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Q&A: What Moscow Wants Foreign Investors to Know

By Andrew McChesney

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Sharonov is tackling traffic and red tape to improve the business climate. **Vladimir Filonov**

Imagine a Moscow where every neighborhood boasts a top-notch kindergarten, an international elementary school and a European Medical Center-style clinic that treats well-heeled expatriates alongside ordinary babushki.

That's the future that Deputy Mayor Andrei Sharonov envisions — and he says that City Hall will make it a reality with the help of foreign and domestic investors.

Sharonov, who spearheads City Hall's efforts to attract and work with investors, has embarked on a drive to attract private investment into areas traditionally funded with public money. Under the public-private partnership (PPP) program, the city is auctioning concession agreements for buildings and land in exchange for investment and a promise to provide services not only to cash-paying clients but also to ordinary Moscow residents.

"We are seeing that traditionally social areas, where everyone presumed only public money could be spent, have become interesting to private money," Sharonov said.

"We would like to support this trend by providing land plots and opportunities to create new social infrastructure based on private interest rather than public spending," he said in a far-ranging interview in which he also made his case for why foreigners should invest in Moscow and explained how City Hall was seeking to cut red tape for companies.

The first jewel of the PPP program is a recent tender won by the European Medical Center to take over City Hospital No. 63 on 26 Ulitsa Durova, near the Prospekt Mira metro station in northern Moscow. The European Medical Center, which became Moscow's first private hospital when it opened its first facility in 1989, is paying 1 billion rubles ($32.2 million) up front and will invest another 4.5 billion rubles into reconstructing the 29,647-square-meter hospital over the next four years.

For its part, City Hall is granting a 49-year lease on the site and asking that the European Medical Center provide 20 to 40 percent of its services to Moscow patients with mandatory health insurance.



The European Medical Center is the first winner of a health-care tender. (Maxim Stulov / Vedomosti)

"This is a new model and, frankly speaking, I don't think it exists elsewhere in Russia," said Sharonov, a former deputy economic development minister who stepped down as chairman of Troika Dialog investment bank to become deputy mayor under newly installed Mayor Sergei Sobyanin in late 2010. "This is probably a new experiment, and it's very interesting."

The PPP program is being extended to kindergartens and elementary schools as well. A lack of interest derailed an attempt to implement a pilot project in late 2012 and early 2013 for the

construction of four kindergartens for 750 children, including 218 free-of-charge, municipal applicants. But public demand for kindergartens is high, with parents scrambling to place their children in the few places with vacancies, and Sharonov said he expected to find a solution that would suit both investors and the city.

In a second try, City Hall will soon put 30 facilities for kindergartens and elementary schools up for tender. Winning bidders will get a 49-year lease and pay rent of 1 ruble per square meter per year, providing that 80 percent of enrolled children are Moscow residents.

These and other schools could be turned into educational institutions similar to the Anglo-American School and the British International School, where children from expat and Russian families receive private, English-language education in line with global standards.

"We see interest from the foreign communities that live and work in Moscow in creating more schools with international education standards," Sharonov said, speaking in slightly British-accented English. "For example, the French community would like to have more French-standard schools in Moscow. The British, American and other communities would like to have schools applying the international baccalaureate standard for secondary education. We will try to provide opportunities for them to build such schools privately."

Q: How has City Hall changed the process of setting up a business since the World Bank ranked Moscow in last place among 30 Russian cities in its Doing Business survey released at the St. Petersburg forum last year?

A: On paper, we have introduced changes to the four main areas that are considered part of the World Bank rating: construction permits, electricity supply, company registration and property rights registration.

For example, we have reduced the number of obligatory steps required to obtain a construction permit from 42 to 10, and the number of days to complete this process from 370 to 120. At least that is how it looks on paper. Now we are evaluating how it works in practice, and very often we are seeing that the procedure is taking longer than specified on paper. We are trying to clarify why this is happening and to make additional changes to streamline the procedure.

In relation to electricity supply, we have made radical changes for small companies such as shops and kiosks that require a capacity of less than 15 kilowatts. Now it takes just 15 days instead of the previous three to six months to get connected. Together with the biggest grid company in Moscow, Moesk, we have published a brochure called "Five steps in three visits" to illustrate the simplicity of the new procedure. So now you have to make just three visits in order to perform five separate operations from your initial application until the time you get your electricity connected.

We have also simplified registration procedures, both for property and companies, and hopefully we will see positive feedback from both the business community and through the next formal assessment by the World Bank for its rating.

A World Bank mission visited Moscow recently, and Mr. Sobyanin and I shared our concerns about the methodology used in the Doing Business rating with the bank's president, Jim Yong

Kim. Hopefully we'll see some changes in the next rating, which is expected in the autumn.

Q: Why should a foreign investor choose Moscow over other Russian cities?

