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Evolution of state policies for attracting investment in Russia



Environment for attracting investments in Russia

2000-2011 гг.



2009-2010

Establishment of regional ministries for investments, support measures in terms of reduction of regional tax rates, conclusion of investment agreements.



2006-2008

Inflow of investments as a result of creation of SEZs, support for regional projects from the Ministry of Regional Development of the Russian Federation (total support of 64 million USD).

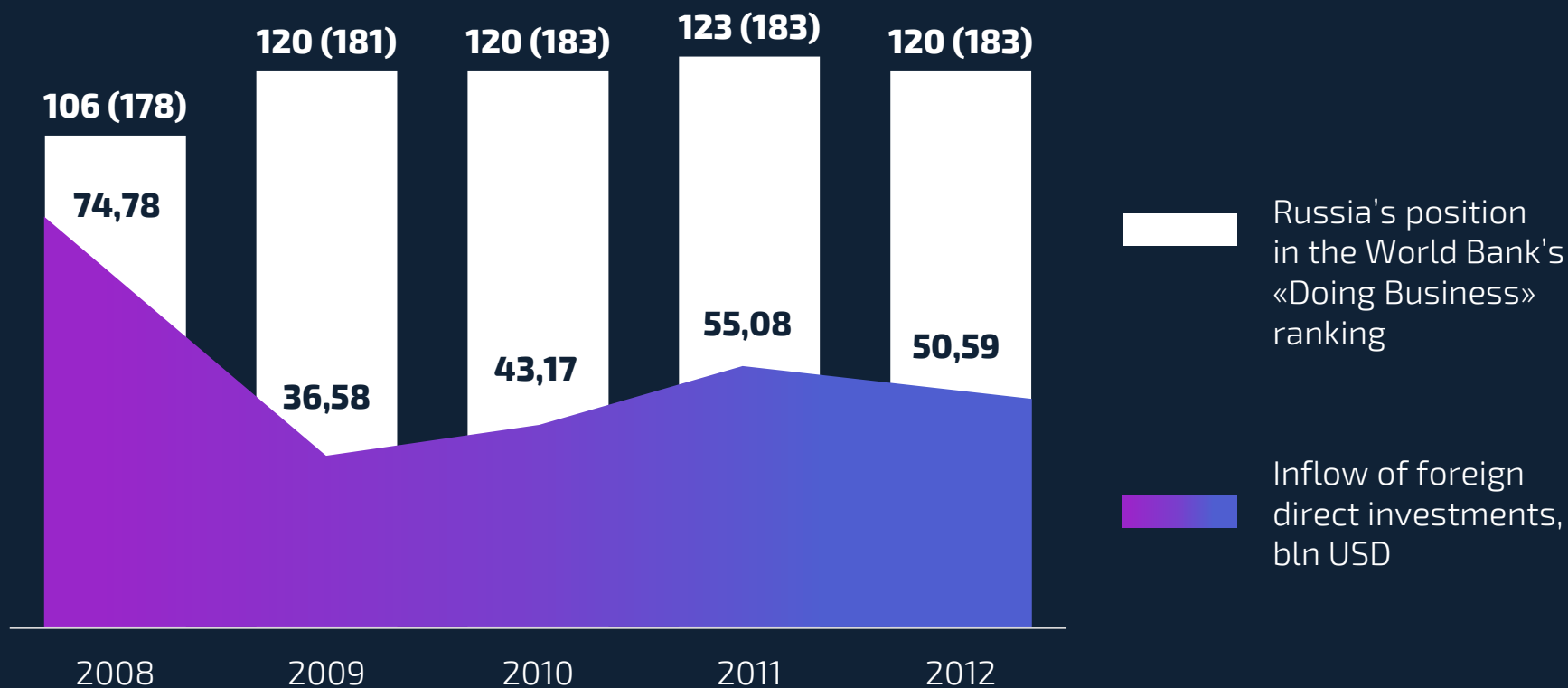


Early 2000s

Low level of development in investment attraction measures in Russia.

Environment for attracting investments in Russia

2000-2011 гг.



Policies for investment attraction in Russia

2012-2020

2012

Launch of a support program for creation of industrial parks aimed at small and medium-sized businesses.

2014

Establishment of the Department for Regional Industrial Policy within the Ministry of Industry and Trade of the Russian Federation. Launch of the sub-program for creation and development of industrial parks, 22 sectoral sub-programs for priority industries.

Support measures:



For priority industries – subsidising interest rates on loans (it is explained by the high level of interest rates – **14-16% per annum**), concessional leasing, financing of R&D.



Accredited industrial parks are entitled to obtain subsidy for interest rate on loans and reimbursement of expenses by regions for creation of industrial parks from federal taxes paid by park residents.

