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Russian Investment World Rocked by Yet Another Arrest

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Alexander Povalko, head of the Russian Venture Company is under house arrest. **Gagarinsky District Court / TASS**

Late last week, the head of Russian Venture Company (RVC), Alexander Povalko, was arrested and put under house arrest for 45 days by a Moscow court after Russia's Federal Security Service (FSB) and police officers ransacked his home.

It is the latest high-profile legal case to have rocked the Russian investment world — and investors themselves have been quick to raise their concerns yet again.

Established by the Russian government in 2006, RVC is a major player in the country's innovation scene. It acts as a fund-of-funds and supports a variety of programs, from startup accelerators to industry research and events.

RVC's management is now suspected of misusing millions of dollars, Russian daily

Kommersant wrote last week, citing unnamed sources. The investigation alleges that RVC money may have been invested in personal projects of its top managers. So far, the case covers around $600,000 of investments, but that could grow to $3 million, Kommersant said.

The investigation is focused on one of RVC's funds and the reinvestment of part of the proceeds from a sale in Soft Machines into U.S. company Alion.

RVC has said they are "confident in the complete innocence of Alexander Povalko." While Povalko is under arrest, the management of the company has been transferred to his deputy, Anna Romanenko.

Shockwave in the investor community

RVC added: "This indictment ... is another 'red flag' for all private investors and entrepreneurs, those on whom the future of the country's economy depends."

Several prominent investors came out in support of Povalko, publicly sharing their concerns about yet another high-profile arrest from within the Russian venture scene.

"Why a pre-trial detention?," asked tech entrepreneur Kirill Varlamov on Facebook. "I don't know whether or not the accusations against Povalko are founded, but why arrest a man and place him under house arrest before establishing his guilt?"

Varlamov, chief executive of Russia's largest startup fund, the state-supported Internet Initiatives Development Fund, called for a "freeze" on state-connected development institutions to stop investments in new projects.

QIWI co-founder Sergey Solonin said he is "horrified by the environment that has been built for businesses in the country," adding that the latest events were a deadly threat to Russia's state-backed investment ecosystem.

"I invested in RVC projects in the past but, given what just happened, I'm unlikely to do so again," he wrote on Facebook. He called on his peers to "stand up and not stay silent", stating what is at stake is no less than "whether we want to live here and build a modern country."

Meanwhile, a Russian investor who requested not to be named told East-West Digital News: "Some players feel that a part of the RVC team lacks integrity and professionalism, and that the management tended to neglect certain associated risks. This poses a question as to the functioning of Russian development agencies, which sometimes fail to deliver expected results."

"The work of these organizations has been made even more challenging recently due to Western sanctions and low liquidity on the Russian venture market. Logically, this affects their ability to attract and retain strong business-oriented leaders," they added.

Top Russian investors under arrest

Povalko's arrest is the latest of a dramatic series of cases involving high-profile tech businessmen in Russia.

In June 2018, former Bright Capital Managing Partner Mikhail Chuchkevich and another RVC senior manager Yan Ryazantsev were arrested in relation with the Alion deal. They were freed last year.

In March 2019, former open government minister Mikhail Abyzov was detained in Moscow — also due to his involvement with Alion. That same month saw the arrest of Vsevolod Opanasenko, Director General and founder of the Russian supercomputer company T-Platforms, for abuse of office.

Arguably the most shocking arrest was that of U.S. citizen Michael Calvey, the founder of Baring Vostok Capital Partners — one of the most established and successful Russian private equity firms — on controversial charges in February 2019.

Calvey and his colleagues, including French banker Philippe Delpal, have maintained their innocence, but they are still under house arrest and pre-trial detention.

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