

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM**

**JUNE 20–22, 2013**

**The Global Growth Agenda**

**MIND THE LONG-TERM RISK: NEW STANDARDS TO UNLOCK PRIVATE  
SECTOR INFRASTRUCTURE INVESTMENT**

**Panel**

**JUNE 21, 2013**

**11:30–12:30, Pavilion 8, Conference Hall 8.2**

**St. Petersburg, Russia**

**2013**

**Moderator:**

**Yaroslav Lissovolik**, Member of the Management Board, Chief Economist,  
Head of Research Department, Deutsche Bank

**Panellists:**

**Ruslan Baysarov**, General Director, Tuva Energy Industry Corporation

**Michael Evans**, Vice Chairman and Global Head of Growth Markets, Goldman  
Sachs

**Amitabh Kant**, Managing Director and CEO, Delhi Mumbai Industrial Corridor  
Development Corporation Ltd.

**Dmitry Konov**, Chairman of the Management Board, General Director, SIBUR  
LLC

**Igor Levitin**, Adviser to the President of the Russian Federation

**Aaron Rubin**, Chief Executive Officer, Macquarie Renaissance Infrastructure  
Fund

**Ivan Tavrín**, Chief Executive Officer, MegaFon

**Front row participants:**

**Kjell Morten Johnsen**, Executive Vice President, Head of European Operations,  
Telenor Group

**Tagir Sitdekov**, Director, Russian Direct Investment Fund (RDIF)

**Y. Lissovolik:**

Ladies and gentlemen, I suggest we start. It is my pleasure to welcome you to the panel discussion that is dedicated to the development of infrastructure and long-term financing attracting private capital into infrastructure projects. This is probably a theme that is as topical as it can get in today's world. If you look at Russia, it is posting declining growth rates, in my view, mostly on the back of infrastructural constraints. If you look at global financial markets, clearly we are seeing a lot of volatility, a new wave of volatility that poses risks with regard to the development of infrastructure through long-term financing. The global economy in general is clearly struggling to achieve higher growth rates, and one of the main impediments there is the underdevelopment of infrastructure – infrastructural bottlenecks. So, in our panel discussion, we will focus not just on Russia-specific factors, but also on the global issues relating to infrastructural development, and with me here today is probably the best set of experts and specialists in this area. My first question I would like to direct to Mr. Igor Levitin, who was the Assistant to President Putin and Former Minister of Transportation in Russia. My question is, what are the infrastructural challenges that Russia is facing today? We have all been expecting this infrastructural push from Russia for so long. Why has it not really happened yet?

**I. Levitin:**

Good afternoon, ladies and gentlemen.

Our experience of public–private partnerships in Russia dates back only six or seven years. Compared with other countries, which have been engaged in public–private partnerships for decades or centuries, this is practically no time at all. Soviet infrastructure, which was tied to the consolidation of the former Soviet republics, worked in a single cycle. For example, after the collapse of the Soviet Union, the railway infrastructure remained intact, but its management was decentralized. The same happened to the motorways.

The economy cannot grow without infrastructure. Declining economic growth and the investment climate bring us back to infrastructure, which is of vital importance to Russia. Transportation, energy, and municipal infrastructure are all very

important elements, but we do not have much experience. The project cycle is three to four years, and our 2005 Law on Concession Agreements is not even ten years old. We have gone through all the groundwork on the public–private partnership pilot projects in double-time, in part because the Government understood the need to launch these projects.

We now live in a globalized world with global competition, and the G20 countries, which will meet here in St. Petersburg, will face the issue of global public–private partnership projects. There are large international funds here at the Forum which are trying to come to Russia, although, unfortunately, not very actively at present. In my view, this is caused by the fact that our legal framework is not yet advanced enough to allow large infrastructure funds or financial institutions to take part in projects. A decision was therefore made to create a development institute as part of Vnesheconombank, which will launch pilot projects. It is very important for the initial projects to be successful, as that will pave the way for the success of subsequent projects. Remember the high-speed railway that was to be built several decades ago? That failure set us back and virtually any discussion on whether a high-speed railway should be built is now reduced to reminiscing about the ‘hole’ near Moscow Station in St. Petersburg. The State should take as much responsibility as possible for the initial projects and provide financial guarantees, as the first projects must be successful.

