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The theme of this year’s St. Petersburg International Economic Forum was ‘Building a Trust Economy’

Trust is the foundation of sustainable development, and this idea was the main focus of SPIEF 2018. Discussions at the Forum covered all aspects of this topic: building trust between countries, people, society, business, and authority. Russia intends to build its own future on the basis of these principles: an open economy, transparency of state regulation, and fair social policy should underpin an improvement in people’s prosperity and an increase in the country’s competitiveness. One of the most important tools of such a policy should be the digitalization of all aspects of business, state administration, and social interaction.
One of Russian policymakers’ short-term goals is improving national prosperity through accelerated economic growth.

These goals are attainable

Russia has survived hits from sanctions and the falling prices of typical export goods. “We were able to make it through, and, not just that, we were able, to a certain extent, to strengthen our economy” (Vladimir Putin, President of the Russian Federation).

Russia has “put in place an admirable macroeconomic framework” (Christine Lagarde, Managing Director of the International Monetary Fund (IMF)). SPIEF participants highlighted that Russia has a special rainy-day fund, a floating exchange rate, little national debt (around 13% of GDP), a low unemployment rate (less than 5%), a rate of inflation which stands at 2.4%, and a fiscal deficit of near 1.5%. This has decreased the dependence of the economy and the budget on oil prices.
OBJECTIVES

In order for Russia to remain one of the world’s six leading countries, its GDP needs to grow by 3.3% a year, and to reach fifth place (this objective was set by President of the Russian Federation Vladimir Putin in his annual address to the Federal Assembly in March 2018), the growth rate must reach 6% (data provided by the Russian Presidential Academy of National Economy and Public Administration).

The IMF expects the growth rate for the Russian economy to be around 1.5–1.7% over the next six years. According to Herman Gref, Chairman of the Executive Board at Sberbank, the most optimistic expert forecasts are around 2.5%.

Investment is required to accelerate economic growth. The current level of investment in Russia is just over 21% of GDP. According to First Deputy Prime Minister and Minister of Finance of the Russian Federation Anton Siluanov, a 3% annual increase in growth would require a minimum investment level of 25%.

“If no measures are taken, there is a risk that the rate of economic growth will fall to 1%.” (Maxim Oreshkin, Minister of Economic Development of the Russian Federation).

The speed at which decisions are made and the quality thereof are horrendous; regulatory practices are excessive” (Alexei Kudrin, Chairman of the Accounts Chamber of the Russian Federation).

Mitigating the Effects of International Sanctions

“The effect of international sanctions on Russia’s economy has increased to 0.5% of GDP” (Alexei Kudrin, Chairman of the Accounts Chamber of the Russian Federation).

Supplying a Workforce

“Russia’s workforce decreases by 0.5–1 million people annually. Baseline demographic forecasts suggest that Russia’s workforce will contract by 3.5 million people in the next six years” (Alexei Kudrin, Chairman of the Accounts Chamber of the Russian Federation).

Reducing the Administrative Burden

“The land, urban development, financial, budgetary, and legislative sectors are so regulated it is practically impossible to do anything” (Sergei Sobyanin, Mayor of Moscow).

Investing in Infrastructure

Infrastructure investment stimulates private investment, leading to a multiplier effect.

One of the ways this issue is being addressed is through the creation of a special budgetary infrastructure fund in 2019 that amounts to approximately RUB 1.2 trillion of direct investment in sector projects annually.

SOLUTIONS

Switching to a Project Approach

According to First Deputy Prime Minister and Minister of Finance of the Russian Federation Anton Siluanov, a project approach will be applied in order to achieve the strategic national development objectives set by the President of the Russian Federation. Project management requires clear goals, strict controls, and personal responsibility for implementation. SPIEF 2018 participants also proposed introducing a flexible financial management scheme and creating an effective system for monitoring project execution.

Investing in Infrastructure

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One of the ways this issue is being addressed is through the creation of a special budgetary infrastructure fund in 2019 that amounts to approximately 3% of GDP over a six-year period. Debt financing mechanisms will attract investment from the market.

Creating Stable and Attractive Business Conditions

One of the prerequisites of a trust economy is a stable tax system.

“Taxes will remain stable for the next six years. However, some adjustments will occur... with respect to lowering those taxes that negatively affect businesses” (Anton Siluanov, First Deputy Prime Minister and Minister of Finance of the Russian Federation).

“The administrative burden on businesses due to inspections and regulation must be reduced by half in order to bring Russia closer to the level of Organisation for Economic Co-operation and Development (OECD) countries” (Alexei Kudrin, Chairman of the Accounts Chamber of the Russian Federation).

