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INVESTING IN RUSIA

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Introduction

Russia has undergone a massive economic revolution, as a result of which all the inefficiencies of the previous Soviet system have been laid open to competition from abroad. Companies can no longer rely on state money to prop them up and countrywide distribution systems have fragmented. Foreign money and expertise could prove invaluable in rebuilding a stable Russia and instituting a successful market economy. Inflation is finally coming down, but production continues to fall in an increasingly uncertain political environment. The complex and diverse nature of Russia's regions makes it even more difficult to bring the country together to go through reform. However, many foreigners have already ventured into Russia's uncertain market and are investing considerable amounts.

This paper describes Russia's need for foreign investment and offers advice on how foreigners can invest.

The first part details the level and type of foreign investment already present in Russia, the state of the Russian economy, the political situation, and a summary of Russia's need for foreign direct investment (FDI). The second part gives a description of the latest trade and tax regulations and a review of the privatisation process, whose recent change in direction may result in more opportunities for foreign investors. The paper concludes with details of the procedure for investing in Russia, including the registration process, and gives some brief case studies of companies that have already invested in Russia.

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Part one: The current situation in Russia

In this part we shall explore Russia's position with regard to foreign investment and the present state of the Russian economy. An overview of the political scene will be provided, together with its implications for law-making and economic growth. The section will be concluded with a round-up of the reasons for Russia's need for foreign direct investment.

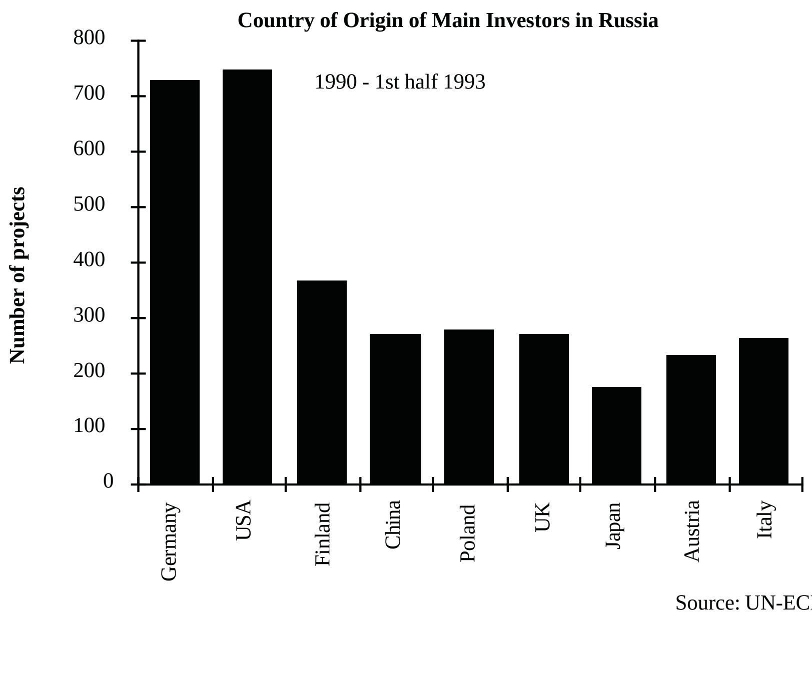
1.1 Recent Trends in FDI in Russia

In 1993 Russia received $1 billion of FDI (1). Compared to an inflow of over $20 billion to China in 1993, Russia's FDI inflow is very small. However, FDI inflows are growing and, according to Dunning (2), FDI stock in the CIS may reach between $75 and $100 billion by the late 1990s. By mid 1993 there was a total of $2.9 billion FDI stock (3). This investment was made by 5,249 enterprises.

The UN ECE report states that foreign investment capital increased by 17% in dollar terms from the beginning of 1991 to mid-1993. According to the UN ECE, the size of foreign investments decreased between 1991 and 1993. The average foreign capital contribution fell from $1.6 million at the beginning of 1991 to $0.9 million at the end of 1992 and to $0.6 million by mid-1993.

We may conclude that, though foreign investment into Russia is rising, it is doing so slowly and cautiously. The main countries of origin are the USA, Germany and Finland (see Chart 1). Enterprises with capital from the USA account for 14% in terms of number and 60% in terms of capital value commitment. The vast majority of foreign investors come from Europe. Suprisingly, East Asia supplies quite a few investors as well. In terms of money, the participation is small, but in terms of number of projects, East Asia accounts for 13.3%, 37% of which comes from China and 24% from Japan. This is probably because of geographical proximity. The Far Eastern regions of the Russian Federation have a suprisingly high level of FDI (see Table 1).

Chart 1



Source: UN-ECE

Whilst the central and nothern regions have high population densities and are both the main recipients of FDI, they are by no means the only populous areas. Volga, North Caucasus and the Urals all have population densities comparable to that of the St. Petersburg region and yet have hardly any foreign investment in comparison to other regions. This could be because of the proximity to less developed countries rather than to Europe. This ties in with the relative abundance of FDI projects in the Far Eastern region, where the population density is low. Proximity to East Asian emerging economies and to Japan has been an advantage. Chinese immigrants have been flooding into the eastern areas of Russia, increasing trade and investment between the two countries. One million Chinese people entered Russia in 1993 and 6 million in 1994, though no one is sure of how many are actually living there (4). We can conclude that FDI into Russia has been attracted from wealthy countries with geographical and cultural proximity to areas with high incomes and growth possibilities.

Table 1. Geographical Distribution of FDI and Population density

Administrative Subdivisions	**Existing FDI projects June 1992**	**Population '000 1989**	**Population density per square km**
Russian Federation	1,352	148,644	8.6
North	102	6,180	4.2
North-west	124	8,279	62.6
Central	628	30,379	62.6
Moscow City	*538*	*8,967*	
Volga-Vyatka	30	8,457	32.2
Central Chernozem	33	7,741	46.1
Volga	74	16,411	30.6
North Caucasus	70	17,587	47.0
Urals	64	20,456	24.6
Western Siberia	57	16,951	6.2
Eastern Siberia	31	10,016	2.2
Far East	118	9,250	1.3
Kaliningrad Oblast	21	871	58.1

Source: Economist Intelligence Unit, UN-ECE.

Most foreign firms are active in industry. In terms of number of joint ventures, 49.6% of JVs are in industry (taking into account R&D, energy and mining). In terms of output, 67% of foreign firms' rouble output is in industry. 19.5% of JVs are active in information services and 20.8% in other services and hotels and restaurants. Services are an increasingly important form of FDI because of the complete lack of certain services in the ex-USSR. (5)

Though registrations of foreign firms have not always emerged into an operating firm, this is changing. The share of operational foreign participation firms in the total number of registrations increased from 58% in January 1992 to 79% in July 1993. There are 249,000 people employed by foreign firms as of June 1993, which is equivalent to 0.3% of the workforce (83 million people) (6).

Foreign investment output by GDP rose from 1.4% in 1991 to 6.3% in 1992, probably in part due to a shrinking GDP. Foreign companies were more productive than domestic companies and the labour productivity of foreign firms was 3 times that of domestic firms. Output/capital of foreign firms was 42% higher than in domestic firms. In 1992 foreign participation companies accounted for 1.9% of Russia's industrial production. This figure rose to 2.5% in the first two quarters of 1993. Sales by foreign investment enterprises accounted for 1% of domestic sales in 1990, 2.4% in 1991 and 4.6% in 1992. Foreign investment companies are a lot more trade-oriented than domestic firms (see Table 2).

