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RUSSIA: PROGRESS IN STRUCTURAL REFORM AND FRAMEWORK CONDITIONS

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ABSTRACT/RÉSUMÉ

Russia: Progress in Structural Reform and Framework Conditions

In the 16 years since the OECD began conducting *Economic Surveys of the Russian Federation*, a great many policy recommendations relating to structural reform and framework conditions have been made. This paper, expanding on Annex 1.A1 in the 2011 *OECD Economic Survey of the Russian Federation*, provides a summary tabulation of the state of implementation of a large number of these past *Survey* recommendations.

JEL classification: L1; L32; L33; L4; L5; H1; H82; H83; K20; K21; P2; P3; F13

Keywords: Russia; structural reform; framework conditions; competition; product market regulation; trade; foreign direct investment; state ownership; innovation; banking regulation; fiscal policy; monetary policy.

Russie : Progrès des réformes structurelles et des conditions-cadres

Au fil des 16 ans depuis la première Étude économique de la Fédération Russe de l'OCDE, il y a eu beaucoup de recommandations portant sur la réforme structurelle et les conditions-cadres de l'économie. Cette étude, qui représente une élaboration de l'Annexe 1.A1 de l'Étude économique de la Fédération Russe 2011, fournit un sommaire de l'état de la mise en œuvre d'un grand nombre de ces recommandations.

Classification JEL: L1; L32; L33; L4; L5; H1; H82; H83; K20; K21; P2; P3; F13.

Mots-clés: Russie ; réforme structurelle ; conditions-cadre ; concurrence ; réglementation des marchés de produits ; échange ; investissement direct de l'étranger ; propriété de l'État ; innovation ; réglementation financière ; politique budgétaire ; politique monétaire.

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RUSSIA: PROGRESS IN STRUCTURAL REFORM AND FRAMEWORK CONDITIONS

By Yana Vaziakova, Geoff Barnard and Tatiana Lysenko¹

Introduction

The OECD began conducting *Economic Surveys of the Russian Federation* in 1995. The latest *Survey*² is the eighth in the series, the most for a non-member country. The 2011 *Survey* included an annex (Annex 1.A1) providing information on the degree to which policy recommendations in past *Surveys* had been implemented. For other country surveys such annexes normally relate only to the recommendations in the most recent *Economic Survey*, but as this was the first time such an exercise was done for Russia, the annex looked back further, providing summary information on actions taken in relation to a large number of recommendations covering almost all the previous Russia *Surveys* (a list of which is given after the table). The annex indicated that a good deal of progress had been made: in 79% of the cases examined, action was either underway (65%) or substantially complete (14%). In the remaining 21% of cases it was judged that no significant action had yet been taken.

This paper provides additional detail (relative to Annex 1.A1 in the 2011 *Survey*) on the actions taken vis-à-vis recommendations of past *Economic Surveys of the Russian Federation*. Some of the information on implementation was provided by the Russian authorities, but the bulk was collected independently by the authors. In a few cases little if any information could be ascertained, while in others there was more information than could be briefly summarised in this format, and the table should not be taken as comprehensive and definitive.

1. Yana Vaziakova was a consultant in the Economics Department during the preparation of the *2011 OECD Economic Survey of the Russian Federation*, for which this paper was written. Geoff Barnard is Senior Economist on the Russia/South Africa Desk in the Economics Department. Tatiana Lysenko is an Economist in the Directorate for Financial and Enterprise Affairs, but was an Economist on the Russia/South Africa desk during the preparation of this paper. The authors are grateful to Andrew Dean and Andreas Wörgötter for their useful comments, but retain responsibility for any remaining errors. The opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the OECD or its member countries.

2. *OECD Economic Survey of the Russian Federation, 2011*, OECD, Paris.

Russia: Progress in structural reform and framework conditions

This table describes actions taken in relation to selected recommendations made in past *Economic Surveys of the Russian Federation*. The assessment of implementation has been carried out by the authors. This table is without prejudice to the recommendations made as a result of the reviews currently being undertaken by various OECD Committees for the purposes of OECD accession.

Recommendations in past Surveys (Survey year)

Actions taken

1. Structural policy settings in product, labour and financial markets

1.1. Product market regulation

Develop transport infrastructure as a measure to aid in the elimination of barriers to intraregional trade and expand markets. (2009)

The target programme “Development of the transport system of the Russian Federation” (2010-15) and the investment programme of Russian Railways (RZD), developed in the framework of the Transport Strategy to 2030 and the Strategy of Railway Transport Development to 2030, aim to increase the competitiveness, availability and efficiency of the transport system. Within the same target programme it is planned to increase the efficiency and capacity of Russian airport and seaport networks. In December 2009 the first Sapsan high-speed train began operating between Moscow and Saint-Petersburg, and in July 2010 it made its first trip to Nizhny Novgorod.

Address weaknesses in the tax and regional funding regimes to break the dependence of regional governments on a limited number of local firms for revenue raising. (2009)

No known action taken.

Promote free internal trade and movement of labour and capital. (1995)

Federal Law № 381 “On the principles of state regulation of trade activity” (December 2009), which entered into force in February 2010, makes internal trade less discriminatory (special antitrust rules for trade) and clearly defines the powers of officials in the regulation of trade activity. Order № 166 (September 2008) of the Ministry of Industry and Trade promotes competition in internal trade. From January 2011 temporary registration for a period of six months to three years can be done by post or internet, and is for notification purposes only.

Relax security of tenure laws and progressively raise controlled rents towards market levels. (1995)

In 2009 the government approved basic principles for the definition of rental fees for land in state or municipal ownership.

1.1.1. Trade and foreign investment regimes

Lower FDI and tariff barriers. (2009)

In June 2011 the Russian Direct Investment Fund was created with the intention of investing USD10 billion in fast-growing sectors of economy over the next five years. The main condition is that all projects should be co-financed by a foreign investor. Under the terms of Russian accession to the WTO, tariffs will be reduced in a wide range of sectors over a transition period of 7 years.

Move towards a uniform tariff rate. (2009)

The reduction of tariffs under the terms of WTO accession will result in a smaller dispersion of rates.

