

# Growing in confidence

As the EU-Russia summit takes place this week in Helsinki, the chairman of Vnesheconombank outlines the importance of a development bank for modern Russia.

Vladimir A. Dmitriev



Chairman, Vnesheconombank

Russia is now determinedly focusing on solving the long-term issues that have been slowing down growth. Here, Vladimir A. Dmitriev, chairman of Russia's Vnesheconombank (VEB) discusses how VEB's impending transition to a development bank will be instrumental in this new chapter in Russia's history.

## **The idea of a development bank was announced by President Vladimir V. Putin in January 2006. How soon is it likely to materialize?**

The development of a framework for this institution is already in progress. Last year, for example, the government passed two new laws, to allow concessions and Special Economic Zones to be set up. To successfully fulfil these mandates, however, there needs to be a financial institution that can sponsor, manage the investment fund and provide a banking facility. The draft of the bill should be approved by the government and passed on to the State Duma by the end of the year.

## **Most development banks seek to meet Basel 2 standards which enable them to function outside the control of national supervision bodies. Will this be the case in Russia?**

Yes. The Central Bank of Russia has agreed not to supervise the development bank directly as it will not perform the usual range of banking services. At the moment, VEB is legally obliged to submit reports to the central bank to satisfy its criteria and the criteria of our partners, investors, foreign banks and the capital market participants. This is why we maintain such high standards, and why VEB is one of the leaders of Russia's banking sector, including the government banks. Return on assets is about 3.5%, return on equity is more than 30% and the cost-to-income ratio is about 50%, which is optimal for banking activity. The bank's capital adequacy is at 10% and it has posted growth in profit and capitalization.

## **At the moment, the Russian Federation does not guarantee VEB's debt. Will this situation change when the bank receives its new status?**

The question of Russia acting as a guarantor of VEB's debt has not yet been raised. However, most of the world's development banks have governmental guarantees and Russia is coming to realize that. The government realizes the need to have normal, objective

control of the development institution. VEB suggested having representatives from the government, the presidential administration and the central bank on the supervisory board, which will ensure that development bank activities fully refer to the government's priorities and foreign borrowing challenges.

Currently, of all the state banks or those with state participation, VEB has the best borrowing price index in obtaining syndicated credits. In July, it obtained a syndicated credit of U.S.\$850m, at a rate of Libor+0.35%.

## **VEB is cooperating closely with Germany's KfW, Development Bank of Kazakhstan and National Development Bank of China. Why this particular choice of partners?**

The decision to work with these three banks was determined by our long-term relationship with them, and by Russia's new economic goals relating to the integration process on former-USSR territory. In this respect, I would like to underline VEB's participation in the Inter-bank Cooperation of the Shanghai Cooperation Organization (SCO), which was established a year ago. VEB became Chairman of the Inter-bank Cooperation this October and our aim is to break through next year and fulfil several projects of common interest within the SCO framework. These include: the power industry, water supply and industrial projects. We will also sign a separate agreement with the Development Bank of Kazakhstan to restore former export and economic ties. Moreover, we signed a consultancy agreement with KfW in April to help promote trade and investment between Germany and Russia.

## **VEB has been proactive in the development of various infrastructure, health care, utilities and industrial projects within Russian regions. Will this work continue?**

Yes. Actually, we have already been functioning as a Russian development bank in the regions. Currently, we are working on two trilateral agreements with the Development Bank of China: one is to build several large-scale industrial units in Sakhalin, and another to improve refrigeration facilities in Chechnya.

### **Vnesheconombank**

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