

## An Abiding Friendship

### FDI:

Big scope for  
two-way flow

### Russia:

Potential investment  
destination

### Study:

SMEs need  
global markets

# In This Issue



## COVER STORY

07

Russian Assurance on India's Civilian N-Energy Needs; Yet Another Landmark in a Long Journey

**An Abiding Friendship**



## ANALYSIS

13

Indo-CIS bilateral trade spurs investment  
**Big Scope for Two-way FDI Flow**

By T.C. Venkat Subramanian,



## FINANCE

15

Exim Bank's LOCs add up to \$ 55 million, act as catalysts

**Indo-CIS trade touches \$2.9 billion in 04-05, poised for further growth**

By P. R. Dalal



## AVENUES

16

**'Russia - attractive investment destination for Indian businessmen'**



## RESEARCH

24

As Key Engines of Economic Growth...

**SMEs need access to global markets**



## ECONOMY

34

Slow pace of transition in Belarus

**Political will needed to bring economic reforms**

**Российская Секция**  
**42 - 50**

### Distributed by:

**New Media Communication Pvt. Ltd.**

in association with

**Export Import Bank of India**

**Chairman:** R. K. Prasad

**Managing Editor:** Satya Swaroop

**Director:** B.K.Sinha

**Group Editor:** Dev Varam

**Consulting Editors:**

Prabhoo Sinha & Rajiv Tewari

**Editorial:** Tripti Chakravorty, Chelsea Saldanha

**Head-Busi. Dev. :** Veerendra Bhargava

**Sr. Manager:** June Fernandes

**Asst. Manager:** Anand Kumar

**Asst. Project Manager:** Amit Verma

**Accountant:** Sudhir Karishetty

**Account Asst.:** Vrunda Gurav

**Circulation:** Jawaharlal

**Photographer:** Bilal Khan

**Art Director:** Santosh Nawar

**Visualizer:** Maya Vichare

### BRANCHES:

#### Kolkata:

Anurag Sinha, Branch Manager, A-7/1, Satyam Park, 2nd Lane, Near 3A Bus Stand, Thakurpukur Kolkata- 700 104

Tel: 098300 15667, 033-24537708

Email: anurag@newmediacomm.biz

#### Ranchi:

Dr. Shambhu Prasad, 22 Anjuman Plaza, 2nd Floor, Main Road, Ranchi- 834001

Tel: 0651-3095103, Telefax: 2246742

#### Pune:

Geeta Khaladkar, Regional Head, Sahyog Apartments

508, Narayan Peth, Patrya Maruti Chowk

Pune 411 030. Telefax: 020 24454642

Email: pune@newmediacomm.biz

#### Thiruvananthapuram:

Murugan, Branch Manager, TC-27/1915,

MBRRA - 70, Mathrubhumi Road,

Thiruvananthapuram

Tel: 09846555000, 0471-2468421

Email: murugan@newmediacomm.biz

#### Australia Office:

Bandhana Kumari Prasad, 129 Camboon Road,

Noranda, Perth, W.A. 6062 Tel: +61 892757447

Email: bandhana@newmediacomm.biz

#### International Marketing:

**G. Biju Krishnan**

E-mail: biju@newmediacomm.biz

#### New Media Communication Pvt. Ltd.,

B/302, Twin Arcade, Military Road, Marol,

Andheri (E), Mumbai - 400 059 India

Tel: +91-22-28516690 Telefax: +91-22-28515279

E-mail: enquiry@newmediacomm.biz

www.newmediacomm.com

#### Printed & Published by

Satya Swaroop and printed at

M/s Young Printers, A-2/237,

Shah & Nahar Industrial Estate, Lower Parel,

Mumbai- 400 013 and published from

B -302, Twin Arcade, Military Road,

Marol, Andheri (E), Mumbai - 400 059 India

The news items and information published herein have been collected from various sources, which are considered to be reliable. Readers are however requested to verify the facts before making business decisions using the same.



## Dear Readers,

Greetings. Traditionally, December is the month during which India and Russia have been reviewing their economic relations and taking steps to remove existing hurdles in their bilateral trade in order to step it up to match the size of their respective economies. India's Prime Minister Manmohan Singh has just been through a very satisfying three-day visit to Moscow, where he and Russian President Vladimir Putin signed three agreements and a protocol that covered a gamut of issues, including cooperation in defence and civilian nuclear energy areas. The current issue of the Indo-CIS Business highlights Dr Singh's visit to Moscow in the cover story and discusses the importance of India's bilateral trade with CIS countries, elsewhere in other pages. The European Bank for Reconstruction and Development (EBRD) has been assisting CIS countries since 1991, when Communism crumbled in the Soviet Union, resulting in its fragmentation. The Bank has laid down strategies for the development of each country, within the stipulated framework of their commitment to function as democracies. We carry three EBRD reports, one on Russia, the biggest and most dominant among CIS countries, and the other two on Belarus and Tajikistan. EBRD has also been encouraging the promotion of the private sector in a big way among CIS countries in order to nurture an open market economy in the region. We carry a bunch of these reports under the banner EBRD news. The Export-Import Bank of India has been playing a significant role as a catalyst in promoting bilateral trade between India and the CIS region. With the initiation of economic reforms by successive governments in India as well as the CIS nations, the two-way trade and the flow of investment, especially the Foreign Direct Investment (FDI), have received a boost. Exim Bank CMD T.C. Venkat Subramanian analyses the trend, predicting a further rise in the two-way FDI flow between India and the CIS region. Equally optimistic is Exim Bank's General Manager P.R. Dalal who believes that Indo-CIS trade is in for a sharp rise, thanks to the various Lines of Credit (LOCs) signed between India and CIS countries. There is also an in-depth study done by the Exim Bank on the crucial role of small and medium enterprises (SMEs), which need access to global markets in order to effectively contribute to the growth of the Indian economy. Remittances by millions of expatriate workers from developing countries toiling in rich Gulf nations and the developed West, add up to billions of dollars. A report on the ways and means of channeling these funds better, plus there are our regular features.

Wish you happy reading

A handwritten signature in blue ink, appearing to read 'Satya Swaroop', with a long horizontal flourish extending to the right.

**Satya Swaroop**

Managing Editor

[satya@newmediacomm.biz](mailto:satya@newmediacomm.biz)





## An Abiding Friendship

There was a time in the early 50s, when Russia hummed the tunes from "Aawara", mesmerized by the black and white classic of Raj Kapoor, who, with Nargis bent in his arms, electrified the movie spectators. India, then a young democracy struggling to stand on its own feet after having won freedom from British rule, looked towards Moscow for inspiration, aspiring to share with the Soviet Union, that country's philosophy of social justice. Thus was born a friendship, between India and the then Soviet Union, the seeds of which had been sown much earlier. During the arduous days of India's freedom struggle Mahatma Gandhi shared ideas and ideals with his friend Leo Tolstoy, the great Russian writer. The deep-rooted Indo-Soviet friendship, which percolated to the people-to-people level, grew and expanded like a massive banyan tree, the roots becoming trees by themselves in the course of time. The Soviet Union collapsed in 1991, but India's friendship with the fragmented region, resurrected later as the Commonwealth of Independent States (CIS), has survived. No doubt, it took a battering, suffering the same fate like a banyan tree hit by a violent storm, and withstood the biggest shock and test of time. There was a strange coincidence and a parallel in the course the destinies of the two countries had taken just about the same time. In 1990, even as the Soviet Union was on the verge of demise, India found itself floundering on the economic front. With its foreign reserves barely enough to meet its one month's imports, India, like the proverbial bankrupt pawning the family silver, mortgaged its gold to avoid the ignominy of defaulting in payment to the International Monetary Fund (IMF). The following year saw P.V. Narasimha Rao as India's new Prime Minister, who brought the man that would cast an irrevocable spell on the country's economy with his wand and brand of liberalization, to pull the country out of the quagmire. And the man, no prizes for a guess here, was Dr. Manmohan Singh, Finance Minister in Rao's cabinet. Just about the same time, the Soviet bloc, went through the trauma of shedding the last scales of its socialist dogma, having safely buried Communism to fossilize for posterity. In other words, India and the CIS countries have passed through more or less the same hurdles that reforms bring in their wake due to traditions that refuse to change. Much water has flowed down the Ganges and the Volga. India has passed through severe political changes as have been the CIS countries themselves, both regions eventually emerging stronger than before on the economic front. At present, India and the CIS countries have been happily moving along the same path of reforms and globalization, like pals enjoying the same picnic and partaking the same cake. Incidentally, Dr. Manmohan Singh himself is in the driver's seat as Prime Minister of India this time, giving a meaningful direction to the nation's economy. The importance that Dr. Singh attaches to the CIS region is reflected in the frequency of his meetings with Russian President Vladimir Putin, which added up to four this year, the last one held in Moscow just a few days back. India's old friendship with Russia, the biggest and most dominant of the CIS region, has found a new and abiding meaning as if the old banyan tree has found itself caught in the joyous spring, sprouting fresh leaves that quivered in the breeze of hope.

- Dev

## Russian Assurance on India's Civilian N-Energy Needs; Yet Another Landmark in a Long Journey

# An Abiding Friendship



Prime Minister Manmohan Singh with President Vladimir Putin in Moscow on December 6, 2005

India and Russia have entered a significant phase in their strategic partnership and economic relations by recently signing three agreements and a protocol covering such key areas as civilian nuclear energy, defence and space. These were inked by Indian Prime Minister, Dr. Manmohan Singh and his Russian counterpart President Vladimir Putin during the former's three-day (December 5-7) visit to Moscow. Dr. Singh described his visit as yet another "landmark in a long journey that the two countries will make together and which shall be of value and benefit to both."

A significant outcome of the India-Russia summit talks was the assurance given by Putin that Moscow would help India in building its civilian nuclear energy capabilities. Both leaders agreed to look at expanding the scope of civilian nuclear cooperation.

India asked Russia to take the lead in expanding cooperation in this crucial sector. The point was stressed by Singh in his 75-minute meeting with Putin where the two leaders discussed prospects of taking this cooperation forward as India would be needing more reactors in future given its plans to increase nuclear energy production.

Soon after Putin and Singh completed their discussion, India's Atomic Energy Commission chairman Anil Kakodkar and head of Russia's Federal Atomic Energy Agency Sergei Kiriyenko held discussions to draw up India's future requirements in the civilian nuclear energy field, including fuel for the Tarapur nuclear plant. India said it was open to look at more reactors in future from Russia and was keen on cooperation that went beyond Kudankulam in Tamil Nadu.

"We will work to ensure that India can cope with the tasks and goals it has set in the use of peaceful nuclear energy," said Putin after his talks with Singh.

This links up with Russia's own plans to streamline its nuclear energy sector. Kiriyenko was, in fact, recently appointed for the purpose of initiating reforms. He has been entrusted with the task to ensure a systematic separation of civilian and military nuclear reactors and then build up Russian potential for nuclear exports.

Another development in the long-standing friendship between the two countries was the mutual understanding between India and Russia towards jointly designing and producing multi-purpose transport planes and fifth generation fighters.

### A Joint Study Group on Economic Cooperation

Later, addressing a joint press conference, Singh said:

"India and Russia are large economies, experiencing rapid economic growth. There is thus a vast potential for expanding our trade and economic relations even as we integrate with and take advantage of the opportunities offered by globalization. It is with this forward looking perspective that we have agreed to set up a Joint Study Group to examine the feasibility of a Comprehensive

Economic Cooperation Agreement between our two countries. I have assured President Putin of India's support for Russia's accession to WTO. The bilateral Accession Agreement will be concluded at the earliest."

## Development of Next Generation Military Products

A comprehensive review was undertaken of our longstanding relations with Russia which occupies a special place as the leading supplier of military hardware to our Armed Forces. Our perspective, however, is to move towards collaborative projects involving design, development and production of the next generation military products. India and Russia have identified the Medium Range Transport Aircraft and the Fifth Generation Aircraft as two such projects, and we will continue expert level discussions on them. We are happy that the long awaited IPR Agreement on Military-Technical Cooperation has been concluded.

## Energy Security

We see energy security as an area of tremendous potential. India has made its most important overseas investment in the Sakhalin-I project, which has already come on stream. We are looking at other joint projects in Russia. The Kudankulam Nuclear Power Station in Tamil Nadu, which is being constructed with Russian assistance will be commissioned in 2007-08. We see Russia as a vital partner in furthering the objective of full civil nuclear cooperation between India and the international community. We feel that there is vast potential for the expansion of cooperation in this area, given India's growing energy requirements and the importance of nuclear energy as a clean and viable alternative energy source.

## Three Agreements and a Protocol

Following are the four agreements and the protocol signed



Dr. Singh with Putin



Russian Energy & Industry Minister Viktor Khristenko with Dr. Singh.

by India and Russia.

1) Agreement between India and Russia on reciprocal protection of intellectual property rights in the field of military technical cooperation. The agreement is applicable to joint activities related to designing, construction, production and transfer of technology of military products. The agreement was signed by Indian Ambassador Kanwal Sibal and Russian Justice Minister Yuri Chaika.

2) Agreement on safeguard technologies while implementing long-term cooperation in the area of joint development, operation and use of the Russian global navigation satellite system GLONASS. The agreement was signed by G. Madhavan Nair, Secretary, Department of Space and A. Perminov, Director, Russian Federal Space Agency.

This agreement envisages launching of GLONASS satellite using the GSLV launch vehicle of India. In turn, Russia will provide access to GLONASS system signals for Indian use. It also envisages joint development of user equipment for exploitation of GLONASS signals for commercial purposes.

3) Agreement on cooperation in the field of solar physics and solar terrestrial relationships within the framework of CORONAS-PHOTON project. This was also signed by Nair and Parminov.

The CORONAS-PHOTON mission aims at research in the field of solar physics and solar terrestrial relationships. The agreement enables integration of the Indian RT-2 payload with the CORONAS-PHOTON spacecraft and the joint space experiment using the RT-2 equipment.

4) Protocol to the agreement between India and Russia on the implementation of the programme of the Military-Technical cooperation for the period up to 2010 on procedure for making changes in that programme. This was signed by Sibal and A V Denisov, First Deputy Director of Federal Service on Military-Technical cooperation. ■





During his visit to Moscow, Prime Minister Manmohan Singh was honoured by the Moscow State University, which bestowed him with the title of 'Professor Honoris Causa,' a privilege that put him in the company of then former Indian Prime Ministers Jawaharlal Nehru and Indira Gandhi. The following is an excerpt of Singh's acceptance speech.

The scientific and technological achievements of the Russian people have been an inspiration the world over. As a student of economics I have admired the work of such great Russian economists such as the Nobel Laureates, Wassily Leontief and Leonid Kantorovich. Many Indian scientists, social scientists, technologists, doctors, artists, film makers and professionals in many other fields have also been inspired by the work of their Russian counterparts.

Since independence, we in India have invested in the development of our human resources through investment in education. India is today home to many Universities and institutions, which have been recognised the world over.

We have established competencies in disciplines such as medicine, engineering and technology, management and the humanities. We are working to further expand these assets to meet the requirements of our rapidly developing economy. In this context, Indo-Russian co-operation has a long history, and we attach great importance to this partnership. I am therefore very glad that the scientific communities of our two countries are engaged today in

further building upon this strong tradition.

The emerging capabilities and strengths of our scientists have opened new areas in frontier fields, such as biotechnology, information technology and nanotechnology. These fields have proven to be revolutionary in their impact, and there is great scope for expanded co-operation between India and Russia in these fields. The areas where they converge, should be the object of joint research by the scientists of our two countries as developments in these areas will have a crucial impact on our lives in the future. I am happy that joint projects are now being actively developed by our two countries in these new areas. I am delighted that, as part of our expanding co-operation in this field, we have agreed to set up a jointly funded Science and Technology Centre in Moscow to facilitate commercialisation of technologies to mutual benefit.

Some of the areas in which we can and must work more closely together include energy and space. We in India have always derived comfort from Russia's strong and enduring

commitment to our economic development and prosperity. Today, as India's economic growth rate accelerates, our need for energy is increasing exponentially. Russia has been an important partner in our strategy for energy security. However, there is much more that we must do together. We must initiate an Energy Dialogue between experts and policymakers in our two countries to widen and deepen our cooperation in this field. Energy security is an important challenge of the 21st Century and Russia and India can work together in this field.

Similarly, space is an area where we have complementary capabilities. While Russia is far ahead of us in space launch and space voyages, we have new capabilities in satellite technology that can contribute to the commercial viability of your space programme. Working together in space is a win-win proposition.

The 21st century will be predicated on knowledge, as much as the 19th century was based on access to raw materials and human labour, while in the 20th century, it was all about industrialization. Nation-States will compete in the knowledge domain and hence the development of human resources acquires ever-increasing greater relevance. Thus, demographic characteristics, the ratio of the young population to the ageing and the reproductive index will acquire a greater strategic significance.

