

## Olimpstroy: Building the Sochi Olympics from Scratch

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### Abstract

The Sochi Olympics will cost Russia more than \$50 billion. With the state corporation Olimpstroy running the show, the games provide a useful case study of how well-connected elite insiders benefit from the country's current political and economic system.

### The Most Expensive Olympics Ever

The Sochi Olympics will cost Russia at least \$50 billion, giving them the dubious claim to fame of being the most expensive Olympics ever held. Why are they so expensive? Who is footing the bill? And who benefits from these expenditures?

The Sochi Olympics are so expensive because the host city was mostly known as a summer tourist destination before Russia won the right to host the Winter Olympics in 2007. It was a place where Russians could go to relax on the beach. Skiing was an option in the winter, but nearby mountains did not boast a major international ski resort. In a perverse way, this situation made Sochi attractive to the International Olympic Committee (IOC) members who picked Sochi over competitors in Austria and South Korea: nominating Sochi meant that Russia would have to build a brand new resort with state of the art facilities and amenities.

In 2007, Russia seemed like a good bet for the games. President Vladimir Putin strongly endorsed the idea of the Olympics and the country was booming economically thanks to its oil and natural gas exports at a time when world energy prices were reaching record highs. The economic picture has since dimmed in the wake of the 2008 financial crisis, lower energy prices, and Russia's inability to wean its economy away from dependence on hydrocarbon exports. However, Putin has remained true to his word, meeting the IOC's expectation to invest whatever it takes to prepare for the games.

There are four categories of expenses for the Olympics: operating expenses for the 17 days of competition, construction of Olympic event facilities, urban infrastructure necessary to host the influx of athletes, spectators and media for the games, and security. The vast majority of the expenses for the Sochi games are going into infrastructure projects designed to turn Sochi into a world class city.

### The Source of the Money

Most of the funds for the Olympics come from the Russian state budget. In Western countries, the organizers of mega-events like the Olympics are usually local real estate developers, working in close association with local politicians, who want to promote the brand of their city,

improve local amenities, increase tourism, and thereby drive up property values. While the federal government provides some of the funding for infrastructure development and security, local sources are typically responsible for the Olympic budget.

In Russia, it is the federal government that is the driving force behind the games. Federal politicians and businesses are making all the key decisions, not their local counterparts. Accordingly, the federal state budget is providing the vast majority of the funds for the Olympic preparations. This money is going toward extensive new infrastructure in terms of railroads, roads, telecommunications, energy supply, hotels, and new sports facilities.

The original budget estimate for the games in 2007 was just \$12 billion. At the beginning of 2013, revised calculations for the necessary outlays topped \$50 billion. As the funder of last resort, the state budget is the only source capable of providing such large sums.

Other funders include state-owned and controlled companies like Gazprom and Russian Railroads, which both hold monopolies in their respective areas. At the direction of the Kremlin, they also contribute to the expenses.

Putin has also asked key billionaire oligarchs, such as Oleg Deripaska and Vladimir Potanin to contribute to the effort. In their case, Vneshekonombank (VEB) provides loans that can provide as much as 90 percent of the capital that they need to cover their costs. Nevertheless, these oligarchs have complained that the Olympics were forcing them to invest in projects that had little chance of becoming profitable in the future. As they build hotels that will be sufficient for the Olympic games themselves, it is not clear that future tourism will fill up the vacancies that will be created. Indeed, there are already signs of trouble and impending debt defaults. Olympic investors like Gazprom, Inter RAO, Renova, Interros, Sberbank, and Bazovyi element are asking that their loans be restructured, according to a November article in *Vedomosti*. The companies claimed that they were all losing money on their projects and could not pay back their loans under current conditions.

### Where is the Money Going?

In most countries, an Organizing Committee for the Olympic Games (OCOG), which is accountable to the

IOC, runs the Olympic games and ensures that all the facilities are ready by the time that the Opening Ceremonies begin. Putin, however, chose to take a different approach that fits better with his style of government rather than the methods more common in developed democracies. In the Russian case, the OCOG serves as a façade for the organization that really wields all the power. Instead of reporting to the IOC, Putin wanted to be sure that he and his colleagues could operate without intrusive oversight. Russia's construction industry is known as one of the most corrupt sectors of the economy and Russian leaders undoubtedly had no desire to make its workings transparent to outsiders.

The key bureaucratic actor in making sure that the Olympic facilities and infrastructure are ready on time is Olimpstroy, the common name for the organization formally known as the State Corporation for the Construction of Olympic Venues and the Development of Sochi as a Mountain Resort. Putin created Olimpstroy on 30 September 2007, on the basis of a federal law, to oversee the design and construction of the sporting venues, transportation, electricity, tourism, and security buildings, organize their functioning, hold tenders, and monitor the progress of Olympic construction and the performance of related activities. Olimpstroy was never mentioned in the documents that Russia provided to the IOC as part of its application to host the games and it only appeared on the scene after Russia had won its bid.

Olimpstroy is one of only seven "state corporations" in Russia. The others are: Rosatom, Russian Technologies, Rusnano, Vneshekonombank, the Mortgage Lending Agency, and the Housing and Utilities Reform Fund. State corporations are different from private corporations and state agencies. Formally, they are defined as non-profit corporations. They are not required to provide detailed annual reports even though they have access to state funds. Their special status effectively makes it possible to control money with minimal oversight and interference. When he was president, Dmitry Medvedev criticized the workings of the state corporations and tried to hold them to higher levels of accountability. However, this process came to an end when Putin remarked that state corporations "are neither good nor bad. They are necessary."