A: Moscow is probably the biggest megacity in Europe, and it is permanently ranked as one of the 20 best places in the world to make money. Investors are attracted for many reasons. The city has a huge market and educated population, and it remains a significant historical, cultural and financial center for the former Soviet Union. People from other countries, particularly from other former Soviet republics, look at Moscow as a city of economic opportunity.

At the same time, we see that the cost of doing business here — while comparable with other megacities — is higher than in many other Russian cities. This is why we are trying to improve Moscow's investment climate.

Q: Among the top complaints for foreign investors is Moscow's traffic. What are you doing about it?

A: This is not a problem merely for foreign investors. It's a huge problem for everyone who lives in or visits the city of Moscow.

Transportation spending accounts for the biggest portion of the Moscow city budget. Our annual budget is approximately $50 billion, and we spend $12 billion of that amount on transportation, including construction of roads and the metro system, purchase of rolling stock and the provision of subsidies for public transportation.

Public transportation is definitely a priority. We understand that we will not be able to improve the road network sufficiently to handle the large number of cars that we have. That's why Moscow — like many other cities — is trying to improve the quality and quantity of other means of transportation, including the creation of separate bus lanes and the extension of existing lines and creation of new lines of the Moscow metro. These include a new ring line with interchanges where people can leave their cars and take public transportation. We have a huge program to build 159 interchanges.

Let's take a look at some numbers. When Mr. Sobyanin's team took office in late 2010, the Moscow metro system had 300 kilometers of track and some 150 stations. We embarked on large-scale construction of the metro last year and laid 8.5 kilometers of track. This year we plan to lay 12 to 14 kilometers. Over the next seven years, up to 2020, we will add 50 percent to the capacity of the metro, building a total of 150 kilometers of new track and about 75 new stations. This is a huge task.

We are also trying to improve the quality of the rolling stock. We are acquiring new metro cars and will hold an $8 billion tender for a program to procure and service the cars during their life cycle. A similar program will be introduced for trams. We are also introducing Wi-Fi in the metro and providing more convenient interchanges between the metro, ground transportation and the railway system.

By the way, the commuter railway system is a separate project. The length of this system is comparable with the metro, covering about 240 kilometers within the Moscow city limits. But

commuter trains carry just a little more than 2 million people per day, while the peak capacity of the metro is 9 million per day. So we would like to make the commuter train system a more important part of the city of Moscow.

How? Last year we started work on building another 240 kilometers of commuter track. We expect the volume of passengers on commuter trains and the metro to reach about 1 billion people a year by 2019, double the current volume of about 500 million.

Q: What are some common mistakes that foreign investors make when they come to Moscow, and what advice would you offer in order to avoid them?

A: If we are talking about big investors with huge wallets coming to Moscow, I would probably have to say that they need to be more targeted with their investments. They need to understand what Moscow needs.

Let me tell you what Moscow needs. At City Hall, we are trying to attract new money. Traditionally, investors have liked to construct in Moscow because it is very lucrative to build warehouses and office centers. We still face a deficit of modern and convenient retail premises. So it's very lucrative to build these kinds of property.

But at the same time we are trying to invite "smart money" — money for the high-tech sector and money from venture capitalists — together with the people who can run venture businesses. It may be a historical problem in Russia that we have many interesting ideas but often cannot transform them into business. That's why we need venture investors. It's part of our agenda to invite them and to introduce them to people who are responsive to their ideas. We want to combine smart money's ideas and venture capital, and we are aiming to do so through the provision of special infrastructure such as techno parks, business incubators, industrial parks and the special economic zone of Zelenograd in the Moscow region.

We have to create a one-stop shop for foreign investors and to provide an individual approach to the biggest ones. If we see interest, we are ready to communicate face-to-face with these investors.

At the same time, for smaller investors we have created a city investment agency that should make it easier for them to enter the Moscow market. This is not a one-stop shop, but investors can use it to obtain advice and recommendations.

Q: What is the secret to finding success in Moscow?

A: Traditionally, the biggest secret for success in Moscow was simply the distance between the investor and the government. The shorter the better. The shortest was the best. (Laughs.)

But we are changing this situation because such an arrangement amounts to unfair competition. Investors would not be treated equally.

The main criteria for success should be a company's efficiency.

This is a challenge for us, finding a way to provide an environment which is friendly toward local, domestic and foreign investors. It's impossible just to talk about attracting foreign investors. If you can't retain domestic investors, you are failing foreign investors as well. City

Hall should adopt a similar approach with every investor.

We have to be well prepared to reach out to investors, and investors in turn should be efficient in introducing new technology and in looking toward new areas of investment — as I mentioned already, "smart money." We are looking for investment in social sectors like healthcare and education. We don't want to see these sectors merely as a target for public spending. These sectors can be a source of business as well, and we are seeing some interest.

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