In the last five years, we have been able to attract USD 5 billion for three public–private partnership projects, part of which was made available under guarantees from the Government of the Russian Federation. The three initial projects are the Western High-Speed Diameter in St. Petersburg, the Odintsovo Bypass, and the first sections of the Moscow–St. Petersburg motorway. The State took most of the risks here and, I think, this is the solution. The State needs the infrastructure but private parties must be involved because they can structure and manage the project better. They are interested in the success of the project because they need to see a return on their investment. I believe that a private partner should be involved in every future project in Russia.

In conclusion, I would like to say that it is impossible to stop the process of public–private partnerships in Russia because ports, airports, and roads are all

already using these mechanisms. But the legislative framework is lagging behind and it is the State's job to improve the regulatory framework and train people. Unfortunately, we do not have people who are capable of implementing a good project. That is why one of the presidential executive orders in May contained instructions for the Government to implement a technology and price audit of all public-private partnership projects from next year. We need to train the people who will work on this and create a bidding process for such projects. Thank you.

**Y. Lissovlik:**

Thank you very much, Mr Levitin. If I may turn out to Aaron Rubin who is the Chief Executive Director for Macquarie Renaissance Infrastructure Fund. The question for you is, are there any success stories in terms of international experience that Russia should look at and is there anything particularly relevant for Russia today?

**A. Rubin:**

Just a brief introduction: I work for a firm called Macquarie, which is an Australian-based financial institution, which amongst other things is the largest infrastructure investor in the world. So our portfolio includes about USD 100 billion of assets ranging from toll roads to utilities to cell phone towers and municipal waste sites all around the world. A lot of that money is invested in developed markets, like North America and Western Europe, but we also have a fairly extensive emerging market footprint and have raised specific funds to tackle markets like Mexico, South Africa, China, the Philippines, India, and also Russia, which is the business that I run. So, this has been a growth area for us. I think, as we approach it we always emphasize the value of good partnerships, and in all of those markets we have entered with partners. In Russia, in particular, the Vnesheconombank has been a strong supporter, and we very much appreciate that. I suppose the question that is most pertinent to this discussion is, what does it take for an emerging market like Russia to be successful in attracting long-term capital into infrastructure areas? If I look at the different emerging markets that we have been present in, I would probably point

to South Korea as the most successful example around the world. We have been in South Korea investing for over 10 years now, and have had a number of successful funds. When we entered the country, they had had public-private legislation for some time. In fact, they had enacted it in 1994, and it had taken some time to get off the ground, but if you look at the success that economy has enjoyed over the last 10 years, they have increased public investment in infrastructure projects by more than 10 times and are now consistently attracting between USD 5 and 10 billion into infrastructure projects from private investors. We have also seen, at the same time, it move from being very much an investment destination that is perceived as relatively high risk to a very developed investment market, and the consequence is that they have attracted more capital and at much more competitive rates. So if we look at where Russia is in that cycle today, it is really much earlier in its development, and while there are quite a number of people who are interested in pursuing various infrastructure projects, the cost of that capital is still very high as a consequence of risk aversion and lack of track record. So, thinking about the sort of features that countries might focus on to attract capital in what is a very competitive world for those dollars, I think, first and foremost, political capital supporting projects is really important. It is not just important in emerging markets, but any government looking to fund projects really needs to have this in mind. One of my favourite examples of this is from my time working in the US, where we bid in 2008 on a big road project that Pennsylvania was doing, and the governor at the time, was Ed Rendell. We actually lost. Spanish company Abertis won it and offered USD 13 billion to buy and upgrade the Pennsylvania Turnpike. It was approved by the governor and then rejected by the legislature after years of work, which is a deal Pennsylvania will never see again. So that is an example of the sort of political risk, and to get investors to spend the enormous amount of time and money to prepare for these sorts of projects, it is really beneficial for as senior as possible a level of decision-maker within the government to put political capital behind it so people can feel confident that projects will be structured properly, completed successfully and then supported through their lifetime. So the second feature I point to is good laws, good regulations, and a good contract structure in putting