Russia's greatest asset is that it has a rich tradition of human creativity and scientific and technological ingenuity. India is developing these capabilities and will have the largest pool of young people in the foreseeable future. Russia and India have their own distinctive characteristics and areas of both advantage and vulnerability in the long cycle of the present century. Clearly, there is great potential here for a strategic partnership in the knowledge-based sectors between India and Russia.

Both Russia and India are currently engaged in dealing with the challenge of globalisation. We face the dual challenge



of meeting the needs of our people at home while facing competition from the world outside. There is much we can learn from each other, just as there is much we can do together while facing a brave new world of opportunities and challenges. The evolving global system requires better and more equitable management and needs more effective institutions to enable this. Russia and India can and must work together, with other like-minded countries, in dealing with global challenges. Be it the challenge of preserving and protecting the environment, the challenge of fighting disease and pandemics, the challenge of combating terrorism or the challenge of preserving a democratic way of life by strengthening open societies and open economies.

The structure of the global economy is changing and so is the structure of global power and politics. Our young people must pay attention to what is happening in the world and how our countries must adapt to a new and changing reality. Indeed, I hope young Russians will once again look at India and discover the new face of India.

Our commitment to democratic values and practices means there are many concerns and perceptions that we share with Russia. India and Russia are nations that reflect a wide spectrum of diversity being multi-ethnic, multi-religious, multi-lingual and multi cultural. Both nations have a federal structure. The core challenge for both of us is to improve socio-economic opportunities and indicators for the more vulnerable sections of our societies. We need to ensure an equitable socio-political and socio-economic framework for our minorities through the democratic dispensation.

## India to join Russia's answer to GPS

MOSCOW: An agreement on Indian participation in the Russian Global Navigational Satellite System, an alternative to the US Global Positioning System was signed today. Currently, the two sides have only framed the ground rules for the technology and equipment that may be shared for the project. More contentious issues like joint control are still to be finalized.



A Russian girl welcoming Dr. Singh on his arrival at the Moscow State University



**Governments are only facilitators...**

## **Businessmen must occupy centre stage**

- Dr. Manmohan Singh



**Prime Minister Manmohan Singh addressed a meeting of important businessmen from both India and Russia, who, he said, should give the much-needed impetus to economic and commercial engagement between the two countries by occupying the centre stage of economic affairs. Excerpts.**

India and Russia have a time-tested relationship marked by close political understanding and convergence of views on all major issues. The global and bilateral environment has now changed. The economies of Russia and India have registered GDP growth rates of about 7.0 percent in recent years. New potential areas of growth have emerged in both economies and new areas of bilateral cooperation have opened up. Structural reforms in both economies and advances in science and technology have given our respective economies new strengths and capabilities which we should seek to exploit for mutual benefit.



Indian Ambassador to Russia Kanwal Sibal exchanging the signed document on Property Rights.

## **India, now a global production & export hub**

Indian firms are attaining global levels in quality and output. India has become a production base and export hub for a range of products from agricultural goods to automobile components to high-end and IT Enabled Services (ITES). Indian firms are now part of global production chains-importing, sub-assembling, adding value and re-exporting. Corporations from all over the world are establishing themselves in India to take advantage of the pool of high quality scientific talent and work force, in the manufacturing and services sectors.

I would like to place on record the fact that in many areas of India's success story, there is a strong Russian connection. Particularly in the early years of our independence we received valuable assistance from the Soviet Union in the establishment of our infrastructure and heavy industries. We acknowledge with gratitude Russian scientific and technological assistance for progress in several critical areas including in the peaceful uses of space.

This long-standing, time-tested and multifaceted bilateral engagement is the firm base on which can be built the edifice of a deeper and more diversified economic cooperation of the future. We need to make concerted efforts to reinvigorate our economic cooperation and integrate it with market forces. While the political responsibility for expanding ties with other countries is the primary task of governments, business-to-business relations have become a critical element in the overall architecture of interaction between countries in this age of increasingly deregulated economies, private sector dynamism and globalization.

## **Need for stepping up bilateral trade**

Our bilateral trade has so far largely been conducted within the framework of rupee-rouble arrangements but it is moving forwards and it will soon be a fully market

determined phenomenon. We are currently working on an agreement to permit the utilization of the remaining rupee-debt for Russian investments in India. I am hopeful this matter will be finalized shortly. This will put the ball in the court of Indian and Russian businessmen to identify and seize the opportunities for expanding trade and economic cooperation. While the governments will act as facilitators, the business community will have to occupy the center stage. Our bilateral trade level of \$ 1.9 billion, according to our figures, does not correspond with the potential of the economies of the two countries and our strategic partnership in other key areas.

Both governments are acutely conscious of this anomaly. There is need to not only stem the decline in trade in traditional items like tea, tobacco, textiles and leather but to also expand the trade basket to include value-added items in areas of applied technologies, information technology, telecommunications, automobile components, gems and jewellery and energy. With our vast resource base and intellectual capital, India and Russia should jointly explore avenues for generating and meeting demands on a regional and global basis.

## Banking & Finance

Banking and financial sectors can provide the necessary framework for growth in bilateral trade. It will also provide the necessary element of confidence to the business communities. The opening of branches and representative offices of banks in each other's country is a positive development.

The increase in exposure limits and extension of Lines of Credit also provides the necessary instruments for boosting trade. Joint financing of Indo-Russian projects and development of correspondent relations between financial institutions are the directions for future growth.

## Synergy in IT & ITES

Indian and Russian economies have natural areas of synergy. India is ready to share its experience and expertise in setting up Information Technology parks. Besides Russia can import IT products directly from India rather than via Europe. President Putin's visit to Bangalore in November 2004 put into sharp focus the possibilities of cooperation in the IT sector. Now it is up to the business communities to seize the initiative.

## Collaboration in energy sector

The energy sector is a key area of interest. While production has begun in Sakhalin-I, we are keen to diversify our engagement in this sector. Russia's position as the world's second largest producer of energy and India's growing demand for energy resources spells out a natural complementarity between us in this sector. The dialogue between ONGC, GAIL, Rosneft and Gazprom is gradually gaining momentum and we hope to see concrete results soon. The oil and gas companies of India and Russia should consider expanding their joint operations to third countries.

Our government is placing special emphasis on infrastructure development on both urban and rural infrastructure. We have launched ambitious projects for the building and upgradation of highways, ports and airport facilities and building of new metros. More Russian firms, with expertise in the relevant areas, must participate in projects in India.

At the 11th session of the Indo-Russian Inter-Governmental Commission on Trade and Economic Cooperation held

recently in Moscow, both sides noted that the dynamic growth of the Indian and Russian economies opened up a wide range of opportunities for bilateral trade and economic cooperation. They took cognizance of the need to step up the modest volume of bilateral trade. Specific sectors were identified, including telecommunications, information technology, electronics, space, biotechnology, nanotechnology, machinery

and equipment, aviation, ship building, tourism, metallurgy, oil and gas, hydro and thermal power, coal, civil nuclear energy and other infrastructure and high-tech sectors. Cooperation in these areas can be stepped up through joint efforts. The group also called for early finalization and signing of a liberalized visa regime. Early conclusion of such an agreement will help develop commercial contacts between the two countries. Nevertheless, it is essential that Russian and Indian businessmen maintain a regular dialogue to seize emerging opportunities and identify projects for expanding their operations.

Indo-Russian economic cooperation has now been extended to the multilateral fora. Both countries support strengthening of rule-based, non-discriminatory multilateral institutions and in that context India supports accession of Russia to the WTO. ■



Russian Deputy Prime Minister & Defence Minister, Sergei Ivanov with Dr. Singh



## Indo-CIS bilateral trade spurs investment Big Scope for Two-way FDI Flow

By T.C. Venkat Subramanian, CMD, Exim-Bank of India

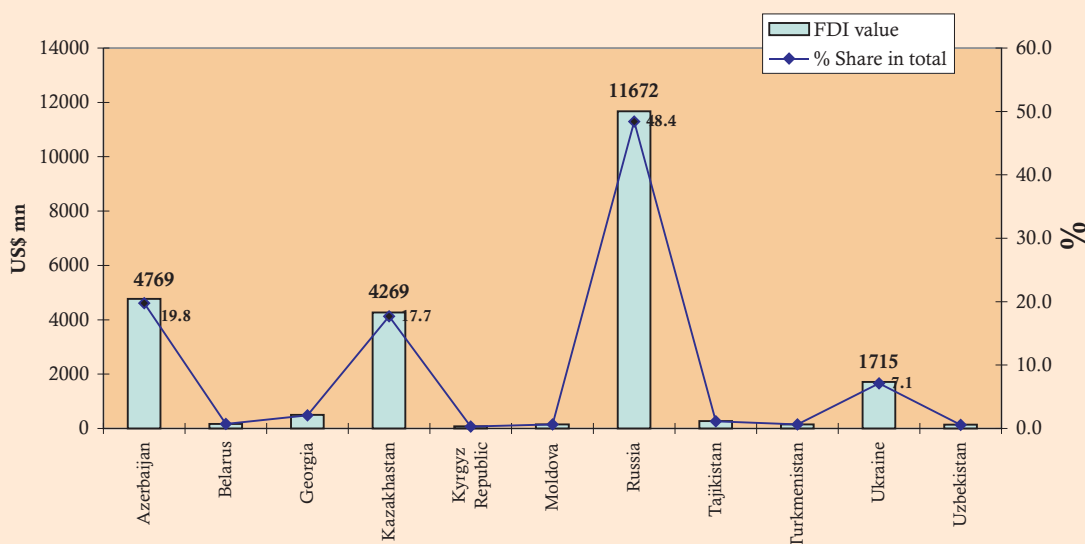
The CIS countries have experienced one of the fastest growths in FDI inflows in recent times, with total inflows

increasing by almost five times from US\$ 5 billion in 2000 to US\$ 24.1 billion in 2004. Such a sharp growth in FDI has also contributed to a simultaneous doubling of FDI as a percentage of gross fixed capital formation of the region from around 11 percent to 20 percent in the period. It is interesting to note that between 2002 and 2004,

the share of CIS in total FDI inflows to the developing countries has also increased from 5.8 percent to 10.3 percent. The data therefore, clearly indicates a robust recovery in FDI flows into the CIS countries from a depressed state following the Russian economic crisis of 1998. Outward FDI from the region has also grown strongly from US\$ 3.9 billion in 2002 to US\$ 9.6 billion in 2004, implying substantial movements in private capital flows in both the direction for the CIS countries. With India emerging as a major destination for FDI and with ever-rising endeavours of Indian companies in overseas ventures, there is an opportunity for distinct growth in two-way investment flows between India and the CIS countries. In this regard, it is worth noting that Russia is already India's second largest destination for outward FDI with 15 percent share in total. This calls for replication of similar initiatives in the other CIS countries and simultaneously enhancement of CIS investments into India, which is at a nascent stage at present. Higher investments would also result in greater

bilateral trade ties, thereby, contributing towards realising the significant bilateral trade potential.

Chart 1: FDI Inflows in CIS Countries in 2004



Source: World Investment Report-2005, UNCTAD

It may be highlighted that within CIS, FDI inflows are primarily concentrated in four economies namely Russia, Azerbaijan, Kazakhstan and Ukraine, with a cumulative share of 93 percent in total FDI inflows in 2004. Russia alone received US\$ 11.7 billion FDI in 2004 and accounted for little over 48 percent of total inflows in 2004 (refer to Chart 1). It may be noted that the above economies except for Ukraine are major energy exporters and high international energy prices caused due to strong FDI inflows towards the petroleum and natural gas sectors. In Russia, significant amount of the FDI was directed to the island of Sakhalin in 2004. Traditionally, apart from the fuel industry, oil extracting industry and trade and catering industry are the two major recipients of FDI flows to Russia. In 2004, almost 51 percent of total FDI flows were directed to these two sub-sectors. Azerbaijan is the second preferred FDI destination in the CIS and in 2004 it witnessed a 45 percent growth in inflows over the previous year, particularly gaining from the Baku-Ceyhan pipeline project, which links



Azerbaijan with the Turkish port on the Mediterranean. According to the Azerbaijan Investment Promotion and Advisory Foundation, the oil sector has attracted 70% of the total inflows since 1994 with major investments coming from USA, UK, France, Japan, Turkey and the UAE. The Foundation is working towards promoting investments in the non-oil sector implying an expanding horizon of opportunities, which could be explored. In Kazakhstan, FDI inflows more than doubled in 2004 from the previous year, and the increased inflows into the energy sector resulted in a 16% growth in oil & gas output in 2004. Apart from the energy sector, the aluminium sector, trade and real estate & business activities also attract substantial amount of FDI in the country. In Ukraine, majority of the FDI flows to the service sector led by trade, and followed by real estate, financial services and transport & communications. Within manufacturing, food & beverages and chemicals are the major recipients of FDI. It is important to note that in recent years, particularly in 2004, the highest growths in FDI inflows have been mostly in countries, which are not among the major recipients (refer to Table 1). Kazakhstan is the only economy which ranks well both in absolute and in growth terms. The trend implies picking up of FDI in other CIS countries, which is indeed encouraging.

investor friendly regime. These economies would also like to diversify their inward FDI portfolio and sectors such as trade & commerce, financial services, transport & communications and manufacturing stand a chance of gaining considerable amount of investments in the process. Among the other economies, privatisation efforts are picking up in Ukraine and metal and chemical sectors are likely to gain from increased foreign participation. Also, the food processing industry, which accounts for around 15 percent of total industrial output, is growing a rapid rate implying strong investment prospects. Considering smaller economies such as Georgia, there is potential in sectors such as the pharmaceuticals, IT, science & technology, agribusiness. With privatisation having taken off in 2005 in metallurgy, shipping, telecom sectors, investment in Georgia is worth exploring. On the whole, India should consider CIS as an important investment destination exploiting the increasing investment attractiveness of the region. Moreover, with the enlargement of the European Union, the proximity of the CIS countries with the EU has increased. This offers a greater prospect for Indian investors to target the EU markets along with the CIS countries.

With respect to FDI flowing outward from the CIS, UNCTAD data reveals that Russia and Azerbaijan are the two dominating sources, together accounting for over 99 percent of total outflows from the region. Between 2002 and 2004, outward FDI from Russia has increased sharply from US\$ 3.5 bn to US\$ 9.6 bn, while the same for Azerbaijan has been US\$ 1.4 bn from US\$ 0.3 bn. In light of the above, there is a scope of attracting CIS investments into India, which is quite passive at present. Russia is the 19<sup>th</sup> biggest source of FDI with total FDI flow worth US\$ 116.3 mn between August 1991 and September 2005, which is a mere 0.3 percent of total inflows during the period. Also, out of Russia's US\$ 9.6 billion overseas investments in 2004, a mere US\$ 0.27 million was directed to India. This reflects the potential of tapping Russian investments to India, which are otherwise usually directed to the EU particularly, Germany, Poland and USA. In light of the above, there is a scope to enhance CIS investments into India in sectors such as mining & metallurgy, energy exploration, chemicals and pharmaceuticals, infrastructure and IT, iron & steel. The impressive performance of the Indian economy in recent times, reflecting strong fundamentals, has contributed towards its recognition as an attractive destination for investment and a large and growing market for business. FDI into India has increased from US\$ 3.4 billion in 2002 to US\$ 5.3 billion in 2004, however, it still accounts for less than 1 percent of India's GDP. As India-CIS bilateral trade relations gain momentum, investment flows need to be encouraged with a view to support and enhance trade as well as to achieve better standards of living. ■

**Table 1: Rise in FDI in CIS Countries (2003-04)**  
(values in US\$ mn)

Country	2003	2004	% Change
Tajikistan	32	272	750
Moldova	71	151	113
Kazakhstan	2088	4269	104
Uzbekistan	70	140	100
Kyrgyz Republic	46	77	67
Turkmenistan	100	150	50
Armenia	157	235	50
Georgia	338	499	48
Russia	7958	11672	47
Azerbaijan	3285	4769	45
Ukraine	1424	1715	20
Belarus	172	169	-2

Source: World Investment Report-2005, UNCTAD

Investments into the CIS are expected to remain strong over the medium-term. The prevailing high fuel prices would continue attracting FDI into the energy exporting countries of the region. Though there have been few recent instances of greater government involvement in the energy sector such as the increase in government stake in Gazprom, the largest natural gas producer in Russia, the present system of flat and low taxes is likely to continue facilitating foreign investments. Kazakhstan and Azerbaijan have less restriction on foreign ownership of natural resources and levy lower taxes and royalties on oil than Russia, offering an



Exim Bank's LOCs add up to \$ 55 million, act as catalysts

## Indo-CIS trade touches \$2.9 billion in 04-05, poised for further growth

By P. R. Dalal

A Line of Credit is one of the financing mechanisms through which Export-Import Bank of India (Exim Bank) extends its finance to support export of goods and services from India under deferred payment terms. Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas. The Indian exporters can obtain payment for eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. Exim Bank also extends LOCs at the behest of the Government of India. As on December 5, 2005, Exim Bank had 56 operative LOCs amounting to US\$ 1.32 billion covering more than 70 countries in Africa, Asia, the Commonwealth of Independent States (CIS) region, Central and East Europe, Latin America and Caribbean.