Table 2. Weights of foreign investment exports and imports in total exports and imports

	1990	**1991**	**1992**	**1st half 1993**
Exports	0.5	1.4	4.7	14.6
Imports	1.4	1.8	5.8	56.9

Source: UN-ECE

1.2 Short-Term Economic Outlook

Though inflation remains high, it has dropped to more acceptable levels thanks to spending restraints by the new government and the effects of the old (pre-December 1993) government's strict policies. Industrial production continues to fall dramatically, but private sector activity is picking up. Income distribution is very unequal and the majority of the population has very low purchasing power.

Monthly inflation has dropped to single figures in 1994. It was 9.9% in February, 8.7% in March, 9.7% in April and 8.1% in May. Mr. Chernomyrdin has set a monthly inflation target of 7% after some dispute with Mr. Yeltsin (Mr. Yeltsin aimed it at 3-5% and Mr. Chernomyrdin wanted to set it at 9-12%). Predictions for June and July are for monthly inflation to remain below 10% and in September to reach 12-13%. The discount rate is at 210% at present (April 1994).

Industrial production fell by 25% between the first quarter of 1993 and the first quarter of 1994. However, the situation might not be as bad as it looks as it fails to take into account informal private sector activity. Many private companies misreport figures in order to avoid taxation, so it can be assumed that Russia has a thriving informal sector. As an indicator, retail sales remained stable over the last 12 months.

The budget deficit reached Rb24.6 trillion by the end of 1993, accounting for 15% of GDP. It must lie within 10% of GDP in order to comply with IMF regulations and this is the government projection for 1994. However, it will probably reach 11.5-12% by the autumn. About 60% of the deficit is to be monetised, but it is feared that monetisation will be larger because of the drop in production and the tax base. There is also a worry that spending will get out of control, as government opponents want to dismantle the spending restraints.

Lobbying is rife and is the force behind most decisions in the Duma. The Fuel and Energy Ministry want Rb17 trillion, whilst Finance has set aside only a third of this. Farmers have been promised Rb14 trillion, but want more. The military wants twice its allocated Rb37 trillion. Mr. Chernomyrdrin has managed to placate the military and agrarian lobbies by providing them with funds. The military complex will receive Rb13 trillion. However, he has only managed to keep the budget in line by cutting back on subsidies to the machine-building, textile and light industry sectors, thereby causing them great hardship. These measures are still thought to be insufficient to keep the deficit within the target of 10% of GDP.

Growth is not expected in the Russian economy for a few years. GDP fell by 12% in 1993 and as of mid-1994 production of light industry has dropped by almost 60% (see Table 3 for economic predictions).

Table 3. Growth and Inflation Predictions
(% per annum)

	1993	**1994**	**1995**
GDP	–12.0	–6.0	–2.0
Gross Investment	–16.0	–8.0	–2.0
Exports	10.0	4.0	5.0
Imports	–20.0	7.0	9.0
Industrial growth	–16.2	–9.0	–3.0
Consumer prices	940	550	200

Source: EIU Country Risk Service

Income distribution is very bad. The most wealthy 10% of the population earn 10 times more than the least wealthy 10%. Only 15-20% of the population can afford to buy consumer goods. As of June 1994 the average monthly salary was 160,000 roubles (approximately $80) and consequently there is a great lack of domestic purchasing power.

Though many things are cheap in Russia, office space is incredibly overpriced owing to the shortage of space. You can expect to pay between $900 and $1,300 per year per square meter for a refurbished office in a good area. The price drops to $600-$900 in an average location and $400-$500 in a bad location. Even average locations are of poor quality, with buildings in disrepair and lack of facilities. Confusing land laws exacerbate the problem and make it impossible for foreign investors to help find a remedy. Telecommunications are also very underdeveloped and need foreign money for improvement. Bad office locations lack reliable telephone lines.

1.3 The Political Situation

After the December 1993 election, the state Duma was left fragmented and the political parties were in disarray. No party had more than 23% of the vote. Russia’s Choice (the main pro-reform party) gained most seats in the state Duma (lower house), though not a strong enough presence to disregard the other forces in the house.

The new government was a mixture of reformist and reactionary parties. The appointed prime minister, Mr. Viktor Chernomyrdin, was seen as an anti-reformist but is now taking the path of reform and economic stabilisation. He has a wider power network than the previous prime minister and up to now has been able to push through contentious issues by listening to only the most powerful lobbies and by using his contacts and the respect he commands among reactionary forces. Mr. Anatoli Chubais, who is head of privatisation, is one of the only pure reformists left in the government. Mr Chubais' position is seen as precarious once the first phase of privatization comes to an end on July 1st 1994. He is no friend of Mr Chernomyrdin. The minister of Economics, Mr. Aleksandr Shokhin, is also known as a reformist, but has split away from Russia's Choice to form the new reformist party Russian Unity and Accord with Sergei Shakhrai, the main lawyer responsible for drafting many presidential decrees. Mr. Viktor Gerashchenko is chairman of the central bank, and though he does not agree with monetary policy, he has been fairly cooperative in carrying out Mr. Chernomyrdin's policies.

The far right has presented no severe problem as yet. Mr. Zhirinovsky, who heads the neo-fascist Liberal Democratic Party, is seen of as a bit of a joke by the serious politicians. The public prosecutor is presently trying to get Mr. Zhirinovsky to stand trial for war-mongering and inciting ethnic hatred because of comments in his (Mr. Zhirinovsky's) book, «Last Push for the South». The release of Rutskoi and his cronies has meant the growth of a new extremist party, Russia's Accord.

Other reformist parties include Yabloko, run by Grigory Yavlinsky, and the Liberal Democratic Union, which is a splinter of Mr Gaidar's party, led by Boris Federov (former finance minister).

The Russian Federation is becoming more and more decentralised and regional authorities are gaining more power. The most independent states are Tartarstan and Sakha. The other major regions are Komi and Bashkortostan, the big old agro-chemical and petro-chemical producers.

There are various power struggles going on between the Moscow local government and the federal government, especially in the areas of privatisation and land ownership. Since agreement has not been reached on these issues between Mr. Chubais and Moscow's mayor, Mr. Yeltsin has recently handed over privatisation authority to the mayor (see privatisation section for more detail). This not only undermines federal credibility but fosters the general move towards concessions for heavy lobbiers.

In general, Mr. Yeltsin supports Chernomyrdin but is frustrated by the slow pace of reforms. He manages to overcome this by signing presidential decrees for particularly pertinent issues and thus bypassing the government. This can sometimes cause confusion as decrees do not always tie in with legislation passed by parliament and often contradict laws that are already in force.

1.4 The Need for FDI

Foreign investment is a valuable source of capital for a country that is heavily in debt and that lacks private capital. Foreign debt in Russia has reached $83 billion. $15 billion of official debt has been rescheduled, as servicing is in arrears. A rescheduling of commercial debt is expected. However, Russia is unable to keep up with payments, let alone repay its commitments. Any private money that is being earned (legally or illegally) is leaving the country rapidly. Capital flight could amount to $1 billion per month, with a total stock of $15-18 billion abroad. The money is not likely to return unless the rouble stabilises and Russians find good enough investments at home.

Russian companies seeking capital for improvements or restructuring are unlikely to get any help in Russia. The Russian banks give only short-term loans and have stringent requirements. Mortgages have only recently been allowed by a presidential decree on banking issued in May 1994. The securities market is very underdeveloped. 90% of its turnover is short-term credits of 1-6 months; only 4-5% of turnover is in shares. Most Russians have very low purchasing power and are unlikely to have the ability to buy shares. Russian companies will have to obtain capital from foreign investors if they are to grow and prosper.

