

THE IMPACT OF RDIF: WHY WE NEED FOREIGN INVESTMENTS TODAY

A KEY EVENT AT THE ST PETERSBURG INTERNATIONAL ECONOMIC FORUM, WHICH OPENS ON MAY 24, IS THE TRADITIONAL MEETING OF THE RUSSIAN PRESIDENT WITH MEMBERS OF THE FUND'S INTERNATIONAL EXPERT COUNCIL AND PROMINENT REPRESENTATIVES OF THE INTERNATIONAL INVESTMENT COMMUNITY. THIS YEAR, IT WILL BE ATTENDED BY THE HEADS OF MAJOR INVESTMENT FUNDS FROM THE MIDDLE EAST, ASIA, EUROPE AND NORTH AMERICA THAT HAVE MORE THAN \$12 TRILLION IN TOTAL UNDER MANAGEMENT. TATIANA VORONINA

The event dates back seven years to 2011, when the Russian Direct Investment Fund was founded as one of many development institutions tasked with providing funds to fuel Russia's economic recovery following the 2008-2009 crisis.

The oil price returned to pre-crisis levels in 2011, hitting an average of \$110/bbl for the year, GDP growth topped 4%, and Russia and the US were on track to "reset" their relations, with varying success.

One of the tasks the government faced was to try and at least partially substitute portfolio investments or investments in Russian stocks and bonds, the outflow of which hurt the national economy, with less volatile direct investments or large minority acquisitions.

During the 2008-2009 crisis, the economy lost billions of dollars that used to be invested in the shares and bonds of major Russian banks and industrial companies. The sell-off put many corporations on the brink of collapse and forced the government to provide emergency relief, draining the budget.

The young RDIF team under the leadership of Kirill Dmitriev, one of the leading Russian experts in direct investments, turned to international funds to see whether best global investing practices could be applied to the realities of the Russian economy.

At that time, the infrastructure of the direct investment market, which would include a whole industry of funds with the necessary expertise to select suitable projects, was practically non-existent. Dmitriev's team aspired to create such a market and attract foreign money.

In the end, the optimal framework for attracting foreign investments into the Russian economy was invented by the fund himself. Within that framework, RDIF can invest only in collaboration with a foreign investor and every rouble invested by RDIF should be matched by at least one rouble from a foreign investor.

Subsequently, an "automatic co-investing" model emerged, where partners automatically invest their funds in projects selected by RDIF, without the need for approval by either party.

International sovereign funds, state-owned entities, that were set up primarily in countries rich in natural resources to manage surplus profits, became RDIF's natural partners. According to PWC's forecasts, these sovereign funds will have \$15 trillion in assets under management by 2020.

RDIF's main objective became to raise investments under fully commercial terms. Above all, investments had to yield

attractive returns to the fund and its partners. This conviction provided RDIF with an advantage over many other development institutions, eventually building trust among foreign investors.

RDIF's approach called for a deep and detailed study of potential projects, a review of all risks, and an understanding of the businesses of companies that competed for investments from the Fund and its partners. Many considered the Fund's requirements for risks and profitability unreasonably high, but it has now become clear that its approach was justified.

Since its foundation, RDIF has attracted more than \$40 billion in foreign investments, with every ruble of its own investment capital matched by 9 rubles from foreign investors. RDIF and partners have invested in more than 50 projects across almost every region of the country.

Last year, in excess of 90% of direct investments in the Russian economy came through RDIF.

RDIF also created a successful framework for a self-generating investment cycle, where direct and indirect profits from projects, such as tax revenues, allow investors to return capital in full within a few years and reinvest it in promising and useful initiatives. Every invested ruble produces 3 rubles in tax revenues and increases in the value of portfolio companies over 5 years.

Within the first years of its existence, RDIF has already formed partnerships with sovereign funds from China, Kuwait, UAE and Bahrain. The first streams of foreign investments were directed to projects selected by the team, which included the Moscow Stock Exchange, the "Mother and Child" perinatal clinics and the cinema chain Karo.

The escalation of geopolitical tensions after the events in Ukraine and subsequent sanctions against Russia by Western countries hurt RDIF's operations heavily. Many Western funds refuse to invest in the Russian economy on the back of concerns over even tighter sanctions.

Under these circumstances, RDIF strengthened collaboration with partners from Asia and Middle East. The fund's greatest success since the sanctions has been a \$10 billion deal with The Public Investment Fund of Saudi Arabia, the largest sovereign fund in the world.

That investment agreement, as well as similar agreements with sovereign funds and development institutions from Turkey and Japan, confirm that even in a geopolitically challenging environment, and under sanctions, it is possible to continue



RUSSIA-CHINA BRIDGE WILL DECREASE CARGO TRANSPORTATION DISTANCE TO THE CHINESE BORDER BY 700 KM

attracting investments. They show that investors are prepared to finance quality, high-profitability projects even when external conditions are complicated.

The value of the investments that RDIF attracts is of a purely commercial nature without any administrative, political or emotional components, serving as an objective indicator of how well a project is prepared.

In addition to that RDIF projects have significant social impact, and contribute to economic growth and population's welfare since about 700 000 people work in RDIF's portfolio companies. The fund is also investing in greenfield projects, creating new industrial enterprises and infrastructure. The total amount of greenfield investment by RDIF and partners equals 520 bln roubles.

Investments by RDIF and partners after 7 years of work make up more 90 percent of combined investments by private equity funds in the Russian economy in 2017.

However, the fund, having proven its efficiency, is today facing new challenges.

Published immediately after the inauguration, the tasks announced in the President's Decree of Strategic Objectives require trillions of rubles of investments in areas of high priority, such as infrastructure development, healthcare, education and the digital economy.

These investments will only be productive and generate additional returns if they are supplemented with long-term investments from private foreign investors and sovereign

funds. That is the positive impact of foreign investments in the economy today.

In this way, RDIF, together with its partners, can play a key role in bringing about the "investment breakthrough" crucial for the Russian economy to achieve a sustainable growth trajectory and improvement of people's welfare.

RDIF Technology platform created in the end of last year and targeting fast-growing Russian technology companies is the new strategic investment trend for the fund. In the future investments in technology will make up to 25 percent of the fund's portfolio. RDIF and partners investments already make up 55 percent of all venture capital investments in the Russian market. RDIF plans to invest up to 50 bln roubles in technological projects over the next two years.

Today, we need new mechanisms of government funding for infrastructure projects, in which the state offsets some of the private investors' costs and ensure attractive returns.

Private investors' expertise will facilitate quality investments in strategically important sectors, building an optimal growth strategy in each case. That is the way how RDIF's "investment filter" already operates, ensuring selection of the most promising projects with high multiplier effect, providing attractive returns, creating jobs and infrastructure. All this contributes to higher economic growth.

In the short term, RDIF and its partners have the potential to become the centre of expertise in managing state-funded programmes and attracting private investors. ■