The low demand for the proposed support measures was due:

- 1.** The economic crisis in 2014 reduced incentives to obtain loans for construction of industrial parks.
- 2.** Low budget capacity of the regions.
- 3.** Most industrial parks did not meet the official requirements for obtaining the state support.

Policies for investment attraction in Russia

2012-2020

Retaliatory economic sanctions and import substitution requirements led to a reduction in the number of international cooperation projects:

78 %

Foreign direct investment in Russia fell by 78% in 2015.

71 %

Among them – by 71% from the US.

55 %

Among them – by 55% from China.

However, between 2016 and 2017, Asian countries began to manifest active interest in the Russian economy and their presence increased by more than **2.5 times**.



Liquidation of some SEZs as a result of the audit by the Accounts Chamber of the Russian Federation.



2015 – The Federal Law «On Public-Private Partnership, Municipal and Private Partnership in the Russian Federation...» demonstrates a conservative approach to forms of project implementation.

Factors of uncertainty in support measures for industrial entities

1

Limitation of financial resources for programs to support industrial entities under the SME assistance programs by the Ministry of Economic Development of the Russian Federation.

2

Disbalance of interests between the federal and regional management levels in relation to issues on industrial policy.

3

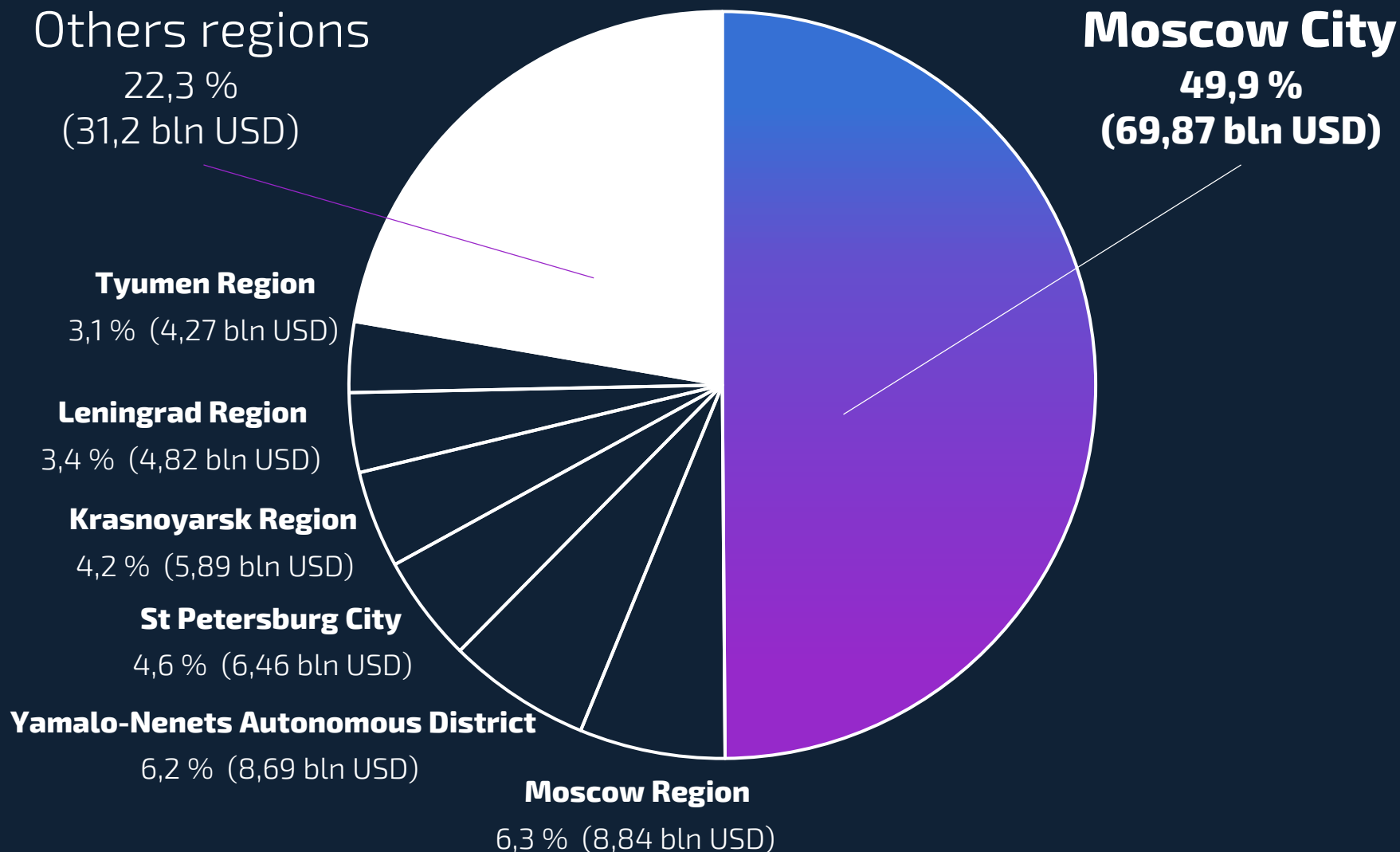
Frequent changes in the «rules of the game» require time and resources to adapt them both on the sides of regulators and investors.

