

Saimaa University of Applied Sciences
Business Administration Lappeenranta
International Business

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Investments Possibilities in Lappeenranta for Russian Citizens

Thesis 2014

Abstract

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The purpose of the study is to get familiar with different types of investments, and find which of them are possible in Lappeenranta area and suits for a specific investor's profile. The theoretical part is about the background and origin of the investment, different options, regulations which are applicable for every type and it describes starting a strategy. The empirical part covers practical issues of cooperating with banks in Lappeenranta and services available for Russian investors, general procedures and limitations.

The information was gathered from literature, Internet articles and economical magazines. Theoretical material was collected mostly from Imad A. Moosa researches with adding up-to-date information, numbers and research outcomes.

The empirical part presents the outcomes of the survey conducted with bank's branches in Lappeenranta and was collected through number of interviews.

Keywords: Investment, Lappeenranta, foreign.

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1 Introduction

During the studies at the University of Applied Sciences the author of this thesis saw a lot of interesting projects which potentially could grow into a business. Some of them were case studies, another were brought up as projects and start up ideas of students. All projects need two things at the beginning. One of them a starting money which is needed for organizing the working place, getting required equipment and running the start up before it will start to pay back for itself. The second thing a person needs to have experience and clear guidelines discovering what to do after what, so the development will go according to regulations.

However, many people have money which they not going to spend in the nearest future. There are two choices: either to lay down and be safe, waiting for a moment they will be spent or being invested and bring active or even passive income. The first option is easier and at the same time less profitable. That is the reason why a lot of people wants to invest, in order to multiply the amount they have. In a modern world there are so many opportunities to invest that it has become a tough choice which option suits best. From times when most of economics started to run open markets, it became easy to invest abroad. Globalization and latest technologies makes possible to run productions outside of the domestic country efficiently and with much lower risk than even a few years ago.

Differences can be found in a way of investment, branch of business in which investment is going to be made, time of investments payback, geographical spread. All factors influence the decision and require special research to make the right choice. More stable economies and business fields show a lower risks but at the same time lower rate of return. On the other hand, investments to unstable regions open up bigger possibilities together with a possibility for loss.

Nowadays European Union shows sustainable grow the in most of the economics fields. Being able to overcome aftermath of late 2009 Euro crisis make people believe, that the same pace of development will go on, which makes it an attractive option for making investments. Moreover, "The European Union is

the world's largest investor abroad. Despite the growing importance of economies as hosts to foreign-owned firms, the EU also remains the largest recipient of foreign direct investments.” (http://ec.europa.eu/economy_finance/eu/globalisation/fdi/index_en.htm).

The second problem of starting a project is the lack of practical knowledge of investing process. Especially in the case of an international project (or starting local project in foreign country), potential investors are often frightened by uncertainty issues, which stop them from investing. Destination country regulations, special issues for foreign citizens and another tax system often becomes a reason for investing in less profitable and useful projects.

Both of these problems are quite noticeable in countries, which stay near the border of different economics and trade unions. Geographical closeness and economical remoteness makes such regions very affected by these issues.

1.1 Aim of the thesis

The main research question is to investigate the possibilities for a foreign citizen who wants to invest in the Lappeenranta area. Furthermore, to present what types, kinds and options of investments there are and which suits them best. In order to make them more common, the author aims to get a guide which consists of options and requirements for being able to apply for a selected option. That kind of secondary data can become a base for a research made by potential investors in order to understand a new market.

1.2 Limitations

The research is going to cover only the Finish legislation with the particular region of Lappeenranta area. Even inside an EU there are different legislations and tax standards and covering them in one research seems impossible and useless at the same time.

The second limitation is a person who makes the investment. In this case it is a person who is a Russian citizen. He owns a business in home country (Russia) which is the source of the money he wants to invest.

1.3 Structure of the research

The research is divided into three parts: theoretical, legislation and empirical. The first consists of a review and analysis of literature concerning this topic. Common definitions, facts and strategies will be presented and explained in order to ensure that the reader understands the whole picture about investments.

The second part is about legislation restrictions and norms which are applied to a foreign investment. That includes documents and approvals of money nature, ways and laws concerning their transaction to Finland, required actions for being able to operate as a businessman or to operate on a stock market.

The last part covers possible and readymade solutions for such situations. Local banks and companies which operates with bringing foreign investments to Lappeenranta have special solutions and investments plans for customers like our potential investor. This research is going to present them, analyse and give evaluation. Interviews will be made for getting such data.

1.4 Research method

Both qualitative and quantitative methods will be implemented in order to get the full picture of the research topic. Based on research questions raised in books on investment topics, the most complicated aspects of foreign investing was discussed. It became a background for creating new questions, which suit for the particular case of that research. Afterwards, the same books and up-to-date information from internet sources were used for providing answers for these questions

In the theoretical part the analysis of secondary data collected by statistical organizations will be implemented. The data is already collected and published, so the researcher has to find that open sourced data, analyse and come up with conclusions.

The empirical part requires a qualitative research with face to face meetings and open-ended questions. The respondents are bank managers and people from investing companies. The basic framework for the interview will be made

beforehand and the questionnaire will be conducted according to that framework. The main point of the interviews is to understand main points and the most important aspects which were not published in online guidelines and on the bank's websites.

2 Theoretical part

2.1 Indirect investments

2.1.1 The definition of investment

First, what investment does mean by itself? In general “investment” is an “input of money or capital in order to gain profitable returns”. (<http://dictionary.reference.com/browse/investmetn+?s=t>).

“In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.” (<http://www.investopedia.com/terms/i/investment.asp>).

As an act, it is a process of money usage, which is sent to another region in order to bring some more money. An investment has many common aspects with savings and one main difference. While savings are valued as a passive way of getting additional value, investing is an activity that generates a stream of cash.

There are four main types of indirect investments. Those are:

- Bonds
- Stocks
- Mutual Funds
- Alternative investments

2.1.2 Bonds

A grouped type of investments are called Fixed-income securities, are called so because they are founded on debt. Purchasing a bond means lending money to governments of companies for an interest, which they pay back to an investor according to the amount of money he or she lends out.

Bonds are attractive for their safety. Buying bonds from a government which is stable means that the investment is risk-free or virtually guaranteed. However, such reliability has to be paid back. The small potential return is a price for that

insurance. As a result, the amount of the money the investor will get back is much smaller other investments brings.

That is why they are famous as boring and uninteresting. However, many people who knows a lot about investing, suggest to start with at and to have at least part of the whole investment value in bonds.