these projects together. And that applies not just to public–private partnerships but also, for example, to utility investments, airport investments, and a range of important utilities. These things all have in common the feature that they are long-term investments that require a big upfront injection of capital, and it can be tempting for the governments, once that capital is in the ground, to exert pressure on prices and reduce the value of the investment to the benefit of consumers or other stakeholders. So, having a good regime to guarantee a fair return on capital is of course critically important, and if we look at the different sectors of the Russian economy, I think there are some examples where that has worked well. For example, in power generation, the DPM programme seems to be working fairly well, but in a variety of other areas, the regulatory regime has not been crafted in a way that makes private investors look at it and think that it is a very attractive place to put long-term capital. The third thing I would point to, which I think ties back to some of the things Mr. Levitin said, is execution expertise. That is both within the government itself and also having credible advisers so that people can be confident that the government knows what investors want and is packaging a product that is going to be attractive to them, and they will be hungry to buy. So that is very important to tackle at the very early stage of looking at projects, I think. And then, finally, the track record of success. Going back to Korea, when we first entered the market in the early 2000s, the required return on equity was almost private equity-like, and through success people have become confident that projects in Korea will get done, they will be stable, they will offer a big return, and that has really compressed the return requirements and attracted a lot of capital.

**Y. Lissovolik:**

Thank you very much. In terms of other global developments that relate to Russia's capability to invest in infrastructure, I would like to turn to Mr. Evans. We are seeing currently a lot of volatility in financial markets. The state of the world economy is clearly at a very difficult juncture. Do you see any ways in which this can significantly affect the generation of long-term capital flows and the development of infrastructure in emerging markets?

**M. Evans:**

I think this is a very good question, and what we have is a very challenging environment, particularly for emerging market infrastructure development. If you look just over the next eight years at the amount of money that needs to be spent in emerging markets on infrastructure, it is about USD 1 trillion every year. There are USD 0.5 billion required just for three or four countries in Southeast Asia alone. There is USD 170 billion of infrastructure required in Russia just in the transportation sector. And, while we have made progress, particularly in the last five to seven years in terms of taking developed market capital and directing it towards emerging markets, deepening the bond markets, in some cases creating the bond markets, I would say, particularly recently, over the last month, more recently in the last two weeks and most recently in the last two days, you have seen some very disturbing trends in terms of the backup in capital markets, the end of quantitative easing, or at least the beginning of the end of quantitative easing, and capital flows which are moving out of emerging markets and back to developed markets. So the mismatch of the capital required for infrastructure projects relative to the capital that is available is probably one that is getting larger and not smaller. And that is particularly difficult for emerging markets. It is also going to be challenging for developed markets, but for emerging markets, that is going to be particularly problematic because the number of projects that are greenfield as opposed to brownfield, and the risks associated with developing them, is going to place an incremental burden. There are a few other things that are going on that are probably worthy of note. First, the bank deleveraging process, which really grew out of the financial crisis, is something that is continuing today and is likely to continue for some period of time. Similarly, the Basel III capital requirements are basically raising the cost of capital and the expected returns that infrastructure investors or banks that lend to infrastructure projects expect to earn. So we should fully expect that the cost of infrastructure projects in terms of funding, both throughout the capital stack but particularly on the credit side, where most of the capital will be raised, are going to increase. In addition, in emerging markets, the great hope was that banks



