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Maxim Reshetnikov
Ministry of Economic Development of the Russian Federation, Chairman of FIAC Executive Committee
Dear colleagues!

Russia is a country with a strong, open, and stable economy. We have successfully seen off the worst of the Covid crisis. And we greatly appreciate the way in which the Advisory Council’s member companies have continued to develop projects in our country as well as launching new ones. As well as investments and jobs, they have brought in the latest technologies and the best business practices. They have helped to enhance the regulatory framework for exports, investments and migration policy.

The Russian government is working hard to make our country a comfortable and profitable environment in which to do business. To this end we have launched a new investment cycle and reviewed our approaches to improving the business climate and offering government incentives. We have already annulled thousands of obsolete pieces of legislation relating to business activities. We have reformed the way our regulatory bodies work. Investors have been offered fixed conditions for large projects through investment protection and promotion agreements. Meanwhile, regional authorities have been granted the tools needed to build the infrastructure required for investment projects, including sites for special economic zones and priority development areas.

It is extremely important for us that the expertise of the Advisory Council should continue to serve as a focus point for addressing the issues that matter most to the business world. By working together, we can respond promptly to the challenges of the times and the needs of the business community. I would like to thank you for your contribution to the development of the Russian economy, for your belief and constructive co-operation. I am confident that we will continue to work together to ensure that Russia remains a reliable place to create and build businesses of all shapes and sizes.
Alexander Ivlev

CIS Managing Partner,
Deputy Regional Accounts Leader
for Central, Eastern and Southeastern
Europe & Central Asia, EY,
FIAC Foreign Participants
Coordinator
The good news is that large foreign businesses in Russia have proved themselves equal to the new challenges facing them today. Many companies have been operating here for a quarter of a century or even longer. Over those years, they have weathered all sorts of crises and are now braced for any eventualities. The COVID-19 pandemic has been just another challenge, and one which has actually made businesses stronger.

We now see that companies are seeking to build fully balanced ecosystems around their business and to cater for potential risks, because the ability to manage risks is one of the things that set confident and sustainable global players apart. Our survey found that foreign companies prefer to expand existing projects and facilities in Russia rather than start new ones, as this allows them to reduce risk.

Gone are the days of staggering growth and speculative prices. Today, the vast majority of players are betting on steady growth and regard their business in Russia as an important element within their global organization. Over half of the survey participants believe that their business will grow by up to 10% annually. This might appear to be on the low side for Russia. But when examined through the prism of international markets, where a couple of percent of revenue growth is considered normal, these results will leave you confident in the prospects for foreign business in Russia.

International players are forging ahead towards a sustainable future, which is in line with Russia’s development priorities. Combating climate change, promoting good health and well-being, and ensuring sustainable consumption and production are high on the sustainability agenda of the survey participants in Russia. These goals resonate well with Russia’s key national projects: Ecology, Health Care and Labor Productivity. The main way to achieve them is by establishing a robust framework to promote sustainable economic development for both the country as a whole and individual companies.

Another component essential to a stable business is building an open dialogue with the regions in which a company has a presence, as well as with the federal authorities. All these things are high on the priority list of our survey participants. We see that their cooperation efforts are bearing fruit.

I would like to thank all the respondents for their contribution and for agreeing to share their perspectives. The opinions of the international business community are important to key decision-makers in Russia. And FIAC’s task is to make sure that those opinions are heard.
Key findings
The Russian market is strategically important for international companies

96% of Foreign Investment Advisory Council in Russia (FIAC) member companies that took part in the survey view Russia as one of the top 3 global markets or consider it one of their strategic markets. This is the highest figure among FIAC members over the three years in which the study has been conducted since 2019.

Foreign companies are increasing investments and leaving profits in Russia

The average rate of growth of investments by FIAC companies from 2012 to 2020 was 12%. Their investments grew several times faster than the country’s key macroeconomic indicators. Economic growth creates demand for products and services offered by foreign companies. They are able to satisfy that demand while making a profit, enabling them to increase investments.

International businesses prefer to develop existing investment projects

67% of foreign companies that took part in the survey would prefer to develop existing investment projects rather than embarking on new projects from scratch. One reason for this is that developing an asset in a region they already know involves less risk and capital expenditure than starting a new one.

The participants in the study are satisfied with the quality of dialogue with government

85% of the respondents and almost all FIAC companies rate their dialogue with regional authorities as constructive. They have access to senior officials of regional and federal authorities, who listen to what international companies have to say and take their opinions into account.