2.1.3 Stocks

Buying stocks or equities as they are called by advisors, makes the person a part of a company. This allows the investor to get all the profits the company allocates to its owners as dividends and has a vote at the shareholders meetings.

In comparison to a steady stream of bond's income, stocks are valuable on a daily basics. The person who buys stocks is not guaranteed anything. It is a common practise that some companies do not pay any dividends even in years of dramatic growth, investing the profit back to development. Moreover, the company can get bankrupted or get the stock price decreased, which makes the investment absolutely negative.

On the other hand, as a payback for the risks, stocks provide s much higher rate of return than bonds do. As an additional difference between stocks and bonds is the fact that while bonds are a debt, stocks are valued as an equity.

2.1.4 Mutual funds

During the last twenty years mutual funds became extremely important and popular. They consist of a combination of stocks and bonds in a different proportion, depending on the investor's purpose and wishes. Mutual funds are usually operated by professional managers, to whom the investor gives his/her money as a part of the group. This is made because mutual funds requires many aspects such as large stocks (stocks of a companies, whose capitalisations is bigger than ten billions), small stocks (stock of a companies, which capitalisations is smaller than ten billions), foreign stocks, governmental bonds, bonds provided by companies etc.

The biggest advantage of the mutual fund, is that as long as it is driven by someone, the investor himself does not have to be experienced to choose the best investment possible. Theoretically, it comes as a best way to invest money, especially to a foreign district, where local rules, laws and aspects can play a big role. In reality, there is a number of things every investor should be aware of.

First of all, mutual investment is something between bonds and stock, so it is not completely risk free like bonds. That means, that the even driven by an experienced professional it can still end up with a loss on the investor's account and that is the reason for supervising actions, which are taken by the manager. Moreover, mutual funds are not guaranteed by EU governments, so they are not insured. That leads to a zero refund in case of dissolution.

Secondary, it is important to have a correct diversification package. The idea of it is to decrease the risk associated with owning a single stock portfolio. In that case the owner of stocks will face big losses, if something goes wrong with the particular company. That is why it is important to have a wide portfolio which includes a number of different company's shares and bonds.

At the same time, just choosing different companies do not mean that the portfolio is diversified enough. Investments should be made to different industries preferably even in different geographical regions.

The cost of a person who runs the investor's stocks (manager) is also a milestone in mutual funds. Those are divided in two categories shareholder fees and annual operating fees.

The first one is paid by the shareholder for selling and purchasing funds. The Annual operating fund is shared as an annual 1-3% fee. It is a small value for successful years, however it can turn out as an additional loss over the years, when the performance is negative.

2.1.5 Alternative investments

Most of investments fall under this equity and debt investments, which we analysed as bonds and stocks. However, there are a number of different vehicles

such as futures, Forex, gold, real-estate and own start up projects. Those represent the most high-risk but at the same time high-revenue investments. However, there is no difference due to the geo-political factor. That means that no matter where such type of investment are made, the process is absolutely the same. Moreover, the small volume of such deals show that it is unpopular through the whole Finland and that is the reason why it would not be studied in that research.

2.1.6 Helsinki stock exchange

Since Finland is a case country of that research it is important to highlight possibilities of investments in the country. The Helsinki stock exchange is the main place where all deals with bonds, stocks and mutual funds are done.

It was founded in **1912** as Helsinki security exchange and was operating continuously without any significant changes for the next 78 years. In **1990** the first big update was made. From that moment all operation has been moved to electronic trading. That means that foreign investors get the possibility to operate with bonds and stocks without being presented in the stock exchange building.

Later on, Helsinki stock exchange was abbreviated as HAP and became a limited company. That happened in **1995**. The last milestone was passed in **2006**, when the Nordic exchange brand was launched. It was made by merging Stockholm's, Helsinki's and Copenhagen's exchanges.

NASDAQ OMX's North is European growth market which suits best for SME and fast growing enterprises. Less extensive rulebook than the main market runs, allows companies to focus more in their business and development, rather than on rules of exchanges. Another difference from the main market is that every company gets an experienced supervisor, who has a responsibility of making the company satisfy rules of exchange. Many established companies began their trip on First North. Some of them went on to listing on the NASDAQ OMX regulated main market later on.

“The First North market runs parallel to the main market, where the shares are traded in a single trading system. This allows approximately 200 European trading members of NASDAQ OMX to easily trade on our two markets. For investors, First North offers an opportunity to invest in companies that are in an interesting stage of their growth. In addition, First North is a diversified market where companies represent a variety of industries, operating both in the Nordics and globally.” (NASDAQ omx web page, http://www.nasdaqomxnordic.com/about_us/firstnorth).

In the Helsinki stock exchange the number of daily deals is growing on continues basis and for the year 2013 stays at the level of 530 deals per day. (Monthly report Retail Bonds Trading January 2014, NASDAQ omx web page, <https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=594006&lang=en>).

For the last couple of years the overall tendencies shows very wavy, with a four times increase and decreases in three months. However a slow overall growth should make potential investors confident in the future of their stocks and bonds.

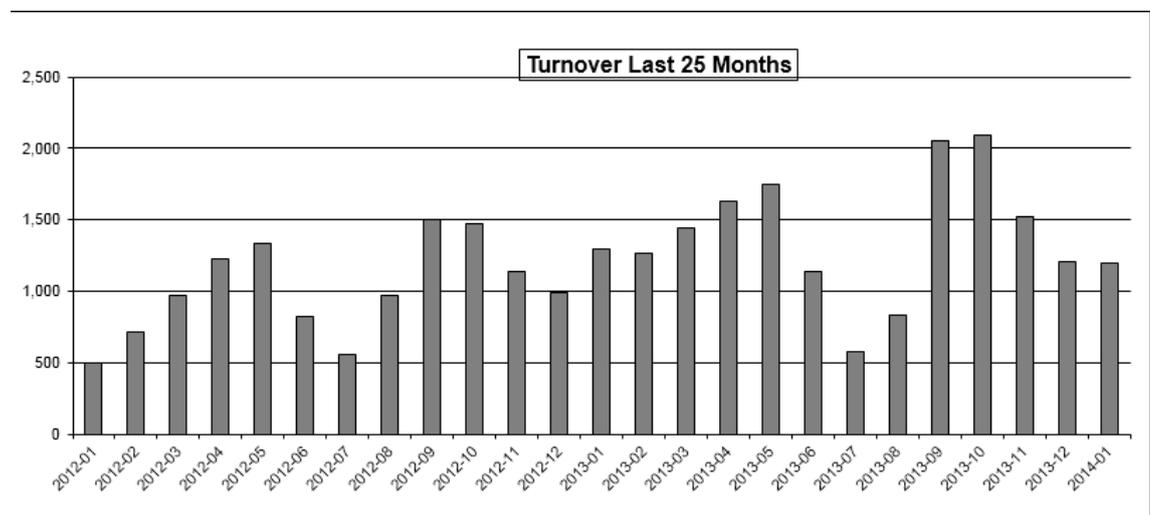


Figure 1 - Turnover graph of Helsinki stock exchange from 2012 to 2014

2.1.7 For New Entries

The first thing to do for being able to operate on stock exchange is to get registries. There are a number of options how it could be done, depending on the way and volumes person's wants to operate.