would not have to be the principal providers of capital for infrastructure projects, and that in fact the public markets, whether it was pension funds or insurance companies or, more broadly, the public bond markets, which were growing in depth and liquidity, could provide a much larger component of that funding, long-term funding, in the future. I would say, on the back of where capital flows appear to be going today, that seems at best to be delayed, and potentially delayed for a significant period of time. So with banks deleveraging, capital requirements going up, the public markets not able to provide a significant amount of capital, and the capital requirements of USD 1 trillion a year across these emerging markets, this is not a very good situation, and not one that is going to be easily resolved. The final thing I would say is that the crowding out of developed market infrastructure over emerging market infrastructure is very significant. Where we are busiest today, and where we see an enormous focus and an enormous amount of capital going, is to the developed market infrastructure, which in many countries has not been touched for 20 years. Therefore, highways, tunnels and bridges are, in many cases, in better shape in emerging markets than they are in developed markets, but the unfortunate effect of that is that the crowding-out effect, of capital going to developed markets first instead of emerging markets, is just one more problem that needs to be faced. I think a lot of good work has been done on public-private partnerships. We have an infrastructure fund. Macquarie obviously has a very large infrastructure commitment. Private equity is focused on this. And there are many other forms of creative financing which are developing on the back of countries' sovereign wealth funds with large amount of capital who are looking for interesting investment opportunities in the infrastructure space. But I suspect that this is going to be a very, very challenging space and a very challenging problem to solve in the next three to five years and potentially longer.

**Y. Lissovlik:**

Thank you very much. You touched upon the issue of the difficulties experienced by banks in terms of providing resources in the current environment to long-term infrastructure projects. The G20 is working on various initiatives in terms of

improving access to long-term financing, and one of the conclusions appears to be that, at this juncture, it may be proper to look towards the replacement or partial replacement of bank financing with bond financing, and in particular through the development of corporate bond markets in emerging markets. Is this something that you support as one of the conclusions by G20, and how generally do you assess some of the initiatives on the part of G20 in this area?

**M. Evans:**

The G20 has made infrastructure and infrastructure financing a huge focus, and they issued a report recently that had four or five recommendations, including developing bond markets. I would just say, based on some of the comments I have just made, I think that the probability of being able to significantly develop and deepen the bond markets in emerging markets is really a function of how much developed market capital will go to those markets in the future. We have made a lot of progress over the last three to five years. Probably USD 500 billion of dollar-denominated bonds have been issued in emerging markets, and another USD 500 billion maybe in local market currency. But when you think about the size of the requirements for infrastructure, bond markets are not going to be able to solve them on their own. So I think, as a long-term panacea, that is certainly part of the issue. The other things that the G20 focused on, which I think are just as important, are some of the things that Andrew drew our attention to as well. First of all, legal impediments, which basically are a big stumbling block for FDI in terms of ownership restrictions. There needs to be transparency and clarity as to what is allowed and what is not allowed. In addition, the regulatory frameworks, which Andrew also mentioned, are tremendously important. If there is no clarity on the regulatory framework, it is impossible for people to determine what their returns are likely to be. I also think the lack of a credit culture is an issue. What do I mean by that? I do not mean in the markets; I mean in the actual infrastructure companies, or the assets. They need to be run as credit sensitive and credit understanding, which means that investors need to be able to see that the operators of the asset are as focused on the creditworthiness of the asset as the investors are concerned, as it relates to their returns. In many

cases, there is a disconnect between those two. And then I would finally say, at the government level you have two issues. Three-year plans are inconsistent with 20-year infrastructure projects. So to the extent that the government is short-term focused and the investors long-term focused, that mismatch usually ends in a very bad way. The other issue is that national governments, and we see this in North America, very often have a different view in terms of state and local governments. So, getting consistency between national, state, and local, or whatever the components of government are across these different markets, is very, very important in order to give investors confidence that investing for the long term is going to yield consistent returns.

**Y. Lissovlik:**

Thank you so much. In terms of the experience of emerging markets, I would like to turn to Mr. Amitabh Kant, who is the Chief Executive Director of Delhi Mumbai Industrial Corridor Development Corporation, and I would like to ask you what your experience is in terms of working in the area of developing infrastructure projects. What is India's experience in this area? What insights can be gleaned by Russia in this regard?

