

Region-specific Constraints to Doing Business: Evidence from Russia

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This paper looks at variation across Russian regions in terms of perceived constraints to doing business using the Business Environment and Enterprise Performance Survey of Russian firms. The analysis identifies a number of region-specific business environment components that businesses perceive as significantly more binding constraints to their operations compared with other regions. For several business environment components, however, including corruption and access to finance, inter-regional differences in their perception as constraints are insignificant. This is consistent with the view that large observed differences in actual financial deepening across Russian regions are primarily demand-driven.

JEL Codes: O17, O43, R58

Keywords: Business climate, Institutions, Regional policies, Russia

1 Introduction

Two things have been widely acknowledged about the business climate in Russia: that the business environment is difficult; and that it varies substantially from region to region (CEFIR 2006; KHALEEVA, KIRYSHEVA, VOLCHKOVA, VOLKOV and ZHURAVSKAYA 2009). However, little is known about the exact nature of regional differences in terms of constraints to doing business. Broadly, two sets of indicators of the regional business environment are available: objective measures of its various components, such as infrastructure, financial deepening or registered crime; and subjective expert assessments of the quality of institutions and investment risk in the regions, such as investment potential and investment risk ratings compiled annually by Expert Rating Agency.

Objective indicators suggest, for example, that the most striking differences in terms of business environment are related to financial deepening: the ratio of corporate credit (issued by bank branches in a given region) to gross regional product (GRP), varies greatly across regions: from 3 per cent in Sakhalin to over 80 per cent in Moscow (based on data from 2008). How-

* Corresponding author. The authors are grateful to Erik Berglof, Simon Commander, Helena Schweiger, Natalya Volchkova and Katrin Weissenberg for valuable comments and suggestions.

ever, based on these data alone, it is not possible to ascertain whether these differences are supply driven and represent a major constraint to firm growth, or whether they simply reflect a lack of demand for credit due to various other factors that hold back business development.

Subjective indicators based on expert assessments allow regions to be ranked according to various components of business risk – legislative, crime-related, social, financial and so on. The 2009 Expert risk indicators show for instance that risks related to social cohesion were lowest in Moscow and highest in Chechnya, while risks related to changes in legislation were lowest in St. Petersburg and highest in Chukotka. However, these ratings do not give a clear indication of how large these differences are, how much these differences matter for an average business, and which differences matter most.

This paper aims to shed light on differences in various business environment components across Russian regions using firm-level data from the Business Environment and Enterprise Performance Survey (BEEPS) conducted in 2008–09 by the EBRD and the World Bank. The survey respondents, who were directors, senior managers or owners of firms, evaluated various elements of the business environment and public infrastructure in terms of how much they were seen as a constraint to the firm's operations (on a five-point scale). For instance, customs and trade regulations could be ranked as “no obstacle”, “minor obstacle”, “moderate obstacle”, “major obstacle” or “severe obstacle” to a firm's operations.

Of course, different firms may have a different propensity to complain, and some of the factors will and should always be a constraint on firm's growth. For instance, the provision of good infrastructure and law and order may require high levels of taxation, and taxes are then likely to be perceived by firms as a major obstacle to growth (holding the quality of public goods constant). Therefore, the analysis in this paper follows the approach of CARLIN, SCHAFFER and SEABRIGHT (2010) in using the *relative* perceived severity of constraints as a measure of the quality of various business environment components.¹ In other words, if a firm complains about electricity less than all other factors, electricity will receive a low score as a constraint to the business environment even if it was evaluated by a firm as a “major constraint”, since other constraints are perceived to be immediately binding.

1 See also RICKA and SCHWEIGER (2010) for application of this methodology to study business environment components in countries in Emerging Europe and Central Asia.

The analysis therefore does not determine whether the electricity supply or the crime situation in region X is better than in region Y . But it can provide an indication that a given constraint is perceived by firms as being much more binding in region X than in region Y , and therefore addressing it could be viewed as a policy priority in a given region. It can also provide an indication of whether regional differences and regional policies affect the extent to which firms see a given constraint as binding or whether such regional differences are insignificant.

The empirical results identify region-specific business environment components that businesses perceive as significantly more binding constraints to firms' operations compared with perceptions in other regions. These include, for instance, access to land and trade regulations and customs in Primorsky region, where the regional fixed effects estimates for relative severity of these constraints are statistically significantly higher than in all other regions.

On the other hand, for several business environment components, including corruption and access to finance, inter-regional differences in their perception as constraints prove to be insignificant. This is consistent with the view that large observed differences in financial deepening across Russian regions are primarily demand-driven. The differences in demand are likely to be explained by variation in other components of the business environment as well as different levels of economic development. Likewise, the absence of differences in perception of corruption, one of the top constraints country-wide, is consistent with the view that local rent-seeking behaviour adjusts to the level that the local economy can sustain based on its growth potential and other constraints to firms operations.

The rest of the paper is structured as follows: Section 2 discusses the data and our methodology. Section 3 presents the results of the empirical analysis for 11 regions of Russia. Concluding remarks follow in Section 4.

2 Perception of constraints to doing business

2.1 Data

The data come from the Business Environment and Enterprise Performance Survey (BEEPS) conducted by the World Bank and the European Bank for Reconstruction and Development (EBRD) in all countries in

emerging Europe and Central Asia. The latest round of the survey, completed in 2008–09, covered over 1,250 manufacturing and services firms in Russia across all federal districts, including the Far East. As part of this survey, respondents – top managers of the surveyed firms – were asked the following set of questions about each of the 17 potential obstacles to their firm’s operations: “*I would now like to ask you questions about the overall business environment in your country and how it affects your firm. Can you tell me how problematic are these different factors for the operation and growth of your business*”. The answers were given on a five-point scale: negligible (coded 0) – minor (1) – moderate (2) – major (3) – or very severe (4).

Table 1 summarises the descriptive statistics for answers to these questions given by Russian firms, as well as for the key firm characteristics, such as size and ownership.

The answers to questions about business environment are intrinsically subjective. They are not perfectly correlated with objective measures of the underlying constraints such as frequency of power outages or delays in processing of land permits. Objective measures may in turn not capture business environment perfectly: for example, the Doing Business index that seeks to compile such quantitative measures is subject to widespread criticism. In addition, different firms may attribute same difficulties of doing business to different aspects of business environment: problems at customs could be blamed on trade regulations and customs; corruption; or poorly educated labour force (unable to deal with complex customs paperwork), or all of the above. This paper does not seek to establish correspondence between subjective and objective measures of business environment. Instead, it focuses on the subjective measures, which, all the caveats notwithstanding, can provide useful insights into region-specific business environment problems.²

2 It would be useful to further investigate the link between the objective business obstacles and their subjective perceptions as done by CARLIN, SCHAFFER and SEABRIGHT (2010) who provide an empirical mapping from subjective perceptions to objective measures of the quality of infrastructure, and also between the quality of infrastructure and firm performance. In the case of Russian regions this would, however, require more targeted survey instruments and such mapping will be weaker for certain constraints. For instance anecdotal evidence indicates that power supply is seen as problematic mostly due to the effective cost of connection to the grid (rather than power outages or the cost of electricity per se).

