

20 Ways to Improve Russia's Investment Climate

By [Jochen Wermuth](#)

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While Russia benefits from higher foreign direct investment per capita than the three other BRICs of Brazil, India and China, total investment spent from domestic sources needs to double in percent of gross domestic product to catch up with China if Russia is to achieve European Union living standards.

Many long-term investors have become distrustful of Russia, and this distrust has to be overcome. Key reforms need to be implemented to improve the investment climate and overall quality of life. And while pushing through these reforms can sometimes seem an overwhelming task, many of them are relatively simple and would not require significant additional government spending.

These actions must be based on the recognition that modernization is not possible without a truly independent judiciary and mass media, political competition, freedom of movement and respect for civil rights.

Wermuth Asset Management asked a number of large international long-term institutional and strategic investors for their views on Russia. Below are some of their comments:

“One of the worst countries I’ve been to. I spent two hours in traffic in Moscow despite a police escort. I will never go back there,” said the owner of a logistics company with a net worth of about \$5 billion.

“Russia defaulted in 1991, restructured its debt in 1995 and defaulted again in 1998. The government stole assets from Yukos and Shell. You complain, you get expelled, like the BP manager. If you push too hard, you may even get killed in London, Vienna, Dubai or in pretrial detention. Now tell me why should I invest my clients’ money in Russia,” said the chief investment officer of one of the world’s largest pension funds.

“We wanted to come to Russia to invest \$50 million and wanted to increase this amount up to \$30 billion later on. But we failed after three attempts to get a visa,” said a manager of a \$300 billion pension fund. “People who have invested money in Russia for a long time advised us not even to try getting a visa without the help of lawyers or agencies that will pay the necessary bribes. We were also told that in Russia it’s difficult to travel without an interpreter. Upon arrival to Sheremetyevo Airport you will spend two hours at passport control. Honestly, we don’t have time for this, and that’s why we won’t come”

Russia’s credibility is extremely low, and it is getting ever more difficult to find people who believe that the prejudices may be wrong. Sometimes these prejudices are absolutely unfounded, but this can be difficult to prove, particularly to investors that are not on the ground and that don’t have first-hand knowledge of the country.

Below are several suggestions to help improve Russia’s investment climate:

1. Judges should be appointed for long terms and be better paid. Senior judges must have tenure, perhaps appointed for life. They should be paid from a special reserve fund to make them independent of politicians.
2. Highly trained lawyers, including retired judges, should be invited to work in the Russian judicial system.
3. Disciplinary tribunals, which will review the cases concerning judges only, should be put into practice. Prominent Russian and foreign legal experts should be permanent members of such tribunals.
4. Sanctions for interference in the work of the judicial authority should be introduced.
5. Encourage and support whistleblowers, including witness-protection programs and rewards, rather than putting them into prison.
6. Recognize and execute international rulings if they do not materially conflict with Russian legislation.
7. Make promotion of government officials dependent on having spent several years abroad — for example, in the Canadian or German police forces or the Norwegian internal revenue service.
8. Establish and develop independent legal associations and unions and engage international specialists to work there. Ideally, every practicing lawyer should be a member of such an organization. Otherwise, he may not legally continue his professional activity.

9. Make corruption a serious crime and increase the term of imprisonment to up to 10 years.
10. Pay bureaucrats well, including a generous personal pension program, according to which every bureaucrat will have a personal account from which some investments would be made in shares of Russian companies. In case of bribery, these accounts will be canceled. Such measures helped reduce corruption in Germany and Britain.
11. A special committee for consideration of corruption cases should be established. Members of the committee could include former German Chancellor Helmut Schmidt or former Singaporean leader Lee Kuan Yew.
12. Set clear goals and fixed dates. For example, Russia should enter the top 10 countries according to the Economic Climate Index of the World Bank and top 10 countries with least corruption according to the Transparency International Index in a reasonable time period.
13. Strengthen independent media. Investors and citizens need a reliable free press, and they must be confident that the information they read is true.
14. Journalists who uncover corruption cases should be rewarded with lifetime scholarships by an international board of trustees.
15. Treat nongovernmental organizations better.
16. Eliminate once and for all the classic headache of visas. Introduce Internet-based visa procedures, point-of-arrival visas or get rid of them altogether. Other countries got rid of visas at least for visitors from European Union member states. As a result, they boosted tourism, business contacts, the quality of life and the quality of the work force. Don't cling to the idea of "reciprocity" in visa-free travel. Make the first move.
17. Abolish sirens and "quack boxes" except for the police and ambulances.
18. Do not take as an example the United States, where roads and cities are blocked for the president. Look, instead, at Germany, where the chancellor walks or cycles to work.
19. Introduce taxi and public transportation lanes.
20. Introduce the Latin alphabet in the metro. Metro workers who are in contact with the general public should speak basic English. Make English-language courses obligatory for all students from kindergarten to the last year in high school. Require television stations and movie theaters to play every foreign film in its original language with subtitles, and Russians will have a better chance of growing up bilingual, as in Scandinavia.

Clearly, there is a lot that needs to be done. But with the right will and determination, there is a lot that can be done. We have invested heavily in Russia and continue to do so based on our belief that Russia will ultimately demonstrate the ability and commitment to institute critical and long-overdue reforms.

Jochen Wermuth is founder, chief investment officer and managing partner of Wermuth Asset Management. Nikita Suslov is professor of economics at the Institute of Economics and Industrial Engineering in Novosibirsk. This comment appeared in Vedomosti.

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