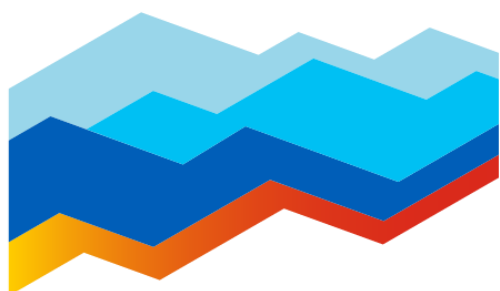




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RUSSIAN INVESTMENT FORUM

Report on the Russian Investment Forum

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About Forum

The Russian Investment Forum (RIF) is a traditional platform for the direct communication between state bodies, investors, and a vast audience of industry experts in the region coming to the RIF from around the world. This year the RIF was primarily devoted to the development of Russian regions, covering such topics as Russian macroeconomic environment, foreign investments, government spendings and state programmes.

The business programme for the RIF included the following main subjects:

- New regional policy: Opportunities for development
- Projects for life
- Improving business performance: Opportunities for growth

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Executive Summary

General Overview

Russian Investment Forum (RIF) is very useful for each economic agent having its business operations in Russia given its scale and topics discussed in the forum. RIF is highly demanded across different enterprises because of its unique platform where government representatives and businessmen can discuss current investment climate and core business problems face to face. Moreover, many academics also visited this forum, since the topics raised and outlined as the core problems in the RIF were closely related to the current stage of the Russian education and relatively small demand for high-quality human capital in Russia in comparison with western countries.

Sessions Covered in the Report

The RIF's program included multiple sessions, while only several topics are covered in this report.

February 27

- The Challenges of the Digital Economy: The Role of Sociocultural Factors and Infrastructure in Business Growth
- Improving Access to Energy Infrastructure: Applying the Experience of Major Cities to Create New National Standards
- Investment in the Russian Regions: Regional Policy Priorities
- Project Management: How to Avoid Developing Unviable Strategies

February 28

- Human Capital as a Factor of Economic Growth
- EAEU: The Single Market and New Rules for Investors
- Innovative Potential in Russia's Regions: Drivers of Economic Growth

Sessions were chosen based on their high relevance to the existing economic problems in Russia and the author's particular interest in innovative industries as well as cross-border relations with foreign investors. These topics are closely related to human capital and digital economy which are one of the key drivers of innovative industries nowadays.

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Sessions Overview

The Challenges of the Digital Economy: The Role of Sociocultural Factors and Infrastructure in Business Growth

Improving Business Performance: Opportunities for Growth

The digital economy is an important part of a country's competitiveness nowadays, given its significant role in accelerating economic growth, innovation and social prosperity. As outlined in the RIF, the government has to develop the program for further organisation of the digital economy consisting of

1. organisation of end-markets (e.g. education, healthcare, industrial sectors)
2. end-to-end technologies (big data, etc.)
3. corporate consultancy, which is the fundament for the first two

In order to implement this objective effectively, it is essential to provide the population with the high-speed internet access, secure storage and processing of personal and other data. The economy growth in the digital economy will depend on the speed of technological development, an environment for people (including staff training, education, consumption behaviour, etc.) and the inherent potential risks. Seven datacenters out of the top-10 largest datacenters are located in China, while Russia currently has a huge deficit of datacenters. In this context, one of the priority tasks for the Energy department of the Russian Federation is the building of infrastructure in the rural areas of Russia.

To take full account of the opportunity afforded by innovative progress, the government actively creates standards for the digital economy (these standards are to be developed until June 2017 and to be realised by the end of 2025). The government's role is crucial given the potential threats and storage of personal data (e.g. applications of some internet shops are possible to define the consumer behaviour based on the user transactions). Last year Vladimir Putin emphasised the importance of the preparation of the restrictions and laws regarding the following issues:

- 1) infrastructure
- 2) security of personal data
- 3) identification of personal data
- 4) the emergence of technological innovations (focus on export of innovations).

Top-10 performing companies (by revenue) in the world will probably stay leaders in the digital economy. These companies are forming the fundamental parameters of such economy and game rules nowadays. Based on the information provided by ADV company, there are 2.5 billion active internet users. Worldwide population demonstrate strong demand for digital platforms (about 100,000 new application are registered each day), which allow meeting face-to-face buyers and sellers avoiding 3rd party providers. In addition, people prefer to rent instead of purchasing large amounts of goods, therefore services will play an ever greater role in the immediate future.