Table 1: Descriptive Statistics for Selected Variables

Variable	Mean	Standard deviation	Median	Min	Max	k of var., %***
<i>Business environment constraints</i>						
Access to land	1.9	1.6	2	0	4	83.7
Trade regulations and customs	1.4	1.5	1	0	4	108.2
Tax rates	2.5	1.2	3	0	4	49.2
Compulsory certificates	1.4	1.3	1	0	4	98.8
Workforce skills	2.2	1.3	2	0	4	60.2
Transport	1.6	1.4	1	0	4	91.6
Political instability	2.1	1.4	2	0	4	68.7
Electricity	2.1	1.5	2	0	4	73.2
Labour regulations	0.9	1.1	1	0	4	120.8
Tax administration	1.7	1.2	2	0	4	70.0
Courts	1.5	1.3	2	0	4	83.4
Business licensing	1.6	1.4	1	0	4	86.4
Corruption	2.2	1.4	2	0	4	66.4
Crime	1.8	1.4	2	0	4	76.4
Access to finance	2.1	1.4	2	0	4	68.9
Business inspections	1.8	1.3	2	0	4	70.1
Informal sector	1.5	1.4	1	0	4	95.2
<i>Firm-level characteristics</i>						
Total employment	302.1	3'101	40	1	100'000	1'026.4
Expanding firm dummy *	0.53	0.50	1	0	1	93.6
Contracting firm dummy **	0.22	0.42	0	0	1	186.3
Services sector	0.24	0.43	0	0	1	179.0
Construction sector	0.03	0.16	0	0	1	590.9
Privatized firm dummy	0.24	0.43	0	0	1	175.9
Majority state ownership (>=50%)	0.01	0.12	0	0	1	851.3
Foreign-owned (>=10%)	0.05	0.22	0	0	1	426.8
Exporter (>=10% of sales)	0.08	0.26	0	0	1	349.6

* In expanding firms the number of employees increased from 2004 to 2007

** In contracting firms the number of employees has decreased from 2004 to 2007

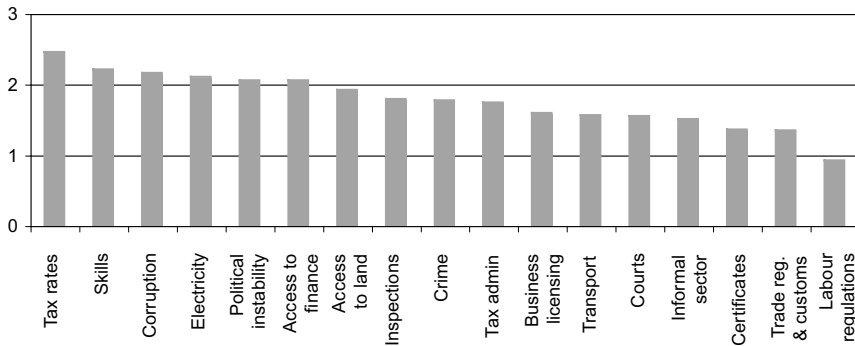
*** Coef ficient of variation is the ratio of the standard deviation to the mean.

Source: BEEPS. Note: Based on 1,256 observations.

Chart 1 plots the average severity assigned to each obstacle by the respondents. Managers complained most about tax rates, workforce skills, corruption and electricity supply. Political instability and access to finance were also viewed as more-than-moderate obstacles to firms' operations. At the other end of the spectrum are labour regulations, trade regulations and customs and compulsory certificates, which were on average viewed as minor obstacles. This may reflect that perhaps only a minority of firms have to deal

with customs and certification agencies. Informal sector competition, crime and courts also received relatively moderate average scores.

Chart 1: Average Absolute Severity of Business Environment Constraints (on the 0 to 4 scale)



Sources: WORLD BANK / EBRD BEEPS Survey, authors' calculations.

The picture changes somewhat when the scores are expressed in terms of relative severity of obstacles, that is, for every firm a score for a particular obstacle is calculated as a normalised deviation of the severity of that obstacle from the average severity (across all obstacles) reported by that firm:

$$R_{ij} = \frac{s_{ij} - \bar{s}_j}{\bar{s}_j} \quad (1)$$

where subscript i denotes obstacle; subscript j denotes firm; s is the reported absolute severity of an obstacle (on the 0 to 4 scale); \bar{s}_j is the average severity of obstacles reported by firm j ; and R is the relative severity of an obstacle. For instance, if a firm reports electricity as a major obstacle (3), crime as a minor obstacle (1) and all other obstacles as moderate (2), the average severity of all obstacles evaluated by this firm is 2; relative severity for all obstacles is zero, except for crime (-0.5) and electricity (0.5). If another firm ranks all obstacles as very severe, except for electricity, ranked severe, the relative severity of electricity as a constraint is evaluated as -0.23 . Although both firms assign the same value to electricity as a business-environment constraint, the first firm implicitly sees it as the most binding (and thus addressing it could be associated with larger gains in terms of sales or profits), while the second firm sees it as the least binding (and thus addressing it may be associated with little or no gain unless other constraints

are also relaxed). Thus if most firms were of type 1, improving electricity supply would be a policy priority, while if most firms were of type 2, improving electricity supply would not seem to be a policy priority. Relative scores reflect this important difference.

To analyse regional variation in terms of relative severity of these constraints, one needs to look at regional subsamples of firms. Table 2 shows survey coverage by region (in terms of number of responses to the questions about key obstacles to firms' operations).

Table 2: Regions and Their Selected Characteristics

	<i>Number of observ.</i>	<i>Federal District</i>	<i>Population (million)</i>	<i>GRP pc (USD '000)</i>	<i>Corporate credit (% GRP)</i>	<i>Expert inv. risk ranking</i>
Bashkortostan	57	Volga	4.1	7.4	13.8	15
Krasnoyarsk Region	41	Siberia	2.9	10.3	12.4	46
Leningrad Region	77	NW	1.6	9.5	8.8	37
Moscow	264	Central	10.5	32.3	80.8	36
Moscow Region	136	Central	6.7	10.1	12.2	14
Nizhny Novgorod Region	44	Volga	3.3	7.2	34.6	9
Novosibirsk Region	43	Siberia	2.6	7.0	44.1	31
Perm Region	45	Volga	2.7	9.1	26.0	49
Primorsky Region	98	Far East	2.0	6.5	20.0	64
Rostov Region	50	South	4.2	5.5	35.6	3
St. Petersburg	139	NW	4.6	12.5	52.1	20
25 th percentile for 83 reg.			0.8	4.5	12.7	
Median for 83 regions			1.3	6.3	18.8	
75 th percentile for 83 reg.			2.5	9.0	27.3	

Sources: RosStat, Central Bank of Russia, BEEPS survey, authors' calculations. Based on 2008 data.

Eleven regions in the sample have a coverage of over 40 observations: Moscow, Moscow region, St. Petersburg, Leningrad region, Nizhny Novgorod, Bashkortostan, Perm, Primorsky region, Novosibirsk, Krasnoyarsk and Rostov. In each of these regions enterprises were surveyed in a number of different cities and across various industries. These regions represent a heterogeneous sample, both geographically (spanning eight time zones) and in terms of their level of economic and financial development (GRP per capita in Moscow was six times that of Rostov region; see Table 2 for key summary indicators). They tend to be among the larger, richer, and more financially developed regions on average, but not universally: the sample includes

regions with per capita income below or around the country median and regions from both the bottom and the upper quartile in terms of financial development.

Regions are also diverse in terms of existing expert assessments of quality of institutions, such as the Expert rating on investment risk: Rostov and Nizhny Novgorod regions were among the top-rated regions in 2008 (when the survey started) while Perm and Primorsky regions were ranked in the bottom half. Ten more regions, which account for the remaining 250 or so observations (averaging just over 20 observations each) are aggregated as a control group.³

2.2 Economic policy in the Russian regions

Russia is a federal state divided into 83 regions.⁴ Regional governments in Russia enjoy substantial policy-making and fiscal autonomy, particularly on the expenditure side (see for instance, FREINKMAN and PLEKHANOV (2010) and MARTINEZ-VASQUEZ, TIMOFEEV and BOEX (2006)). Regional and municipal governments account for approximately half of consolidated government spending (equivalent to 15 to 20 per cent of GDP) and are primarily in charge of key public services, including all primary and secondary education, a substantial part of higher education; social and health services; local infrastructure and utilities. Key tariffs, such as electricity tariffs, are determined at the regional level within a federally approved framework (with an important exception of natural gas tariffs, which are set by the federal authorities). Municipal and regional governments also own and administer a significant part of all land and procedures for access to land and their implementation varies significantly across regions. Business permits and licenses are partly governed by federal legislation but are usually administered by the regional authorities, including in areas such as fishing.

By contrast, key taxes are determined at the federal level (even though tax revenues are shared with the regional and municipal governments). Courts,

3 These regions are the Kaluga, Tver, Vladimir, Smolensk, Kursk, Voronezh, Samara, Sverdlovsk, Chelyabinsk and Krasnodar regions. They could not be included due to low numbers of observations, in single digits for some of these regions. Likewise, earlier rounds of BEEPS conducted in 1999, 2002, and 2005 have a much lower number of observations by region, insufficient for drawing statistically robust conclusions. The 2005 round of BEEPS covered approximately 550 firms in 13 regions. Only 7 out of 11 regions studied in the paper were surveyed in 2005, and fewer in the earlier rounds.

