

PROJECT MANAGEMENT SUCCESS STRATEGIES FOR SIBERIA: THE YAKUTIA STORY

David L. Pells
President
Strategic Project Management International
Dallas, Texas, USA

INTRODUCTION

Since May, 1992, the author has been working with officials in the Sakha Republic (Yakutia) to initiate several major development projects, with the involvement of American companies. With the assistance and full involvement of the Russian Project Management Association (SOVNET) in Moscow, the author has made four extended visits to Yakutia, has established strong relationships with a number of high-level government officials, and is now proceeding with several projects for hard currency payment.

In May, 1992, the author first traveled to the Sakha Republic, at the invitation of Yakutia's Minister of Architecture, Construction, Housing and Communal Services. The purpose of the trip was to review construction-related project needs and opportunities for Western companies, and to meet the leaders of Russia's largest and most resource-rich Republic (Yakutia has major diamond, gold, coal, oil and gas reserves).

Because of his project management background, the author was also introduced to the Republic's Ministers of Energy, Industry, Transportation and Communications, and Foreign Relations. As a result he was introduced to major development needs in those sectors, offered opportunities to participate in several major projects, and asked by the Vice-Chairman of the Republic to provide strategic planning assistance.

The author returned to Yakutsk, the capital of the Sakha Republic three more times in December, 1992, and February and May, 1993. During each visit meetings were held with high level government and industry officials, specific projects were discussed, and the author presented proposals for several major development efforts. In addition, in December, the author visited the cities of Omsk and Chelyabinsk in Western Siberia, found similar opportunities, and was again asked to participate in several major projects.

Work is now proceeding on several projects in Yakutia, including oil and gas refineries, airport and airline modernization, power plant and energy development, a new hotel, and several construction projects. The author's firm is preparing to assist in the planning of these projects, assist in financing, and is facilitating the participation of American companies in these projects.

This paper discusses some of the opportunities and challenges associated with projects in Siberia, and key factors for achieving success - for both Western Project Managers and local participants. The author's experience in the Yakutia is used as an example. This paper should be of interest to companies and project managers who are interested in the new opportunities in Russia and Siberia but are unsure of the process to follow for such involvement.

SOVNET, Moscow, Russia, 7-10 Sept. 1993

BACKGROUND

Yakutia

The Sakha Republic (Yakutia) is a huge semi-autonomous republic within the Russian Federation in Far Eastern Siberia. In size it is 3,103,000 square kilometers, approximately 1/3 the size of the United States. It crosses three time zones. Like many other regions in Far Eastern Russia, it has become more and more independent of central Moscow control over the past two years. While the Yakutia intends to remain a part of Russia, in December, 1991, a President was freely elected, a new regional government was formed and it declared itself the Sakha Republic. In 1992 that government set out to bring Yakutia into the modern world, initiating infrastructure and industrial projects, soliciting investment from the West, and establishing new and proactive relationships with neighboring regions and countries.

The Sakha Republic may be the richest of all regions in Russia, in terms of natural resources. 95% of all Russian diamonds are mined in Yakutia, as well as 40% of Russia's Gold. In the South, and in the mountains of the North, vast coal fields reside. In central Yakutia an enormous gas field has accounted for much of the region's local energy needs and is now attracting investment from Korea and Europe. Yakutia has many oil and gas areas, many yet unexplored.

The Sakha Republic has the raw materials for major industrial development, including construction materials. Major deposits of clay, marble, granite and other stone products are available. A number of rare stones and minerals can also be found there. A local saying has it that when God was distributing precious minerals over the world, a hole developed in the bag allowing many to fall into Yakutia. To demonstrate, a major gas discovery was recently made immediately under the current largest diamond field.

Yakutia has a population of just over one million people. Yakutsk, the capital city, with a population of 300,000, is the political and commercial center of the Republic. Many smaller towns and settlements exist throughout Yakutia, separated by long distances. The great size of the country, the distances between towns, and extremes in climate cause big problems for development.

The coldest temperatures in the populated northern Hemisphere, -150 C, have been recorded near Yanskiy in the Kherebet Cherskogo Mountain Range of Northern Yakutia. Most of the country must contend with permafrost, at great depths, making infrastructure and construction projects especially challenging. In Yakutsk, the world's only "Permafrost Institute" was established to develop methods and techniques for construction in the Far North. Yakutia is also a long way from the outside world. Six time zones and a seven hour flight from Moscow, Yakutsk is hundreds of kilometers from other major cities in Russia, China and the Far East.

Given the great distances, weather and an aging industrial infrastructure, Yakutia's desire to modernize faces major challenges. Fortunately it has the natural resources (and, increasingly, the hard currency) to pay for development.

SPMI Contact & Involvement

In September, 1991, the author was contacted by the leaders of the Russian Project Management Association (SOVNET). Included in the initial correspondence was an "offer" by the Minister of Construction, Republic of Yakutia, for approximately \$200 million of construction-related work for Western companies willing to bring technology and expertise to Yakutia to assist in modernization. The author responded with a request to be the Yakutia Minister's representative in the USA, and a serious and productive relationship began.

