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Roadmap for Improvement of the Business Climate in the Construction Industry

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On Aug. 16, 2012, Prime Minister Dmitry Medvedev signed decree No. 1487-r, approving the Roadmap for the Improvement of the Business Climate in Construction. The goal is to increase investment in the Russian real estate market by significantly decreasing the amount of paperwork, delays and costs involved in developing land.

Currently, developing a property in Russia requires 51 procedures and 432 days and costs 184 percent of GNI per capita. According to the World Bank Doing Business annual rankings (http://www.doingbusiness.org/rankings), Russia ranks 178th out of 183 countries for the ease of obtaining construction permits, and 120th across the board. The roadmap aims to reduce this to 11 procedures, 56 days, and 101 percent of GNI per capita by 2018. Combined with other roadmaps adopted within the framework of the national initiative to improve the general business climate in Russia, such as the customs administration and electronic documentation roadmaps, the provisions suggested by the new roadmap should raise Russia's Doing Business ranking up to number 20.

The roadmap was the result of extensive discussions by the Economic Development Ministry, the Regional Development Ministry, the Agency for Strategic Initiatives and various business leaders involved in the working group that drafted the roadmap. While not all of the suggestions made by the business community were incorporated into the final roadmap, it was largely agreed that taking immediate remedial action was of paramount importance.

Key objectives include:

- Increasing the availability of appropriately zoned land plots

In order to ensure that all land zoned for construction is speedily put on the market, the government intends to subject the federal, regional and local authorities to a strict

timeline for the finalization of zoning and planning rules and to require them to adopt detailed implementation plans for building the infrastructure required to support new construction projects. Local authorities will be required to enact and adhere to consistent and transparent policies regarding developers' obligations to participate in the construction of such supporting infrastructure; the individual characteristics of each municipality's development policies in this area will depend on how attractive they are for investment.

Further, landowners will be entitled to draw up zoning and planning rules for their land, subject to public hearings and final sign-off by the local authorities.

Finally, land categories created by the Land Code that currently act as a major technical obstacle to using unproductive agricultural or forest lands for development will be removed.

- Additional state support for large-scale residential construction

The government is expected to adopt a single set of federal rules and procedures to be followed by all parties involved in large-scale residential construction projects, including executive state agencies, utility companies, landowners, investors and developers.
The government will also require regional and local authorities to make available nearly all currently unused state and municipal land for large-scale residential development, and to allocate particular plots of appropriately zoned land to each development approved by local residential development plans.

- Simplification of construction permitting process

The most important part of the roadmap provides for the systematic simplification and facilitation of the construction permitting process.

The government will adopt a comprehensive list of administrative procedures and technical requirements applicable to design, construction and commissioning. Because local and regional authorities will not be permitted to modify these procedures, developers in all regions of Russia will be able to operate on a level playing field.

The statutory term for design approval will depend on the complexity of the project. However, developers will eventually be able to start construction within 30 days of giving proper notification to the authorities, rather than being required to first wait for the authorities to sign off.

A longer-term goal is to allow completed buildings to be put into operation upon the receipt of an appropriate insurance policy, provided technical compliance has been certified by private construction engineers. Building owners will further be required to hire professional property managers, who will be subject to full liability for their respective areas of expertise.

- Modernization of technical standards

The government intends to allow the immediate use of European and international standards of construction and production of construction materials in order to benefit from international best practice and create a more seamless environment for real estate development and investment.

- Development of the residential lease market

A draft governmental decree enacting a range of measures to create a residential lease market suited to middle and lower-income residents has already been developed and is in the process of adoption.

As the roadmap calls for governmental action on most of these objectives by the end of this year, a substantial amount of new legislation on construction-related matters is expected very shortly. It is hoped these recent changes will be the start of a very productive business season.

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