Increase the openness and predictability of the foreign investment regime. (2009)

Pursuant to Presidential Order № Pr-846 (April 2011) draft legislative amendments were submitted to the Duma to provide an exemption from legislation and regulation of contracts with

<p>Ensure a level playing field between domestic and foreign firms with respect to government procurement and access to subsidies. <i>(2009)</i></p>	<p>participation of international organisations where Russia is a member. The draft legislation is under discussion in the Duma. The amendments to Federal Law № 57 “On Procedures for Foreign Investments...” providing simplified access for foreign investors to some of strategic sectors of the economy were approved in November 2011.</p> <p>The innovation city Skolkovo, created in 2010, offers companies and organisations locating there, irrespective of whether they are domestically or foreign owned, a number of privileges: tax incentives (simplified form of accounting, exemption from profit, land and property taxes), provision of free arrival and movement throughout the country territory to foreign specialists and entrepreneurs and customs subsidies (payment of customs duties and value-added tax on import of goods to Russia).</p>
<p>Consider introducing provisions to encourage regulators to use internationally harmonised standards and certification procedures wherever possible and appropriate and avoid unnecessary trade restrictiveness. <i>(2009)</i></p>	<p>Implementation of ISO standards in Russia is ongoing. Nearly 40% of regulations have been introduced and it is planned to increase this level to 60% by end-2015. In 2011 the Russian part of the ISO portal was opened. Compulsory certification of foodstuffs, cosmetics and other important commodities was abolished in February 2010.</p>
<p>Actively pursue membership in the WTO and other international and bilateral agreements. <i>(2009)</i></p>	<p>WTO negotiations have been completed, with ratification of Russia’s accession expected in the first half of 2012. In July 2010 a Customs Union with Belarus and Kazakhstan was created. In 2011 transport and customs controls were abolished at the internal borders of the union.</p>

1.1.2. Business regulation

<p>Remove the reporting and monitoring exemptions for special-status state corporations. <i>(2009)</i></p>	<p>In January 2011 amendments to the Federal Law “On non-commercial organisations” oblige state corporations and companies to carry out an annual audit and publish their business strategy and annual reports on official websites.</p>
<p>Reduce political interference in the operation of state-owned enterprises (SOEs) and private sector firms (reduce the list of strategic firms and sectors, golden shares in SOEs and private firms, etc.) <i>(2009)</i></p>	<p>In March 2011 the President ordered the removal of government officials from the boards of directors of all state-controlled joint-stock companies. According to the Privatisation Plan through 2017, announced in August 2011, it is planned to implement the withdrawal of the state from the charter capital of Sovcomflot, Sheremetyevo International Airport, Inter RAO UES, VTB, RusHydro and Rosneft. From 2012 it is planned to begin using the golden shares mechanism.</p>
<p>Impose an effective firewall between public and private professional activities to avoid conflicts of interest. <i>(2009)</i></p>	<p>The process of withdrawal of government officials from the boards of directors of state-controlled companies reduces the scope for conflicts of interest.</p>
<p>Increase the independence and accountability of government representatives and accelerating appointments of independent and accountable directors on SOE Boards. <i>(2009)</i></p>	<p>In March 2011 the President ordered the withdrawal of government officials from the boards of directors of all state-controlled joint-stock companies. The process has been completed in the majority of the companies, including Rosneft, VTB, Sberbank, Aeroflot and RZD.</p>
<p>Intensify privatisation once SOE corporate governance has been improved. <i>(2009)</i></p>	<p>In 2010 the government approved a Privatisation Plan for 2011-13 devoted to a number of the biggest state enterprises. In August 2011 the government announced a further plan through 2017, according to which it would withdraw from the capital of several major state-owned companies over 6 years.</p>
<p>Use regulatory alternatives to command-and-control regulation and direct intervention. <i>(2009)</i></p>	<p>Self-regulating organisations shifting control and supervisory functions from the state to the participants of the market are now used in a number of sectors. A Draft Law “On self-regulation in the banking sector”, which would delegate to self-</p>

	regulating organisations a part of Central Bank responsibility for bank supervision was submitted to the Duma in October 2011.
Carry out Regulatory Impact Analysis to assess significant new regulatory proposals. (2009)	The decision to use RIA was taken by the government in May 2010. Implementation of this decision is in process.
Ensure more vigorous and uniform implementation of competition law. (2009)	In order to improve the functioning of competition legislation, amendments to the Competition Law have been regularly introduced (2 nd package of amendments – 2009, 3 rd package of amendments – 2011). In 2009 a Federal Programme on the Development of Competition through 2015 was adopted.
Undertake administrative reform to reduce red tape. (2009)	In a number of regions one-stop shops have been introduced. In June 2011 the Government approved a draft resolution empowering the Ministry of Economic Development to check regulations for obstacles to business activity.
Develop the capacity and strengthen the hands of the sectoral regulators. (2009)	In 2009 the Methodological Council of the Regulation and Control of Natural Monopolies and Public Organisations began its operations.
Reduce licensing and other formal regulatory burdens to reduce bureaucrats' opportunities to extract bribes from private-sector firms. (2009)	A law easing the licensing regime for business, though at the same time expanding the number of state bodies responsible for regulation, was adopted in April 2011. Also, the licensing of 17 kinds of activities was abolished from 2011. In May 2011 administrative barriers in the licensing process for alcoholic products were reduced. The number of products subject to mandatory certification was reduced in 2010 and 2011.
Pursue judicial and civil service reforms to improve the fairness, transparency and efficiency with which remaining regulations are administered. (2009)	The Federal Programme "Reform and Development of Public Services of the Russian Federation (2009-13)" has a number of elements including programmes for professional development and a system for monitoring the work process. The public services portal www.gosuslugi.ru aims to collect all information about public services in one place, increasing transparency.
Introduce a "deemed clearance" regime under which licenses are issued automatically if the licensing office does not act by the end of the statutory response period. (2009)	No action taken.
Reduce the scope of unnecessary regulation and bureaucratic interference in the activities of private businesses. (2006)	The Concept of Administrative Reform 2006-08 called for reduced influence of the government on the private sector. In May 2008 President signed a decree on urgent measures to eliminate administrative barriers to entrepreneurship. In July 2008, a law was adopted giving SMEs pre-emptive rights to purchase state property they have leased for at least three years. In May 2009 a law that limits scheduled inspections of SMEs to one every three years came into force, while unscheduled inspection now requires an authorisation of the General Prosecutor.
Remove discrimination against new enterprises and encourage the development of an entrepreneurial culture through publicity, supported information networks, and even limited tax preferences for start-ups. (1995)	Over the last 10 years several new channels of support for business have emerged. Various organisations (e.g. OPORA) have been created to facilitate the improvement of conditions for business development.