Aleksey Sokolov, Deputy Minister of Telecom and Mass Communications of the Russian Federation, emphasised the key role of the digital economy in the future of Russian economy. Currently, Russian internet holds approximately 3% of GDP while internet-dependent industries account for 19% of total GDP. The Russian internet audience is huge and the major part of it uses mobile applications. The number of devices connected to the internet is two times higher than total world population, which highlights the importance of technology infrastructure.

According to Alexander Shulgin, visionary and the founder of GRUPPA KOMPANIY FAMILIA, mentioned that in 5-10 years from now we will face the challenges related to the digital economy (e.g. high unemployment rate and geopolitical transformation). We have already started working in

the digital economy (it is not the future, it already exists), as result we have to pay special attention to the return on involvement instead of return on investments. The income and prosperity gap will only increase in the nearest future, therefore the government needs to effectively and quickly prepare the economy for the digital economy.

Alexander Ivlev, Country Managing Partner for Russia in EY, briefly summarised the key points outlined in the global economic forum in Dallas (USA) about the digital economy based on several surveys:

- approximately 87% of the US companies believe that digital companies will be successful in the nearest future, while only 7% of the companies know how exactly to be digital
- 55 mln devices are produced each day
- on average it takes 35 days for the application to reach the audience of 50 mln people
- managers do not know how to overcome the unemployment problem driven by the emergence and active development of the internet and digital technologies

Improving Access to Energy Infrastructure: Applying the Experience of Major Cities to Create New National Standards

Improving Business Performance: Opportunities for Growth

The issue of improving energy infrastructure was raised in the previous section given the fast development of the digital economy, and as result has become increasingly important both for business and for the economy as a whole.

The current state of energy infrastructure in Russia is much better than it was several years ago. Nowadays the major part of Russian rural areas has direct access to energy and high-speed internet. It was mentioned that over the last three years, Russia moved up in the World Bank's Doing Business index, climbing 135 positions in the Getting Electricity indicator as a result of the improvements in the regulatory framework and the implementation of the detailed roadmap for the country's energy infrastructure. In fact, more than 40 government's programs (out of 50) have been realised since 2012.

According to the speakers, Russia was ranked 30th in the World Bank's Doing Business report, which measures the ease of doing business in 189 countries. Since the ease of doing business in Russia was assessed by analysing economic parameters of two major country's cities: Moscow and St. Petersburg, the experience of these cities is crucial in the creation of national standards for the entire country. Therefore, the local administration needs to develop and accept road maps for the energy infrastructure development in their regions. A direct access to the high-speed internet in all regions of Russia was indicated as the crucial element of the further development of the country's economy.

In addition, the Russian energy policy includes gas pipeline regulation in Russia, which is also very important given that Russian population actively uses gas and Russia operates the second largest gas transportation network in the world. Valery Golubev, Deputy Chairman of the Management Committee in Gazprom, outlined that the gas pipeline's load is very small. Gazprom has been a force to optimise its operations and change the communication channel between consumers and the company. Gazprom created a personal internet account for new users, which allowed to significantly lower costs by considering applications online for the connection of gas pipeline.

To sum up, "doing business online" is one of the best practices widely used in the major cities to solve energy infrastructure problems.

Investment in the Russian Regions: Regional Policy Priorities

Plenary session (address by Prime Minister of the Russian Federation Dmitry Medvedev)

As was outlined in the Prime Minister's speech, we can currently observe all-time low inflation for modern Russia, which stands at around 5% percent in 2016 (while in late 2015 the inflation was about 13%) with a further decline to 4% per year. The situation in the labour market is relatively stable with growing real wages in the economy. The transport, agricultural equipment and pharmaceutical sectors demonstrate strong growth, which also indicates the stable macroeconomic environment.

The government highlights the following priorities for the Russian economy:

- Sustainable environment (to guarantee the stability in macroeconomic situation, tax payments, government regulations etc.)
- Effective employment (cope with unemployment and demographic gap, invest in human capital)
- Smart economy (to continue investment in technology, increase intellectual capacity)

To achieve these priorities the government will implement the following changes in the economy:

- Create a mechanism for currency risk hedging
- Provide foreign users of Russian goods and services with competitive loan terms
- Create a fund for the development of new projects (the State Corporation Bank for Development and Foreign Economic Affairs)

Project Management: How to Avoid Developing Unviable Strategies

New Regional Policy: Opportunities for Development

Today, project management is a critical step in creating a management culture not only in business but in government too. Since the end of 2016, the Russian Government has launched a number of priority projects, which are designed to provide tangible social and economic benefits for the majority of citizens in an environment where administrative, human, and financial resources are limited. The implementation of these projects requires transparent management, efficiency, sound decision-making, and high-quality planning, which can all be guaranteed by applying project management principles.