### Indio-CIS Trade and Exim Bank's LOCs to the CIS Region

The CIS countries are important trading partners for India. During the last five years, from 2000-01 to 2004-05, India's total trade (i.e. exports plus imports) with the CIS region has risen from US\$ 1.7 billion to US\$ 2.9 billion. Important items in India's export basket to the CIS region include drugs and pharmaceuticals, readymade garments of cotton and accessories, tea, machinery and instruments, coffee, unmanufactured tobacco, plastics and linoleum products, gems and jewellery, transport equipment, and processed minerals. After a decline during 2001-02 and 2002-03, India's exports to the CIS region picked up to amount to US\$ 1.05 billion during 2004-05. As regards to the imports from the CIS region, the last five years have witnessed continuous growth from US\$ 681 million in 2000-01 to US\$ 1.86 billion in 2004-05, the major items being iron and steel, manufactured fertilizers, non-ferrous metals, coal and coke, newsprint, silver, organic and inorganic chemicals, synthetic and reclaimed rubber, and non-electrical machinery.

With a view to enhancing India's trade relations with the CIS region, Exim Bank has four operative LOCs to select institutions in the CIS region. These LOCs are:

- LOC of US\$ 10 million to Bank for Foreign Economic Affairs (Vnesheconombank), Russia;
- LOC of US\$ 25 million to Bank for Foreign Trade (Vneshtorgbank), Russia;
- LOC of US\$ 10 million to Bank Turan Alem, Kazakhstan,

which covers the 12 CIS member countries; and

- LOC of US\$ 10 million to Absolut Bank, Russia.

Vnesheconombank is a specialised State Bank of the Russian Federation, ensuring centralised foreign economic co-operation, servicing sovereign foreign debt, granting state credits and issuing guarantees on behalf of the Government of the Russian Federation. Vnesheconombank's corporate customer base comprises large enterprises of the Russian industry, foreign trade companies and associations.

Vneshtorgbank is the largest commercial bank in Russia. The Central Bank of the Russian Federation holds 99.9 percent of the issued share capital of Vneshtorgbank. The Bank's activities include deposit taking and commercial lending in freely convertible currencies and in Roubles, foreign exchange, operations with precious metals, securities trading and trading in derivative financial instruments.

Bank Turan Alem is the second largest private sector bank in Kazakhstan. The Bank, together with its subsidiaries and associate companies, offers a comprehensive range of financial products and services, ranging from wholesale banking, retail banking, trade financing and asset management services. International Finance Corporation (IFC), Washington and European Bank for Reconstruction and Development (EBRD) have recently taken up preference shares in the Bank.

As regards to Absolut Bank, it is a mid-sized Russian bank with increasing regional coverage and a strong market share. International Finance Corporation has a 7.5 percent stake in the bank's equity. The Bank's principal business activity is corporate banking including international trade finance and ECA backed financing, retail banking, financial markets and asset management.

Under Exim Bank's LOCs to these institutions, importers based in Russia/CIS will make advance payment of 10 percent of contract value and credit will be provided by Exim Bank for 90 percent of contract value to these institutions. Exim Bank will reimburse Indian exporters on shipment of goods. Credit in respect of capital and engineering goods is up to five years and in respect of industrial manufactures and consumer durables is up to two years.

(the author is the General Manager, Export-Import Bank of India)

# 'Russia - attractive investment destination for Indian businessmen'



Russia offers a lot of opportunities to Indian businessmen, but not many Indian businessmen know about it. "Laws and regulations adopted by Russia in recent years make this country one of the most attractive investment destinations, with the most liberal taxation system in the world," Alexander V. Mantytsky, Consul General of Russia, has said recently.

He was addressing a meeting of a high level 13-member delegation of the Moscow Region Administration lead by Vasily Gromov, Deputy Chairman of the Moscow Region Government at the Indian Merchants Chamber.

The delegation included Vyacheslav N. Zabelin, Deputy Minister of Transport, Yuri N. Vorontsov, Moscow Region's First Deputy Minister of Industry, Boris A Prokonov, Deputy Minister for Foreign Economic Relations, Andrey S. Yakim, Deputy Minister for Agriculture and Food Stuffs, Yuri I. Nazarov, First Deputy Chairman of the Market Development Committee, and Heads of various districts and towns of Moscow Region and Rajiv Podar, Managing Director, Moscow Region Podar International Ltd.

Welcoming the delegation, IMC President Rajesh Kapadia said Russia, India, Brazil and China were emerging as major economic powers and by 2025 they were expected to account for 50 per cent of the world's total GDP. In view of this, Indian businessmen should move proactively and engage in businesses in various regions of Russia.

Podar said Moscow Region Podar International Ltd, his trading house, was engaged in business in that region for the past eight years and found the enterprise very lucrative. Having set up a base there now, he offered the services of

his company for Indian businessmen planning to do business in the Moscow Region. He saw good opportunities for Indian companies in the areas of food packaging and storage, pharmaceuticals and biotechnology, garments and textiles.

Alexander V. Mantytsky said Russia was eager to establish long-term partnerships between Russian businessmen and their Indian counterparts in various sectors, in which there were synergies and complementarities, so that both "could reinforce each other's strengths and expertise, become internationally more competitive."

He said India and Russia signed an agreement in 2000 to open a North-South transport corridor linking Russia and India through Iran. "When this new route becomes fully operational, it will enable to transport cargo between Mumbai and Moscow in 25-30 days. And that will compare favorably with the traditional marine route from Russia to Europe, which generally takes 40-45 days. The proposed North-South route is expected to be 20-30 percent cost effective," he said.

Vasily Gromov said that the Moscow Region was in the basins of Volga, Oka, Klyazma and Mskva rivers and had a 6.5 million population, 75 percent of whom reside in towns. The Region has 75 towns, with 15 of them having a population exceeding 100,000 citizens. The total population of Moscow and its satellite towns was about 20 million.

The region had a well-developed transport infrastructure, which included 11 radial railway routes, a 22,000 km long



road network, five civil airport, a water canal linking Moscow Region with the Baltic, White, Kaspian, Azov and Black seas, and the gas and oil pipeline networks.

The region was Russia's scientific and technological hub with more than 200 R&D and testing centers, and boasted of very high concentration of scientific and technical manpower - 140 experts per 1000 population. In fact, the region had half a dozen 'science cities' buzzing with research activities. There were also numerous industrial complexes producing multifunctional aircraft and helicopters, ships and submarines in addition to ordnance and defence production units.

Gromov said that the Moscow Region's economy was mainly dependent on giant machine building and metal treatment and chemical industries, consisting of more than 100 enterprises, each employing more than 1000 workers. Agricultural production mainly included milk, eggs, meat, poultry and vegetables and most of the farm produces had a ready market in Moscow city.

Fielding questions from IMC members, Mantysky said Indian enterprises could beneficially join hands with Russian

businessmen, as both the governments had created necessary inter-bank and credit mechanisms. Export-Import Bank of India had offered two lines of credit worth \$10 million and \$25 million respectively to Vnesheconombank and Vneshtorgbank of Russia. About a year ago, the State Bank of India and Canara Bank set up a joint venture bank in Moscow.

The Consul General said ONGC Videsh had invested \$2.77 billion in Sakhalin-1 oilfield, and started producing oil and gas. The Russian gas company GAZPROM was participating in gas exploration in Bay of Bengal. And both the countries were jointly building two large reactors for a 2000 MW nuclear power station, costing \$2.6 billion, at Kudankulam in Tamil Nadu.

Gromov saw great scope for building economic cooperation between the State of Maharashtra and Russia's Moscow Region and City of St. Petersburg, and between Gujarat and Astrakhan region. Indian investors could find opportunities in production of biological and medicaments, exploration, mining, transportation, and processing of oil and gas, manufacture of electronics, IT and software, etc. ■

## A bank for reviving ruined economies

The European Bank for Reconstruction and Development (EBRD) was established in 1991 when communism was crumbling in Central and Eastern Europe and ex-Soviet countries needed support to nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in 27 countries from Central Europe to Central Asia.

EBRD is the largest single investor in the region and mobilises significant foreign direct investment beyond its own financing. It is owned by 60 countries and two inter-governmental institutions. But despite its public sector shareholders, EBRD invests mainly in private enterprises, usually together with commercial partners.

EBRD provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment.

The mandate of EBRD stipulates that it must only work in

countries that are committed to democratic principles. Respect for the environment is part of the strong corporate governance attached to all EBRD investments.

### Every EBRD investment must

- Help move a country closer to a full market economy: the transition impact
- Take risk that supports private investors and does not crowd them out
- Apply sound banking principles

### Through its investments, the EBRD promotes

- Structural and sectoral reforms
- Competition, privatisation and entrepreneurship
- Stronger financial institutions and legal systems
- Infrastructure development needed to support the private sector
- Adoption of strong corporate governance, including environmental sensitivity

### Functioning as a catalyst of change, the EBRD

- Promotes co-financing and foreign direct investment
- Mobilises domestic capital
- Provides technical assistance



## Millennium Development Goals in Russia

# UNDP *calls* for strategy

The United Nations Development Programme (UNDP) in Russia presented its 10th annual Human Development Report for the Russian Federation in the middle of October 2005, in which it stressed the need for implementing Millennium Development Goals.

**Report titled Russia in 2015:** Along with development Goals and Policy Priorities, it presents a conceptual continuation of several previous national reports. The Report is prepared by a group of independent Russian experts with the participation of UN agencies, with support of the Centre for Strategic Research and a number of government institutions.

The report is special in a number of ways. First, it discusses the strategic outlook for the country's development, an ambitious task in itself. Second, the report tries for the first time to relate the human development dimension to the Government's development priorities through the lens of the customized Millennium Development Goals (MDGs).

The Millennium Development Goals Programme including eight major goals, which are aimed mainly at poverty reduction, was adopted by the international community in 2000 and is to be implemented by 2015.

As noted in the address to readers of the report by the

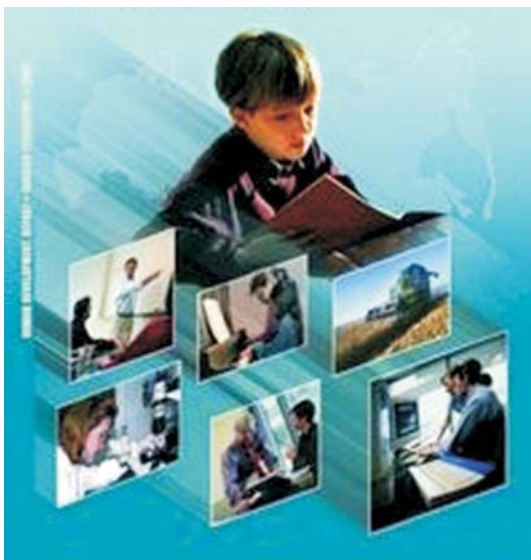
Deputy Chairman of the Government of the Russian Federation A.D. Zhukov, "As many of the MDGs are intended primarily for developing countries, the authors of the Russian Report had to answer difficult questions: How could these MDGs be interpreted for our country? What are the proper targets for their achievement? What could constitute indicators of relevant progress?"

The authors of the report tried to answer these questions by analyzing the aspects of the standards of living and the state policy that are closely connected to the MDGs. Below are some conclusions they made in the course of the analysis.

**Poverty:** Despite the economic growth, the problem of extreme poverty from one to five percent of the population, including the problem of malnutrition, especially in children, remains an important topic for Russia to deal with. We can speak not only about "the child face" of poverty, but we can also state that birth of the second child in a family is a reflection of the consumer-oriented behaviour of the poor. A specific feature of poverty in Russia is that "working poor" account for more than 50 percent of the total poor population.

**Education:** Although Russians are among the most educated nations in the world, the problem of inequality of access to education still exists and is likely to increase. Initial opportunities for children from depressed regions, rural areas or disadvantaged families are getting worse. Pre-school education coverage ranges from 21 percent in Dagestan to 85 percent in the Vologodskaya Oblast. Moreover, the results of international comparative studies show that the process of education in Russia does not comply with the requirements of the post-industrial information society. Even in the sphere of literate reading Russian students, they occupied 32-34th places in 2003 among 40 countries (in 2000 they were 27-29th among 32 countries).

**Healthcare:** Russia is one of 22 countries with high



tuberculosis prevalence and with the highest TB mortality rate in Europe. The situation in the Republic of Tyva with incidence rate of 272 cases per 100,000 people due to prevalence of the poor population and deterioration of the TB prevention system is considered the most dangerous. HIV-infection in the Russian Federation has acquired an epidemic character: according to the UN data, the number of people living with HIV/AIDS amounts to 860,000. The present incidence of STI is still more than 10 times higher than in the European Union and in the former Soviet Union. Currently in Russia, the number of deaths caused by blood circulatory system diseases amounts to 1.2 million while the number of deaths caused by external factors reaches 270,000, most of which are premature and preventable.

## Gender stereotypes and life expectancy:

Socio-economic and behavioural factors connected with gender stereotypes are among major reasons for low life expectancy of Russian men. Stereotypes of men's behaviour in Russia include excess alcohol consumption, drug addiction, and smoking, as a stress reduction measure and a way of demonstrating manhood. Growth of suicides among men is an extreme form of reaction to a growing socio-economic pressure and inability to perform the traditional role of a breadwinner. In the cities, about 7.5 times more men commit suicide than women (74.5 vs. 10 people respectively); suicide rate in the rural areas is higher: 128.3 men vs. 16.7 women. There is a fourfold difference among men and women in death rates caused by transport injuries and murders, which is mainly due to gender behavioural pattern.

## Environment - Positive influence of recession and negative influence of economic growth:

The socio-economic crisis in Russia in the 90's had a positive effect on the environment and allowed reducing the burden on nature. This "break" ended in 1999 when

economic recovery started. Currently about 60 million people live in the areas where the ecological situation is unfavourable and that it occupies 15 percent of the country's territory. Since 1999, the number of cities with an extremely high level of air pollution, where 60 percent of the urban population of Russia lives, has increased 1.6 times.

**Access of women to decision-making:** Despite the fact that women constitute the majority of public service employees in both the executive and the legislative branches of power, they mainly occupy lower or middle positions and are rarely represented at the decision-making level. Women are represented neither in the Government of the Russian Federation, nor in the management of the Government Secretariat, Federal Agencies and Federal Services. There is only one woman among three heads of



the State Funds, who is the head of the Social Insurance Fund. Women account for only 5.6 percent of the members of the Federation Council of the Russian Federation.

## Russia as a member of the international community:

Today, Russia is gradually ridding itself from the role of a recipient of international development assistance and is increasing its contribution to the global development initiatives. Distraction of resources for debt settlement prevents Russia from becoming a full-fledged international development donor. Early redemption of Russia's debt will foster the economic development achievement of a higher quality of life and a considerable enlargement of Russia's resource base for participation in the global partnership for development. In addition, Russia needs to bring the immigration policy in line with the country's interests, as in about 10 years from now Russia will need to accept about two million immigrants to be able to maintain the economic growth rate. The decision to appoint Russia as a Chair of the G8 in 2006 is another proof of the growing role of Russia in the world. A wide range of issues discussed by the G8 to a great extent correlates with the targets set within the MDG framework. ■



## Russian economy a strategy overview

# Long-term consistency in reform process vital

The Russian Federation is committed to applying the principles of multiparty democracy, pluralism and market economics, according to the European Bank for Reconstruction and Development (EBRD). However, in the past Strategy period, application of these principles has been uneven, says the Bank in an assessment of the country's economic performance.

Political stability and consolidation notably through the confirmation of a reform-minded government, the creation of a strong parliamentary majority and the establishment of a common legal space across the Federation is an important achievement which can contribute positively to the country's continued structural reform efforts.

Following a wave of terrorist attacks in North Caucasus and in Moscow, the government has taken steps to reinforce public security and re-establish central political control over the regions. Recent political developments suggest a concentration of power in the hands of the executive and a perceptible drift from democratic practice that has raised concerns in the international community. At the same time, a robust system of checks and balances is the most effective way to guard against potential abuse of power and to encourage policy innovation. In this connection, the Bank welcomes the statement made by President Vladimir Putin following his re-election, defining the creation of "a free society of free people" in Russia as the foundation for economic growth and political stability.