1.1.3. Energy

1.1.3.1. Electricity Sector

Provide for market rules which are transparent, stable and effectively enforced. (2004)

The reform of the sector, begun in 2003, has resulted in a mostly market-oriented and competition-driven system, with clear rules for market participants. Some prices are still regulated, however, and tariff decisions can still be overridden by the government: in 2011 regulated electricity tariff increases were capped in 2012-13, with the date of adjustment in 2012 moved from January to July. The responsibilities of the

Committee of the Market, which is supposed to develop market rules, overlap with those of the Ministry of Energy.

Reduce the broad discretion for the government in the field of electricity regulation. <i>(2004)</i>	No significant action taken.
Provide for a strong, independent electricity regulator. <i>(2004)</i>	The reform of the sector has produced several regulators with overlapping responsibilities. These include the Federal Tariff Service, the Regional Tariff Services, the Ministry of Energy, and the Federal Anti-monopoly Service.
Introduce competition into those activities where it is feasible, such as generation and supply. <i>(2004)</i>	Vertical unbundling of RAO UES into generation, transmission and supply companies separated potentially competitive and monopoly segments. In 2008 RAO UES was disbanded and independent generation and retail companies have been privatised to some extent. At the end there were created Wholesale and Territorial Generation Companies, representing nearly 25% of total capacity. Eleven Interregional Distribution Grid Companies were formed to own and operate regional distribution networks.
Set regulated tariffs for transmission and distribution, which are natural monopolies, in such a way as to encourage efficiency and not merely cover costs. <i>(2004)</i>	Tariff determination has been switched from cost-plus to "RAB" (a given return on the regulated asset base), which encourages efficiency.
Raise average domestic electricity tariffs and reduce cross-subsidisation. <i>(2002)</i>	Domestic electricity prices have risen rapidly since 2002 and cross-subsidisation has been reduced. Wholesale electricity prices were fully liberalised in January 2011. Government Resolution № 866 (October 2011) sets out the rules governing the provision of federal budget subsidies to regional budgets in order to eliminate cross-subsidisation in the electricity sector.

1.1.3.2. Gas sector

Put an end to the provision of implicit subsidies via prices which are below long-run cost-recovery levels. <i>(2004)</i> Raise domestic gas tariffs and reduce cross-subsidisation while making regulation less politicised and unpredictable. <i>(2002)</i>	Industrial gas prices have risen sharply in recent years, increasing from \$0.4 per million British thermal units (MBtu) in 2000 to \$2.8/MBtu in 2010.
Separate regulatory and ownership functions more clearly and reduce the state's ownership of energy sector assets. <i>(2004)</i>	No known action taken.
Establish an effective third-party access regime for the sector's infrastructure. <i>(2004)</i>	Russia's Energy Strategy to 2020 simplifies the access of third-parties, but their share is still low in comparison with Gazprom and complaints about access continue. Gazprom still dominates the gas sector (85% market share) and carries out exploration, production, transportation, storage, processing and selling of natural gas. The "3rd energy package", which entered in force from March 2011, calls for the separation of gas production and transportation in vertically-integrated companies. By the end of the 3-year transition period Gazprom should transfer its transport assets to a private company.
Provide for a separation of Gazprom's natural monopoly/infrastructure provision functions from its potentially competitive activities. <i>(2004)</i>	The "3rd energy package" (March 2011) calls for the separation of gas production and transportation in vertically-integrated companies. By the end of the 3-year transition period Gazprom should transfer its transport assets to a private company. Gazprom has conducted a legal separation of activities: transportation, mining and marketing, handled by specialised subsidiaries.
Achieve a clearer separation of Gazprom's accounts with respect to production, transport and dispatch. Increase transparency in the company's other activities. <i>(2004)</i>	
Formulate and implement clear rules and principles governing the allocation and administration of quotas for regulated-price gas. <i>(2004)</i>	No significant action taken.
Provide for a fair, stable, effective and transparent regulatory framework in which regulatory decisions are taken by an	No known action taken.

independent, expert regulatory authority rather than a market player. **(2004)** Minimise Gazprom's role as a *de facto* regulator in the gas sector, particularly as regards the allocation of regulated-price gas and pipeline access. **(2004)**

1.1.3.3. Oil Sector

Ensure that the taxation and the regulatory regime yield an adequate responsiveness of exploration and production to oil price fluctuations. **(2009)**

Government Resolution № 716 (August 2011) introduces new (mostly higher) rates of export tariffs ("60-66" régime) on refined products, while reducing the export tariff rate on crude oil from 65 to 60% and from 2013 to 55%. The export tariff on light and heavy oil products should be simultaneously unified at 66% of the tariff rate on crude oil. The first changes came in force from October 2011.

Reduce barriers to foreign participation in the Russian oil and gas sector in order to bring foreign know-how to bear on the efficient development of new fields in inaccessible parts of the country. **(2009)**

There are some signs of an improvement in the environment for foreign companies: in 2010 ExxonMobil, Chevron, BP and Total, major participants of the Petroleum Advisory Forum, began new projects in Russia. In 2011 legislation liberalising foreign investments to a number of strategic companies in oil and gas sector entered into force. Contracts where the foreign investor's share does not exceed 10% of voting shares will not need agreement of the commission for control over foreign investments.

Broadly harmonise taxation of gas and oil, with the elimination of export taxes. **(2009)**

Gas remains significantly more lightly taxed than oil, but some moves towards harmonisation are underway. The "60-66" régime proposes to reduce the export tariff on crude oil to 60% in 2012 and to 55% in 2013. A goal to equalise the charges on the export of light and dark oil products in 2012 was also set. The mineral extraction tax on natural gas is to be raised from 2012.

1.1.4. Competition policy

Apply competition law without exemptions (including for public corporations) **(2009)**

No known action taken.

Introduce an overarching competition policy in order to bring the issue of competition to centre stage and spread a competition ethos through different levels of government. Introduce a policy to ensure that all levels of government and economic regulatory agencies take the competition dimension into account when formulating policy. **(2009)**

The development of competition legislation has continued (e.g. in 2011 a third package of amendments to the Antimonopoly Law was adopted).

