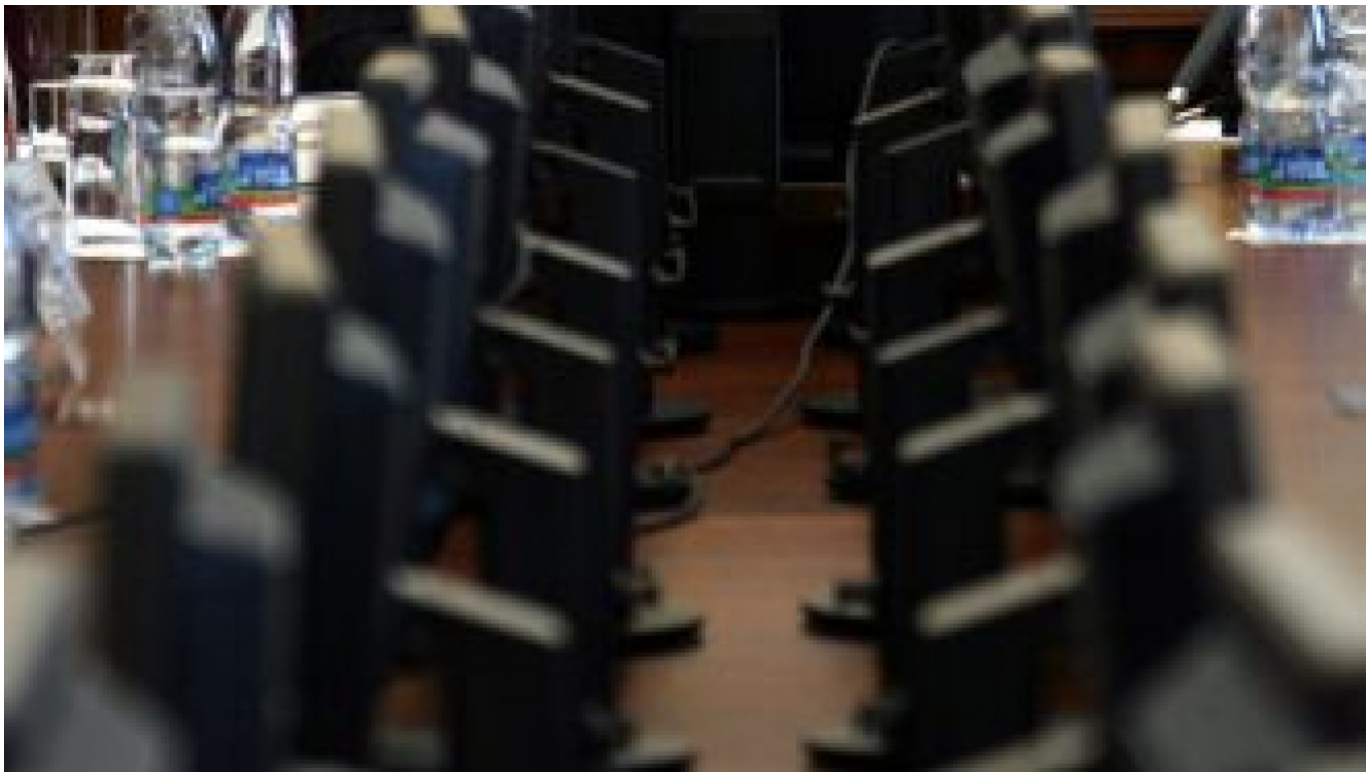
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Strategic Thinking Means Saying 'No'

By Bela Lyauv

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Sharonov says work has to continue while strategy is being developed. **Maxim Stulov**

Andrei Sharonov is a city government official with a business background. Four years ago, he left his post as deputy economic development minister, where he had worked for just less than 10 years, to become managing director of Troika Dialog. Now, as deputy mayor for economic policy, one of his main tasks is to improve the city's investment climate. He told Vedomosti's Bela Lyauv how he intends to do that.

Q: Let's start with a timely question. Why expand Moscow southward?

A: If you look at what surrounds the capital, it is overcrowded to the north, east and west of the capital. Going in those directions would mean not getting what you are looking for, but only more problems. They were looking for room for development even with the burden of a certain amount of private property, but where there wouldn't be such a huge number of responsibilities. If you take similar territories, we would have not 250,000 people in other

directions, but 1 million. That is why the large towns — Podolsk, Klimovsk, Domodedovo, Vidnoye — weren't included within the new borders of Moscow. The flipside is an absence of infrastructure there — no roads or power.

Q: Troitsk will be inside the borders of Moscow. Will it disappear from the map as a city?

A: That is under discussion. There is a de facto local administration there, and we should most likely keep it after the city becomes part of Moscow.

Q: Is there an idea of what will be in the new territories?

A: Not yet. The city, regional and federal administrations are working on that.

Q: Will there be a moratorium on land deals?

A: That is also being discussed. It is too soon to say now.

Q: The Higher School of Economics and the Academy of National Economy recently won a competition to work out single technical issues in the city's development strategy. That was before it became known that the city's boundaries would more than double. Will there be a new competition?

A: They weren't contracted to redraw the map but to develop the city's strategy. If the city's borders change, that has to be considered in the strategy.

Q: Are the institutes supposed to suggest how the city should develop?

