

Euromoney special report:

Bashkortostan



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Moving forward

From core industries to SMEs, Bashkortostan's government is committed to providing the support that businesses need to thrive in a modern global environment

An introduction by Rustem Khamitov, President of the Republic of Bashkortostan

The past year has been a good one for Bashkortostan. In 2013, our economy outperformed the Russian Federation average across the board – and, most importantly for us in government, we have made a significant difference to the quality of life of our citizens.

Income levels and average salaries in the Republic are both rising, and poverty is on the decline. We have been able to increase our spending on transport and social infrastructure, while at the same time meeting our federal obligations to increase public sector wages.

We are also especially proud of the fact that our demography is improving – indeed, we count this increase in population as our greatest achievement of the past two decades. The fact that young people in particular are willing to expand their families is clear proof that confidence levels are recovering.

We have been able to deliver these results thanks to our strong economic fundamentals. Gross regional product increased by 3.5% last year and tax revenues grew by 6.7%, while inflation remains at a manageable level of around 6%.

Overall industrial production growth of 2.3% was below the level we were targeting but nevertheless above the average for the Russian Federation; for an economically developed region such as ours every decimal point is important.

Industrial outperformance

The headline number also masks significant outperformance in some of our key industrial sectors. In Bashkortostan we are currently focused on three major areas: oil production and refining, along with the associated sectors of petrochemicals and chemicals; machine-building, particularly of parts and engines

for the aviation industry; and agriculture. Our oil refinery last year put in a strong performance, posting annual growth of 4-5%, while some parts of the aviation equipment industry grew by as much as 50%. In the machine-building sector we are also seeing an encouraging expansion in the production of equipment for the oil industry, including the establishment of companies for the manufacture of drilling equipment. Meanwhile, agriculture showed excellent growth of 17% in 2013.

In all our key sectors, exports continue to be the primary driver of expansion. Our Republic accounts for a fifth of overall motor fuel production in the Russian

“The fact that international rating companies ... judge Bashkortostan's growth to be stable and sustainable will clearly help to instil confidence in potential business partners and investors”

Federation, the vast majority of which is consumed elsewhere in the country. Engines made here in Ufa are key components for aircraft manufacturers in other regions, while our oil production equipment is used by companies across the whole of Siberia.

International exports – mainly of products from our oil refinery and chemical sector – have also continued to grow, topping \$13.7 billion in total last year. Major importers of Bashkir products include Latvia, Hungary, Italy, the Netherlands,

China, Belarus and Poland, which between them accounted for around half of total exports in 2013.

Ratings upgrades

We are pleased to see that our economic strength has been recognized by international rating agencies Moody's and Standard & Poor's, both of which raised Bashkortostan to investment-grade status last year. The Republic is now rated Baa3/BBB- with a stable outlook on both ratings, making it one of the five most creditworthy regions in the Russian Federation.

These ratings are obviously important to us. We are in good shape economically but, if we do need to raise additional funding in future, an investment-grade rating will ensure us ready access to financial markets.

More significantly, the fact that international rating companies that have made a thorough study of our economy judge Bashkortostan's growth to be stable and sustainable will clearly help to instil confidence in potential business partners and investors in our Republic.

While we are pleased with our achievements so far, however, we know that there is still much work to be done. In terms of foreign trade turnover, for example, imports currently account for only 7.9% of the total. This makes for an imbalance in the economy which we need to correct by increasing import deliveries of goods such as machine equipment and machinery products. Similarly, although foreign direct investment in our Republic is increasing, overall levels remain low. Total inward investment in 2013 amounted to over \$300 million but we would like to see much higher numbers than this, which is why we are implementing a proactive policy of attracting external investors.



Rustem Khamitov, President of the Republic of Bashkortostan

What is more, the overall improvement in industrial production masks the fact that some of our key sectors are performing less well than others. Chemical production, for example, showed a slight decline in 2013 and we are well aware that this is something we need to address. We are working closely with business leaders in this sector and will do our utmost to encourage the modernization of facilities and production methods.

Business clusters

One of the key planks of our strategy for developing both the chemical and petrochemical industries is the establishment of business clusters. We have made a detailed study of the highly successful Jurong cluster in Singapore and are convinced that implementing a similar model in our Republic would bring a wide range of benefits for all participants. By creating such clusters, we hope to encourage fruitful cooperation between companies in these sectors. We are working hard to convince businesses of the benefits of being involved in these projects, both through the use of administrative resources and by guaranteeing significant tax breaks to those companies that participate in the initiative.

We are also offering similar incentives to companies in the machine-building and agricultural sectors. We are actively involved in setting up industrial parks for machine-building firms and on the agricultural side we are providing subsidies. I believe strongly that building this type of mutual dependency between business and the public sector is key to the creation of substantial and sustainable economic growth.

The scope of our business-supportive activities is not limited to our main industries, however – we understand that the economy of our Republic is diverse and multifaceted, and we are working to encourage businesses across a wide range of industries.

SMEs in focus

We are particularly aware of the importance of developing small and medium-sized enterprises (SMEs) in Bashkortostan. We believe that this is the most dynamic sector of the economy and a crucial component in our plans for future prosperity. It is a sector that can be vulnerable but also one that with the right support can show rapid and palpable results.