The voucher method of privatisation comes to an end at the beginning of July 1994. After that, enterprises will be sold for cash by tender. Lack of domestic funds makes it highly desirable that foreigners participate in this second wave of privatisation. Control of many already privatised enterprises has fallen into the hands of workers and managers, who lack the capital needed for reforms and modernisation. They will be looking for foreign investors in order to put their plans into practice.

The fall in industrial production has been caused, among other reasons, by capital scarcity. An influx of foreign investment would hopefully stop this industrial decay and help increase industrial production once more. The lack of raw materials can also be remedied with the help of foreigners, as they have the capital and capability to tap natural resources such as oil and minerals. Industrial restructuring needs not only capital but also expertise. Russia lacks a body of professional business people and needs help in training professionals in areas such as marketing and finance and in producing good managers. Defunct and out-of-date machinery and equipment can be replaced with the help of foreign capital.

The government can also be helped by foreign investors. Political pressure to give subsidies and grants to industry will be lessened if money comes from elsewhere and this will free up government budget for other things. The country infrastructure and telecommunications can be improved with the help of foreign capital. Many foreign telecommunications companies are already operating in Russia.

As we can see, there is a great need for foreign investment. It is now up to interested parties to grasp the opportunities.

Part two: The business environment

In this section we shall look at the conditions under which business operates in Russia. Trade and taxes will be looked at, with a mention of the incentives given by the Russian government to foreign investors. This part concludes with a description of the privatisation process and the changes that it is undergoing.

2.1 Trade, Taxes and investment incentives

Trade:

Russia's major trading partners are Germany, China, Italy and the USA. Imports have dropped during 1993, due to lack of domestic demand, and have left Russia with a $13.8 billion trade surplus. Imports from developing countries have increased and China is becoming an import trading partner.

At the beginning of 1994 there were changes in the duty levying procedures, in excise duty rates and in the regulation of personal imports. Importers have to produce proof of purchase of the goods at the same time as the customs declaration is made. If this cannot be done, the goods are impounded. This is done in order to avoid the reduction of product values in order to reduce tariffs. Duty levels have recently been increased, as can be seen in Table 4.

Table 4. Excise duty rates for selected items in March 1994
% of value

Product	Excise duty levied
Vodka	85
Tyres	62
Wine	100
Cigarettes	100
Cars	35-70
Beer	40
Jewelry	30

Source: The Economist Intelligence Unit

New rules on personal imports allow a person to enter Russia with up to $2,000 worth of goods without paying duties. Varying rates of duty apply to larger values of imports, and customs officials are allowed some degree of discretion when deciding whether the imports are really for personal use or not.

New legislation introduced on January 1st 1994 is designed to stop Russians keeping their earnings abroad and thus avoid currency retention quotas. Of $46 billion worth of goods exported in 1992, $15-$20 billion did not come back to Russia. The situation was similar in 1993. This new legislation will affect trade, as it requires that exporters give full details of their operations to the authorities.

Russia and the European Union signed a cooperation agreement on June 24th 1994, clearing the way to free trade between the two zones. The agreement will abolish quantitative restrictions on Russian exports to the EU, except for textiles and some steel products. Russia will not impose any quantitative restrictions on EU exports and European companies wishing to establish themselves in Russia will be treated the same as Russian companies.

More changes in export and import regulations are expected during 1994.

Taxes:

Taxes in Russia can be confusing and in some cases seem to be arbitrary. Widespread tax evasion makes it difficult for the government to achieve the required revenues. However, the law on taxes is continuously being changed in order to improve the system. This tends to complicate matters for the investor in the short term, but hopefully will result in a coherent tax code for Russia in the long term. Here we explain the latest changes in tax laws and give some examples of taxes.

Profit taxes must be paid by all legal entities. The Law on Tax on Profits of Enterprises and Organisations was passed in March 1992 and was amended on January 1st 1994. Joint ventures and fully-owned subsidiaries must pay both the unified federal profit tax of 13% and the local profit taxes, which are set by district and republic administrations. These local taxes can be as much as 25% for industrial and commercial concerns and 30% for banks and insurance concerns. (7)

There is a new federal tax to boost the size of the strategic industries support fund of 3% of turnover. Property tax has been raised from 0.5% to 2% of the property’s value. Companies holding state bonds do not have to pay profit tax on any benefit they gain from these bonds. Banks do not have to pay tax on income derived from investment credits granted for a period of 3 years or more. (8)

VAT was introduced into Russia on January 1st 1992. The current VAT rates are 20% (general) and 10% (restricted).

A presidential decree on tax has recently (May 1994) been announced with the aim of cracking down on tax evasion. Banks must now report all transactions of over $10,000. With an increase in $9,999 transactions, it is easy to see how this measure can be sidestepped. (9)

The tax laws are unpredictable and often arbitrary. For example, joint ventures using the word «Russia» in their name have to pay a tax of 0.1% of gross turnover. As with many laws, the tax laws get caught up in the ongoing struggle between parliament and the government (10).

Investment incentives:

There is no coherent incentive program in Russia. However, there are some specific incentives for investors in certain regions and industries. Additionally, tax reducing incentives are given for different types of investment. For example, profits that are reinvested in research and development can be deducted from profit before tax. Small companies that use new technology and equipment get some tax incentives and there are tax concessions for capital renovation. Often the local authorities offer their own system of incentives and sometimes on a discretionary basis. The Moscow municipal authorities have been giving incentives to investors in the areas of farm product processing, construction, the leisure industry and hotels. There are certain industry-specific tax concessions laid out in the July 16th 1992 amendment to the tax law. Reinvested profit in enterprises concerned with coal mining, the oil industry, the manufacturing of medical and food-processing equipment and the production or processing of food, medicine or consumer goods is tax deductible up to a maximum of 50% of tax liability.

As far as regional incentives are concerned, they tend to be highest in less developed regions and in contaminated regions such as that of Chernobyl. A presidential decree of July 4th 1992 gave Free Economic Zones (FEZs) a few privileges that translate into incentives for the investor. The Yantar Zone allows companies exemptions from export and import duties (except VAT and excise). Nakhodka Zone proposes that firms with foreign participation should be allowed special provisions on export licensing, customs procedures and visa regimes, 5-year tax holidays and 5-year tax credits. A new draft law on free economic zones is expected by autumn 1994.

2.2 Privatisation Process

Privatisation is about to undergo a dramatic change. The first wave of privatisation will have been completed by the beginning of July, resulting in an end to the voucher system. Foreign investors may find they have greater opportunities in the new system. However, regional splits in privatisation methods now seem more likely and a national policy may well be at risk. See Box 1 for a summary of privatisation legislation.

Box 1: Privatisation Legislation

«On the Fundamental Provisions of the Programme of Privatisation of State and Municipal Enterprises in the Russian Federation for 1992». Passed on December 29th 1991 and revised on June 11th 1992.

The revision declared the main objectives of privatisation to be: 1) to stimulate the formation of a property-owning class; 2) to de-monopolise the economy and foster competition; 3) to attract foreign investors; 4) to encourage efficiency improvements in enterprises; 5) to provide money for investments in the social infrastructure of the country. The law also laid out targets and defined privatisation procedures. It gave preferential rights to those working in the privatising companies.

Presidential Decree 914 was passed on August 14th 1992: «On the Introduction of the System of Privatisation Vouchers in the Russian Federation». It defined the voucher method, much like that used in Czechoslovakia.

There was a further decree (no. 640) in May 1993, which had the purpose of further liberalising the privatisation system. However, it was suspended by parliament.