Russia's economic performance over the past two years has been robust, with strong GDP growth and a sharp acceleration in domestic investment. Management of public finances has been sound, with the federal budget



running a large overall surplus for the fifth consecutive year in 2004. Inflation has gradually declined while the exchange rate has remained firm. Foreign investment flow in to Russia, including foreign direct investment, has also accelerated. However, the accumulated stock of FDI amounts to about 6.5 per cent of GDP: only a fifth of the average level of the other European transition economies. The current account has recorded large surpluses in recent years and reserves are at record highs. However, following years of substantial declines, net private capital outflows have increased significantly.

### Reforms stay on track

Structural and institutional reforms have remained on track over the past two years, with progress on several fronts, including tax and fiscal reforms, trade and currency liberalization, advances in creating a new pension system, initial stage reform of the banking sector, public administration, restructuring of the power and railway sectors and in improving the regulatory framework for SMEs. Notwithstanding this positive record, the election cycle in 2003-2004 brought a deceleration in the pace of

reform in important areas, and reform implementation in general remains a major weakness. The investment climate has continued to improve in many respects. However, significant uncertainties and risks have emerged with regard to the protection of property rights, and there have been conflicting signals regarding the role of the state in the economy. Corruption also remains a serious problem. According to Transparency International's Corruption Perceptions Index for 2004, Russia's score of 2.8 out of 10 (where 10 is "clean") suggests that corruption is "rampant". Russia's score is better than most CIS countries, but well below that of the advanced transition economies. Finally, the volatility of the financial markets and capital flows, as well as the recent banking sector turbulence, are important reminders of how vulnerable the economy remains and of the fragility of the confidence-building process.

Although the country's overall macroeconomic and reform performance has been positive, it is not yet based on solid fundamentals. Growth, though helped also by a fundamentally sound macroeconomic policy framework and the beneficial impact of previous reforms, has been to a large extent driven by a combination of favourable external factors, including high commodity prices, abundant global liquidity, low interest rates and strong investor interest in emerging markets. Moreover, the influence of two additional 'temporary' factors in Russia's macroeconomic achievements the boost in competitiveness stemming from a sharp devaluation of the rouble in 1998 and the availability of under-utilized productive capacity have already begun to taper off as growth drivers.

The challenge ahead is to build the foundations for

consistently good long-term macroeconomic performance and steady improvements in living standards, as well as to make the economy less vulnerable to external developments.

Meeting these challenges and making growth sustainable will require advancing a series of wide-ranging structural and institutional reforms to promote:

- modernization and restructuring of the economy;
- the diversification process;
- reform of public institutions, clarifying the role of the state and the rules of the game for private businesses
- reform of the social sector, and
- Russia's integration into the world economy.

The Russian Government has considered these as strategic tasks since the adoption of the original long-term socio-economic and development programme for 2000-2010. Their significance is further increased as the traditional growth drivers are being exhausted and should be replaced by steady efficiency and productivity improvements. The insufficient progress in reforming the state institutions and the social sector has become a crucial bottleneck in the transition process. Clearly faster progress is needed in all these dimensions over the next few years.

Through a broad range of investment operations, its catalytic impact on other investors plus its policy dialogue, the Bank is well-placed to work together with Russia in addressing these challenges. In particular the Bank's

transactions that help to advance technological modernization and efficiency improvements in key sectors of the economy can make a significant contribution towards the goal of strengthening microeconomic foundations for the sustainability of growth and facilitating Russia's integration into the world economy. The Bank can pro-actively contribute to the diversification process across sectors and regions alike, by further supporting small business finance through the Russia Small Business Fund. By being a reliable strategic partner at a time of increased uncertainties, by taking higher risk and providing comfort to investors the Bank can substantially contribute to building and strengthening confidence among the different market participants as well as between businesses and the state.



The Bank will seek non-sovereign financing solutions in sectors and types of transactions traditionally financed directly by the state. The Bank plans to issue Rouble Bonds and use its local currency financing instruments on a wider scale for SMEs, domestically oriented companies and municipalities alike.

## Private sector development

The Bank will have a strong focus on private sector development including broader participation in privatization based on the forthcoming new phase of the Russian privatization process in 2005-2007. The Bank will also provide assistance in IPOs of Russian private and public companies and will encourage more active use of equity participation in its clients' share capital. Improving corporate governance, given the difficult legacy in this regard and its fundamental importance in company valuation, risk management and access to investment finance, remains an overriding consideration for the Bank in the context of the Strategy as well.

The Bank has made expansion of business volume in the Russian regions a top priority in previous Strategies, and the results over the past few years have been encouraging. The Bank now has 250 projects and sub-projects in 41 Russian regions and an increasing proportion of business volume outside the large cities of Moscow and St Petersburg. Currently, 86 per cent of the Bank's project pipeline volume and 84 per cent of the number of projects in the pipeline are being developed in regions outside Moscow and St Petersburg, suggesting that this trend of increasing business (in terms of both the volume and number of projects) in the regions will continue. To sustain and accelerate this trend, the Bank will review resource allocation to the field offices across Russia, with a view towards strengthening the regional presence

during the coming Strategy period.

The Bank will ensure that all its operations in the Russian Federation remain subject to its environmental procedures, and will continue to give due consideration to the social impact of its operations.

## Sectoral priorities

The main sectoral priorities for the time horizon of the strategy will be:

Assisting the modernization and restructuring process of key Russian industries and large enterprises:

- Financing the modernization and efficiency improvement programmes of large Russian standalone companies. Where feasible, the restructuring programme should include energy efficiency and environmental improvement ingredients. In doing so the Bank will seek to expand its volume of greenhouse gas emission-reduction projects and assist the Russian Federation and project sponsors in utilizing carbon trading mechanisms under the Kyoto Protocol. The Bank will also engage its clients to make credible

commitments to improve their corporate governance standards and practices. In particular, the Bank will continue to play a pro-active role in the practical implementation of the Russian Corporate Governance Code, through the requirements placed on its corporate clients where appropriate, in the context of individual projects.

- Supporting the entrance and business expansion of reputable foreign strategic investors and facilitating their role in transferring technology and skills, enhancing





competition, and in setting quality, productivity, environmental and other standards for entire industries. Attracting FDI in the non-energy/natural resource sectors will remain a major strategic orientation.

Broadening the Bank's activities, promoting private entrepreneurship through more active use of equity instruments by:

- Seeking to expand its Russia Small Business Fund programme in terms of intermediaries (supporting banks in developing small business lending operations as an integral part of their business), regional coverage and the range of investment instruments offered.
- Completing the restructuring of the existing Regional Venture Funds and supporting management groups with a good track record with follow-on funds. The Bank will also work towards attracting new investment teams and equity funds into Russia.
- Pro-active efforts to participate in privatization of state or municipal owned production and service companies, infrastructure firms and financial institutions.
- Making equity investments to provide comfort and assistance to foreign investors setting up new ventures.
- Assisting Russian companies and entrepreneurs in building and strengthening their capital base, creating real partnerships through the Bank's investments. This will promote the entrance of more local companies in the domestic and international capital markets with debt or equity instruments.

Assistance in the consolidation and reform process of the financial sector and support to the development of the capital markets by:

- Supporting consolidation of the banking sector, promoting/participating in acquisitions and mergers of banks and assisting in the privatization process of State (and regional government) owned banks.
- Providing a combination of loans, equity participation and policy dialogue to support the implementation of the authorities' new banking sector strategy (to be finalized), and to help strengthen confidence in the private sector financial institutions.
- Working with "pocket" banks with credible commitment to change operations, improve transparency and governance, diversify ownership and become independent.

- Supporting existing foreign banks and non-banking financial institutions and attracting new foreign strategic investors into the financial sector.
- Promoting institution-building and competition among pension, insurance, mortgage and leasing companies.
- Utilizing the Bank's Rouble funding programme to help the development of the capital markets.

Promote upgrading and reform of Russia's infrastructure through:

- Continued active involvement in the restructuring of the country's natural monopolies with special regard to the power sector and possible investment in the gas sector once the reform process takes off.
- Financing the modernisation and expansion of the pipeline infrastructure on a non-sovereign basis while conducting dialogue on tariff issues. Financing new pipeline infrastructure that enhances the integration with neighbouring countries notably under the EU/Russia Energy Dialogue.
- Promotion of institutional reform and commercialization of key state-owned transport sector agencies through public-sector non-sovereign transactions.
- Expansion of municipal projects into more regions and broadening the focus of the portfolio from water-related and solid waste transactions to district heating, urban transport as well as housing projects. Continued focus on institution-building at both the municipal and service-provider company levels.
- Proactive efforts to initiate and participate in public private partnerships and other private sector projects.
- Special emphasis on environmental and nuclear safety projects especially under the Northern Dimension Environmental Partnership framework and the Strategic Master Plan for nuclear waste management.
- Use of sovereign support in cases where it will be required for projects of national and/or social priority, for instance where the assets are owned directly by the State, or when they are financed together with the European Investment Bank.

In implementing this Strategy, the Bank will continue to co-operate closely with other international financial institutions and donor organizations, including but not limited to the relevant agencies within the World Bank Group, the Nordic

As Key Engines of Economic Growth...

# SMEs need access to global markets

- Exim Bank Study

Small and Medium Enterprises (SME) play a vital role in the industrial development of every country, especially in developing nations such as India. The importance of the SME sector is well recognized the world over from its significant contribution towards achieving various socio-economic objectives of a nation. These include a higher growth of employment and production, promotion of exports and fostering of entrepreneurship.



## Definition of SMEs in India and world over

In India the small and medium enterprises are not well defined. The internal group set up by the Reserve Bank of India (RBI) has recently recommended that units with an investment in plant and machinery exceeding the SSI limit and up to Rs. 10 crores may be treated as a medium enterprise.

The definitions of 'small' and 'medium' sized enterprises differ from one country to another. SMEs have been defined against various criteria such as the number of workers employed, volume of output or sales, value of assets

employed, and the use of energy. Organization for Economic Cooperation and Development (OECD) defines establishments having up to 19 employees as 'very small', between 20 and 99 employees as 'small', from 100 to 499 employees as medium and over 500 employees as large enterprises. Many establishments in some developing countries with 100 to 499 employees, are regarded as relatively 'large' firms.

## Significance of SSI in India

The SSI sector in India employs around 26 million people and is involved in the production of more than 7500 industrial items with the product range varying from very

simple items produced with traditional technology to high-tech items. At present, the SSI sector accounts for over 90 per cent of industrial units in the country; 40 per cent of value addition in the manufacturing output and approximately 35 per cent of India's exports.

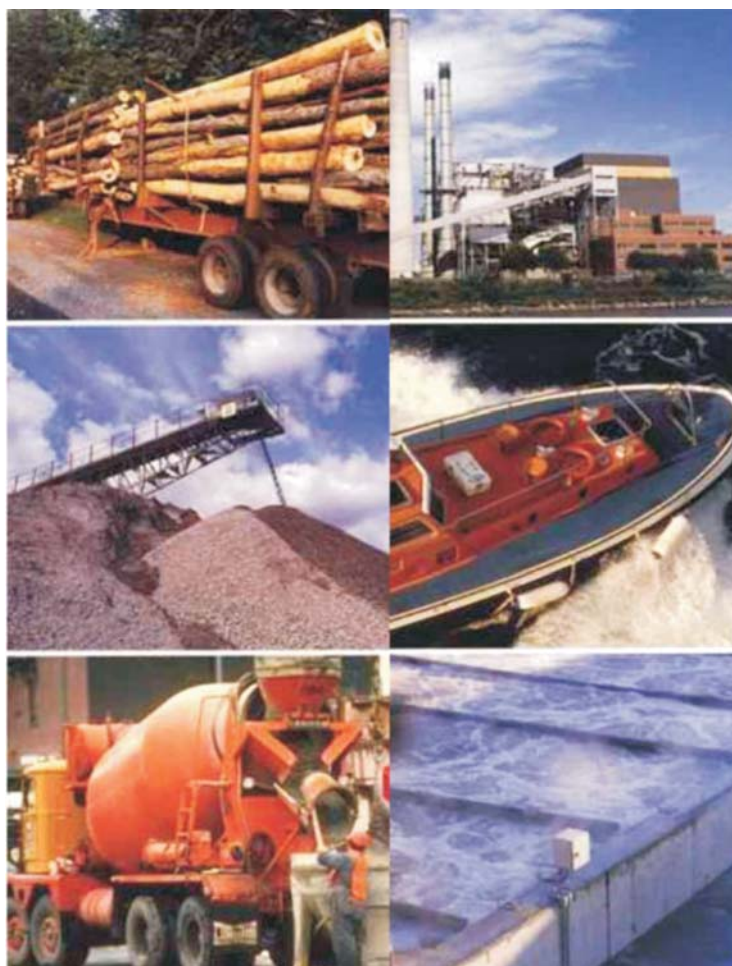
## Export Performance

The SSI sector in India has been displaying a remarkable export performance in the recent past. Barring a few bad years, exports have grown by a double digit in the last 10 years. Exports at current prices in 2002-03, the latest year for which data is available, stood at Rs. 86,000 crores. This works out to about 34 per cent of total exports in India in the same year. Major sectors contributing to SSI exports include readymade garments (27 per cent), engineering goods (14.5 per cent), chemicals & pharmaceuticals, electronics & computers, and processed foods (11 per cent each). In terms of export orientation, sports goods contribute 100 per cent exports from the SSI sector, followed by readymade garments (90 per cent), leather (70 per cent), marine products (47 per cent) and chemicals & pharmaceuticals (44 per cent).

Over the last 10 years, the share of SSI exports has increased in most of the sectors. At the same time, in some sectors, the share of SSI units in total exports has come down. The SSI intensive sectors that have witnessed increase in export share include engineering goods, chemicals and allied products, plastic products, processed foods, marine products, woollen garments and knitwear, processed tobacco. Sectors such as basic chemicals & pharmaceuticals, finished leather and leather products, synthetic and rayon products have witnessed a declining share in total exports. Sectors like readymade garments and sports goods followed a neutral trend, with the share remaining the same.

The 12, SSI intensive sectors accounted for about 95 per cent of total SSI exports from India in 1991-92. However, the share has come down to 85 per cent in 2002-03. While these sectors have improved their cumulative share in India's total exports from 51.6 per cent in 1991-92 to 55.5 per cent in 2002-03, the export share of SSI units in these sectors has come down from 58.4 per cent in 1991-92 to 52.4 per cent in 2002-03. Thus, it may be inferred that, since liberalization, more and more exporting units from the SSI sector have been increasing their capital investment to come out of the SSI net and emerge as global players. Such a trend is happening especially in sectors like basic chemicals, pharmaceuticals, engineering goods, leather and textile sectors.

There are no official figures for compilation of export performance by the medium scale units. However, analysis has been made using the India Corporate Database of the Centre for Monitoring Indian Economy (CMIE), which represents more than two-thirds of the Indian manufacturing sector. Analysis has been made to measure the export performance of medium scale units in select sectors, using two definitions, viz., based on capital investment, as defined by RBI, and based on sales turnover of units up to Rs. 75 crores. The analysis revealed that



sectors like food and beverages, chemicals, auto-components, machinery, electronics, metals, castings and forgings have witnessed increasing export orientation trends over the last decade.

However, the export orientation of sectors like leather, textiles and readymade garments has more or less remained static over the period. It may be inferred that these sectors, since they require plenty of capital investment to meet the global challenges, need to be kept out of any limit on capital investment, to emerge as global players.



## Exim Bank and SMEs

Export-Import Bank of India (Exim Bank) has been focusing on SME exporters as a significant target group of clients. In the past, Exim Bank has implemented a number of innovative programmes focusing primarily on SMEs. The Bank, in the past, has operated an Agency Line of Credit for IFC and an Export Marketing Programme for the World Bank, which are targeted towards the SME sector. The Bank proactively assists SME units in establishing their products in international markets. Exim Bank's Lines of Credit help SMEs to offer competitive credit term to the buyers and to explore newer geographical markets. Recently, the Bank signed a Memorandum of Cooperation with the International Trade Centre (ITC), Geneva, to implement the Enterprise Management Development Services (EMDS) programme, for supporting SMEs in their globalisation efforts. This initiative is being launched by ITC for the first time in any country.

