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REPORT
SMART HOMES
LEGAL REGULATIONS
RUSSIA
St. Petersburg House Property Owners Association
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3. ANALYSIS OF LEGAL REGULATIONS FOR STARTUPS AND SME'S

Starting a business in Russia

The civil legislation of the Russian Federation has several legal forms of business. The choice of the most suitable is the first stage on the way of any subject which decided to be engaged in business activity.

Main forms of the company: Individual entrepreneur, Limited liability company, Joint-stock company, Association and Cooperatives.

The majority of startups and SMEs chose one of 2 forms:

The individual entrepreneur — the physical person who independently is engaged in economic activity. Such enterprise has its benefits: minimum of organizational formalities; minimum of accounting documents; economic independence; there is no need to bring authorized capital (at registration it is not required). The fact that the owner answers for the obligations all property belonging to it belongs to the main shortcoming of the individual entrepreneur form.

The limited liability company represents merging of several physical and (or) legal entities for joint economic activity. Authorized capital is formed only at the expense of deposits of founders. The minimum amount of authorized capital is 10 thousand rubles. The limited liability company is legal entity and has own name. All participants of limited liability company answer for the obligations within the deposits. The main advantage of limited liability company is that the solvency of each participant according to obligations of society is limited to the sum granted by it on authorized capital according to the contract.

The state registration is carried out in the location of permanent executive body of a startup or SME, in time no more than five working days from the date of submission of documents to registering body.

The Russian commercial organization receives the status of the commercial organization with foreign investments from the date of entry into the list of its participants of the foreign investor. From this day the commercial organization with foreign investments and the foreign investor use the legal protection, guarantees and privileges established by the Federal law "On Foreign Investments in the Russian



Federation". Full and unconditional protection of the rights and interests for foreign investor is provided on the territory of the Russian Federation with federal laws and other regulations of the Russian Federation and also international treaties of the Russian Federation.

Financial solutions/instruments available

For ensuring SMEs access to credit and other financial resources actions for development of a system of providing surety and independent guarantees to SMEs within the support program of the Ministry of Economic Development of the Russian Federation and development of funds of assistance to crediting (guarantee funds, funds of surety) have been envisaged.

Besides, for expansion of capacity of the regional guarantee organizations of the Ministry of Economic Development of the Russian Federation basic provisions of the Strategy of development for the National guarantee system of support of small and average business until 2020 are approved. The system provides introduction of three-level target model of rendering guarantee support to SMEs:

The first level – JSC “SME Corporation”: provision of guarantees for averages and large projects and also guarantees within the Program of crediting stimulation of subjects of small and average business.

The second level – JSC “SME Bank”: Provision of guarantees within "line" technologies;

The third level – Providing guarantees of the regional guarantee organizations within "line" technologies.

For credit interest rate reduction for SMEs JSC “MSP Corporation” together with the Ministry of Economic Development of the Russian Federation and the Bank of Russia implement "Program 6.5". The size of an interest rate for the final borrower for this program is up to 9.6% for medium-sized enterprises and up to 10.6% for small enterprises.

In addition, the big need for borrowed funds is observed at microbusiness level that for has no opportunity to use traditional banking products (small sum of the credit, lack of credit history, remoteness of the settlement, etc.). For this purpose, within the program of SME support big attention is paid to development of the microcredit institutions, enterprise financing created within the program of SME development. Such Micro Credit Organizations provide microloans up to 3 million rubles for no more than 3 years. At the same time the rate for the borrower should not exceed 10%.



Options of private financing, crowdfunding, business-angel investors and industry grants are also available.

IP regulations and compliance

In the Russian Federation intellectual property is regulated by standards of the national legislation and also standards of international treaties. The new, fourth part, the Civil Code of the Russian Federation which came into force since 01.01.2008 unites in itself all norms relating to intellectual property items in the Russian Federation.

Report: "Legal regulation and problems of protection of intellectual property"
<http://www.spp.spb.ru/node/183>

Consumers' regulations protection

In Russia the state consumer protection is carried out by federal state bodies. It is their duty to monitor compliance with the law about consumer protection and to control and supervise safety of goods, works and services.

