



U.S.-Russia  
Business  
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STRATEGIES

25  
YEARS IN RUSSIA

# INNOVATION IN RUSSIA: POTENTIAL, CHALLENGES & DRIVERS

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## Online Survey & Expert Interviews

October – November  
**2016**

**60+**  
companies

**15**  
sectors



Aerospace



Agriculture



Chemicals



Consulting



Construction



Electronics



Finance



IT & Telecom



Light Industry



Machinery



Mining/Metals



Oil & Gas



Pharma



Retail



Timber &  
Wood Processing

# FINDINGS

## IP PROTECTION IMPROVING

Russia has made progress in protecting Intellectual Property Rights in recent years

## DEMAND FOR INFRASTRUCTURE

The Government's best contribution has been innovation infrastructure – companies want more

## REGIONAL DRIVERS

Regional ownership of innovation infrastructure is most efficient – Governors help to resolve issues

## REGULATIONS

Quality & unpredictability of regulations remain challenges for all companies

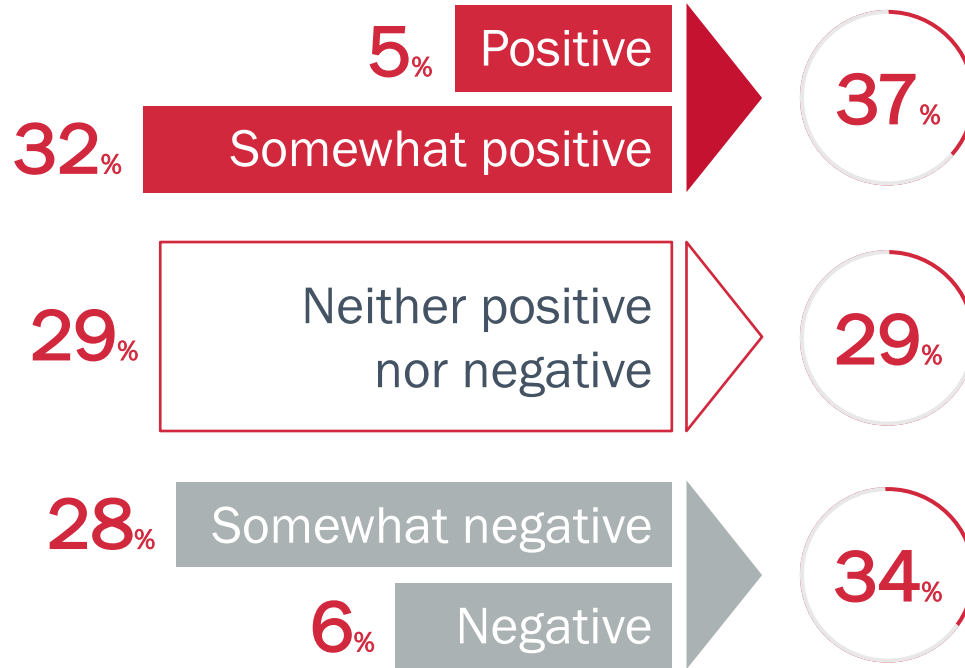
## STATE ROLE

Growing State dominance in the economy limits the competition vital for innovation

## INVOLVEMENT IN GLOBAL COMMUNITY

Innovation needs global ambitions – providing new products for consumers worldwide; yet Russia's global involvement remains limited

# CURRENT ENVIRONMENT FOR INNOVATION IN RUSSIA



*"There are success stories: Skolkovo, Alabuga, Innopolis. The challenge is how to scale these projects up."*

Agricultural company

*"According to FAS, the state controls 70% of the Russian economy. This is the key problem for the climate."*