Regional aspects of investment attraction policies

- 1.** Differences between federal and regional regulation acts.
- 2.** Low degree of specialization of regions by industry sectors.
- 3.** Differentiation among regions by the level of foreign direct investment inflows.
- 4.** The problem with limited regional resources: incapability to implement an independent regional policy without federal support.
- 5.** From 2021, regions will be able to claim subsidies for additional capitalization of their regional industrial development funds.

Share of foreign direct investment by region of the Russian Federation, 2018

(according to Rosstat)



Preservation of investment incentives

+ **32** bln USD
in 2019





Foreign direct investment inflow in Russia (compared to \$ 8.8 billion in 2018).

Availability of human resources as a result of the depreciation of the ruble.



Growth of number industrial parks and industrial technoparks.



-  Number of industrial parks
-  Number of industrial technoparks



Companies of the SPV (special purpose vehicle) type may apply for state support on an equal basis with other companies.



Decrease of the key policy interest rate and, accordingly, decrease of credit interest rates of Russian banks.

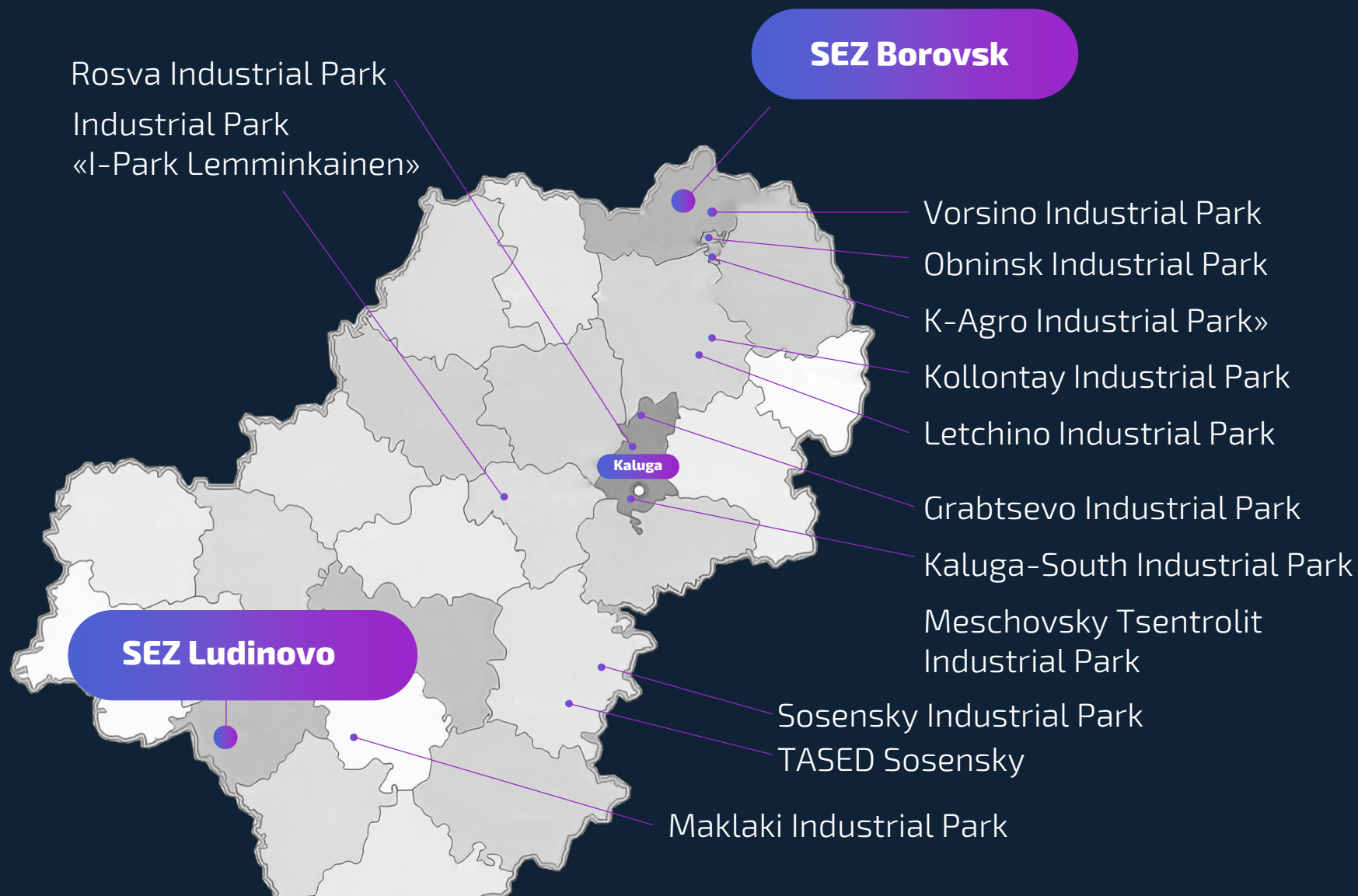
Successful practice of implementing measures to support industrial development in regions of Russia