4 The 1993 Constitution initially established 89 regions. Six regions have been subsequently merged with their larger neighbours.

customs, tax administration, law enforcement and financial institutions supervision agencies are run and funded by the federal government and are regulated by federal laws. Nonetheless, they are typically structured along regional lines, with potentially important inter-regional differences in terms of actual organisation of their work. CAI and TREISMAN (2004) offer a number of case studies showing substantial regional differences in terms of tax collection and tax administration in the 1990s and early 2000s.

Overall, important differences across Russian regions have been documented in terms of efficiency of public services provision (HAUNER 2008); quality of public services (FREINKMAN and PLEKHANOV 2010); and the general perception of legislative and political risks that appears to have an impact on foreign direct investment across regions (IWASAKI and SUGANUMA 2005 and LEDYAEVA 2009). Regional economic performance also varied greatly throughout the 1990s and 2000s. Some studies linked these differences to uneven distribution of foreign direct investment (BUCCALATO and SANTANGELO 2009) or differences in the (perceived) quality of institutions, although overall evidence on drivers of regional growth is somewhat inconclusive (AHREND 2008).

Eighty-three regions are aggregated into eight (until recently seven) federal districts. While the BEEPS survey has a reasonable coverage of seven federal districts (all except the recently created North Caucasus district), the districts remain largely statistical and geographical units while economic policies are set and implemented at the regional and federal levels. For this reason the analysis focuses on differences between regions rather than federal districts.

2.3 Analysis of regional differences: basic framework

To look at the inter-regional differences in various components of the business environment in a systematic way we follow CARLIN, SCHAFFER and SEABRIGHT (2010). For each business environment constraint i a linear model can be estimated as follows:

$$R_j^i = \alpha_0 + \alpha_k + \beta X_j + \varepsilon_j \quad (2)$$

where R_j^i is the relative severity of a particular constraint reported by firm j ; X is a vector of firm-specific characteristics such as size (logarithm of employ-

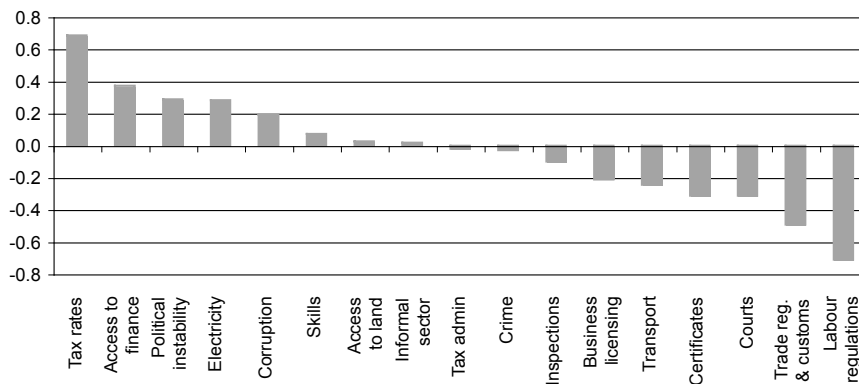
ment), type of ownership, export orientation and so on; and α_k are fixed regional effects (dummy variables for each region).

Firm-level characteristics are included as they affect firms' demand for certain public goods and services and components of business environment, and therefore lead to different perceptions about the severity of specific business environment constraints. For example, manufacturing firms may be naturally more constrained by access to land or electricity supply than service firms, and thus regions with higher share of the industry in output and employment may score worse in these areas. Likewise, customs may be perceived to be more of an issue in border regions simply because more firms from these regions export or import. The use of firm-level controls aims to alleviate the problem of such biases.

All explanatory variables are normalised (through a linear transformation) so that they take zero values for a representative firm. Therefore, the estimated fixed effects correspond to the relative severity of business environment constraint as would be perceived by a hypothetical representative firm located in region k . A typical (median) firm in the sample is a manufacturing firm employing 40 people, privately owned without a history of state ownership, deriving less than 10 per cent of revenues from exports.

Chart 2 shows the estimated implied relative severity of obstacles reported across Russia, as perceived by a hypothetical average firm. While the top constraints evaluated this way are similar to those ranked highest in Chart 1, the ranking order changes somewhat, with constraints related to tax rates, access to finance, political instability, electricity supply, corruption and workforce skills seen as the most binding (in descending order). In particular, the estimate for skills is relatively lower compared with absolute average scores. This may be explained by the fact that firms that complain most about skills have specific characteristics that distinguish them from an "average", less skill-intensive, firm.

The estimates of fixed regional effects can then be used to answer three sets of questions. First, one can look at the business environment in each region separately and identify business constraints that firms would see as the most binding in each region.

Chart 2: Average Relative Severity of Business Environment Constraints

Sources: WORLD BANK / EBRD BEEPS Survey, authors' calculations.

The second question of interest is whether for a given constraint there are any systematic inter-regional differences in terms of its perceived relative severity. This can be checked by testing for joint significance of all fixed regional effects estimated for a given constraint.

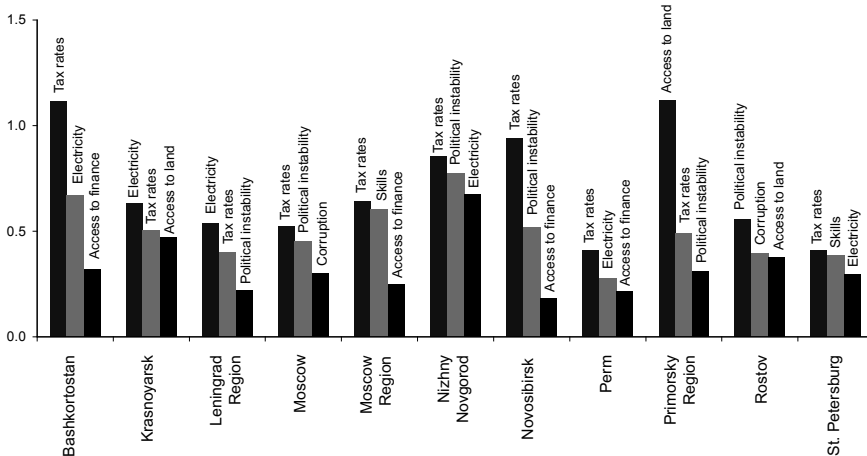
Third, one can look closely at a particular aspect of business environment across regions. For regions with high (or low) values of fixed effects for a particular constraint, it is possible to test whether this regional effect is statistically significantly different from those in other regions. This analysis can point towards region-specific policy priorities in terms of improvements in a particular component of the business environment. In other words, it can indicate that, say, trade regulations and customs are viewed as a significantly more binding constraint in region X than elsewhere, and if the work of customs were to be improved, gains are likely to be the highest in region X. It may also be the case that within region X some other constraint appears to be the most binding, for instance access to land. These different ways of looking at the regional business environment are complementary.

3 Results

3.1 Factors with significant regional variation

Chart 3 shows the top three constraints for each region, ranked by the average relative severity of constraints as perceived by a representative firm. By and large, the most binding constraints countrywide tend to also be the most binding in individual regions. These are tax rates, electricity supply, political instability and in fewer cases access to finance, access to land, corruption and skills.

Chart 3: Top Three Business Environment Constraints by Region



Sources: WORLD BANK / EBRD BEEPS Survey, authors' calculations.

The results of estimation of specification (2) for each constraint to firms' operations are summarised in Table 3 (overall results) and Tables 4 and 5 (regional fixed effect coefficients). A number of interesting findings emerge.

The statistically significant coefficients in table three generally have expected signs. For example, firms in the service sector tend to perceive transport and business licensing as significantly more binding constraints compared with manufacturing firms, likely explained by higher dependence of the service providers on the timely deliveries of services or goods and more frequent utilisation of the transport in their operation, as well as higher propensity to be engaged in licensed activities such as minibus urban transport. Unsurprisingly, exporting firms perceive trade regulations and customs as

a much more severe obstacle to doing business. Their rating of this constraint tends to be on average 0.4 points higher on the 4-point-scale (0.3 of a standard deviation). Exporting firms also appear to be much more constrained by the quality of tax administration, as exports VAT refunds can be notoriously difficult to obtain. Larger firms tend to complain more about labour regulations, trade regulations and customs and workforce skills.