**A. Kant:**

Well, India has had a very large landscape of infrastructure projects. We have been through roads, ports, airports, and so on. And my belief, after hearing other panellists, is that more than just the financing aspect, the critical challenge for a country like Russia is really to structure projects. It is the challenge of government, changing from being a doer of projects to becoming a facilitator and capitalist, because projects are all about de-risking them. Unless projects are adequately well structured, if USD 1 trillion worth of projects is required, you actually need to structure USD 4 trillion worth of projects to be put out into the market space. And I think it is very important to understand that projects will not happen until there is a project development fund which will structure projects, which will put them out into the market. There is a need for independent regulators. There is a need for consistency in the regulatory framework. I think

there is another aspect, and that is that in some of the emerging markets the construction risks are very high. And we need to divorce the construction risks from the operating risk. Some of these projects, where you got over the hump of the construction risks, the state must get out of it and put them out into the market, and therefore, where the revenue streams are adequately well insured. Therefore, you will put a lot of projects which have been through the construction risks into the marketplace. I have one more point I want to make, and that is, instead of putting too many risks onto the private player in the initial stages, it may be worthwhile to look at models of annuity, where we look at models of availability-based payments, where you perform to defined standards. However, for a lot of work for availability-based payments and annuity contracts, you need to have the concession agreements right, and you need to do a lot of homework beforehand. There are challenges, but I think the key thing is the mindset issue. It is the mindset of breaking down existing monopolies that just do not have the mindset to allow the private sector to come in. And you need to create independent agencies which will drive projects. Then the fiscal space for the government will be so limited. Therefore, if you want Russia to be competitive, if you want efficiency, if you want innovativeness, if you want technology, the only way forward is private sector play.

**Y. Lissovolik:**

Thank you very much. I would like now to turn to Russia's own experience with developing infrastructure and look at some of the sectors where these challenges are clearly very significant. First, I would like to turn to Mr. Ivan Tavrín, the General Director of MegaFon.

**I. Tavrín:**

Respected colleagues, good afternoon. First of all, I would like to agree with the previous speaker. Here is what has happened with communications in Russia: the mobile and Internet communications industry has been built entirely by private investment and private companies.

As Mr. Levitin noted, most of the infrastructure projects today relate to transportation, power, and utilities. However, the communications infrastructure is of critical importance because today, communications are just as important as water, gas, and electricity. We live in the information age. Any decision that we make today is much easier to make using the devices at our disposal. We no longer go to the library to find out information. All it takes is just a few clicks on your phone. Telephones and mobile phones are essential for communications in everyday life as well. In contrast to some industries, Russia is actually keeping up with its global counterparts in this sector. We are developing just like any other global industry. In 2007, the average rate of data transfer was between one-and-a-half and two megabits per second; today it is 18–20 megabits per second. In 2015, it will reach 100 megabits per second here, as in any other leading country in the world.

In addition, economic development is an important factor. Communications are a primary driver of economic development. The World Bank provides the following numbers: for every 10% increase in Internet penetration, there is a 1.5% rise in GDP. Russia and Russian companies are showing good results in this regard.

A large number of innovations that are talked about at the State level today are also impossible without communications. Communications infrastructure is instrumental in the development of any other infrastructure. Links with other sectors of the economy are therefore crucial. If we are talking about public–private partnership, this is already being developed in such regions as the Far East and the North, where it is not financially feasible to recover investment in communications. Opportunities have already been created by the State for communications operators to invest in areas with minimal returns, where the state will order various services. As you know, mobile operators have covered all the roads in the Far East with communications lines and we continue to grow: many routes are planned today, including some under the Sea of Okhotsk. We will be able to offer a large number of M2M solutions for various sectors of the economy in the near future because, today, neither government services, which are increasingly being delivered via the Internet in our society, nor medical or

banking services are possible without mobile and telecommunications. Thank you.

**Y. Lissovolik:**

Thank you very much.

In terms of your experience, working in Russia and other emerging markets, how much of a disadvantage for you, for your company, is the underdevelopment of infrastructure? Is there a way for you to try to compare the costs associated with the underdevelopment of infrastructure in Russia with other countries, with other emerging markets?

**I. Tavrin:**

Infrastructure in other areas is essential to us, since we cannot create the communications infrastructure without it.

**Y. Lissovolik:**

But in terms of the most significant costs arising from infrastructure and underdevelopment, would you see it is electricity, or are there any other sectors that you would mention?

**I. Tavrin:**

The most important thing to us is that the State has finally accepted the principle that communications are a public good. For example, although water and electricity are supplied to any home by default, in order to install a base station or antenna on any residential building in the Russian Federation, you need the approval of two thirds of the residents, despite the fact that they will all use the links. So it is precisely these types of State-level decisions that have the most significance for us.