At present, SMEs account for 20% of gross regional product, 6% of the industrial production in the Republic, a level we would like to see substantially increased. We are therefore working on a wide range of initiatives to support the sector. These include providing affordable funding to smaller businesses, removing administrative barriers to the official registration of land and property, and organizing a training centre for SME employees.

We are also looking into the possibility of setting up a dedicated ministry to oversee the SME sector. This is not because we want to increase the size of the administration but because we realize that these businesses need constant care, support and protection if they are to achieve their potential.

Other development priorities for us include education, where we are undertaking extensive reforms to ensure Bashkortostan's graduates are fully equipped to participate in the global economy, and infrastructure. We have made substantial investments in the

“We are making every effort to ensure that we will in future be able to offer the transparency and reliability of income streams that are needed to attract private infrastructure investors”

construction of roads, housing, schools and hospitals.

There is, however, still significant work to do in terms of upgrading the Republic's infrastructure and we are aware that to achieve our goals we will need the support of the private sector. We are therefore making every effort to ensure that we will in future be able to offer the transparency and reliability of income streams that are needed to attract private infrastructure investors.

Raising awareness

Finally, we know that in order to achieve our targets for inward investment we need to raise Bashkortostan's profile internationally. For overseas investors, the locations in the Russian Federation with strong brand recognition continue to be Moscow, St Petersburg, the Volga region, Siberia and now Sochi, whereas our Republic is well known only in oil and petrochemical circles.

We believe that one of the best ways to build awareness of Bashkortostan is by hosting international events. In addition to organizing conferences such as Bolshaya Khimiya and Euromoney's Bashkortostan Investment Forum, we are doing our utmost to win the right to host major events such as the 2021 World Games. In this respect, our greatest achievement so far has been to be chosen as the venue for the BRICS and Shanghai Cooperation Organization summits, both of which will be held in Ufa in 2015. Coverage of these headline events will allow us to introduce Bashkortostan and Ufa to a global audience and we are very much looking forward to the opportunity. We have high hopes that it will prove an inspiration both for the citizens of our Republic and for our international visitors.

Upward trajectory

Prudent fiscal policies and strong fundamentals earned Bashkortostan investment-grade status from the world's leading rating agencies in 2013

Bashkortostan's economy remained one of the best-performing in the Russian Federation last year. Gross regional product (GRP) grew by an estimated 3.5%, more than double the national level of 1.5%, while industrial growth was also ahead of the average for Russia's regions at 2.3%. The Republic's key industries of oil refining and agriculture expanded by 4.5% and 17% respectively, while parts of the machine-building sector – notably in the aviation equipment sphere – showed growth of up to 50%.

This in turn helped boost tax revenues by 6.7%, allowing the regional government to increase capital expenditure by around 5%. That equated to 24% of total expenditure, a substantial increase on the level of 15.9% recorded in 2010.

These strong results continued a recent trend of outperformance by the Republic. Since 2010, Bashkortostan's economy has grown by nearly 25%, despite continuing uncertainty in global markets and weakness across Europe, and in 2012 GRP passed the R1 trillion (\$28.1 billion) mark for the first time.

This rapid expansion has contributed to a steady decrease in unemployment in the Republic, which fell from a high of 9% in 2010 to just 6% of the total workforce by the end of December 2013, according to Standard & Poor's. The rating agency expects this downward trend to continue, forecasting a level of 5.6% for the jobless rate by the end of 2015.

More impressively, the decrease in unemployment and growth in the economy has been achieved without any concomitant increase in inflation, which fell to a post-Soviet low of 6.2% in 2012 and has since remained at that level.

Population growth

Bashkortostan is also one of the few Russian regions to boast favourable demographics. While population levels across most of the country have declined

over the past five years, the Republic has seen the number of its citizens stabilize at around 4.07 million over the same period and even show a modest increase of 60,000 in 2013.

These strong fundamentals prompted leading international ratings agencies Moody's and Standard & Poor's to upgrade Bashkortostan to investment-grade status in 2013.

S&P was the first to act, boosting the Republic's rating by one notch to BBB- on 30 April. Moody's mirrored that move on 27 June, changing its Ba1 rating to Baa3. Both agencies have assigned a stable outlook to their current ratings.

“While population levels across most of the country have declined over the past five years, the Republic has seen the number of its citizens stabilize at around 4.07 million over the same period”

Bashkortostan's low debt and high liquidity were key drivers for both ratings upgrades. Moody's noted that at end-2012 the Republic's net direct and indirect debt was at historically low levels, comprising just 12.4% of operating revenue. The debt structure is well balanced, with low-interest federal loans comprising 33% of the total, bank loans 36% and ruble bonds 22%. Interest expenses are low, accounting for barely 1% of overall operating revenue.

Moody's added that Bashkortostan's liquidity position was the best of any Russian region, with cash reserves totalling

R20 billion or around 28% of operating revenue. That level is forecast to remain stable through to at least the end of 2015, according to a November research note from S&P, thanks to the Republic's “robust internal cash flow generation capacity”. Standard & Poor's also noted in November that Bashkortostan is expected to continue to outperform the Russian average in terms of GRP growth during 2014 and 2015.

Prudent spending

Both ratings agencies gave much of the credit for the Republic's elevation to investment-grade status to the regional government. Standard & Poor's commended policy-makers' “commitment to conservative spending” and noted that deficits after capital accounts are expected to remain at a manageable 7-8% for the next two to three years.

