



## Interview with Mr. Alexander Bazhenov, Director, PPP Centre, Vnesheconombank(VEB), the Russian Federation

*Interview conducted by Jan van Schoonhoven,  
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Mr. Alexander Bazhenov is one of the founding fathers of PPPs in the Russian Federation and he took a leadership role in successfully implementing PPPs in the Russian Federation. Mr. Bazhenov is also an esteemed member of the Bureau of the UNECE Team of Specialists on PPPs and he has promoted and supported the UNECE work on PPPs for a very long time. Mr. Bazhenov is the current Director of the PPP Centre at Vnesheconombank (VEB), a state corporation performing functions of the Bank for Development in the Russian Federation. VEB operates to diversify the Russian economy, boost its competitive edge and encourage the inflow of investments. Mr. Bazhenov and his Chairman, Mr. Vladimir Dmitriev, are responsible for national and regional development of PPPs.

Mr. Bazhenov was one of the founding fathers of the UNECE Team of Specialists on PPPs since its inception in 2007. Mr. Bazhenov was asked, what were the main reasons for VEB to support the UNECE PPP Initiative? He candidly replied that VEB believed that the UNECE PPP community could provide the Russian Federation and CIS countries with the necessary intellectual capital in order to improve the enabling environment (legal, financial, contractual) to implement PPPs. The network is very useful according to Mr. Bazhenov and gave valuable input to position VEB as an excellent supporter and investor in PPPs at the national and regional levels. The network also facilitated the interaction with PPP-mature countries like France, UK and Israel. In short, UNECE is an organisation that provided access to good and reliable intellectual resources on PPPs.

As the Team of Specialists on PPPs discussed facilitation of the development of PPPs, Mr. Bazhenov supported the idea of setting up an International PPP Centre of Excellence (ICoE). Given the fact that best practices are essential for developing PPPs, within the Team of Specialists, he supported the idea of disseminating those best practices.

## **VEB becomes the first affiliate to the International PPP Centre of Excellence**

Mr. Bazhenov is as strong believer in the old adage that “actions are stronger than words”, by taking a leading role for VEB to set up the first PPP Specialist Centre affiliated to the ICoE dedicated entirely to training for CIS countries. In so doing, VEB provided a very generous contribution towards the UNECE PPP work in order to start delivering high-quality products and services on PPPs and also to promote the work of the international training centre in Moscow among CIS countries, as well as providing the necessary training material and tools to kick-start these training activities (the first activity – a PPP master class – will be held on 11-12 December 2012).

### **PPP development in the Russian Federation**

Mr. Bazhenov provided an overview of PPP development in the Russian Federation and CIS countries where VEB has a strong presence. In the Russian Federation, the economic crisis still is hampering PPP development, but nevertheless, a number of successes have been recorded as highlighted below.

#### ***Krasnojov region***

The project in this region combines the development of a hydro plant, aluminium smelter and cellulose plant, including the supporting infrastructure and social infrastructure. The PPP model was interesting because it combined pure PPP aspects with a combination of government support. The project, in excess of 5 billion US dollars, has started and will become operational at the end of this year. The outcome is considered as a success story and is expected to give an impetus to the development of this region. But “we also learned much from this project”, Mr. Bazhenov emphasised. The model was matching the project perfectly, but in practice it was very hard to combine private, public financing and payment by the users within the regional legal and budget system, and it demanded considerable knowledge, experience and creativity to for its implantation.

#### ***Regional Cooperation in the automotive industry***

By establishing the proper environment, it was possible for the German automobile manufacturer - Volkswagen - to establish a production plant in that region. In this PPP project, VEB was a financier for its development, whereby

the infrastructure was provided for free as part of the deal. The innovative aspect of this model was that local government introduced a model of availability payment scheme for this infrastructure, whereby the increasing tax revenues, as a result of the economic development of this investment, covered the remaining costs. This is certainly a model for regional development that could be reproduced in other regions.

### ***BOT Pulkovo Airport Project***

This PPP project of the regional government of Saint-Petersburg in 2011 won the prize of “Best Deal of 2011” and attained worldwide recognition by entering the list of the most innovative and sustainable projects. The development of sustainable urban infrastructure is one of the greatest challenges of the 21<sup>st</sup> century. Airports open the doors into the largest cities and experience constant and the most significant pressure of all urban infrastructure assets. In the Russian Federation, the asset value of the main airports is estimated to have declined between 40% and 80%. Thus, the importance of projects on improving airports infrastructure in the Russian Federation cannot be overstated. Pulkovo airport is the third Russian airport by passenger traffic, located in Saint-Petersburg, and has been chosen to be renovated through the PPP mechanism. This project was structured under the regional PPP Law of Saint-Petersburg. The accomplishment of the Pulkovo project is expected to have positive economic and social effect on the City. The approach of the Saint- Petersburg Government to the preparation of the feasibility study and tender organization based on best international practice has resulted in attracting seven consortia on a prequalification phase which showed the level of interest of investors to the project. International commercial banks have also shown overwhelming interest in the project, and were ready to provide more lending than the projected necessitated. The Pulkovo airport project has become a flagship PPP project in the Russian Federation which managed to attract long-term bank financing (15 years), creating the basis for long-term financing of PPP projects in the country.

But there is more to come. For example, school and education facilities in 20 municipalities that will cooperate and will use the BOT model to implement a plan for building new facilities and renovate the existing estate.