Within competition advocacy the Ministry of Economic Development of the Russian Federation issues regular bulletins on competition policy which are distributed among all federal and regional governmental bodies. A website www.competition.gov.ru was created in 2011 to provide a discussion platform between representatives of business and government.

Bolster the power of the Federal Antimonopoly Service to allow greater use of inspections and the collection of physical evidence in antitrust cases. **(2009)**

In 2009 a second package of amendments to the Antimonopoly Law was introduced, relating to the rights of the Federal Antimonopoly Service (FAS) to carry out inspections (e.g. the right of FAS to have access to the property of market participants).

Initiate a programme targeted at reducing violations of antitrust laws by federal and local government. **(2009)**

Federal Law № 160 concerning the dismissal of officials who broke antitrust laws was adopted in July 2009.

In network sectors, continue separating the competitive and monopoly market segments and eliminate barriers to entry. Develop the capacity of the regulators and make them stronger. **(2009)**

In 2010, at the end of the third stage of the ongoing reform of the railway sector, the share of independent operators in the total number of railway cars had increased to nearly 50%.

1.1.5. State involvement in the economy

Improve corporate governance of SOEs, revitalise privatisation, narrow the list of firms and sectors designated strategic, and reduce the use of command and control

A 2010 Presidential Decree provided for a reduction of the number of strategic firms. The number of strategic joint-stock companies should be reduced from 208 to 41, while for federal

<p>regulation and direct intervention. (2009) Reduce the list of firms for which privatisation requires the approval of the President. (2009)</p>	<p>unitary enterprises the number has to fall from 230 to 159. In 2011 the government decreased the number of strategic sectors and raised the accessibility of FDI to a number of such sectors. The numerous amendments in the Presidential Decree № 1009 concerning the list of the strategic enterprises and joint-stock companies reduced the list of firms for which privatisation requires the approval of the President.</p>
<p>Once the corporate governance of the SOEs has been improved, step up the privatisation programme, especially in the competitive sectors of the economy. (2009)</p>	<p>According to the Privatisation Plan for 2010 only 12% of the enterprises slated for sale were in fact sold. In the same year a privatisation plan for 2011-13 was signed. So far only a 10% stake in VTB has been sold.</p>
<p>Eliminate the use of golden shares and disclose shareholder agreements and capital structures that allow the government to exercise control over a firm disproportionate to its equity stake. (2009)</p>	<p>No significant action taken.</p>
<p>“Unbundle” the non-commercial objectives of the SOEs and consolidate them to the relevant government department. Ensure that any remaining non-commercial objectives that SOEs are required to undertake are clearly mandated by law or regulation. (2009)</p>	<p>No action taken.</p>
<p>Improve standards of transparency and disclosure in SOEs. Eliminate all exemptions, explicit or implicit, for state corporations from various laws, and make them subject to the standard accounting and reporting principles. (2009)</p>	<p>At the end of 2010 a Government Resolution (№ 1214) was issued concerning the determination of the structure of annual reports for SOEs which should be published on a special website.</p>
<p>Privatise the public housing stock (predominantly municipally-owned apartments) rapidly, even giving it away to tenants when the current owners have no resources for its maintenance; and develop effective forms of ownership of the structure and common spaces apartment blocks. (1995)</p>	<p>Every citizen has the right to buy municipally-owned apartments or land until 1 March 2013.</p>
<p>1.2. Banking regulation</p>	
<p>Explicitly divide the Russian banking sector into tiers subject to different levels of supervision, to allow scarce resources to be more focused on the larger banks. (2009)</p>	<p>At the end of 2009 the CBR announced the introduction of central bank inspectors permanently on-site in the biggest banks.</p>
<p>Improve the structure of the banking sector by outlining a long-term privatisation strategy for the state-owned banks. (2009)</p>	<p>The Banking Sector Development Strategy to 2015 includes measures concerning the privatisation of state-owned banks and a shrinking participation of the state in the banking system.</p>
<p>Facilitate and encourage consolidation of the sector, via speedy resolution of failing banks, facilitation of mergers, and higher minimum capital requirements. (2009)</p>	<p>The minimum capital requirement was raised to RUB90 million in 2010, and the Banking Sector Development Strategy to 2015 provides for it to be further increased twice: to RUB180 million in 2012 and RUB300 million in 2015.</p>
<p>Publicise deposit insurance to raise awareness of its provisions. (2009)</p>	<p>In 2009 the Deposit Insurance Agency produced recommendations concerning the improvement of citizens’ awareness of public deposit insurance, including a hotline, the improvement in internet systems, and increased work in the regions. Awareness of public deposit insurance is one of the objectives of the Banking Sector Development Strategy to 2015, to be achieved via a project to promote financial literacy and develop financial education in the Russian Federation.</p>
<p>Improve the quality of on-site supervision, including via increased resources for staffing and training. (2009)</p>	<p>A CBR instruction from January 2010 regulates sanctions for banks’ violations of regulations. Another 2010 CBR instruction centralises the organisation of Central Bank inspection activities.</p>
<p>Further streamline formal requirements on banks, while strengthening risk assessments. (2009)</p>	<p>Between 2009 and 2010 the number of bank inspections fell, mainly because of a decrease in unplanned inspections. In 2010 the emphasis of improving of bank supervision was made on</p>

Play an active role in international efforts to improve financial regulation. (2009)	developing a risk-based approach. Russia participates in the Financial Stability Board and the Basel Committee on Banking Supervision. It also has a 2008-11 cooperation programme with the ECB on banking supervision and internal audit.
Explore ways of making capital adequacy requirements countercyclical, such as via dynamic provisioning rules, higher capital adequacy requirements in cyclical upswings, and capital requirements that vary across banks according to their contribution to systemic risk. (2009)	No known action taken.
Expand the use of stress testing, including more testing of system-wide shocks affecting counter-party and market risks. (2009)	In 2010 the CBR increased the frequency of stress testing to every 6 months. The CBR is preparing an update of stress-testing methodology. A new macro-prudential supervision unit was created within the CBR.
Seek improved ways of regulating liquidity and responding to shortages for individual banks. Require banks to prepare periodic liquidity assessments for review by the CBR, with the CBR to give liquidity guidance to banks on an individual basis. (2009)	No significant action taken.
Amend Article 837 of the Civil Code which states that term deposits of households may be withdrawn on demand. (2009)	No significant action taken.
Expand the use of IFRS financial reporting, including for non-banks. (2009)	Federal Law № 208 “On consolidated financial reporting” (2010) establishes a requirement to present consolidated financial statements in accordance with IFRS not only for credit institutions but also by insurance companies and organisations whose securities are admitted to trading on the stock exchanges and (or) other trade in the securities market.
Develop a system of personal bankruptcy. (2009)	Revised draft legislation on personal bankruptcy was published in April 2011.

