

Establishing innovative manufacturing in Russia



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Of late almost everybody has been talking about how Russia needs to change the structure of its economy. Our country exports mainly natural resources and imports almost all its high-tech products. However, even the oil and gas industry is critically dependent on imported equipment and technology. To date, the macroeconomic situation has imposed severe restrictions on the implementation of the industrial potential of many companies and the country as a whole. The depreciation of fixed assets in the manufacturing industry amounted to almost 47%, the drop in investment in fixed assets reached 5.9%, average company profitability fell by 13.1%, which is lower than the loan rate offered by banks (all figures are

for 2015). Obtaining bank loans at the pre-investment stage, and also for development work, engineering and pilot production start-up is almost impossible. Under-funding of these stages reduces multiplicative investment in industrial development as a whole.

To overcome these limitations, and to develop new industrial projects, the Industrial Development Fund was established about a year ago. The fund offers preferential loans at 5% per annum in roubles for 5–7 years, which is of great help to companies wishing to grow. Not surprisingly, the number of loan applications from companies since the fund was launched has exceeded one thousand.

The value of the fund was 20 billion roubles in 2015, and this was insufficient to cover all the loan applications. It was necessary to set a clear objective.

We often say that the main objective of the fund is to support import substitution.

But what does this mean for us? First of all, we aim to ensure that the political slogan of import substitution becomes an attractive economic mechanism. To do this, when selecting projects we adhere to a few basic principles.

1. We are not saving the weak, uncompetitive production facilities. Our goal is to support successful companies and help them to become even stronger. The development strategy we prepared for the fund states that the main target group is medium-sized, high-tech, fast growing companies.

2. For us import substitution is not as important as export orientation. After all, this is the only way to objectively verify the quality of products. Only the market can determine the demand for the proposed solutions.

3. We value the maximum application of the best Russian and/or Western technologies. We primarily aim to support projects that are focused on commercialising products developed by Russian scientists. But often it is not necessary to reinvent the wheel, when it is much easier to buy an existing solution or create a solution together with Western partners.

In 2015, the Expert Council approved 74 projects, and 57 of them have already received funding. The average loan size was 350 million roubles.

The supported projects include examples of the commercialisation of Russian products developed through scientific research, such as the creation

and production of a superconducting current limiting device that means you can reduce the short circuit current to a predetermined safe level at a speed that is unique for such devices, and the project to launch the first production facility in Russia with a complete production cycle of reagents which are used to genetically identify people.

A large number of projects are aimed at the production of modern products using Western technologies in a variety of industries – for example, in building materials.

One of the supported projects is aimed at the production of cross-laminated timberwood-based panels – a modern “green” technology.

Many production facilities are built with the direct participation of European partners – for example, the production of modern dyes for fabrics, together with experts from Italy.

A good example of close cooperation with various partners is the project at the Kostroma automotive components plant to produce pistons for Euro-4 and Euro-5 engines. The clients and consumers will be global automakers localised in Russia, and assistance in development work, engineering, and quality control will be provided by a German company.

Despite such positive examples, there are many problems and challenges that impede the implementation of many projects.

In the first year of the fund, I would highlight four major barriers that are hampering the development of the high-tech industry in Russia:



1. Access to financing. The size of the fund is insufficient to meet demand, and we plan to search for new financing tools. Perhaps, together with private Russian and foreign funds we will create an industry investment programme.

2. Technological lag. Every effort should be made to transfer technology, in part through finding mutual interest with Western companies wishing to localise their production facilities in Russia.

3. Inadequate personnel training. Despite the overall high-level of education in our country, modern production companies are faced with a deficit of skilled workers and engineers. To solve this problem, we support the holding

in Russia of World Skills – the biggest vocational education and skills excellence event in the world, and plan to conduct special training programmes for young engineers.

4. Lack of information on the needs of large companies on the one hand, and opportunities for small and medium-sized businesses on the other. The fund is a developer of a state industry information system, which I am sure will be useful for many foreign manufacturers.

Our goals are to revive Russian industry, increase high-tech exports, and attract the best skills. And we see great potential in mutually beneficial cooperation with European business leaders to realise these goals. |