The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Putin Boosts Fund Capital in Investment Charm Offensive

By The Moscow Times

September 25, 2012

The Kremlin has launched a charm offensive to pull in more foreign investment. In the latest move, President Vladimir Putin ordered that 250 billion rubles ($8 billion) be earmarked in the 2013 budget to boost the capital of the Russia Direct Investment Fund, or RDIF, which is supposed to co-invest in Russian projects with the world's leading investors.

The RDIF, headed by Russian Young Turk and former Icon fund manager Kirill Dmitriyev, was set up with a total planned capital of $10 billion paid in $2 billion tranches over five years.

The new money will increase the fund's total current capitalization to 62.6 billion rubles by the end of 2012 with equal-sized tranches paid in into the fund by 2015.

Sources also told Kommersant that the RDIF is already prepared to effect investments in 2013 and January-March 2013 at the expense of the first tranche of the new money.

The fund has chosen 12 prospective sectors into which it will invest 9.4 billion rubles, including infrastructure, transport and logistics. Injections into the agriculture sector alone will reach 7.8 billion rubles under this year's plan.

The plan is that the fund identifies attractive investments then co-invests with leading international funds, offering them some governmental protection in the process so that they get used to making money in Russia in the hope that this becomes a habit.

However, this move is only the latest in a string of initiatives to make Russia more appealing to would-be investors.

The effort kicked off with Putin's announcement last February that he wants to see Russia's ranking in the World Bank's "Doing Business" survey rise from the current 120 to 20 over the next five years. Putin signed off on the first decrees immediately after being sworn into office as president this May.

Setting up the RDIF was also an early move and was quickly followed by a similar fund jointly managed with the World Bank's IFC that invests into financial institutions.

The reforms to Russia's capital market that began with the merger of MICEX and RTS last year were more of the same — and typify this charm offensive as they involve concrete action and not just words. The concurrent creation of the new Central Securities Depository, or CSD, which will start functioning this November is more of the same and brings to an end a decade-long debate on the need for a CSD. A technical reform in nature, the consequences of creating a single depository are enormous, as it allows a whole new class of international investors access to Russian securities that were off-limits before due to prudential regulation in markets like the U.S.A.

Sberbank's second public offering of a 7.4 percent stake last week raised the government a useful $5.2 billion, but a parallel motivation was to offer investors a high-quality and attractive asset so they would actually buy something Russian. Part of the sales and placement process means that all the world's major investment banks were forced to do their homework and take a long, hard look at Russia before parting with their billions of dollars.

The upshot — it is hoped — is that having done their due diligence, it will be easier for other companies to float their shares, because international investors have done much of the hard work already. Several companies, including Promsyvazbank and MD Medical Group announced plans to IPO within a day of the Sberbank placement.

At a more prosaic level, VTB Bank hired famous Russian bear Jim Rogers to front up their agricultural fund as a "consultant." Given Rogers knows almost nothing about Russia, as he publicly eschewed the country in an e-mail battle with Russian young gun Dmitry Alimov in 2003, he is clearly in this new role as much for PR purposes as anything else. Indeed, given the dramatic turnabout that Rogers' new job represents, this is probably going to be one of the Kremlin's more successful PR stunts, as Rogers has the ear of the investment community in the U.S.

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