**Y. Lissovolik:**

Thank you very much. Staying with Russia, I would like to turn to Mr. Dmitry Konov, who is the General Director of SIBUR, and ask him about his experience

with developing infrastructure and with the costs associated with the underdevelopment of infrastructure that he is experiencing. I think we have a presentation.

**D. Konov:**

Good afternoon. I work in a much less exciting industry than mobile communications, so I have prepared some slides to try to show you what it is that we do.

SIBUR has 27 production sites in Russia and when we have any kind of leadership visits to these sites, my most difficult task is to avoid using technical terms because they completely confuse those listening. In essence, we purchase associated products from oil and gas companies, collect them at various oil and gas production facilities, transport them, and then refine them to produce a number of feedstocks, most importantly, I would say, liquid petroleum gas (LPG). This is known to consumers for its red tanks at summer homes or as gas lighter fluid. This is a small example of its use, but it is the best known. We use some of the products in petrochemicals, manufacturing a wide range of petrochemical products. We are the largest petrochemical company in Central and Eastern Europe.

In order to move this flow of raw, intermediate, and petrochemical products between our production sites, as well as from our suppliers and later to our clients, we have to maintain a significant number of facilities that may be called core infrastructure. If you look at our business on the slide, then from left to right are the oil and gas companies and the fuel business: some of the output goes to petrochemicals and some to the market. Everything that is highlighted in yellow refers to the places where we need either pipes or rail wagons and the rail loading ramps or specialized port facilities that are required to maintain this entire value chain. The company, which makes around USD 9 billion in annual sales, maintains around 10,000 rail wagons, a gas pipeline, 3,500 product pipelines, a significant number of rail loading ramps, and specialized port facilities.

There are four roles in any infrastructure project and these four roles, as you can see on the slide, come together in our company. It might not necessarily be right,

but it is a fact which is difficult to avoid. Here are the four roles: the investor, who expects a certain return on investment and cash flow stability; the operator, who covers the expenses and is responsible for the safety of operations; the user, who wants to use the facilities and is interested in maximum flexibility, which may not coincide with the investor's interests; and the entity which creates and manages the specialized facilities, and is responsible for the project budget and schedule.

In our case, we bring together all four roles within the company. What is the result? Let us take a look at SIBUR investments in 2009–2012 and for 2013–2016. There are no actual numbers on the slide, just the percentages. There are investments in raw materials, petrochemicals, maintenance, research and development (that is research and technological development), IT, and infrastructure. You can see that this constitutes 30–40% of all investment (the left side of the slide, 2009–2012, is around USD 8 billion) – these are infrastructure investments.

The main dilemma that we encounter is the question of what we would like to do: do we want to own the facilities and use them or do we want to buy the services as the product owner? Do we want to own the pipeline or do we want someone else to build the pipeline and own it, so that we can use it and pay the transportation tariff? Unfortunately, in many cases, this is impossible to reconcile: it is often impossible to find good quality project execution and it is difficult to find an investor at the construction stage. It is easier to do that when you have the facilities ready, not when you are building them.

In some cases, it is quite difficult to find synergies. Take rail wagons for example. In recent years, there has been a strong trend towards consolidation in the Russian market: rail wagons are highly prized and the market is interested in consolidation, which is ongoing. You can increase value by owning a large fleet. This is true for half-wagons, because the best return you can make on the half-wagons is on backhauling, which is profitable if you own a large fleet and have many users. In our case, when we transport specialized products – a one-way liquefied gas pipeline – the value is in how fast we can fill and drain these liquefied gases, how quickly and efficiently we order the tanks, and whether we



use storage facilities with maximum efficiency. The value is not in owning the fleet. It is not possible to do any backhauling in these cars. Problems vary depending on specialization, but sometimes they are quite obvious.

The next two slides illustrate our projects. This is a 1,100 kilometre product pipeline that we built in a year and a half. It is most of our value chain in West Siberia.