Foreign companies are tackling sustainable development goals together with their suppliers and customers

72% of participants in the study offer incentives to their suppliers or customers in Russia to help them achieve sustainable development goals. Foreign companies are willing to offer more advantageous business terms to partners that take a responsible attitude to reducing the environmental impact of their activities. They are also including environmental clauses in new contracts that require firms to commit to reducing their carbon footprint.
Respondent profile
The participants in the survey are mostly large businesses.

<table>
<thead>
<tr>
<th>Country of headquarters</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>22</td>
</tr>
<tr>
<td>US</td>
<td>17</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8</td>
</tr>
<tr>
<td>UK</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>5</td>
</tr>
<tr>
<td>Denmark</td>
<td>3</td>
</tr>
<tr>
<td>Japan</td>
<td>3</td>
</tr>
<tr>
<td>Other countries</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business sector</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer good manufacturing</td>
<td>19</td>
</tr>
<tr>
<td>Industrial products manufacturing</td>
<td>19</td>
</tr>
<tr>
<td>Healthcare and pharmaceuticals</td>
<td>10</td>
</tr>
<tr>
<td>Energy and natural resources</td>
<td>7</td>
</tr>
<tr>
<td>Financial services</td>
<td>4</td>
</tr>
<tr>
<td>Multi-industry company</td>
<td>3</td>
</tr>
<tr>
<td>Retail and wholesale trade</td>
<td>3</td>
</tr>
<tr>
<td>Automotive industry</td>
<td>2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2</td>
</tr>
<tr>
<td>Construction and engineering</td>
<td>2</td>
</tr>
<tr>
<td>Other industries</td>
<td>4</td>
</tr>
</tbody>
</table>

75 companies including 45 FIAC members took part in the study in August-September 2021.

737 USD million average revenue from operations in Russia in 2020.

3200 people the average headcount, including temporary and outsourced staff.
Russia's prospects
International companies view Russia as one of their strategic markets

This year 89% of survey participants placed Russia among the top 3 global markets or named it as one of their strategic markets.

Importance of Russia for your company’s strategic development

- Russia is one of the top 3 global markets: 17%
- One of our strategic markets: 72%
- Not a priority market: 11%

Among FIAC members this view is held by 96%, which is the highest figure recorded in the last three years in which the study has been conducted.

International businesses place a high value on Russia’s role in the global arena. The news background, the coronavirus pandemic and other external factors have had virtually no impact on the opinion of global companies. 93% of survey participants expect their businesses in Russia to grow over the next three years, but most anticipate growth of no more than 10% per year. This growth rate is expected by the majority (72%) of consumer goods manufacturers. Only one company among the 75 survey participants expected to see a decline. There were no such companies among FIAC members.

Foreign companies believe in Russia and the potential for their business

Based on the respondents’ answers to questions about Russia’s importance in terms of strategic development and expected rates of business growth over the next three years, it is possible to distinguish four types of companies:

- **“Optimistic”** companies point to the great importance of the Russian market and expect their business in Russia to grow at a rapid rate.
- **“Sceptical”** companies hold the opposite the opinion, i.e., they view the Russian market as of secondary importance and expect future growth to be slow.
- **“Confident”** companies view the Russian market as important but expect their business to grow at a slower rate.
- **“Pragmatic”** companies, on the contrary, do not yet perceive Russia as a priority market, but expect their business in the country to grow rapidly.
Among the survey participants there are many companies (32%) that see the Russian market as highly important and believe that their business in Russia will grow rapidly (the “optimistic” category in the above illustration).

However, the majority of international companies operating in Russia (57%) may be classed as “confident”, since they consider Russia to be of great importance for their business but do not yet expect to see rapid growth. The high proportion of “confident” respondents among large foreign businesses is an indication of potential and of faith in Russia, which is little affected by the international political situation. For the sake of comparison, the proportion of “confident” companies among FIAC members is even higher, at 67%.

The proportions of “sceptical” companies (high importance and slow growth) and “pragmatic” companies (low importance but rapid growth) among the survey participants are 7% and 4% respectively.