## Constraints & Strategies

### Constraints

The constraints faced by the SSI sector include product reservations, regulatory hassles both at the entry and exit stages, insufficient finance at affordable terms, inflexible labour markets and infrastructure related problems - like high power tariff, and insufficient export infrastructure. These are briefly elaborated below:

- The policy of product reservations has restricted operation of economies of scale and greater efficiency in the small scale sector.
- Starting a business in India requires number of permits, even after the initiation of the liberalization programme, as compared to many other developing Asian nations.
- Insufficient finance at affordable terms is another challenge daunting the performance of the Indian SME sector.
- Infrastructural bottlenecks such as transportation and communication facility and insufficient export infrastructure increases the transaction cost of SME units in India.
- Problems in assessing adequate and reliable power at an affordable price is another key constraint faced by the Indian SMEs.

### Strategies

SME development requires a cross-cutting strategy, that touches upon many areas. Apart from conducive policies,

there is a need for simplified legal and regulatory framework, good governance, abundant and accessible finance, suitable infrastructure, entrepreneurial skill development infrastructure and competitive environment. Some of the strategies are highlighted below:

- Conducive WTO-compatible policies are required for this sector to decide on various issues such as cap on capital investment, ceiling on FDI, interest subsidy, de-reservation of items, creation of a technology upgradation fund.
- Existence of an adequate institutional framework and an efficient administrative system, along with deregulation of economic activities, would facilitate restructuring of the Indian SMEs.
- The small and medium scale enterprises could be defined as one entity for policy purposes, with the objective of facilitating higher investment and thereby encouraging the technology upgradation.
- Reservation of items should be phased out substituting promotional support to strengthen their globalisation efforts.
- Reengineering the entire gamut of regulatory processes, especially at the state and local levels, with the objective of installing transparent policies would bring down the cost of investment related delays.
- SMEs should be encouraged to work in a cluster environment ensuring complementarities, common activities, collective goods and institutional stability. This strategy requires sector specific actions, aimed at increasing the competitiveness of the cluster, promoting networks and cooperation amongst firms.
- There is a need for development of a comprehensive programme for improving the technology base and strengthening of innovation culture in SMEs.
- Management skills are very necessary for the success of SMEs in any developing country. Strengthening National Entrepreneurship Development Board, devising comprehensive plan for promotion of rural entrepreneurship, fostering close linkages with premier institutions engaged in management and entrepreneurial training may be considered on a priority basis.
- Access and integration into local, national and global markets require substantial investments. Partnerships between various stakeholders, viz., Government, society and industry, foster such an investment. ■

# Proper channeling, better use stressed Remittances A lifeline for developing economies

After leaving for better lives abroad, emigrants often send money home to their native countries as remittances. The impact of these funds is staggering, but they could be better channelled.

"If you can't be there, your money can," reads the slogan on Western Union's website. It could equally be a précis of the increasing role emigrants are playing in helping economies, especially developing economies, grow.

The physical disconnection of millions of migrants from homes, families and friends in search of better lives abroad is partly bridged by a financial connection. It's a simple formula. Developed countries attract migrant workers, and migrant workers send home money as remittances.

The World Bank estimates that annual global remittance transfers add up to approximately \$150 billion, with the lion's share going to the developing countries. That's more than total annual government aid to poor countries and in some cases exceeds foreign direct investment.

In parts of central and eastern Europe, where the concept is relatively new due to the lack of migration under communist regimes, remittances can account for more than 15 per cent of a country's gross domestic product. In Moldova that figure exceeds 23 per cent. This region is now attracting around \$14 billion a year in remittances that pass through official channels.

## Informal channels

It is believed that far larger amounts are transferred unofficially. Emigrants may not trust banks and/or there may not be banks operating near their home towns where they send remittances so in many transition countries most remittances enter through informal channels, often in the back pockets of workers travelling home on visits. In Albania, for example, the central bank estimates that, until recently, 77 per cent of emigrants used unofficial means to transfer cash, usually bringing it home themselves.

This means that significant amounts of money bypass official financial systems, money that could otherwise contribute to building the official economy.

The big question facing governments and central banks today is how to further improve the impact of these huge inflows of money on their economies. To address this subject, the European Bank for Reconstruction and Development (EBRD) recently arranged a seminar, sponsored by the Swiss government, on remittances around the world. The event attracted central bankers from central and eastern Europe and the Commonwealth of Independent States, in order to share views and experience with senior staff from International Financial Institutions, the Bank for International Settlements and representatives from the US and the Philippines.

"It is becoming clear that remittances are a crucial part of the wider model for developing economies," said EBRD President Jean Lemierre. "The EBRD is therefore taking an active role in promoting the awareness of remittances, improving ways to better channel these funds, and building on lessons learned from different countries to make better use of money transfers in the future."

Adrian Fullani, Governor of the Bank of Albania, said: "Remittances are one of the most important sources of finance for developing nations and therefore we must establish an environment that can enhance their impact on the overall development process."

One way to do this is to improve legislation and regulation to gain people's trust, and to ensure



predictable and safe money transfers. By developing more formal routes for money transfers, countries can help integrate these funds in the wider economy. Jean-Marc Peterschmitt, EBRD Director for Bank Lending, believes making better use of local banks is crucial for leveraging the impact of remittance flows.

Some of the biggest recipients of remittances are people living in poorer, more rural areas, people with little knowledge or access to banking systems. "It is a question of educating people to use local banks and open an account, and banks using the opportunity of remittances to offer specifically tailored products," said Peterschmitt. "And banks must reach out more through extended branches or agencies."

Encouraging beneficiaries to use local banks will help strengthen the banking sector, expand credit availability and new products in transition countries. There is also an upside for those sending money. With transfer fees often very high, encouraging a more formal means can create a

more competitive environment.

"It is a win-win situation," says Peterschmitt. "Banks and the economy will benefit, and new customers can benefit from products they were never aware existed such as interest on savings, or leveraging money for mortgages or loans to start a business."

The EBRD is looking at opportunities in directing remittance flows more effectively. The Bank could, for example, work with local banks to help develop new remittance-based products while addressing barriers to bank use such as high administration costs; it could also help banks establish international networks to benefit senders and receivers of remittances.

"It is obvious that remittances are an asset not yet being used properly," said Lemierre. "It is a question of creativity and innovation to better manage the flow of these resources. This way they can further benefit individuals and economies alike."

## Big UN presence at Moscow World Book Fair

Twelve UN agencies participated in the 18th International Book Fair, held recently in Moscow. Book market professionals from 54 countries of the world gathered at this major cultural event. Over 900 displays prepared for the participants were accommodated in two large All Russian Exhibition Centre (VVTs) pavilions.

The United Nations Representative Office in Russia, along with 12 other UN agencies, comprising WHO, World Bank, UN Information Centre, WFP, ILO, UNDP, UNHCR, UNODC, UNESCO, UNICEF, UNFPA and UNAIDS participated in the book fair.

Approximately 5,000 people visited the UN stand and received about 9,000 UN publications, including reports, magazines, bulletins, and brochures. The topics varied from the UN 60th anniversary to international law, socio-economic development, human rights, fighting HIV/AIDS, food aid, population, healthcare, fighting illegal drugs trade, situation with children, education and culture issues, situation with refugees. Half of the visitors were students and professors from higher education institutions.

While communicating with the visitors the exhibitors at the UN stand understood that what they had brought to the exhibitons was far from enough and that the interest in the United Nations activities and programmes in Russia was really great. The most popular publications on the stand were those produced by WHO, ILO, UNDP, UNESCO, and the World Bank.





# Privatization key to success

## Two-year strategy to boost Tajik economy



reduction in inflation was also observed during the course of 2004, partly thanks to improved monetary policy and its governance. The state budget remains in near balance (excluding public investment programmes) and the expenditures are in line with the objectives set out by the Poverty Reduction Strategy Paper (PRSP). Moreover, the bilateral debt reduction agreements with Russia and Pakistan have led to a significant improvement in the external debt position, reducing the external debt of the GDP ratio to 40% from 82% two years ago. Nevertheless, given the limited fiscal resources, the government continues to limit externally financed public investments to four percent of GDP annually. The authorities continue to refrain from borrowing any non-concessional loans.

A new two-year (2006-07) strategy for Tajikistan assessed the country's progress towards a market economy as clearly evident, while transition towards a multi-party democracy and pluralism remained uneven, according to the European Bank for Reconstruction and Development (EBRD).

### Market Economy

Over the past two years Tajikistan has made progress towards implementation of the principles of Article 1 of the agreement establishing the Bank. Progress towards a market economy was clearly evident, while transition towards a multi-party democracy and pluralism remained uneven, with the last parliamentary elections in February 2005 failing to meet international standards, despite showing some improvement over previous elections.

Macroeconomic conditions in Tajikistan have improved during the past two years. The economy grew by 10 percent annually during 2002-2004, supported by increased consumer spending fuelled by higher incomes and foreign remittances as well as greater output of aluminum. A sharp

### Poverty reduction

Tajikistan remains one of the low-income countries among the Bank's countries of operation, with a per capita income of US\$ 316 in 2004. The government has been committed to a Poverty Reduction Strategy since 2002 and a certain measure of success in reducing poverty has already been achieved, as indicated in the 2004 PRSP progress report. Nevertheless, the level of poverty remains high. During the last Consultative Group meeting in November 2004, multilateral and bilateral donors confirmed their support of the policies set out by the PRSP and stressed the need for



comprehensive land reform, a reduction of barriers to private sector development, urgent improvements to local service delivery by strengthening local government capacity and improvements in public sector efficiency and accountability.

## Privatisation

Tajikistan maintains the managed floating exchange rate regime with full currency convertibility. The country made rapid progress in small-scale privatisation and price and trade liberalisation in a difficult environment during the 1990s. However, little progress has been made in the areas of large-scale privatisation, enterprise restructuring and governance, and market-orientated development of infrastructure. Although steady development has been made in recent years, the financial sector still remains weak, and has not yet provided the corporate sector with sufficient financing sources, especially for micro and small enterprises.

## Key transition challenges

The country still faces enormous challenges in moving forward, relating to a complex political situation in a

potentially volatile region, and the combination of key development issues with specific transition challenges, in line with the Millennium Development Goals. Government capacity to introduce, implement and enforce new legislation remains weak and the functioning of domestic markets is still impeded by many informal and physical barriers.

Under these circumstances, the key transition challenges are:

- Private sector development through enterprise restructuring and privatisation of large state-owned enterprises, as well as through improvements in corporate governance and the business environment.
- Creating a financial sector that is able to function as financial intermediary, attracting private savings and meeting the financial needs of private domestic enterprises.
- Promoting commercialisation and private sector participation in public infrastructure, with an initial focus on hydro-electricity.

To achieve these goals, impediments such as corruption and excessive bureaucracy need to be reduced and the accountability of private and public activities require improvement.

## Financing the private sector

Given the macroeconomic environment and the stage of reforms mentioned above, the Bank, with a strong commitment to deliver more projects, will focus on the following during this strategy period:

- The Bank will continue to focus on micro businesses, through further development of micro and small business credit lines administered by local banks and non-bank financial institutions. A particular focus will be to develop the branch networks, fostering penetration of financial institutions in secondary cities and towards the rural areas, thus increasing financial intermediation in rural areas and the agricultural sector.
- In parallel, the Bank will initiate the launch of much-needed SME facilities through local banks with technical cooperation. The Bank will also continue to promote





enterprises engaged in foreign trade through the Trade Facilitation Programme. In addition, it will seek to attract regional and international investors, from Russia, Turkey, China, Kazakhstan, Pakistan and India, particularly in the agribusiness and financial sectors. The Bank is ready to support further efforts on the part of the government towards large-scale privatisation, if improvements in corporate governance, efficiency and transparency can be achieved.

- The Bank will make use of the recently launched ETC products to explore opportunities for direct financing in a number of key sectors, including agribusiness and food processing, textiles and other light industries, construction materials, property and tourism, natural resources and telecommunications. The new banking tools introduced with the ETC initiative, such as the Direct Lending Facility, Direct Investment Facility, Medium Co-Financing Facility (MCFF), as well as the support of a team dedicated to the ETC Initiative, are well adapted to the Tajik scale and will enhance opportunities to develop local and smaller projects.

## Strengthening the financial sector

Despite significant improvement and consolidation, the banking sector still has a limited impact on economic development. Given the constraints of a small capital base, the Bank will be more proactive in advocating increased capitalisation and will remain ready to support the entry of new private investors, i.e. reputable local investors and regional and international investors, including Russia and Kazakhstan, and will seek further opportunities for equity participation, in order to strengthen the banking sector's institutional capacity.

The Bank will actively seek opportunities to involve more banks in its programmes, including the Micro and SME credit lines, TFP and MCFF. It will strengthen the banking sector through Technical Cooperation activities, including capacity and institution building programmes, seminars and legal advice on anti-money laundering, banking supervision, credit bureau and advice on the introduction of sound deposit insurance.

The capacity to expand the full range of bank lending products (MF, SME and TFP) will be constrained by the size and strength of the partner banks. The Bank will therefore continue to utilise the Central Asia Risk Sharing Special Fund's, bilateral risk mitigation facilities and ETC funds to maximise exposure to local banks.



## Supporting critical infrastructure

The investment needs in infrastructure are considerable and remain critical to the country's development as well as to the attraction of foreign investment, but progress is constrained by limited public resources and restrictions on sovereign borrowing. Given the Bank's inability to provide concessional loans, the Bank will consider financing non-sovereign infrastructure that produces cash flows to meet debt repayments without recourse to sovereign guarantees. This could be the case in the hydro power sector which should develop considerably in the coming years.

In the municipal infrastructure and transport sectors, including road and air transportation, in which the Bank has developed much needed expertise, the Bank will attract further donor grants to blend with its resources, in order to achieve the necessary concessional terms. The ETC initiative and bilateral support should enhance the availability of such funds. The Bank will cooperate with the ADB and the WB Group with a view to participating in road and power transmission projects.

## Policy dialogue

During the strategy period, the Bank will strengthen its policy dialogue with the authorities, in order to improve the investment climate, governance, transparency and to support reform efforts. The Bank will coordinate closely with other IFIs and the business community within the existing donor coordination structures. As noted above, the Bank will seek co-financing opportunities with other IFIs and bilateral institutions to mobilise greater resources, especially in the hydro power sector and in projects that could enhance regional cooperation. ■



## Slow pace of transition in Belarus

# Political will needed to bring economic reforms



The European Bank for Reconstruction and Development (EBRD) says it remains seriously concerned about the slow pace of transition to democracy and market economy in Belarus. During the last Country Strategy period there has been only limited progress in the authorities' commitment to, and application of, principles of multi-party democracy, pluralism and market economics. In some areas there has been backtracking. Given the lack of sufficient progress in reaching the benchmarks proposed in the previous Country Strategy, the Bank's operations will remain along the lines of the Baseline Scenario outlined in that Strategy.

### Private sector development

In the period covered by the new Country Strategy, the Belarusian authorities will have an opportunity to demonstrate the political will to introduce substantive, concrete reforms in both political and economic spheres. In the meantime, given the current difficult environment in Belarus and to achieve the Bank's transition objectives, the

Bank will continue to focus its activities by supporting private sector development, through policy dialogue. This approach is consistent with the wish expressed by local NGOs, business representatives and others, for the Bank to stay engaged and to support reform.

The 2002 Strategy proposed three alternative scenarios as a graduated response to domestic circumstances, referred to as a Baseline, an Intermediate and a Regular scenario. This approach makes the degree and nature of the Bank's engagement in the country dependent on the course of action chosen by the Belarus authorities themselves and their demonstrated willingness to deliver verifiable improvements in the political and economic spheres.

Over the past Strategy period, the Bank has followed the Baseline Scenario outlined in the 2002 Country Strategy, which was further fine-tuned in subsequent Strategy Updates mainly as a result of developments in the banking sector. The Bank has continued to finance SMEs and micro-enterprises via the existing SME Credit Line through two private banks, expanded the use of these resources to working capital and leasing, increased the limit under the Trade Finance Programme (TFP), and arranged a syndicated facility, the first for a Belarus borrower, of US \$36 million to Priorbank. No new technical cooperation projects were approved.

Going forward, and in the absence of any significant progress in the political and economic spheres, the Bank will continue to operate in the country according to the Baseline Scenario presented in the last Country Strategy. With some refinements detailed below, the Bank will have sufficient flexibility under this scenario to respond to new developments in the private sector. As in the previous



Strategy, the Bank views this approach as the most appropriate way to further its enduring objectives to strengthen private entrepreneurship at the grassroots level, promote the growth of a middle class, and continue to build domestic constituencies for reform. All the Bank's operations under the Baseline Scenario must demonstrate that the investments are not effectively controlled by the state or state entities, and government officials will not personally benefit financially from such investments.

