

Направление «Политический анализ и публичная политика»

Профиль «Политический анализ и публичная политика/Political analysis and public policy» КОД - 100

You have 180 min to complete this task.

Read the article and analyze it critically in English. As guidelines use the questions below, at the end of the article.

The Waste and Corruption of Vladimir Putin's 2014 Winter Olympics.

The new road and railway to Krasnaya Polyana, the mountain resort that will host the ski and snowboard events of the Sochi 2014 Winter Olympics, start in Adler, a beachfront town that has become a boisterous tangle of highway interchanges and construction sites. A newly opened, glass-fronted train station—the largest in Russia—sits like a sparkling prism between the green and brown peaks of the Caucasus Mountains and the lapping waves of the Black Sea.

The state agency that oversaw the infrastructure project is Russian Railways, or RZhD. The agency's head is Vladimir Yakunin, a close associate of Vladimir Putin. It oversees 52,000 miles of rail track, the third-largest network in the world, and employs nearly a million people. The 31-mile Adler-to-Krasnaya Polyana project is among its most ambitious, reminiscent in its man-against-nature quality of the Baikal-Amur Mainline railway built by the Soviet Union in the 1970s and '80s across the remote taiga forests of the Russian Far East. Now, as then, grandeur and showmanship are as important as the finished project. Putin sees the Sochi Games as a capstone to the economic and geopolitical revival of Russia, which he has effectively ruled for 14 years. The route connects the arenas and Olympic Village along the Black Sea with the mountains above. Andrey Dudnik, the deputy head of Sochi construction for RZhD, is proud of his company's accomplishment, given the region's difficult terrain and the rushed time frame for finishing construction. "Few people believed," he says. "But we did it."

On a cloudless, 70-degree day this fall, I boarded a train—newly built by Siemens and smelling of fresh upholstery—in Adler. The train dashed along the riverbank on a curving track supported by cement columns dotting the shore. We passed into a long tunnel, lit with soft yellow light. The engineering work was so challenging, Dudnik boasts, that in 2011 RZhD was named Major Tunnelling Project of the Year at an international awards ceremony in Hong Kong.

Among Russians, the project is famous for a different reason: its price tag. At \$8.7 billion, it eclipses the total cost for preparations for the last Winter Olympics in Vancouver in 2010. A report by opposition politicians Boris Nemtsov and Leonid Martynyuk calculated that the Russian state spent three times more on the road than NASA did for the delivery and operation of a new generation of Mars rovers. An article in Russian *Esquire* estimated that for the sum the government spent on the road, it could have been paved entirely with a centimeter-thick coating of beluga caviar.

The train glided to a stop at the Krasnaya Polyana station. The floors were buffed to the shimmery gloss of a desert mirage. The air up here was cooler; snow mottled the mountaintops ahead. Down the hillside stood a giant banner: "Sochi is preparing for Olympic records!"

Олимпиада для студентов и выпускников вузов – 2014 г.

At \$51 billion, the Sochi Games are the costliest ever, surpassing the \$40 billion spent by China on the 2008 Summer Olympics. The suicide bombings in the Russian city of Volgograd on Dec. 29 and 30 have heightened fears of terrorism and given a renewed focus to security concerns as well as questions of cost. How the Sochi Games grew so expensive is a tale of Putin-era Russia in microcosm: a story of ambition, hubris, and greed leading to fabulous extravagance on the shores of the Black Sea. And extravagances, in Russia especially, come at a price.

Back in 2007, when Russia was bidding to host the 2014 Winter Olympics, the huge amounts it was willing to spend were a point of pride, an enticement meant to win over officials at the International Olympic Committee. Putin traveled to Guatemala City to give a rare speech in English, with even a touch of French, to the assembled IOC delegates, promising to turn Sochi into “a world-class resort” for a “new Russia” and the rest of the world. His pledge to spend \$12 billion in Sochi dwarfed the bids of the other finalists from South Korea and Austria.

