

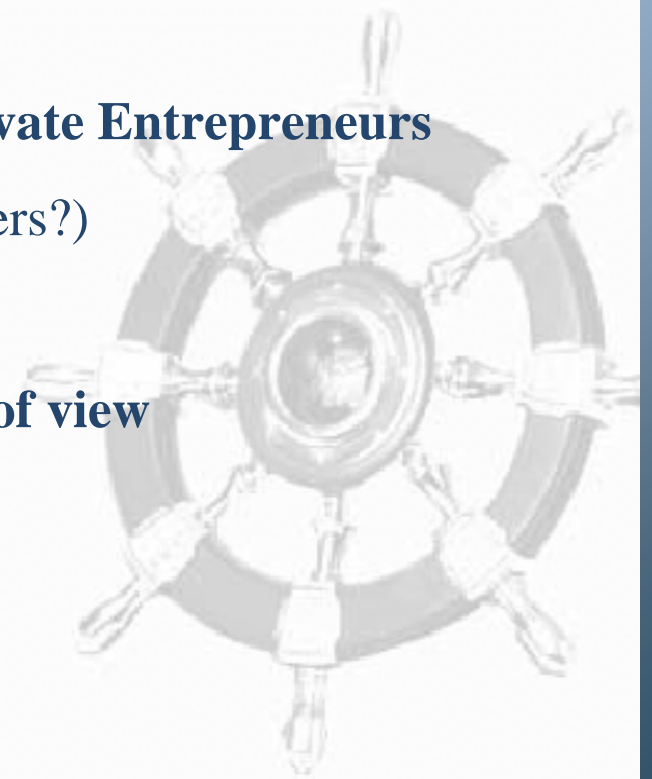
A large, orange-outlined map of Russia is centered in the background of the slide, showing regional boundaries.

Trade registers in Russia; Putting business or bureaucracy first?

29 June 2006

This presentation treats:

- 1. General information about Russia**
- 2. What registration bodies exist in Russia?**
- 3. What is their purpose?**
- 4. Unified State Register of Legal Entities and Private Entrepreneurs**
(What use can businesses make of these registers?)
- 5. Registration in Russia a barrier?**
- 6. Rationale of registration from a business point of view**
- 7. What could be improved in Russia?**
- 8. The economic role of trade registers**
- 9. Conclusions and questions**



A. Our perception

- Mafia - Oligarchs
- Cold
- Russian bear
- Risks and danger
- Unreliable
- But, a positive exception; culture!



B. Russian reality

- Politics
 - Vertical power / Nationalisation / Media freedom / Democracy
- Society
 - Small middle class (SME) / Growing difference between rich and poor / Neglect of crucial sectors
- Cultural
 - Eurasiatic – slavic / No sense of individuality / Pride
- Economic
 - Oil and Gas / Purchasing power / Real disposable income / Growth in many sectors



C. The significance of Russia for us:

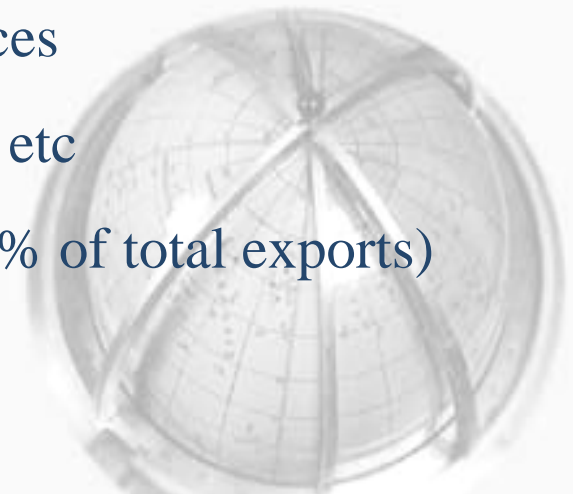
- Necessary partner that wants to (and should) be treated as equal.

WHY?