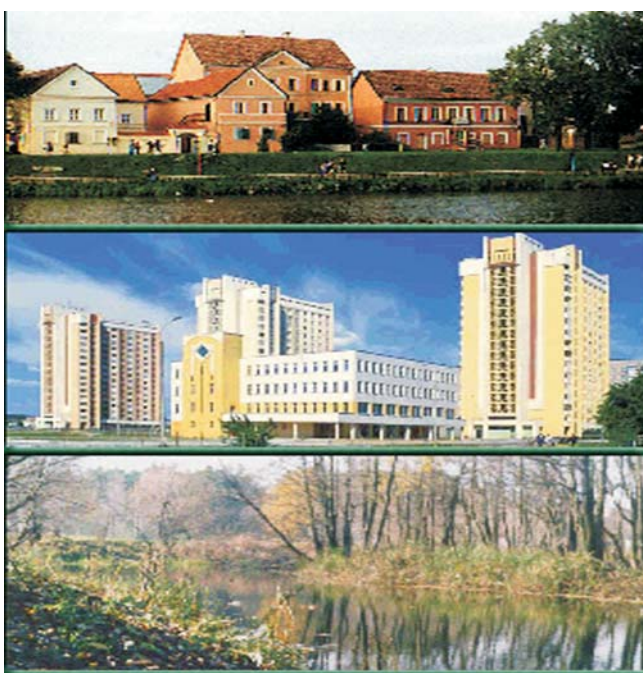
## Priorities

In the coming Strategy period, the Bank will focus on the following priorities:

- Portfolio management of existing investments in Belarus, including continued support to SMEs / MSEs through the existing sovereign SME Line of Credit approved in 1994 (which is fully committed and under which reflows are limited);

Advisory services to SMEs via the Bank's Turn Around Management (TAM) and the Business Advisory (BAS) programmes, provided funding from donors which will be made available;

- Selective direct investments in local and foreign private companies, including through the Direct Investment Facility (DIF) programme;
- Expansion of the trade facilitation programme to additional bona fide private banks.



In accordance with the need to support private SMEs and MSEs, Foreign Direct Investment, as well as competition in the financial sector, the Bank will consider providing SME / MSE credit lines directly to individual private banks, and equity investments in private banks, together with related technical assistance, when the investments are small, particularly if this can be done alongside reputable international strategic investors, and the State has no control, including veto power over decision making.

## Policy Dialogue

The extent to which the Bank can put in place the types of transactions envisioned above will hinge on the overall investment climate in the country. With the objective of helping the authorities to improve the business environment and strengthen the financial sector, including identifying obstacles faced in these areas, the Bank will continue to cooperate actively with the authorities through policy dialogue, including participation in the Foreign Investors' Advisory Council (FIAC).

## Intermediate scenario

If Belarus were to make significant progress in transition towards democracy and a market economy, then the Bank would be in a position to conduct a broader range of operations as envisaged in the Intermediate Scenario. As in the previous Strategy, the Bank will employ a number of benchmarks that have been agreed by the international community in gauging progress in political and economic reforms.

a) Political benchmarks: The United Nations Commission on Human Rights and institutions within the OSCE, European Union and Council of Europe has stressed the need for tangible evidence of progress in the following areas:



- Preservation of the right to freedom of expression and freedom of media.
- Non discrimination against political opponents and the introduction of confidence-building measures, to include a full and impartial investigation in the cases of forced disappearance of several political opponents, in conformity with the country's commitments under the International Covenant on Civil and Political Rights; and Compliance with the country's OSCE commitments under the 1990 Copenhagen Document for free, fair, accountable and transparent elections. The upcoming parliamentary elections provide a clear opportunity for the current

Should evidence of significant progress emerge in these domains, the resultant improved investment climate would allow the Bank to consider, on a project-by-project basis and in consultation with the Board of Directors, further involvement in the Belarus economy.

The main operational priorities of this Intermediate Scenario would include:

- Participation in privatisation support for local private companies and foreign strategic investors, provided it can be shown that the proposed investments are not effectively controlled by the state or state entities and government officials will not personally benefit financially from such investments.
- Contribution to the commercialisation and privatisation of public utilities and services limited to provision of technical assistance.
- Encouragement of the privatisation and consolidation of state banks through the provision of technical assistance and very selective financing to the privatised banks.



leadership in Belarus to demonstrate the political will needed to implement these commitments.

b) Economic benchmarks: Business cannot function efficiently unless measures to dismantle the over-centralised system of economic management are in place. The Bank, together with the IMF and the World Bank, stresses the importance of:

- Phasing out administrative interventions in the economy, particularly artificial restrictions on business.
- Acceleration of the denationalisation and privatisation processes.
- Putting in place measures to secure property rights and improve corporate governance.

If transition in Belarus were to proceed to the point that Belarus' commitment to democratic principles is demonstrably achieved and the domestic economy does not place constraints on EBRD activities in the country, the Bank could engage with Belarus according to a Regular Scenario with the normal range of its operations. In this case, the EBRD would be able to deploy the full range of its investment and lending facilities in Belarus, including financing for public sector projects and private-public partnerships. The Bank will continue to carefully monitor the political and economic situation in Belarus, and if the conditions for this Regular Scenario emerge, the Bank will propose a new Strategy for approval by the Board of Directors.

However, under current conditions, support for private sector development remains the most appropriate way for the Bank to advance the transition process in Belarus. ■





## \$87-mn for North-South supply line for power sharing

# Kazakhstan poised for balanced economic growth

The European Bank for Reconstruction and Development (EBRD) has sanctioned a loan of \$87.8 million for the completion of a new transmission line allowing the north of Kazakhstan to transmit its surplus power to the more populated south of the country. This will aid both the development of a Central Asian regional energy market and promote the diversification of Kazakhstan's economy away from dependence on oil and gas. The move will not only benefit populations in both north and south but also businesses based in the latter.

The loan to the state-owned Kazakhstan Electricity Grid Operating Company (KEGOC) finances the construction of the second and third sections of the new 500 km North-South electricity transmission line over 865 km of the line running between Ekibastuz and YukGres. Two substations will also be expanded. This deal follows a \$60-million loan agreement signed last year for the first 270-km line between YukGres and Shu.

The EBRD is acting as a lender of record for the full \$87.8 million. Of this, \$35 million has been syndicated to Raiffeisen Zentralbank Oesterreich (RZB), Bayerische Landesbank (BLB), Calyon and Citibank.

"This commercial financing demonstrates KEGOC's ability to attract international commercial banks for long maturities on the basis of a domestically based security," said EBRD President Jean Lemierre at the signing in Almaty.

EBRD's \$52.8-million portion is being lent for 12 years with commercial banks providing 9-12 year credit. The Development Bank of Kazakhstan is also lending the equivalent of \$53 million, and the International Bank for Reconstruction and Development (IBRD) has agreed to provide a \$100-million sovereign-guarantee loan for the project.

"The financing constitutes an important milestone in KEGOC's corporate development, in particular in its ability to attract competitive financing from international commercial banks without the benefit of a sovereign guarantee," said Anthony Marsh, Director of EBRD's Power and Energy Team. ■



# Finnish firm to set up pulp mill in **Russia**, to **export** paper products

A long-term loan from the European Bank for Reconstruction and Development is helping one of the leading players in the international wood market switch its strategy from only importing raw Russian timber to outsourcing processing facilities to Russia in a landmark deal for the country's forestry industry.

The €22.5-million nine-year loan is financing the building of a greenfield sawmill near the small town of Podporozhye, 300 km northeast of St. Petersburg by Europe's second-biggest pulp producer, Finnish Oy Metsä-Botnia Ab. The mill once completed, will employ around 120 workers.

A network of sawmills initiated with this €55 million investment is the first step towards Botnia's stated long-term goal of building its own pulp mill in northwest Russia.

The sawmill will have a capacity of 200,000 cubic metres of wood a year and most of its output will be exported to the Japanese and European markets. It will handle spruce logs, the bark of which will be stripped off to feed the mill's own thermal power plant and thus produce the heat needed to dry the processed wood.



Most of the wood needed by the mill will be bought from external suppliers. Botnia's local subsidiary, LLC Svir Timber, will, in keeping with the group's wood procurement procedures, control the origin of timber and only buy raw material from approved wood suppliers.

Botnia specializes in the production of pulp for the manufacture of top quality printing and writing papers, packaging boards and tissue. Its shareholders include three of the world's leading forest companies, UPM, M-real and Metsäliitto, which are also based in Finland. ■



# Russian bank gets fund boost to foster trade with Scandinavia

The European Bank for Reconstruction and Development (EBRD) has agreed to take a stake up to 15 percent in OAO Hansabank, a new entity established by the largest financial services group in the Baltics to foster trade between Russia and its Baltic and Scandinavian neighbours.

The investment of two change RUB 440 million by the EBRD follows the recapitalization of a small Russian bank bought by the Swedish-owned AS Hansapank in order to turn its Russian arm into a full service bank offering financing and cash management products to Baltic, Scandinavian and Russian corporate customers.

The Moscow-based Hansabank plans to open offices in St. Petersburg and Kaliningrad to foster cross-border trade and investments in order to strengthen links between these key Russian regions and their neighbours in the European Union.

The EBRD was a minority shareholder in AS Hansapank until earlier this year when Sweden's Swedbank completed the increase of its stake in the financial services group to 100 percent. Hansabank Group runs retail and corporate banking in the three Baltic states, as well as offering life insurance and asset management.



In 2002, the EBRD also helped the Baltic group set up Hansa leasing Russia, which quickly established itself as the leader of railway freight cars in the country.

The Russian Hansabank is the legal successor of OAO Kvest, a small Russian bank, into which AS Hansapank injected €79 million in new capital after purchasing it.

"EBRD welcomes the opportunity of embarking on a new project in Russia with a trusted partner and feels confident that this new bank will stimulate competition in the sector by introducing new high quality products to the market," Kurt Geiger, EBRD Business Group Director in charge of financial institutions, said at a recent signing ceremony in Moscow. ■

## Turkish-owned Uzbek cotton mill gets funding to export garments

The European Bank for Reconstruction and Development (EBRD) is lending \$8 million to Bayteks Tikaret, a privately owned company, to build and operate a modern plant in Uzbekistan to manufacture knitted cotton garments, mainly for export.

Uzbekistan is one of the world's largest cotton producers and the second largest exporter. However, despite the government's strong support for textile investments, only about 28 per cent of total cotton fibre output is processed domestically because the country lacks manufacturing capacity.

Bayteks Ticaret will employ more than 1,200 people and manufacture, at full capacity, about eight million pieces of quality basic and polo T-shirts a year. Bayteks Ticaret is owned by two private Turkish textile

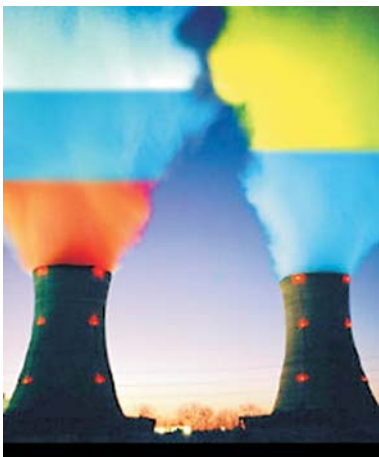
companies, Baha and Ultas.

Haluk Bayatli, General Manager of Bayteks and a major shareholder of Baha said at the signing ceremony in London that Bayteks has made a strategic decision to expand its production base outside Turkey, to Uzbekistan, where production costs are considerably lower, in order to supply to its existing and potential clients in export markets such as the EU, USA and Russia.

The five-year loan will cover 29 per cent of the cost of building the new plant in the capital, Tashkent.

This investment is part of the EBRD country strategy for Uzbekistan, which focuses on supporting private-sector development and entrepreneurship, particularly SMEs and micro-business, provided that there is no direct or indirect link to the government or government officials. ■





## \$20-mn loan for Ukrainian energy saving project

The European Bank for Reconstruction and Development (EBRD) is supporting energy efficiency investments in Ukraine with a \$20 million sovereign loan which will be on-lent to the Ukrainian Energy Service Company (UkrEsco) to finance energy efficiency projects designed and implemented by the company.

Ukraine remains one of the most energy-intensive countries in the industrialized world in terms of energy consumption per US-Dollars of GDP. This places a substantial burden on the Ukrainian economy and environment.

UkrEsco, presently a majority state-owned closed joint stock company, was set up in 1998 by a joint initiative between Ukraine, the EBRD and the EU. Since its establishment, the company has successfully expanded into a full-service provider, implementing projects across a wide spectrum of industries and technologies. To-date, UkrEsco has

implemented 19 energy saving projects ranging from the installation of new co-generation systems to the refurbishment of boiler houses and modernization of compressed air systems.

The \$20 million loan will enable UkrEsco to continue investing in energy saving projects in the private and public sector in Ukraine. The loan proceeds will be used to finance the purchase and installation of equipment in projects and the implementation of new technological solutions for clients.

Peter Reiniger, EBRD Business Group Director for Energy, said the loan illustrates the importance the Bank places on financing energy efficiency investments throughout its region. Helping companies and institutions improve their energy consumption is a key priority for the EBRD, as these investments have the potential to lower costs and enhance companies' competitiveness, while having a positive impact on the environment and on climate change.

Since the beginning of its operations in 1993, the EBRD's cumulative investments in Ukraine stand at €1.9 billion through more than 70 projects. ■

## Russian consumer finance bank gets \$30 mn loan

The European Bank for Reconstruction and Development (EBRD) is lending 840 million roubles (the equivalent of \$30 million) to Bank Renaissance Capital, one of the leading players in Russia's rapidly developing consumer finance sector.

The interest rate on the three-and-a-quarter-year loan is based on the 3-month MosPrime rate. This reference rate was used by the EBRD when it became the first International Financial Institution in May to tap Russia's domestic bond market, launching a landmark five-year Floating Rate issue to raise five billion roubles.

With the exception of a few large universal banks, the majority of consumer finance banks in Russia do not have access to rouble funding because they do not collect deposits from the public.

The volume of loans made to individuals has doubled in Russia for the last two years in a row, reaching \$22 billion by the end of 2004, but its retail loan market still lags far

behind that in other transition economies. Retail lending represents less than 5 percent of GDP in Russia against over 20 percent in Estonia.

The recent growth in consumer lending in Russia started from a very small base and the Russian consumer remains substantially under-leveraged. Merchant credit remains the dominant source of consumer finance in the country.

However, lending focused on consumers and small businesses has become increasingly attractive for banks in Russia as margins in traditional sectors such as corporate lending have tightened.

Bank Renaissance Capital is the consumer finance bank of Renaissance Capital Group, one of the leading independent investment banks in Russia. The bank started its consumer lending programme in March 2004 and specializes in providing sales, finance loans, cash advances, car loans and mortgage loans to its customers in over 20 regions and cities of Russia. ■



## Двусторонняя торговля Индии с р-ом СНГ поощряет инвестиции

# Большие перспективы для двустороннего потока ПИИ

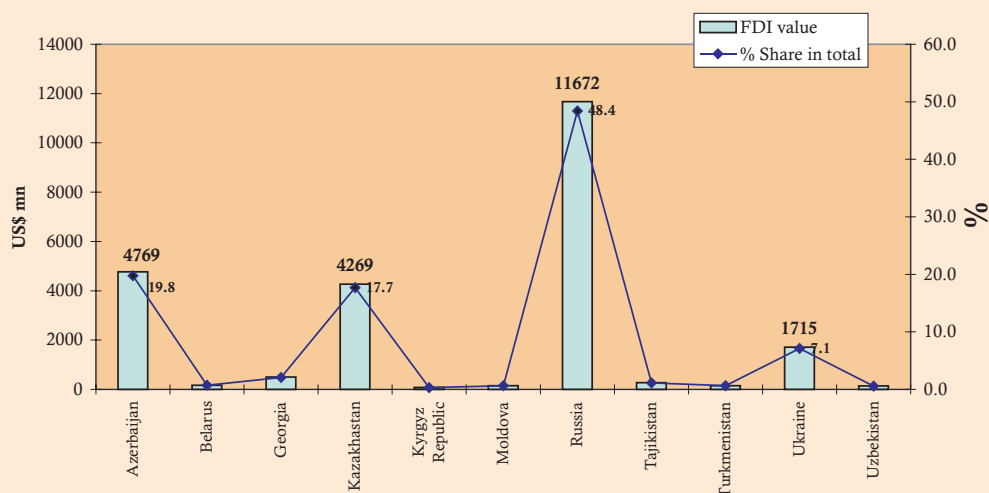
Т.С. ВенкатСубраманиан, СМД, Банк Эксим Индии

За последнее время наблюдается бурный приток прямой иностранной инвестиции (ПИИ) в страны СНГ. Она увеличилась в пятикратном размере от 5 миллиардов долларов в 2000г. до 24.1 миллиарда долларов в 2004г. Такой стремительный рост ПИИ одновременно помог удвоению ПИИ как процента валового фиксированного капитала р-на от примерно 11% до 20% за этот период. Интересно отметить, что между 2002г и 2004г доля СНГ в общих поступлениях ПИИ в развивающиеся страны возросла от 5.8% до 10.3%. Поэтому эти данные явно указывают на здоровое восстановление поступлений ПИИ в страны СНГ, претерпевших экономический кризис в 1998г. Выход ПИИ из р-на тоже значительно увеличился от 3.9 миллиарда долларов в 2002г до 9.6 миллиарда долларов в 2004г, означая существенное движение потоков частного капитала в обоих направлениях для стран СНГ. В этом отношении стоит отметить, что Россия уже является вторым самым крупным для Индии местом поступления выхода ПИИ с 15% долей в целом. Это призывает к повторению подобной инициативы в других странах СНГ одновременно увеличению инвестиций СНГ в Индию, тенденция сейчас только что зарождающаяся. Более высокая инвестиция приведёт к расширению двусторонних торговых связей, тем самым способствуя реализации огромных торговых двусторонних потенциалов.