The agency added: “We expect Bashkortostan to continue its prudent control over expenditures and maintain relatively sound financial performance, despite growing pressure from the need to raise spending on public sector salaries and maintain and develop infrastructure.” Moody's also noted that the Republic's fiscal management continued to evolve towards greater predictability in key indicators, thanks to the implementation of three-year budgets, adequate budget planning and a moderate spending policy. In its June ratings report, the agency added: “Going forward, we expect that Bashkortostan will maintain stable operating margins alongside its enhancing tax revenue base, conservative budget management and still favourable oil prices.”

The upgrades confirmed Bashkortostan's position in the top tier of Russian regions. Moody's has investment grade ratings on only three other sub-sovereign entities in the country – Moscow, St Petersburg and Khanty-Mansiysk – while Standard & Poor's has assigned triple-B ratings to five regions.

Building on success

Bashkortostan's traditional strengths in petrochemicals, agriculture and machine engineering are providing the springboard for the creation of a new generation of high-tech industries

The key to Bashkortostan's consistent economic outperformance is to be found in its outstanding mineral resources and diverse industrial expertise.

Historically, the Republic's prosperity has been based on petrochemicals. Oil extraction began in Bashkortostan in 1932 and today the region is the third-largest oil producer in the Russian Federation, producing around 15 million tonnes a year.

Bashkortostan also boasts world-class refineries, which process oil from both within and outside the region. At present, the Republic's refining complex has a total capacity of around 30 million tonnes a year and production is running at close to 90% of that level.

Both industries are dominated by local oil giant Bashneft, part of the Sistema Group. The company has recently spread its wings beyond Bashkortostan, exploring production opportunities in the Arctic and Iraq, but still obtains the vast majority of its oil from the Republic. Indeed, preliminary results for 2013 showed a significant increase in oil production in Bashkortostan.

Bashneft's refining subsidiaries also saw a step up in production last year. In total, its Ufa refining complex – comprising Ufa Oil Refinery, Novoil and Ufaneftekhim – processed 21.4 million tonnes of oil, a 3% increase on 2012, while the share of light products rose to 60.4%. The firm is also investing heavily in new downstream operations in Bashkortostan – work is due to start this year on a \$3 billion plant for the production of ethylene by its recently created subsidiary United Petrochemical Company.

Bashkortostan's other main petrochemicals firm, Gazprom Neftekhim Salavat, is also rapidly boosting its presence in the region. The company, part of the Gazprom Group, is undertaking extensive development and expansion of its refining and chemical

production facilities at Salavat, to the south of Ufa.

Work began last July on a new catalytic cracking unit, part of the company's extensive refinery modernization programme, while December saw the start of construction on a new complex producing a range of acrylic acids that is due to start operations in 2015. The company is also building a unique new power station using clean steam gas technology to provide a large part of the power at its Salavat facility.

Mineral wealth

In addition to oil, Bashkortostan also produces natural gas, coal, lignite and peat – and the region's mineral wealth is not limited to fossil fuels. Sixty different types of minerals occur naturally in the Republic, providing the base for a wide range of industries including ferrous and non-ferrous metallurgy, the chemical industry and building materials. Bashkortostan accounts for 10-12% of copper production in the Russian Federation and is also a leading producer of zinc, gold and silver. Major non-metallic deposits include rock salt, as well as essential raw materials for the chemical industry such as fluorspar, phosphorus rocks, carbonates, zeolites and glauconite. Key companies in the non-metals sector include Soda, the largest producer of purified sodium bicarbonate in the Russian Federation, and caustic-soda producer Kaustik. Both firms are based in Sterlitamak, in the south-west of Bashkortostan. The Republic's natural resources provide the basis for several other major industries, including agriculture, timber processing and tourism. Bashkortostan has 7.1 million hectares of agricultural land and is one of the top five regions for agriculture in the Russian Federation, ranking first nationally for cattle livestock, second for horse livestock and milk production, and fifth in the production of poultry.



Evgeniy Mavrin, deputy prime minister - minister of economic development

Bashkortostan also possesses extensive timber resources. Forests cover more than one-third of the Republic's territory, amounting to 62,000 sq km, and the timber stock is estimated at 718 million cubic metres, with key varieties including birch, lime, oak, maple and conifers.

Engineering expertise

The fastest-growing industry in Bashkortostan, however, is outside the resources sector. Machine building and mechanical engineering has been a key sector for the Republic since the 1920s, when the first jet engines in the Soviet Union were produced by the Ufa Engine Industrial Association (UMPO), and is still today a major contributor to the region's economy. UMPO remains the largest aircraft engine producer in the Russian Federation, and has also expanded its range of products to include tractor and automobile parts, gas pumps and turbines. Other aviation leaders include the Kumertau Aviation Production Enterprise (KUMAPE), which makes helicopters and related equipment in the southern city of Kumertau. In addition to aviation, Bashkortostan is

a national leader in the production of passenger coaches and trolleybuses. The Bashkir Trolleybus Manufacturing Plant, based in Ufa, was established as early as 1979, while passenger coaches are produced in the north-west of the region by the Neftekamsk Automobile Plant (NefAz).