Foreign investors wanting to buy a privatising firm must get permission from the government of the Russian Federation or from the appropriate autonomous republic (depending on which owns the enterprise) if the target is engaged in energy production, mining, the processing of mineral ores or special stones. Permission must be sought from the appropriate MKI (Municipal Committee for the Management of State Property) if the target is in the retail trade, catering or road transport, or is a small industrial or construction enterprise.

The GKI (Goskomimushchestvo = State Committee of the Russian Federation for the Management of State Property) says that over 63,000 small enterprises employing 4 million people (5.5% of the workforce) had been privatised by the middle of 1993. Rb300 billion in revenue was obtained. Success levels varied by region. For example, in the Far East Region

30% of targeted enterprises were actually privatised. In the Central Region 80% of targeted enterprises were privatised. By mid-May 1993, approximately 1,500 large enterprises had been privatised (the eventual target was 5,000-8,000 medium and large enterprises). Most of these ended up under the control of the employees of the enterprise. Employees in 70% of the 75 largest enterprises privatised by the end of May had bought 51% of the firms' shares.

Overall, in the 18 months since the privatisation program began, over 12,000 medium and large enterprises have been privatised. Approximately 62% of enterprises have been privatised. 60% of industrial workers are now employed by newly privatised enterprises. 14,000 industrial companies and 650 mutual funds have issued shares over the last 18 months. Russia now has over 40 million shareholders, more than both the US and the UK combined. Russia is planning to privatise electricity, gas and telephone utilities as well.

It is still unclear whether the privatisation process has achieved the desired results. However, according to a report produced by the World Bank, 47% of newly privatised firms changed product mix in 1993, 57% have introduced new incentive-oriented work compensation schemes, and 60% have laid off workers. It seems that industry is slowly restructuring.

In Moscow, however, the original objectives of privatisation seem to have been forgotten. Though the privatisation of industrial firms has been fast and furious in the rest of Russia, Moscow has privatised hardly any industrial firms. In contrast, nearly all retail outlets have been privatised. Moscow has a different system from the rest of the country. There has been a continuous struggle between Chubais and the Mayor of Moscow, Yury Luzhkov. At present, land cannot be privatised in Moscow, though it can in the rest of the Russian Federation (although it can only be owned by Russians and not by foreigners). However, Luzhkov wants to split completely from the national privatisation program and run the Moscow privatisation independently. Mr. Yeltsin has recently (June 1994) given Luzhkov the go-ahead for his plans to split from the national privatisation program. By doing this, Yeltsin is abandoning Chubais. Luzhkov has set up a body much like the State Property Committee of Chubais called the Moscow State Property Committee, which is answerable directly to him and not to the federal government.

Under Luzhkov's plans there are certain organisations to be specifically protected from privatisation, for example buildings on Novy Arbat, organisations that build and repair the city's bridges, metro lines and sewers, and Moscow's cash register factory. Luzhkov thinks that Chubais has privatised firms too quickly and has sold them too cheaply and that this has resulted in the handing over of assets to organised crime. Luzhkov's own privatisation program will be rather different. He will set the prices of enterprises and sell them off slowly. He proposes to regulate the privatised firms' profits and give Moscow the right to skim off excess earnings. He will also dictate how many employees each firm has and have some control over the firms' line of business. Moscow proposes to enforce the rules by signing contracts with privatised enterprises and by expropriating the property of those that do not follow the rules.

The national privatisation program will progress to a second stage with the end of the voucher system on July 1st 1994. State enterprises will be on sale to any legal entity, foreign or domestic. They will be auctioned (sold by tender). The starting price has been established using the 1993 book value of assets. This is 16-25 times the price that enterprises were sold for under the voucher system. More foreigners are expected to participate in privatisation than under the voucher system. However, they might be put off by the continued lack of clarity concerning land ownership.

Part three: How to invest

The purpose of this part is to enlighten the reader as to how he/she may invest in Russia. Practical advice is given on which type of investment may be used, on how to find a partner in Russia, and on how to register one's investment. Four short case studies have been included at the end of the section to give the reader an idea of the sort of problems investors encounter in Russia.

3.1 Forms of Investment

The type of investment chosen by a foreign investor will depend on the philosophy and structure of the investing company, the industry, and the laws and stability of the host country. In the USSR, joint ventures were the only way of establishing investments. Since the 1991 foreign investment legislation, however, nearly all forms of investment are allowed in Russia. Consequently, the number of 100% owned subsidiaries is rising. Acquisitions will become increasingly important as privatised companies get resold and as the new wave of privatisation gets under way.

Companies wishing to invest in Russia may consider the following types of investment:

- Joint venture with an existing company. This is easier to do if the foreign company already has a presence in Russia and has contacts in the form of clients or suppliers.
- Buy a stake or control of a privatised company. The foreign company will have to initiate direct contact with shareholders and employees in order to negotiate a purchase. Many privatised companies are now in the hands of the workers and managers and are in dire need of additional capital to restructure and modernise.
- Buy a privatising company. This will be easier after July 1994 when the voucher method comes to an end (see section on Privatisation for more details).
- Joint venture start-up (greenfield).
- Set up a new company (greenfield) 100% owned. This requires a lot more initial investment capital and for this reason is usually done by larger companies like Coca Cola. They are rewarded with the prospect of total control, guaranteeing quality and employee dedication.

Joint ventures or the purchase of control of a privatising or privatised company (51%) require a lower initial investment, but may require capital later on for modernisation, staff training, etc. There is also a need for a greater investment in terms of time and effort to make a joint venture work or to instill a new culture into an existing company. Foreign companies participating in joint ventures may find that they face competition from their local partners in the future.

3.2 Participating in the Privatisation Process and Finding a Partner

Box 2: Examples of databases with company information

Business Map by NPO Nauka and Ekonomika Publishing is a series of books listing Russian and CIS enterprises by region (33 books) and by industry (32 books). Information is basic and includes personnel, production, products and trade. Telephone number is 7 095 241 7573, 240 0164.

Information Banks for Enterprises of the ex-USSR (software) by NTK AUS-Impuls is a listing of 70,000 enterprises with much the same information as Business Map. Telephone number is 7 095 497 2047.

Partner series of databases (software) by VNPO Sotsium is a series of three titles, available in Russian only. Telephone: 7 095 230 2819.

Industrial Catalogues by Infoprom cover at least 85% of the enterprises in the following industries: Construction materials, the rubber and technical industry, chemicals, mineral fertilizers, and ferrous and non-ferrous metals. Address: Infoprom, Bldg. 7-9, Pushkinskaya St., PO Box 1, 103009 Moscow.

The Annual Rau-Press register (books and software) by the information agency Rau-Press gives information for over 40,000 enterprises by sector. Telephone: 7 095 291 2135, fax: 7 095 255 9852, teletype: 114 875 raut.

Various organisations and databases can be used in order to find a partner in Russia or to gain information for the purchase of enterprises. The Agency for Cooperation and Development (see address list) should be able to provide some help in this area; however, they are still learning and defining their role. The Foreign Investment Department of the Federal State Property Agency can be contacted in order to find out about privatising companies. However, this is a government organisation and naturally has some stake in the process. For a more independent view one can go to the International Foundation for Privatisation and Foreign Investment (FPI). Their main function is to provide independent information on local industry and companies that are up for privatisation. They have detailed portfolios of over 4,000 enterprises, outlining potential investment projects, contact details and production profiles of enterprises and factories up for sale. Members include local organisations, legal bodies and influential industrial groups.