The federal antimonopoly authority, federal body for standardization, metrology and certification (Gosstandart of Russia), federal body of sanitary and epidemiological inspectorate of the Russian Federation (Gossanepidnadzor), federal body for environmental protection and natural resources of the Russian Federation and bodies for consumer protection at local administration are these public authorities.

The seller (the manufacturer, the performer) bears the responsibility provided by the law or the contract (Article 13 of the Act of the Russian Federation "About Consumer Protection") for violation of the rights of consumers. If responsibility in bigger volume or a penalty in a bigger size is provided in the contract, than it is provided by the law, then terms of the contract are applied.

Consumer protection: <https://zakon.rin.ru/cgi-bin/view.pl?id=774>

Sales' channels

Sales can be done through retail dealers, sales agents, wholesalers or direct sales. Electronic commerce is an important sales channel in Russia. Following the results of 2018, the Internet economy contribution to economy of Russia made 3.9 trillion Rub. Volumes of the main segments of economy of RuNet. The audience of RuNet in 2018 grew by 3% of rather previous year and made 90 million people or 74% of the population of the country. 86% of the population of Russia use the Internet every day



Ecosystem of digital economy of Russia of 2018

<https://raec.ru/activity/analytics/9884/>

Product/service certification

Product certification — the procedure of quality confirmation and product safety according to the established requirements is carried out for safety control of the produced (imported) products for environment, life, health and property of citizens and also as a security measure for consumers from unfair producers.

For each type of certification lists of products obligatory for it are approved at the state level. Including — for customs registration.

Certification of services — the procedure of service quality confirmation to the existing standards and rules concerning performance of these works or services in Russia is officially voluntary. Obligatory certification of services in Russia is cancelled in 2003 by the Resolution of Gosstandart of the Russian Federation of 08.10.2003 No. 110 and the Resolution of Gosstandart of the Russian Federation of 08.10.2003 No. 111.

Employment regulations and market

The Ministry of Labour and Social Protection in Russia is responsible for development and implementation of state policy and legal regulation in a number of areas: work, salary, working conditions and labor protection, social partnership, the labor relations and employment.

The number of labors in Russia in February 2019, according to Rosstat, was 75,143 thousand people, including 71,488 thousand people (95.1% of labor) were occupied with economic activity. Unemployment rate of the population of Russia was in February 2019 4.9% of number of labors In comparison with February 2018 unemployment rate decreased by 0.1%. As of March 26, 2019, the number of the jobless citizens registered in bodies of the employment service was 819.99 thousand people, 1,525.91 thousand vacancies are declared by employers in bodies of the employment service.

Ministry of Labour and Social Protection. <https://rosmintrud.ru/eng/ministry>

Entering markets with new products/services

In Russia, at entry into the markets with new goods or services has to be carried out according to the national legislation and regulations, and for certain groups of goods to correspond to technical regulations of the Customs Union (To Belarus, Russia, Kyrgyzstan, Armenia and Kazakhstan).

Ros-Test. Center of tests and certification <https://ros-test.info/>



For an entry with new products / services into the countries of the European Union, implementation of requirements for receiving marking of the EU for this category of products and also drawing up the declaration on compliance in which it is specified that legal requirements were fulfilled is often obligatory.

In Russia so far marking of products is at the initial stage of development. In Russia since January 1, 2018, the List of types of goods to which the requirement about contents of information on a class of power efficiency in the technical documentation attached to these goods in their marking, on their labels is updated by the resolution of the government of Russia of April 15, 2017 No. 450

Trading across borders

Russia as the member of the Eurasian Economic Union has preferences in trade with her members of EEU. Since January 1, 2018 the new Contract on the Customs code of EEU of April 11, 2017 took effect. Members of EEU are: Republic of Belarus, Republic of Kazakhstan, Russian Federation, Republic of Armenia, Kyrgyz Republic. The customs code of EEU lays the legal foundation for digitization of Union foreign economic activity regulation system. Among the main innovations – transition to electronic declaring, remote interaction of participants of foreign trade activities with customs authorities via the Internet.

Ministry of Economic Development of the Russian Federation

http://www.ved.gov.ru/mdb/new_eaeu_codex/

Also, positive trends in foreign trade remain: the foreign trade turnover of Russia following the results of 2018 made \$687.5 billion, gain in relation to previous year was 17.5%.