The four types of international companies have different attitudes to the development of their business in Russia:

- 83% of “optimistic” and 55% of “confident” companies plan to expand their presence on the Russian market.
- Among the “optimistic” companies are many with high-cost investment projects – 74% of respondents reported that their projects had become more costly and were also creating more jobs.
Almost two thirds (64%) of international companies that took part in the survey plan to increase their presence in Russia. Plans to this effect were indicated by 83% of companies in the “optimistic” category (companies for which Russia is a key market and which expect to see rapid growth). The most dynamic development plans are seen among pharmaceutical companies, 90% of which reported their intention to expand operations on the Russian market in the next three years.

In the first half of 2021, Russia’s pharmaceutical market grew by 9% to top RUB 1 trillion, while the state segment of the market grew by almost a third\(^1\). The state and the coronavirus pandemic were the key factors affecting the industry. Pharmaceutical companies that took part in the study noted the speed with which the government reacted in making decisions and adopting legislation on which the lives of millions of people depended. These included resolutions on the distance selling of medicines, the registration of medical devices and the circulation of medicinal products during emergency situations.

Another industry with ambitious plans is consumer goods manufacturing. 61% of survey participants from this sector intend to expand their presence on the Russian market in the next three years.

How exactly do international companies plan to develop their operations in Russia?

- 64% of respondents said that they would launch new products or services on the Russian market. Plans to this effect were declared by 82% of consumer goods manufacturers and all pharmaceutical companies that took part in the study.
- 55% of companies plan to expand manufacturing. 75% of industrial products manufacturers reported such intentions.
- The opening of new sales outlets, stores or service centres was the next most popular priority of the survey participants, with 28% of companies indicating plans to this effect.

\(^1\) DSM Group, Russia’s pharmaceutical market, data for first half of 2021, https://dsm.ru/upload/iblock/1d8/1d8f65e1feae1c738a83f3bccc3c38d9f5.pptx
However, the format in which development is pursued is strongly dependent on the nature of an international company's business. For example, for a company that engages in technological innovation activities in Russia and has a large staff of programmers or R&D experts, it is about increasing headcount. For companies whose business is built around partnerships with major Russian players, it is a question of expanding co-operation and launching new projects with their strategic partners.

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**How does your company plan to expand its presence in Russia**

Multiple answers may be selected

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>We plan to launch new products or services</td>
<td>64%</td>
</tr>
<tr>
<td>We plan to expand manufacturing</td>
<td>55%</td>
</tr>
<tr>
<td>We plan to open new sales outlets, stores or service centres</td>
<td>28%</td>
</tr>
<tr>
<td>We plan to start operating in new regions where we do not yet have assets</td>
<td>23%</td>
</tr>
<tr>
<td>We will increase investments in logistics, warehouses or transport</td>
<td>19%</td>
</tr>
<tr>
<td>We are considering buying companies or assets in Russia</td>
<td>13%</td>
</tr>
<tr>
<td>We will open new offices in the regions</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>
Direct investments
The survey participants have invested around USD 197 billion in Russia

From the 1990s to the beginning of 2021, the survey participants have invested around USD 197 billion in Russia. FIAC companies account for over 95% of that amount, i.e., around USD 188 billion.

The amount of investment was calculated on the basis of the results of the survey and data obtained from public sources and supplied by FIAC companies.

International businesses are increasing investments by leaving their profits in Russia

We gathered investment information from the Russian financial statements of 175 FIAC companies in Russia in the period from 2012 to 2020. Investments of FIAC companies were taken to comprise investment-related payments reported in cash flow statements (see the appendix setting out the calculation method). Those figures were then compared with nominal macroeconomic indicators.2

Investments made by international companies are growing several times faster than nominal GDP, public spending and the income levels of Russian consumers. From 2012 to 2020, investments made by FIAC companies grew by an average of 12% per year (compound annual growth rate, CAGR4), while nominal GDP and per capita income rose by approximately 6% each year.

Investments by FIAC companies are moving in step with macroeconomic indicators. They have a strong correlation5 with the country’s nominal GDP (91%) and consolidated public spending (93%) and a fairly high correlation with per capita income (83%).

Correlation may not signify a causal link, but the strong relationship between the investment activity of large international companies and the growth of the Russian economy suggests that increased government spending, rising per capita income and the growth of the economy as a whole are creating effective demand for the products and services of foreign companies. International businesses are able to satisfy that demand while keeping profits in Russia to increase investment.

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2 All figures in the study are nominal values, i.e., are calculated at actual prices that existed at the time and include inflation.

3 Nominal gross domestic product shows the market value of final products and services that a country produced over a given period and is often used to measure the size of an economy.