Machinery company

# ELEMENTS OF THE INNOVATION ENVIRONMENT

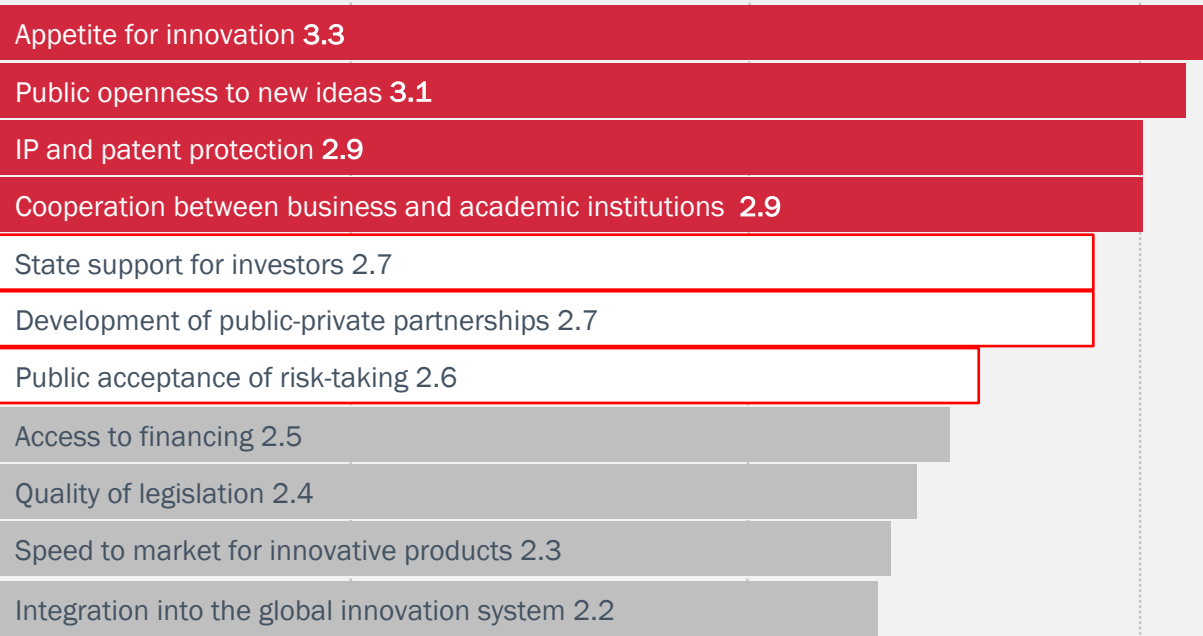
1 - Very Poor

2 - Poor

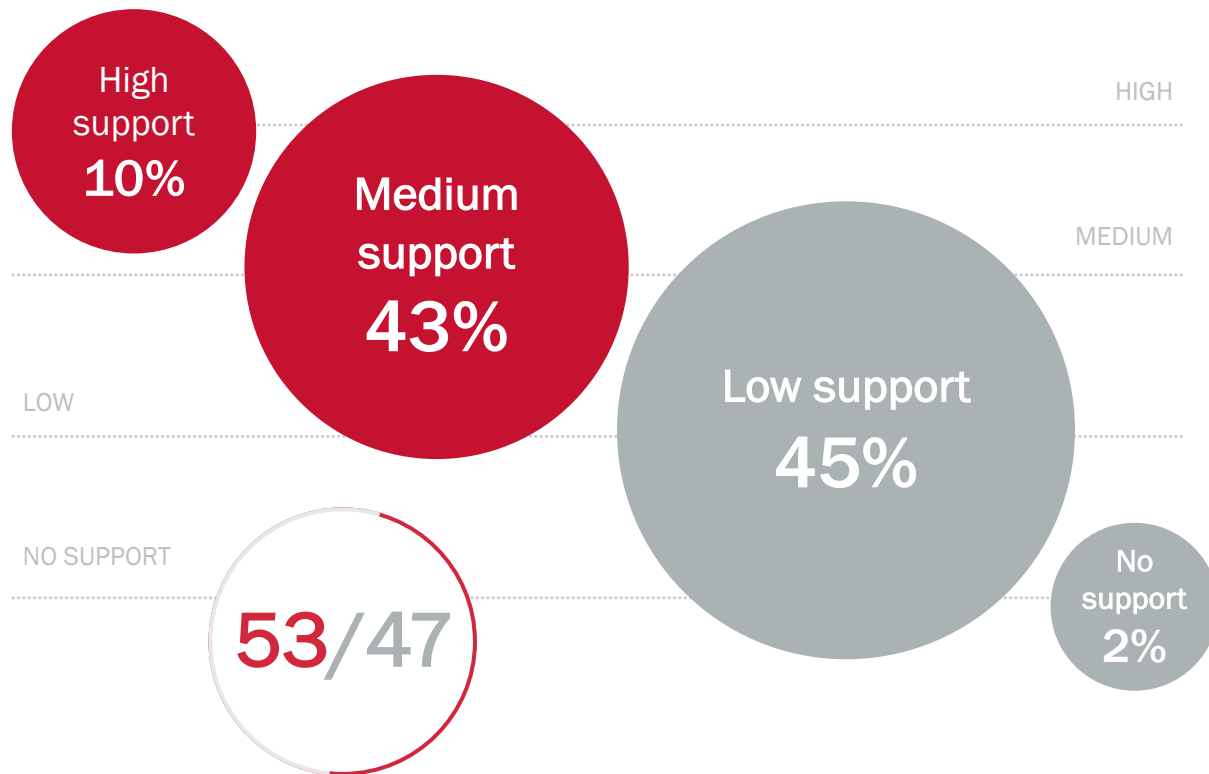
3 - Average

4 - Good

5 - Very good



# LEVEL OF GOVERNMENT SUPPORT FOR INNOVATION IN RUSSIA



*“State support should be through creation of development institutions and stimulation of consumer demand.”*

IT company

*“The state makes a lot of declarations on innovation. But the problem of outdated regulation is left unresolved.”*

Machinery company