InformVES is a government agency offering services such as matchmaking in trade and investment activities, market analysis, sponsorships and consultancy. Vnesheconomservice is another useful state consultancy agency, attached to the Chamber of Commerce. (Addresses and telephone numbers can be found in Exhibit 2.)

3.3 How to Register an Investment and Basic Law Covering Foreign Investment

The registration procedure is fairly straightforward, but requires a fair amount of patience and paperwork. The law covering foreign investment is very similar to that covering domestic companies, though there are a number of industries in which foreigners are required to obtain special permission to invest.

A new law concerning foreign investment is expected to be passed in autumn 1994. It may well take the form of a presidential decree and is therefore fairly unpredictable. At present, foreign investment is covered by the Law on Foreign Investments in the Russian Federation of July 4th 1991. This basically states that any type of foreign investment is allowed and that profits may be repatriated. It also lays out the guarantees for the investor and describes registration procedure.

Companies should register with the RAMSIR (Russian Agency for International Cooperation and Development) and the local authorities. On November 28th 1991 a presidential decree declared that foreign investment projects valued at less than Rb100 million should be registered with and approved by the councils of ministers of Russia's autonomous republics and also with the regional administrators. Investments with a value of over Rb100 million must seek approval from RAMSIR, which in turn must consult the appropriate regional or local government. Companies investing in the areas of fuel and energy production, processing and production of ores, precious metals and stones, or processing and production of radioactive and rare earth substances must seek approval from the Russian government. Municipal approval is required for foreign investment projects in the retail trade, public catering and services and small industrial enterprises with fewer than 200 workers. Foreign investments in the banking sector and insurance of securities brokerage must obtain permission from the Central Bank and the Ministry of Finance respectively. An enterprise cannot open a bank account or participate in foreign trade unless it has a registration number that is obtained after registering the company.

There is some confusion as to whether foreigners can own land or not. By law, the acquirer of a privatised company is permitted to become the owner of the land that previously belonged to that company. Theoretically, if a foreigner buys a privatised company, he should also become the owner of the acquired company's land. However, the Basic Land Regulations of July 21st 1993 prohibit foreigners from owning land. A draft of a new land code was submitted to the Duma in June 1994, but it is still not known whether it will lead to any change in the present conditions for foreigners. The only other option is to lease land.

The latest bankruptcy law was passed on March 1st 1993. Since then, there have not been many bankruptcies, but the numbers are expected to increase. A presidential decree on bankruptcy was passed in May 1994. It will speed up bankruptcy procedures and allow foreigners to buy the fixed assets of bankrupt firms.

3.4 Case Studies of Investors' Experiences

This section takes a look at the experiences and attitudes of foreign investors already present in Russia. This will give the prospective investor an idea of the problems one encounters when investing in Russia. This part contains general information obtained from the British Embassy in Moscow and from our own study of foreign investors in Russia. It also includes four short case studies chosen from a survey.

Between March and April 1993 the British Embassy Commercial Department discussed the subject of operating in Russia with representatives of the major British companies in Moscow. The following problems were identified:

Uncertainty over legislation: rapidly changing and confusing.
Frequent changes in the tax regime and unfavourable tax rates.
The rouble: inconvertibility and devaluation.

Commercial debts.
Uncertainty as to ownership: insufficient legislation.
Conflict between central and regional authorities: contradictory laws.
Lack of information and underdeveloped business environment.
Corruption.
Bureaucracy: frustrating registration of companies.
Russian perceptions of investment: suspicious of foreigners.
Inadequate international support.

As part of our research, we carried out a survey of investors' attitudes to Russia. Of the 30 Spanish and British companies contacted, 10 were interviewed, either face to face, by telephone or by fax. Nine of the 10 companies we interviewed are operating, or hoping to operate, in Russia in order to take advantage of the huge untapped market. They have established production or commercial joint ventures with local partners in order to sell their products in Russia. The 10th company intends to invest in Russia to take advantage of cheap production and raw materials and sell the products back in Spain. This venture has not been carried out yet due to lack of domestic funds.

Two of the companies said that international organisations tend to slow things down rather than assist investment. One company said that they had been told they were too small for financial help from international organisations. They believe there is a need for funding for small investors.

Five of the companies are already operating. The rest are in the planning stages and are selling products. The main problems they have had in operating in Russia include: slow bureaucracy, hyperinflation and the decline in the value of the rouble, rapidly changing and contradictory laws, slow shipping, bad communication, lack of financing, an inefficient and untrustworthy banking system, unclear property rights, the change from centralised to disorganised buying, non-state controls (the Mafia), and instability.

Here we propose to look at four of these examples in more detail.

Chupa Chups

Chupa Chups started producing lollipops in Russia in October 1990, though it had been selling its products in the USSR on a barter basis since the 1970s. The joint venture, called Neva-Chupa Chups, between Chupa Chups and the First Confectionery Kombinat of Leningrad was officially registered 11 months after the contract had been signed. Chupa Chups has a 75% stake. They say that they were the first foreign confectionery company to start producing in Russia.

Chupa Chups sell their products directly to distributors, wholesalers and retail outlets. They are the market leader. They have no local competitors and the few foreign products on the market are generally much more expensive than Chupa Chups' locally produced lollipops. Value added tax is more than import taxes, so importers tend to have a price advantage over local producers, even though local production is cheaper.

Few raw materials are bought locally. The lollipops themselves are produced in the factory, but the flavouring, lollipop sticks and wrappers are brought in from Spain. Some packaging is being bought locally, though the quality is poor,. Raw materials for the lollipops, such as sugar, are sometimes hard to come by. Having sourced materials from a central agency in the past, Chupa Chups is now having to search amongst fragmented suppliers.

However, they do say that supplier efficiency and the quality of the products supplied have improved over the last couple of years.

One of the most interesting problems that Chupa Chups has had in Russia is the difficulty in finding capable employees. They have 77 people working for them in Russia in sales, marketing and production. All of them are Russian except for one Spanish manager. They were recruited by using western executive search firms and by putting advertisements in the local newspapers. None of their employees is more than 30 years old; their national sales director is 23. They say that the older people are too ensconced in the old Soviet mentality and find it hard to change. They cannot cope with the fact that they are paid only for the amount of work they do. Younger employees can be trained in-house, as they are at Chupa Chups, by trainers sent from Barcelona. Eventually, the training will be done entirely by Russians.

One of the most frustrating problems for Chupa Chups concerns money and banking. It can take up to 5 weeks to transfer money from Moscow to St. Petersburg, by which time the money has lost considerable value. Added to this, Chupa Chups feels that the banks do not trust their clients and meddle unnecessarily in their business. The alternative is to withdraw sacks of money and transfer it yourself. Besides the obvious risk of carting sacks of money across the country, the cost also goes up, as the bank charges for the time it spends counting out the money. All these problems are exacerbated by hyperinflation. Chupa Chups asks for full payment of its products up-front from new buyers and 50% payment from distributors who have an established relationship with them. The risk and financial costs shouldered by the buyer mean that the product reaches the market at a much higher price.

Littlewoods

Littlewoods is a retail operation based in the UK. In 1991 they began planning a retail joint venture with Gostiniy Dvor, the largest department store in St. Petersburg. Gostiniy Dvor has 1 million square feet of selling space and 300,000 customers each day. Littlewoods say that they decided to invest in Russia because of its huge untapped market. They were already in the process of moving into new international markets because of the lack of growth possibilities in the UK, and have other investments in the Far East. Looking at markets from Spain to central Europe, they found that the Russian market was the most tempting, with its lack of competition, poor quality textiles, cloth and styling, and huge long-term prospects. Now, Littlewoods has a chain of shops and kiosks in Russia and operates a mail order service, which actually has nothing to do with the mail, as the customer has to collect her own goods. Products are either imported or are bought in Russia or other ex-Soviet Union countries. Because of the lack of competitors, Littlewoods claims that it is not so important to do a detailed market analysis for every investment –there is a lot more room for manoeuvre in Russia than in the UK.