One of the panellists invited to the session was Datuk Christopher Tan, Director of Prime Minister's Performance Management & Delivery Unit (PEMANDU) in Malaysia, which shared with his experience of the implementation of „Big Fast Results“ philosophy. Below is the key summary point of such philosophy.

Key secrets of transformation:

- Pursue the game of the impossible
- Anchor on true north
- Develop 3rd programme and exercise DMS implementation

The Big Fast Results (BFR) methodology involves 8 steps of the transformation, which enables the government to outline initiatives and to address the problem at hand in order to meet its specific objectives through a process that is inclusive and relevant. The following 8 steps include:

- Strategic direction
- Labour
- Open day
- Roadmap
- KPI target
- Implementation
- Audit & KPI target valuation process
- Annual reports

Human Capital as a Factor of Economic Growth

Projects for Life

Investment in human capital means, in particular, investment in the creation of a highly professional, mobile, motivated, and effective workforce that is able to have the greatest impact on the pace and quality of economic growth. New approaches to the continuing education system are focused on ways of ensuring that employees are able to obtain the new knowledge, skills, and competencies that are needed for a balanced employment market.

As outlined by Kirill Varlamov, Head of Internet Initiatives Development Fund (IIDF), in the next 3-5 years the number of jobs will be reduced by 5-7 million. Currently, only 40% of students choose their work based on their education programme, which indicates the unstable situation in the labour market. Moreover, a huge deficit of labour force in IT sectors can be observed (over 100 thousand open positions). Russian labour market demonstrates the absence of demand for human capital (from employers), which is a fundamental problem nowadays.

It is important to invest in human capital since this factor is the key driver of future economic growth. Another important factor is a recovery in productivity – with a focus on the regulatory regime for businesses and infrastructure.

EAEU: The Single Market and New Rules for Investors

Improving Business Performance: Opportunities for Growth

When deciding on whether to launch a project, investors analyse many factors that will influence its financial performance. The choice of jurisdiction plays a crucial role for large investment projects. Decision-makers have to account for all possible incentives and inherent difficulties. In order to overcome current challenges, the Eurasian integration initiative must develop a common competitive proposition for investors

The EAEU's aim is to ensure free movement of goods and services, capital and labour force within its borders as well as support and coordination of common policy in the main economic sectors. However, the Eurasian Economic Union faces the following key problems in the implementation of its policy:

- The general decline in the demand for goods and services produced inside EUEA
- The fall in oil prices, which results in the low demand for oil-related products and services
- Price fluctuations and unstable macroeconomic situation
- Control and supervisory pressure
- Corruption

While the EAEU and the government define tax policy and logistics infrastructure as the core benefits of the single market, investors focus on other issues including:

- Stable market environment – confidence
- Price advantage – cost-effective production
- The transparency of business operations

Innovative Potential in Russia's Regions: Drivers of Economic Growth

New Regional Policy: Opportunities for Development

In recent years, the strategy for successful development pursued by the national economic systems of the leading countries has been closely linked to superiority in research and development, the emergence of new knowledge, and the creation of innovative mass-market products. We are increasingly hearing that innovation is an absolute priority when determining a growth strategy. Historically, Russia has been one of the world's scientific powerhouses: Russian science and engineering have made significant contributions to the sum of humanity's body of

knowledge and technology. Russia has established a network of innovative regions that are able to quickly acquire knowledge and create innovative products.

The key drivers of the further economic development of the regions include the following activities:

- Position universities as the innovation centres
- Organise the cooperation between universities and businesses
- Attract business for solving government and local regions problems/issues

The success stories in Russia's regions (e.g. Kaluga region) demonstrate that there is great potential for economic development in Russia as a whole. One of the key roles of the government's best contribution to the successful development of regions is the building of innovative infrastructure, which allows market participants to make transactions. As a result of such policy, some regions in Russia performed significantly better than the country overall, having enacted significant institutional and business environment reforms over the past decade.