2.1.8 Cash Equity Membership.

The easiest way to enter the Nordic NASDAQ is to get a Cash Equity Membership. Membership on NASDAQ OMX Nordic includes cash trading on the Copenhagen, Stockholm, Helsinki and Iceland exchanges. NASDAQ OMX Nordic membership allows for a member to operate on all four exchanges without a membership fee and without any additional monthly fixed fees per exchange. Membership on the Nordic exchanges enables an unprecedented ability to operate seamlessly across the Nordic borders. (Nasdaq omx web page, <http://www.nasdaqomx.com/transactions/markets/nordic/membership/cash-nordic>).

According to NASDAQ, there is a big number of strengths comparing to other memberships such as:

- Simple and streamlined membership process
- No membership fee
- Easy access to Nordic markets and investment products
- Common trading system (INET)
- Connection to the Baltic marketplaces
- Identical trading day structure
- Common indexes

2.1.9 How to apply for operating

There is a procedure has to be taken before someone is allowed to operate on a NASDAQ market. It is described in details for anyone, who wants to start.

1. Decide clearing setup and membership type.

1.1 Members are required to decide which type of arrangement they will have for clearing and settling their trades.

Members of the NASDAQ OMX Nordic exchanges can execute trades that are cleared bilaterally or through CCP. CCP is a corporate entity that provides a guarantee to both parties in a trade that if one party defaulted before the discharge of its obligations, the CCP would fulfil the financial obligations to the remaining party as agreed at the time of the trade. A CCP mitigates replacement cost risk or market risk – that is, the risk that the remaining party has to replace the trade at an unfavorable price. The requirements for membership are dependent on the clearing solution. The general membership requirement for members is that appropriate clearing and settlement arrangements must be in place for the trades which are going to be executed.

To trade CCP instruments a member is required to be a participant of a CCP (Currently EMCF) in one of the following categories:

- GCP (General Clearing Participant) – clears its own trades at the CCP as well as trades on behalf of other trading participant.
- DCP (Direct Clearing Participant) – only clears its own and its own customers trades at the CCP
- NCP (Non-Clearing Participant) – clears all its trades through a GCP and has no direct relationship with the CCP

To trade bilaterally cleared instruments, a member is required to either be a member of the relevant Central Securities Depository (CSD) or to settle through a custodian bank.

1.2 Unregulated Firm or Regulated Firm

We welcome member applicants who are authorized by a European Financial Supervisory Authority (regulated members) and member applicants who are not authorized by a European, or equivalent, Financial Supervisory Authority (un-regulated members).

A Member shall possess equity capital equivalent to not less than €730 000. NASDAQ OMX Nordic may choose to grant restricted membership which gives a Member the right to trade solely on its own account and exclusively instruments cleared and settled via a central counterparty to an applicant domiciled within the European Economic Area and that has equity capital equivalent to not less than € 50 000.

Non-regulated members can only trade CCP cleared instruments. NASDAQ OMX Nordic will need to ask EuroCCP for a Statement of Authority verifying that the member has clearing and settlement in place.

2. Send Membership application

The membership process starts by filling out the membership application form together with the relevant appendices. The new member is informed of the products, membership requirements, trading rules, costs and other relevant matters by the Key Account Manager (KAM). The following material should be completed and sent to your KAM either in the Nordic languages or in English.

Kindly note that the Membership material sent to NASDAQ OMX is valid for two months. Should the process be postponed NASDAQ OMX might require updated material from the applicant.

- Fill out the Membership application – NASDAQ OMX Nordic. Appendices to be enclosed:

Copy of the relevant authorizations to provide investment services in the relevant jurisdictions (FSA approval) applicable only to regulated members.

- Financial statements for the previous year and if available, the most recent interim report.
- Copy of the company's Articles of Association
- Copy of the company's Certificate of Incorporation
- List of authorized signatories specifying the authorities of each signatory
- Description of the ownership structure (If the applicant is part of a group of companies and if it is not in the financial statement). The names of

other group of companies and the applicant's relationship to those companies should be clearly indicated.

Additional forms to be enclosed:

- Additional Information Form, applicable only to Unregulated Members
- Verification of custody Bank for bilateral clearance of trades, applicable only to equity members trading non CCP cleared shares
- To be signed by any NASDAQ OMX Nordic Exchange Member that wishes to trade securities that are bilaterally cleared and settlement at a CSD where the member does not hold full membership of the CSD. The Custody Bank must also sign the form to acknowledge that they assume the responsibility for the trades.
- Port request form and Market data connection form- Arrange connectivity to the trading system by requesting ports for order entry, private info and market data. For order entry, NASDAQ OMX Nordic supports both our low latency OUCH protocol, ideal for algorithmic trading applications, as well as the industry standard FIX protocol with the superset of functionality offered by INET. Access consolidated and refined market data via TIP and/or ultra-low latency feeds via ITCH.

3. Establish and Test Technical Access

Establishment and testing of connectivity to the NASDAQ OMX Nordic and the trading platform INET.

4. Authorize Traders

NASDAQ OMX Nordic authorizes traders in the trading system INET for the cash equity market. Every member shall have at least 2 authorized traders before the member process is concluded. The link for exam authorization can be found here
(NASDAQ omx web page,
<http://www.nasdaqomx.com/transactions/markets/nordic/membership/cash-nordic>)

5. Approval of membership application

Trading can start when:

- all applications have been signed, returned and approved by NASDAQ OMX Nordic
- technical access has been established and tested
- at least two traders have been authorized and registered

6. Member agreement

The Member agreement will be sent to the applicant by the Key Account Manager (KAM) at NASDAQ OMX Nordic.