The Republic is also home to leading utility truck manufacturers such as the rapidly expanding Tuimazinsky Concrete Delivery Truck Works, as well as automobile parts manufacturer BelZAN, based near the western city of Oktyabrsky, and metal-cutting machine tools manufacturer Sterlitamak MTE. Meanwhile, the south-eastern centre of Beloretsk is home to one of Russia's top three hardware producers. The Beloretsk Metallurgical Plant – part of the Mechel group – is a leading manufacturer of cutting-edge products including high-strength wire, micro wire and hot-rolled carbon products, which it exports to more than 30 countries worldwide.

Hi-tech development

Bashkortostan's long-standing expertise in aviation has also prompted the development of related areas such as radioelectronics, with leading companies such as PS-UFA, as well as providing the expertise necessary to expand into new sectors such as light aircraft and automobile production. Similarly, policy-makers are looking to

build on the Republic's other traditional strengths to establish a leading position in a range of cutting-edge sectors. Bashkiri companies are already leveraging the region's dominance in agriculture to expand into the biotechnology sphere, while promoting the development of high value-added petrochemical products is a policy priority for the regional government. The formation of clusters and industrial parks around Bashkortostan's leading companies is a key component of this policy (see opposite) and crucial support will also be provided by the region's world-class educational facilities.

The Republic boasts 10 independent state universities, including the Ufa Scientific Centre of the Russian Academy of Sciences and the Academy of Sciences of the Republic of Bashkortostan, as well as specialist institutions such as the Ufa State Petroleum Technological University, Ufa State Aviation University and Bashkir State Agricultural University. Key areas of scientific research include cutting-edge spheres such as ecology, power engineering, IT technologies and nanotechnologies.

Investor incentives

Policy-makers are also targeting a substantial increase in inward investment into Bashkortostan, especially from foreign companies, and in the past three years have introduced a broad array of measures to boost the Republic's appeal for external investors.

On the financial side, these include generous reductions to – and in some cases exemption from – income and property taxes, as well as land grants, subsidized interest rates, co-financing of leasing payments and the provision of state guarantees to underwrite loans. Policy-makers also stress the government's willingness to provide services and infrastructure for investors looking to develop new sites.

"The changes to the legislation we have made since 2011 have significantly improved the ease of access and speed of access to government support for foreign investors," says Artem Kireev, head of investments and foreign

economic relations at the Ministry of Economic Development.

Another key plank of the offering to foreign investors is provided by the Corporation of Development. Established in December 2010, the corporation has a broad remit that includes securing new investment, implementing government-approved investment projects, and liaising between the government and local authorities in relation to priority projects.

Overseas appeal

This broad-based effort to improve the investment climate for foreign firms has already yielded significant results. In 2011, French engineering giant Alstom and Russian firm RusHydro established a joint venture for the manufacture of hydropower equipment at a new plant outside Ufa. The scope of the new venture has since been extended to cover services including the inspection of power plants, supply of components, retooling, repair and upgrade of equipment, and both parties have also indicated their intention to extend their cooperation to include innovation and R&D activities.

Austrian firms have also been notably active in the Republic. In 2011, Palfinger acquired a base in Bashkortostan via the takeover of local crane producer INMAN, while the following year saw wood-processing giant Kronospan commit up to R6 billion to the establishment of a plant for woodworking and the manufacture of construction materials in Ufa. Other major international names that have established ties with Bashkortostan include General Electric, Snecma and Honeywell.

Policy-makers also report recent expressions of interest in Bashkortostan from companies in countries as diverse as South Korea, Germany and China. Kireev adds that these developments all speak to the success of the government's measures to attract and support investment. "We have already seen 1,214 jobs created thanks to the new investment legislation and we have provided R470 million of support to priority projects," he says.



Artem Kireev, head of investments and foreign economic relations, Ministry of Economic Development

Industrial parks and clusters: strength in numbers

The formation of industrial parks and clusters to promote cooperation between Bashkortostan's leading companies and its growing SME sector constitutes a key plank of the regional government's plans for economic development

Policy-makers will be eagerly watching the progress of the Republic's first industrial park when it opens this summer. Located in the city of Blagoveshchensk, 25km north of Ufa, the Khimterra park will be part of a complex owned by polyester producer Polief.

The company, a subsidiary of petrochemicals giant Sibur, produces material for the manufacture of plastic bottles for food products. Its facility in Blagoveshchensk is one of Russia's largest polyester complexes and is undergoing a €40 million expansion that will triple its production capacity by the end of June 2014.

The Khimterra park will occupy a 27,000 sqm facility within Polief's existing factory and is due to open by the end of July. The site benefits from good transport connectivity, with easy access to the Kuibyshev rail line, a 48km link-up to the M7 federal highway, and Ufa International Airport 73km away. It also boasts a full complement of basic infrastructure provisions, from water and sewage systems to high-speed broadband access.

Chinese interest

The list of participants in Khimterra has yet to be finalized, but policy-makers indicate that the project has attracted considerable interest from Chinese companies looking to establish a presence in Bashkortostan.

The industrial parks programme comes under the aegis of the Corporation for Development, a government body created in December 2010 by President Rustem Khamitov with a mandate to

promote the economic development of the Republic and increase the flow of inward investment.

Officials at the corporation are also working on a second project, which is being developed around the newly created production facility of Kronospan Holdings East. The firm, a subsidiary of Austrian wood processing giant Kronospan, signed an agreement with President Khamitov in August 2012 to invest up to R6 billion (\$169 million) in a plant for woodworking and the manufacture of construction materials at a site just to the east of Ufa.

