

stages involving unofficial payments is higher by 11% as compared to the "reversible" ones.

More complex land procedures are more prone to corruption. Each extra stage added to the procedure increases the percentage share of stages in which unofficial payments were reported by about 4 percentage points.

The procedure duration does not significantly affect the level of unofficial payments. However, the official cost of the procedures, along with the complexities associated with them, has a significant effect on the level of unofficial payments — the higher the official cost, the higher the level of unofficial payments.

Established relationships with government officials may help to reduce the duration of the process somewhat, although the effect is not significant. However, such connections cost money to maintain — intermediaries who have connections that they think can help in the facilitation of their work charge more for the completion of procedures.

The use of auctions or tenders is still not very common in many regions, and

while use of such mechanisms is associated with higher rates of land privatization, there is not yet clear evidence that they are associated with other positive outcomes such as fewer delays or unofficial payments.

### Policy Recommendations

- Unnecessary complexity should be reduced in administrative procedures for businesses' access to land. Regions with the simplest procedures should serve as a positive example for regions with more complex procedures.

- For privatization of land under privatized buildings, keeping administered land prices low helps to encourage land privatization transactions and helps to develop a competitive secondary market in land. At the same time, if municipalities cannot obtain revenues from land rents, they may need some compensating source of revenue (e.g. enhanced land taxes) to maintain their fiscal balances and to encourage their cooperation with land privatization.

- For many administrative procedures, a policy of "silent consent" with

time limits should be introduced. Officials should be required to provide a written explanation, against established legal or administrative criteria, for any refusal of applications for land privatization, within a stipulated time limit. If no decision has been rendered by the time limit, it should be deemed approved, with enforcement available through the courts if necessary.

- Auctions and tenders for land privatization should be further encouraged, but need to be monitored closely for transparency and fairness.

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## Land Issues: Barriers for Small Businesses

Questions, connected with the acquisition and renting of land and premises, play an important role in the decision to create and expand small businesses. This is proved by the sixth round of monitoring the administrative barriers to small business development. The monitoring is carried out by CEFIR and comes in the form of yearly repeated surveys of 2,000 firms in 20 regions of Russia. CEFIR has been conducting the survey since 2002 in order to evaluate the results of the deregulation reform, started by the federal government in 2001.

The monitoring results show that about half the firms face problems with land, while the problem of acquisition and renting of land and premises was singled out as the most serious problem connected with the federal regulations.

- *The procedure duration.* Purchase of land and premises looks like a lottery: in some cases the procedure is relatively fast (one to three months), while in others it drags on and takes more than six months. In 2003, more than a third of the firms, trying to acquire premises, had to spend over six months on the procedure; around 90% of the firms,

purchasing the land, could not finish the purchasing procedure within the six months. In 2006, the duration of such procedures did not change significantly.

- *Purchasing federal property.* The procedure for purchasing federal property was in 2003 — and still remains — the most expensive, time-consuming and the least transparent. In 2006, the procedure duration for an average firm was three months.

- *Costs connected with purchasing and renting land and premises.* The survey results from 2004 show that this was not influenced by who the partner is in the transactions: whether it be a private party or the federal authorities. However, there was more pressure to give bribes while conducting the transaction with government agencies.

Thus, the survey results show that small businesses face serious problems when trying to acquire premises and/or land plots. A significant number of entrepreneurs abandon plans to start or expand their business due to these difficulties. In order to decrease the arbitrariness of the local authorities, the appropriate procedures must be simplified; this will be a strong incentive for the development of small business in Russia's regions.

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*Source: Centre for Economic and Financial Research, Moscow, [www.cefir.ru](http://www.cefir.ru). Questions, related to the purchasing and renting land and premises, have been added to the monitoring survey on the initiative and with the financial help of the Foreign Investment Advisory Service (FIAS). BT*

**Duration (Days) for the Procedure of Acquiring Premises, Median Values**

	Purchase of the Federal Property	Purchase of Private Property	Rent of the Federal Property	Rent of the Private Property
2004	22	60	30	7
2006	30	30	30	7