2.1.10 Derivatives Membership

Another type of membership is equity derivatives. It is a contract between two parties, of whom the value is dependent on the value of an underlying stock or an index. In other words, it derives its value from a stock or an index. The contract specifies conditions, such as expiration date and exercise price, under which payments or payoffs are to be made between the parties, and where applicable, deliveries of the underlying asset. (Martin Granlund, http://www.nasdaqomxnordic.com/about_us/meettheexperts/equityderivatives).

The main advantage of it is standardization. Investor always knows what rights he/she has and what his/her obligations are:

1. Decide which type of membership

Non-Clearing Member (NCM) - Trading member who clears trades via a General Clearing member

Direct Clearing Member (DCM) - Entitled to participate in the clearing activities at the Exchange

- On its own behalf
- On behalf of a customer regarding transactions registered on individual customer account

- On behalf of a customer regarding transactions registered on aggregated customer accounts

General Clearing Member (GCM) - Entitled to participate in the clearing activities of the clearing house

- On its own behalf
- On behalf of a customer regarding transactions registered on individual customer account
- On behalf of a customer or non-clearing member regarding transactions registered on aggregated customer accounts

2. Send in membership application including appendices

Fill in the Membership application - NASDAQ OMX Nordic (NASDAQ omx web page,

http://www.nasdaqomx.com/digitalAssets/85/85230_nordicandbalticapplication.pdf)

Send in a membership application including appendices. The applicant needs to send in documentation in a Nordic languages or English so that NASDAQ OMX is able to assess applications in order to become member.

Attach the following appendices:

- List of Senior Management, Board of Directors and contact persons
- Copy of the relevant authorizations to provide investment services from local FSA
- Annual report for the previous year (if possible) and, if prepared, the last interim report
- Articles of Association
- Copy of the company's Certificate of Incorporation
- Signatures specimen

3. Approval process starts

Review of application and appendices by NASDAQ OMX - Member coordinator, Legal Department, Risk Management and Surveillance Department.

4. Approval of membership application by NASDAQ OMX

5. Sign membership agreement -> Start Trading

2.2 Foreign direct investments

This part of the study will be about Foreign Direct Investment. A wider definition was given by Imad A. Moosa & Palgrave in his book "Foreign Direct Investment: Theory, evidence and practice" as "Foreign Direct Investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country)". It was also defined as "a firm's ownership, in a part or in whole, of an operation in another country" (Deresky 2003)

The main difference from other ways of investments is that with direct investment, the person becomes an important part of a company or anything towards investment was made. In comparison to mutual funds, where the investor provides money or other value and the manager does the rest bringing profits (or losses) back to investor, in a direct way where the person himself has to take the decisions and risks.

Moosa, who is one of the biggest figures in investment world highlights the point that the most important feature in direct investment is "control and controlling interest". However, that brings up the fact, that for being able to change some aspects of a company's structure, the investor must have shareholder value. Being a part of a company, holding 3-5% of shares theoretically makes a person a partial owner, but in real life owners of that small amount of share do not decide anything.

"FDI's importance lies in its fundamental difference from other forms of capital investments: the nature and duration of the commitment it involves. FDI is a tool, which enables countries to break with their objective and organizational

gaps through the introduction of new techniques, both managerial and technological' (Barrell and Holland, 2000)

“Foreign” type of investment means that the money has to be moved from a source country to a new place. This was making the whole process quite complicated when the international money transfer system was weak. According to Moosa, optimization of international money transfer system was the biggest reason for FDI growth. It totally changed in volumes from 1970's to 1990's and by that time it became a quarter of the international outflow's capital. Such fast grows opened a lot of possibilities by freeing up goods and financial markets. It has been noticed that FDI rate was growing even when the level of world trade had overall decrease.

Another reason for FDI grows is the causes and consequences of ownership in foreign a country. Diversification was really important at the time of unstable economies. Nobody knew what was going to happen with any particular economy. Many people tried to keep their assets in as many independent sources as possible. That can be compared with stock diversification from previous chapter.

2.2.1 Inbound and outbound FDI

By its origin FDI can be divided into two types:

- Inbound
- Outbound

A single investment can be seen as both as an inbound and outbound issue depending from which point of view it is judged. For source country it is going to be outbound investments, while the host country evaluates the same investments as inbound flow. In most of the cases there are the opportunities and threats both presented. Here are challenges and negative effects of such collaborations.

Inbound FDI can cause a negative employment effect. Many people who invest in a foreign country would like to see some fellow citizens. That makes it challenging to get high ranked jobs for domestic workers. Another point is that the

possibility to work with already developed foreign technologies slows down home-grown technological development. The last point is that a country where most of the productions at least partly are controlled by foreign investors can hardly be named as absolutely sovereignty.

From the investor's home country point of view the situation is also ambivalent. The problem is that some talented and clever workers will leave the country to supervise business in a foreign country. The second point is all about a different level of development. The globalization level is now as high as ever before, but still very few countries are happy to allow everyone using their hi-end domestic technologies. Even when applying for all copyrights standards and regulations it is hard to keep latest technologies as safe as possible within the borders of the home country.

At the same time FDI brings a lot of benefits to both countries. First of all, there is a fast economic and technological growth of a region where the investments are made. There is no faster way of obtaining money and technology than bringing them from somewhere else. The second thing is the creation of working places. When a foreign person is not just buying a part of an existing business but establishing new enterprise, there are some local people will take part together with the founder.

From the investor's point of view a foreign country depending on its geographical, political and social level of development can bring different benefits. In general it is the exact process of globalization and there is a huge number of sources which explains all benefits and potential losses in a very precise way.

2.2.2 Vertical/horizontal and conglomerate FDI

All three of this possibilities described clear by Caves (1971) "From the perspective of the investor horizontal FDI is undertaken for the purpose of horizontal expansion to produce the same or similar kinds of goods abroad, in the host country, as in the home country".

Vertical FDI, on the other hand, is undertaken for the purpose of exploiting raw materials (backward vertical FDI) or to be nearer to the consumers through the acquisition of distribution outlets (forward vertical FDI).

From the perspective of the host country, FDI can be classified into:

- import-substituting FDI;
- export-increasing FDI;
- government-initiated FDI.

“Import-substituting FDI involves the production of goods previously imported by the host country, necessarily implying that imports by the host country and exports by the investing country will decline. Export-increasing FDI, on the other hand, is motivated by the desire to seek new sources of input, such as raw materials and intermediate goods. Finally, government-initiated FDI may be triggered, for example, when a government offers incentives to foreign investors in an attempt to eliminate a balance of payments deficit.” (Quang Vinh, B., 2012).

2.2.3 Possibilities for company owners

From the investor’s point of view, investment types can be divided in three different options. All of them concern a case, where the person owns or runs a business of a particular company and want to expand their business. These companies, which operate in more than one country are called multinational corporations.

