken by a foreign investor who is choosing where to set up production facilities: in Russia, Kazakhstan, or Belarus. In terms of our country's rating, we are not rated

as highly as our Customs Union partners: this will have a substantial influence on the decisions taken by investors. We must therefore do the things that will permit us to rise in the rating.

However, we need to understand that for a Russian businessperson, the investment climate exists around his environment. It does not exist in the ratings, or in Moscow, or anywhere else on the federal level. A businessperson evaluates the investment climate according to how he can develop his business. The most objective indicator is probably the number of investments in relation to fixed assets. To what extent is a businessperson prepared to invest in the development of his production facilities? That is the primary thing.

In terms of indicators by which the investment climate is measured, of course the standard of the activity of regional administrations, which we are installing in the pilot regions, is also imperfect. Nevertheless, it is an attempt to describe the services any businessperson should receive in the region, and the institutions that should exist in the area. When we implement the National Business Initiative, which is largely connected with the rating and in some ways adds to it, we are doing it not just because of the rating, but first and foremost, for ourselves. At the same time, in putting the standard in force as an instrument for the creation of a good investment climate within a specific environment of a specific businessperson, we can achieve success.

A. Pirozhenko:

We have a fair number of regional leaders in the audience. It would probably be a good thing to give them the opportunity to speak and provide their points of view on today's information.

Mr. Zhvachkin, could you please tell us your evaluation of your region's result? Not long ago, we signed an agreement with the Agency for Strategic Initiatives on the implementation of the Standard of Action for Regional Authorities for Improving the Investment Climate. What do you think, can this facilitate an improvement in the region's position in these kinds of ratings?

S. Zhvachkin:

Thank you, Alexander.

I am the only person who is not going to call a meeting of his government on Saturday, because I will not yet have had time to return to Tomsk. But the figures are truly interesting; they make you think. I believe that everyone should work in this area; we will be doing it too. I believe that the work that the Agency and the Ministry are doing today with the regions is very important. It is fantastic that they have started talking about it; not long ago, we simply did not discuss this topic.

The research needs to be continued, and other indicators in addition to the current four should be introduced. Each region has its specific characteristics, and they need to be considered when creating the rating. But in general, this is a good thing that is being done, and it needs to keep moving forward. Thank you.

A. Pirozhenko:

Thank you very much.

Mr. Borisov, Mr. Zhvachkin just said something about the specific characteristics of the various regions. We have heard it said in the speeches given that it is not really right to compare different regions which are at different levels of development. You have a good many special characteristics: Yakutia is Russia's largest region by area. What do you think about your 28th place in the ranking?

E. Borisov:

We are grateful to the people who did this work, and we will be sure to analyse the situation. We are not upset at the figures; special characteristics are special characteristics. But I would like to say something about the research method; maybe this is in the papers, but I have not heard about it. The reasons for which a region is ranked in a given position need to be emphasized. Next time, we will absolutely come higher in the rating, but there are objective factors that were not taken into consideration. In part, I am talking about infrastructural limitations in our

republic: we do not have enough energy, heat, and other things, and as a result, the authorities have objective reasons for giving a certain applicant permission to start a business. This is a very serious inhibiting factor. In our republic, we are implementing large infrastructure projects, and when we finish them, we will, without a doubt, rise to one of the top spots in the ratings. This will happen in the very near future; therefore, we would like to hear not just reproaches for creating administrative barriers, but an objective analysis. The method should take that into account.

Thank you.

A. Pirozhenko:

Thank you very much, Mr. Borisov.

We literally have time for just one or two comments. Please.

I. Ponomarev:

I am Ilya Ponomarev, Deputy Minister of Regional Development. I would like to sound a note of dissonance in the serene melody of today's session. I may not be a leading economist, but I have the feeling that the best business climate is created where the most money can be earned with the least expense. How many procedures have to be undertaken and so on is, of course, an important consideration, but with the form of the rating that we have received now, I get the feeling that we have process legislation without fundamental legislation. We can optimize processes as much as possible, but even if you take all the steps off the staircase, water does not flow uphill. That is the situation we end up with.

If an investor who has decided to focus on development activities in Russia goes to Murmansk because of the results of the rating, I am afraid that that will be the last of his investment decisions. With regard to construction activities, Murmansk, for objective reasons, is not currently at the top of the list. And there is no need to say that investors do not know about the rating; it is just that the determining factor is the potential profit. That is the basis on which the business climate is formed. When

we do not take this factor into consideration, Moscow (where any investor would love to go) falls into last place. And, conversely, first place goes to other cities where... Well, I will not go into the details.