1.3. Labour and social policy

Progressively raise the retirement age (1995) ; Harmonise standard retirement ages for men and women, raise ages in line with increases in longevity. (2009)	No significant action taken.
Undertake reforms directed at providing more effective, targeted and fiscally sustainable social protection to vulnerable groups in the population. (2006)	Pension benefits have been substantially increased in recent years, but targeting has not increased and fiscal sustainability has been compromised. At the end of 2009 the basic part of pensions increased by 31.4%. Since 2010 additional payments to pensions were introduced with the aim of ensuring that the pension be not less than the subsistence level for pensioners in the region. From 2011 free legal aid is provided to all socially vulnerable groups. In 10 regions special public legal offices have been created.

1.4. Health

Strengthen primary care provision and reduce the current over-reliance on tertiary care. (2006)	In 2009 regional health centres were created providing medical examinations and healthy lifestyle advice. The Concept of the Development of the Health System to 2020 (Concept 2020), which is still under discussion, would provide for the division of emergency care services into two parts: ambulances, for severe cases requiring emergency hospitalisation, and services in clinics, when help can be provided at home.
Adopt payment schemes that encourage more cost-effective therapeutic choices. (2006)	Two new laws (“On the basics of public health protection in the Russian Federation”, adopted in November 2011, and “On Compulsory Health Insurance in the Russian Federation”, adopted in November 2010) establish the right of the patient to choose freely his or her medical organisation and doctor. If dissatisfied, patients can change both the organisation and

doctor once a year. The Federal Fund of compulsory health insurance is developing efficiency indicators for medical insurance companies. An electronic insurance certificate system has been introduced to increase the efficiency and transparency of patient registration and payment. Since 2006 legislation relating to payment procedures for medical services has been introduced in a number of Russian regions.

While raising public healthcare spending, revise the guaranteed benefits package to bring formal commitments into line with available resources, dropping those guarantees that create perverse incentives or are likely to prove financially unsustainable. **(2006)**

No known action taken.

Create mechanisms to enable citizens to take effective action, at reasonable cost, if the commitments made in the revised guarantee package are not met. **(2006)**

The laws "On the basics of public health protection in the Russian Federation" (November 2011) and "On Compulsory Health Insurance in the Russian Federation" (November 2010) set out uniform standards of free medical care and clarify the procedures for providing paid medical services, to clarify the package of guarantees. The draft Concept 2020 sets out penalties for the failure to meet guarantees. These have been tested in some regions. The Federal Law "On Compulsory Health Insurance in the Russian Federation" gives patients the right to require the reimbursement of damage due to failure or improper rendering of medical care within compulsory health insurance.

Establish a framework for regular, transparent review and revision of the guaranteed package in light of medical, technological and economic change. **(2006)**

No significant action taken.

End the "two-channel" budget-insurance system of financing healthcare and ensure that the great bulk of healthcare spending takes place via the OMS system, if necessary by channeling most budgetary resources through OMS funds. **(2006)**

Federal Law № 326 "On Compulsory Health Insurance in the Russian Federation" (November 2010) regulates legal status of participants and subjects of compulsory medical insurance, their rights and responsibilities. The draft Concept 2020 plans to provide a transition to single-channel financing and implementation of the per capita principle of medical services payment.

Create mechanisms to make it easier for individuals to assess the relative performance of medical insurers and to choose their own insurers. **(2006)**

Federal Law № 323 "On the basics of public health protection in the Russian Federation" (November 2011) establishes the right of a patient to choose his or her doctor and medical organisation once a year.

Strengthen the regulatory framework governing the activities of medical insurers in the OMS system, while simultaneously expanding their freedom to compete with one another. It is critical that they be made risk-bearers. **(2006)**

The regulatory framework in OMI has been strengthened, clarifying a number of questions concerning insurance companies, while with the free choice of insurance company the level of competition has increased.

Encourage pilot projects in the regions with respect to OMS reform, including, where appropriate, experiments involving a single-payer system. **(2006)**

No significant action taken.

Increase investment in primary care in order to establish a long term, coordinated effort to strengthen the training of primary care physicians (GPs) and to provide them with practice settings that favour the provision of integrated primary care. **(2006)**

In the context of the creation of a separate service for primary care, splitting it from the ambulance service, physicians' education is going to be increased using special training and retraining programmes. Implementation is ongoing in many regions.

Shift away from cost-reimbursement or capacity-based methods of financing healthcare in favour of more efficient methods, such as cost-and-volume contracts. **(2006)**

Within the Federal Law "On the basics of public health protection in the Russian Federation" the patient can choose freely his or her insurance company and medical institution, but no significant change has been made concerning the reimbursement process, tariff-setting principles and action mechanisms of the participants in the system.

Eliminate the inpatient/outpatient distinction in determining eligibility for free medicines and restructure the arrangements governing access to free medicines, emphasising proven efficacy, safety and cost-effectiveness – with particular stress on the added value of new or especially expensive drugs. A tiered system of co-payments may have a role to play here. **(2006)**

No known action taken.

Incremental resources should be devoted to preventive medicine, for example, to the restoration of abandoned or run-down immunisation programmes. **(1995)**

Supplementary resources are widely used for increasing the popularity of immunisation programmes for both children and adults and awareness of the population about healthy lifestyles.

1.5. Innovation

Ensure that specific innovation-promotion schemes, like special zones or technoparks are limited in scope, carefully targeted and rigorously assessed in order to avoid deadweight losses and market distortions. **(2006)**

Special agencies to promote innovation were created in some regions, focused on detailed evaluation and selection of innovation projects. There are regular government sessions dedicated to improving the work of special economic zones, industrial parks, and science cities. In 2010 a new special zone (the third) was created in Murmansk.

