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October Report: Russia's Tech, Investment and Start-up Deals

EWDN's monthly report on Russia's tech and investment scene covers internet isolation, foreign ownership restrictions and joint ventures at Mail.Ru and Yandex.

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A controversial new law designed to promote Russia's online sovereignty came into force on 1 Nov. **Sergei Fadeichev / TASS**

Internet isolation, foreign ownership restrictions and joint venture proliferation at Mail.Ru and Yandex dominated October.

Internet isolation

For the past few months, Russian authorities have been preparing new legislation to "ensure the safe and sustainable functioning" of the internet in Russia.

When adopting the bill this past Spring, lawmakers said it would serve as insurance in case Russia's global internet access is shut off from abroad. Supporters of the bill also argued new legislation was needed to protect the country against cyberattacks and a variety of other threats.

Critics interpreted the bill as harmful to internet freedom in Russia, triggering several thousand to march against the measures in Moscow and elsewhere.

Related article: Russia's Sovereign Internet Law Comes Into Force

The legislation, which lays out how Russia's Internet infrastructure would work in isolation from the outside world, came into force on Nov. 1, as authorities fear new protests over the country could see opposition-minded groups making wide use of foreign online resources like YouTube and Facebook.

New tools are being installed in internet service providers' (ISP) networks, allowing the authorities to cut off Russian web traffic from the rest of the world. Exercises to prepare for such a scenario will be held at least once a year involving a variety of state agencies.

Foreign ownership restrictions

To make sure the Russian internet will be even better protected from foreign influence, lawmakers are discussing another bill in parallel, regarding foreign ownership of "significant [online] information resources" which "collect information on [Russian] users."

Should foreign ownership reach a certain level — from 20% to 50%, according to various sources — the concerned companies would not be allowed to conduct advertising activities in Russia, an implicit way to deprive them of means of existence.

A dozen Russian internet companies could be concerned, depending on which percentage of foreign ownership will ultimately defined by the law. NASDAQ-listed Yandex and London-listed Mail.Ru saw their stock price fall and then bounce back as the presidential administration got involved in the discussions around the draft bill.

Criticized — even from within government circles — the bill is the latest episode in a long series of government initiatives to assert state control over Russian online assets. Other notable episodes include legislation on personal data storage requirements, and another that aims to establish Big Brother style control over online communications.

Joint ventures at Mail.Ru, Yandex and Sberbank

In early October, Mail.Ru finalized its e-commerce joint venture agreement with Alibaba, Megafon and the Russian Direct Investment Fund (RDIF), Russia's sovereign fund.

While the Chinese giant presented the joint venture as "an important part of [its] globalization strategy," Mail.Ru said the partnership will open the way to "building an undisputed leader in Russian e-commerce."

Related article: Russia's Yandex and Mail.Ru Report Strong Growth Despite Ownership Threats

Attaining this goal does not look unrealistic as Russian e-commerce enters a new growth cycle. The venture can leverage major assets such as the existing AliExpress Russia marketplace, which controls the bulk of e-commerce flows between China and Russia, the VKontakte social network, by far the leader in Russia, and Megafon's 77 million customer base.

Almost simultaneously, Mail.Ru announced another joint venture with Megafon, the RDIF and Alisher Usmanov's holding group USM. Focused on digital payments, this second deal will integrate existing services controlled by Mail.Ru — VK Pay and Dengi — to create a potentially powerful e-wallet company.

The two ventures will have to compete with serious players. In the field of e-commerce these include current market leader Wildberries, Ozon, which is considering an initial public offering (IPO), and the Yandex Market group of companies, itself a joint venture between Sberbank and Yandex. Sberbank and Yandex also have another joint venture in the payments field, Yandex Money.

However, the relationship between Yandex and Sberbank seems to have weakened recently as the latter began establishing close ties with Yandex's archrival Mail.Ru.

Thus, in late October, Sberbank announced its intention to purchase a $170 million stake in Mail.Ru by the end of the year. The deal, if confirmed, will provide the bank with control of one-fifth of the voting rights and 1.8% of economic shares in the London-listed tech giant.

Sberbank and Mail.Ru have also launched a joint project covering ride-hailing and food delivery. This move comes as a challenge to current market leader, Yandex Taxi, which is co-owned by Yandex and Uber.

Deals of the month

A few notable, though less spectacular deals and expansions also took place last month:

- **Playrix**, a global, Russian-founded gaming major, acquired Ukrainian game studio **Zagrava Games.**
- **ID Finance**, a Barcelona-based fintech company with Russian roots, secured $6.4 million — more than three times as much as planned — through an international crowdfunding campaign.
- **Da Vinci Capital**, a major investment firm, injected more than $1.5 million into international blockchain-based crowdfunding platform **BitRussia**.
- **QIWI** co-founder and serial investor Sergey Solonin acquired an 11.9% stake in e-commerce firm **Kaktus** for an undisclosed amount.
- U.S. computer vision startup **Occipital** launched a research and development office in Moscow, absorbing the team of **GeoCV**, a Russian-founded 3D visualization startup.
- **Orange** opened a branch of Orange Fab, its international startup accelerator, in Moscow. The French telecoms giant follows the example of a number of other international groups which have started working with Russian startups.

- **Netology Group**, owned by stell magnate Alexey Mordashov, announced a $10 million acceleration and investment plan for edtech startups.
- **Efko**, an agroindustrial group from Belgorod launched a $50 million international fund designed to “disrupt the food industry, promote a healthy lifestyle, support the ecology and food security.”

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