Здесь стоит отметить, что ПИИ поступает в основном в 4 страны СНГ, а именно Россию, Азербайджан, Казахстан и Украину, составляя 93% от всего потока ПИИ в 2004г. В этом же году сама Россия получала 11.7 миллиарда долларов ПИИ составляя 48% всех поступлений. (См. Таблицу 1). Стоит отметить то, что эти страны, кроме Украины, являются крупными экспортерами энергоносителей. Высокие международные цены на них приводят к большим

поступлениям ПИИ в нефтегазовую промышленность. В 2004г наблюдался большой приток прямой иностранной инвестиции на Сахалинский полуостров. В России ПИИ поступает большими потоками в торговлю и услуги, кроме традиционных отраслей, таких как топливная и добыча нефти. В 2004г в торговую область и сектор услуг поступил 51% от общего притока ПИИ в России. Азербайджан является вторым самым предпочитаемым местом поступления ПИИ. В 2004г поступления туда возросли на 45% по сравнению с прошлым годом благодаря проекту по прокладке нефтепровода из Баку в турецкий средиземный порт Цейхан. Согласно азербайджанскому Фонду по поощрению инвестиций, нефтяной сектор привлёк 70% от общего притока ПИИ с 1994г, главными инвесторами в который являются США, Великобритания, Япония, Турция и ОАИ. Фонд стремится к поощрению инвестиций сектора ре имеющих нефтяного профиля с целью расширения горизонта возможностей, которых можно будет использовать. В Казахстане в 2004г притоки ПИИ более чем удвоились по сравнению с предыдущим годом. Увеличенные потоки в энергетический сектор привели к 16% росту в добыче нефти в 2004г. Существенные поступления ПИИ привлекают помимо энергетического сектора алюминиевый сектор, торговля, недвижимое имущество и деловая деятельность. На Украине ПИИ поступает в

Таблица : Поступления ПИИ в СНГ в 2004г



Источник : доклад UNCTAD 2005 - по всемирной инвестиции

основном в сектор услуг, деятельность касющаяся недвижимого имущества, финансовых услуг и транспорта и связи. В производственной сфере финансы вносятся в пищевую и химическую промышленность. Важно отметить, что за последние годы, особенно в 2004г, самый высокий рост поступлений ПИИ наблюдался в основном в страны, которые не являются крупными реципиентами (см. Таблицу 1). Казахстан является единственной страной имеющей экономику, которая выполняет критерии абсолюта и роста. Тенденция указывает на повышение ПИИ в другие страны СНГ, что действительно является поощрительным.

Инвестиция в СНГ, как ожидается, продолжит сильную тенденцию в средних сроках. Нынешние высокие цены нефти продолжают привлекать ПИИ в экспортирующие энергоносители страны р-на. Хотя недавно были случаи

**Таблица 1: Рост ПИИ в странах СНГ (2003-04)**  
(values in US\$ mn)

Country	2003	2004	% Change
Tajikistan	32	272	750
Moldova	71	151	113
Kazakhstan	2088	4269	104
Uzbekistan	70	140	100
Kyrgyz Republic	46	77	67
Turkmenistan	100	150	50
Armenia	157	235	50
Georgia	338	499	48
Russia	7958	11672	47
Azerbaijan	3285	4769	45
Ukraine	1424	1715	20
Belarus	172	169	-2

Источник: доклад о всемирной инвестиции 2005, UNCTAD

большого вовлечения правительства в энергетический сектор такое как увеличение правительственных акций в Газпром, самый крупный производитель природного газа России, нынешняя система низких налогов вероятно продолжится, содействуя иностранной инвестиции. В Казахстане и Азербайджане по сравнению с Россией ограничения на иностранное владение природными ресурсами налогообложение и арендная плата за разработку недр значительно ниже, тем самым предлагают инвесторам благоприятный режим. Эти страны также желают диверсифицировать свой внутренний портфель ПИИ в такие сектора, как торговля и коммерция, финансовые услуги, транспорт и связь и производственный сектор, и этим самым, они будут иметь больше шансов на привлечение инвестиций. на ряду с другими экономиками на Украине растут усилия на приватизацию и металлургическая и химическая промышленность получают пользу от роста иностранного участия. Также пищевобрабатывающая промышленность, которая отвечает за 15% общего промышленного производства, растёт быстрыми темпами, означая

сильные инвестиционные перспективы. Рассматривая меньшие экономики, такие как Грузия, можно сказать, что в них есть потенциальные сектора такие как фармацевтика, информационная технология (ИТ), наука и техника и аграрный бизнес. Благодаря развитию приватизации в Грузии в 2005г сейчас можно изучить возможности инвестиции в металлургии, судоходстве, и телекоммуникационном секторе. В целом, Индия должна рассматривать СНГ как важное инвестиционное назначение, используя растущую инвестиционную привлекательность региона. Более того, в свете расширения Европейского Союза, возросла близость стран СНГ с ЕС. Это предлагает большие перспективы Индийским инвесторам в выходе на рынок ЕС вместе с СНГ.

В отношении потока ПИИ из стран СНГ, данные UNCTAD показывают, что Россия и Азербайджан являются двумя доминирующими источниками, вместе составляющими свыше 99% от общего оттока из р-на. В период между 2002 и 2004г отток ПИИ из России возрос от 3.5 миллиарда долларов до 9.6 миллиарда долларов, в то же время из Азербайджана - от 0.3 до 1.4 миллиарда долларов. В свете выше сказанного, есть перспективы привлечения инвестиции СНГ в Индию, которая сейчас довольно пассивная. Россия является 19 самым крупным источником ПИИ, имеющей общий поток ПИИ размером в 116.3 миллиарда долларов в период между августом 1991 и сентябрём 2005г, составляя лишь 0.3% от общей суммы инвестиционных поступлений за тот же период. Также из 9.6 миллиарда долларов зарубежной инвестиции России в 2004г только 0.27 миллиарда долларов было направлено в Индию. Это отражает потенциалы использования российской инвестиции в Индию, которая обычно направлялась в ЕС (в частности в Германию и Польшу) и США. В свете выше сказанного, есть перспективы увеличить инвестицию в Индию в такие сектора как горнодобывающая и металлургическая промышленность, разведка нефтегазовых месторождений, химическая и фармацевтическая промышленность, инфраструктура и ИТ. Впечатлительный рост индийской экономики в последние годы, отражает сильные фундаментальности и быстро растущий рынок бизнеса, которые содействовали признанию Индии как привлекательное место для инвестиции. ПИИ в Индию возросла от 3.4 миллиарда долларов в 2002 до 5.3 миллиарда долларов в 2004г, однако это всё ещё равняется менее чем 1% ВВП Индии. По мере того как набирают энергию двусторонние торговые отношения между Индией и странами СНГ, необходимо поощрять инвестиционные потоки, имея в виду поддержание и расширение торговли и также достижение лучших стандартов жизни. ■





Линии Кредита Эксимного Банка составляют 55 миллионов долларов и действуют как катализаторы

## Торговля Индии со странами СНГ достигла 2.9 миллиардов долларов в 04-05г. И стоит на пороге дальнейшего роста

П. Р.Далал

Линия Кредита является одним из финансовых механизмов, посредством которых Банк экспорта импорта Индии (Exim Банк) оказывает финансовую поддержку экспорту товаров и услуг из Индии в соответствии с условиями платежа. Эксимный Банк Индии предоставляет Линии Кредитов (ЛК) зарубежным финансовым институтам, банкам регионального развития, суверенным государствам и другим предприятиям за рубежом. Индийские экспортёры могут получить платёж с аккредитива против действующих отгрузочных документов. Эксим Банк также выдаёт кредит по ходатайству со стороны правительства. На 5 декабря 2005 Эксим Банк имел 56 оперирующих линий кредита (ЛК) насчитывающих 1.32 миллиарда долларов и охватывающих страны Африки, Азии, СНГ, Центральной Азии, восточной Европы, Латинской Америки и Карибского региона.

### Торговля между Индией и странами СНГ и ЛК Эксим-Банка региону СНГ

Страны СНГ являются очень важными торговыми партнёрами Индии. В последние 5 лет с 2000-01 по 2004-05 общая торговля Индии (т.е. экспорт плюс импорт) с регионом СНГ охватывала медикаменты и фармацевтику, готовую хлопчатобумажную одежду, аксессуары, чай, оборудование и инструменты, кофе, табаксырец, пластмассу и линолиум, ювелирные изделия, транспортное оборудование и обработанные минералы. После спада в 2001-02 и 2002-03, экспорт Индии в страны СНГ увеличился в 2004-05г. до 1.05 миллиарда долларов. А то что касается импорта из региона СНГ в последние 5 лет отмечался неуклонный рост от 681 миллиона долларов в 2000-01 до 1.86 миллиарда долларов таких важных товаров как железо и сталь, удобрения, черные металлы, уголь и кокс, газетная бумага, серебро, органические и неорганические химические вещества, синтетика и каучук и не электрическое оборудование.

С целью расширения торговых отношений Индии с регионом СНГ Банк Эксим открыл 4 оперативные ЛК селективным институтам в р-не СНГ. Они следующие:

- ЛК на 10 миллионов долларов Внешэкономбанку России;
- ЛК на 25 миллионов долларов Внешторгбанку России;
- ЛК на 10 миллионов долларов Банку Туран Алем Казахстана, который охватывает 12 стран СНГ; и
- ЛК от ЛК на 10 миллионов долларов Банку Абсолют России.

Внешэкономбанк это специализированный госбанк Российской Федерации, обеспечивающий централизованное внешнеэкономическое сотрудничество, погашающий внешние гос. долги, одобряющий госкредиты и выдающий гарантии от лица правительства РФ. Корпоративная потребительская база Внешэкономбанка состоит из крупных предприятий российской промышленности, иностранных торговых компаний и ассоциаций.

Внешэкономбанк является самым крупным коммерческим банком России. Центральный банк РФ держит 99.9 % выпущенного акционерного капитала Внешэкономбанка. В деятельность банка входят коммерческие депозиты и ссуды в свободно конвертируемой валюте и рублях, валютный обмен, операции драгоценными металлами, торговля ценными бумагами и деривативными финансовыми инструментами.

Банк Туран Алем второй самый крупный частный банк в Казахстане. Банк вместе с его филиалами и ассоциированными компаниями предлагает широкий ряд финансовой продукции и услуг начиная от оптовых и розничных банковских дел до финансирования торговли и услуг в менеджменте активов. Международная финансовая корпорация в Вашингтоне и европейский банк реконструкции и развития недавно взяли за преференционные акции этого банка

Абсолют Банк является банком среднего калибра в России с растущим региональным охватом и сильным акционерным рынком. Международная финансовая корпорация имеет 7.5 % акционерного капитала в банке. Основной деятельностью банка является корпоративная банковская деятельность, в том числе международное торговое финансирование и поддерживаемое ЕКА финансирование, розничное финансирование, финансовые рынки и менеджмент активов.

И в соответствии с ЛК Эксим Банка этим институтам, импортёрам в России /СНГ будет выделяться авансом 10% суммы контракта с этими институтами. Эксим банк оплатит должное индийским экспортёрам по отгрузке товаров. Срок кредита в отношении капитала и инженерных товаров увеличился на 5 лет и в отношении промышленного производства и потребительских товаров длительного пользования до 2 лет.

(автор генеральный управляющий Эксим Банка Индии) ■

Как ключевые двигатели экономического роста...

# МСП необходим доступ к мировому рынку

- по изучению Эксим Банка

Малые и Средние Предпринимательства (МСП) играют существенную роль в промышленном развитии каждой страны, особенно в развивающихся странах, как Индия. Важность сектора МСП хорошо признана во всем мире за их значительный вклад к достижению различных социально-экономических задач страны. Они включают себя более высокий рост занятости и производства, продвижение экспорта и развитие Предпринимательства.



## Определение МСП в Индии и мире

В Индии не четко определены малые и средние предпринимательства. Внутренняя группа, установленная Резервным Банком Индии (РБИ), недавно рекомендовала, что предприятие с инвестицией, не превышающей предел малых предприятий до суммы на 100.000.000 индийских рупий за цех и оборудование, может считаться как среднее предпринимательство.

Определения «предпринимательств малых» и «предпринимательств средних» отличаются от одной страны к другим. МСП были определены по таким различным критериям, как число работников, объем производства или продаж, стоимость используемого имущества, и использования энергии. Организация для экономического сотрудничества и развития (ОЭСР)

определяет предприятие имеющие до 19 работников как «очень малое» от 20 до 99 работников как «малое», от 100 до 499 работников как «средние» и свыше 500 работников как «большие» предпринимательства. Однако, многие предприятия, в некоторых развивающихся странах, с числом работников от 100 до 499 считаются как относительно «большие» фирмы.

## Важность малых предпринимательств в Индии

Сектор малых предпринимательств в Индии нанимает около 26 миллионов людей и занимаются производством более 7500 различных промышленных видов продукции, начиная от простых, произведенных с традиционной технологией, завершая до продукции, произведенных с использованием высокой технологии. В настоящее время, Сектору малых предпринимательств приписывают более 90%

промышленных предприятий в стране, 40% производства в обрабатывающей промышленности и приблизительно 35% экспорта Индии.

## Результат по экспорту

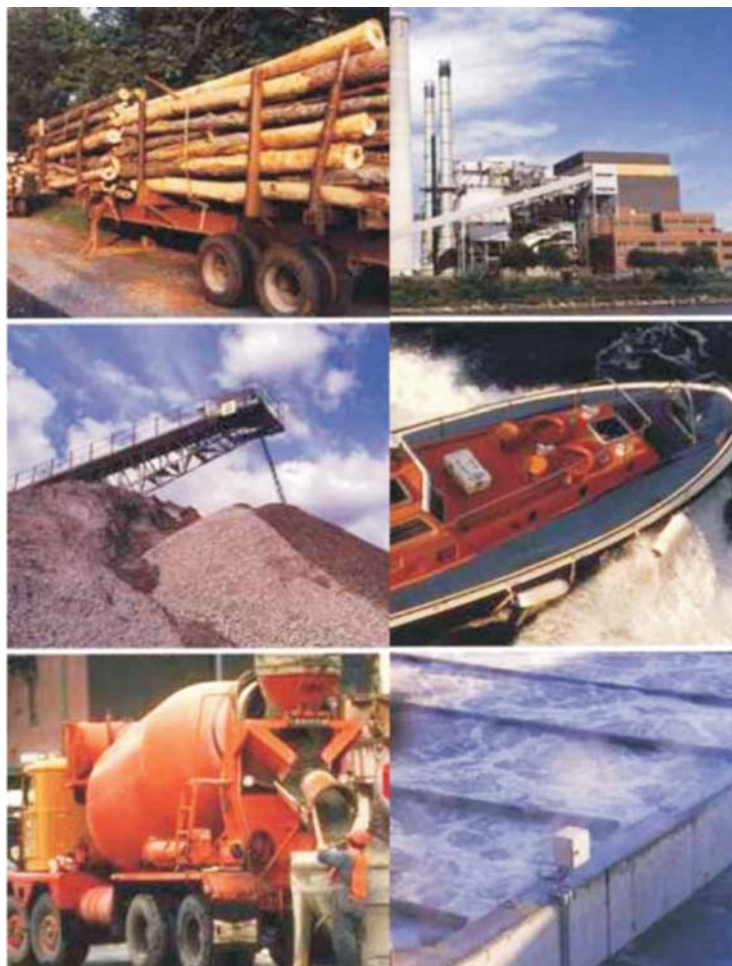
Сектор малых предпринимательств в Индии показывало замечательный результат по экспорту в недавнем прошлом. Исключая нескольких плохих лет, экспорт вырос двукратным числом за последние 10 лет. Экспорт по текущей цене в 2002-03г. как самый последний год по которому имеются данные, показал объем 860.000.000.000 индийских рупий. Это составляет примерно 34% экспорта Индии в том же году. Главные отрасли малых предпринимательств, способствующие к экспорту включают в себя готовые одежды (27%), Инженерные товары (14.5%), химикаты & фармацевтики, электронику и компьютеры, и обрабатываемую пищевую продукцию (по 11% по каждому). В ориентации экспорта, спорт-товары способствуют экспорту на 100% от сектора малых предпринимательств, и за ними следуют готовые одежды (90%), кожи (70%), морские продукты (47%) и химикаты & фармацевтики (44%).