4 Compound annual growth rate shows the percentage by which a particular value increases over a year.

5 Correlation is a statistical relationship between variables whereby a change in one variable is accompanied by a systematic change in the value of another. Figures here and hereinafter represent the linear correlation coefficient, which is given as a percentage for simplification. 0% indicates the complete absence of any relationship between two variables, 100% indicates an absolute positive relationship (the variables move in the same direction), and -100% indicates an absolute negative relationship (the variables move in opposite directions, for example, one of them increases and the other decreases).
This connection between the investment activity of FIAC companies and macroeconomic indicators shows that international companies have a high involvement in the country’s development.

Our calculations show that, for every RUB 1 trillion increase in Russia’s nominal GDP, investments by FIAC companies may grow by RUB 16 billion\(^6\).

**Investments of FIAC companies in Russia are rising in line with economic growth**

<table>
<thead>
<tr>
<th>RUB trillion</th>
<th>2012 - 2020</th>
<th>Compound annual growth rate (CAGR)</th>
<th>Correlation with FIAC investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nominal GDP: 6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Household income: 6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Public spending: 8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investments of FIAC companies: 12%</td>
</tr>
</tbody>
</table>

Sources: Rosstat; RAS statements of FIAC companies in Russia

\(^6\) Based on the linear regression equation Investments = -884.5132 + 0.0163 * Nominal GDP
Investments by international companies will resume growth as the economy recovers

We selected three scenarios for the development of the global economy that economists at Oxford Economics regard as likely. In each of the scenarios, Russian and global GDP will grow in 2021, but the Russian growth rate will be lower than the global average. The fastest growth over the next three years is projected in the third scenario (a consumer market boom), while the slowest growth would occur in the case of a protracted pandemic, resulting in the need for restrictions and social distancing to be kept in place in the long term.

Our regression model\(^7\) is linked to future GDP growth rates and shows that investments by FIAC companies will remain at the same level in 2021 and will return to growth next year.

**Absolute values**

**Investments of FIAC companies will slow down in 2021 but then return to growth**

*Sources: RAS statements of FIAC companies in Russia; Oxford Economics; EY calculations*

Commentary: regression equation Investments = -884.5132 + 0.0163 * Nominal GDP; R\(^2\) = 0.874

\(^7\) Linear regression is the dependence of one variable (in this case investments) on another variable (nominal GDP), which may be described by a linear equation.
Growth rates

FIAC companies are investing less in 2021, but the investment growth rate may then return to double figures

Sources: RAS statements of FIAC companies in Russia; Oxford Economics; EY calculations
Commentary: regression equation Investments = -884.5132 + 0.0163 * Nominal GDP; R² = 0.874
The three scenarios and key assumptions

Recovery of activity levels
(high probability):

a. the global economy recovers the losses made during the pandemic;
b. governments succeed in restraining price growth caused by the suspension of production activity and problems with the transportation of products;
c. new coronavirus strains appear, but vaccination programmes prevent them from spreading and reduce the burden on healthcare systems.

Protracted pandemic
(medium probability):

a. existing vaccines prove to be less effective against new aggressive strains of the coronavirus;
b. public take-up of vaccination is slow despite the “carrot and stick” approach employed by governments;
c. restrictions, including social distancing, remain in place for long periods in order to contain the virus.

Consumer boom
(medium probability):

a. consumers throughout the world begin to spend the money they saved during the pandemic, triggering a new cycle of economic growth;
b. the risk appetite of investors grows because mass vaccination has reduced economic uncertainty;
c. companies increase output and problems in managing supply chains and transportation gradually fade away.
Investment projects
Foreign companies operating in Russia increasingly prefer to develop existing projects

Foreign companies are increasingly deciding to develop existing projects (brownfield) rather than start new ones (greenfield). This preference was indicated by 67% of the survey participants. They take the view that developing a project in a region they know involves less risk than starting a new one and requires less capital expenditure.

Risk is an important factor in decision-making for the majority of companies. 92% of industrial products manufacturers observed that there is less risk involved in developing an existing project since the investor already knows the site and region where the expansion is planned.

Investment projects are becoming more expensive and creating more jobs

60% of international companies observed that their investment projects had become more expensive over the last five years, while the number of jobs created by one project had remained the same (49%) or had grown (38%).

Optimistic companies, which expect to see rapid growth in their Russian operations, were more likely to have increased investments: 74% of them reported that the dollar cost of their investment projects had risen over the last five years. At the same time, 70% of companies in the “optimistic” category said that their investment projects had started to create more jobs than before. Rapid growth is almost always the cause and effect of increased investment.