But since then, as costs have increased, Russian officials have grown less eager to boast about the size of the final bill. “In the beginning, money was a reason and argument for Russia to win the right to host the Olympics,” says Igor Nikolaev, director of strategic analysis at FBK, an audit and consulting firm in Moscow. “But it turned out we spent so much that everybody is trying not to talk about it anymore.” Dmitry Kozak, deputy prime minister in charge of Olympic preparations, has argued that the \$51 billion number is misleading. Only \$6 billion of that is directly Olympics-related, he says; the rest has gone to infrastructure and regional development the state would have carried out anyway. That may be true, though it’s hard to imagine the Russian government building an \$8.7 billion road and railway up to the mountains without the Games.

Bent Flyvbjerg, an expert on what are called “megaprojects” at the Saïd Business School at Oxford University, says the costs for Olympic host nations have on average tripled from the initial bid to the opening ceremonies. In Sochi, costs rose nearly five times. That these Olympics should be the most expensive in history is all the more improbable, says Allison Stewart, a colleague of Flyvbjerg’s at Oxford, because compared with Summer Games, Winter Olympiads involve fewer athletes (2,500 vs. 11,000), fewer events (86 vs. 300), and fewer venues (15 vs. 40).

Putin never saw the Sochi Olympics as a mere sporting event, or even a one-of-a-kind public-relations opportunity. Rather, he viewed the Games as a way to rejuvenate the entire Caucasus region. Once Russian officials settled on Sochi as a host city, however, they guaranteed themselves a costly engineering challenge, since organizers didn’t have much choice as to where to put Olympic venues. Sochi, once a place of recuperation for Soviet workers under Stalin, sits on a narrow slope of land between the mountains and the sea, with no wide, flat space for large stadiums and arenas. The only feasible site was the Imereti Valley, a patch of flood-prone lowlands 20 miles from the center of Sochi. Jane Buchanan, a researcher for Human Rights Watch who has authored several reports on Sochi in recent years, says, “At the beginning there was very little infrastructure there, certainly nothing close to the scale needed to host a Winter Olympics. Just a little mountain road that dead-ended in a national park.” Russia would have to build everything from scratch.

Construction teams encountered problems from the start. According to Yulia Naberezhnaya, the deputy scientific secretary of the Sochi branch of the Russian Geographic Society, there was “no integration of the scientific approach” in building Olympic venues and infrastructure. Instead, she said, officials thought, “we have a lot of money, we’ll build it somehow.” According to Naberezhnaya, state planners did not properly take into account the underground streams that run beneath the Imereti Valley. Recurring flooding, she says, has meant the embankment near the

Olympic Park collapsed and had to be rebuilt several times over. In December 2009, a powerful storm hit Sochi's new cargo port, which had been built to accommodate shipments of construction materials for the Olympic venues. Scientists had warned the port was vulnerable to underwater currents and surging waves. Millions of dollars in equipment were destroyed or damaged, while deliveries of building materials for Olympic venues were delayed or rerouted at considerable expense.

Not that anyone was necessarily counting each ruble, or at least not that carefully. Government officials, big construction firms, local subcontractors—everyone knew the Sochi Games were a matter of state prestige and of great personal importance to Putin and his legacy. “For the state, the Olympics are something holy,” FBK's Nikolaev says, which means those responsible for staging the Games “were not shy about asking for more money.” Among the few criminal cases opened by police into possible corruption involving the Olympic sites, investigators in Sochi in June 2012 filed charges against contractors at two venues—the main Fisht Olympic Stadium, which will only be used for the opening and closing ceremonies, and the bobsled course. The suits alleged the contractors inflated costs by filing false or unjustified project estimates. The alleged losses to the state budget totaled nearly \$170 million at the stadium and \$75 million at the bobsledding venue. Around Sochi, developers and contractors pushed to have any project, no matter how tenuous, deemed “Olympic”—such a designation would not only ensure reliable funding but also allow them to skirt existing zoning and building regulations. One owner of a local construction firm joked to me that every new toilet in town was Olympic.

Putin's vow to spare no expense provided cover for sloppiness and mistakes in construction. When a road leading up to Krasnaya Polyana wasn't finished on time, for example, a helicopter had to deliver the cement needed to build ski lifts. At the same time, the government's willingness to overspend encouraged organizers to indulge their grandest, most over-the-top visions. At one point the team responsible for the opening ceremonies decided it wanted a closed stadium at Fisht and not the retractable roof that had been originally planned. That left the construction team only three months to procure a quantity of steel that would have ordinarily taken a year to get on-site. Damon Lavelle, an architect at the British firm Populous who worked on early plans for the venue, says it's no longer so much a stadium as “the world's largest theater.” The show for the opening ceremonies is said to include six locomotives, the troika from Nikolai Gogol's *Dead Souls*, and Peter the Great commanding five ships.