“The Ministry of Economic Development is implementing a new risk-oriented approach when it comes to oversight and monitoring. Inspections will occur depending on companies’ position on a five-point scale assessing the risk of legal violations. This approach is already in use in more than 15 oversight divisions” (Savva Shipov, Deputy Minister of Economic Development of the Russian Federation).

Russia has several hundred mechanisms for supporting entrepreneurship, but they need to be systematized and made more efficient. Application and accountability procedures also need to be simplified.

• Regional and business representatives called for the completion of work on improving the special investment contract mechanism, SPIC 2.0. By order of the President of the Russian Federation, this instrument should result in RUB 1.2 trillion of direct investment in sector projects annually. The project office created to manage this instrument has already gathered projects worth RUB 8 trillion.
• Members of the Russian Union of Industrialists and Entrepreneurs (RSPP) suggested organizing a comprehensive evaluation of development mechanisms and institutions, in order to determine and implement best practices, as well as to give priority to those enterprises affected by sanctions.

• The Ministry of Industry and Trade of the Russian Federation considers it necessary to prioritize support for enterprises engaged in exports and innovation.

Representatives of small businesses called for solving the problems related to the procurement procedures employed by government and large enterprises:

• Switching to procurement from Forum participants included:

• The growing share of contracts employed by government and large enterprises:

• The presence of shell companies that either block off suppliers’ access or force them to get a subcontractor’s tender, forfeiting up to 30% of the contract price.

• The growing share of contracts with singular suppliers (up to 50%).

Some of the solutions suggested by Forum participants included:

• Standardizing invitations and guarantees; forbidding demands for additional documents during bid acceptance.

• Switching to procurement from small and medium-sized enterprises (SME) on unified platforms.

• Quotas for government procurement from SMEs.

• Expert analysis of supplier quality if the tender price falls by more than 25%.

• The termination of small business provision requirements in small tenders and, in cases where three government or municipal contracts have been fulfilled in the last three years, including a rule requiring a second participant.

Forum participants also noted the importance of creating clear ground rules for the energy sector.

In this respect, the Ministry of Energy of the Russian Federation, in cooperation with businesses, has prepared and is following through on a set of measures that include: long-term rates, normalizing preferential connections, benchmarking energy consumption standards, and payment by declared output.

An important part of protecting business interests is the fight against counterfeiting.

• SPIEF participants noted that product certification and labelling is a successful instrument thereof. According to the Eurasian Economic Commission (EEC), after the pilot project for labelling fur coats was implemented, the legal product turnover grew sevenfold.

• It is important to create instruments of social control, establish preferences for good faith importers, and solve the issue of personal-use goods traffic through foreign commerce platforms.

Accelerating the digitalization of administrative agencies is key. This approach has already been fruitful.

• According to the Prosecutor General’s Office of the Russian Federation, prosecutors’ response times to entrepreneurs’ complaints via the agency’s online channels have been reduced by two thirds.

In response to the challenges of a digital economy, the Federal Antimonopoly Service is preparing its fifth antimonopoly package. Forum participants noted that foreign businesses operating within the Russian Federation as a result of digital technologies should be held to the same standards as Russian businesses.

The regions play a key role in improving business conditions. This was evidenced by the results of the Regional Investment Climate Index, collected by the Agency for Strategic Initiatives (ASI). The ASI notes that, in 2018, the data showed “arguably colossal growth”. The creation of new targeted models and a surge in work by regional teams made this growth possible.

• According to the ASI, out of 85 regions, only seven registered deteriorating business conditions.

Regions are proposing (and implementing) a variety of measures:• The reorganization of industrial areas and the development of commercial property with the aim of creating jobs (offices, technoparks, multifunctional centres, etc.) are underway in Moscow.

• A website featuring recommendations on how to avoid typical violations (over 300 for 27 types of activity) and information on each monitoring and supervisory function and the responsible department has been launched in the Republic of Tatarstan.

• In Tula Region, thanks to the work of the export support centre, the number of export-oriented enterprises has doubled: from 92 to 195.

• Kaliningrad Region has created a special ‘concierge service’ which helps businesspeople arriving from other regions to find not just office space, but housing and jobs for their family members as well.

• St. Petersburg has reduced the number of regional oversight and monitoring functions and inspection plans.

• Novgorod Region has reduced entry barriers tenfold in the interest of supporting investment.