For half of the identified business environment components regional differences appear to be statistically significant at the one per cent level, while for five constraints the inter-regional differences are statistically insignificant at the 10 per cent level (see Table 5).

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Table 3: Fixed Effects Estimation Results

Dependent variable	Electricity	Transport	Trade reg. & customs	Informal sector	Inspections	Certificates	Access to land	Crime	Access to finance	Tax rates	Tax admin	Business licensing	Political instability	Corruption	Courts	Labour regulations	Skills
Employment, log	0.01 (0.02)	0.02 (0.02)	0.06** (0.02)	-0.03 (0.02)	-0.04** (0.02)	-0.05*** (0.02)	0.03 (0.03)	-0.06*** (0.02)	-0.02 (0.02)	-0.02 (0.03)	-0.00 (0.02)	0.02 (0.02)	-0.01 (0.03)	-0.01 (0.02)	0.02 (0.02)	0.06*** (0.01)	0.06** (0.03)
Expanding firm	-0.08 (0.08)	0.11* (0.06)	-0.05 (0.07)	-0.06 (0.07)	0.12* (0.07)	-0.11** (0.06)	-0.07 (0.09)	-0.01 (0.07)	-0.06 (0.07)	0.02 (0.08)	0.02 (0.05)	-0.07 (0.06)	-0.04 (0.09)	0.05 (0.06)	-0.02 (0.05)	0.01 (0.05)	0.08 (0.09)
Contracting firm	-0.07 (0.09)	0.06 (0.07)	-0.00 (0.09)	0.04 (0.08)	0.11 (0.08)	-0.03 (0.07)	-0.03 (0.10)	0.05 (0.08)	-0.03 (0.08)	-0.09 (0.10)	-0.09 (0.06)	-0.10 (0.07)	-0.16 (0.10)	-0.09 (0.07)	-0.00 (0.06)	0.05 (0.05)	0.12 (0.11)
Services	-0.03 (0.08)	0.14** (0.06)	0.06 (0.08)	0.07 (0.07)	-0.06 (0.06)	-0.10* (0.06)	0.05 (0.09)	0.11* (0.06)	-0.15** (0.07)	-0.18** (0.08)	-0.03 (0.05)	0.10* (0.06)	-0.05 (0.08)	-0.06 (0.06)	-0.06 (0.05)	0.04 (0.05)	0.13 (0.09)
Construction	-0.33* (0.18)	0.08 (0.15)	-0.01 (0.23)	-0.02 (0.19)	0.05 (0.16)	0.01 (0.14)	0.01 (0.21)	-0.03 (0.16)	0.01 (0.17)	-0.14 (0.20)	0.06 (0.12)	0.17 (0.13)	0.11 (0.20)	0.22 (0.14)	0.11 (0.12)	-0.14 (0.11)	-0.06 (0.22)
Privatized	-0.12 (0.08)	0.01 (0.07)	-0.08 (0.08)	0.15* (0.08)	0.07 (0.07)	0.02 (0.06)	-0.07 (0.09)	0.07 (0.07)	0.03 (0.07)	0.18** (0.09)	-0.02 (0.06)	-0.13** (0.06)	-0.02 (0.09)	-0.10 (0.06)	-0.07 (0.05)	-0.11** (0.05)	0.03 (0.10)
State-owned (over 50%)	-0.22 (0.27)	-0.10 (0.21)	-0.40 (0.26)	-0.26 (0.25)	-0.00 (0.23)	0.50*** (0.19)	-0.55* (0.30)	0.21 (0.24)	0.25 (0.24)	-0.33 (0.29)	0.03 (0.18)	0.24 (0.19)	-0.18 (0.29)	-0.00 (0.20)	-0.02 (0.17)	1.03*** (0.16)	-0.11 (0.31)
Foreign ownership (over 10%)	0.01 (0.14)	0.16 (0.11)	0.51*** (0.12)	-0.00 (0.12)	0.10 (0.12)	-0.01 (0.10)	-0.23 (0.15)	-0.05 (0.12)	-0.19 (0.12)	-0.04 (0.15)	0.04 (0.09)	0.18* (0.10)	0.05 (0.15)	-0.10 (0.10)	0.04 (0.09)	-0.14* (0.08)	-0.27* (0.16)
Exporter (over 10% of sales)	-0.25** (0.12)	-0.19** (0.09)	0.38*** (0.10)	-0.04 (0.11)	0.13 (0.10)	0.00 (0.08)	-0.02 (0.13)	-0.12 (0.10)	0.05 (0.10)	-0.18 (0.13)	0.17** (0.08)	-0.01 (0.08)	-0.11 (0.13)	0.04 (0.09)	0.01 (0.08)	0.05 (0.07)	0.15 (0.14)
Constant	0.32** (0.07)	-0.28*** (0.06)	-0.33*** (0.06)	-0.21*** (0.06)	-0.10* (0.06)	-0.22*** (0.05)	0.11 (0.08)	-0.06 (0.06)	0.22*** (0.06)	0.54*** (0.08)	-0.05 (0.05)	-0.13*** (0.05)	0.30*** (0.08)	0.18*** (0.05)	-0.18*** (0.05)	-0.55*** (0.04)	0.24*** (0.08)
Regional FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of obs.	1'206	1'194	891	1'063	1'208	1'103	1'085	1'200	1'188	1'219	1'216	1'129	1'197	1'173	1'143	1'214	1'193
R-squared	0.01	0.01	0.05	0.01	0.01	0.02	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.06	0.01

Notes: Estimated by fixed effects, robust standard errors in parentheses. Values significant at the 1 per cent level are marked with ***, at the 5 per cent level with **, at the 10 per cent level with *.