Construction work was sometimes the end in itself. Alexander Popkov, a lawyer in Sochi, told me about never-ending roadwork in his neighborhood. “They're digging up the road here, they're digging up the road there,” he said. “The road gets sealed today, then dug up tomorrow. They put down asphalt and then in a week rip it up all over again.” He let out a laugh, then pulled his face tight. “It would be funny, if it wasn't happening with our money.”

Two kinds of private business interests are involved in Sochi: companies hired by state-owned corporations to carry out specific work and those who came on as investors, taking responsibility for various projects and putting up at least some of their own money. Among the first group, according to the Nemtsov and Martynyuk report and opposition magazine *New Times*, no one has gotten more money from Sochi than brothers Arkady and Boris Rotenberg, childhood friends of Putin's from St. Petersburg who have become wealthy industrialists over the past decade. They received 21 contracts, according to the magazine, worth around \$7 billion—more than the total cost of the Vancouver Olympics and around 14 percent of all spending for the Sochi Games.

In one such deal, state-owned energy giant Gazprom commissioned one of the Rotenbergs' companies, Stroygazmontazh, to build a 177-kilometer (110-mile) pipeline from Dzhugba to Sochi, part of which passes under the Black Sea. The total contract amounted to more than €4 million (\$5.5 million) per kilometer. By comparison, the construction of the Nord Stream

pipeline running under the Baltic Sea cost an average of €3.6 million per kilometer—a price that by some estimates was already three times higher than the European average.

The main contracts awarded for construction of the \$8.7 billion road to Krasnaya Polyana went to two companies: Transuzhstroy and SK Most, which before Sochi was perhaps best-known for winning a no-bid contract to build a \$1 billion bridge in Vladivostok in advance of the Asia-Pacific Economic Cooperation Summit 2012. The Sochi contracts were awarded without a public tender; a Russian law that requires state companies to hold open tenders only came into force in 2012. Both companies appear to have ties with the top leadership of RZhD, including the railway agency's Yakunin. Infrastructure company SK Most has a controlling stake in Millennium Bank, whose chairman is Oleg Toni, a vice president at RZhD in charge of Olympic projects. Natalia Yakunina, Yakunin's wife, previously sat on the bank's board. Toni is also one of the co-founders of Transuzhstroy, though he says that he has no financial stake in the company.

In a written statement, RZhD said it selected the general contractors for the Krasnaya Polyana road on “a competitive basis.” The chosen companies, the statement said, have been partners of RZhD for many years and “possess a strong industrial base and highly qualified personnel.” It says no RZhD employees or their family members have any financial relationship with SK Most or Transuzhstroy.

The private investors helping fund Olympic construction are most likely motivated less by the pursuit of large profits than a tacit understanding that under Putin they have certain obligations to the Kremlin and the nation at large. “They got a call with a voice saying, ‘There exists the opinion that you should build this or that [project],’” says Sergei Aleksashenko, a former deputy chair of Russia's Central Bank now a fellow at Georgetown University. Interros, a company owned by metals and mining tycoon Vladimir Potanin, is building Rosa Khutor, which will host alpine events during the Games; Potanin has said he decided to invest while skiing with Putin. Representatives from Basic Element, the holding company of billionaire Oleg Deripaska that has interests in everything from aluminum to hydropower, say they couldn't remember how Deripaska decided to invest in Sochi. Andrey Elinson, who's in charge of all of Basic Element's Sochi projects—which include the renovation of the airport and building of the Olympic Village—insists its Olympic ventures are not of “a charitable nature,” and that the company never expected “supernatural” profits from its investments in Sochi.

However the magnates and their companies came to the Olympic project, around 70 percent of their investment is financed by credit from Vnesheconombank, or VEB, a state development bank. “VEB is used by the government as a second budget,” says Aleksashenko, in that the state gives funds to the bank, which then lends as it chooses. By law, the supervisory board of the bank is headed by Russia's prime minister—who, at the time many of the Sochi-related loans were being parceled out, was Putin. VEB will provide 85 percent of the financing for the skiing facility built by Interros; at the Olympic Village, a project of Deripaska's Basic Element, it's providing 88 percent. “The position of the state is that VEB money is not really budget money, but of course it is,” says Aleksashenko.