Increasing Non-commodity Exports

Forum participants also acknowledged that non-commodity export turnover is a comprehensive indicator of an economy’s efficiency. The government plans to practically double these exports by 2024, to USD 250 billion. This necessitates the launch of a large portfolio of export-oriented investment projects across all sectors.

• The Ministry of Industry and Trade of the Russian Federation and the Russian Export Center (REC) propose offering government support for those entering foreign markets.

• The Russian Agency for Export Credit and Investment Insurance does not exclude the possibility of development institutions contributing to the equity of new enterprises if they receive project financing.

• The EEC has organized a platform for coordinating development bank efforts. Work is being done to create joint insurance and reinsurance instruments.

• In Novgorod and Kaliningrad Regions, joint insurance and reinsurance instruments are being developed by the EEC with the involvement of the Russian Export Center’s insurer. These instruments are being tested in Novgorod and Kaliningrad Regions. A pilot project for labelling fur coats was launched in 2018. The EEC is planning to create a special ‘concierge service’ which helps businesspeople arriving from other regions to find not just office space, but housing and jobs for their family members as well. St. Petersburg has reduced the number of regional oversight and monitoring functions and inspection plans. Novgorod Region has reduced entry barriers tenfold in the interest of supporting investment.

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Regional representatives spoke in favour of ramping up trade representation work.

An effective mechanism for increasing exports is the creation and support of Russian brands.

The Roscongress Foundation and the REC are developing the ‘Made in Russia’ brand.

The Russian Quality System (Roskachestvo) brand has been created and has tested the quality of 3,500 goods.

Russian companies and regions are developing their own brands. One of the most successful examples thereof is the car brand Cortege.

Improving the quality of Russian goods is crucial to remaining competitive. Proposals include:

• Creating effective laboratory facilities for product testing and testing centres.
• Refining the standardization system, conformity assessment, and certification procedures, involving businesses in developing standards; forming a corporate system of voluntary accreditation; reducing SME expenditure on voluntary certification during government procurement.
• Preparing international trade specialists for medium-sized companies and including businesses in the development of export acceleration programmes.

Developing the Financial System

A key factor in growing investment, especially in light of economic sanctions, is the search for sources of financing and the creation of economic mechanisms for attracting them.

• Russian clients’ bank deposits hold more than RUB 25 trillion. Market experts estimate that in the next three to five years, 15–20% of these funds will go towards investment products.

• Foreign investors believe that Russia’s market would see a sudden influx of funds if more companies outside the oil and natural gas and metals extraction sectors were to enter it.

The role of exchange instruments in attracting investment and citizens’ interest in them is already growing.

• According to Moscow Exchange, the issue and trade of bonds grew by 60% in 2017. This growth has continued: the turnover of individuals in the corporate bond market during the first four months of this year was 3.5 times higher than in the same period last year, with a 33% increase observed in the stock market.

A home base for institutional investors needs to be created. One way to achieve this is through the formation of a long-term savings mechanism.

• The Bank of Russia, Ministry of Economic Development, and Ministry of Finance are certain that creating a powerful cumulative pension system with voluntary individual pension contributions is key. Developing a life insurance system could also bolster the savings rate.

A separate issue is asset recovery of failed banks. According to the Deposit Insurance Agency (DIA), this is a RUB 4 trillion issue.

• The most effective solution is financial recovery without the revocation of licences, especially in the case of systemically important banks. By utilizing such an approach, by the
beginning of 2018, the Bank of Russia was able to build up a large and healthy financial group on the foundation of Otkritie Bank.

• A fund of non-core and toxic assets is being created and will be managed by the Banking Sector Consolidation Fund. The proposed asset volume will amount to approximately RUB 2 trillion. In three to five years, all of the Fund’s assets will be sold to investors at market value.

• The DIA proposes shortening the timeframe of liquidation procedures, handing over temporary administrative functions from the Bank of Russia to the Agency and expanding the liquidation mechanism to include nongovernmental pension funds and insurance companies.

**Focus on Innovation**

In order to accelerate economic growth, Russia must modernize manufacturing and grow the processing sector. A number of comprehensive steps have been taken in this respect.

• By 2018, 300 of Russia’s largest enterprises had already converted to the best available techniques (BAT).

• According to Deputy Prime Minister of the Russian Federation and Presidential Plenipotentiary Envoy to the Far Eastern Federal District Yury Trutnev, work on industrial legislation reform will begin in 2018, with the goal of removing current barriers to investment.

Regional representatives have also proposed passing on 1–2% of the value-added tax income to the regions as additional motivation to support regional manufacturing.