The next slide is a port in Ust-Luga that we opened on June 19. With the arrival of the Minister of Transport, the third ship we loaded became the first and we all celebrated this event. The facility consists of tens of thousands of tonnes of metal, several thousand kilometres of cable, 20,000 pile foundations, and over 2.5 million inert materials required for the construction of onshore and offshore elements. We are grateful to the Ministry of Transport and the Leningrad Region Administration for enabling us to go through with this project. This is the largest Baltic ship for this type of product.

Let us go back to the dilemmas. Here is one of them: we have invested significant amounts in many quasi-specialized projects that we need, but that we would rather neither build nor own; we would prefer to buy them as a service. Often, that is impossible, both for operational reasons and in order to keep the project within budget and on schedule. Some limitations relate to the fact that, as an industry, we do not fully grasp the new interpretation of the international financial accounting standards that will start from January 1, 2014, in respect of off-balance-sheet transactions related to permanent contracts for their use. I think that some of the projects that exist now or that are being developed will undergo additional review with the introduction of these new IFRS rules.

One more dilemma: SIBUR does not have an issue with access to capital. The issue is in choosing between ownership and purchasing the service. We provide guaranteed promissory earnings with our credit risk, while, on the other side of the table, there are those who want to invest in these projects with earnings on their own capital. In many instances, it is not profitable for us.

So we are working on this and we are not alone. But sometimes there are instances when, even if there is capital and a willingness to enter into transactions, it is not possible owing to operational or profitability considerations.

**Y. Lissovolik:**

Thank you very much. I would like to stay with Russia and now discuss briefly a case study, a specific case of a Russian company, a private company, which is developing infrastructure in Russia's regions. The company is called Tuva Energy Industrial Company, and it is now one of the most important players in the area amongst private-sector companies, so it has the largest infrastructure projects performed by a company from the private sector. So first we will have a short film, after which we will delve into this specific case.

In discussing the experience of this company, I would like to turn to the head of the company, Mr. Ruslan Baysarov, and ask him about what his experience is in terms of dealing with the regional authorities. How has this cooperation with municipal and regional authorities progressed in terms of implementing these infrastructural projects? What the impact of this project is on the regional economies, in terms of employment, and in terms of fiscal revenue that the region has obtained?

**R. Baysarov:**

I can proudly say that we are carrying out one of the most complex projects in the Russian Federation today. It is also the largest, and it is an extremely significant project, not just for the Tyva Republic and the Krasnoyarsk Territory Administration, but for the Russian Federation as a whole because the execution of this project will create around 17 billion in tax revenues for the Russian and Republic of Tyva budgets. Tyva will get 15,000 jobs, which is very important for the Republic and will also become, by our estimates, the most socially developed region in Russia, as measured by tax revenues. Small business will also develop aggressively in the region and, a particularly important aspect is that the population of Tyva will finally be able to travel throughout the Russian Federation by rail. Unfortunately, the residents of the Republic do not have such an opportunity at present. That is the social aspect.

As for my relations with the local authorities, I can proudly say that the leader of Tyva is very interested in this project – for obvious reasons. Right now, Tyva is in

a difficult situation because of its lack of infrastructure. The Governor of Krasnoyarsk Territory maintains close contact with us and we have monthly meetings about the project, since 253 kilometres of the route pass through Krasnoyarsk Territory and part of it goes through Kyzyl.

As far as the State is concerned, if a project is interesting and efficient, they are always interested and always provide assistance. I, in particular, never have problems interacting with the State. Back when Igor Levitin was Minister, he held the first meeting and then demanded on a weekly basis that the project begin. We then moved to the level of Deputy Prime Minister Kozak, and now the meetings and supervision of the project are led by Igor Shuvalov. They prepare all the regulatory documents we need very quickly.

I would like to take this opportunity to thank the Government and the local authorities for their help. It is clear that the State needs this project because, if this route is not built, the population of the Republic of Tyva will have a lot of difficulties as there are hardly any flights to that area now. It is a big problem for the region, although, by the estimate of some companies, the Republic of Tyva is one of the wealthiest territories in terms of natural resources. If I am not mistaken, there are around 500 billion units of natural resources in Tyva. There are large deposits, totalling a billion tonnes of reserves that are very easy to develop. We are also planning to build a thermal power station and a port in the Far East in order to sell our products at the end point.