Table 4: Estimated Regional Fixed Effects

Dependent variable	Electricity	Transport	Trade reg. & customs	Informal sector	Inspections	Certificates	Access to land	Crime	Access to finance	Tax rates	Tax admin	Business licensing	Political instability	Corruption	Courts	Labour regulations	Skills
Bashkortostan	0.33** (0.16)	0.27** (0.13)	-0.31** (0.14)	-0.15 (0.14)	0.06 (0.13)	0.23** (0.11)	-0.52*** (0.18)	-0.23* (0.13)	0.09 (0.14)	0.72*** (0.17)	0.19* (0.10)	-0.07 (0.11)	-0.23 (0.17)	-0.10 (0.12)	-0.10 (0.10)	-0.10 (0.10)	-0.20 (0.19)
Krasnoyarsk	0.29* (0.18)	0.03 (0.14)	-0.38** (0.19)	0.23 (0.17)	0.06 (0.15)	0.10 (0.13)	0.20 (0.20)	-0.14 (0.15)	0.21 (0.16)	0.09 (0.19)	-0.17 (0.12)	-0.11 (0.13)	0.15 (0.20)	-0.06 (0.14)	-0.09 (0.12)	-0.26** (0.11)	-0.20 (0.21)
Leningrad Region	0.20 (0.14)	-0.03 (0.11)	-0.08 (0.14)	0.09 (0.12)	0.19 (0.12)	0.21** (0.10)	-0.41*** (0.15)	-0.23* (0.12)	-0.09 (0.13)	-0.02 (0.15)	0.07 (0.09)	0.11 (0.10)	-0.00 (0.15)	-0.15 (0.10)	-0.01 (0.09)	0.23*** (0.08)	-0.27 (0.17)
Moscow	-0.12 (0.10)	0.02 (0.08)	0.16* (0.09)	0.05 (0.09)	-0.02 (0.08)	-0.07 (0.07)	-0.39*** (0.11)	-0.16** (0.08)	0.08 (0.09)	0.11 (0.10)	0.04 (0.06)	0.06 (0.07)	0.22** (0.10)	0.13* (0.07)	-0.00 (0.06)	-0.03 (0.06)	-0.06 (0.11)
Moscow Region	-0.15 (0.11)	-0.07 (0.09)	-0.05 (0.11)	0.02 (0.10)	-0.05 (0.10)	-0.03 (0.08)	-0.16 (0.13)	-0.06 (0.10)	0.01 (0.10)	0.22* (0.12)	-0.01 (0.08)	0.06 (0.08)	-0.08 (0.12)	0.04 (0.08)	-0.16** (0.07)	-0.03 (0.07)	0.28** (0.13)
Nizhny Novgorod	0.34* (0.17)	-0.01 (0.14)	-0.34** (0.16)	0.11 (0.16)	-0.08 (0.15)	-0.18 (0.12)	-0.21 (0.20)	-0.39*** (0.15)	-0.21 (0.16)	0.43** (0.19)	-0.07 (0.12)	-0.03 (0.13)	0.55*** (0.20)	-0.05 (0.13)	0.04 (0.12)	-0.04 (0.11)	-0.02 (0.20)
Novosibirsk	-0.25 (0.17)	-0.03 (0.14)	-0.16 (0.16)	0.04 (0.16)	0.04 (0.15)	0.09 (0.12)	-0.29 (0.19)	-0.20 (0.15)	-0.05 (0.16)	0.52*** (0.19)	-0.04 (0.12)	0.00 (0.12)	0.30 (0.19)	-0.08 (0.13)	-0.10 (0.12)	-0.08 (0.11)	-0.30 (0.21)
Perm	-0.06 (0.18)	0.27* (0.15)	0.15 (0.16)	-0.16 (0.16)	0.08 (0.15)	0.05 (0.13)	-0.24 (0.20)	0.00 (0.15)	-0.01 (0.16)	-0.01 (0.20)	0.19 (0.12)	0.28** (0.13)	-0.20 (0.20)	-0.14 (0.14)	-0.07 (0.12)	0.16 (0.11)	-0.20 (0.21)
Primorsky Region	-0.08 (0.13)	-0.18* (0.10)	0.49*** (0.17)	0.06 (0.13)	-0.02 (0.11)	-0.05 (0.10)	0.86*** (0.15)	-0.16 (0.11)	-0.22* (0.12)	0.07 (0.14)	0.05 (0.09)	0.10 (0.09)	0.08 (0.14)	-0.07 (0.10)	0.03 (0.09)	-0.06 (0.08)	-0.39*** (0.15)
Rostov	-0.14 (0.16)	-0.14 (0.13)	-0.07 (0.18)	0.07 (0.14)	0.02 (0.14)	-0.12 (0.12)	0.11 (0.19)	-0.27** (0.14)	-0.07 (0.15)	-0.07 (0.18)	0.16 (0.11)	0.05 (0.12)	0.33* (0.18)	0.22* (0.12)	0.14 (0.11)	-0.15 (0.10)	-0.28 (0.19)
St. Petersburg	-0.04 (0.11)	0.25*** (0.09)	-0.22** (0.11)	-0.12 (0.10)	0.18* (0.10)	0.22*** (0.08)	-0.51*** (0.13)	-0.14 (0.10)	-0.01 (0.10)	-0.01 (0.13)	0.25*** (0.08)	0.24*** (0.08)	-0.01 (0.13)	0.02 (0.09)	0.14* (0.08)	-0.00 (0.07)	0.07 (0.14)

Notes: Based on regressions summarized in Table 3. Estimated by fixed effects, robust standard errors in parentheses. Values significant

Table 5: Testing for Inter-regional Differences in Business Environment Components

<i>Component (obstacle)</i>	<i>F-statistic</i>
Access to land	9.20 ***
Trade regulations and customs	3.92 ***
Tax rates	2.89 ***
Compulsory certificates	2.62 ***
Workforce skills	2.34 ***
Transport	2.32 ***
Political instability	2.31 ***
Electricity	2.28 ***
Labour regulations	2.25 ***
Tax administration	2.09 **
Courts	1.57 *
Business licensing	1.56 *
Corruption	1.41
Crime	1.30
Access to finance	1.07
Business inspections	0.91
Informal sector	0.88

Note : Values significant at the 10% level are marked with *; at the 5% level, with **; at the 1% level, with ***.

Regarding informal sector competition the lack of statistically significant differentiation across regions may reflect the fact that this constraint is not seen as binding by most Russian firms. The same may be partly true with respect to crime and business inspections. However, two other business environment components that fail to exhibit significant inter-regional differences in terms of their perception as obstacles to firms' operations are among the most severe constraints country-wide: access to finance and corruption.

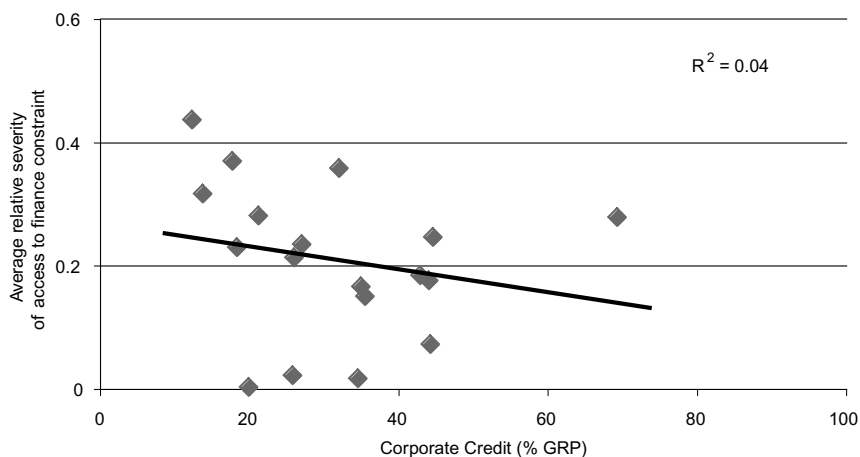
In the case of access to finance, however, striking objective differences in terms of levels of financial deepening are well documented (see Table 2). In 2008 the ratio of corporate loans issued by branches of banks in a given region to gross regional product (GRP) varied between 81 per cent in Moscow and 12 per cent in Krasnoyarsk (the country average was 36 per cent).⁵

However, differences in credit-to-GDP ratios appear to be very weakly correlated, if at all, with the perception of access to finance as a constraint by firms operating in the regions (see Chart 4). The correlation is negative, as

5 Technically, the ratio was even lower in the Leningrad region (9 per cent). However, this is an unusual case since the regional centre where many local enterprises would naturally obtain funding is a separate region (the city of St. Petersburg).

one might expect (higher credit-to-GRP ratios are associated with access to finance being perceived as less of a constraint on average), but the dependence is very weak both in statistical and in economic sense.⁶

Chart 4: Financial Deepening and Perception of Access to Finance



Sources: CENTRAL BANK, WB/EBRD BEEPS, authors' calculations. Based on location of bank branch, 2008 data. Moscow city and region and St. Petersburg city and Leningrad Region are merged, respectively.

Together with the absence of statistically significant differences between regional fixed effects for the access to finance constraint, this suggests that inter-regional differences in the levels of financial deepening largely reflect differences in terms of demand for finance (stemming from quality projects requiring financing). The differences in demand are in turn likely to be explained by a number of other factors, such as the level of economic development, as well as differences in other components of business environment, which constrain firms' ability to undertake and finance profitable projects.

It has long been acknowledged that financial development follows economic development (for example ROBINSON 1952) and GDP per capita tends to be the key determinant of the level of financial deepening in cross-

⁶ On the chart Leningrad region is merged with St. Petersburg city and Moscow region is merged with Moscow city, respectively, as Leningrad and Moscow regions are unique in that their administrative and financial centres are located "outside" the region. The results hold if all four regions are included separately, or excluded.

country studies (for example DEHESA, DRUCK and PLEKHANOV 2007). At the same time, numerous studies showed that financial development in turn has a significant positive impact on economic growth (KING and LEVINE 1993; LEVINE, LOAYZA and BECK 2000; LEVINE 2004). If finance is an important determinant of growth, one would expect firms in financially underdeveloped regions to feel more constrained by access to finance, as better access to finance would enable them to realise their growth opportunities. However, as JOHNSON, MCMILLAN and WOODRUFF (2002) show, in the absence of strong property rights firms will be unwilling to invest, whether using retained profits or bank loans. Therefore, in a weak institutional environment, strengthening property rights and other institutions may be key to stimulating growth, while the availability of bank finance would not necessarily constitute a binding constraint for business expansion. CULL and XU (2005) present evidence of the importance of institutional constraints for investment in China. The results of the BEEPS survey in Russian regions also appear to be consistent with demand for finance being constrained by various institutional factors.