Another focus of SPIEF 2018 was the issue of developing the Arctic Region and the Northern Sea Route. Successful development of the northern regions requires a systematic approach. According to Minister of Natural Resources and Environment of the Russian Federation Dmitry Kobylkin, a regulatory framework needs to be created: an Arctic law should be adopted, on the basis of which a long-term regional development programme and a comprehensive plan to develop the Northern Sea Route will be established.

Infrastructure is needed to facilitate year-round use of the Northern Sea Route, especially by the icebreaker fleet. United Shipbuilding Corporation is already building three icebreakers in St. Petersburg. On the topic of environmental solutions, SPIEF 2018 saw talk of shifting the shipping industry to liquefied natural gas.

Forum participants were in favour of creating a unified coordinator for such a massive government project and of establishing a dialogue between all involved in the process: businesses, regions, and environmental experts.

• A platform for such discussions has been created: the Arctic Terri-
dory of Dialogue International Arctic Forum. The Roscongress Foundation is currently preparing for the fifth such event, which will be held in Arkhangelsk on 9–10 April 2019. According to Anton Kobyaakov, Presidential Advisor and Executive Secretary of the Arctic: Territory of Di-
alogue International Arctic Forum Organizing Committee, the Interna-
tional Arctic Forum has established itself as a significant platform for open dialogue on the current Arctic agenda. Participants focused on improving quality of life for people living in the Arctic region, preserving its unique ecological potential, ensuring sustainable social and economic development of the polar territories, and strengthening in-
ternational cooperation to achieve these objectives.

Tourism has a notable impact on regional economies.

• According to the Federal Agency for Tourism of the Russian Federation, in 2017, 56 million people engaged in domestic tourism in the Russian Federation, and 24.4 million international tourists visited the country. Their total impact on the country’s economy amounted to 3.47% of GDP, or RUB 3 trillion.

• The Federal Targeted Programme (2011–2018) led to more than RUB 115 billion of investment and the creation of more than 250,000 jobs. A new programme is being prepared for 2019–2025.

Recommendations for developing the sector include: improving information support, service and infrastructure quality, specialization and customi-
zation of tourist products.

A potential direction for regional development is the event and activities industry, which is growing in global popularity. To this end, Russia must establish industry policies, develop-ment plans, standardization sys-
tems, and training programme meth-
odologies.

Particular attention should be paid to those sectors that are strategically vital to various regions: fishing in the Russian Far East, for example.

• Out of the 950 residents that are working in areas with special tax regimes today, 45 are involved in the fishing industry. The volume of declared investment amounts to almost RUB 40 billion.

According to Forum participants, some of the measures required to de-
velop the industry are:

• creating a wholesale ruin in the fish-
ing industry
• improving resource quality guide-
lines
• modernizing fishing techniques
• subsidizing the fishing industry by way of fuel subsidies or VAT incen-
tives.

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3.47% OF GDP
To build an economy of trust, it is vital that international cooperation is strengthened through mutually beneficial open economies while unilateral protectionism, sanctions policies, and domination of the information space are opposed, said SPIEF 2018 participants.
Trust Is the Foundation of International Cooperation and a Stable World

OBJECTIVES

Reducing Protectionism

Currently, the system of international cooperation is "being destroyed, and rather crudely" and "open markets and fair competition are gradually being replaced by all kinds of exemptions, restrictions, and sanctions", noted President of the Russian Federation Vladimir Putin. This causes chaos in economic relations and leads to an acceleration of the arms race.

- According to Centre for Strategic Research data, there were 3,200 non-tariff restrictions, compared to 12,000 in 2017.
- Trade restrictions make addressing the debt problem more difficult and increase instability on the currency market.

SOLUTIONS

Developing Cooperation and Supporting a Just World Order

During the SPIEF 2018 plenary session, President of the Russian Federation Vladimir Putin called on all countries to reject unilateral action, and to comply with common rules.

Foreign leaders attending the Forum confirmed their commitment to cooperation with Russia and a just world order.

- President of the French Republic Emmanuel Macron stated that he wants to put an end to insufficient sovereignty. He also said that, in the past 10 years, not a single French enterprise had left the Russian market. When it comes to foreign direct investment in Russia, France is in second place and is aiming to move up to first. The trade turnover between the two countries grew by 16.5% last year, and by 25% in Q1 of this year.
- Vice President of the People’s Republic of China Wang Qishan called on all countries to reject egoism in foreign policy and to work on solving key issues together. Relations between Russia and China have been developing positively: trade turnover is getting close to USD 100 billion.
- Prime Minister of Japan Shinzō Abe spoke in favour of strengthening ties with Russia and expressed the hope that the two countries would become pillars for peace in the Northern and Eastern hemispheres. He also noted that the number of joint projects between Japan and Russia is growing rapidly; there are currently more than 130.