“A corporation that has its facilities and other assets in at least one country other than its home country, such companies have offices and/or factories in different countries and usually have a centralized head office where they coordinate global management. Very large multinationals have budgets that exceed those of many small countries. Nearly all major multinationals are American, Japanese or Western European, such as Nike, Coca-Cola, Wal-Mart, AOL, Toshiba, Honda and BMW. Advocates of multinationals say they create jobs and wealth and improve technology in countries that are in need of such development. On the other hand, critics say multinationals can have undue political influence over governments, can exploit developing nations as well as create job losses in their own home countries”. (Investopedia database, <http://www.investopedia.com/terms/m/multinationalcorporation.asp#ixzz24pfv4TBZ>)

The following three types are alternative ways of building a strategy on new foreign market.

Greenfield investment

Greenfield type is a most radical way of expanding business in a new place. In this case a parent company opens a daughter company in a new location and market.

Strengths of the greenfield investments are deep adaptation and localisation to a new location. Such company will suit requirements, local regulations and ways of doing business best. The state company can start with a blank page, creating new corporate culture and developing way of doing business. That requires more time and resources than any other option, but the output will be bigger as well.

Greenfield investments include all steps from purchasing real estate and machinery to selling final products or services. Local workers need to be hired and trained with investor's capital, technology, know-how and management. (Meyer 2001.)

Mergers and Acquisitions

In acquisition, a foreign investor buys already an existing company's shares (Basile 2002). The process itself is an integration to a company which already operates in a foreign country. That allows to add strengths of both companies and continue providing business best options from both companies' possibilities.

As it was described in the previous chapter, it is not a very complicated process now to become a part of a foreign company, as long as stocks of most of the more-or-less big firms are presented there. Because of that, mergers and acquisitions are the main source of FDI. That is the easiest way to access new market in a foreign country and make process of doing business there much easier as long as the investing company has a department in the host country.

The possible problems and losses of that option is the possible overlapping of services and different culture. Synchronizing working the speed, documentary flow and all cultural differences also take money and time, but usually in much lower quantities than the Greenfield method requires.

“The main difference compared with Greenfield Investment is that in mergers and acquisitions there are always already existing resources” (Meyer & Eshin 2001.)

Brownfield Investment

The so called Brownfield Investment is a third method of foreign direct investment. Choosing this way of expanding means that the investing company buys existing production facilities and infrastructure, but all of the assets are modernized and upgraded before starting to work for the new owner.

Brownfield Investment means the company which makes the investment creates more new resources than the purchased company already has. In other words, most of the existing resources are replaced by the new ones or new resources are built so that the old ones are a minority share of whole resources. (Meyer & Eshin 2001.)

Brownfield Investment is a hybrid mode of the two before mentioned main forms of FDI. Officially Brownfield Investment is considered as a special case of acquisition, but the aspect which creates new facilities is typical to Greenfield Investment. Brownfield Investments are important to emerging markets, because acquired companies need often modernization and extensions. (Cheng 2006.)

All these possibilities are open for a person who wants to invest to Lappeenranta and has a business in his/her home country.

However, as it was mentioned in the description of all three types, all of them require a big amount of money investment. Many companies will have will to get expanded, but do not have enough money for making that. Financing such companies can be an opportunity for a person, who live in area, where such expanding happens that often.

2.3 Legal procedures

In different countries and economical regions there are different set of rules and laws for money investing processes. Especially in the case of direct in-

vestments when opening a brand new company. Inside European Union the rules are quite similar, however it differentiates a lot with same procedures in Russia.

2.3.1 Residence permit

The first thing which is necessary for any Russian citizen who wants to start his/her career in Finland is a residence permit. When foundering a company, a non-EU citizen must have a “residence permit for a self-employed person to practice their profession in Finland. You are self-employed if you practice a profession or are engaged in trade in your own name, or have a similar responsibility for a company.

“It is most common for self-employed people to have an individually-owned business (toiminimi), to be a partner in an unlimited partnership company (avoin yhtiö), or to be a general partner in a limited partnership company (kommandiittiyhtiö).

If you are a silent partner in a limited partnership company (kommandiittiyhtiö) and you work in your own company, you will need a residence permit for an employed person.

If you own shares of a public limited company (osakeyhtiö) and you work in this company, you will need a residence permit for an employed person. A residence permit will not be granted on the grounds that you own shares; you also have to work in the company, and the work must be performed in Finland.

Before you may apply for a residence permit for an employed person, you must have a job waiting. If an employer has made you a job offer, this employer must confirm that he or she will definitely employ you. This is usually done by signing an employment contract. Your employer will confirm the information by filling in the TEM 054 form (appendix for residence permit application. (The Finnish immigration service, http://www.migri.fi/download/16698_tem054_en.doc) and signing it.

You may not begin work until you have been granted a residence permit for an employed person.

2.3.2 Opening a company

The second thing that is required in most of the investment plans is a company which is registered in Finland. As soon as the potential investor gets a self-employed residence permit, there are no differences left between his/her pro-

cess of registration and company and the process of any Finnish citizen. Many organizations which are aimed for helping establish start-ups makes Finland an easy place for becoming entrepreneur. Moreover, sometimes it is the easiest way to transfer money as an investment from abroad. There are some 6,500 businesses operating in Finland which have been established by people who have moved from abroad.

Business can be conducted in a number of ways:

- as a private trader
- as a partnership
- as a limited liability company formed of one or more individuals or legal entities
- as a co-operative.

For people who already owns a company in Russia there is a possibility to open a subsidiary in a similar way. In certain circumstances, those who are not resident/domiciled in the EEA need a permit from the National Board

According to the Immigration service, enterprises must submit a basic declaration to the trade register using the start-up notification, with which they may also apply for registration in the trade register, employer register, prepayment register and/or VAT register. Moreover, in most cases there is EU citizen needed in board of directors. Finnish rules require that at least one member of highest rank holds EU passport.

As soon as the type of company is chosen it is the right time to join The Finnish Business information system. It is a database maintained by the national Board of Patents and Registrations and the Tax Administration.

BIS enables businesses to report their company information to both the above authorities in a single notification rather than submitting duplicate data to the Trade Register and the registers kept by the Tax Administration.

The Business Information System includes businesses and corporations entered into the

- Trade Register
- Register of Foundations
- VAT register
- Prepayment Register
- Employer Register or
- The Client Register of the Tax Administration.
- Business ID / Y-tunnus

From the moment when notifications are entered to the BIS the start-up gets its Business ID/Y-tunnus. That works as a personal identity code of the company and replaces Trade Register Number, Foundation Register Number and Business Code.