## VEB Strategy for the coming years

Mr. Bazhenov also dwelled on VEB's strategy for the coming years. He remarked that recent times have not been easy due to the financial crisis and its severe impact on the economies in many countries, including CIS countries. The Russian Federation did manage to overcome these problems, albeit not always easily, and it remains determined to proceed with its PPP programme. But the large mega projects have become less prioritised. VEB focusses more on the regional and municipal developments. Regional PPPs are both needed for development and they are more likely to go ahead despite the financial crisis. This has been due to the models VEB developed, adapting them to market conditions. Therefore VEB chose six PPP priority sectors:

1. Environmental efficiency projects, like water, waste water and waste management;
2. Energy efficiency, especially with municipalities in district heating, street lighting and public real estate;
3. Development of complex transportation facilities for big complex industrial zones and development of affordable social housing (for 20,000 to 40,000 people) providing the infrastructure in order to keep house prices within reasonable and affordable levels for the Russian people;
4. Transportation for regional and municipal roads, light rail transport, bridges and constructions, with airport terminals as main examples;
5. Social Infrastructure, with a great demand for schools and healthcare facilities; and
6. Environmental Infrastructure and government infrastructure (buildings, IT systems, Security and broadband).

## Cooperation between VEB and the International PPP Centre of Excellence

It is important that the ICoE contributes to building the capability of regional and municipalities to undertake PPPs. But this should be achieved not by taking over the role of the advisors; that is not the task of the Centre. Mr. Bazhenov argued that the challenge for the Centre is not only disseminating best practices from around the world but ensuring that these realities can be contextualised in specific regions and municipalities. For example, the European Union has for 27 member states the same rules, whereas in the Russian Federation all regions have their own rules and regulations. That is the

great difference for example between EPEC and the ICoE. Whereby the former has a uniform environment, the differentiation amongst the CIS countries is much greater. As a result, the ICoE needs to focus on issues such as contractual arrangements for PPP's given that in countries like the Russian Federation the legal, financial but also budget and accountability issues differ at the local or municipal level.

Mr. Bazhenov strongly advises the ICoE to focus on these issues, and give them a higher priority, as they are needed in the Russian Federation. Regional differences of course are not unique for CIS countries. It is necessary that the ICoE analyses the local and regional situation and attains an understanding of not only the PPP contractual matters but all other associated issues. It is therefore important that training Centres become an essential part for the ICoE, and the training should be of the highest quality based on good analysis and research on the whole spectrum of PPP-related issues. That is why VEB established a Chair at the Financial University in Moscow to ensure good quality analysis and research. There is sufficient proof that this Chair is financially sound, as more than 250 municipalities in the Russian Federation benefited from its fee-paying services. Mr. Bazhenov is of the view that the training centres affiliated to the ICoE should be focused on a specific area, like healthcare or education.

Mr. Bazhenov believes that the ICoE should also focus on the legal and financial (budget) realities at the regional level and not focus entirely on the national level. Mr. Bazhenov made a plea for diversifying the focus of the ICoE to address the issue of procedures that does give a specific answer for a specific region or municipality, but be a kind of universal guideline on how to address the different challenges in a PPP process. For example, every country, region or municipality is looking at PPP and every model of PPP in principle could work, but then it is noted that the local budget cannot handle for example a life cycle contract, while in another region the law has not been adopted to undertake BOT projects.

The challenge for the ICoE would be to have a kind of master plan to address these issues, not solving them individually, but provide a procedural guideline for governments to come up with a solution. It is crucial that Specialist Centres, like the training Centre for CIS countries in Moscow and the Specialist Centre on PPPs in Health in Manila, work hand-in-hand. Solutions

coming from the Manila Centre will however not necessarily work in let say the Perm Region of the Russian Federation unless procedures and guidelines are available to make best practice information useful across the board. In addition, reference should be made to universally-recognised international standards and best practices that can be used as an example for the adaptation of legislation at the local and regional level. This is but one example, with budgetary regulations being another example that is sometimes seen as a bottleneck in PPP implementation. International experience on how to implement new models could be incorporated in budget and auditing system, and could include compelling evidence to convince Ministries of Finance and National Audit offices that these PPP models are well balanced, and if adequately handled, do not pose a threat to the stability of the system. We are not looking for new PPP models. The information provided VEB's partners, both governments as well as private firms, helps the ICoE to get a better understanding of these problems. Together we are looking for a professional answer to these challenges.

### **The future cooperation**

VEB and Mr. Bazhenov regard the work of UNECE on PPPs as important and useful. But Mr. Bazhenov believes that the ICoE has to adapt to the demands of implementing PPPs. Five years ago the challenge was PPP models, now it is how to implement them in regions and municipalities. This is the next crucial step. In addition, he remarks that the capacity of the PPP Specialist Centre on training in Moscow is not fully used. He urges therefore the UNECE to inform CIS countries more actively that this training centre can be of great value to their goals of building national capabilities to do PPPs. From the UNECE's perspective, these observations are important, given that the PPP Specialist Centre on training in Moscow is the first Centre established under the auspices of the ICoE. That means that VEB and UNECE are also mutually learning from each other. We both are only satisfied with Excellence that after all is the goal of the ICoE and for which it is continuously striving. The ICoE is honoured that an esteemed partner such as VEB is our professional partner who reminds us constantly of our professional obligations. The UNECE thanks Mr. Bazhenov for his time for this interview and for his advice for the future of the Centre. The UNECE is indeed proud to have VEB as the first PPP Special Centre on training for the CIS and the close cooperation will, we are sure, set a model for the other Specialist Centres.