During SPIEF 2018, the futures of international organizations in which Russia actively participates were also discussed.

- In 2020, Chelyabinsk will host the Shanghai Cooperation Organisation (SCO) and BRICS summits.
- More specifically, the creation of a unified investment project bank and unified standards for financing has been proposed.

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Solutions Integration Processes

During the SPIEF, much attention was paid to the development of integration with respect to the Eurasian Economic Union (EAEU), especially to the trans-sector digital agenda. Digital technologies create new opportunities for improving the business climate in member states, make it possible to use the economy’s scale to its fullest extent, and create a single sphere of trust, according to Forum participants.

The competitiveness of an integrated union is defined not by the flow of goods, capital, and labour, but primarily by the flow and integration of data (Maxim Akimov, Deputy Prime Minister of the Russian Federation).

"It was also noted that EAEU member states share an objective to sustainably develop agricultural production. The EEC has consolidated approaches to managing supply and demand. The EAEU has adopted a plan that will allow the Union to produce its own seeds at the levels achieved in the 1990s, when Russia had large agricultural research centres” (Sergey Sidorov, Member of the Board – Minister in Charge of Industry and Agroindustrial Complex of the Eurasian Economic Commission).

Developing Business Dialogue

During the bilateral business dialogues, SPIEF participants discussed
what measures should be taken to develop Russia’s relations with other countries.

- Russian and French business leaders discussed their significant mutual interests. The Forum saw the signing of a deal between Novatek and Total on the latter’s participation in the Arctic LNG 2 project. Participants spoke in favour of expanding areas of cooperation, noting the importance of high-level dialogues. Potential directions include finance, transport, food production, energy, and the innovation sector.

- Representatives of Russian and Japanese business circles noted that the Eight-Point Cooperation Plan proposed by the countries’ leaders has jumpstarted relations in the past two years. The Russia–Japan Investment Fund (RDIF), the Fund has proven itself to be an important financing instrument for joint projects. According to Kirill Dmitriev, CEO of the Russian Direct Investment Fund (RDIF), the Fund has made a number of significant investments since September: in Transneft, one of the largest infrastructure market players, and in the medical e-platform Dokitis. At SPIEF 2018, the RDIF announced the construction of a gas chemical plant with assistance from Marubeni. An opportunity for transport cooperation lies in the fact that approximately one third of shipments made via the Trans-Siberian Railway are freight shipments to Japan. The land route to Europe is half the length of the sea route.

- Developing cooperation between Russia and India necessitates the removal of barriers to trade, solving logistical issues, and improving the information available to businesses about each other’s markets. According to Alexey Grudzev, Deputy Minister of Economic Development of the Russian Federation, the Russian authorities are already working on removing unnecessary administrative barriers and creating a one-stop shop for Indian investors.

- Germany is actively contributing to the modernization of Russia’s economy. In the past year, German investments grew to USD 18 billion.

- The Government of the Russian Federation submitted a draft law to the State Duma of the Federal Assembly of the Russian Federation regarding digital navigation seals for freight travelling across the country. This would allow risk profiles to be established ahead of time for various goods or shippers, and will let a significant portion of the freight being shipped across the border pass through a ‘green corridor’.

Despite the strained relationship between Russia and the USA, the American delegation at SPIEF 2018 was once again sizable. Businesses recommend sticking to pragmatism, as the trade turnover from January to March between the two countries has increased by 9.4% to USD 5.2 billion compared with the same period in 2017.

Reducing Trade Barriers and Developing Infrastructure

According to Forum participants, in order to develop international trade, transport corridors must be developed, customs procedures must be simplified, financial burdens must be lightened, and waiting times at junctions during transport transfers must be reduced.

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Forum participants also spoke in favour of balancing both domestic and international tariff policies with respect to various modes of transport. CEO of Russian Railways Oleg Belozerov proposed creating a single transport document for all modes of transport. Much attention was paid to digitalization and its ability to facilitate the optimization of every interaction and enable information to remain consistent throughout a good’s journey.

Developing Cooperation in the Energy Sector, Food Security, and the Environment

An important area for international cooperation is the energy sector. Oil and gas are expected to remain the backbone of the world’s global energy mix and economy in the near future, and for Russia, they will remain a strategic development resource.