# TOP 3 POSITIVE INNOVATION MEASURES TAKEN BY THE RUSSIAN GOVERNMENT



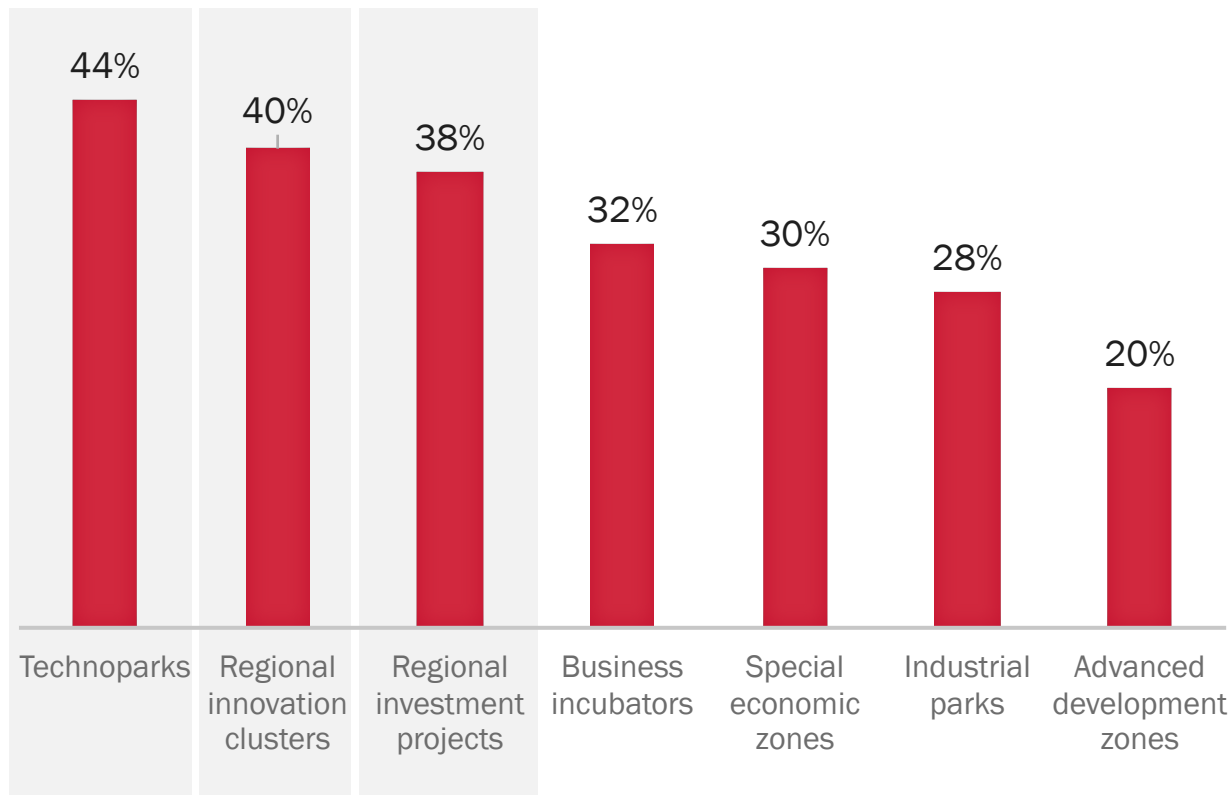
*“Regarding IP, big steps have been made in recent years.”*

IT company

*“Almost every region we work in has problems with infrastructure. It’s vital to create conditions for innovative companies and investors.”*

IT company

# MOST USEFUL INFRASTRUCTURE FOR INNOVATION DEVELOPMENT



“Regional projects are much more effective. They have an owner – the Governor, who wants to see problems resolved quickly.”