Kaluga Region

- 1.** Involvement by regional institutions for development in attracting investments in the industrial sector of the region.
- 2.** Subsidies were provided to JSC «Kaluga Region Development Corporation» and LLC «Industrial Park Vorsino» to reimburse the costs for design and construction of 10 infrastructure facilities of the industrial park.
- 3.** Export orientation of the region and the presence of a production specialization – the automotive industry. (The region's automobile industrial cluster covers more than 11% of the automotive production in Russia).

Successful practice of implementing measures to support industrial development in regions of Russia

Kaluga Region



Forms of realization of investment projects with the possibility of obtaining state supports in the framework of TASED, SEZ and AZRF

Territories of advanced socio-economic development (TASED), Special economic zones (SEZ) and the Arctic Zone of the Russian Federation (AZRF) are territories of the constituent entities of the Russian Federation, in which a special regime for carrying out entrepreneurial activities has been established.

There are in the Russian Federation:

33 SEZs

90 TASEDs
in single-industry
towns and closed
administrative cities

22 TASEDs
in the Russian
Far East

1 TASED
in the Arctic



There is a problem in their efficiency

There is a need to assess and monitor their performance indicators.

TASED and SEZ: Features of functioning



The practice indicates that Territories of advanced socio-economic development can be created at several sites within the boundaries of one constituent entity of the Russian Federation, located, including in various municipalities.



Despite the absence of a regulatory restriction in terms of the minimum area on which a SEZ can be deployed, an analysis of the practice of functioning of SEZs for industrial production shows that such projects, as a rule, are large in scale in terms of the occupied territory (about 90-2000 hectares).



The creation of industrial parks is allowed inside each of these territories. In such a case, it is possible to combine both statuses.

Forms of realization of investment projects with the possibility of obtaining state supports in the framework

Type of preference/ benefits	TASED	SEZ	AZRF
Profit tax relief	0% - Profit tax to the federal budget.	2% - Profit tax to the federal budget for SEZ residents.	0% - Profit tax to the federal budget.
	Reduction of profit tax to the regional budget is established by regional laws.		
Property and land tax incentives	The terms and conditions for the provision of benefits are established in accordance with the agreement on creation of TASED.	Exempt from taxation.	The terms and conditions for the provision of benefits may be established by regional laws and municipal legal acts.
VAT incentives	Accelerated VAT refund (on a declarative basis in the presence of a guarantee agreement of the management company).	Exempt from taxation in relation to works and services performed and provided by residents of the SEZ for a port development.	0% for certain types of work.
Insurance premium	Reduced insurance premium rates: - Pension insurance: 6% - Insurance in case of temporary disability and maternity: 1.5% - Compulsory health insurance: 0.1%	Reduced insurance premium rates from January 1, 2020, not applied (only for SEZ in Kaliningrad Region).	Reimbursement of payment of insurance premiums.

Prospects for development of investment attraction policy instruments in the Russian Federation:

Creation of a system for monitoring the activities of industrial parks and industrial technoparks



- 1 Providing unified statistical accounting and prompt exchange of information (its timely updating) between all system participants.
- 2 Digitalization of document flow between all participants in the project for the creation and/or development of industrial parks (applications, project passports, legal and financial documentation, etc.).
- 3 Formation of best practices for the creation and/or development of industrial parks and industrial technoparks.
- 4 Creation of conditions for attracting investors by collecting aggregated data and providing an opportunity to compare them upon selection of an industrial production site.

Directions for development of investment attraction policy in the Russian Federation:

Improving effectiveness of measures to support business entities in the industrial sector, including investors.

- 1.** A wide range of support measures is not a guarantee of their balance. Financial support measures are most in demand today.
- 2.** Delegation of the functions as drivers for regional industrial development to the regions themselves (one of the examples of incentives is the rating of regional industrial development funds).
- 3.** Maintaining support measures by the Ministry of Economic Development of the Russian Federation with a prioritization to regions with lower budgetary capacity will balance regional industrial development and give an impetus to subsidized regions to increase their industrial base and create additional jobs.
- 4.** Supporting cluster cooperation to attract and support residents, providing a synergistic effect from cooperation.
- 5.** Extension of support measures to private industrial parks and industrial technoparks will stimulate private business to invest in industrial infrastructure.