In geographical structure of foreign trade of Russia a specific place is held by the European Union (42.8% of the Russian trade or \$294.2 billion in 2018). Commodity turnover with the EU increased by 19.3%. The second group on the volume of a foreign trade turnover in 2018 are the countries of the Asia-Pacific Economic Cooperation (31.0% of the Russian foreign trade or \$213.2 billion). The trade turnover with the countries of APEC increased by 19.8%. The greatest gain of commodity turnover is noted with BRICS countries – 22.4% to \$125.4 billion and with SCO countries – 20.8% to \$145.3 billion. Commodity turnover with the CIS countries increased by 10.8% to \$80.8 billion, including with the EEU countries – for 9.0% to \$56.1 billion.

RESULTS of FOREIGN TRADE of RUSSIA In 2018

http://www.ved.gov.ru/files/images/slajds_2018.pdf



3.1. KEY SPECIFICS OF CONSUMER CLEANTECH LEGAL REGULATIONS

In the Intended Nationally Determined Contribution (INDC) submitted in the framework of the Paris Agreement (COP21) Russia made commitments to limit anthropogenic greenhouse gases by 2030 to 70-75% of the 1990 levels, subject to the maximum possible accounting of forests' absorbing capacity.

2017 was officially named the Year of Ecology in Russia. This garnered high-level attention among various stakeholders of environmental protections, green economy and green finance. However, various constraints have kept many economic sectors from being able to pick up the 'green' investment momentum. To drive green investments within the country, Russia needs to provide a strong and coherent policy signal followed by a stricter enforcement of environmental regulations and also encourage the development of green financial instruments.

The green finance agenda has been gaining momentum in Russia since its profile was raised in 2017 at the Russia State Council. Various approaches and instruments have been discussed by groups of public and private stakeholders, including the Ministry of Finance, Ministry of Natural Resources and Ecology, Central Bank of Russia, development and public banks, industry associations etc. A dedicated working group on green finance and ESG investing was recently established under

the Central Bank of Russia. However, in the absence of clear policy signals and a national champion, most of these efforts remain fragmented and do not contribute to a coherent development of green finance in Russia. While the importance of installing green finance in Russia has been well established, the best next steps remain under discussion. The most efficient approach would partner a host of public and private agencies like the Ministry of Natural Resources and Ecology, Central Bank of Russia, Ministries of Finance and Economic Development, Moscow Stock Exchange, VEB and others in efforts to coordinate actions, mobilize support and build capacity for development of the market. Development of green finance requires a set of national strategic documents, special policies and implementing rules that will encourage market stakeholders to 'green' the financial system and advance the transition towards a green economy.



Russia has to develop an action plan in order to realize its commitments, by sectors, to the Paris Agreement, including the implementation of NDC, with financial incentives to stimulate the supply of green projects by businesses. Introducing the term “ecosystem services” in the body of environmental legislation would be aligned with international practices for monetizing and financing conservation and protecting natural assets of significant value to the economy and livelihoods. The latter will help expand the definition of green projects.

3.2. LEGAL SOLUTIONS FOR SMART HOMES

In 2018 the Ministry of Construction, Housing and Utilities of the Russian Federation approved the passport of the departmental project "Smart City" which is implemented within the national project "Housing and Urban Environment" and the national program "Digital Economy". 180 cities from all territorial subjects of the federation participate in the project. The Smart City project started in Russia in 2018 in the pilot mode, and since 2019 became obligatory within two national projects – "Housing and Urban Environment" and "Digital Economy". The Smart City standard includes a set of basic and additional actions which should carry out all participating cities of the departmental project of digitalization of municipal economy "Smart city" till 2024. The standard includes actions for eight directions: the municipal government, "smart" housing and public utilities, innovations for the urban environment, "smart" city transport, the intellectual systems of public and environmental safety, infrastructure of communication networks, tourism and service.

In addition to the standard within the Smart City project the databank of the innovation developments and positive experience, implemented in the Russian cities is created.