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8 Acquisitions of existing companies are not considered since they do not lead to the creation of new industrial facilities and jobs.
Regulatory barriers
Regulatory barriers and the slow growth of the Russian economy are preventing international companies from increasing investments

The survey participants pointed to regulatory barriers (35%) and the slow growth of the Russian economy (31%) as the main factors that impede increased investment in the country.

Regulatory barriers are the principal restraining factor for 47% of consumer goods manufacturers and 60% of pharmaceutical companies covered by the study. As examples of regulatory barriers, respondents from the pharmaceutical industry pointed to the inadequate protection of intellectual property rights and the lack of differentiated pricing or a special approach to innovative drugs in the state drug supply system.

Companies from other sectors point to the lack of a level playing field relative to domestic companies and ambiguities in legislation, particularly tax and customs laws.

Geopolitical tensions and sanctions are the next biggest investment barriers. Their restraining role was noted by 24% and 21% of international companies respectively. Sanctions limit the availability of funds to carry out projects in Russia and are one of the reasons for budgets being refocused on less high-risk regions.

Some companies believe that the barriers to investment in Russia stem not from external constraints but from factors within their own businesses, such as decision-making processes, a company re-organization or a revised growth strategy.

Businesses want to see improvements in technical regulation and industrial relations

International companies believe that Russian legislation needs to be improved primarily in the areas of technical regulation (48%) and industrial relations (47%) in order to help businesses to work more efficiently.

Technical regulation includes requirements relating to products and the processes by which they are manufactured, transported and sold. In 2017 the Russian government decided to create a unified product marking and traceability system. It already includes tobacco products, footwear, perfumes and other types of products and is set to cover a wide range of consumer goods by 2024⁹. The survey participants observe that this system needs to be modified and implemented on a gradual basis so that businesses have time to adapt to the new requirements.

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Companies also point to the importance of simplifying travel across the Russian border for foreign specialists who are involved in implementing investment projects in Russia or carry out equipment servicing. The suspension of air traffic and the introduction of new regulatory requirements in that area have had a major impact on the running of large projects.

Areas of Russian legislation requiring change

Multiple answers may be selected

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical regulation</td>
<td>48%</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>47%</td>
</tr>
<tr>
<td>Taxation</td>
<td>36%</td>
</tr>
<tr>
<td>Financial regulation</td>
<td>33%</td>
</tr>
<tr>
<td>Customs regulation</td>
<td>32%</td>
</tr>
<tr>
<td>Migration regulation</td>
<td>32%</td>
</tr>
<tr>
<td>Civil regulation</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
</tbody>
</table>
Examples of positive and negative regulatory changes in Russia

The survey participants point to the following examples of positive changes in the regulatory environment and interaction with the state since the start of the pandemic:

› the increased number of state services that can be accessed remotely;
› the active implementation of electronic document management in co-operation with the authorities;
› permission for companies to hold annual meetings in remote form;
› the expedited registration and importation of pharmaceutical products and the decision to permit the distance selling of certain categories of medicines;
› the appearance of effective programmes to subsidise companies’ borrowing costs.

In terms of negative developments, international companies often cite regulatory changes that may lead to reduced sales or profits or create operational problems, such as:

› the requirement for personnel arriving from abroad to quarantine even if they have been vaccinated or have a negative PCR test;
› price regulation for certain categories of consumer products;
› the unilateral denunciation of the tax treaty with the Netherlands.

The removal of excess barriers and the simplification of regulation is an important part of the government’s work, and the “regulatory guillotine” is a key instrument in this. The programme to review and abolish regulations that adversely affect the business climate and the regulatory environment has already seen the annulment of around 3,000 documents, including 500 government decrees and 2,400 departmental acts10.

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10 Control and supervision reform website, current as at September 2021, https://knd.ac.gov.ru/analytics/
Regional development and dialogue with government
International companies are satisfied with the choice of regions in which they operate

97% of foreign investors that took part in the study are happy with the regions in which they are developing their business. Only 3% of survey participants and 2% of FIAC companies are generally dissatisfied with their choice.

The main factors driving the decision of international companies to develop business in a particular region are the availability of skilled staff, ease of communication with regional authorities and proximity to large sales markets. It is also important for foreign businesses dealing with regional authorities to have their queries dealt with promptly and to receive approvals and authorizations as quickly as possible.