A: No. ... A strategy is more like a refusal of something. ... We have to find the courage to say we won't do one thing or another, since comparative indicators show that we won't be leaders there and not reach great heights, while in other spheres the city has good chances. Our task is to formulate the technical problem correctly. This is not the first time Moscow is doing this, by the way. The Russian Academy of Sciences did something similar in 2009. Their analysis was interesting, but the political motivation was clearly seen, particularly in the tendency for extensive development, something like construction for construction's sake, not for the city's sake.

Q: Is there some understanding of how the city should not develop?

A: We understand that further compression of the city within its present boundaries is unpromising. It would make life harder, burden utilities and go against modern tendencies to make cities more accommodating and low-rise. An enormous number of people travel around not because they like to but because they can't find work near their homes. ... The idea of infrastructure eternally developing and satisfying all needs is utopian.

We can't build enough roads, underpasses and parking spaces, and the number of cars is still growing. You can't always be catching up. To be effective, you have to set limits, for example, on access or on type of transport. At the same time, pedestrian zones, park zones and so on have to be developed.

Q: How correct is it for you to approve and implement programs now when the strategy won't be ready for more than a year?

A: Formally, we should start with the strategy, and then define basic areas, and then move on to programs. But we are in a real situation, and we understand that programs are an element of the budgeting process and we set up the budget so that all expenses are somehow logical. A strategy is not a long-range plan for administrative actions but a vision of the city in 2025.

Q: Why have budget expenses risen 100 billion rubles ($3.6 billion)? How do you intend to cover the deficit?

A: Expenses rose consciously as a result of changing priorities. In particular a lot of funding was allocated to transport development, city beautification, health care and education. We now have the resources to cover the deficit. We will use our borrowing limit, if needed. The city does have some carried-over funds. And there is and will continue to be additional revenues from privatizing property.

Q: How do you intend to raise the capital's attractiveness to investors?

A: On one hand, there is a legal framework through which investors can operate. On the other hand, the startup process is not transparent, and it takes years to get documents agreed upon. There is talk of simplifying the procedures. A city administrative commission headed by the mayor has been set up, and it is reviewing certain procedures based on government regulations.

Currently, colleagues from the building industry and agencies providing state services are attempting to put down on paper all the possible procedures that an investor would have to go through and then see what regulatory framework they are based upon. We are faced with the fact that many procedures are entirely without a legal basis. You are just told to bring some document. For example, at Moskomexpertiz, one regulatory enforceable permit has been broken down into 40. Work is under way in this area — we will cut down the unnecessary procedures.

Q: How do you rate the transportation program? It has been proposed that the Moscow budget should annually allocate of minimum of 200 billion rubles to it. Can you handle that?

A: There is both the program for developing transportation infrastructure in the Moscow region up to 2020 and the city program. The former has been turned over to the government, and an administration to manage it has been established. Those investments that are expected from Moscow within the framework of the Moscow region program are, of course, larger than the money we are planning for our budget. Those figures will likely be adjusted.

Q: How is Moscow's borrowing policy changing?

A: The budget situation is rather stable. Execution forecasts are good, and borrowing is down to 50 billion rubles. We now know that we will not use borrowed funds in 2011.

Q: How will municipal bond placements be done?

A: Through professional market participants, like everywhere else in the world. Moscow is the only jurisdiction of Russia where a special structure, the Moscow lending commission, was established for lending purposes. Moscow said it would not waste money on middlemen, and this is true. However, it spent half a billion rubles on the contents of this infrastructure. This is a policy of a natural economy — to each his own. You need nails: Build a factory. You need bread: Buy a bakery.

Q: What assets will the city sell in the near future?

A: The privatization plan for 2011-12 amounts to 200 billion rubles. About 150 billion rubles has already been made by selling shares in Bank of Moscow, Stolichnaya Strakhovaya Kompania and Sibir Energy. Now the city's stakes in 30 other companies are being prepared for sale. They include the Svoboda factory; 28.58 percent of United Confectioners, which has been professionally valued at about 15 billion rubles; and 26 percent of the Avia Business Terminal, which manages the business aviation center Vnukovo-3. The city is also participating in the sale of the Metropol, Radisson Slavyanskaya, National and Moskva hotels and is selling stakes in the Moscow Krasnye Holmy company, the Yevropeisky mall, the World Trade Center and Gostiny Dvor. The Mosmedynagroprom holding might bring the budget about 3.5 billion rubles, and 24.5 percent of Mospromstroi is estimated at about 3.28 billion rubles. Out of 356 state unitary enterprises belonging to the city, 54 are to be converted into joint-stock companies and sold in the next two years.

The city cannot maintain control over such a large number of enterprises — this really leads to financial losses. State unitary enterprises are, after all, occasionally used to misappropriate city assets. For example, state unitary enterprises' payments in the interests of their owner — that is, the city of Moscow — amount to only 0.15 percent of budget revenues. The task is to clean this up, even while incurring some fixed losses, because selling them would cover further losses.

Q: What will there be at the ZiL truck factory? Perhaps a Yo-Mobile assembly plant?

A: Mikhail Prokhorov surveyed the area last year and, as far as I know, decided not to produce Yo-Mobiles there. But the mayor has decided to keep the territory for industrial purposes. Several parallel processes are currently running there, and ZiL truck production has been reduced to 50 hectares. [The whole territory is about 280 hectares.] The task is to free up the entire territory within half a year and consider redeveloping the area.

There is a 27 hectare parcel 100 percent owned by a city subsidiary, Moszemsintez, that is ready for redevelopment. It contains an outdated factory from the 1930s. The property department and the economic policy division are currently devising how to launch this pilot project. Over the next year, year and a half, ZiL should find a strategic investor that will come with a viable product in order to organize production.

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