Broaden the opportunities and incentives for universities and institutes to pursue the commercialisation of the results of their research via the creation of technology transfer offices and/or spin-off companies. **(2006)**

Centres of Technology Commercialisation were created in 7 cities as pilot projects of Europeaid “Science and Technology Commercialisation”, and an action plan for the commercialisation of scientific and technical results was introduced (2006). A national system of research universities was created in 2009 to conduct basic and applied research and increase the commercialisation of research results.

Increase the penalties for Intellectual Property Rights (IPR) violations and reduce the scope for relying on “copycat” patents. **(2006)**

Part IV of the Civil Code concerning IPR entered into force on 1 January 2008 under Federal Law № 231 (December 2006). It had tougher penalties for illegal use of IPR (works in science, literature, art, software databases, trademarks, slogans etc.). The IPR legislation considers international experience, including the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In 2010 the Duma discussed the creation of an IPR Court that is planned to begin operations in 2013, although no legislation to that end has yet been submitted. From 2008 the exclusive rights of intellectual property (including scientific research), created under a state contract, belong to the performer (if not stated that this right belongs to the state, Part IV, Civil Code).

Shift to greater reliance on project-based rather than institutional financing of state-funded research. **(2006)**

A government decree of February 2008 provides for the estimated budget funding in the state sciences academies to be transformed into programme-targeted financing. The Russian Foundation for Fundamental Research and the Russian Humanitarian Scientific Fund provide grants to scientists, irrespective of the department they belong to.

Enhance both the independence and responsibility of managers of public R&D organisations for managing their finances. **(2006)**

No known action taken.

Ensure the involvement of the scientific community, the business community and civil society organisations in the determination of state priorities for funding R&D. **(2006)**

The Strategy of Innovative Development in the Russian Federation to 2020 foresees increased participation of scientific, business and civil communities in the definition of R&D priorities.

Introduce mechanisms for performance-based pay and more rapid advancement. **(2006)**

According to the Strategy of Innovative Development in the Russian Federation to 2020, the average salary of staff in the sector of research and development will be raised by 20% on average by 2016, while the increase in grant-oriented allocation of funds will be directly connected with performance.

Reduce the number of direct recipients of R&D funds from

No known action taken.

the federal budget. (2006)

Facilitate information exchange and other contacts between R&D organisations and the business community. (2006)

No known action taken.

Increase the share of public research funding allocated to universities, while enhancing their financial incentives to strengthen links to other public R&D organisations and to private businesses. (2006)

Within the programme of national research universities – 12 universities in 2009 and 15 universities in 2010 were given special status and additional financing. The idea of national universities implies the creation of the number of scientific centres, carrying out research on the various scientific directions and having links with private business.

Allow accelerated amortisation of R&D expenditures for all firms, not only those in special economic zones. (2006)

Federal Law № 195 (2008) introduced that the special rate of accelerated amortisation can be used by organisations that are engaged only in scientific and technical activities.

Ensure that fiscal incentives for private-sector R&D are simple, universal, and aimed at promoting specific activities rather than supporting particular populations of firms. (2006)

Activities of the International Foundation of Technology and Investment are focused on the promotion of activities rather than particular organisations.

Ensure that except in the cases of start-ups and small firms, such incentives rely on tax breaks rather than subsidies. (2006)

No significant action taken.

Facilitate the development of private venture capital via reforms aimed at creating a more attractive legislative and tax framework for Venture Capital firms. (2006)

No significant action taken.

Adopt regular, rigorous, external evaluation and monitoring of the costs and benefits of technoparks, special economic zones and other similar initiatives, laying particular stress on their additionality. (2006)

Monitoring of special economic zones was moved to the Ministry of Economic Development in 2009. A federal register of innovative infrastructure is to be created in 2011. Pursuant to the Strategy 2020 programme, an expert group on the efficiency of the innovation sector has been created.

Ensure that selection procedures for any direct support programmes aimed at start-ups and small firms are highly transparent and rely upon broad expertise involving entrepreneurs, the applied science sector and private investors. (2006)

The Strategy of Innovative Development in the Russian Federation to 2020 states that the selection process will be provided on a competitive basis.

1.6. Small Business and entrepreneurship

For licensing, certification, and inspections, clarify the precise rights and obligations for small businesses. (2002)

In 2009 the President introduced amendments to the law on the limitation of testing a “small” business supervisory structures.

Promote and maintain support organisations where entrepreneurs can easily obtain information concerning their various rights and obligations, consulting support, and the ability to lobby the their collective interests. (2002)

The Public Organisation of Small and Medium Enterprises (OPORA), created in 2002, promotes the consolidation of useful information concerning SMEs’ rights and obligations and protects the interests of entrepreneurs. After 2002 in many regions smaller organisations engaged in fostering entrepreneurship were created.

1.7. Agriculture

Create a functioning market in agricultural land. (2006)

In 2010 the Draft Law "On grain warehouses in common use" included a mechanism for using registered stock certificates. A law on the purchase and sale of agricultural land has been introduced in most regions. Within the State Programme of Agricultural Development and Regulation of Agricultural Products for 2008-12 many measures were proposed, including a system of remote monitoring of agricultural land, amendments to the legislation on guarantees of agricultural land and creation of unique loan products by Rosselkhozbank.

Rationalise state support for the agriculture sector. (2006)

Currently, the Ministry of Agriculture is developing a new Programme of Agricultural Development and Regulation of Agricultural Products for 2013-20

Make leasing and equipment markets more competitive. (2006)

No known action taken.

1.8. Environment

Put in place taxation or cap-and-trade systems for emissions of carbon and other pollutants. (2009)	No action taken.
Expand the use of fiscal instruments to improve environmental outcomes. (2009)	A reform of environmental legislation, begun in 2010, provides increase in penalties for negative impact on the environment, improvement of state environmental control and monitoring efficiency, promotion of recycling the preservation of the marine environment from oil pollution, the development of protected areas and ecological tourism.