Agricultural company

*“It really depends on the region, in some the administration gets it; in some it’s a disaster, they can’t even talk convincingly about innovation.”*

Pharma company



# INNOVATION POTENTIAL BY SECTOR & AREA

## SECTORS

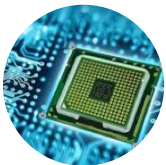
## AREAS



1

Aerospace

New product  
development



2

IT & Telecoms

New service  
offerings



3

Agriculture

New  
manufacturing  
techniques



4

Oil & Gas

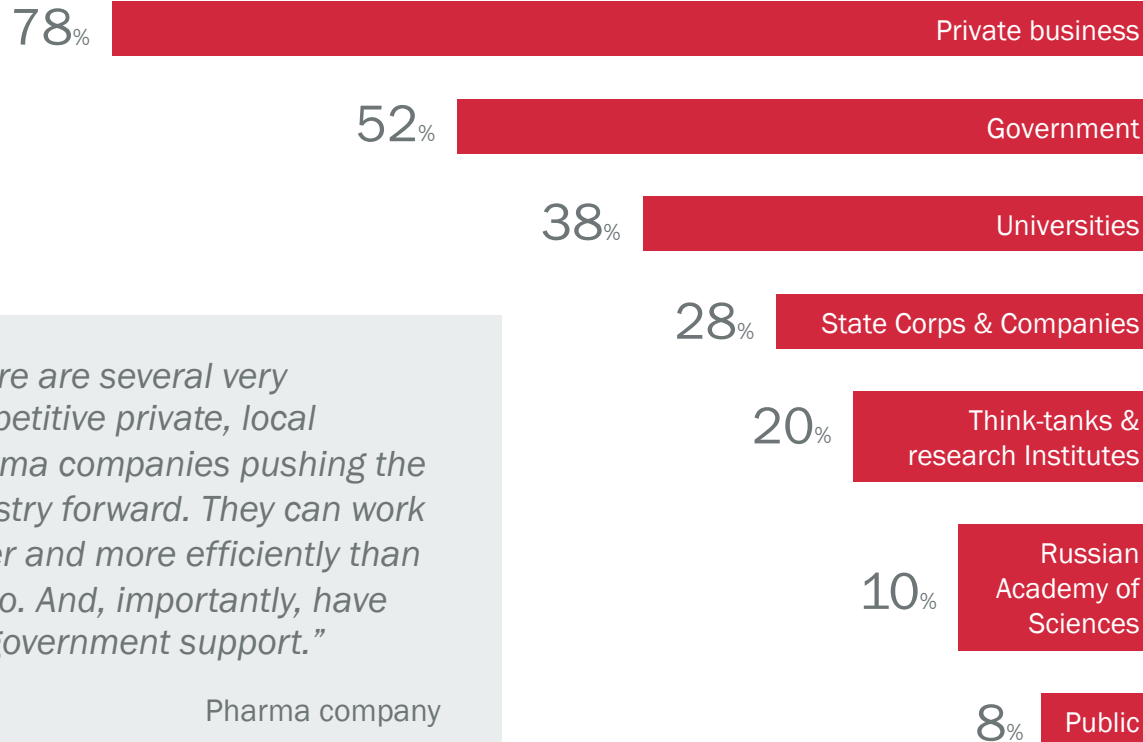
*"ITC is a global industry.  
Space and energy are  
Russian specialties.  
Agriculture has been  
strengthened by Import  
Substitution policy."*

IT company

*"Everyone knows the long  
product development cycle  
doesn't make Russian  
pharmaceuticals a  
candidate for innovation  
short term."*

Pharma company

# STAKERHOLDERS DRIVING INNOVATION IN RUSSIA



*"There are several very competitive private, local Pharma companies pushing the industry forward. They can work faster and more efficiently than we do. And, importantly, have full government support."*