Littlewoods chose to locate in St. Petersburg rather than in Moscow because St. Petersburg is away from the political struggles of the capital. Also, they see St. Petersburg as a natural gateway and look forward to the possibility of it becoming a free economic zone. They found their partner by making contacts through the British Embassy, the British-Soviet Chamber of Commerce, and the Union of Soviet Friendship –«a hotbed of networking». They considered that the most important thing was to find a partner who had knowledge of the local political and economic environment, city credibility, compatibility with Littlewoods and a retail orientation. Negotiations for the joint venture were difficult and prolonged.

To deal with the political risk, they staggered their investment, which is less than 1% the size of their entire company and less than 10% the size of other investments abroad. They wrote off the initial investment and took a cautious approach to medium-term prospects. To gain political assurance they involved the local authorities.

Littlewoods' worst problem in Russia has been understanding legal matters concerning real estate, as property laws are inadequate. They are currently disputing documents relating to a major investment that are still unclear after 18 months of wrangling. Tax issues, the banking system, the changing legislative environment and political instability have also affected the operation of their company. Inflation and currency depreciation make financial appraisal of profit and loss very difficult. They have no experience of crime or corruption and they say that their employees and managers are of very good quality after training.

EKINSA

EKINSA (based in Spain) has been buying cotton and silk and selling wholesale food, shoes and textiles in Russia and the CIS for some time. They are currently looking into the possibility of opening a supermarket in St. Petersburg, where their main office is located. Their company in Russia is a joint venture with local contacts of EKINSA's director.

EKINSA's main reason for investing in Russia is that it can sell and buy products there, i.e. it has invested for both market and sourcing reasons. Its other overseas investments are in South America, which it chose as a destination because of the cultural and language similarity with Spain.

They are presently buying and selling in dollars, as (they say) it is still legal to do wholesale business in dollars. However, when the supermarket opens, they will have to sell the products for roubles. They are not sure what they will do with them, saying that they will deal with that problem when it arises. At the moment, they are repatriating only the amount of money needed to buy products and are re-investing the rest of their earnings.

Buying property has been difficult for EKINSA. They say that the laws are unclear and bureaucracy is slow and inefficient. They have received no help from any international or Spanish organisation in their efforts, saying that it would take too long to wait for proposals to be looked at and processed. They have a very entrepreneurial outlook, believing that the only way to get anything done is to just do it.

Their main problems are «pressure groups» and «non-state controls», making imports a nightmare. EKINSA was one of the few companies who said they had problems of this type, possibly because of the range of products that they bring into the country. As if this were not enough, they are also plagued by the added problems of slow shipping around the country and bad communications and logistics.

Another problem is the ever-changing and contradictory laws. They have a full office of 12 people (one Spanish, 11 Russians) to follow up the new laws on a day-to-day basis.

Campofrio

Campofrio has two factories and a sales office in Moscow. The factories produce meat products for sale in the Moscow area. The sales office sells products imported from Spain in the Moscow region and is in the process of introducing its products to other regions.

The investment is a joint venture, 80% owned by Campofrio and 20% owned by Mosmiasopro, a company controlling the meat supply to Moscow.

Campofrio invested in Russia in order to obtain access to the market and more particularly in Moscow because it is the capital and is potentially a very important market, with 11 million inhabitants. They chose to invest in Russia rather than other East European countries because the Russian market is far bigger than other markets in Eastern Europe and because (they say) Russia is the most prosperous country in the area. They chose their joint venture partner on the basis of contacts in the local meat supply industry, which enable Campofrio to source raw material for their factory. Campofrio has factories in Mexico, the Dominican Republic and the Philippines. The main reasons for starting operations in these countries were either that their markets were similar to the Spanish market, or that Campofrio had important clients in the country, or that they found a suitable partner with whom to do business. In other words, their reasons have been rather haphazard, with no clear investment strategy.

Campofrio feels that high profits compensate for the political risk associated with investing in Russia. They say that they can obtain much higher profits in Russia than they could with a similar investment in the west. This means that the investment can be depreciated within a relatively short space of time, which reduces the risk. The investment they have made in Russia is five times smaller than similar investments they have in the west. The money came from their own funds and they did not receive any help from international organisations.

Their biggest problem has been the huge bureaucracy in the Russian system, which creates problems for transactions and new investments. □

(1) Source: The Economist Intelligence Unit in Moscow.
(2) The Globalization of Business. John H. Dunning. 1993. Published in London by Routledge.
(3) UN Economic Commission for Europe and the Russian Federation State Committee on Statistics. Other sources give varying FDI figures, all of which cannot be trusted completely. Figures are an indication of the magnitude and should not be treated as accurate.
(4) Source: «Que vienen los chinos». El País. June 1st 1994.
(5) UN-ECE
(6) UN-ECE
(7) The Economist Intelligence Unit Business Report Russia. 1st quarter 1994.
(8) The Economist Intelligence Unit Business Report Russia. 1st quarter 1994.
(9) The Economist Intelligence Unit in Moscow. June 1994.
(10) The Economist Intelligence Unit in Moscow. June 1994.

Exhibit 1

INVESTING IN RUSSIA

International organisations

Finance from international organisations helps not only foreign investors but also the destination country of the investment. It is a great advantage for the country or project to have an international agency involved, as this gives it credibility and acts as a pull on other potential investors. For example, an oil company that wanted to invest in the development of the Upper Vozey Silurian Oil Field might feel much more comfortable about the risk involved if they knew that the EBRD was investing $80 million in the project. The US-based gold company, Newmont Mining, is very grateful to the EBRD for a loan of $105 million for a joint venture gold mine in Uzbekistan. The Chief financial officer, Mr. Wayn Murdy, says «We couldn't have got a commercial bank to take on a commitment in Uzbekistan without them (the EBRD)» (1).

Funding by international agencies in Russia is dominated by the World Bank, the EBRD and the EU (formerly known as the EC).

The European Bank for Reconstruction and Development (EBRD)

The EBRD began operations in April 1991. It is based in London and has offices in Bucharest, Budapest, Kiev, Moscow, Prague, Sofia, Tirana, Warsaw, Bratislava, Minsk, Riga and Tashkent.

The mandate of the bank is to assist the countries of Eastern Europe to «become fully integrated into the international community by helping to establish the foundation of a free, democratic market economy which will facilitate and encourage investment and development. In doing this, the Bank endeavours to be a catalyst for change, placing major emphasis on developing the private sector and promoting entrepreneurial initiative in the region.»

The EBRD's Banking Department is organised into country departments and is in charge of finance for public and private sector projects. They help companies who wish to invest in Eastern Europe and Russia, particularly when they help to: create a competitive private sector; foster entrepreneurial activity and small and medium-sized enterprise; privatise state-owned enterprises; encourage direct foreign investment; create and strengthen financial institutions; restructure the industrial sector; create a modern infrastructure for private sector development and transition to a market economy; and improve the environment. (2)

Proposals submitted by private enterprises and companies to be privatized should have strong sponsors or partners and viable business plans based on:

Exhibit 1 (continued)

- competitive products or services with sound market prospects
- significant equity commitment in cash or in kind by project sponsors
- strong management
- dependable technology
- sound environmental management

A third of the project's financing should be an equity contribution. The bank is usually prepared to provide another third in the form of a loan and to help find finance for the rest. «The Bank can provide equity financing for companies that have a strong growth potential», but does not want control or responsibility for managing enterprises. They also offer debt guarantees and debt and equity underwriting.