1.9. Tax policy

Establish a tighter link between exhaustible natural resource taxation and economic rents, such as by applying the mineral extraction tax on a project basis, taking into account the cost structures in each field. (2009)	In January 2011 a bill concerning the differentiation of the mineral extraction tax according to the size of reserves was submitted to the Duma.
Rebalance corporate and personal income taxes, providing for somewhat more progressivity in the latter in order to improve both economic efficiency and equity. (2009)	No known action taken.
In the context of an overall reform of oil and gas taxation, eliminate export taxes on oil and gas. (2009)	No action taken. Some changes are foreseen to rebalance taxation between products and crude oil, but no elimination of export taxes is planned.
Harmonise tax rates to achieve a better balance between the taxation of economic rents from oil and those derived from other non renewable natural resources, including natural gas. (2009)	The Mineral Extraction Tax rate on gas will be raised. In 2012-14 the Ministry of Finance also proposed to introduce a system of variable export duties on gas, analogous to those applied on oil and oil products.
Explore the scope for expanding the use of property taxes, while further reducing corporate profit taxes and if possible social security contributions over time. (2009)	According to the Budget Address for 2012-14 a new real estate tax will replace the existing property and land taxes.
Explore ways of reducing the comparatively high tax wedge. (2009)	Social contribution rates were raised from 26% to 34% of the wage bill in 2011, a backwards step vis-à-vis the recommendation. This increase will be partly unwound in 2012, when the standard rate will be 30%, and the rate for SMEs 20%. Legislation concerning VAT refunds was adopted in 2011.
Improve the administration of VAT (in particular to address the problem of slow refunds), but refrain from cutting average VAT rates. Ensure that any harmonisation of the existing high and low rates is at least revenue neutral. (2009)	Unless the Federal Tax Service has a complaint against the party for the reimbursement of VAT from the budget, it is obliged to reimburse these funds within twelve working days of the end of a tax audit. The VAT rate was not reduced.
Tax and save a high proportion of pure rents arising from price windfalls to insulate the non-oil economy from oil price fluctuations. (2009)	Russia has maintained a high marginal tax rate on oil, mainly via export taxes which increase as prices rise, while moving towards a more profit-based taxation system. The increase in the non-oil deficit means, however, that a smaller proportion of oil rents is being saved than before.
Adopt a Tax Code which simplifies and stabilises the number of taxes and their rates. (1997)	A major overhaul of the tax system started in 2000 with the introduction of the new Tax Code. The tax structure was simplified, the tax base broadened and marginal rates reduced. Major changes included an introduction of a flat personal income tax, the reduction in the corporate income tax rate, the abolition of various tax breaks, the elimination of sales taxes and a reduction in the VAT headline rate.

2. Public governance

Implement administrative reform to mitigate the potential for corruption by minimising uncertainty and subjective decision-making within the government administration. (2009)	Within the framework of the Administrative Reform and the 2009 Law “On access to information about public bodies and local self-government”, the potential for corruption should be decreased. “Business against Corruption”, an anti-corruption centre, was launched in 2011 under the aegis of Deputy Prime
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<p>Press ahead with reforms aimed at strengthening the rule of law, particularly those that: (2006)</p> <ul style="list-style-type: none"> ▪ serve to insulate courts from outside pressure 	<p>Minister Shuvalov.</p> <p>Steps to make the courts more independent are being taken. A programme for the development of the Russian judicial system during the period 2007-12 is ongoing. A specialised federal tribunal is judging complaints about decisions of Qualifying Collegium of Judges concerning early termination of judges' credentials. In October 2010 amendments to the law "On Military Courts in the Russian Federation" gave more possibilities to challenge judicial decisions. In 2010 a State Automated System "Pravosudie" ("Justice") came into operation, making the exchange of information freer and more transparent. It has been made easier to lodge complaints and get a review of judicial decisions. In June 2009 the three-year probationary period for federal judges was abolished. From January 2010 the jury system is in place in all regions.</p>
<ul style="list-style-type: none"> ▪ make law-enforcement agency more transparent and accountable ▪ ensure that state institutions submit to court decisions. 	<p>A number of measures concerning the transparency and accountability of law-enforcement agencies were adopted, notably the Police Law (March 2011) and the National Strategy against Corruption (April 2011). The use of electronic resources increased with the introduction of the Law Enforcement Portal of the Russian Federation. In February 2011 the Interior Ministry created a public liaison office. In January 2010 access was opened to the functioning of state and local authorities.</p> <p>In February 2011 the Ministry of Justice prepared a draft long-run programme of Improvement of the Delivery of Court Decisions (2011–20).</p>
<p>Adopt freedom of information legislation, along with other measures to establish a norm of transparency in public bodies. (2006)</p> <p>Ensure that arrangements for adopting public service standards and the related standing rules are open, consultative and result in documents that are clear and accessible to ordinary citizens. (2006)</p>	<p>The Law on the Organisation of Public and Municipal Services (June 2010) aimed to increase the availability of information on services rendered. Federal Law № 83 (May 2010) creates new mechanisms for ensuring the transparency of state institutions, such as publishing project realisation reports on the government's website. In June 2011 a Concept of the public finance management system "e-Budget" was published. It will reflect online in the Federal Treasury transactions in respect of all public contracts made in the Russian Federation.</p> <p>The portal www.gosuslugi.ru was created to collect all information about public services in one place.</p>
<p>Create effective non-judicial mechanisms, including an effective system of administrative redress and an ombudsman or similar institution, for citizens and organisations seeking to defend their interests in conflict with public bureaucracies. (2006)</p>	<p>The ombudsman system was further developed, with the creation of a children's ombudsman in 2009 and investment ombudsmen in 2010.</p>
<p>Expand the range of opportunities for using ICT in interactions between officials and ordinary citizens or businesses, especially in fields such as licensing or procurement. (2006)</p>	<p>A Federal Law adopted in May 2011 established the obligation to publish information about all purchases of the organisation, negotiation and execution of the contracts on the official website. The restriction of access to participation in the auction by setting immeasurable, unmanaged requirements not posted on the official site is forbidden.</p>
<p>Strengthen Russia's anti-corruption legislation, bringing it into line with international standards. (2006)</p>	<p>A law on combating corruption was adopted in 2008. Legislative amendments passed in 2011 permitted Russia to join the OECD Anti-Bribery Convention – ratification of the Convention is in progress.</p>
<p>Clearly separate the state's ownership role from its other functions, such as regulation and industrial policy. (2006)</p>	<p>No known action taken.</p>