After approximately six months of correspondence with the Russians, and discussions with American construction, forest products and construction-materials firms, the author determined the need to visit Yakutia personally. Of the U.S. companies contacted, all large corporations were reluctant to make any investments or take any risks in Russia, due to political uncertainties, currency instability and unanswered questions related to payment. Many companies had questions related to authority in Yakutia, structure of ventures, payment terms, logistics, etc. However there was enough interest in America to continue exploration. The author decided to go to Yakutia himself to try to answer these questions, to meet the people involved, and to see conditions first hand. It turned out to be a critically important and smart thing to do.

In May, 1992, the author flew to Moscow and Yakutia. The trip lasted one week, was sponsored by the Yakutia Ministry of Architecture, Construction, Housing and Communal Services, and was coordinated by SOVNET in Moscow. After initial meetings with the Minister of Construction and his entire staff of Deputy Ministers, tours of several areas were arranged, including tours of cement and brick plants south of Yakutsk, a gold mine near Aldan City, log and lumber processing mills in the south, and various municipal areas.

Because of his background in project management, in several different industries in America, the author was able to discuss details of any project in any industry or sector. After several days of meetings and tours, and after asking questions about such topics as energy, transportation and communication, as related to doing business in Yakutia, doors in the Yakutia government began to open. Meetings were held with five different Ministries. Presentations were made to the author by the Ministers of Energy, Transportation, Telecommunications, and Foreign Economic Affairs. In each meeting the author would ask "What are your major problems? Where do you want help? How would you like American firms to participate?" Many potential projects were identified.

At the end of the week a "PROTOCOL" was established and signed by author and the Vice Chairman of the Sakha Republic government. The PROTOCOL requested the author to find western companies to participate in Yakutia's development, to assist in the planning and implementation of projects, and to provide project management consulting assistance.

In December, 1992, the author returned to Yakutsk, along with the President of SOVNET. Proposals were presented to several Ministers, as requested during the initial trip, more meetings were held and several new Protocols were signed. Most significantly, the author was recognized and acknowledged for having returned to Yakutsk a second time, and in winter. Temperatures were approximately -30 Centigrade.

Also in December visits were made to the cities of Omsk and Chelyabinsk. In Omsk the author was the guest of the General Director of OMSKENERGO, the electric utility for the Omsk Region, who is also a member of SOVNET. In Chelyabinsk, the author was hosted by the leaders of the largest construction consortium in the Chelyabinsk Region, also members and associates of SOVNET. In both cases, very high-level meetings were held with regional government and industry leaders, projects were offered to the author's firm, and Protocols were signed.

The Author returned to Yakutsk in February and May, 1993. In February, again accompanied by the President of SOVNET, the author took a very high-level representative of the University of Texas to Yakutsk to discuss economic development and strategic planning. The trip was highly successful, as the Associate Dean for Graduate Programs at UT's Business School was able to sign high-level Protocols and a Letter of Agreement for student exchanges, training of government officials and technical support. In May, 1993, the author took a group of American executives to Yakutsk to discuss projects related to airport modernization, oil and gas, medical supplies and regional airline upgrades.

Other Industry Projects

The Ministry of Industry is responsible for mining, including gold, diamonds and a variety of other minerals, as well as consumer goods industries, manufacturing and other commercial activity. For diamonds the only activity suggested for western involvement was jewelry production on a local basis. Western involvement in all other activities would be welcomed.

PROJECT MANAGEMENT OPPORTUNITIES

The major project management skills and expertise needed now include project planning, especially related to feasibility studies, financial analysis and contract administration. Much early activity can be business development-related, although understanding of management, and technical capabilities of organizations and companies is essential. As projects are launched and as Western companies get involved, project management experts and professionals in all functions are needed.

Throughout Siberia, including Yakutia, transfer of western management techniques and approaches is desired and drastically needed. Project management education and training is therefore also needed in Eastern Siberia. For American educators and managers, however, appreciation of local culture, language and living conditions must be considered.

CHALLENGES AND CONSTRAINTS

Several major challenges to doing business in Siberia exist. Those issues, translated as risks by many American firms, include political conditions, legal issues (property, investment and tax laws), financing and payment issues (including ruble valuation and exchange), and lack of local experience with business and management practices, based on free-market conditions (i.e. how to demonstrate profitability to attract western investment). These problems continue to exist, but are all being addressed by various levels of the federal and regional governments, often with western advice and assistance.

Perhaps the largest problem is lack of perspective on the need to demonstrate return-on-investment (ROI) to attract western investment. Too often projects are presented as very profitable by enthusiastic local managers, only without enough financial analysis, detailed market analysis or demonstrated ROI potential.

SUCCESS STRATEGIES FOR PROJECTS IN SIBERIA

For projects in Yakutia, or anywhere in Siberia, to be successful, several key factors must be considered and addressed, by both Western participants and the local enterprises/officials.