- Geopolitical significant area that moves more and more towards China and India.
- A market and a source of natural resources that we cannot ignore.
(50% of Russia's foreign trade is with EU)

D. Demographic and Geographic figures

- 143 Million people
- 17 million square kilometers
- 11 time-zones
- Natural resources
 - Oil = 9% - 12% of total world explored resources
 - Gas = 33% of total world explored resources
 - Coal, Diamonds, Precious Metals, Nickel, etc(Account for 30% of industrial output and 60% of total exports)



E. Economic environment

- High world energy prices boost growth
- GDP 2005 = \$800 billion / growth 2005 = 6.4% / 2006 = 6.0%
- Inflation 10%
- 30% of economy in grey sector and not accounted for
- WTO Accession – 2006??
- Average salary 2005 was \$302 (10% higher than in 2004)
- 8% unemployment and 16% of the population (23 million) lives below the official subsistence level of \$95

F. Potential

- A market of 143 million consumers with strong demand both for modern technology and equipment, consumer and industrial goods
 - 15% of population has a high purchasing power
 - Income is concentrated in large cities in Western Russia
 - 75% of household income is spent on consumption
 - Real disposable income rises 10% per year
 - 100.000 millionaires and 33 billionaires (25 in Moscow)
 - The aggregate net worth of Russia's 100 richest businessmen rose to U.S. \$248 bln in 2006 from \$141 bln in 2005
 - Inflow of foreign capital increased 90% between 2004-2005
- **There are many successful foreign businesses active in Russia!!**

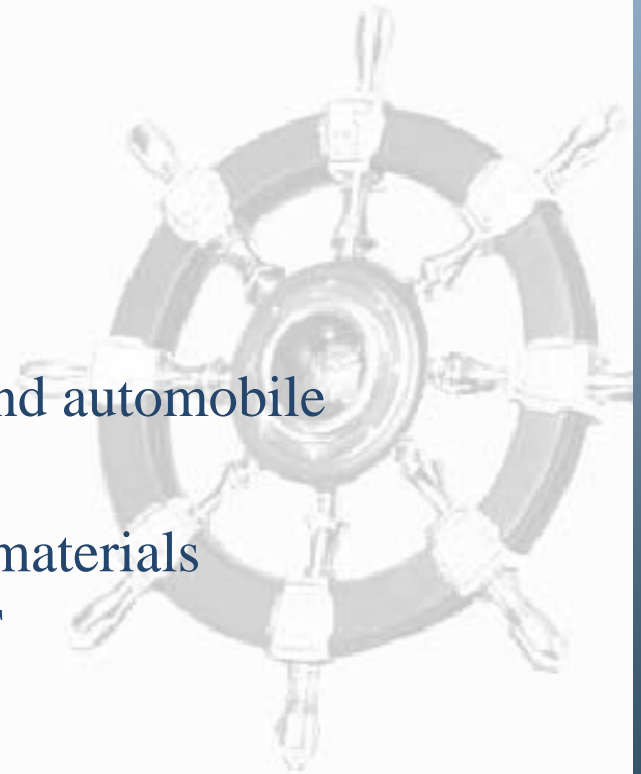


G. Developing Sectors of the Economy

- Oil & gas, energy
- Agribusiness
- Manufacturing
- Services
- Trade

Fastest growth

- Retail sector
- Automotive and automobile
- Packaging
- Construction materials
- Telecom & IT
- Logistics

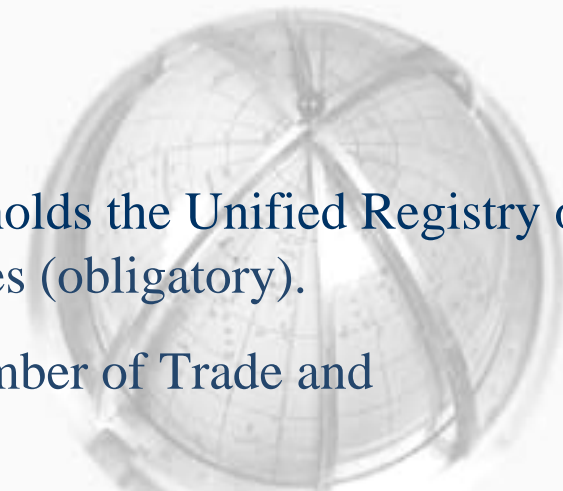


What registration bodies exist in Russia?

- The state registrar of legal entities and private entrepreneurs is the 'tax inspectorate', which keeps the 'Unified State Register'. Registration is constitutive.
- A company also has to be registered with the:
 - state committee for statistics;
 - three non-budgetary funds (pension fund, medical insurance fund and social security fund)
- Registration with these bodies may take between 4 and 8 weeks

Foreign entities:

- State Registration Chamber of the Ministry of Economy holds the Unified Registry of branches and representative offices of foreign legal entities (obligatory).
- Foreign companies also may be accredited with The Chamber of Trade and Commerce and various Ministries.



What is their purpose?

