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## Russia should do more to attract FDI following rouble move, says OECD

Russia needs to do more to attract foreign direct investment (FDI), in the wake of its weekend move to make the rouble fully convertible, with a view to strengthening its economy and reducing its reliance on oil and gas revenues, according to OECD analysts.

A new OECD report, **Investment Policy Review of Russia 2006: Enhancing Policy Transparency**, analyses developments in Russia's regulatory investment environment in recent years. It finds that while FDI has risen over the past two years, Russia still attracts relatively little compared to OECD countries and other emerging economies relative to the size of its economy and level of development. FDI in Russia reached USD 14.6 billion in 2005, but, as a percentage of GDP, FDI in Russia in 2005 was less than 3%, below for example the level in Poland (4.9%).

On 1 July 2006, Russia removed all exchange controls on the rouble, making it fully convertible. "Making the rouble convertible is a positive step to strengthening business confidence and increasing investment flows in Russia. It is in line with the recommendation made by the *Investment Policy Review of 2004*," said Blanka Kalinova of the OECD's Investment Division.

"But if it's to have a sustained impact, the authorities need at the same time to accompany it with other measures, including adequate reporting on transactions and robust prudential oversight of financial institutions."

Much of the investment inflows recorded so far probably stem from Russian-owned assets held offshore and reinvested in Russia, rather than from foreign investors bringing fresh capital into the Russian economy, according to the OECD. In 2005, for example, 28% of FDI came from Cyprus.

To fully realise its investment potential, given its natural resources, large domestic market and relatively low wages, Russia needs to cut the restrictions facing foreign investors looking to invest in Russian firms. Despite significant progress, barriers remain high in some sectors, notably energy, insurance and transport sectors, and should be reduced, the report said.

Corruption remains a big problem. Greater policy transparency is needed. According to a survey of foreign firms operating in Russia undertaken by the OECD in 2005, getting work permits takes a long time, as does registering land or property. These procedures should be shortened. New regulations are also often introduced without prior consultation with firms and this adds to the lack of policy predictability.

The new laws on Special Economic Zones and "Concessions", adopted by the Russian parliament in 2005, is a positive step, the report notes, but the rules, in particular for concessions, need to be implemented in a transparent and non-discriminatory way if they are to attract new foreign investors.

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A draft law on strategic sectors, expected to be discussed in the Russian parliament in December 2006, will be a test of the government's commitment to transparency, in particular in the energy sector. The OECD recommends that the future strategic sector law narrowly defines the sectors concerned, limits the scope of restrictions to foreign control over domestic companies based on a strict interpretation of essential security interests, and sets specified time limits for notifications of government decisions to the applicants.

**Investment Policy Review of Russia 2006: Enhancing Policy Transparency** is available to journalists from the OECD's [Media Division](#) (tel.+ 33 1 45 24 97 00). The report will be available soon for purchase in paper or electronic form through the OECD's [Online Bookshop](#). Subscribers and readers at subscribing institutions will be able to access the online version via [SourceOECD](#).

For further comment, journalists are invited to contact [Blanka Kalinova](#), Senior Economist in OECD's Investment Division, which serves as secretariat to the OECD Investment Committee (tel. + 33 1 45 24 89 23).