

Targeted Infrastructure Support for Business: What's Next?

KEY CONCLUSIONS

Infrastructure government support is a tool for attracting investment

"The unique thing is that the government gives free money for building infrastructure wherever a new enterprise appears, not demanding property, let alone equity, in return; in fact, it is <...> an incentive to come to the Far East," Alexander Krutikov, Deputy Minister for the Development of the Far East.

"When we sign an agreement with an investor, we undertake mutual obligations <...> We are tied together with an investor," Denis Tikhonov, General Director, Corporation for Far East Development.

Mechanisms of state support are expanding

"There is a new form of funding: subsidizing the costs of the resident <...> This does not mean that there is more money, it's just that now there is a mechanism to finance the construction, when it is necessary to build faster than the government regulations allow it," Denis Tikhonov, General Director, Corporation for Far East Development.

"When the investor builds the infrastructure for their enterprise, they can't pay taxes to comply with the infrastructure's worth <...> We managed to prepare this mechanism together with the Finance Ministry, they supported it <...> And <...> the idea is so that not only the engineering infrastructure could be compensated, but the social one, too," Alexander Krutikov, Deputy Minister for the Development of the Russian Far East.

PROBLEMS

Infrastructure development in the Far East lags behind average Russian indicators

"Infrastructure density is 10 times lower than in the European part of the country; this factor deters investment in the Far East tremendously," Alexander Krutikov, Deputy Minister for the Development of the Russian Far East.

Infrastructure support mechanisms need to be improved

"There are many claims against this instrument of support, both from the Accounts Chamber and the Ministry of Finance <...> Because it is

perceived by everyone as if budgetary money is 'handed out' this way," Alexander Krutikov, Deputy Minister of the Russian Federation for the Development of the Far East.

"In the draft (proposed by the Ministry for the Development of the Far East – *Ed.*), there is a restriction of 30% on the investment that can be subsidized in the form of tax preferences. And that, I think, is a limitation for the Far East, because here it often happens so that investments in infrastructure exceed investments in the project itself," Dmitry Kudinov, General Director, Mazda Sollers Manufacturing Rus.

"We are considering the possibility of transferring the infrastructure facility into government ownership <...>, provided that we are compensated for tax liabilities. Without these liabilities, we can't simply transfer the facility into government ownership," Sergey Zhuravlev, Vice President of Government Relations, Polyus.

"It is difficult for small and medium-sized companies to invest money in production facilities at the initial stage," Denis Tikhonov, General Director, Corporation for Far East Development.

Underdevelopment of construction services market in the Far East

"When we hold a competition, we can't even form a competitive environment, because there are very few companies," Denis Tikhonov, General Director, Corporation for Far East Development.

"The contract market in the Far East, in Khabarovsk particularly, was very scarce," Andrey Zhzhenyh, General Director, SKIF Group of Companies.

SOLUTIONS

Expansion of government support measures with interest of businesses considered

"Implementation of new projects is impossible without further government support," Valery Tsvilev, General Director, Kolmar Group.

"The focus is on increasing investment, the implementation of the May Decree on the volume of direct investment, bringing it up to 25% of GDP, and there is a discussion about what needs to be done for private companies to make their capital investments higher. One of the ways is government support. There are several opportunities in that area," Sergey Barsukov, Vice President, PJSC ALROSA.

"Developing <...> industrial infrastructure is not enough. This is where it is necessary to develop social infrastructure," Valery Tsvilev, General Director, Kolmar Group.

"We are constructing industrial buildings in three ASEZs today to have them transferred to residents for rent, because demand has been revealed," Denis Tikhonov, General Director, Corporation for Far East Development.

Opinion of regional authorities should be considered

"As for creating infrastructure facilities, particularly with compensation from tax benefits <...>, such decisions must factor in opinions of regional authorities and local self-government bodies," Aisen Nikolayev, Acting Head of the Republic of Sakha (Yakutia).

Elimination of excessive control over allocated funds

"On one hand, that is how it should be <...> the control of the Federation over its money and the accuracy of the investment. On the other hand, it is necessary to see where it is redundant, because people get very distracted," Yury Tyamushkin, General Director, VaninoTransUgol JSC