**Y. Lissovolik:**

Thank you very much, Mr. Baysarov. Well, in summing up, I would probably say that this was a very informative discussion. We heard about some success stories, despite the challenges in terms of regional development, and clearly the Tuva Energy Industry Corporation is one such example. But more broadly, we are still seeing very significant challenges and infrastructural bottlenecks constraining the competitiveness of Russian companies. And in that regard, I would like to again turn to Mr. Levitin and ask him a question. After seeing and listening to all of the participants and all of these discussions about what the challenges are that Russia is experiencing, what would you say are the key

priorities for Russia in developing infrastructure and fostering public-private partnerships in the very near term, say, in the next one to two years? What are two or three measures?

**I. Levitin:**

Infrastructure is an essential element in the development of any country, and in ensuring its competitiveness and its image. No country has budget funds available for infrastructure. Investment is necessary and that requires people, business confidence in the government, and long-term continuity. Michael Evans talked about how hard it is to implement such projects in Russia because we have a three-year budget. Yes, we really do have such a problem. Unfortunately, Macquarie does not work in Russia, although they have invested USD 100 billion in infrastructure projects all over the world, and we are constantly debating this with Mr. Rubin.

What else is required to attract investment to Russia? A legal and regulatory framework is required, we need to return to the investment fund that we had five years ago and via which we launched many projects, including this one. The issue is who will pay for the project and who will estimate its value. No one wants to take the first step: the private partners do not want to take the risk, the Government has decided on its priorities and does not allocate the budget funds. The investment fund was a tool that gave a start to any project.

Right now the high-speed Moscow–Kazan motorway needs billions of roubles. Who will pay this and who will undertake the project? There are many such issues. I think that the State should be responsible for financing, but private companies that have experience of designing such large projects should execute the project. You know as well as I do that the end price of the project may be higher and the deadlines might not be exactly as planned. We need people who know how to design things and we need investment.

I would like to support the presentation on SIBUR. Unfortunately, everyone is building their own port here and Ruslan is building his own port in the Far East now. The problem is that, when we say to the Government: “Let us build a public coal terminal and let everyone who needs it use it”, they say: “No, you build what

you need, let the private parties build that.” So the large cargo owners become these private parties and they become the terminal owners. That is precisely why we need the funds, including Macquarie: to create public ports using investment funds, ports that anyone could use. Why should SIBUR spend money on a port, why should it spend money on railway stations and wagons? This should be done by an independent operator. Even though we are emerging from Soviet infrastructure, we need to learn to approach these things differently.

I would like to thank everyone again for their remarks, suggestions, and recommendations and to say that we need business to trust the State’s decisions. If this is implemented at a high level, we will have successful projects.

**Y. Lissovolik:**

Thank you very much, Mr Levitin, we probably have just about several minutes for questions from the audience. There is one. Please.

**L. Osipov:**

Respected colleagues, good afternoon. I am Leonid Osipov, Deputy Minister of Economic Development of the Russian Federation. I would like to comment on what Mr. Levitin has said. The fact is that, right now, one of the priorities for the Ministry of Economic Development is the development of an evaluation system for investment projects financed by the State on a repayable basis. We are talking about effective investment of the National Welfare Fund and of the Pension Fund. My colleagues and I are currently working actively on this system – identifying clear criteria and a selection system – and we are engaging external experts to support this work. We will be going to the Government with specific suggestions and regulations in the near future. As part of this work, we will need to engage expert organizations and professional consulting companies, who will help us to assess the efficiency of the project structure. Currently, at the stage of developing the evaluation system, we are open for dialogue with businesses and infrastructure funds. So I call on everyone for a dialogue, so that we can develop this system together. We will be submitting our proposals in the near future, not only on the evaluation and selection system, but also on a number of specific

pilot projects. I hope that investments in infrastructure projects will begin to grow more rapidly. Thank you.

**Y. Lissovlik:**

Our time is up now. I would like to thank you for your attention and all participants of the panel for a great discussion. Thank you very much.