- Tax inspectorate
 - tax collection, registration, information.
- State committee for statistics
 - statistical purposes
- Pension fund
 - pension payments
- Medical insurance
 - coverage of state medical care
- Social security fund
 - unemployment / disability
- State Registration Chamber
 - registration, facilitation of foreign businesses

INFORMATION FUNCTION NOT PREVAILING



A. Unified State Register of Legal Entities and Private Entrepreneurs

- The Law of 8 August 2001 on the procedure for the registration of juridical persons (as stipulated by Civil Code art. 51) obligates registration in the case of :
 - Establishment, reorganization, liquidation, alteration
- Information in the register is presented in the form of
 - extracts,
 - copies of documents in the registration file or
 - a formal reference stating that the requested information is absent.
- Registration of natural person is covered by a separate law Statute on the procedure of State Registration of subjects of entrepreneurial activity.
 - Also here the tax inspectorate is the organization keeping the register.
- Registration of foreign entities is covered by the federal law on foreign investment in the Russian federation.



B. Unified State Register of Legal Entities and Private Entrepreneurs

- Provides information on:
 - Full name of the company (including abbreviated name)
 - Legal form of incorporation (and way of creation)
 - Address of executive organ or any organ or person (+passport details and tax number) having the right to act without PoA
 - Information on the founders
 - Copies of constituting documents
 - Legal succession and who has the rights and obligations in the event of its reorganization / liquidation
 - Amount of charter capital
 - Branches and subsidiaries
 - Obtained licenses
- Only governmental authorities and non-budgetary funds may receive information on:
- ID number, date of issuance, body that issued ID of private persons
- Bank account details.



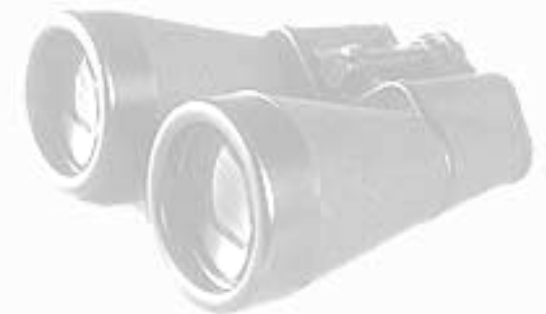
C. Unified State Register of Legal Entities and Private Entrepreneurs

And

State Registration Chamber

What use can businesses make of them?

- State registration chamber does not provide information to the public
- Practical use of Unified State Register is limited.
- Information should be provided for a fee to anyone who requests BUT:
 - In practice the system does not work
 - Fear of the tax authorities
 - Corruption
 - Information possibilities are not promoted



Registration in Russia is a barrier to new business entrants

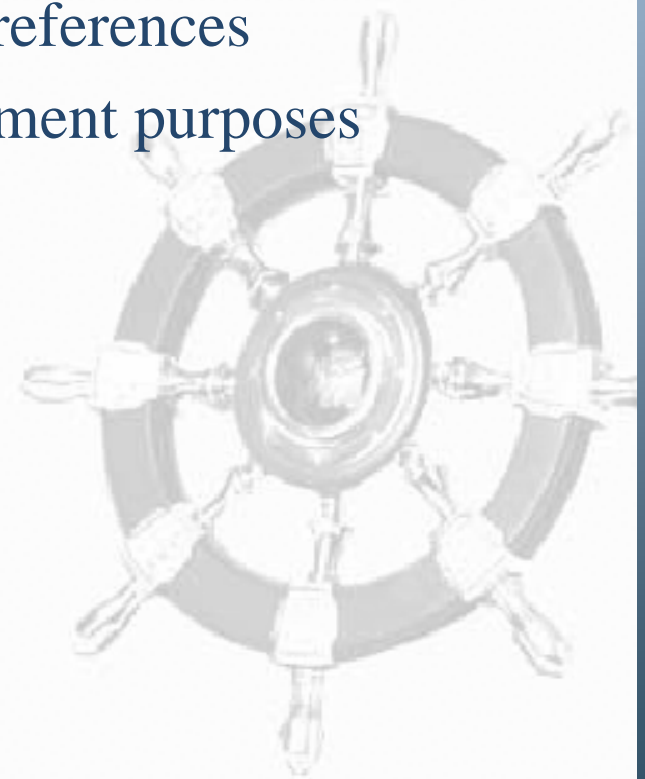
- Cumbersome process
 - Intermediary service providers are needed to complete the process
 - This increases cost for starting enterprises
- Corruption
- Administrative reform
 - Some slow progress

Rationale of trade registers from a business point of view

- It's an issue for SMEs
- Information
 - Reducing business risks through references
 - Networking for business development purposes
 - Enabling environment

BUT

- In Russia these functions are not present.