There are, however, certain sectoral differences:

- for foreign pharmaceutical companies the choice of a Russian partner for the localization of production may be more important than the choice of region;
- for retail companies the crucial factors are the size of the regional market and the existence of developed infrastructure, not only transport infrastructure;
- industrial products and consumer goods manufacturers value proximity to suppliers of raw materials used in production.

Is your company happy with its choice of region in which to develop its business in Russia?

97%

<table>
<thead>
<tr>
<th>Completely satisfied</th>
<th>Generally satisfied</th>
<th>Generally dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>56%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Most important factors in choosing a region of investment

Multiple answers may be selected

- Availability of skilled staff: 49%
- Ease of communication with regional authorities: 48%
- Proximity to large sales markets: 47%
- Taxation level and incentives: 41%
- Developed transport system: 37%
- The region's position in the investment climate ranking: 15%
- Other: 16%
Remote work has had almost no effect on regional business development

The hybrid work model involving a mixture of in-office and remote work has made many things easier. Previously, organizing a face-to-face meeting in a remote region required people to travel long distances. During the pandemic restrictions, however, such meetings were held by video link and the geographical location of the people involved made no difference. The majority of survey participants (57%) note that the transition to remote work has had no effect on relationships with external partners, including regional administrations. Fewer than a quarter of companies point to any adverse impact of remote work arrangements on external relationships.

The majority of foreign investors (84%) agree that the availability of good transport connections to the regions is still important, since there are some matters for which a physically presence is needed. This position can partly be explained by conservatism among the older generation.

The quality of dialogue with regional and federal authorities is improving

85% and 72% of international investors regard their dialogue with officials of regional and federal authorities respectively as constructive. For the majority of participants in the study, that dialogue was and remains constructive. Only 5% of companies said that it had become more difficult for them to achieve mutual understanding with regional administrations. International companies have access to people who make important decisions at regional and federal levels, and the authorities listen to and understand representatives of foreign businesses. The building of solid relationships with government authorities is an important task for any company’s management.
Sustainability and responsible business practices
As well as money and jobs, foreign investors bring sustainability best practices to Russia

Business must work for sustainability, and sustainability must work for business. It is this approach that will generate long-term value for everyone involved: people, government organizations, and companies.

International companies operate in countries with strict environmental requirements and have accumulated unique expertise and experience which can and must be deployed in Russia. The use of sustainability best practices will, among other things, help achieve negative carbon emissions, and FIAC companies, including EY, are doing a great deal in that direction.

International companies see combating climate change as the chief sustainable development goal

95% of the survey participants reported that their companies had a sustainable development strategy or action plan specifically for Russia. They prioritise the following UN sustainable development goals:

- climate action (56%);
- good health and well-being (53%);
- responsible consumption and production (53%)\(^{11}\).

Without climate action, global temperatures could rise by 3-5°C by the end of the century. This would lead to rising sea levels and flooding of coastal areas, as well as extreme drought, heat and rainfall events. These changes could wipe 30% off global annual GDP, and 3 billion people could be living in conditions unsuitable for human life\(^ {12}\).

The climate change issue is important for Russia too. Owing to its geographical position, average annual temperatures are rising 2.5 times faster than the global average, and four times faster in the Arctic\(^ {13}\). However, Russian legislation in this area is poorly developed (56% of survey participants think this is the case), ordinary citizens and society as a whole do not understand the importance of this work (43%) and the prevailing culture of doing business and business etiquette in Russia do not attach importance to sustainable development (41%).

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\(^{11}\) It should be noted that the importance of achieving responsible consumption and production goals was highlighted by 79% of consumer goods manufacturers and 68% of industrial products manufacturers, which considered this to be the most important of the UN's 17 sustainable development goals.


Businesses are tackling sustainable development goals together with their partners

An important task facing FIAC companies is to build up a sustainable development trend in Russia. Foreign investors are doing this independently and in partnership with the state as well as trying to steer their suppliers and customers in Russia in this direction:

- 36% of respondents said that, when it comes to choosing suppliers or potential customers, they assess their environmental credentials with a view to prioritising companies that take a serious approach to reducing the impact of their business on the environment. Almost half (47%) of consumer goods manufacturers act in this way.
- 21% of companies are prepared to offer better business terms to suppliers or customers who meet strict corporate sustainable requirements.
- 15% of companies include clauses in contracts with suppliers or customers that require them to reduce their carbon footprint or achieve sustainable development goals by other means.