Ministry of Construction, Housing and Utilities of the Russian Federation of <http://www.minstroyrf.ru/>

In Russia the standards "Green Construction" are developed. Buildings inhabited and public. The following important step to harmonization with world development in the field of "green" construction is the first national standard of the Russian Federation of GOST P 54964-2012 "Compliance assessment. Ecological requirements to real estate objects". The standard establishes ecological requirements to real estate objects as to the habitat of the person. Real estate objects are considered in total with the environment – as a uniform system. Ecological requirements to real estate objects are aimed at providing rational environmental management, reduction of energy resources consumption and decrease in harmful effects on the environment when providing the comfortable habitat of the person and adequate economic profitability of architectural, constructive and engineering concepts.

The ecological requirements to real estate objects established in the GOST P 54964-2012 standard are grouped in nine categories:

- "Ecological management";
- "Infrastructure and quality of the external environment";



- "Quality of architecture and planning of an object";
- "Comfort and ecology of the internal environment";
- "Quality of sanitary protection and recycling";
- "Rational water use and regulation of rain water drains";
- "Energy saving and energy efficiency";
- "Ecology of creation, operation and utilization of an object";
- "Life safety".

National association builders / Russian Association of Engineers for Heating, Ventilation, Air-Conditioning, Heat Supply and Building Thermal Physics

https://www.abok.ru/for_spec/articles.php?nid=5369

4. TWO PERSPECTIVES – KEY RESULTS OF MARKET STUDIES

4.1. SMARTUPS AND SMEs

On a question " Which information regarding legal regulations do you find most useful to start and run a business in a chosen BSR country?" all smartups and SMEs consider the most useful information be the one on certification and permissions. Also was mentioned the need for legal information on these questions: taxation, the system of government procurement, legal registration of company set up, obtaining permissions from supervisory authorities and a testing order.

On the question " How would you evaluate the ease/difficultness to run business in your country in the context of legal regulations (doing business index)?", all smartups and SMEs estimated business level in Russia in the context of legal regulation as medium.

On question " What legal regulations would you find worth changing in the context of running business in your field in your country?" the smartups and SMEs distributed their answers on number of mentions:

- 4 out of 5 companies noticed change of law in the field of certification,
- 2 out of 5 companies noticed change of law in the field of taxation and legal registration of company set up.

One Cleantech company noticed terms reduction of the projects' review by the Federal Services for Supervision of Natural Resources.

Two smartups answered "no" to the question " Do you find legal advisory a must in running your company?". The others specified legal advice which they use: certification, taxation, contracts, accounting, registration.

4.2. EXPERTS IN THE FIELD



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Cleantech company noticed terms reduction of the projects' review by the Federal Services for Supervision of Natural Resources. Also the company noted complexity of organizing by municipalities the public listenings for receiving a positive review on placement of the energy saving equipment. Also the terms reduction of the applications review for assignment of energy efficiency class to an apartment building, after energy saving actions using smart homes technologies. Today the review term of such applications takes up to one month.

The adopted statutory act: "The strategy of environmental safety of the Russian Federation until 2025" environmental safety of the Russian Federation is recognized as a component of national security, and a main objective is ensuring quality of the environment necessary for favorable human life and sustainable economy development and at the regional level questions of environmental safety and improvement of life quality. Also strategy "SANKT-PETERBURG-2035" reflects its main objective: "Ensuring stable improvement of life quality of citizens and increase in global competitiveness of St. Petersburg". It gives a positive impulse of development of Cleantech.

Experts note that in Russia it is necessary for development of Cleantech Clusters to change law of the organization and mechanisms of the state support of clusters. Today from more than 100 clusters of Russia presented on "The Russian clusters map" developed by specialists of the Higher school of economy only three clusters have environment protection and waste recycling as their key specialization. Among them there is only one Cleantech Cluster in Russia - Saint-Petersburg Cleantech Cluster for urban environment.

Themes and Issues	E1	E2	E3	S1	S2	S3
Administrative hurdles		x			x	
Difficult interpreting/understanding regulation		x		x	x	x
Regulation lagging behind as new types of businesses are developing	x			x	x	x
Advice on legal issues is important	x		x	x	x	x
Lack of/changing regulation poses a risk	x	x				x



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