Also consistent with this hypothesis is the remarkable stability of relative positions of regions in terms of corporate credit-to-GRP ratios. While in the 2000s Russia underwent a period of rapid financial deepening and private sector credit-to-GDP ratio increased from 16 per cent at end-2002 to 41 per cent at end-2008, two-thirds of the variation in regional corporate credit-to-GRP ratios in 2008 is explained by initial ratios in 2002. Although this is somewhat less than in a cross-country setting (credit-to-GDP ratios back in 2002 explain 80 per cent of the variation observed in 2008 in a broad sample of countries),⁷ this is nonetheless a high level of inertia for a space where capital can move freely and a period of very rapid financial deepening when supply constraints in finance became significantly less binding. In addition, in a broad cross-country sample, unlike in the case of Russian regions, the differences in perception of access to finance as a binding constraint are highly statistically significant.⁸

Lack of differences in perception of corruption may in principle be explained by a homogenous level of corruption across the country. But even though, unlike in the case of access to finance, the objective difference in the

7 Calculations based on the New Database on Financial Development and Structure, see BECK, DEMIRGUC-KUNT and LEVINE (1999).

8 In the sample of 29 countries in the Emerging Europe and Central Asia region based on the 2008-09 round of the survey, the hypothesis of equal coefficients can be rejected at the 1 per cent level of significance: $F(29, 11177) = 14.8$.

levels of corruption are hard, perhaps impossible, to document, incidence of corruption and quality of political institutions are generally perceived to vary substantially across the regions (see for instance PETROV 2004 and DININIO and ORTTUNG 2004), Expert rankings, and indices of transparency of regional authorities constructed by Media Soyuz, an independent association of journalists).⁹

An alternative explanation is that the level of corruption in the regions adjusts to what the local economy can sustain without corruption becoming too much of a constraint that would suffocate economic activity and the ability to extract rents. In other words, regions that can generate higher rents may have also higher levels of corruption, which will be binding as a constraint to doing business for local firms as objectively lower levels of corruption in other regions. This would be consistent with the “roving versus stationary bandits” theory of rent-seeking (OLSON 1993 and MCGUIRE and OLSON 1996) whereby non-benevolent authorities would determine the amount of rent-seeking in a way that maximises rents but also preserves their future rent income. The amount of rents will thus be endogenous with respect to the growth potential of the local economy and the elasticity of growth with respect to rent-seeking.

3.2 Region-specific features of business environment

The analysis now turns to individual business environment constraints in an attempt to identify regions where they are particularly prominent. The Annex shows the estimated average relative severity of business environment constraints in each region compared with the corresponding country averages (as perceived by a representative firm). Table 6 below summarises the key strong and weak points for each region (relative to other regions). “Strong points” refer to business environment constraints with much lower relative severity reported by firms in a given region, while “weak points” refer to constraints with much higher-than-average relative severity.

⁹ The latter is published by strana.ru. See YAKOVLEV and ZHURAVSKAYA (2011) for discussion.

Table 6: Region-Specific Features of Business Environment

<i>Region</i>	<i>Strong points (low scoring obstacles)</i>	<i>Significantly better than X regions</i>	<i>Weak points (high-scoring obstacles)</i>	<i>Significantly worse than X regions</i>
Bashkortostan	Access to land	4	Tax rates Electricity Transport Compulsory certificates	8 7 5 5
Krasnoyarsk	Tax administration Labour regulations	7 6	Access to land Electricity	8 6
Leningrad Region	Access to land Tax rates Corruption Access to finance	3 3 3 0	Labour regulations Certificates Electricity	9 5 5
Moscow	Access to land Informal sector	5 1	Customs Political instability	8 4
Moscow Region	Courts Informal sector	5 0	Workforce skills Access to land Business licensing	8 5 4
Nizhny Novgorod	Compulsory certificates Crime	6 3	Electricity Tax rates Political instability	7 6 6
Novosibirsk	Electricity	4	Tax rates	7
Perm	Tax rates Corruption Informal sector	3 2 1	Labour regulations Business licensing	7 5
Primorsky Region	Access to finance	4	Access to land Customs	10 10
Rostov	Electricity Transport Tax rates Crime	4 3 3 0	Access to land Corruption Political instability	5 5 4
St. Petersburg	Access to land Tax rates Informal sector	4 3 2	Transport Tax administration Business licensing Compulsory certificates Courts Workforce skills	7 7 6 5 5 4

Note: "Significantly better" or "significantly worse" refers to statistical significance at the 10% level.

For each combination of a region and a business environment component the number next to it corresponds to the number of regions for which the difference between the respective fixed effect and the fixed effect estimated

for a given region is positive (for strong points; or negative for weak points) and statistically significant (at least at the 10 per cent significance level). This number can vary between 0 (none of the differences are statistically significant with the relevant sign) and 10 (when the regional fixed effect is statistically significantly different from all other estimated fixed effects).

The results are strongest for the Primorsky region in the Far East, where firms complain particularly strongly about access to land and trade regulations and customs. The corresponding fixed effects are different from those estimated for all other 10 regions. The result for customs underscores the importance of international trade for the economy of the Far East, and Primorsky region in particular. When in late 2008 as part of crisis response measures the federal government raised import tariffs on used passenger cars, the new measure applied to all regions. Yet only in Vladivostok large numbers of people took to the streets to protest, as the import of second-hand cars through the Pacific port of Vladivostok supported the livelihood of a significant part of the population. The sharply more acute perception of trade regulations and customs as a constraint to firms' operations in Primorsky region (compared with any other surveyed region) thus most likely reflects concerns about federal trade regulations that apply to all regions but are particularly important for the economy of the Primorsky region as well as scope for improvement in the work of local customs. Another region where customs come across as a particularly binding constraint is Moscow.

Access to land stands out not only in relative terms, but also in absolute terms, being the most binding constraint in the region according to the survey (Chart 3). Perception of access to land as a very severe business environment constraint might have been affected by the adoption in December 2006 of a new regional law on land issues, which came into force in February 2007, about a year or so prior to the survey. Among other things, the law re-assigned certain responsibilities from municipal to regional authorities and changed procedures for land plot registration. It is important to note that in areas such as access to land regional legislation has played an important role and regional approaches may differ substantially within the broad federal framework.

Another interesting case is St. Petersburg, where a large number of business environment components stand out both as strong points (access to land, tax rates) and weak points (transport, tax administration, business licenses and permits, compulsory certificates, courts and workforce skills).

All of the latter fixed effects are statistically significantly higher than in four to seven other regions (pointing towards more acute perception of these constraints).

The results should not be interpreted as suggesting that the situation with transport or business licensing in St. Petersburg is objectively worse than in most other regions. In fact, St Petersburg typically scores highly in various ratings reflecting quality of institutions (such as expert investment potential and risk ratings) as well as on objective measures of quality of infrastructure. Rather, the results indicate that most interviewed firms in St. Petersburg tend to agree on components of the business environment that constrain their operations most (or least). The findings can be interpreted as suggesting that, according to the surveyed firms' perceptions, addressing transport bottlenecks in St. Petersburg will yield the largest benefits in terms of growth of business (compared with efforts to upgrade transport networks elsewhere). This is not implausible, given that until a couple of years ago this city of five-million did not have a ring road. The expected completion of the western diameter of the ring road may further alleviate transport constraints to firms' operations, as would an upgrade of a road linking the city with the Finnish border.

In the Moscow region workforce skills are perceived to be a much more binding constraint compared with other regions, with the pair-wise differences being significant in eight out of 11 cases. This likely reflects tight labour market conditions in Moscow and widespread migration (or commuting) of skilled labour force to the capital. Another region with more pronounced complaints about the skills deficit is St. Petersburg.