Enhance parliamentary oversight of the executive branch. (2006)	No known action taken.
Strengthen corporate governance of state-owned enterprises, especially as regards transparency and provide a clearer separation between the state's roles as owner and regulator in those sectors in which it fulfils both roles. (2006)	From the end of March 2011, pursuant to an order of the President, a number of government officials withdrew from the board of directors of state-owned enterprises (e.g. Sberbank, Rosneft, VTB, Aeroflot).
Increase the transparency of state institutions. (2006)	Federal Law № 83 (May 2010) creates new mechanisms for ensuring the transparency of state institutions such as the publication of project realisation reports on the public website. In June 2011 a concept of the "e-Budget" public finance management system was published. It will reflect online in the Federal Treasury transactions in respect of all public contracts made in the Russian Federation.
Strengthen civil society institutions. (2006)	No known action taken.
Increase substantially the pay for important civil servants and establish a strong threat of immediate removal in the event of violations. (2002)	The Federal Law "On the civil service" came into force in 2004, defining the legal and institutional frameworks of the civil service. Civil service salary has increased substantially in comparison with 2002, with a latest round of pay rises in June 2011 together with a planned reduction in the number of employees by 20%.
Clarify the legal concept of insolvency and bankruptcy for a subnational administration which would include: (2000) <ul style="list-style-type: none"> ▪ provisions for the introduction of temporary administration by a superior level of government in the event of insolvency, ▪ detailed legal investigation that could hold individual officials responsible for improper budgetary management. ▪ improved and more transparent accounting methods that better reflect off-budget funds and accounts at the subnational level. 	No known action taken.
Clearly define responsibilities for the provision of services across different levels of government, but ensure that sub-federal governments are free to deliver services in the manner best suited to local conditions. (1995)	Within the Administrative Reform (2006-10) the process of delineating the division of responsibilities between the federal and regional executive authorities was largely completed. The level of transparency of credentials was raised. The number of government agencies was reduced by nearly half.

3. Macroeconomic framework

3.1. Monetary policy

Strengthen the commitment to price stability as the primary goal of monetary policy by amending the CBR's mandate in the central bank law. (2009)	No known action taken.
Gradually increase exchange rate flexibility. (2009)	Although it has continued to intervene in both directions, the Central Bank has recently allowed more exchange rate flexibility than in the past. The monetary policy guidelines for 2012-14 reiterate the CBR's intention to gradually reduce its forex interventions and to switch to a floating exchange rate.
Gradually increase the importance attached to the CBR's inflation targets. (2009)	The importance of the CBR's inflation objective is growing. For example the annual inflation target was met in 2010 and is likely to be met comfortably in 2011.
Accelerate efforts aimed at strengthening the institutional basis for monetary-policy-making by improving the CBR's communication policy. (2009)	The schedule of board meetings became publicly available. After the meeting detailed comments on decisions taken are published. The CBR now give comments not only in cases when a decision to change rates is taken, but also if rates remain unchanged.

3.2. Fiscal policy

Define a medium-term fiscal balance target, based on an assessment of the non-oil fiscal stance and long-run sustainability. **(2006)**

A non-oil-and-gas deficit limit of 4.7% of GDP and an overall deficit limit of 1% of GDP were introduced in the Budget Code in 2007, effective from 2011. Following the onset of the global crisis, the coming into force of these targets was pushed back, initially to 2013, then to 2014 and most recently to 2015.

Amend the Budget Code to guarantee subnational administrations' autonomy over expenditures financed from their budgets. **(2002)**

No known action taken.

3.2.1. Stabilisation Fund

Distinguish between two objectives for the accumulated fiscal reserves: one part should be considered as a buffer against oil-price volatility while the other should be used to generate investment income. The yield generated by the investment-for-income fund could thus be used to cover structural deficits. **(2006)** Split the Fund into two parts with two distinct investment strategies: in highly secure and liquid assets for the "fiscal insurance" part of the Fund, and in a wider range of instruments for the investment-for-income fund. **(2006)**

In February 2008 the Stabilisation Fund was split into two parts: the Reserve Fund and the National Welfare Fund. The main purpose of the Reserve Fund is to insure the budget against an oil-price correction. The Budget Code stipulates that the National Welfare Fund should be used to co-finance voluntary pension savings, as well as cover the deficit of the Pension Fund. Until 1 January 2015, the government has the right to use the assets accumulated in the National Welfare Fund to cover the budget deficit.

Adjust the current rules governing the accumulation of fiscal reserves in the Stabilisation Fund to the new environment of high oil prices. **(2006)** Increase the minimum reserve in the Stabilisation Fund to match the potential impact of a sharp drop in commodity prices. **(2006)**

The rules governing the accumulation of fiscal reserves in the oil funds that succeeded the Stabilisation Fund were changed in 2008 via amendments to the Budget Code. Prior to these changes, all oil revenues above those that would have accrued to the budget at a cut-off oil price were transferred to the Stabilisation Fund. Sums in excess of RUB 500 billion could be spent. The rules that came into effect in 2008 require all oil and gas revenues above 3.7% of GDP to be accumulated in the Reserve Fund, unless it reaches 10% of GDP, in which case assets are accumulated in the National Welfare Fund. Following the crisis, the coming into force of these rules was pushed back, with 2015 now the designated date for their application.

Broaden the Stabilisation Fund's revenue base to include export duties on oil products and natural gas. **(2006)**

In 2008, the revenue base of the two oil funds that succeeded, the Stabilisation Fund was expanded to include the mineral extraction tax on natural gas and export duties on natural gas and oil products.

Protect the accumulated assets in the Fund against pro-cyclical spending and establish expenditure rules for spending some of these reserves in the event of a downturn. **(2006)**

A ceiling for the non-oil deficit was enshrined in the Budget Code, which would allow for using Reserve Fund assets to finance budget deficits only if oil revenues fell below 3.7% of GDP. The rule was suspended before it was to enter into force, and its application has been further delayed. The introduction of three-year budgeting in 2008 implied legally established limits for total expenditure for three years.

Diversify into riskier assets gradually, in order to avoid mismanagement and to allow for capacity building. **(2006)**

The Budget Code outlines the main requirements regarding the investment of the assets accumulated in both oil funds. Both funds can hold assets in foreign bank deposits and central bank deposits and invest in foreign government bonds. The Reserve Fund's assets can only be denominated in foreign currency. The National Welfare Fund is allowed to invest in riskier assets, such as corporate bonds and shares, also denominated in local currency.

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