Pharma company

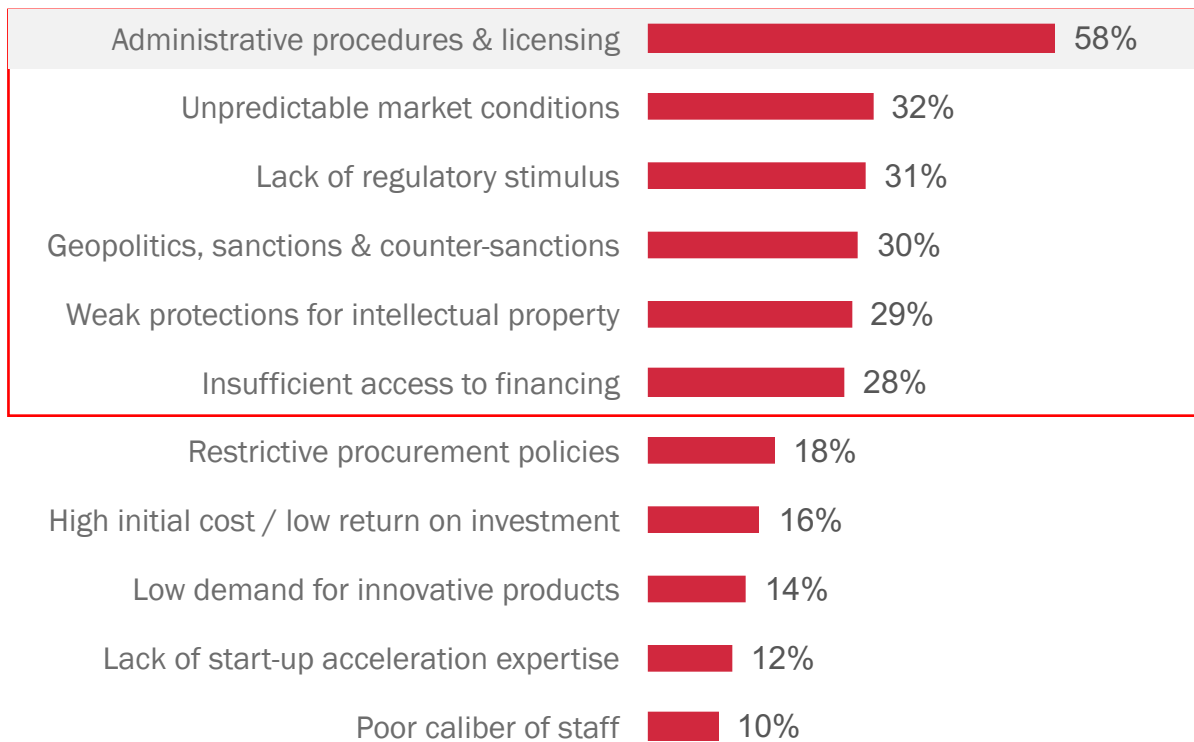
*"SMEs are the real drivers of innovation worldwide. Many giants grew from garage start-ups."*

IT company

*"Skolkovo has a bad image right now; it's difficult to know if it's justified cause the projects all feed into state corporations – we can't tell if they are commercially successful."*

IT company

# MAIN BARRIERS FOR INNOVATION IN RUSSIA



*“Innovation forced under government pressure can only work so far, the challenge is how to make it sustainable.”*

Pharma company

*“Administrative procedures can kill even the most robust. Us large companies somehow manage to cope with them – I can’t imagine how SMEs cope.”*

Agricultural company

# BEST INDICATORS THAT SHOW INNOVATION IS DEVELOPING IN RUSSIA

61%

Russia accounting for a greater share of high-tech goods and services on the global market

37%

More international patents registered by Russian inventors

55%

Innovation constituting a larger share of Russia's GDP

20%

Increased venture funding in Russia

49%

Transfer of Russian technologies to other countries

12%

Russia's position in global business rankings

41%

Increased spending on R&D in the country

*"Growth in exports of Russian production is the best indication of innovation."*