4 Conclusion

This paper explored the differences in regional business environments in Russia using enterprise survey data from the 2008–09 round of BEEPS. The paper looked closely at 11 regions with sufficient data coverage – Bashkortostan, Krasnoyarsk, Leningrad region, Moscow, Moscow region, Nizhny Novgorod, Novosibirsk, Perm, Primorsky Region, Rostov and St. Petersburg – and asked three key questions that jointly help to identify region-specific policy priorities in terms of improvements in business environment: which business environment constraints appear to be the most binding in each region; whether for a given constraint there are systematic inter-regional differences in terms of its perceived relative severity; and which re-

gion-specific constraints are statistically significantly different from those in other regions (as perceived by a representative firm).

Generally, Russian firms view high rates of taxation, difficulties in accessing finance, political instability, electricity supply, corruption and inadequate workforce skills as key constraints to their operations. These factors rank highly in most regions. In addition, access to land is estimated to be in the top three business environment constraints in three regions. The empirical analysis also identifies region-specific business environment components that businesses perceive as significantly more binding constraints to firms' operations compared with perceptions in other regions. These include, for instance, access to land and trade regulations and customs in the Primorsky region, where the regional fixed effects estimates for relative severity of these constraints are statistically significantly higher than in all other regions; transport in St. Petersburg; workforce skills in Moscow region; electricity supply in Nizhny Novgorod and so on. These findings *per se* cannot be interpreted as suggesting that the quality of, say, transport infrastructure in St. Petersburg is inferior to that in most other regions. Rather, the results suggest that given the other constraints that firms face, enterprises in St. Petersburg view transportation as a more binding constraint (compared with how enterprises elsewhere view it). Hence if one looks at transport, upgrading the transport network in and around St. Petersburg is likely to be associated with significant economic gains and could be viewed as a policy priority, while for Russia as a whole transportation does not appear to be a top area of priority. If one looks specifically at the St. Petersburg business environment, the constraints estimated to be most binding for a representative firm are tax rates, skills and electricity supply (broadly in line with country-wide priorities).

For several business environment components, including corruption and access to finance, inter-regional differences in their perception as constraints prove insignificant. The absence of differences in perception of corruption, one of the top constraints country-wide, is consistent with the view that local rent-seeking behaviour adjusts to the level that the local economy can be sustained based on its growth potential and other constraints to firms' operations.

Homogenous perception of the severity of lack of access to finance as an obstacle to firms' operations are consistent with the view that huge observed differences in financial deepening across Russian regions are primarily demand-driven. To test this hypothesis thoroughly, one would need to look at

actual borrowing decisions of firms using micro-level data, something that could be subject of future research. Nonetheless, the analysis in this paper very tentatively suggests that although access to finance is perceived to be one of the major business environment constraints by firms across Russia, focusing policies on increasing supply of credit per se may not be the most efficient way of stimulating firms' growth. It may even be counterproductive if newly financed projects are in fact not bankable due to other constraints affecting firms' ability to grow. The numerous studies on the finance-growth nexus show that while financial deepening positively affects the long-term growth, it in turn crucially depends on the strength of the overall institutional and legal framework. Strengthening institutions and addressing related business environment constraints will go a long way towards promoting economic development and financial deepening in the less financially developed regions.