Production of oriented strand board (OSB) is due to start this summer and plans are under way for the inauguration of a 298.5 hectare industrial park on a neighbouring greenfield site within the following 12 months. In addition to being amply supplied with water, electricity and gas, the new industrial park will have direct access to the Trans-Siberian railway via the Shaksha rail station and to the M5 federal highway, and is located just 43km from Ufa International Airport.

Tax incentives

As with the other planned industrial parks, substantial tax benefits are being offered to participants in the Ufa facility. The 2.2% property tax will be waived for residents, while income tax will be fixed at a discounted rate of 15.5% for up to 10 years.

Bashkir policy-makers are also looking to provide financial and logistical support for the creation of industry clusters at locations across the region. The government has put together \$30 million

for the establishment of a renewable energy research and development technopark just outside Ufa, on the site of a joint venture between France's Alstom and local company RusHydro for the manufacture of hydropower equipment. Similarly, President Khamitov announced in November that the Bashkortostan government had reached an agreement with Sistema, owner of local oil giant Bashneft, on the establishment of a large cluster in Ufa for the manufacture of high value-added petrochemical products. Potential investment in the cluster is estimated at as much as \$3 billion-5 billion, President Khamitov said at the time. "We have seen very good feedback from the largest companies in our region to our plans to promote the development of the chemical and petrochemical industries," he added. "I hope that within the next couple of years we will see significant progress in the formation of this cluster."

A petrochemical complex is also planned to the south of Ufa around the neighbouring towns of Salavat and Sterlitamak. The cluster, which will focus on gas chemistry, will be based around the Monomer plant of Gazprom Neftkhim Salavat, a subsidiary of Gazprom Group.

When completed, the cluster is expected to be the largest in its field in the Russian Federation. Preparations are already well underway. The baseline design, documentation and master plan of the construction site were completed last year by Mitsubishi Heavy Industries Company.

Home from home

Foreign investors will have instant access to a full range of business services and an unparalleled network of contacts when Ufa's new B2B Centre opens this summer

For investors from overseas, doing business in Russia can be a daunting prospect. Not only is there often cumbersome bureaucracy to be negotiated, but even simpler issues such as coordinating transport and accommodation can be challenging. From this autumn, however, foreign visitors to Bashkortostan will no longer have to go through this process alone. Instead, they will be able to call on the services of a unique facility provided by the Republic's Chamber of Commerce and Industry (CCI) to help smooth their path into the region.

Yury Pustovgarov, president of the CCI, explains the concept of the chamber's new B2B Centre. "The main idea of our centre is that it should serve as a home from home for foreign visitors for the duration of their stay in Ufa," he says. "Once the B2B Centre is operational we will be able offer a full-service package to investors. We will be able to look after them from their first enquiry through to negotiating with local businesses and government departments."



Yury Pustovgarov, president of the Chamber of Commerce and Industry

Historic setting

The centre will be housed in a historic mansion in the heart of Ufa's business district. The building, which started life as the private residence of famous 17th century Ufin merchant Udayev, has been carefully restored and adapted at a cost of R36 million (\$1 million).

In its newest incarnation, the landmark three-storey building will provide a total of 900 sqm of high-end business infrastructure. The facilities available to foreign visitors will include five meeting spaces, comprising a 136 sqm multi-functional hall, a 90 sqm presentation hall, two meeting rooms of 48 sqm and 27 sqm, and a 22 sqm negotiation room.

In addition, the centre will offer six versatile offices, a recreational area with a bar and billiards room, and a comfortable lobby. High-speed wireless internet will be available throughout the building, while the meetings and conference rooms will feature a full range of business tools including laptop computers, projectors, screens, video and audio-conferencing equipment, and simultaneous interpretation systems.

All these facilities will be available around the clock to foreign business visitors throughout their stay in Bashkortostan. They will also be available for use by employees preparing the ground for visits to Ufa by business delegations from overseas.

One-stop shop

The services of the B2B Centre, however, will not be limited to its physical infrastructure. Experienced bilingual staff will be on hand to organize every aspect of foreign investors' visits, from travel and accommodation to arranging meetings with local companies. The centre will be able to provide priority passes at Ufa's international airport for all passengers, as well as arranging convoys from the airport, hotel transfers and escorts for visitors for the

duration of their stay in Bashkortostan. CCI officials note that, although local hotels have previously offered some of these services, as well as business and meeting infrastructure, the launch of the B2B Centre will mark the first time that all these functions have been coordinated under one roof by a specialized provider. What is more, the centre's efficiency will be enhanced by the fact that it will be run as a separate subsidiary of the Chamber of Commerce and Industry – a unique feature that will distinguish it from similar facilities in other regional Russian cities such as nearby Kazan.

This model, which allows the chamber itself to focus solely on its core functions, is also being used to inaugurate a range of other specialized services for business. In the past 12 months, the CCI has founded a dedicated business school and an engineering subsidiary, as well as a new body dedicated to promoting investors' interests, the Agency for Business Development.

MICE market

A fourth subsidiary has been tasked with coordinating exhibition activity in Ufa, something the chamber is particularly keen to promote as part of its strategy for the meetings, incentives, conferences and events (MICE) market.