Even so, the Games have created friction between the Kremlin and some of its billionaire allies. Investors gripe that the state has continually shifted its demands and added new requirements. Potanin has complained that he was forced to spend an additional \$500 million for work at Rosa Khutor that should have been the state's responsibility. At the same time, the resort has lost potential revenue while the facility was closed to tourists during Olympic test events.

For its part, Basic Element has long planned to turn the Olympic Village after the Games into luxury condominiums with beachfront views as well as a yachting marina. But ever-changing demands from everyone from the Russian government to the IOC have pushed the project back and raised costs, adding what Elinson calls “additional burdens that aren’t very commercially attractive.” Although Basic Element had wanted to start selling condo units before the Olympics, VEB prevented the company from putting them on the market. “We are bearing the costs of creating these new properties, but it has not been possible to sell them,” Elinson says. (Basic Element expects apartment sales to begin early this year.) The marina, one of the centerpieces of the whole development, has been delayed by disputes over its financing and the ongoing need for the cargo port to supply materials for unfinished Olympics construction.

Both Potanin’s Interros and Deripaska’s Basic Element have asked the Russian government to provide tax relief over the next several years and to restructure their loans with VEB on more advantageous terms until their Sochi projects reach profitability—if they ever do. “We’re making a new market,” Elinson says. The opening prices at the condominium development will probably surpass those for similar real estate available in Europe. In the end, the companies are likely to get some kind of government relief, lest any high-profile projects in Sochi suffer public failures. Elinson insists Basic Element is committed to its projects in Sochi, and not just through February. “What are the Olympics?” he says. “Three days of opening, three days of closing, and 200,000 people coming and going.”

It can be hard to determine at which point inefficient and repeated work becomes outright theft, but there seems to have been plenty of that in Sochi. One owner of a local construction company told me how contractors artificially inflated costs to make up for the kickbacks they sometimes had to pay state managers awarding the contracts. As he puts it, both sides—the contractors and the officials—understood the nature of the deal: The former needed to make a profit for their business, the latter wanted to take what they could from budget funds.

Another person in the construction business says he was offered a contract, potentially worth millions of dollars, to lay a water line at an Olympic site. The officials at the state body awarding the contract weren’t interested in whether he had the necessary resources for such a large job or would do quality work—the only question was whether he was willing to pay 20 percent back to them. A third construction boss says he was invited to carry out work on transport infrastructure. As the officials offering the job spelled it out, the contract would be worth 250 million rubles (\$7.7 million) on paper, but he would only actually receive 170 million rubles—the officials, presumably, would pocket the difference.

Of all the examples of Olympian excess, waste, and mismanagement, the most conspicuous is the ski jumping facility in Krasnaya Polyana. On Feb. 6, 2013, with exactly one year left until the opening of the Games, Putin visited Sochi for a personal inspection of Olympic venues. Dressed in a black overcoat, he arrived at the ski jump complex for a tour. The facility’s completion had been delayed by more than two years, and cost estimates had risen from \$40 million to \$265 million. Putin, clearly playing up his sense of surprise and outrage for the television cameras, was not pleased. He made a show of questioning Kozak, the deputy prime minister in charge of Olympic preparations, on cost overruns. Putin’s entourage shifted nervously. With icy sarcasm, he declared, “Well done! You are doing a good job,” and then walked off.

The next day, Akhmed Bilalov, who had overseen construction of the ski jump and was a vice president of the Russian Olympic Committee, was fired from all his posts. The police subsequently opened a criminal case against him for allegedly abusing his position as head of a state-owned company. (Among other acts of fraud, he was accused of using state money to pay

nearly \$100,000 for luxury travel to London during the 2012 Summer Olympics.) He fled abroad along with his brother, briefly popping up at a clinic in Baden-Baden, Germany, where he claimed to be receiving treatment for mercury poisoning, and then settled in London.