Annex: Average relative severity of business environment constraints by region

Chart 1: Russia – Barkortostan

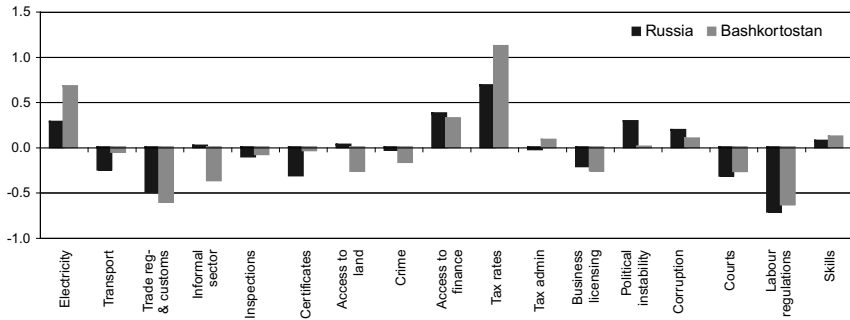


Chart 2: Russia – Krasnoyarsk

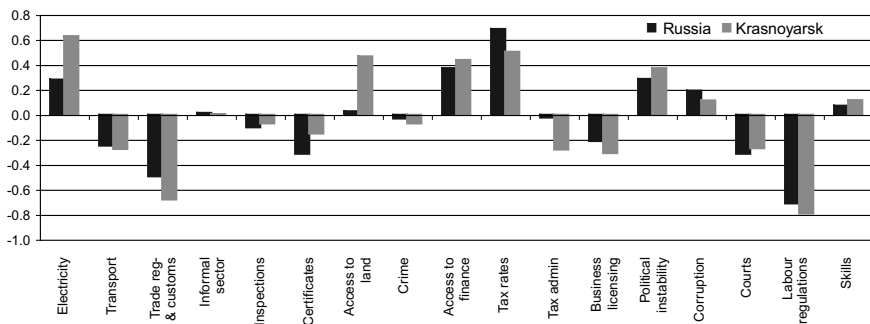


Chart 3: Russia – Leningrad Region

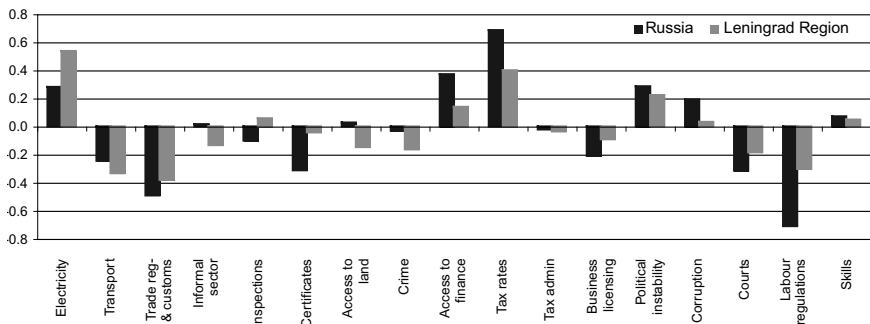


Chart 4: Russia – Moscow

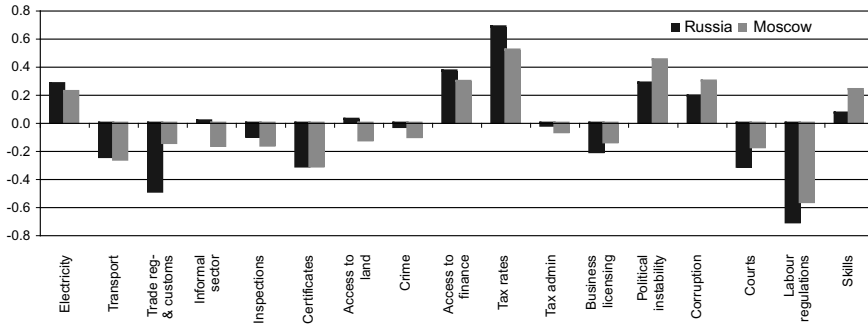


Chart 5: Russia – Moscow Region

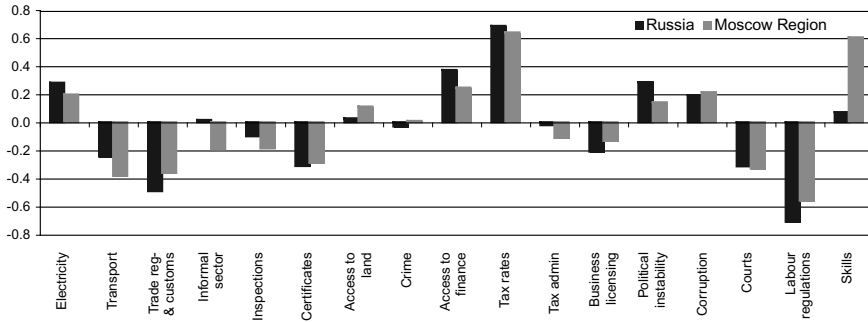


Chart 6: Russia – Nizhny Novgorod

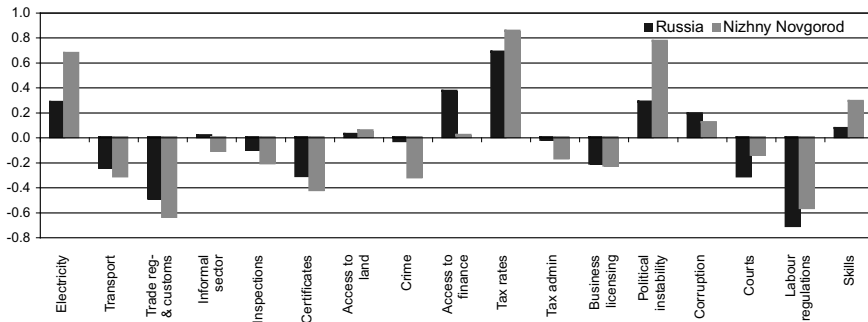


Chart 7: Russia – Novosibirsk

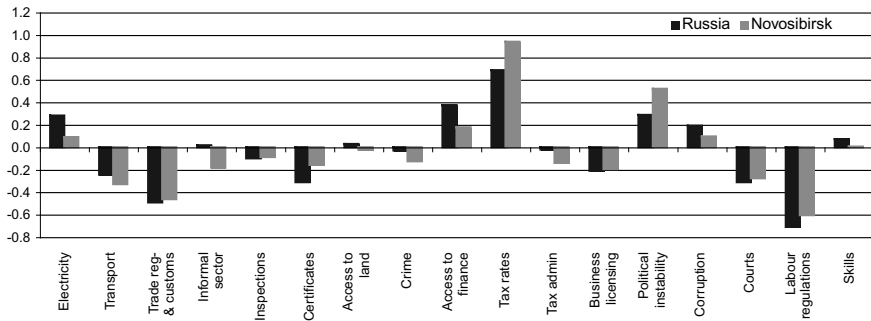


Chart 8: Russia – Perm

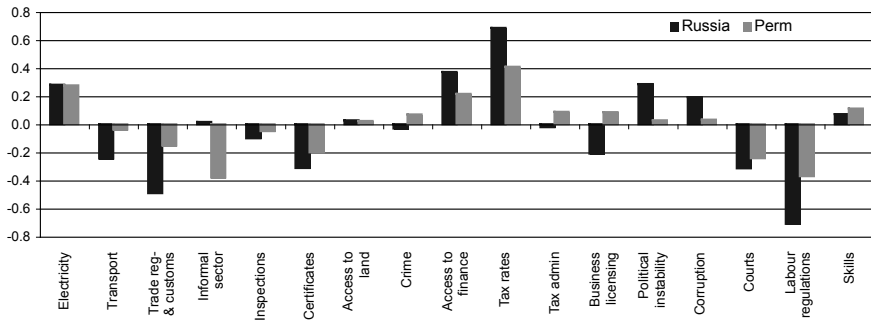


Chart 9: Russia – Primorsky Region

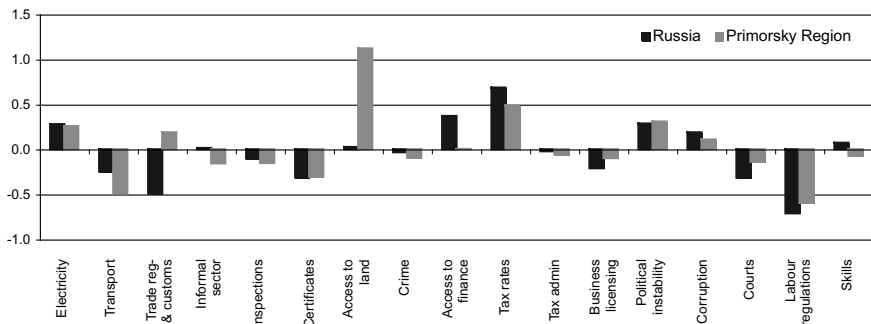


Chart 10: Russia – Rostov

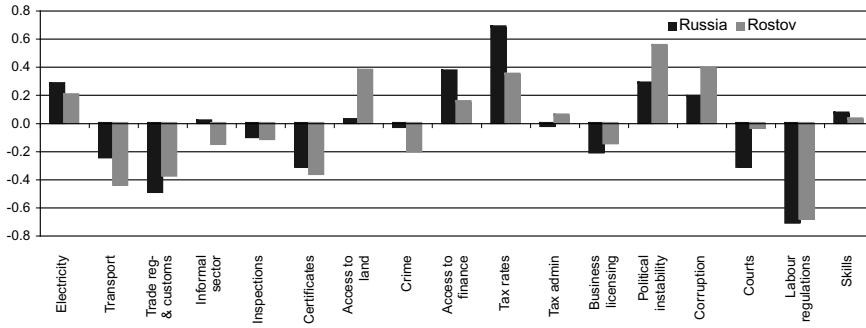
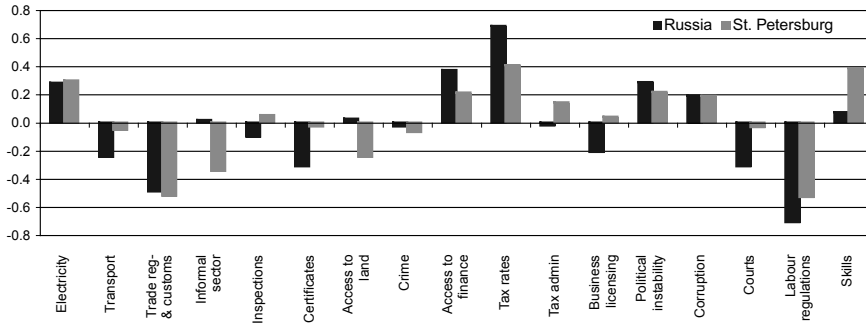


Chart 11: Russia – St. Petersburg



Sources (Charts 1-11): WORLD BANK / EBRD BEEPS Survey, authors’ calculations. Estimated for a hypothetical “average” firm.

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Region-specific Constraints to Doing Business: Evidence from Russia

Asel Isakova and Alexander Plekhanov

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This paper looks at variation across Russian regions in terms of perceived constraints to doing business using the Business Environment and Enterprise Performance Survey of Russian firms. The analysis identifies a number of region-specific business environment components that businesses perceive as significantly more binding constraints to their operations compared with other regions. For several business environment components, however, including corruption and access to finance, inter-regional differences in their perception as constraints are insignificant. This is consistent with the view that large observed differences in actual financial deepening across Russian regions are primarily demand-driven.

Die Studie untersucht die Wahrnehmung von Einschränkungen des Unternehmertums in verschiedenen Regionen Russlands. Grundlage hierfür ist die von der EBRD und Weltbank durchgeführte Umfrage «Business Environment and Enterprise Performance», an welcher russische Firmen teilgenommen haben. Die Analyse verdeutlicht, dass Firmen je nach Region eine stärkere Einschränkung ihrer Geschäftstätigkeiten registrieren, welche durch regionale Unterschiede im Geschäftsklima bedingt ist. Allerdings sind die regionalen Unterschiede in der Wahrnehmung von Einschränkungen des Unternehmertums für einige wirtschaftliche Faktoren, wie zum Beispiel Korruption oder Zugang zu Finanzierung, statistisch unerheblich. Das Ergebnis unterstreicht die Ansicht, dass die großen überregionalen Unterschiede der tatsächlichen Kapitalbildung in Russland vornehmlich bedarfsgesteuert sind.

Taking Stock: EU Common Commercial Policy in the Lisbon Era

David Kleimann

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The first 16 months of the EU's common commercial policy (CCP) in the post-Lisbon period provide indicative insights into how the European Parliament, the European Commission and the Council of Ministers interpret their respective roles under the new legal framework introduced by the Lisbon Treaty. This paper analyses the amendments, the institutional capacities to respond to the reform challenges and the evolving institutional balance applying to Lisbon-era common commercial policy. Against this backdrop, the paper gives an overview of the changing dynamics of EU trade and investment policy in a context of enhanced politicization resulting from the European Parliament's involvement in the decision-making process. Particular importance is given to the question whether enhanced EP involvement in decision-making has the potential to lead to a scenario resembling the policy

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