За последнее десятилетие, доля экспорта сектора малых предпринимательств увеличивалась в большинстве его отраслей. В то же время, доля общего экспорта предприятий нескольких отраслей упала. Интенсивные отрасли, которые свидетельствовали увеличение доли экспорта, включают в себя инженерные товары, химикаты, пластмассовые продукты, обрабатываемую пищевую продукцию, морские продукты, шерстяную и вязанную одежду, готовый табак. Такие отрасли как, основные химикаты & фармацевтика, готовая кожа и кожаные изделия, синтетики и продукты региона свидетельствовали снижению всеобщего экспорта. Такие отрасли, как готовая одежда и спорт-товары остались на прежнем уровне.

12 интенсивных отраслей малых предпринимательств составили около 95% всего экспорта малых предпринимательств из Индии в 1991-92. Однако, их доля упала вплоть до 85% в 2002-03г. В то время, как эти отрасли улучшали долю общего экспорта Индии от 51.6 % в 1991-92г. до 55.5% в 2002-03г., доля экспорта малых предпринимательств в данных отраслях снижалась от 58.4% в 1991-92г. до 52.4% в 2002-03г. Таким образом, можно в заключение сказать что, со времен либерализации больше и больше экспортирующие предприятия из сектора малых предпринимательств увеличивали их инвестиционный капитал для того, чтобы выйти из сети малых предпринимательств и стать как глобальные игроки. Такая тенденция случается особенно в таких отраслях как основные химикаты, фармацевтики, инженерные товары, кожи и ткани.

Нет никаких официальных данных для составления результата по экспорту предприятий средних

предпринимательств однако, был сделан анализ, использовавший индийскую корпоративную базу данных центра по контролю индийской экономики (ЦКИЭ), которая представляет более чем 2/3 индийского производственного сектора. Анализ был сделан для того, чтобы измерить деятельность экспорта предприятий средних предпринимательств в отборных отраслях, используя 2 определения: определение РБИ, основанное на инвестиции капитала, и определение, основанное на оборот продаж предприятий средних предпринимательств до 750.000.000. Анализ показал, что отрасли как пищевую продукцию и напитки,



химикаты, авто-запчасти, оборудование, электроника, металлы, отливки и выковки имели тенденции увеличения ориентации на экспорт за последнюю декаду.

Однако, на тот же период, ориентация экспорта таких отраслей, как кожа, ткань и готовые одежды более или менее оставались статическими. Может быть заключено, что эти отрасли, в виду того, что им необходима инвестиция большего капитала, для удовлетворения глобальных вызовов, и должны быть без ограничений инвестиции капитала, для того чтобы



стать глобальными игроками.

## Эксим Банк и МСП

Экспорт-Импорт Банк Индии уделял внимание на поставщиков МСП, как значительную целевую группу клиентов. В прошлом, Эксим Банк осуществил несколько новаторских программ сосредотачиваясь главным образом на МСП. Банк, в прошлом, привел в действие Агенства Линии Кредита для IFC и программу маркетинга экспорта для Всемирного Банка, которые нацелены на сектор МСП. Эксим Банк активно помогает предприятиям МСП продвигать их продукцию в международном рынке. Линии кредита Эксим Банка помогают МСП предложить конкурентные условия предоставления кредита к покупателям и исследовать более новые рынки в мире. Недавно, Эксим Банк подписал меморандум сотрудничества с центром международной торговли (ЦМТ) в Женеве, для того чтобы осуществлять программу обслуживания развития управления предприятием (РПУП), для поддержки МСП в их усилиях глобализации. Эта инициатива запускается ЦМТ первый раз в любой стране

## Ограничения и Стратегии

### Ограничения

Ограничения, встреченные МСП включают себя резервирования продукта, регламентационные проблемы - оба на этапах входа и выхода, недостатка финансирования на возможных условиях, негибкий рынок труда и проблемы связанные с инфраструктурой - такие как высокий тариф электроэнергии, и недостаточная инфраструктура экспорта. Об этом кратко описано ниже:

- Политика резервирования продукции ограничивала экономическую деятельность в масштабе и большой эффективности в секторе малых предприятий.
- Чтобы начинать дело в Индии требуется много разрешений, даже после начала программы либерализации, по сравнению с многими другими развивающимися странами Азии.
- Недостаточность финансов на возможных условиях это еще одна проблема, следующая за деятельностью индийского сектора МСП.
- Инфраструктурные препятствия средство транспорта и коммуникации и недостаточная инфраструктура экспорта увеличивают цену на перевозку предприятий МСП в Индии.
- Проблемами определения подходящей и надежной электроэнергии по возможной цене является еще одно ключевое ограничение индийских МСП.

### Стратегии

Развитие МСП требует многоуровневой стратегии, которая затрагивает много областей. Кроме подходящей политики, существует потребность для упрощенных

законных и регламентационных структур, хорошего управления, обильных и доступных финансов, целесообразной инфраструктуры, инфраструктуры развития предпринимательских способностей и конкурентной среды. Некоторые из стратегий выделены ниже:

- Необходимы, совместимые с требованиями Всемирной Торговой Организацией политики для этого сектора, чтобы решать такие различные вопросы как инвестиции капитала, лимиты на FDI, процентная субсидия, де-резервирование продукции, создание фонда обновлений технологии.
- Существование подходящей организационной структуры и эффективной управленческой системы, вместе с перерегулированием хозяйственных деятельности, облегчило бы изменение структуры индийских МСП.
- Малые и средние предпринимательства могут быть определены одинаково для политики, с целью обеспечения более высокой инвестиции и, таким образом, ускорить обновление технологии.
- Резервирование продукции должно быть заменено с продвиженческой поддержкой для того чтобы укрепить их усилия глобализации.
- Перепроектировать весь диапазон регламентационных процессов, особенно на штатных и местных уровнях, с задачей установления прозрачных политик, которые понизили бы издержки из за задержки относительно к инвестициям.
- МСП должны быть ускоренно работать в окружающей среде группы обеспечивающей комплементарности, общие деятельности, общественного блага и учрежденческую стабильность. Эта стратегия требует действий по особенности сектора, направленных на увеличение конкурентоспособности группы, поддержку сети и сотрудничество между фирмами.
- Существует потребность развивать комплексную программу для улучшения технологической базы и усиливать культуры рационализаторства в МСП.
- Способность управления очень необходима для успеха МСП в любой развивающейся стране. Укрепление национального департамента по развитию предпринимательства, создание общего плана для продвижения сельского предпринимательства, поощрение близких отношений с главными заведениями, обеспечивающих обучение управлению и предпринимательству могут быть рассмотрены на основании приоритета.
- Доступ и интеграция местных, национальных и мировых рынков требуют существенных инвестиций. Партнерства между различными участниками акции, правительством, обществом и индустрией, способствуют к таким инвестициям. ■

# КУЛЬТУРНЫЙ ЦЕНТР ИМЕНИ ДЖАВАХАРЛАЛА НЕРУ ПОСОЛЬСТВА ИНДИИ В МОСКВЕ



Культурный центр Имени Джавахарлала Неру при Посольстве Индии в Москве был основан в 1989 году как отдел Индийского Совета по Культурным связям. Главная задача центра была определена сразу: придать свежий импульс культурным взаимоотношениям Индии и России, а открытие центра решено было приурочить ко Дню рождения первого Премьер Министра Индии Пандита Джавахарлала Неру. Пандит Неру, будучи выдающейся личностью, внес значительный вклад в историю индийско-русской дружбы и сотрудничества.

Идея создания Культурного Центра возникла после проведенного еще в Советском Союзе Фестиваля Индии в 1987-88 годах. Фестиваль выявил живой интерес россиян к индийскому танцу, музыке, йоге, театру, литературе, языкам, и изобразительному искусству.

Сейчас основная задача центра это ознакомление граждан России с историей, культурой, традициями и философией, а также с другими гранями современной жизни Индии.

Культурный центр проводит различные программы и мероприятия, способствующие распространению индийской культуры и языков как в Москве, так и в других городах и регионах России.

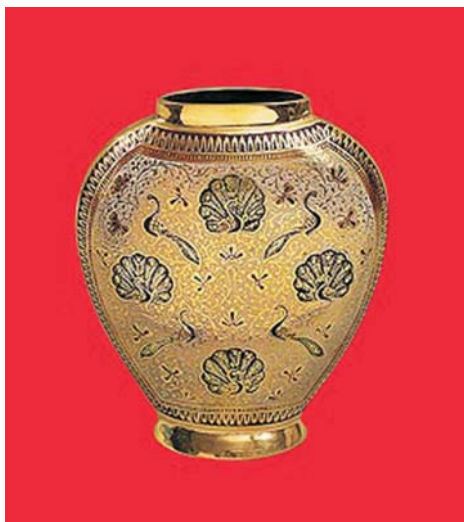
Деятельность центра с каждым годом расширяется и набирает силу.

Вот основные мероприятия, проводимые в рамках деятельности культурного центра:



- Центр организует культурные программы, включая музыкальные и танцевальные представления, фото выставки и выставки картин в посольстве Индии, и в других залах Москвы.
- Мы организуем гастроли музыкантов и танцоров нашего центра в различных регионах за пределами Москвы.
- Представители Министерств Культуры стран СНГ приглашают наших артистов для участия в международных музыкальных и танцевальных фестивалях.
- Мы организуем “Дни Индийской Культуры” в регионах и городах России, во время которых проводятся выставки книг и картин, концерты музыки и танца, показы фильмов и другие мероприятия.
- В посольстве Индии регулярно проводятся концерты выдающихся Русских музыкантов, исполняющих как классическую так и народную музыку.
- Преподаватели нашего Центра обучают всех желающих индийскому танцу и музыке. Индийский Совет по культурным связям приглашает преподавателей классического индийского ударного инструмента “табла” и классического танцевального стиля “катхак” для работы в центре. Однако кроме стиля “катхак” любители индийского танца могут также научиться в нашем центре индийским танцам в стиле Бхаратанатьям и Кучипудди.
- У нас Вы сможете также заниматься йогой и языком хинди. Мы оказываем поддержку различным образовательным учреждениям Москвы, Санкт-Петербурга и других близлежащих городов.





- Все занятия бесплатные и проводятся высококвалифицированными преподавателями.
- Мы помогаем в организации выставок художников и гастролей артистов из Индии на территории России.
- Центр всегда проводит мероприятия по случаю важных праздников и дат, таких как день независимости, дни рождения Махатмы Ганди, Пандита Джавахарлала Неру, Рабиндраната Тагора, Сатьяджита Рея.
- Часто проходят семинары и круглые столы по вопросам индийской политики, демократии, российско-индийских культурных, экономических и политических отношений.
- Мы организуем программы сотрудничества и взаимной поддержки с различными институтами и организациями, такими как: Российский Государственный Гуманитарный Университет, Университет дружбы народов, Государственный Музей Востока, Институт Философии и другими.
- Культурный центр им. Дж. Неру провел несколько совместных программ сотрудничества с МГУ, Институтом Философии, Московской Государственной консерваторией.

- Мы проводим лекции об Индии на темы, интересующие студентов различных университетов и институтов.
- Центр проводит конкурсы рисунков, танцев, литературных эссе в Москве и других городах России.
- Мы поддерживаем клубы и общества в регионах России, пропагандирующие индийскую музыку, танцы, занятия йогой, хинди и др.
- Центр предоставляет рекомендации российским студентам, желающим обучаться индийскому танцу, музыке и языку хинди в Индии.
- Центр поддерживает издание книг.
- Мы издаем книги об Индии, российско-индийских отношениях и др.
- Организуем просмотр фильмов.

## Программа культурного обмена

Российско-Индийские культурные связи традиционно имели очень разносторонний характер. Однако после распада СССР в 1991 году в отношениях между двумя странами наблюдалось временное затишье.

Индийско-Российская программа Культурного обмена была принята в 1993 году на период с 1993 по 1995 гг. В тот период эта программа была наиболее значительной из подписанных Россией программ культурного сотрудничества с другими странами. Во время визита Премьер министра Индии в Россию в июне-июле 1994 года, было решено развивать культурный обмен между двумя странами на высшем уровне. При Индийско-Русской Межправительственной Комиссии была создана Рабочая группа по вопросам культурного обмена.

С тех пор Рабочая группа провела семь собраний: Первое собрание состоялось в Дели в августе 1994 году; второе в Москве в июле 1995; третье в Нью Дели в январе 1997; четвертое в Москве в ноябре 1997; пятое в ноябре 1998; шестое в Нью Дели в январе 2000, а седьмое в Москве в сентябре 2000. Следующая встреча Рабочей группы пройдет в Нью Дэли в конце этого года.

В результате встреч Рабочей группы подписываются протоколы с указанием направлений культурного обмена. Успешная работа по этим направлениям призвана способствовать подъему уровня культурных отношений между двумя странами. Направления подобраны таким образом, чтобы обеспечить их реальное выполнение и







увидеть результаты в достаточно короткие сроки.

В результате принятых решений Рабочей группы в декабре 1995 года в Индии были организованы “Дни Русской культуры”, а в Москве проведены “Дни Индийской культуры” в сентябре 1996 года.

Более того, в сентябре 1998 года в Дели прошли “Дни Москвы” и “Дни Дели” были успешно проведены в Москве в Октябре 1999. Сейчас обсуждается вопрос о проведении подобных праздников и в 2002 году.

Программа культурного обмена на 2000-2002 гг. была подписана в Октябре 2000 во время Государственного визита в Индию Президента России Путина. Это многоаспектный документ, охватывающий множество сфер возможного сотрудничества и обмена в области науки, образования, культуры, искусства, СМИ, проблем молодежи и спорта.

## Взаимодействие с регионами

С целью установления более тесных связей с различными регионами России, артисты Культурного Центра им. Дж. Неру посетили многие города и регионы России с выступлениями и концертами, включая Пермь, Ярославль, Казань, Волгоград, Тверь, Оренбург, Саратов, Рязань, Краснодар, Ростов на Дону, о. Сахалин. Представления артистов имели большой успех и были по достоинству оценены аудиторией, а впоследствии мы стали получать отзывы и письма с предложениями о

сотрудничестве и о создании индийских культурных центров в разных регионах России. Мы охотно поддерживаем эти предложения. Во время визитов Посла Индии во Владивосток, Уфу, Казань, Екатеринбург и Якутию в этих городах были торжественно открыты индийские культурные центры.

## Содействие распространению языка хинди

В нашем Культурном центре регулярно проводится обучение языку хинди.

Центр оказывает содействие в преподавании хинди в Институте Философии, в Российской Академии Наук, а так же Российском Государственном Гуманитарном Университете.

В 1999 году Культурный Центр осуществил издание хинди-русского словаря. 24 мая 1999 в Институте Востоковедения Министр Иностранных дел Индии принял участие в торжественной встрече по случаю размещения электронной версии этого словаря в сети Интернет.

В дополнение к словарю, Культурным центром были изданы учебники Хинди “Shrishu Bharati” в двух частях. Книги вышли в свет во время визита Министра Иностранных Дел и Обороне в Россию и посещения им Культурного центра в 6 июня 2001 года. В настоящее время готовятся к публикации индийско-русский разговорник, а также другие учебники хинди, которые скоро выйдут в свет.

В университетах Владивостока, Уфы, Рязани, Воронежа и Курска теперь преподают язык хинди, а в Москве и Санкт-



Петербурге, кроме нескольких институтов и университетов, хинди преподают еще и в двух общеобразовательных русских школах, одна из которых находится в Москве, а другая в Санкт-Петербурге. Центр оказывает помощь этим школам, организует конкурсы по написанию статей, ораторскому искусству, чтению стихов и др. В 2000 году четверо Российских студента получили стипендию на обучение хинди в Институте Хинди Кендрия, в Агре. В этом году количество студентов увеличилось в два раза.

За 11 лет существования Культурного центра его деятельность становится все более разнообразной и всеохватывающей. Индийский Культурный центр им. Джавахарлала Неру уже не просто поддерживает интерес россиян к Индии, но и идет дальше уже существующих механизмов двустороннего сотрудничества. ■