A study of Olimpstroy spending by Aleksandr Sokolov demonstrated that the cost of building a stadium, road, or bridge in Russia is much more expensive than similar projects in other countries. His examination of seven key Olympic sites found that the Russian projects cost 57.4 per cent more than other projects and claimed that the difference in costs had been siphoned off by the insiders who controlled the key construction companies.

While the exact distribution of these rents is unclear, some facts are known. Companies such as Mostotrest and Stroygazmontazh controlled by Arkady Rotenberg, a childhood friend of Putin, have received more than \$7 billion in contracts for Olympic projects, according to a Bloomberg report based on corporate and government reports. These projects include road construction and building the media center. Not surprisingly, most Russians think that the state money is being spent ineffectively, according to a Levada Center poll conducted in June 2013.

Rotenberg's success in winning such contracts suggests that different categories of businessmen have different relations with the Olympics. Putin's close friends seem to be benefitting from the state's largess, while 1990s era oligarchs, like Deripaska and Potanin, are expected to contribute to the Olympic pot.

### Who is Running Olimpstroy?

The Russian Government appoints the president of Olimpstroy and there has been little stability in the position. Since it was created, the corporation saw four presidents: Semyon Vainshtok (2008), Viktor Kolodyazhnyi (2008–9), Taimuraz Bolloev (2009–11), and Sergei Gaplikov (since 2011). The rapid turnover of the leaders indicates poor management, the short-term time horizons of the groups in charge, and fertile grounds for corruption opportunities. By contrast, in organizations that apparently have little absolute power, the jobs of Alexander Zhukov, the president of the Russian Olympic committee, and Dmitri Chernyshenko, the head of OCOG, have been more stable.

Before becoming the inaugural president of Olimpstroy, Vainshtok had served as the president of Transneft, the Russian oil pipeline monopoly, from 1999 to 2007. After Vainshtok stepped down as the head of Transneft, crusading anti-corruption blogger Alexey Navalny in November 2010 accused that monopoly of misusing \$4 billion in state funds as part of a Siberian pipeline construction project. Following his removal from Olimpstroy, Vainshtok eventually moved to London and then Israel, where he became chairman of the board of the company Israel's Financial Levers.

The next president, Kolodyazhnyi, was the previous mayor of Sochi, known for owning a cement factory which supplied the city and therefore allegedly providing a profit for himself at the expense of the public purse. His problem at Olimpstroy was that he had little power vis-à-vis the Krasnodar Krai Governor Aleksandr Tkachev and therefore came under attack from the Krai authorities who wanted to gain greater control over Olimpstroy than the federal authorities wanted to give them.

Bolloev, the former head of the Baltika brewery in St. Petersburg who served as the third president, apparently did not see eye-to-eye with Deputy Prime Minister Dmitry Kozak during his term.

The fourth and current president Gaplikov is the former prime minister of the republic of Chuvashia and former deputy chief of staff of the Russian government.

Running Olimpstroy would be a difficult job for any manager. On the one hand, the Olympics Opening Ceremonies will take place on February 7 so all the facilities must be fully functioning at that point. Given the international media spotlight, everything has to meet high levels of quality. Even if the budget is unlimited, there is no way to get around the need to produce results on time. On the other hand, the head of Olimpstroy sits on top of large cash flows, so many groups and individuals will be interested in securing contracts that ensure that part of the money will run in their direction.

A key reason behind the games is to provide funding to key regime elites. Vainshtok, as the former head of state-controlled oil pipeline monopoly Transneft, itself a major generator of rents for the elite, was well placed to continue performing this function. Kolodyazhnyi likely performed a similar task. However, their short tenure points to the likely existence of conflict among the various elites seeking to control the money flows and their inability to ensure that the Olympic events would be ready on time. Bolloev and Gaplikov were likely more focused on getting results as well as distributing the rents.

The leadership chaos in Olimpstroy has apparently had an impact on the construction projects. The Fisht Olympic Stadium, the main venue for the games, was

still not finished in late 2013. One anonymous insider who was involved in planning the opening ceremonies blamed the problems on Olimpstroy's rotating leadership, which made it difficult for the organization to track the work of all of its subcontractors, according to the *Moscow Times*.

The one constant in the management of Olimpstroy is Dmitry Kozak, currently holding the title of deputy prime minister. Kozak served as the head of the Olimpstroy Board of Directors until 2012, when he was replaced by Igor Slyunyaev, Russia's minister for regional development, though Kozak still oversees the Olympic project as deputy prime minister. Kozak's influence comes from his informal ties to Putin rather than his formal job at any given time. Before appointing him to Olimpstroy, Putin had turned to him to address a variety of complex tasks, including, legal reform, restructuring relations between Moscow and the regions, and addressing the problems of the North Caucasus. The various problems in Olimpstroy have apparently not diminished Putin's confidence in Kozak.

## Conclusion

In financial terms, the Olympics are a game for Russia's elites. The main beneficiaries seem to be wealthy friends of Putin, who receive contracts from Olimpstroy to build facilities that may have little use after the games. A different group of elites, forced to invest in projects that are unlikely to be profitable, are complaining loudly. The consequence is likely to be cause for a split among the elite dividing those who are benefiting and those who are not.

### *About the Author*

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### *Recommended Reading*

- Robert Orttung and Sufian Zhemukhov, 2014 (forthcoming), "The 2014 Sochi Olympic mega-project and Russia's political economy," in Martin Müller (ed.): *Olympic Games in Sochi 2014: a great event for a great power?* *East European Politics* 30.
- Sokolov, A. 2012. Insider Control and Investments of GK "Olympstroy". *Naukovedenie*, (4), <<http://naukovedenie.ru/PDF/68evn412.pdf>>