Bilalov's odyssey now looks like a cautionary tale of a greedy businessman in over his head who also served as a convenient scapegoat. (Bilalov has denied the charges against him.) The location that Olympic organizers had selected for the ski jump was a difficult one, with particularly challenging soil full of mudstone. Underground caverns made the earth potentially unstable, especially when saturated with water. "I saw better places in the world, easier places," said Matthias Kohlbecker of Kohlbecker Architects and Engineers, who worked on early engineering plans for the venue. Nonetheless, Kohlbecker says he thought the ski jump project was entirely realistic. (His firm was involved only in the design stage and not in construction.)

Several people familiar with the project told me the team working under Bilalov didn't carry out the necessary geologic tests before construction began. They instead tore down trees here and there to make a wide clearing and drilled into the fragile soil before stabilizing it. Without deep tree roots to hold the earth in place, the site was vulnerable to landslides. One day in the spring of 2012, millions of tons of dirt rushed down the hillside where the ski jump was being built. Vladimir Kimaev, a prominent activist from Environmental Watch on North Caucasus, a local NGO, visited the site a few days later. "Part of the slope had been subsumed by the landslide, and the forest had been knocked over," he says. "A tractor was buried, its shovel sticking out of the earth." As a result, the project went even further over budget. Meanwhile, a dispute arose over who bore the responsibility for building a nearby access road—Bilalov or the state. In the end, Bilalov was saddled with the \$300 million bill.

The ski jump fiasco wasn't the first indication that the combination of big money and lax oversight was leading to inefficient spending, if not abuse. The short history of Olimpstroy, the state corporation founded in 2007 to coordinate the construction process in Sochi, illustrates the problems with so much money sloshing around. The company has gone through four directors. After each change in leadership, investigators opened criminal cases on embezzlement and abuse of office, although none have gone to trial. In 2009 a handful of Duma deputies proposed a law that would have asserted parliamentary control over Olimpstroy, conducting financial audits, studying long-term profitability, and monitoring expenses. In the end, the Duma, controlled by the pro-Kremlin United Russia party, rejected the proposed bill but passed a compromise law that gave the Audit Chamber, a state accounting body, responsibility for financial oversight of state corporations. Its full reports, however, would not be made public.

Last year, as part of its annual accounting, the Audit Chamber accused Olimpstroy of "unwarranted increases" in costs at Olympic venues worth a total of 15.5 billion rubles. Officials inside Olimpstroy, the report alleged, raised cost estimates based on "justifications that were either absent or presented with insufficient explanation." Olimpstroy declined to make its officials available for interviews, but in a written statement said the cost of certain venues went up as the result of "additional structural and technical decisions made" at the request of the IOC and other stakeholders.

In recent months, Putin has expressed frustration with many members of his own political elite who have grown too corrupt and undisciplined. It's received wisdom in Moscow that the state will crack down on at least some of the more egregious cases of fraud and abuse in Olympic construction—once the Games are over and attention has moved on. Stephen Sestanovich, a former U.S. ambassador-at-large to the former Soviet Union and now a fellow at the Council on

Олимпиада для студентов и выпускников вузов – 2014 г.

Foreign Relations, says he recently met with a high-ranking Russian official who told him, “When all the celebrations are over, then the prosecutors come in.”

For some, it’s too late. One afternoon this fall, I went to see a Russian man named Valery Morozov, who lives outside London. For many years, Morozov was the wealthy and successful owner of a construction firm in Moscow, enjoying friendly ties with officials in the Kremlin and a reliable stream of state contracts. (By his own admission, he also wasn’t above paying a kickback or resolving a dispute with help from the criminal underworld, if necessary.)

In 2004 he was hired to carry out renovation work at the State Kremlin Palace, a hulking glass and concrete hall built in the 1960s for Communist Party congresses that now hosts concerts. As Morozov tells it, he completed the job only to learn that the last tranche of money owed to him had gone to a number of other firms that he suspects were linked to certain officials overseeing the project. After complaining to his contacts at the Office of Presidential Affairs, he was told to sit tight and not go to the police—the state would find lucrative work for him, he said.