There is another kind of approach that also works well in this area. Large businesses can motivate their partners by exchanging knowledge and experience, creating an appropriate business culture in joint ventures with Russian companies, increasing awareness of environmental issues and organizing staff training.

Changes in Russian environmental legislation will not affect investment by international companies

74% of survey participants said that if Russian regulators were to introduce more stringent environmental and sustainable development requirements or standards, this would have no effect on their investment plans. The figure among FIAC companies is 77%, which may be explained by the equally high environmental standards already observed by global companies in Russia and elsewhere.

How would your company’s investments change if the Russian regulatory authorities were to introduce stricter environmental and sustainable development requirements?

Investment plans would not change 74%

- We would increase investments since meeting stricter regulatory requirements would require our company to update its fixed assets 19%
- We would reduce investments 7%
The pandemic has acted as a new driver of corporate social responsibility

During the pandemic businesses increased support for medical, public-funded, charitable and social organizations that helped the country get through the most severe phase of the Covid crisis. This year, 84% of survey participants said that they had given assistance to such organizations: (multiple answers could be selected)

- 45% supplied their own products free of charge
- 41% provided financial support
- 36% bought devices or equipment for other organizations

Foreign companies also provided masks and other personal protective equipment free of charge to regional healthcare institutions and volunteer organizations and arranged supplies of oxygen to hospitals and disinfectants to social institutions.

The 18 companies that disclosed the exact amount spent on such support gave material assistance totalling USD 18.6 million to Russian organizations.
Supply chains and the role of small businesses
International companies have coped with the disruptions in supply chains caused by the pandemic

The pandemic restrictions affected supply chains throughout the world. Almost two thirds of the companies surveyed (64%) and 79% of industrial products manufacturers observed that they had experienced disruptions and delays but had managed to get things running normally again. Only 5% of foreign companies reported having had serious difficulties that caused them to review how their entire supply chain was organized.

The reliability of a supply chain also depends on choosing the right suppliers. 73% of survey participants said that they had a supplier development programme in Russia. Such programmes usually involve regular auditing of suppliers for compliance with a company’s requirements (82% of companies said that they did this), supplier qualification and the maintenance of a list of approved suppliers (73%), and organizing meetings with company representatives, such as technical specialists (60%).

Less than a third of the participants in the study (31%) gave targeted support to their suppliers during the pandemic. International companies kept existing contracts with suppliers, paid them on time and adopted an understanding attitude to disruptions in supplies if they occurred as a result of circumstances beyond the control of the suppliers. In most cases this approach was sufficient.

Large international companies purchase a great many goods and services, some of which are supplied by small and medium-sized enterprises. However, only 15% of the survey participants and 22% of FIAC companies have a programme for making purchases from SMEs as a separate category of suppliers.
Appendix: method for calculating investments

Investments by FIAC companies comprise investment-related payments reported in the RAS statements of their Russian legal entities.

According to PBU 23/2011 “Cash flow statement”, investment-related payments include:

1. Payments to suppliers in connection with the acquisition, creation, upgrading, renovation and preparation for use of non-current assets, including expenditures on research, development and technological work.

2. Interest paid on debt obligations included in the value of investment assets.

3. Payments in connection with the acquisition of shares (participating interests) in other organizations, with the exception of financial investments acquired for resale in the short term.

4. Payments in connection with the acquisition of debt securities (monetary claims against other persons), excluding financial investments acquired for resale in the short term.

5. Lending to other persons.

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15 Russian accounting standards.

16 Accounting regulation - standards governing accounting procedures in Russia.
About FIAC

The Foreign Investment Advisory Council in Russia (FIAC) was established in 1994 as a result of the combined efforts of the Russian government and foreign businesses. In 2019, FIAC celebrated its 25th anniversary in Russia. Over the years, it has made a major contribution to improving the investment climate in Russia. Chaired by the Prime Minister of the Russian Federation, FIAC brings together the executives of 53 major international companies and banks. Four more companies hold observer status.

Throughout the year, FIAC is focused on key Russian sectors and industries covered by specialized working groups.

FIAC’s activities are coordinated by an Executive Committee chaired by the Russian Minister for Economic Development. Annual plenary sessions bring together members of the government and global CEOs of member companies to discuss priorities in investment policy, legislative amendments to resolve current issues, and measures to improve the investment climate.

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