To date, MICE business in Bashkortostan has been limited. Analysis by the CCI suggests that around 1,000 business events have been taking place annually in the Republic in recent years, but the majority have been sales-related. Pustovgarov is convinced that the region can do much more in this sector, given its strong industrial base and strategic location, but warns that work will be needed. "The MICE market today in Ufa is dormant but has great potential," he says. "Our research shows that companies would be interested in the city as a meetings



The CCI's next project: a 5,000 sqm purpose-built business centre due to open by 2017

location, but if we are to attract significant interest from international firms we will need to take a proactive approach."

The B2B Centre will be a significant step forward in this respect. According to the CCI, the centre will have capacity for more than 200 conferences and forums a year, as well as around 52 presentations and the same number of incentives events.

Second centre

That capacity will be expanded even further on completion of the chamber's next project, a 5,000 sqm purpose-built business centre due to open by 2017. The new building, which will be located around 10 minutes' drive from the CCI's current headquarters, will feature state-of-the-art facilities and is projected to cost \$10 million.

Funding for the project is expected to be provided jointly by the chamber, the private sector and Ufa's town council, which is cited as a prospective tenant for the centre. CCI officials say the new facility will be of a sufficient size to serve as a convention centre for Ufa, and even a world trade centre.

Nevertheless, the most valuable service that the chamber and its subsidiaries can provide to investors will likely remain access to its extensive network of contacts within Bashkortostan's business community. The chamber's board of directors comprises representatives from the top 20 companies in the Republic, covering all the major industries in the region, and its members include a broad spectrum of businesses large and small.

"We have an unparalleled knowledge of our domestic market, both in terms of the business environment and the leading participants, which makes us ideally

qualified to introduce foreign visitors to Bashkortostan," says Pustovgarov.

Government contacts

The chamber also has strong links to government. Pustovgarov is keen to stress, however, that although the CCI is supported by the regional administration, its function is to promote the interests of private firms. "We have the support of our government and a mandate from the president, but the chamber is an independent body," he says. "We receive some state funding but exclusively on a competitive basis as a private sector entity."

The B2B Centre is a case in point. Some of the funding for the project was provided by the CCI itself, in conjunction with the Chamber of Commerce and Industry of the Russian Federation, but a substantial sum was also contributed by the private sector.

It is this independence, adds Pustovgarov, which means that the chamber is ideally placed to help potential overseas investors negotiate the complexities of Bashkortostan's state sector. "Foreign investors need someone to help them navigate local bureaucracy and represent their interests, and I see that as our role," he says. "Our strategic goal is to break the government monopoly and offer an alternative conduit for foreign investors who want to discover what Bashkortostan has to offer."

Educational role

As he explains, a major part of that role will involve educating local businesses and government officials on the advantages to be had from engaging

with overseas firms. "A key challenge for us is to change a certain view of foreign investors held by many in our Republic," he says. "We want to encourage both private and public sector participants to see such investors as valuable partners who may share their experience and knowledge."

The chamber's function as an intermediary between the private and public sectors will be particularly in focus in 2015, when Ufa is due to receive its biggest influx of foreign visitors to date for the BRICS and Shanghai Cooperation Organization summits. "Our B2B Centre will have a key role to play during the summits next year as a centre for the SCO Business Council," says Pustovgarov.

He adds that preparing for the two summits will be top of the list of priorities for both the Chamber and the B2B Centre over the next 12 months. "We need to ensure that we are ready for these events," he says. "This is both a challenge and an excellent opportunity to develop our services and business tools."

First impressions

The work will be of crucial importance, Pustovgarov notes, because of the potential offered by the summits for shaping foreign investors' perception of Ufa and Bashkortostan. As he points out, many attendees will be visiting the Republic for the first time – and, for better or for worse, their initial impressions are likely to have a lasting impact.

"When it comes to promoting Bashkortostan to foreign visitors, first impressions are critical," adds Pustovgarov. "Indeed, I would go so far as to say that if you get those right, you have won 99% of the battle."

Catalyst for change

Ufa's transport, conference and hotel infrastructure is undergoing a dramatic upgrade as the city prepares to host the world in 2015

With the BRICS and Shanghai Cooperation Organization summits fast approaching, Ufa is getting ready to host heads of state and hundreds of delegates from across the globe. A key part of that preparation involves upgrading and expanding the city's transport, hotel and business infrastructure. Explains deputy prime minister Salavat Sagitov, whose remit includes the organization of the summits: "Ufa was chosen to host the summits because of its extensive existing facilities. There were however several areas that had been in need of updating for some time, and the summits have provided the ideal catalyst for modernization."

Work is well under way on a wide variety of projects – indeed, some have already been completed. Construction of the VDNKh-Expo exhibition complex, for example, which was originally started in 2007 and subsequently revived in early 2013, was finished ahead of schedule in January this year.

The facility occupies a strategic location just to the north of the city centre and stands on the site of the Soviet-era VDNKh centre. At 52,000 sqm, however, the new complex is significantly larger than its predecessor and for the first time provides Ufa with an exhibition centre of

a truly international standard. "Until this year, larger exhibitions in Ufa were housed in sports facilities that were not designed for such events," says Sagitov. "The new VDNKh-Expo complex, with its modern interiors and state-of-the-art technology, will attract new business and investment to the Republic." Major reconstruction work is also being undertaken on Ufa's Congress Hall. Due to be completed in November, the newly renovated hall will have capacity for 3,000 delegates and feature cutting-edge design and technical equipment, as well as a dedicated facility for visiting heads of state.

