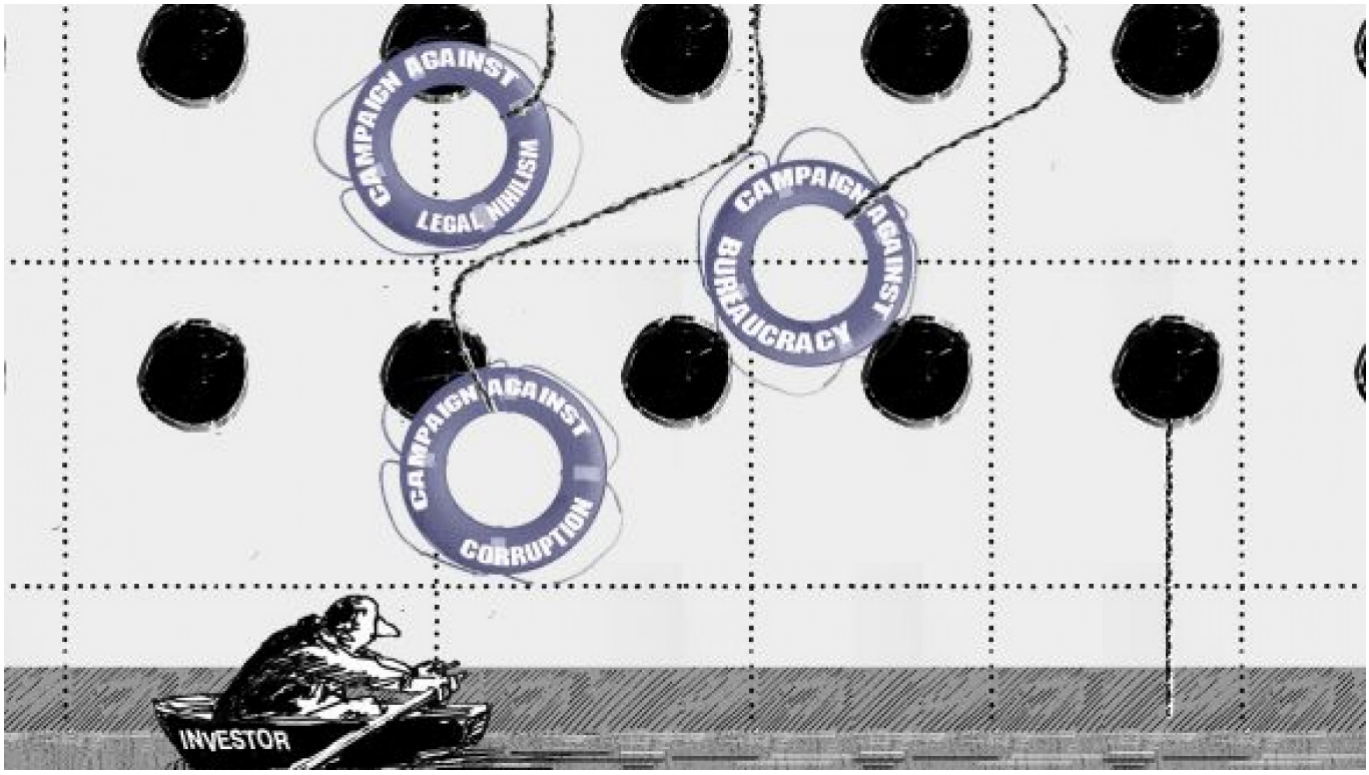
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Amnesty Could Boost the Investment Climate

By Chris Weafer

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The government is finally about to start addressing the third of the so-called troika of issues which business managers and investors, both domestic and foreign, have consistently cited as the main reasons preventing the increase in much-needed investment. Almost every major survey over the past 10 years that has asked the question, "Why is investment in Russia so low, and why is the perception of risk so high?" has listed three problems above all others: the high cost of corruption payments, too much red tape and weak legal protection for investors and businesses.

Less than a year ago, the campaign against corruption started. That was as much a response to the Bolotnaya Ploshchad protests in the months ahead of the March 2012 presidential election as it was to appease concerned investors and hopefully entice new ones. Then, last February, President Vladimir Putin, speaking at the Troika Dialog investment forum in front of thousands of foreign investors, made a public commitment to start dealing with the excessive bureaucracy that makes it difficult to start a new business or to grow an existing one. He made a commitment to improve Russia's ranking in the World Bank's Ease of Doing

Business ranking from No. 120 to No. 20 by the end of his presidential term in 2018. Since then, the target date for reaching No. 20 seems to have drifted to 2020 in several statements by government officials. But still, the important point is that there is finally a visible commitment to tackle the second of the troika of problems that usually create the backdrop scenery for business decision-makers when asked to invest in Russia.

The state has finally gotten serious about tackling the main reasons for capital flight and why foreign investors avoid Russia.

The campaign to start improving the predictability and transparency of the legal system has finally started. The first move to start dealing with what then-President Dmitry Medvedev called "legal nihilism" focuses on amnesty for thousands of businesspeople who have been convicted or who are in pretrial detention and are accused of economic crimes. Government statistics show that almost 120,000 people were serving sentences for crimes in this category as of Jan. 1, while almost 12,500 were in pretrial detention. The amnesty proposal has been delayed after Putin called for a redraft, but it is still expected to be submitted to the State Duma sometime during the summer.

The arbitrary interpretation of laws and the use of courts to seize assets is one of the major criticisms regularly cited by those wary of the high Russia risk and is one of the reasons why the volume of inward investment remains low, while capital flight stays high. If the amnesty legislation actually results in thousands of jailed business people being freed from jail cells, then it will be a very powerful signal of change. This won't be a "Nelson Mandela moment," but it will still be a key turning point in the country's efforts to boost entrepreneurial activity in the country and chip away at the high risk premium applied to Russian assets.

To be sure, Russia will not turn into Switzerland anytime soon. Nobody is saying that the current campaign against corruption is making a huge difference to investors and businesses. Opinion polls show that people are still split as to whether the campaign is really aimed at improving the business climate or simply a means for settling political scores. Similarly, the program to push Russia up the rankings in the World Bank survey only really starts next year when many of the license changes are supposed to take effect. Thus, there is plenty of ammunition for the sceptics to dismiss the anti-corruption and amnesty plans as cosmetic. There is a high likelihood that, like other similar initiatives, initial enthusiasm will recede, conditions will be attached to limit the eligibility for amnesty, and the process will take much longer than hoped for.

Most important, there are now specific government programs in place aimed at tackling the three biggest reasons why domestic investors leave Russia and why foreigners avoid

the country. None of the government's actions or proposals are as yet very effective. But the door has been opened in all three areas, while before last year the proposals of investors and business groups fell on deaf ears.

So why is there more hope today to improve the investment climate? The simple and best answer is that Russia needs the money and the expertise. It is clear to everyone that gross domestic product will not grow at the required annual average of 5 percent, and the Kremlin will have no hope of creating the 25 million new jobs it is targeting unless there is an increase in both domestic and foreign investment, and businesses with the skills required to achieve the targeted growth and diversity are no longer afraid to invest in Russia. Making it easier and safer for Russian businesses operating in the gray economy, which accounts for roughly 30 percent of the economy, would also go a long way to achieving the growth targets.

The business ombudsman's proposal finally opens the campaign against legal nihilism. It is a small first step, but it is a step that business leaders have been urging for more than 10 years. Therefore, it should be enthusiastically welcomed rather than dismissed as weak and hopeless.

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