- According to International Energy Agency data, global demand for liquid hydrocarbons grew by 1.6 million barrels/day to 8 million in 2017. Approximately 35% of the increase in global demand came from countries in the Asia-Pacific region. Europe was responsible for an increase of 360,000 barrels/day. This increase is expected to continue in the future. According to Rosneft CEO Igor Sechin, oil production capacities will have to “replenish up to 40 million barrels of falling volumes of resources per day by 2040.”

- According to Alexey Miller, Managing Director and Deputy Chairman of the Board of Directors of Gazprom, by 2035, European domestic production of LNG will fall by half and will be accompanied by opportunities for supplying an extra 200 billion cubic metres of LNG, a significant portion of which will come from Russia.

- China is planning to increase its consumption of LNG to 360 billion cubic metres and to increase its share in the energy mix from 7 to 10%; 80–110 billion cubic metres of this LNG will come from Russian pipelines.

- International cooperation is essential to solving global food security issues.

- According to the International Fertilizer Association, by 2050 global food consumption could double.

- Today, approximately half of the Earth’s soil is depleted and many areas are experiencing drought conditions.

- Russia can make a significant contribution to solving food security, as it is a global agricultural leader.

- According to the Ministry of Agriculture of the Russian Federation, if necessary, Russia could double its volume of agricultural production in a short period of time.

- Increasing the industry’s potential, both in Russia and globally, is possible because of new technologies: more advanced crops and optimized mineral nutrition.

- The Ministry of Agriculture of the Russian Federation sees its goal as the creation of a unified, universally accessible digital agrobusiness platform that will unite every measurement and database in the industry.

The development of agriculture necessitates a shift towards environmentally responsible production. Forum participants noted the importance of financially encouraging this change.

The role of the environment in the international cooperation agenda is growing. Humankind must shift the paradigm of its co-existence with nature. SPIEF 2018 participants noted. One proposal was to create a national mechanism to monitor technologies before they are launched on a mass scale.

International cooperation plays a particularly important role in ecology due to the rising importance of the ocean as a source of energy and food resources.
Increasing Russia’s global competitiveness is directly related to the quality of its human capital.

According to the World Bank, human capital makes up 80% of the wealth of economically developed countries, 30–40% of workforce in these countries is involved in the knowledge economy. In Russia, this figure is 17%.

The key factors for improving the quality of human capital in Russia include the following:

- Increasing life expectancy to 80 years by 2030. This requires developing innovative healthcare technologies.
- Adapting the labour market and education system to the digital economy: according to the World Economic Forum, 20% of jobs will have changed by 2020.
- Creating infrastructure for ‘smart cities’. According to experts, in the next 10–15 years, smart cities will be responsible for two thirds of the world’s GDP. They will become drivers of global economic development and create the most jobs.
- The development of philanthropy and volunteerism as methods of increasing social solidarity; creating a trust economy.

TRUST Is the Foundation of Social Development

In the next 10–15 years, smart cities will be responsible for two thirds of the world’s GDP.
OBJECTIVES

Improving Quality of Life

According to the Civic Chamber of the Russian Federation, at the start of the millennium, 47% of the housing in small cities lacked hot water and 62% lacked indoor plumbing.

According to Alexey Firsov, General Director of the Platforma Social Design Centre, municipalities do not have sufficient funds to modernize infrastructure since only 15% of taxes remain in the city budget, while businesses are not rushing to invest in the urban economy because of the slow return on investment.

At the same time, the lack of trust in the ‘government—business—society’ chain leads to a deficit of private investment in the modernization of city infrastructure and public opposition to new initiatives for implementing technological solutions.

The insurance system for occupational illnesses works poorly.

According to Maxim Topilin, the Minister of Labour and Social Protection of the Russian Federation, occupational diseases are either not detected in our country, or, if they are detected, insurance companies are not involved and the relevant procedures for establishing cause-effect relationships are not carried out.

The death rate remains high.

Increasing Investment in Human Capital

“Either "redistribution or a budgetary manoeuvre is needed in favour of productive industries such as education, healthcare, and infrastructure” (Alexei Kudrin, Chairman of the Accounts Chamber of the Russian Federation).

“People need to be at the heart of every change. And the social sector, which works towards this end, has to be out there, making these changes possible” (Tatyana Golikova, Deputy Prime Minister of the Russian Federation).

Education Reform

Forum participants acknowledged the necessity of reorganizing the Russian education system. Proposals included:

• Cultivation of digitalization and programming skills from primary school onwards. According to the Minister of Digital Development, Communications, and Mass Media of the Russian Federation Konstantin Noskov, the digital economy is already exerting an impact on our life, on society, and on the traditional economy, including changing the employment market radically. A large number of traditional specialties are becoming increasingly obsolete and the education sector faces a challenge: how to retrain people for new professions. The digital economy is not about tomorrow, the digital economy is with us today, and it is already influencing how we need to educate people.

