
Doing Business in Russia - and How To Mitigate Risks

Alex Volcic, Head | Russia & CIS

24 April 2014



Introduction to Kroll



The World's Leading Risk Consultancy

Kroll provides a broad range of investigative, intelligence, financial, security, and technology services to help clients reduce risks, solve problems, and capitalize on opportunities



Unmatched Experience

Kroll is the world's leading risk consulting company. Offering unrivalled experience and industry professionals, we are engaged by an extensive portfolio of clients

Kroll works with some of the world's leading institutions across a spectrum of industry sectors

- We have been at the **forefront of major due diligence investigations**, fraud and corruption engagements, as well as assisting in major disputes.
- Kroll is proud to act as the **preferred due diligence provider to numerous organisations**, including many hedge funds, private equity firms, global investment banks, government institutions and major corporates.
- Kroll uniquely works for both western firms going into Russia as well as Russian firms, HNW and industrial conglomerates
- In the last three years, Kroll has been engaged by:

100% of the top 15
global banks

100% of the top 20
private equity firms

77% of top global 100
corporations

89% of top global 100
law firms

Offices in 50 Cities in 29 Countries



Kroll's Experience in the Region

- » Kroll annually conducts around 500 assignments in the Former Soviet Union, of which 75% are in Russia, with the remainder in Ukraine, Kazakhstan etc.
- » Kroll's presence in Russia dates to 1991.
- » Kroll's assignments include due diligence investigations as well as bribery/corruption and fraud cases.
- » Kroll also provides negotiation consulting and dispute advisory services in the region.
- » Significantly, Kroll also has many domestic clients in the region which adds to our depth of knowledge.

Doing Business in Russia and CIS



A Quick Word on Sanctions

- **Economic effect of sanctions is real – capital flight Q1 close to USD 51bn – as much as all of last year – fx rate etc**
- **Sanctions have always been a feature of international business - and are quite limited for the time being.**
- **You need to continue to do what you have always done which means - include sanctions list checks in your standard third party screening package**
- **Best practice third party screening should be rolled out - if not already in place**

Sanctions continued

- » Establish a methodology to effectively segment third parties. Segmentation factors important for companies to consider include, but are not limited to: country of origin, country of payment, length of relationship, nature of the relationship, criticality of the relationship, time in business, annual revenue, industry/market, level of oversight and foreign government interaction.
- » Based on the results of this risk assessment and segmentation of third party relationships, companies can then devote appropriate levels of due diligence in line with the severity of potential risk.

■ **Case study – is my counterparty owned by Mr X?**

- » No – public record does not indicate it
- » However – newspaper article it indicates it is case?

■ **Recommendation – keep screening !**

Business in Russia – General Overview

- **Russia has been a lucrative place for doing business since the early 1990s, in the wake of the collapse of the Soviet Union**
- **Russian reputation for being difficult primarily stems from its period of transition from communism to a free economy in the 1990s, which resulted in:**
 - » Weak law enforcement capabilities
 - » Significant organized crime
- **Along with rewards of doing business, multiple risks remain**

Business in Russia – Key Issues

- **Considerable levels of perceived corruption and fraud, particularly at regional levels**
- **Oligarchical businesses that are closely intertwined with politics**
- **Strengthening but still weak judicial system**
- **Prevalence of offshore structures**
- **Silent partners and oral agreements – identity of shareholders in business at times unclear**
- **Reputational issues with business partners who rose to wealth during the turbulence of the 1990s transition period**
- **Some business sectors are on the radar screen of the authorities: for instance oil and gas, agriculture, telecoms, retail.**
- **Some sectors - permits/licenses**

Risks – Fraud and Corruption

- **Cultural and systemic norms in relation to relationship between business and politics make it difficult to operate in Russia – a country where political patronage is widely accepted as a strength, rather than risk**
- **Bribery and corruption of government officials/entities is a risk**
- **Business culture leads to conflict of interest situations, related party transactions and vendor fraud**
- **Conflicts of interest and stripping of assets**
- **Use of offshores, nominal holders**

Russia – Risk Environment - examples

- **Prior history of controversy, scandal, litigation or criminal association (reputation risk) – case study – lawyer to a mob boss?**
- **Track record of abusing partners (commercial risk) – foreign partners? - case study – real estate case**
- **Undisclosed (secret) shareholders (legal risk) - case study - agriculture**

Mitigating Risks



Mitigating Risk – What Our Experience Shows

- **Conduct “enhanced” due diligence**
 - » Do not rely just on public record data.
 - » Target the personalities, not just the entities.
 - » Understand the supply chain and other operational issues. “Look under the carpet”.
 - » Understand the competitive environment and be aware of potential adversaries.
 - » Do not expose yourself to legal and regulatory risk. Cross-check local opinions.
 - » Partnerships are better than going alone, but with the right people.

Mitigating Risk – What Our Experience Shows

- **Make sure you know who your counter parties are**
- **Three features of Russian business life make this difficult -**
 - » off shore structures
 - » oral agreements
 - » Silent partner
- **Look out for conflicts of interest**
- **Pharma case study**
 - » New distributor incorporated the day before being introduced and registered at the GD's home address

Dealing With Fraud – Our Experience Shows

- **Form an A-Team**
 - » Send in an experienced and trusted crisis manager.
 - » Find the right advisors: Investigatory, legal, regulatory, government relations, public relations.
 - » Leverage institutional knowledge. You know more than you think.
- **Do not neglect dealing with local legal implications of the problem – are you allowed to dismiss suspected employees for cause? Data protection?**

Conclusion

- For export dependent countries like Sweden, investments in Russia significant
- Significant Swedish business interests already in country
- Transparency is a must
- It is possible to do business in a transparent way – but it may be harder
- It is possible to be profitable while being transparent
- As long as you know what you are doing - rewards are significant
- **If you don't - ask the experts**



Alex Volcic, Associate Managing Director

Alex Volcic runs Kroll in Russia and the CIS. Alex joined Kroll in 2004 and previously worked at the London office. He has worked on complex international Fraud investigations, internal investigations and investigations into potential Foreign Corrupt Practices Act breaches. Alex has conducted cases in Germany, the former Soviet Union and the Middle East. In 2011, Alex left Kroll to work in BP's Fraud and Misconduct Investigations team. This role focused on internal investigations in the former Soviet Union.

Professional Experience

- » Led an investigation into alleged payments to public officials in a Russian manufacturing company part owned by a western private equity firm.
- » Led litigation support assignments for major law firms involved in multi-jurisdictional litigation and arbitration projects for major Russian clients.
- » Supported western advisors whose clients were making investments in Russia and the CIS, through pre-transactional due diligence and market entry studies.
- » Participated in major reputation management projects for Russian clients seeking financing from western financial institutions.
- » Conducted numerous asset tracing exercises involving multiple European and off shore jurisdictions. Alex has a lot of experience in tracing complex corporate structures across multiple jurisdictions.
- » Investigation into an alleged large scale theft of inventory at a major European electronics manufacturer.

Education & Certification

- » BSc in Government and History, London School of Economics and Political Science
- » MPhil Russian Politics, London School of Economics and Political Science

Alessandro Volcic

Associate Managing Director

Head, Russia & CIS

+7 495 969 2898

avolcic@kroll.com

www.kroll.com