A. What could be improved in Russia?

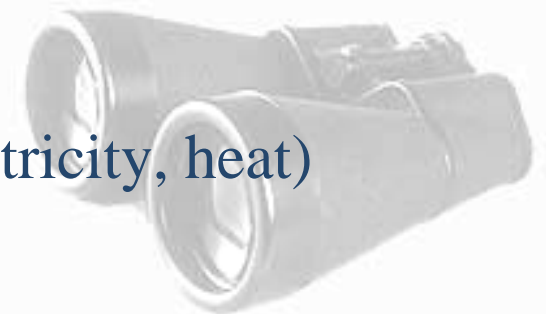
- Better (real) access to information
- Dissemination of the knowledge about the Unified register's potential to the public
- Improve and increase functions of the Unified register
- By reducing the possibilities for corruption

- WHY?



B. Business Obstacles

- *Poor enforcement of contractual and ownership rights*
- *Administrative and legislative ambiguity (bureaucracy)*
- *Small SME sector and weak financial sector (enabling environment)*
- *Strong entrenched “informal” networks between legislative, executive, judiciary and business and protectionist attitude*
- *Corruption*
- Lack of qualified staff
- Poor physical infrastructure (gas, water, electricity, heat)
- Unbalanced economy



C. The Russian perspective

- *Building of trust and personal relationships*
- *Informal communication networks*
- Be aware of cultural differences and language barriers
- Relatively short term vision
- Vertical authority
- During first contacts the Russian partner may promise more than can be delivered (without bad intent!)
- Russian businessmen can be imposing. Weakness is not shown.
- The external appearance is very important
- Russian businessmen think, speak and act fast!



D. Improved Russian registers would contribute to SME development in Russia

- By increasing competition and business entry in Russia
- By reducing business risks in environment of poor enforcement
- By reducing administrative barriers
- By stimulating an enabling environment

Access to EU Western registers would make it easier for Russian companies to make contacts with Western companies.

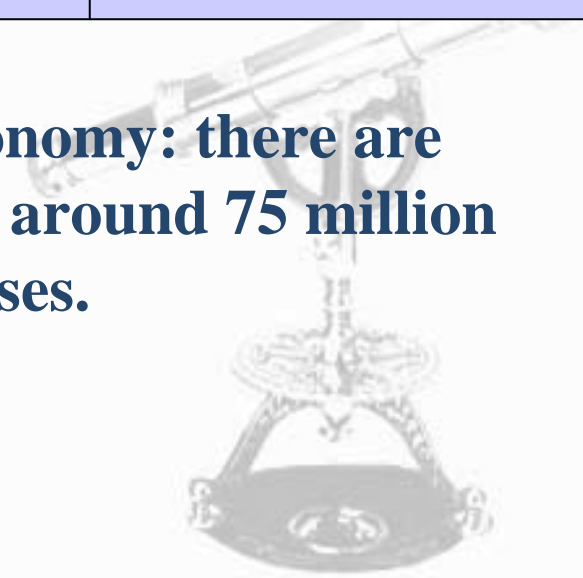


E. Why are SMEs important? I

SME	% of workforce	% of GDP	% of companies
EU	80	75	99
Russia	10 - 45	12 - 40	80

SMEs make up a large part of Europe's economy: there are some 23 million SMEs in the EU, providing around 75 million jobs and accounting for 99% of all enterprises.

In Russia SMEs could play a similar role.



F. Why are SMEs important? II

SMEs have proven to contribute to:

- **Civil society**
- **Middle class**
- **Political critical mass**
- **Economic stability**



G. What do SMEs need to prosper?

- *Enabling business environment and regulations*
- *Adequate basic infrastructure services*
- *Advisory assistance*
- *As SMEs grow, they increasingly need connectivity to export markets and the world economy*
- Access to short and long-term funding at reasonable rates, equity and venture capital
- Knowledge about market opportunities
- They typically suffer from deficiencies in accounting, production management, and business planning

Conclusion

- **Russia knows a “trade register”**
- **It’s functionality for business is limited**
- **To a certain extent the Russian “trade register” is a barrier for businesses**
- **SMEs are important for the health of economies and societies**
- **An improved “trade register” in Russia would be an important support for the further development of Russia’s SMEs**
- **Foreign trade registers could stimulate international business**

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