• Goal-oriented education, developing creativity and unique competencies.

• Restoration of engineering education, preparing specialists capable of incorporating technological achievements and innovations into real industry environments.

• Inclusion of businesses in the development of modern educational programmes.

Developing the Healthcare System

According to the Minister of Healthcare of the Russian Federation Veronika Skvortsova, over the next 30 years, a single digital space will need to be created to ensure constant monitoring of each person’s

Russia spends 1.2% of GDP on scientific research.

Of the housing stock in small towns:

• 47% lacked hot water.
• 62% lacked plumbing.

Only 15% of taxes remain in city budgets.

SOLUTIONS

Updating Education Standards and Increasing Funding for Science

According to the Russian Academy of Sciences, Russia spends 1.2% of its GDP on scientific research, placing the country in thirteenth place globally.

According to UNESCO, in the last 15 years, the number of scientific publications in China has increased by a factor of 9.6. In India, it has increased fourfold, and in Russia by 15%.

Developing Healthcare

SPIEF participants noted the lack of effective tools for early diagnosis of diseases, the low level of digitalization in healthcare and poor qualifications of medical staff, as well as the inadequate level of investment in clinical trials.

Quality medical services are not sufficiently accessible. According to the Minister of Healthcare of the Russian Federation Veronika Skvortsova, this issue is extremely important for Russia as the country has a vast territory, uneven population density, and huge inter-regional differences.

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• Inclusion of businesses in the development of modern educational programmes.

Developing the Healthcare System

According to the Minister of Healthcare of the Russian Federation Veronika Skvortsova, over the next 30 years, a single digital space will need to be created to ensure constant monitoring of each person’s
Creating Conditions for Creative Self-Expression, Developing a Volunteerism Movement

President of the Russian Federation Vladimir Putin discussed the creation of the autonomous non-profit organization Russia – Land of Opportunity, which should create a systematic foundation for developing national creative initiatives.

SPIEF 2018 saw the presentation of the Roscongress Foundation’s social platform, NPO LAB. According to Deputy Prime Minister of the Russian Federation Andrey Chibis, the number of municipalities participating in the Urban Environment project reached 7,000 in 2018, and over the past year, 20,000 premises were equipped with the necessary facilities and a regional and municipal legislative framework was created. A total of 18 million people helped to select the premises.

Proposals included:
• Increasing subsidies for regions that implement digital solutions, adding ‘smart cities’ to the criteria for judging the work of regional and local authorities.
• Utilizing a public-private partnership instrument to modernize communal, social, and transport infrastructure.

Environmental issues have become a necessary element of economic and social development.

Creating a Comfortable Living Environment

During the Forum, much attention was paid to the topic of developing ‘smart cities’ and forming a space for trust and cooperation between the government, business, and society.

According to the Deputy Minister of Construction, Housing, and Utilities of the Russian Federation Andrey Chibis, the number of municipalities participating in the Urban Environment project reached 7,000 in 2018, and over the past year, 20,000 premises were equipped with the necessary facilities and a regional and municipal legislative framework was created. A total of 18 million people helped to select the premises.

Proposals included:
• In accordance with the ‘Green Shield’ law, 85 regions proposed an initiative to create forest and park protection areas. Twenty-five regions have already followed through on the necessary procedures to form them.
• Forum participants noted the necessity of improving standards for environmental impact assessment and transparency with regard to the decisions reached in this area.

Overcoming Gender Inequality and Empowering Young People

Overcoming gender inequality in business and government is important. Russia is part of international projects aimed at solving these issues.

Russia is organizing the ‘Women in STEM’ project aimed at helping girls and women to master information technology.

SPIEF participants were in favour of the creation of the BRICS Women Business Alliance, meant to help engage women entrepreneurs in international trade.

The empowerment of young people in social and economic life was discussed at the events of the Youth Economic Forum, which was held as part of SPIEF 2018. Proposals included:
• Popularizing entrepreneurship and innovation among young people, integrating young entrepreneurs into the international community.
• Inviting young people in the modernization of the education system, establishing creative spaces for the implementation of youth initiatives in the field of education, including within the framework of the Future-Team movement.
• Implementing entrepreneurship fundamentals into the school curriculum in order to make small businesses more attractive to young people.
• Empowering young people to improve the quality of life in small cities: supporting successful My Country – My Russia projects and creating project teams in 100 municipalities under the auspices of the Russian Union of Youth.
Russian policymakers see the development of the digital economy as a key instrument in achieving technological breakthroughs and increasing the country’s competitiveness. The comprehensive digital development programme will “become one of our priorities for the next few years” (Vladimir Putin, President of the Russian Federation).