2.3.3 Opening a Finnish Corporate Bank Account

The last must-have issue before being allowed to run a company. Opening an account for your company is generally quite simple. An account can usually be opened when the following documents concerning the company are presented, but due to possible variances between banks you should contact the bank you have chosen to verify the requirements; it may also be necessary to appoint a meeting time:

1. Extract from the Trade Register (no older than three months). If the company has not yet been registered, the extract from the Trade Register can be replaced by:

- a register certificate indicating that a declaration of establishment has been submitted
- documents of incorporation (for example for a limited company, memorandum of association, articles of association and the minutes of the constitutive meeting of shareholders)

2. An extract from the minutes of the company's decision-making body, which indicates the names of those officials of the company authorised to use the account and their authorizations, the decision to open an account, possible lending and submitting of collateral

3. An account of incoming and outgoing payments; their volume and the size of individual payments
4. An account of the company's operations (more detailed than the official line of business clause)
5. Other accounts (e.g. information on companies having shareholdings in the company etc.)

The required documents and information can be submitted either in Finnish, Swedish or English.

2.4 Statistics of Russian background business in South Karelia

Private company which operates with Russian tourists the research about private companies which were established or operated by Russian citizens was investigated. The outcomes of the research will show how big a part of such companies play in overall business activity in South Karelia region.

Trade Register has a total of 4384 companies with positions of responsibility (the government or the president) by a Russian citizens. Of these, 15% (645 companies) are based in South Karelia. Corporate domiciles distributed in South Karelia municipalities as follows:

• Lappeenranta	412
• Imatra	145
• Lemi	6
• Luumäki	10
• Parikkala	10
• Rautjärvi	5
• Ruokolahti	26
• Savitaipale	5
• Taipalsaari	26

The distribution of Russian companies varies in different parts of Finland. In the South Karelia region it is about 6% of all enterprises. The average number among the entire country is 1.4%. That shows that Lappeenranta and area

around for now is the most attractive place in Finland to invest for Russian people. The reason is that the biggest number of potential customers, who are Russian tourists, come here. The second point is that geographical location allows fast and easy access from investor's home country, what decreases problems associated with travel complicity.

The combined turnover was more than EUR 100 million in 2012. Non-profit companies have the combined result of more than 4 million. Six percent of the companies employ a staff number more than five people. Nearly a third of the companies are engaged in road transporting of goods.

However, this results cannot be generalized to all 645 South Karelia Russian background working companies. Many companies have such a type of registration that their publishing financial statement is not compulsory for them or not shared for public access. Moreover, some companies are just a shell and work not for bringing profit, but for differentiating portfolio on owner and as a tool for getting access to foreign markets and economy.

It is estimated, that Russian companies will employ in South Karelia 400 people during the next year (2014), with the average salary of 26 000. The overall income can be generated for municipal as tax revenues for approximately EUR 1.4 million.

3 Empirical part

All investments flow through a bank. That is a milestone for starting transferring assets to Lappeenranta area. That why cooperation possibility with them are crucially important. For this study a list of banks which have their branches in Lappeenranta was prepared and similar interviews were conducted. As an outcome there are answers and solutions provided by local banks for common questionnaire framework. Based on that results a potential customer will be able to choose what options suit him/her best and choose a preferable bank for cooperation.

The results of survey will be displayed as short descriptions of each bank, followed by answers for each question where it was possible. In the end there is a table which summarises all results.

3.1 List of banks selected for survey participating

10 branches were chosen for participating in the interview part.

1. Svenska Handelsbanken
2. Danske bank
3. Nordea Bank Finland Abp
4. Etelä-Karjalan Säästöpankki
5. Pohjola Pankki
6. Evli
7. Lähitapiola
8. Aleksandria
9. S-pankki

Those are the biggest, most popular and the most investment oriented banks in Lappeenranta.

3.2 Interview framework

From the very beginning all banks were lined up to equal conditions. First of all they were contacted via online application for appointment or an email from the contact page of their web site. There was a very short story outline (see next chapter) and a request for personal meeting in order to find out “a couple of important questions concerning investment opportunities”.

The next stage was the interview itself or another way to communicate if the bank required that. At the settled time the interviewer met the person who was responsible for dealing with such type of customers and gave his/her answers for the questions from prepare list (see next chapter).

Bank workers were asked for permission to write their responses as notes in order to keep information in the most accurate way till the moment of infor-

mation analysis. Afterwards, all their responses were collected and analysed using single framework in order to get identically analysed responses.

3.3 Investor's profile

In order to get the most truthful answers it was not mentioned anywhere that this the interviews were a part of a thesis. In the letter with request for the interview it was said that the interviewer is a representative of potential investors.

According to the story the investor is a Russian citizen who has his assets in Saint-Petersburg. He does not have an EU residence permit and now is allowed to visit the country only as a tourist. However, if it is possible and required he will apply any kind of residence permit which is necessary.

The money itself consists partly of savings made during last couple of years and partly from the payment for selling his part his business. He has sold his stocks from Russian company and it still exists.

The amount is 7 000 000rub which makes about 150 000eur. The money has to be both transported and converted to euros in the most efficient way. The investor is able to come to Lappeenranta multiple time, but he does not speak Finnish or English.

3.4 Interview questions

The interview includes 8 open ended questions. The following questions were asked from the bank's workers.

1. What is the best thing I can do with that money?

Here the interviewee is going to suggest their best offers and possibilities. Banks with long history in investment field should have a number of readymade plans and options. So after getting the answer the interviewer will choose one or a couple of then talk about them.

2. What are the rates of return?

In the outcome the most important factor in investment selection process is the rate of return. If the banks provide such an opportunity for some time they definitely must have statistical data about its profitability. It is not compulsory for them to share it, but at the same time it is the best marketing tool.

3. What are the limitations for foreign investors?

Our potential investor does not have a residence permit in EU so that might require some changes and make the whole process more complicated. The point of that question is to show what additional aspects should be taken into account when the investor is foreign.

4. What is the process?

If everything proceeds well and an investment plan is chosen it has to be cleared what things have to be done and in which order. So the interviewee is going to be asked about instructions for making all necessary things. Or provide them if they already published.

5. How to transfer the money?

According the case, the money lays in a private bank in Saint-Petersburg. The interviewer would like to hear what is the best way to convert them and to move through the boarder? Moreover, when the amount is that big, it is necessary to have proof that money was gained by legal sources and show their origin. The interviewee should explain how to do that.