That opportunity came in Sochi. The job was to oversee reconstruction of part of a government-owned sanitarium. There was a catch: An official at the Office of Presidential Affairs in charge of construction, Vladimir Leshchevsky, informed Morozov that as part of the arrangement Morozov was to turn over 12 percent of project funds to him, in bags of cash. Morozov says he informed law enforcement officers, but they told him to wait while they thought up a plan of action. Moving against a high-ranking and presumably well-protected Kremlin official was no simple maneuver.

After Sochi won its bid to host the Games in 2007, the sanitarium officially became an Olympic venue: Russian organizers named its “luxé” suite as IOC headquarters during the Games. As time passed, although Morozov dutifully paid his kickbacks in regular increments, he was not fully cooperative. He said he refused, for example, to inflate costs artificially or take on particular subcontractors pushed on him by Leshchevsky and his subordinates.

In early 2009, Morozov heard talk that he was going to be removed from the job—and maybe even “toughly,” which could mean his equipment and offices would be seized. At this, Morozov went back to the security services and told them it was time to help—otherwise, he would have no choice but to file a formal public complaint and raise a scandal. Police dispatched a team of operatives to work with him, but they said they could open an official case only after Morozov produced hard evidence of the extortion scheme. When Leshchevsky demanded a payment of 15 million rubles, they told Morozov to go through with it—but he would have to put up the cash himself. Morozov took out some money he and his wife were planning on using to buy his son a dacha. He documented the handoffs with a small camera hidden in his belt.

For the last exchange, Morozov proposed the two men meet at a restaurant not far from the gates of the presidential administration in Moscow. It was an official sting operation: The police put a wire in both the table and on Morozov himself. After he made the handoff and Leshchevsky had left, Morozov headed to the bathroom to meet up with a police agent and hand over the recording device that had been tucked under his clothes.

When he returned to the table, he saw that Leshchevsky had walked back into the restaurant, still holding the money. As Morozov remembers, Leshchevsky said, “It’s raining, I’ve got a long ways to walk, how about I sit and have a beer.” Morozov knew instantly the operation had failed—police were supposed to detain Leshchevsky as soon as he left the restaurant. Either the police lacked the authority to arrest such a high-ranking official or Leshchevsky had wriggled

Олимпиада для студентов и выпускников вузов – 2014 г.

out of the trap. Morozov was disappointed, but not shocked. “Knowing this whole system, the idea the Kremlin would give him up, let him hang, is difficult to imagine,” he said. Leshchevsky has denied Morozov’s allegations.

After the failed sting, Morozov started talking to the press and sharing materials from the case. Dmitry Medvedev, then Russia’s president, ordered prosecutors to look into why the investigation had stalled. But investigators declined to bring charges and the case was dropped in 2012. In December 2011, Morozov went to London with his wife for New Year’s. After the holiday passed, he got a call from a contact in Russia warning him for his safety not to come back. He received asylum in the U.K. and now lives in an unremarkable, barely furnished home in the London suburbs.

Before I left, Morozov cautioned me against making too much of his story. If you look anywhere else in Russia, he said, “You will see the same thing, maybe even more.” The culture of informal mechanisms of control and the battle for influence as a proxy for personal enrichment predates the Olympics—and even Putin. “Sochi,” he said, “is just what is happening in Russia everywhere.”

Source: Bloomberg Businessweek, The Waste and Corruption of Vladimir Putin's 2014 Winter Olympics by Joshua Yaffa, January 02, 2014. Yaffa is a Bloomberg Businessweek contributor. Url: <http://www.businessweek.com/articles/2014-01-02/the-2014-winter-olympics-in-sochi-cost-51-billion>

Questions:

1. On the basis of the article, issues which it raises, and your background knowledge about the event in the article, please, **formulate the public policy problem** (provide arguments that this issue is a real problem which is important for the general public, civil society and the country at large).
2. Do the described problems **refer to the Russian public sphere**? Do they influence other public policies in Russia and how they are developed? What kind of policies? Please, substantiate your arguments.
3. Do the described problems **refer to the global public sphere**? Do they influence how other global public policies are formed? What kind of policies? Please, substantiate your arguments.
4. List **the actors interested** in solving the described public policy problem, disclose these actors’ interests and motivations, their goals. Interests of which groups and actors are affected?
5. What **political actor should be solving** the described problem of public policy? Describe political mechanisms which can be used by this actor. Suggest your recommendations for the political actor in how to solve the problem.