In addition, key cultural institutions in the city are undergoing substantial modernization, including the Bashkir State Opera and Ballet Theatre, the Bashkir State Museum and the Neftyanik Palace of Culture.

Airport expansion

Upgrading Ufa's transport logistics is also high on policy-makers' list of priorities. As well as a general overhaul of the road network, work began in 2013 on a major programme of expansion and modernization at Ufa's international airport. The hub, which is served by more than 40 Russian and international airlines, has seen passenger numbers increase rapidly in recent years. Last year, passenger traffic reached a historic high with more than 2.2 million movements recorded, a 15% increase on 2012. Meanwhile, the volume of freight traffic passing through the airport rose by 6% to 3 million tons. To meet this upsurge in demand, a new terminal is being constructed that will increase the airport's capacity to 800 passengers an hour from the current level of 200. A second runway capable of accommodating large cargo and passenger planes is also in the works, as well as new taxiways and aircraft parking stands. Plans are also under way to streamline the

passenger experience at Ufa International Airport through the installation of new software systems. In late January, the airport's management signed a framework agreement with leading Russian systems integrator Asteros Labs, which has undertaken to implement a new check-in system by the end of May. The new system will dramatically reduce waiting times, as well as improving access for priority and disabled passengers. In total, more than R3 billion (\$84.5 million) has been allocated for the airport modernization programme, with the majority of funding coming from the federal government, and construction is due to be completed by the end of 2014.

Hotel openings

The federal government has also contributed to the rest of Ufa's infrastructure upgrade, along with the Republic of Bashkortostan and the city administration. Private investors are also playing a part in the infrastructure development programme, however, in the form of a plethora of new hotels. Sixteen new properties opened in Ufa last year, primarily in the budget sector, taking the total number of hotels in the city to 79 and the number of rooms to 2,548. The latter figure is set to double again by the time the summits get under way, thanks in part to the scheduled opening of three hotels by global hospitality firms that will be the first internationally branded properties in Bashkortostan. Construction has already begun at a site on Ufa's central city square next to the Gostiny Dvor retail and office complex of a 203-room Holiday Inn, which will feature five meeting rooms as well a high-class restaurant and bar. Work has also started on what is expected to be the first of two properties from the Hilton Hotels and Resorts Group. Operating under the Hampton by Hilton brand, the new seven-storey hotel on the southern slope of the Belaya River will



Salavat Sagitov, deputy prime minister

have 160 rooms, a fitness centre and 75 sqm of meeting and events space. Radisson Hotels is also due to add Ufa to its extensive list of Russian venues, following the announcement of plans for the opening of a hotel under its three-star Park Inn brand. All three international hotels are due to open their doors by 2015.

Business-friendly environment

Sagitov notes that the willingness of three major global hotel brands to enter

the Ufa market is a tribute to the city's business-friendly environment. "These examples of productive cooperation between the government of the Republic and the private sector demonstrate that the capital of Bashkortostan is open for investment projects," he says. "Our developed economy and infrastructure, coupled with stability in social and ethnic relations, makes the Republic a reliable partner for business." Sagitov also stresses that, while the BRICS

and SCO summits have provided a welcome impetus and additional funding for Ufa's infrastructure development, the current upgrades should be seen as part of a long-term and ongoing process. "We are obviously determined to ensure that we are ready to play host to guests from around the world next year," he says, "but it is not all about 2015. We are constantly working to improve facilities in the capital for the benefit of both residents and visitors."

World Games: a sporting challenge

As well as a centre for world-class summits and business forums, Ufa is also rapidly making a name for itself as a venue for international sporting events. In the past two years, the city has played host to contests including the Summer Biathlon World Championship, the World Junior Ice Hockey Championship and the 6th International Children's Winter Games. Its greatest sporting challenge, however, could lie ahead, following the announcement in January that the Russian Federation had chosen Ufa as its candidate city for the 2021 World Games. The news was warmly welcomed by policy-makers in Bashkortostan. "We are very excited by the prospect of hosting the World Games in Ufa," says Andrey Ivanyuta, the Republic's minister of sports and youth policy. "We are working hard to develop our sporting capabilities and infrastructure, and this will provide a valuable incentive." Founded in 1981, the World Games take place over 11 days and feature more

than 30 sports and disciplines that are not contested in the Olympic Games. These include strength sports, precision sports, ball sports, martial arts, artistic and dance sports. The World Games are held every four years, in the year following the summer Olympics, and are organized by the International World Games Association (IWGA), under the patronage of the International Olympic Committee (IOC). The winner of the competition to hold the 2021 contest will be announced next year. Ivanyuta notes that Ufa is well placed to host the games, partly thanks to its rapidly developing infrastructure and partly to Bashkortostan's distinguished sporting heritage. Unsurprisingly, given its climate and extensive mountain access, the Republic's more notable strengths are in winter sports, including ice hockey, biathlon, ski jumping, luge and short track skating. Bashkortostan contributed 14 athletes to the Russian team for the Winter Olympics in Sochi – the sixth highest number of any Russian region – in disciplines ranging from snowboarding



