

Russia: A Snapshot

Russia inherited important elements

of its modern industrial infrastructure from the Soviet Union, including a decent power network and an extensive railway system. But its infrastructure was typically inefficient, and there were major deficits in areas such as transport and telecommunications. Since declaring independence in 1990, Russia has made solid progress in developing its infrastructure. Still, in the World Economic Forum's Global Competitiveness Index for 2012-2013, Russia ranked 101st out of 144 countries for the quality of its overall infrastructure¹. Some sectors require considerable attention: for example, Russia ranked only 136th for the quality of its roads and 104th for its air transport infrastructure. Fortunately, the country has the resources to help finance a major modernization program, and the government has committed to invest over \$1 trillion in infrastructure by 2020.²

Demand for infrastructure is driven to a great extent by the oil and gas industry. The highest growth potential in Russia's infrastructure sector relates to the export of commodities, with everything from pipelines to ports required to support the country's massive output of oil and gas. The government has prioritized such projects, along with increased spending on transport infrastructure.

Hoping to attract more private capital, the government decided to create a \$10 billion investment fund.³ The aim is to use this as seed money to mobilize as much as \$90

billion over the next few years by financing up to 20% of the cost of privately-procured development projects. There are also plans to divest stakes in various state-owned transport and energy companies. Still, an expected wave of privatization has not yet gained real traction. Meanwhile, news reports suggest that attracting private investors in sufficient numbers remains a challenge, given their on-going concerns about the country's political situation, legal framework, and the difficulty of protecting property rights.

Some of the financing for infrastructure in Russia comes from state lenders such as Vnesheconombank and from multilaterals such as the European Bank for Reconstruction and Development. However, according to Morgan Stanley, more than half of Russia's infrastructure investment is currently executed and largely financed by just eight state-owned companies, led by Gazprom, Transneft, Russian Railways and the Federal Grid⁴. Given the scale of Russia's infrastructure needs, the challenge ahead is to attract more private investment.

¹ See "The Global Competitiveness Report 2012-2013"; http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf.

² http://invest.gov.ru/en/government_support/sectors/infrastructure/.

³ \$10 billion investment fund discussions attract major investors, RT Business, <http://rt.com/business/billion-investment-fund-russia/>.

⁴ See Morgan Stanley's "Russia: A Low-Profile Infrastructure Boom"; <http://www.morganstanley.com/views/gef/archive/2011/201111025-Tue.html#anchor03c3c5b6-fef1-11e0-833e-bdcd75816aa9>.



Major infrastructure projects

Oil and Gas: As part of the development of the Vankor oil and gas field, a 543-km pipeline is being constructed, along with a gas turbine plant and 120 kms of roads. Other huge oil and gas projects include Sakhalin 2, which involves the construction of the Trans Sakhalin gas pipeline, an oil export terminal and an LNG plant.

Mining: In Siberia, a 3 GW dam is being constructed, along with an aluminum smelter, at an estimated cost of over \$9 billion. Elsewhere in Siberia, a 412-km railway line is being built to connect valuable coal fields with the Trans-Siberian railway.

Roads: A 626-km highway is planned from Moscow to St Petersburg. There are also plans for a 1,521-km highway from Moscow to Novorossiysk.

Sports: Russia's winning bid to host the 2018 soccer World Cup comes at a price. The country is expected to construct or reconstruct stadiums in 13 cities at an estimated cost of \$3.82 billion, according to the Kyiv Post newspaper. With investment also required for new motorways, railways and tourist facilities, Prime Minister Vladimir Putin has estimated that the infrastructure bill for the World Cup will hit about \$10 billion.

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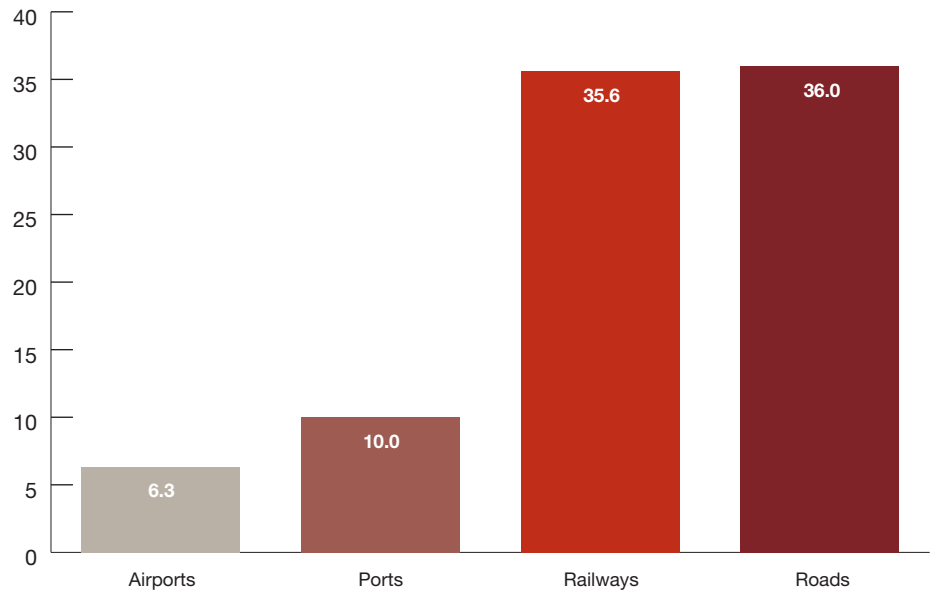
By the numbers

- In 2010, Russia's infrastructure investment represented **7.4%** of GDP, according to Morgan Stanley, versus **2%** of GDP for Brazil and **9%** for China.
- Russia's infrastructure investment in 2010 was **\$111 billion**, up from just **\$7 billion** in 1999.
- The Russian government has committed to spend over **\$1 trillion** on infrastructure by 2020.
- Morgan Stanley estimates that **40%** of Russia's investment in infrastructure goes to transport — primarily roads and railways. Almost **30%** goes to power distribution and generation. About **20%** is devoted to oil, gas and mining projects, including pipelines.⁵
- According to the World Economic Forum's Russia Competitiveness Report 2011⁵, the cost of building a road in Moscow is **\$31 million** versus **\$3.6 million** in the U.S. and **\$1.3 million** in China.

⁵ See World Economic Forum's "Russia Competitiveness Report 2011"; <http://www.weforum.org/reports/russia-competitiveness-report-2011>

Value of Projects Planned and Under Construction

US\$ bn



Source: BMI Infrastructure Report

To discuss the issues

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