For Western Companies

Major success factors to be considered and addressed by any company wishing to operate in Eastern Russia include:

- o Personal Contacts, Local Partners & Relationships with Local Officials
- o Technical & Professional Qualifications
- o Long Term Commitment and Patience
- o Sensitivity to Local Needs and Conditions
- o Expertise and Assistance with Project Financing

In Siberia, like in many other areas of the world, personal contacts and local partners are critical. Not only do local experts understand local conditions, they know who the decision-makers are, how local decision-making occurs, and how to access local resources. In the author's case, close association with the leaders of SOVNET in Moscow has been essential to the progress made to date. In addition the author is working closely with several local companies and individuals in Yakutsk to promote and develop projects. For anyone working in Siberia, the first year should be devoted to building relationships with local officials and partners.

Yakutia wants modern technology. Even in Siberia, Russian managers are very well educated. Western project managers who go to Siberia will often deal with officials educated in Moscow or elsewhere. Western companies and managers should be technically qualified with good reputations for work at home. From a technical standpoint there is already growing competition in Siberia among companies from Asia, Europe, Canada and the USA.

Western companies and managers must be committed to projects and joint ventures for the long term. There is very little "fast money" available in Russia or Yakutia. Very positive returns, however, are possible with investment of money, energy, technology and time. Only serious participants should explore opportunities in Eastern Siberia, with the patience and resources to invest 1-2 years before seeing any significant returns.

Westerners must be sensitive to local conditions, customs, needs and language. This is especially true in Yakutia and other areas of Siberia, which have been subjected to control and exploitation for too many years. Western companies will need to establish local offices and have employees learn to speak Russian or other local languages. Local employees must be hired and local needs must be paramount to project planning.

In many parts of Siberia, major social and economic development projects are waiting for funding. In many cases, funding for the front-end feasibility/technical analysis and project planning is needed, in order to secure financing for the larger development stage. This "Front-end" investment is badly needed, and can reap tremendous rewards. For Western managers with experience and expertise related to project financing, including international development bank financing (i.e. World Bank, EBRD, IFC, etc.), major opportunities exist in all areas and sectors, including those in Yakutia.

For Local Participants

For officials in Siberia, two major factors must be clearly understood to ensure successful investment and participation by Western firms. First, investment and business projects must be profitable for Western participants. Few American companies can underwrite unprofitable investments in today's weak global economy. Projects must have demonstrated and documented profit potential and a positive ROI for the Western company, normally higher than could be realized from investment in America.

Second, local officials must understand that Western companies don't have to invest in Russia. Plenty of opportunities exist elsewhere in the world in most industries. It is Russia that needs the West right now. Investment conditions in Russia, including laws and living conditions for Western workers, must be at least semi-painless and hopefully attractive. If Russian or Siberian conditions are too unattractive, or risks are perceived as too high, regardless of profit potential for individual projects, many Western companies will just stay at home.

CONCLUSION

Most of Siberia was closed to the West until very recently. In May, in several locations in Yakutia, the author was the first American ever seen by local citizens and administrators. Now the changes have opened opportunities never available before -- opportunities to modernize their country, to establish positive relationships with other countries and peoples, and to greatly enhance their standard of living. In Yakutia and other regions of Siberia, the natural resources exist to pay for these changes.

For Western companies and project managers it is also an opportunity, but with a number of challenges. To be successful, Western companies need strong high-level local partners. The Author attributes his successes to date to his relationship with SOVNET, which has high-level contacts in government and industry throughout Russia. The leaders of SOVNET are also the leading experts on project management in Russia, so they also provide the credibility and personal contacts often needed to open doors and identify real project opportunities.

REFERENCES

1. Krueger, W.C. "Ambitious Exploration, Pipeline Project May Tap Eastern CIS", *Oil & Gas Journal*, March 23, 1992. p.121-23.
2. Scheinberg, Mark & Voropajev, Vladimir, "America-Russia Cooperation in Projects and Project Management: To Be or Not To Be?" *Proceedings of PMI'92 Seminar/Symposium*, Project Management Institute, Drexel Hill, PA, USA. 1992.
3. Scheinberg, Mark & Voropajev, Vladimir, "Project Management in USSR: Yesterday, Today and Tomorrow", published by Russian Project Management Association SOVNET, Moscow, Russia, 1991.
4. "Russia: Coming To Pieces", *The Economist*, March 14, 1992. p.59-60.
5. "Small is Best in Siberia", *Petroleum Economist*, May, 1992. p.36.
6. "Hotheads Needed To Tap Arctic Riches", *Petroleum Economist*, July, 1992. p.34.
7. "Taking Stock of Far East's Vostok", *Petroleum Economist*, July, 1992. p.27.
8. "The Cracks in Russia Widen", *The Economist*, September 5, 1992. p.53-54.
9. Pells, David L. "Adventures in Siberia: Project Management Opportunities in Eastern Russia", *Proceedings of PROJEXPO'92*, Silicon Valley Institute, Santa Clara, CA, USA. November, 1992.