Machinery company

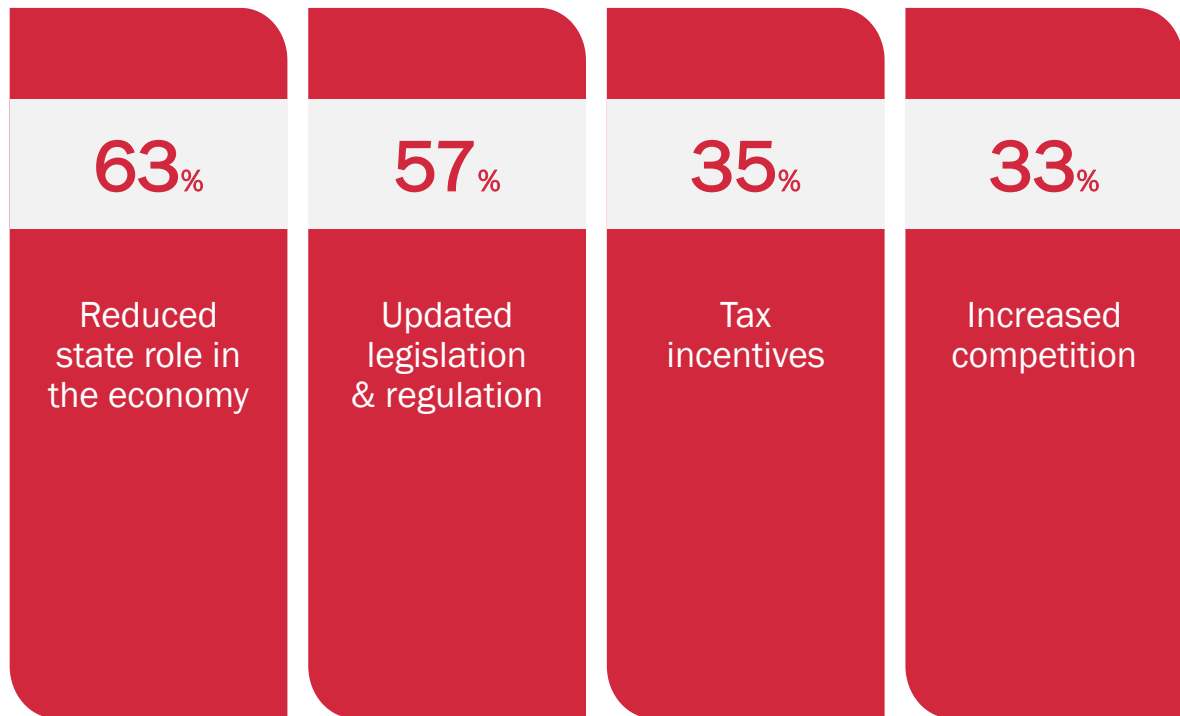
*"Only exports would show progress."*

Pharma company

*"Positions in rankings don't really reflect reality."*

IT company

# WHAT WOULD STIMULATE BUSINESS TO INVEST MORE IN INNOVATION IN RUSSIA?



*"The state needs to stick to its role – writing laws to appropriately regulate developments and increase competition."*

Machinery company

*"You can only innovate on the margins of the business – large businesses kill it. State corporations encourage inefficiency."*

Machinery company

# RECOMMENDATIONS TO THE RUSSIAN GOVERNMENT ON FOSTERING INNOVATION

40+  
recommendations

## FINANCIAL INCENTIVES & ACCESS TO FUNDS

- Tax incentives
- Deductible R&D expenses
- Better access to financing

## INTERNATIONAL FOCUS

- Integration to global market
- Production for export
- Smart localization agenda (for export)

## LEGISLATIVE & ADMINISTRATIVE CONSISTENCY

- Stable, predictable, consistent business environment
- Updated regulations
- Dependable, impartial enforcement
- Secure property rights

## CULTURAL CONDITIONS FOR TALENT & EXPERIMENTATION

- Attract entrepreneurs
- Invest in education
- Create conditions for talent to stay and ideas to develop

## ECONOMIC DECENTRALIZATION & DE-MONOPOLIZATION

- Decreased state role in the economy
- Tackle monopolies
- Increase competition
- Scale back state companies

*“Innovation cannot, by definition, be just Russia. It has to be an international endeavor.”*

IT company

*“We have plenty of bright minds, but no mechanism of support and lack management skills to turn ideas into profits.”*

IT company

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