

Russia – wide market with
”new winds of transparency”

Internationalization in Russian market

- Why Russia?
- Figures of growth
- Investment climate
- SEZ: IT, biochemistry, tourism, machines and devices
- Strengths of Finnish business
- Main problems for Finnish business
- Ways to organize the business
- Types of business entity
- Entering the Russian market
- Financing for the internationalization



Why Russia?

- The size of the market: 142 milj. consumers – middle class has been strengthening steadily since the 90´s
- Developing market: companies have a chance to offer their knowledge in priority sectors: biomedicine and life science, cleantech, renewable energy, ICT, maritime cluster, construction industries, education, creative sector...
- WTO: "New transparency" could improve the investment climate
- Political climate – Relations between Helsinki and Moscow



Russia – The figures of growth

- The volume of foreign trade has been doubled since 1992
- The middle class consumers have guaranteed the stability (2012 20%, 2020 50% - 67 million)
- GDP: jan-may 4,5%, estimation for 2013 3,5-3,7%
- Import: 2012, Jan-Aug 213 milliard US dollars
- Best Regions for Doing Business: Republic of Tatarstan (Kazan), Sverdlovsk oblast (Yekaterinburg), Krasnodarsk oblast (Krasnodar, Sochi)



Investment climate under construction

- Medvedev: The percentage of government ownership will decrease
- Putin: Completely new system of roads and railroads in 10 years
- "Bureau of Strategic Initiative"
- Battle with the bureaucracy and corruption: Internet services: licenses, certificates, customs duties, registration of companies etc.



SEZ (special economic zone)

- Foreign investments: Skolkovo as a spear head: spin off, R&D
- SEZ and Technoparks offer financing, facilities, low taxation and business consulting for foreign partners
- SEZ priority projects:
 - Energy efficiency
 - Agriculture
 - IT
 - Petrochemistry
 - Biomedicine
 - Life science
 - Tourism
 - Creative field



Strengths of Finnish business

- "Finnish quality" and know-how are well known in Russia – not only in SPb region
- Geographical location, logistic corridors and hubs
- High level know-how in Russian priority sectors: IT, biotechnology, shipyard technology and marine engineering, energy efficiency etc.
- Bilateral relations and diplomacy – regular delegations to the most interesting centres of development (Kazan, Yekaterinburg, Novosibirsk, Tjumen etc.)



Main problems for Finnish business

- Marketing and "standing out" from the competitors
- How to develop sales? – Too limited amount of information from the dealers – need of taking control of the business!
- The goals are not clear or they are based on unrealistic expectations
- Lack of knowledge about financial support: Tekes, Regional Councils, Centres for Economic Development, Transport and the Environment (ELY)
- Recruitment, efficiency in Russian language and business culture: negotiations, creating business relations
- Costs of trade: logistics, customs, bureaucracy, legislation, accounting ---

Ways to organize the business

Representative Office (RO) – subdivision for a foreign company

- No business functions, only marketing and support for parent company
- VAT exemption for renting the office
- Simplified reporting: report of activities

Branch office – subdivision for a foreign company

- Parent company carries the responsibility (local legislation)
- May conduct commercial activity – financial reporting
- Right to get licenses (RO has limited rights)

Joint Activity Agreement (JAA)

- The joint activity is taxed at the level of its participants. One of the participants must maintain separate books for the joint activity
- Does not automatically lead to creation of a permanent establishment (PE) in Russia. However, it can be very difficult in practice to defend the “non-PE” position since the law is not very clear in this regard
- Russian partner “opens doors”

Ways to organize the business

Daughter Company

- Long-term investment
- Needs high level knowledge
- Corporation with the parent company?

Share ownership in Russian company

- Limited risk
- Access to market and benefits (financing, development programs etc.)
- Limited possibilities to make decisions
- Pedantic Due Diligence! (Use of well known and reliable consultant)

Buying a company

- Fast entrance to the market
- Limited amount of bureaucracy
- Pedantic Due Diligence! (Use of well known and reliable consultant)

Franchising (popularity increases)

- Low bureaucracy and costs
- Possibility to use partners knowledge
- Partner can turn to competitor?
- Quality control can be a challenge



Ways to organize the business

Sales from Finland – 1) direct (Russian client – agent, importer, wholesaler, reseller – pays for import and VAT), **2) indirect** (through Finnish agent of export company) or export through **3) holding** (opening a company for Russian operations)

- No permanent establishment in Russia – no customs nor tax obligations
- Limited possibility to learn internationalization in Russian market (end clients, marketing, sales development etc.)
- Limited liability
- Creating a reliable set of Russian dealers needs active and long-term work! (several dealers – exclusivity is no recommendable)



Types of business entity

Limited Liability Company (LLC)

LLC is the most popular entity (Russian abbreviation “OOO”)

- Liability will be determined by the shares
- Shares don't need to be registered
- LLC can collectively or individually hold at least a 10% interest in the company's charter capital, and it does not have the power to request a court expel another participant.

Joint-stock company (JSC)

Open joint-stock company (abbreviated OAO)

- Legal entity where shares may be publicly traded without the permission of other shareholders
- An OAO can distribute its shares to an unlimited number of shareholders and sell them without limitations

A closed joint-stock company (abbreviated ZAO)

- Legal entity whose shares are distributed among a limited number of shareholders - maximum 50

Others: General Partnership, Limited Partnership, Double Liability Company

Entering the Russian market

- 1) Market/Country Research
- 2) Risk analysis
- 3) Financing applications
- 4) Plans for the entering: budgeting, location, type of entity/organizing the business, partners, risk management, consulting companies (registrations, certificates, legal services, accounting), money transaction/bank operations, recruiting, customer segments/sales
- 5) Creating the dealers network/Plans for the support
- 6) Marketing
- 7) Reassessment



Financing for the internationalization

The Centres for Economic Development, Transport and the Environment (ELY)

-International partner programs, networks, preparations for the internationalization, participation in international business fairs

Tekes – the Finnish Funding Agency for Technology and Innovation

- Tekes grants annually around EUR 600 million towards innovative projects aimed at generating new know-how and new kinds of products, processes, and service or business concepts. Funding is also available for developing work organizations

Finnfund

- Finnfund provides investment financing in the form of minority equity investments, investment loans, mezzanine financing and a combination of these. The projects should have an experienced industrial sponsor, strongly committed to the project.

Financing for the internationalization

Nefco - The Nordic Environment Finance Corporation

- NEFCO provides loans and makes capital investments in order to generate positive environmental effects of interest to the Nordic region

Nordic Investment Bank

- NIB finances projects that strengthen competitiveness and enhance the environment. The Bank offers long-term loans and guarantees on competitive market terms to its clients in the private and public sectors

Nopef

- Nopef may participate with up to 40% of the approved feasibility study costs in connection with international business set up. The loan can be fully or partially converted into a grant, after the final project report has been approved

Finnvera

- Finnvera is a specialised financing company owned by the State of Finland. It provides its clients with loans, guarantees, venture capital investments and export credit guarantees. Finnvera is the official Export Credit Agency (ECA) of Finland.

“The brave find a home in every land!”



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