6. Is there a Russian-oriented specialist?

Taking into account the geographical location, Russia is definitely the biggest foreign investor in Lappeenranta. However, very few Russian citizens know Finnish language well enough for being able to communicate on such topics. That means that either the bank worker should know Russian or there has to be a translator. Moreover, cultural differences must be considered as well, so it can be useful to have at least one specific Russian oriented specialist.

7. How long does the whole process take?

When everything is settled the only thing that left is to wait until the moment when the entire process will start to proceed. The answer is going to be given based on the workers experience and reflects the time required from the moment of taking the decision and making the first actions till the moment when investment will start to grow.

8. How to get out of investing?

Even if everything goes well sometimes it is necessary to withdraw large sum of money. If that happens, what is the procedure, limitations, time limits and legal regulations for a backward process?

3.5 Interview outcomes

3.51 Handelsbanken Lappeenranta

Handelsbanken is a Swedish bank which provides a number of services including personal, corporate accounts and transactions, trading on stock markets, live insurances and investment banking.

Since the mid-1990s Handelsbanken has been expanding its universal banking operations into the other Nordic countries, and also in the United Kingdom, the Netherlands, Latvia, Estonia and Lithuania. The largest of these has been the UK where by 2013 it had 140 branches.

1) What is the best thing I can do with that money?

When it comes to investment, most of the possibilities are covered by information protection policies. All possibilities options are only open and can be discussed with customers. However, it was mentioned, that deposit banking and operation on NASDAQ Nordics are available.

2) How to become your customer

The account opening process is easy and fast. Bank workers provides two A4 papers with questions in English which has to be field and send to the bank together with ID (passport preferably). In a couple of day the account will be opened.

3) What are the rates of return?

As long as very few options were discussed, there were no possibility to get average rate of return. For a deposit account the rate is 0,35% which is extremely low and cannot be measured as an investment and no information was available about returns on money, which are send to operate on the stock market.

4) What are the limitations for foreign investors?

The limitation for foreign people is deposit of 5000Euros. The money will be blocked as a bank's insurance against every day's operation overdraft and can be taken out when the account getting close. Also, there is a limitation for stock market that the investment has to be bigger than 100 000eur.

5) What is the process?

The process depends on the type of investments are choses. The first step is to open the account and then instructions will be given by bank workers in a discussion.

6) How to transfer the money?

Money can be transferred as a bank to bank transfer or brought as declared cash.

7) Is there a Russian-oriented specialist?

There is no one who speaks Russian and all documents are in Finnish, so the investor has to come with reliable translator.

8) How long does the whole process takes?

The whole process is going to take about a week, after that the money starts to bring profits.

9) How to get out of investing?

The account can be closed with a written request at least 1 month before the last existing date.

3.5.2 Etelä-Karjalan Säästöpankki

Etelä-Karjalan Säästöpankki is a part of savings banks which are independent regional and local banks. The Group banks are full-service retail banks. Through their service companies and a comprehensive network of partners they can offer a full range of financial sector services to their private and corporate customers alike.

As a response to my email I got information that they do not operate with anyone, who does not have Finnish residence permit and a social security number.

3.5.3 Nordea

Nordea Bank AB is a Nordic-based financial services group. It operates in Northern Europe. The bank is the result of the successive mergers and acquisitions of the Finnish, Danish, Norwegian and Swedish banks of Merita Bank, Unibank, Kreditkassen (Christiania Bank) and Nordbanken that took place between 1997 and 2000.

Although Nordea is one of the biggest bank which operates in Finland, due to policy changes which took place in the beginning of 2013 they do not operate with anyone, who does not have a Finnish residence permit and social security number.

Customers who opened their accounts before 2013 are allowed to have deposit account and run some investment processes.

3.5.4 Lähitapiola

Lähitapiola is a Finnish banking and insurance company which services in the financial group, which was formed by the Local Insurance and Tapiola group. It was merger in 2012. Middle Tapiola was launched on 01.01.2013 and it serves private, self-employed, business and community customers in non-life, life and pension insurance, and also provides investment and banking services.

However, during the interview it became clear that investments services are just an additional option for clients who choose the company for their pensions and savings.

They do not operate with non-EU citizens and even a Finnish residence permit do not satisfy their requirements.

This makes cooperation with this totally impossible for potential investor.

3.5.6 Evli

“Evli Bank is an independent investment and asset management bank that was established in 1985. They provide asset management, equity and derivatives brokerage, investment research and corporate finance services. Our clients are private individuals, companies and institutions.”

The target is to be Finland’s leading private bank and our most important task is to help our clients increase their wealth. They offers a comprehensive product range, and investment and asset management services. Operations are founded on an entrepreneurial spirit, good client relationships and continual learning and development.” (Evli web page, <https://www.evli.com/net/FI/en/evli-group>).

As a reply to an email from the bank the following answer was received:

“Evli Bank Plc. serves Russian nationalities in Finland with a different approach than most commercial banks. We provide our clientele Family Office services that include asset management advisory services etc.

We target clientele with a net wealth that exceeds 10 million Euros. In case your beneficial owners that you represent belongs to this segment, we are more than happy to arrange a meeting in Helsinki for further discussions.” (Evli Bank Plc. Investor Service, <https://www.evli.com/net/FI/en/evli-group>)

Theoretically, this is a possible option for Russian citizen, but in this research case it does not fit the limitations.

3.5.7 Danske Bank

The formal title is Sampo Bank and it traces its origins back to 1887. Originally the Finnish state-owned Post and Savings Bank, which accepted deposits from the public at its post offices. In 1999, the state-owned bank was merged with Sampo PLC's insurance business to form the Sampo Group. The banking unit was later acquired by Danske Bank in 2007, while the Sampo Group retained the insurance business. (Danske bank web page, <http://www.danskebank.fi/en-fi/About/Pages/About.aspx>)

- 1) What is the best thing I can do with that money?

Similarly to Handelsbanken, bank workers are not allowed to tell all possible options before signing the contract. However, brokers who operates on stock market and investment projects managers were mentioned, so this options are available.

2) How to become your customer

The account opening procedure takes around 5-7 working days. General information about the investor is necessary together with two personal identifications.

3) What are the rates of return?

The rate of return depends on the amount and period of investment. The bigger each value is, the higher rate of return is expected.

4) What are the limitations for foreign investors?

The minimum amount for investment project is 75 000Eur. For investors, who wish to enter the stock market the minimum is as high as 100 000Eur.

5) What is the process?