Andrey Ivanyuta, minister of sports and youth policy

and bobsleigh to ice hockey. The Republic is also strong in summer sports, however, with popular disciplines including athletics, boxing, basketball, volleyball and football. In addition, the region is rapidly developing as a national centre for Paralympic sports. At the Paralympic Games 2012 in London, athletes from Bashkortostan took 12 gold and five silver medals – one-third of the total medals won by the Russian Federation at the games. The Republic also fielded five Paralympic competitors at the Sochi Winter Olympics. This achievement has been recognized by the federal government, which has chosen Ufa as the venue for a national Sports Training Centre. Due to open in 2015, the complex of over 37,000 sqm will represent an investment of R2.5 billion and will be the largest specialized centre in the country. It will feature two swimming pools, as well as extensive sports grounds, a rehabilitation centre and dedicated medical facilities.



Natural advantages

Bashkortostan's pristine parks and snow-capped mountains make it a magnet for visitors from Russia and beyond – and offer a wealth of opportunities for investors

Summit delegates will not be the only visitors to Bashkortostan next year. The Republic's diverse natural resources and well-developed infrastructure have long drawn tourists from Russia and beyond, and the sector's rapid recent growth is now attracting the attention of both local and international investors.

Traditionally, Bashkortostan's main appeal for visitors lay in its highly-regarded sanatoria. These continue to see substantial demand today. More than 250,000 tourists visited the Republic's 24 facilities in 2013, accounting for close to R4 billion of revenue (\$113 million) and putting Bashkortostan at number four among Russian regions for healthcare tourism. In recent years, however, the Republic has also been rapidly developing as a major national centre for skiing and mountain sports. Of the 32 ski resorts in the Urals, 19 are in Bashkortostan – including notably Abzakovo, Bannoe and Mratniko – and the Republic attracts more than half of the region's 1 million ski tourists a year.

Rich landscape

Bashkortostan's varied landscape of mountains, lakes and rivers is also a key draw for tourists, as is its rich cultural heritage. An estimated 200,000 people a year visit the famous Qandryköl Lake, while the Shulgan-Tash Zapovednik in the Urals has also earned an international reputation for its dramatic river gorges, rich wildlife and the Paleolithic cave paintings at Kapova.

The Shulgan-Tash, indeed, has been designated as part of the newly created Bashkir Ural Biosphere Reserve. The reserve, which was accorded International Protected Status by Unesco in 2012, covers a total area of more than 345,000 hectares and also includes the Bashkiria national park, the Muradymovskoe Ravine nature park and

two wildlife sanctuaries.

Key to Bashkortostan's touristic appeal is its excellent transport connectivity. The Republic is crossed by the M5 and M7 federal highways, as well as the Trans-Siberian Railway, making it easily accessible from neighbouring regions and countries. Intraregional travel also received a boost in 2013 from the introduction of 50% government subsidies for flights within the Volga Federal Region. Meanwhile, more than 40 Russian and international carriers serve Ufa's international airport, including Turkish Airlines, Czech Airlines, Fly Dubai and Air Berlin. The list of destinations accessible from Ufa is also increasing rapidly, with flights to cities including Yerevan, Kiev, Nizhny Novgorod, Samara and Perm being added in 2013.

This improving connectivity has been a key factor in the rapid rise in Bashkortostan's tourist numbers in recent years. In 2013, around 450,000 visitors stayed in the Republic's hotels, an increase of 36% on the previous year, while income generated by tourism services grew by 10.1% over the same period.

Room for growth

Nonetheless, tourism currently accounts for barely 1% of Bashkortostan's gross regional product and policy-makers see room for substantial further growth in the sector. Artem Kolesnikov, head of the Agency for Tourism of the Republic of Bashkortostan, cites ecotourism and adventure tourism – including activities such as horse riding, trekking, snowmobiling and rafting – as promising areas for development, along with more traditional sectors such as healthcare and winter sports.

He notes, however, that harnessing Bashkortostan's tourism potential will require significant further investments in

infrastructure, particularly in the hotel and healthcare spheres. Growth in the latter, for example, is restricted by the fact that the Republic's sanatoria are running at close to 100% occupancy.

The challenge, adds Kolesnikov, is to develop facilities that will meet the higher standards now expected by Russia's expanding middle class and by foreign visitors. "There is huge demand in Russia today for high-quality healthcare and sporting facilities," he says. "If we can construct such facilities, we will have no problem in filling them to capacity."

Investment incentives

To speed up this process, the Bashkortostan government is offering substantial incentives to private investors in the tourist sector. The Hampton by Hilton hotel under construction in Ufa, for example, has received "priority project" status from the Republic's government, resulting in tax breaks worth nearly 10% of the R2.4 billion cost of the project for construction company Kesko-Ufa.

Kolesnikov adds that the government is also ready to offer potential investors extensive non-financial assistance.

"Whether investors need help in choosing an investment project, finding a suitable location for construction or negotiating the procedures for infrastructure development, we can provide it," he says.

Policy-makers are also keen to promote public-private partnerships (PPPs) within the tourism and infrastructure sectors. "We are currently in negotiations with national development bank Vnesheconombank concerning the feasibility of a number of projects in Bashkortostan," says Kolesnikov. "We are fully convinced that future large-scale infrastructure investment in the Republic will only be possible within the PPP framework."

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