It seems to me that if we do not take that into account, we are going to be discussing not the business climate, but regional aspects of the regulation of business activities. If that is the case, we should call it that. Otherwise, unfortunately, we set tasks for the heads of the constituent entities and the Government of the Russian Federation (all the more so because Vladimir Putin supported it, as you heard); however, those tasks are not fundamental, but process-related in nature. That is my concern. Thank you.

A. Pirozhenko:

It seems there was probably a question in that comment. I would like to hand over to Augusto, who can provide a brief commentary on methodology. To what extent can we say that a region's ranking correlates with the real conditions for conducting business?

A. Lopez-Claros:

A number of you have raised very interesting issues and I just wanted to comment briefly.

Some of you have pointed to the fact that Moscow is the recipient of large inflows of foreign direct investment and how does one reconcile that with the ranking that we have shown? The studies that we have done over the years have shown that market size is a very, very important determinant of foreign direct investment inflows. Moscow gets a lot of foreign direct investment because it is a big market, it has a reasonably well-developed infrastructure, and investors very often want to establish themselves in large urban centres where they will have a market for their products. What I would say is that Moscow gets a lot of foreign direct investment notwithstanding, or in spite of the fact that it has a number of deficiencies in terms of the investment climate which are very much highlighted by the study.

I like the comment made by Professor Yakovlev when he said that these rankings, and these indicators in particular, are tools. We must be careful not to give them too much weight. The kinds of factors, policies, and institutions that are necessary to create prosperity and to create economic growth are many. At the beginning of my presentation I talked about education, I talked about the latest technologies. These factors are not captured by the Doing Business indicators. You need to do a great deal more than just looking at these few indicators.

There was also a comment made to the effect that maybe we should link large urban metropolitan areas like Moscow and not necessarily compare them, you know, to smaller and smaller cities. It is not clear. We have done studies, by now we have done more than 50 sub-national studies, and it is not the case everywhere that the largest business city tends to rank last. Just think about some of the procedures that we are capturing in starting a business. How long does it take, what is the cost? This is not very linked to the size of the region. More and more of these procedures are being done online through electronic platforms. What difference does it make whether this is done online in a city with 50,000 people or in a city with 5 million people? Therefore, do not read too much into the fact that the largest city in Russia also happens to rank number 30.

I know that time is limited, and I just want to emphasize that these indicators provide you with a kind of starting point. They provide a kind of quick and rough picture of investment climate issues in the Russian Federation. I would invite you, especially the governors and their staff, to actually look at the report once we have it in Russian, because you will see that it has a wealth of information that will allow you to answer such questions as: how can I move forward? How can I improve efficiencies? How can I reduce procedures and reduce time, and in general make many of these processes less complex and less costly?

Beyond that you will have to do a great deal more, and the World Bank is going to be a partner and an ally in trying to help you improve your performance, so that over time we have a better investment climate in Russia, not just in Moscow, but in the whole country, and we can begin to register some of those higher economic growth

rates that we have seen. Recently, we have finished a study in my department that looks at the rankings in the Doing Business report on the one hand, and economic growth on the other. We have discovered that actually there is a very, very positive correlation between improvements in the business environment captured by the Doing Business indicators on the one hand, and the growth of income per capita on the other. In other words, it really works. You improve your investment climate, as we track it in the Doing Business indicators, and you actually generate higher economic growth. This is a very, very encouraging result.

A. Pirozhenko:

Thank you very much, Augusto. Today's discussion is coming to a close. Mr. Belousov will be giving the concluding remarks.

A. Belousov:

Rather than give concluding remarks, I would simply like to thank the World Bank for this work. I consider it to have been done in a very interesting way, and the course of this discussion has confirmed that notion, to the point that those of us here, looking at the numbers (though I agree that they are no more than a starting point), have, through making a few inferences, come to the conclusion that there is a need to redistribute authority.

I am truly grateful for the work that has been done, and I propose that it be continued, expanding the group of cities included in the study, and improving the methodology in order to dispense with at least some of the issues that arose today.

A. Pirozhenko:

In conclusion, I would like to say that the words spoken by Vladimir Putin at the Plenary Session today, as well as all the measures being taken on the federal and regional levels, have made me certain, somehow, that an impressive improvement of the investment climate awaits us. We are having a very meaningful discussion now. It touches on specific indicators and measures within the format of the road

map, which are being carried out not by the authorities alone, but by the authorities in conjunction with business – in concert with the business community.

In front of the entrance, we gave out special sweets so that nobody would get tired from hearing about all this dynamic growth. You may eat them. Again, thank you everyone. Thanks to the World Bank and the Ministry of Economic Development of the Russian Federation.