The first step is opening an account and transferring money. Afterwards, depending on the strategy chose, further steps will be explained by bank staff.

6) How to transfer the money?

Money can be transferred as a bank to bank transfer or brought as declared cash.

7) Is there a Russian-oriented specialist?

Everyone in the investment department speaks English, but all the documents is in Finnish, so in the research case translator is necessary.

8) How long does the whole process takes?

The time frame depends on the strategy which is chosen, but generally 1-1.5 weeks is required before the volume of the investment will increase.

9) How to get out of investing?

The account can be closed with written request at least 1 month before the last existing date.

3.5.7 S-pankki

Multiple tries to reach S-pankki did not bring any results. Neither the appointment booking procedure on their web site nor direct email request gave any response, which brings to conclusion that they do not operate with these issues.

3.5.8 Pohjola pankki

Pohjola is a Finnish financial services group whose mission is to promote the sustainable prosperity, security and well-being of its customers. Pohjola provides its corporate and institutional customers with a diverse range of banking, non-life insurance and asset management services, and private individuals with an extensive range of non-life insurance and private banking services. Pohjola's profitable growth enables a competitive Total Shareholder Return.

Focusing on profitability and an increase in company value, Pohjola Group is committed to strong capitalisation and a shareholder friendly dividend policy. (Pohjola web page, <https://www.pohjola.fi/pohjola/group/pohjola-in-brief?id=351000&kielikoodi=en&srcpl=3>)

Although Pohjola was recommended by Wirma Lappeenranta, which is governmental company oriented to help with becoming entrepreneur, the interview was short due to impossibility of anyone without Finnish social security number to have an account there. Pohjola provides a lot of corporate solutions with no differences due to origin of company owner. According to Wirma and some internet sources, that is the best bank to cooperate with for small and medium enterprise owners.

3.6 Interview summary

Bank name	Cooperation with non-EU citizens	Operations on stock market	Process steps	Money transfer	Russian oriented specialist	Operations with corporate customers	Minimum amount (in 1000Eur)	Process duration (working days)	
Han-dels-banken	+	+	Signing agreement, then following instructions	Bank to bank/ cash	-	+	5000	5-8	
Dans-ke bank	+	+			-	+		7-9	
Nordea	-	No info		No info	No info	+	No info	No info	
Säästö pankki	-	No info		No info	No info	+		No info	
Poh-jola	-	-		-	-	+		-	
Lähitap iola	-	No info		No info	No info	+		No info	
Evli	+				Bank to bank	+		10 mil.	No info

Figure 2 – Summary of the interview results

As an outcome there is a list of only two banks which operate with money which was gained outside of Finland and the investor does not have to have Finnish residence permit and social security number in order to operate an ac-

count. Other banks required real estate property in Finland or other source of income there before accepting the applicant as a customer.

The corporate side of the question looks much more positive and welcoming. All of the banks which were interviewed answered that they operate with companies regardless the origin of establisher.

4 Conclusion

4.1 Research outcome

The aim of the research was to provide information for potential investor who is Russian citizen and who chose Lappeenranta as a target region for his/her investment. The aim of the thesis was to give clear understanding of what is possible to do in that area, what are the limitations, requirements and procedures. Using that information as a basis, the potential investor can choose now, what type of investment he/she wants to make and find detailed instruction for starting it.

The empirical part provided information gained through interviews, which will make the process of choosing bank to operate with as simple as possible. That step is a milestone for the whole topic of investment, as long as absolutely any kind of investment and financial operation in Finland has to be made with the participation of a local bank. Most of the interviews were made by face-to-face meetings with bank workers. However, a couple of banks preferred to answer the stated questions by emails. Meetings were arranged by filling the appointment form on their web pages or by sending an email with an appointment request. All responded banks were contacted with exactly the same questions in order to get the result in the most accurate way. None of them was informed that the whole questionnaire is a part of a study. The author was acting as a spokesman of a potential investor.

The theoretical part was divided into two parts, which covered both direct and indirect investment options. The first and the most important finding of the en-

tire research is that indirect and direct investment possibilities presented in Lappeenranta area in full.

Bonds, stocks and mutual funds are available for Russian citizens for operating on the Helsinki stock exchange. There are who ways for starting to operating there:

- Become a trader by yourself
- Become a client of a bank who offers private banking with stock operations service

The first option is complicated, tougher in legal part and requires time, more money and experience. On the other hand if the investor knows what he/she is doing, the rates of return can be really high.

The second option is easier. The only thing which is needed is to go to a bank, which offers such a service, open an account, transfer there a minimum amount of money for operations and the rest is take care of the. From the following list of banks: Svenska Handelsbanken, Danske bank, Nordea Bank Finland Abp, Etelä-Karjalan Säästöpankki, Pohjola Pankki, Evli, and Lähitapiola, only the first who do offer such serves. Evli bank also offers private banking for Russians with minimum amount of 10 000 000Euros, what makes it almost impossible to became a customer.

Alternative investments are only available for personal operating due to their unpopularity in Finland. It means that Russian citizens can do them in Finland, but by acting from their own, with no help or services provided by banks.

Direct investment possibilities are also well presented in Lappeenranta. Easy and transparent process of opening a company makes it suitable option for those, who wants to invest to business. Both horizontal and vertical types of operating are presented and have good perspectives in the country. For those, who want to buy a company, which already operates, there are no challenges in Lappeenranta. All of the banks which provided their responses for interviews confirmed that they can open an account for Russian citizens who own a company and source of income in Finland.

The second finding is that just two banks which were highlighted before provide service with money, which come from abroad. All other banks require an account holder to have a source of income or real property in Finland.

The third finding is that even with such a big value of investments coming from Russia, only one bank has a worker who is oriented to work with Russian clients. Communication trouble and documents available in Finnish and Swedish make the whole process more complicating and scaring off potential investors.

The last finding is that bank's policy most of banks possibilities cannot be discussed even during a face-to-face meeting. Until the moment, when a potential investor becomes a client of the bank, he/she will not be able to get a lot of information from the bank staff. That is why it is important to know exactly what the investors is looking for and to ask direct question. In order to be polite and welcoming the bank workers will have to give straight answers.

4.2 Suggestions for further research

The topic of investment requires deep research and needs to be updated frequently. This area of business world develops with fast rates and more profound research will be useful for covering this topic more accurately. Each type of investment and company expanding strategy can become a good topic for separate a research.

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Appendices

Appendix 1 -Turnover graph of Helsinki stock exchange from 2012 to 2014

Appendix 2 - Summary of the interview results