In order to apply for help from the bank, enterprises should provide a business plan of the company, a description of the transaction for which the company is seeking financing, a financing plan and financial projections. The opportunity to raise finance from the EBRD is open to both foreign and domestic companies in Eastern Europe and the former Soviet Union.

The World Bank and MIGA

MIGA (The Multilateral Investment Guarantee Agency) was set up by the World Bank in 1988 to encourage foreign investment in developing countries. The activities of MIGA are twofold: They provide guarantees to foreign investors, and they provide advisory services to member developing countries on ways of improving their attractiveness to foreign investors.

The guarantees to investors are against loss caused by non-commercial risks, such as currency transfer, expropriation, war, revolution or civil disturbance, and breach of contract. They act as a type of political risk insurance. The following investment forms are valid for a MIGA guarantee:

- Equity
- Shareholder loans
- Shareholder guarantees
- Commercial bank loans
- Moveable assets
- Management or technical agreements
- Production-sharing agreements
- B.O.T.

Exhibit 1 (continued)

The investment may be either a new investment or a new contribution associated with an expansion, modernization or financial restructuring of an existing enterprise. Investments facilitating the privatization of a state enterprise are also eligible.

The investment must come from and go to a member country and be located in a developing country (or Eastern European or CIS country).

MIGA can insure up to 90% of the investment amount, subject to a per project, per coverage limit set at $50 million. There is no minimum amount of investment required. The maximum period of coverage is 15 years.

MIGA is receiving more and more requests for guarantees for investments in Russia. The first coverage issued in Russia was to Multiserv Russia S.A., a company incorporated in Belgium, for its investment in machinery and equipment for a steel slag-processing operation in Magnitogorsk. The company will introduce modern metal recovery systems in Russia to help process environmentally hazardous stockpiles of slag. MIGA provided $9.9 million in insurance against the risk of war and civil disturbance for 15 years. This cover made it easier for the investors to obtain finance for the project (3).

The International Finance Corporation (IFC)

The IFC is also a member of the World Bank Group. It gives financial support, advice and technical assistance to the private sector in developing countries. It works with MIGA in giving advice on how to attract foreign investment and offers advice and technical assistance for the development of capital markets, restructuring of businesses, risk management and the preparation and evaluation of projects. More than half the companies financed in developing countries are joint ventures with foreign partners. Companies wishing to invest in developing countries and East and Central Europe can apply to the IFC for financial assistance. The following conditions should apply:

- They should be 100% privately owned or there should be a significant level of private participation in a mixed private/public firm
- There has to be the presence of a local investor
- The company should be efficient and intrinsically valid without relying on subsidies.

The type of financing is tailored to the needs of the borrower, but in general the following are available:

- Participation (minority share)
- Loans
- Convertible loans and other intermediate financing.

Exhibit 1 (continued)

In 1993 the IFC approved of financing of $2,100 million for its own account and $3,900 million financing (including syndication and underwriting) for 185 new projects in 54 countries. Projects were in both the private and the public sector.

Russia became a member of the IFC in April 1993 and almost immediately two oil and gas projects were approved and a credit line to the International Moscow Bank for on-lending to small and medium-sized businesses was approved. The IFC presence in Russia has concentrated mostly on the privatisation process, preparing and implementing the privatisation of hundreds of large companies and thousands of small enterprises.

Though the IFC concentrates its financing in the private sector, it is more and more willing to become involved in infrastructure, power and telecoms projects, where there is significant private participation. B.O.T. (Build Operate Transfer) projects are also considered. As well as providing financing from its own resources, the IFC is capable of mobilising funds through loan syndication. Added to this, it has a network of trust funds that can finance project preparation.

UNIDO Investment Promotion Services

UNIDO's Investment Promotion Services (IPS) aims to put investors from industrialised countries in contact with promising entrepreneurs in developing countries in order to promote investment in these countries. They have a network of offices, World Investment Network Service (WINS), in Athens, Cologne, Milan, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington and Zurich, with new offices opening in Bahrain, Istanbul, Lisbon and maybe Barcelona in 1994. They also have Centers for International Industrial Cooperation in Beijing and Moscow, as well as using Investment Promotion Agencies and informal focal points in several UNIDO countries.

UNIDO WINS is an international network for investment promotion, and is a growing network linking national agencies involved in promoting inward investment with other IPS offices. The principal functions of the latter are to identify investors in their respective countries. Their staff are in close touch with business communities, development agencies and financial institutions in their respective countries and have established data banks with details on companies interested in industrial partnerships. The main help that IPS can give to prospective investors is to make available information on companies in Russia looking for partners. Local investors are identified as capable of doing business with foreign partners. Their current operations and investment plans are profiled using standardised forms. Investment projects are screened using software developed by UNIDO for this purpose (4).

IPS also helps investors with industrial development plans and investment laws and incentives in developing countries and with sources of project financing.

To entrepreneurs in developing countries IPS offers lists of foreign companies who are looking for partners and investment opportunities in their country, and available sources for technology transfer. They also offer information on the interests and concerns of foreign investors and advice on how to promote their country for investment.

Exhibit 1 (continued)

UNIDO IPS is organising an investment forum in September in St. Petersburg/Novgorod to concentrate on projects in these regions involving conversion of military enterprises and commercialisation of formerly classified technologies from the military and space programmes. At the forum, foreign participants will have the opportunity to meet representatives from previously selected enterprises.

The EU

The Joint Venture Phare Programme and International Investment Partners give technical and financial assistance to companies investing in Eastern Europe and other developing countries. They help with viability studies, project finance and technical assistance once the investment is established. The Joint Venture Phare Programme, JOPP, assists companies from within the EU who are setting up joint ventures, or who wish to expand existing joint ventures, with partners in Central and Eastern Europe. At least one shareholder must be from an East European country and at least one from an EU country, and at least 75% of the share capital must be held by these shareholders together.

Financing is available for pre-feasibility, feasibility and pilot projects up to ECU150,000. The finance requirements of the joint venture can be covered for a maximum of 10 years and ECU1 million. Technical assistance is available to strengthen the human capital base of the joint venture in the form of a 5-year interest-free loan, for the maximum value of ECU150,000.

The European Investment Bank (EIB)

The EIB is an independent finance institution of the European Union. It works in much the same way as the EBRD in giving loans to companies that wish to invest abroad. In fact, it is involved financially and on a management level with the EBRD. Though most of its business is concentrated in the EU, it does finance projects in Central and Eastern Europe

Relevant contact names and numbers

EBRD, One Exchange Square, London EC2A 2EH, United Kingdom
Tel: 44 71 338 6000

MIGA, Mr. Leigh P. Hollywood, Vice President Guarantees
Multilateral Investment Guarantee Agency, 1818 H St. NW.
Washington DC 20433, USA
Telephone: (202) 473 6168. Telex: ITT 440098. Fax: (202) 334 0265

Exhibit 1 (continued)

International Finance Corporation, Mr. Makarand Dehejia, Vice President
1850 I (Eye) Street, N.W., Washington, DC 20433, USA
Telephone: (202) 473 0632. Fax: (202) 676 1513

Moscow: Mr. Roger Gale, Resident Representative
Schepkin Theatre School Bldg., 6 Neglinnaya Street, 103012 Moscow
The Russian Federation

