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Investing in Russia

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Despite all the difficulties that Russia's economy faced in the last decade, the country still lures foreign investors with massive energy and raw material resources and this stimulates a constant increase in the flow of new investment projects and opportunities. Enormous natural resources coupled with "unploughed" Russian expanses influence positively over the country's attractiveness index.

According to the Bank of Russia, in 2006 Russia received 70,3 billion USD investments (growth 26% from 2005), including FDI – 32,7 billion USD – that is 2,2 times more than in 2005.

The Ministry of Economic Development and Trade of Russian Federation estimates that, only one third of these investments are from the Russian capital registered abroad.

In 2006 Fitch Ratings and Standard&Poor's raised the credit rating of Russia to «BBB+».

In January 2007 Organization for Economic Co-operation and Development within its internal classification of country risks shifted Russia from the fourth group to the third one.

According to World Bank index of simplicity of doing business by countries, Russia occupies the 96 place among 175 countries, including registration a company – 33 place, contracts implementation – 33, etc.

The present situation in economy of Russia probably could be compared with the USA history of XVIII-XIX centuries when the "American dream" that embodied the right and capability for realization of most ambitious life plans was regarded as an original symbol of America.

Now Russia gives conservative, ingrained "old civilized world" as well as booming economies like India, a great chance to lead the implementation of the bravest commercial projects.

Among success stories the well-known in India and Russia SUN Group, which next year will celebrate 50 years anniversary of its presence in Russia. In the early 1990s, SUN Group decided to explore emerging investment opportunities in the Russian market and, with its partners, has since devoted substantial funds to direct investments in Russia. SUN's flagship investment was in SUN Brewing (now SUN Interbrew), started by 1992 after studying over 140 breweries throughout the Former Soviet Union. Following initial investments in 5 breweries between 1992 and 1993, the company today has 8 breweries, making it the second largest brewer in Russia. SUN Group continues to approve investments of over 100 million USD per year in brewing business, real estate, oil and gas exploration etc.

But it should be noted that for the time being only the most adventurous, and, unfortunately, sometimes naive and inexperienced businessmen arrive to Russia. For them Russia could be still "dangerous and terrible" and this danger is stirred up by the recent "phantom of Soviet ideology" still hampering complete trust and fearlessness of investments in Russian economy. Foreign business analytics warn their countrymen about all possible troubles they could meet in "dangerous and unpredictable" Russia. And we should agree that we have to make some more steps to improve the investment climate, mainly in Russia's regions.

Today it's quite often that foreign business arriving in the country establishes its companies for organization of export for the purpose of one-self control of raw materials exportation and that insignificant part of competitive production existing in Russia. Surely, there are businessmen who sincerely wish to develop their own manufacture in Russia and supply its products to the world market. But disrespectful of goals and tasks both of them getting tax registration have to accept the "game rules".

Presently a great deal has been done to solve foreign investors' problems at legislative level.

The Constitution of the Russian Federation guarantees protection of private property rights and the rights of foreign citizens staying in the Russian Federation.

Registration of legal entities with participation of foreign capital is carried out under Federal Law "On State Registration of Legal Entities and Private Entrepreneurs" of 2001, and the Civil Code of the Russian Federation.

Investment operations in the Russian Federation are regulated in accordance with two principle legal acts:

Federal Law "On Investment Activities in the Russian Federation Conducted in the Form of Capital Investments" of 1999 sets forth main legal and economic foundations for investment activities in the form of capital investments in the Russian Federation and establishes guarantees for equal protection of rights, interests and property of entities engaged in investment activities in the form of capital investments irrespective of the property form.

Federal Law "On Foreign Investments in the Russian Federation" of 1999 sets forth the main guarantees of foreign investors' rights to investment and return and profit thereof, as well as conditions of entrepreneurial activities in the Russian Federation.

Under this law:

Foreign investors enjoy national regime of investment operations, with certain exceptions provided for in separate federal laws;

A foreign investor is entitled to compensation of losses that it incurred as a result of illegal acts (failure to act) of government agencies, agencies of local self-governance or officers thereof;

Property of a foreign investor or a commercial organisation with foreign investments may not be subject to seizure, including nationalisation or confiscation, with the exception for cases and on grounds provided for in a federal law or international treaty of the Russian Federation.

At the same time, to protect national interests in the sphere of the country's economic development, the law of the Russian Federation provides for some restrictions in the limited list of sectors: insurance, mass media, aviation industry, land ownership, surface transport, banking and natural monopolies.

As regards portfolio investments, protection of rights of security holders is guaranteed in the Federal Law "On Securities Market" of 1996.

In 1994 the Russian Federation concluded with India bilateral agreement to ensure mutual promotion and protection of investments (capital investments).

We aim at civilized forms of business and will protect foreign investors in Russian economy by any possible legal means. But it is necessary to remember and know that Russian conditions are rather specific so far, and in order to face no problems both in governmental sector and usual business environment you should attract an experienced Russian partner and legal companies which are able to offer proper economic and legal advice.

A survey of foreign investors in Russia, conducted in 2006, demonstrated, that 94% of 155 companies surveyed said they plan to expand their business operations and 91% plan to increase investments in Russia in the next three years. These are qualitative changes to the 2005 survey results, when 78% and 71%, respectively, said they were planning to expand their business operations and increase investments in Russia.

According to the survey results, more than 51% of its participants said there have been positive changes in the investment climate in Russia's regions, and only 14% assumed the opposite.

A majority of respondents reported a considerable increase in sales and profit over the past year. One half of the companies investing in Russia reported sales growth of 30%. A quarter of companies said their profits increase by more than 30%. The survey also indicated positive trends in investors' views of Russia's investment risk as compared to other countries. Investors continue to be confident of the high rate of return of investments in Russia, and the number of survey participants who rate Russia's investment risk as high, has decreased. This year, 35% of respondents indicated that the investment risk in Russia is higher than in other countries with emerging economies as compared to 54% of foreign investors last year.

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