Strengthening Property Rights in Russia

Russia’s weak property rights are a significant impediment to economic progress and a deterrent to foreign investment. At the local and regional levels, there is widespread recognition that secure and transparent property rights are an essential prerequisite for growth. Based on this, CIPE launched a successful pilot program in the Saratov region that demonstrated the effectiveness of our efforts to empower local groups to identify and advocate for reform. With your assistance, we will extend this program to areas where reform of property rights will create a business climate more conducive to growth and investment.

THE CHALLENGE

In Russia, property rights are pervasively abused. The arbitrary state seizure of property, the manipulation of state institutions to allow theft, and the distortion of regulatory regimes to extract bribes are all too common. The cause is a weak rule of law, which leads to lackluster implementation of economic reforms and an unresponsive judiciary.

Left unaddressed, this situation is self-perpetuating. As long as the system remains indifferent to the need for property rights guarantees and government officials fail to enact necessary reforms, owners of small and medium-sized businesses will have little recourse but to seek solutions in the informal sector or through corruption. Poorly drafted laws and regulations governing property rights also pose a serious dilemma for foreign investors. These laws and regulations make it difficult to secure the real estate needed to conduct business. They also encourage behavior expressly forbidden under United States and United Kingdom anti-corruption laws which are applicable to companies doing business in Russia.

THE CIPE RESPONSE

This is an opportune moment for property rights reform. Sweeping changes are under way that will determine the way property taxes are assessed and levied. Furthermore, the reform of property rights now enjoys wide support on the local level. CIPE has responded by launching a pilot program with the Saratov Chamber of Commerce and Industry. The goal of the pilot project is two-fold: to help the Saratov business community pinpoint those achievable reforms that will most strengthen property rights and to bolster its ability to advocate for these changes.
The pilot program adopted methods that CIPE has successfully employed in Russia and elsewhere to survey general economic conditions and applied them specifically to property rights. These techniques enable business associations to systematically identify implementation gaps in laws already on the books, to prioritize those in most need of reform, and to advocate for change.

Making these determinations, however, is difficult in Russia because reform of property rights entails mastery of distinct regulatory and legal spheres overseen by multiple jurisdictions. Accordingly, the Saratov pilot also employed a new, multidimensional approach—the International Property Markets Scorecard—that CIPE developed with the International Real Property Foundation and World Citizen Consulting. The Scorecard produces easily understandable maps that business leaders can use to visualize deficiencies in the six core elements that together create transparent, well-functioning property markets—laws guaranteeing property rights, access to credit, governance, dispute resolution, financial transparency, and regulatory mechanisms.

CIPE IN ACTION

Over the course of the Saratov pilot project, the Saratov chamber conducted focus groups and interviews to refine the Scorecard indices for Russia and to collect data on the six property market elements that were relevant to the Saratov region. With guidance from CIPE program staff in Washington, DC, and Moscow, the Saratov chamber verified the Scorecard results at a series of roundtable sessions, outlined reform recommendations and advocacy priorities, and conducted an advocacy campaign.

The Saratov chamber’s advocacy efforts continue to bear fruit. Most significantly, the Saratov regional legislature has granted the Saratov chamber the right to introduce legislation directly to the law-making body, thus significantly enhancing the Saratov chamber’s influence over advocacy priorities. Those priorities include the Saratov chamber’s ongoing work with the Saratov Office of the Prosecutor to better coordinate government agencies with jurisdiction over property rights, as well as to create a unified registry of relevant laws and regulations.

THE NEXT STEP

Encouraged by the successes of the Saratov pilot and the methodologies underlying it, CIPE proposes to select six additional regions for follow-on projects. They will be carefully chosen on the basis of the advocacy capacity of the local chamber, its commitment to property rights issues, and its level of sophistication. The Saratov chamber will provide critical guidance for the project by providing technical assistance to the six regional partners.

To ensure that project supporters have a voice in the development of the program, they will be invited to join an advisory board. Members of the board will be charged with providing input on those areas of property laws and regulations that are of most concern and on ways in which CIPE’s property rights reform efforts can best complement their own risk management programs.

Your support will enable us to replicate the successful Saratov pilot in key regions across Russia. By systematically strengthening property rights, this project will not only help reduce investment risk but also remove impediments that hinder the growth of the Russian economy and the firms that operate within its borders.