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Medvedev May Use Fund to Build Roads

By Roland Oliphant

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President Dmitry Medvedev may raid a "rainy day" fund set aside for pensions in a bid to meet commitments to build new rail and road links, including the Moscow-to-St. Petersburg highway.

Medvedev has asked the government to draw up by April 1 a mechanism for using the 2.7 trillion ruble ($85 billion) National Welfare Fund to ensure "long-term financing of investment projects, including development of transportation infrastructure," the Vedomosti daily reported Friday.

The government is seriously lagging behind a pre-crisis transportation development plan that called for 5 percent of gross domestic product to be devoted to such projects until 2030. Current spending amounts to only about 2 percent, said Vladimir Dorogov, a transportation analyst at Alfa Bank.

"The government is meant to be spending 500 billion to 700 billion rubles a year on these projects in 2010-15. But the federal budget doesn't have the money to cover these costs,

and neither do the state-owned banks like Sberbank or VTB," said Andrei Rozhkov, a transportation analyst at Metropol.

The decision to tap the welfare fund follows intensive lobbying by Russian Railways president Vladimir Yakunin.

The move will require a change in the law because current legislation forbids spending the fund on anything other than balancing deficits in the pension fund — although a temporary anti-crisis measure means it can also be used to pay off state debt and balance the budget by 2014.

But analysts warned that the investment was risky because such projects seldom bring a return on investment. It is the least profitable sections of highway and railway that will be most in need of funding, Rozhkov said.

Part of the money is likely to be spent on those sections of the new Moscow-to-St. Petersburg toll road, which cannot attract private investors, he said.

Although aware of the dilemma, the government has little choice but to find money from somewhere else, said Dorogov of Alfa Bank.

"The fact is, we can't live without the infrastructure either. I know people in industry, especially utilities and raw materials, who say they have had to postpone investments because of a lack of rail capacity," he said.

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