Telephone: Int'l (7 501) 882 1045/6/7. Local (7 095) 928 5328 or 921 1137
Fax: Int'l (7 501) 882 1044. Local (7 095) 923 2742

UNIDO Investment Promotion Service
1050 17th St., N.W., Suite 800, Washington, D.C. 20036
Telephone: (202) 659 5165. Telex: 3730475 IPS WSH. Fax: (202) 659 7674

P.O. Box 300, A-1400 Vienna, Austria

Kussinen St. 21B, Moscow 125252
Telephone: 97 095 229 8719. Telex: 871 9430089

Joint Venture Phare Programme
Commission of the European Communities
Directorate General XVII - Credit and Investments
Mr. Enrico Cioffi, Director-General, Mr. J. M. Magnett, Head of Unit
Bâtiment Wagner, Rue Alcide de Gasperi, L-2920 Luxembourg
Telephone: (352) 43 01-36261. Telex: EURFIN LU 3366. Fax (352) 43 63 22

JOPP Assistance Unit, 20, rue Louvigny, L-2920 Luxembourg
Telephone: (352) 46 70 96. Fax (352) 46 70 97

Instituto Español de Comercio Exterior (ICEX)
Paseo de la castellana, 14-16, 28046 Madrid, Spain
Telephone: (341) 431 1240. Telex: 44838 IECE. Fax: (341) 431 6128

Compañía Española de Financiación del Desarollo (COFIDES)
Orense, 58, Planta 9, 28020 Madrid, Spain
Telephone: (341) 555 0128. Fax: (341) 556 6559

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(1) Financial Times. March 4th 1994.
(2) From «How to work with the European Bank», leaflet from the EBRD.
(3) MIGA Annual Report 1993.
(4) Source: UNIDO, Vienna.

Exhibit 2

INVESTING IN RUSSIA

Useful addresses in Russia

Ministry of Economy and of the Russian Federation, 12 Okhotny Ryad, Moscow
Tel: 7 095 292 9028 or 292 9139

Ministry of Finance of the Russian Federation, 9 Ylyinka Ul., 103097 Moscow
Tel: 7 095 298 9140. Fax: 7 095 925 0889

Ministry of Foreign Economic Relations of the Russian Federation
Smolenskaya-Sennaya Pl 32/34, 121200 Moscow
Tel: 7 095 244 2987 (Protocol Dept.)

Ministry of Foreign Economic Relations, 18/1 Ovchinnikovskaya Nab, Moscow
Tel: 7 095 220 1350. Fax: 7 095 244 3981

Ministry of Trade and Raw Materials, 5 Orlikov Per, 107801 Moscow
Tel: 7 095 204 0111. Telex: 111412 gosn

Chamber of Commerce and Industry of the Russian Federation
Iljinka St 6, 103684 Moscow
Tel 7 095 298 3231, 298 4387. Telex: 411 126. Fax: 7 095 230 2455

Russian Agency for International Cooperation and Development
Ul. Vozdvizhenka 14, Moscow
Tel: 7 095 290 6932 (information), 292 3932, 292 1675. Fax: 7 095 200 1209

Government Investment Corp. (GOSINCOR), 35 Myasnitskay Ul. , 101959 Moscow
Tel: 7 095 925 6796, 207 6936. Fax: 7 095 207 6936

General Division for the Registration of JVs, Georgievsky Per 2, Moscow
Tel: 7 095 292 9082

InformVES Association, Ovchinnikovskaya Nab 18/1, 113324 Moscow
Tel: 7 095 220 1606. Telex: 411 932 ives su. Fax: 7 095 230 2018

Vnesheconomservice (central office), 1 Krasnogvardeisky Pr 12
123100 Moscow
Tel: 7 095 259 3753. Telex: 412 138 ves su. Fax: 7 095 921 5397

International Foundation for Privatisation and Foreign Investment (FPI)
Ul. Solyanka 3, 109028 Moscow
Tel: 7 095 924 6061. Fax: 7 095 923 1411

32 Prinz-Eugen-Strasse, A-1040 Vienna
Tel: 43 1 50 2400

Exhibit 2 (continued)

19 Woodfield Road, London W9 2BA, UK
Tel: 44 71 289 2193. Fax: 44 71 289 6329

919 Third Avenue, New York, NY 100022, USA
Tel: 1 212 735 2088. Fax: 1 212 735 2000

Federal State Property Agency of the Russian Federation
9 Proyezd Vladimirova, 103685 Moscow
Tel: 7 095 298 7562

Federal State Property Fund, Novy Arbat 19, 103025 Moscow
Tel: 7 095 203 4869. Fax: 7 095 203 5225

State Tax Agency, 23 Neglinnaya Ul., Moscow
Tel: 7 095 209 7341

The Association of Joint Ventures, International Consortia and Organisations
55 Leningradsky Prospect, 125190 Moscow
Tel: 7 095 943 9978, 943 0200, Fax: 7 095 943 0200

Foreign Trade Association Soyuzexpertiza, 5/2 Ul. Ilinka, 103012 Moscow
Tel: 7 095 921 5224, 928 8412, Fax: 7 095 921 5675

State Committee on Anti-Monopolistic Policy and New Economic Structures Development,
41 Prospekt Vernadskogo, 117947 Moscow
Tel: 7 095 430 8982

Central Bank of the Russian Federation, 12 Neglinka Ul., Moscow
Tel: 7 095 924 0321. Fax: 7 095 237 5055

Ministry of Justice of the Russian Federation, 10a Yermoloviy Ul., 101434 GSP Moscow.
Tel: 7 095 209 6098

Supreme Court of the Russian Federation, 3/7 Ilyinka Ul., 103289 Moscow
Tel: 7 095 924 2347

Russia's Free Economic Zones

Altai (Altai Province) 59, Lenina Prosp. 656035 Barnaul.
Tel (7 3852) 226814, 228743, Fax: 228542, Telex: 233231 PLAN?

Dauria (Chita Oblast). 8, Chaikovskogo Ul, 972021 Chita.
Tel: (7 30222) 33494, 32013, Fax: 63319.

Gorniy Altai (Altai Republic). 16, Korova Ul, 659700 Gorno-Altaisk.
Tel: (8 38541) 26151, 20731; Telex: 233593.

Exhibit 2 (continued)

Eva (Jewish Autonomous Region). 18, Shestidesyatiletiya SSR Prosp, 682200 Birobidjan. Tel: (via operator) 63204, 62672; Fax: 61560.

Kuzbass (Kemerov Oblast). 58, Sovietskiy Prosp, 650099 Kemerovo.
Tel (7 38422) 264333, 265282; Fax: 263409.

Nakhodka (Primorsky Province). 16, Nakhodkinskiy Prosp, 692900 Nakhodka.
Tel: (7 42366) 47230, 45418, Fax: 46646, Telex: 213850 PTBSU.

Sadko (Novgorod Oblast). Dom Sovetov, 173000 Novgorod.
Tel: (7 81600) 78279, 74779, Fax: 77181.

St Petersburg (Leningrad Region). Smolniy, 193060 St. Petersburg.
Tel: (7 812) 278 1678, 278 1724.

Sakhalin (Sakhalin Region). 39, Kommunisticheskiy Prosp, 693011 Yuzhno-Sakhalinsk. Tel: (7 42400) 31402, 36500, Fax: 33771.

Technopolis Zelenograd (Moscow Region). 1 Tchentralniy Prosp. 103482 Zelenograd. Tel: (7 095) 535 6220, 535 7381.

Vyborg (Leningrad Region). 12 Sovetskaya Ul, 188900 Vyborg.
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