According to the World Bank, in 2016, 15.5% of GDP came from the digital sector, which should account for 25% of GDP in the next few years.

In Russia, according to the Russian Association for Electronic Communications, the digital economy makes up 5% (approximately RUB 5 billion) of GDP, and growth at the 5% level will remain for the next five years.

OBJECTIVES

Russia Needs to Catch Up with the Leading Countries with respect to the Level of Innovation in the Economy

According to the World Economic Forum's most recent Global Competitiveness Report, Russia is not yet in the top ten countries for developing innovation. Just 7.3% of domestic companies use new technologies and innovative approaches. According to the World Economic Forum's Networked Readiness Index (which takes into account a number of factors, from government procurement to the effect of digitalization on society), Russia is in 41st place out of 139 countries.

According to Sberbank’s CEO and Chairman of the Executive Board Herman Gref, traditional sectors are losing their appeal as investors prefer digital sectors. Traditional companies are unable to change their own models as rapidly as digital companies.

Companies are forced to restructure their business models to fit the digital reality ‘on the fly’, and not all of them do this quickly and effectively.

A legislative lag has been observed. Developers of digital platforms have noted that the federal law on government procurement keeps them from establishing long-term relations with regions.

According to InfoWatch Group President Natalya Kaspersky, SPIEF participants stated that dependence on foreign technologies is becoming especially dangerous given the digitalization of critical infrastructure and the lack of international law regulating the digital field. This is leading to an increase in mistrust and the creation by leading countries of their own ‘cyberarmies and firewalls’.

Simplifying the Interaction between Large Corporations and Startups

According to the Minister of Digital Development, Communications, and Mass Media of the Russian Federation Konstantin Noskov, most start-ups find it extremely difficult to break through bureaucratic procedures, primarily corporate ones. The start-ups themselves lack management experience: according to the Internet Initiatives Development Fund (IIDF), 80% are not ready to provide an adequate level of service and do not understand corporate procedures at all.

Creating a National Data Exchange Platform

Exchanging data between various ecosystems and platforms allows for the prevention of cyber threats and the creation of an atmosphere of trust between participants.

Notably, such a platform is being developed in the banking community on the initiative of the Association of Russian Banks. The majority of credit institutions are ready to exchange information.

DOM.RF’s project could be one of the first to apply blockchain technology to real estate registries.

Creating Ecosystems

This became a recurring theme at certain SPIEF 2018 thematic events. Thanks to digital technologies, companies can operate outside their own sectors: banks are going into the mobile communications business and the travel industry, while non-financial companies are entering the payments market. These intersections lead to the creation of new, cutting-edge technologies or popular goods and services.
Refining the Regulation of the Digital Economy

According to Viktor Vekselberg, President of the Skolkovo Foundation, 53 new laws are set to be reviewed and approved over the next two years; 27 of them should be adopted as early as this year. Furthermore, there is an urgent requirement to create the conditions which will allow digital platforms to emerge – ‘sandboxes’ for specific purposes.

The Digital Economy programme has created mechanisms for business engagement in the creation of government policy in this area.

Developing Mechanisms to Support and Finance Innovation

From 2011 to 2016, the Skolkovo Foundation brought RUB 147 billion into the Russian economy in the form of support for startups and companies-in-residence.

In five years, the IIDF’s training programmes have reached more than 150,000 people. They have accelerated 15,000 projects and financed 400 projects.

There are opportunities for partnership between the government and businesses in developing digital infrastructure. Large companies in need of digital transformation can become a source of capital.

- Russian Railways, in cooperation with the Skolkovo Foundation, is planning to develop a digital platform to improve the quality of infrastructure management.
- The Russian Federal Communications Agency and Rostelecom are implementing a contract to supply 15,000 communities with Internet access and have already fulfilled approximately 70% of the contract.
- Venture funds are another effective financing instrument. Forum participants noted significant growth in interest in venture funds on the parts of both large companies and private investors.

Searching for Export Innovation Niches and Developing International Cooperation in this Area

The export of value-added information technology could become an important competitive advantage for Russia on the global market. Experts noted that some of the more promising export prospects were large software files, information technology systems, and integrated hardware-software solutions.