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Russia to Invest $10 Billion in Fund

MOSCOW—Russia will invest $10 billion in a new direct investment fund it is setting up to attract foreign investment in an attempt to help modernize the economy, a government official said Monday.

The Kremlin is betting that foreign investors will be more likely to invest in Russian business with the state as a partner, a possible safeguard against loss.

Yet the state's investment may come at the expense of at least one of Russia's strategically important sovereign wealth funds, currently held abroad, and could lead to higher inflation.

Russia will build the initial investment of $2 billion to $10 billion within five years from its launch, Economy Minister Elvira Nabiullina said. State investment will make up 10% to 15% of the fund, which will be managed as a closed-end mutual fund by a unit of state-run development bank Vnesheconombank, or VEB.

Russia is talking to sovereign funds and private investors in Russia and abroad, Ms. Nabiullina said.

The fund may be established by mid-2011 with money from the National Wellbeing Fund, President Dmitry Medvedev said earlier Monday. The National Wellbeing Fund, intended to support the country's pension system, totaled $90.94 billion as of March 1.

"Most important of all is improving Russia's investment climate and attracting investment capital," Mr. Medvedev said.

Goldman Sachs Group Inc. Chief Executive Lloyd Blankfein has talked to Mr. Medvedev about the possibility of the bank participating in the fund, the Kremlin said last week.

Mr. Medvedev first mentioned the fund at the St. Petersburg forum last June, during an address in which he told the world's business leaders that Russia needed "a genuine investment boom" and was serious about modernizing its economy and attracting foreign investment.

While modernization has been a cornerstone of Mr. Medvedev's economic policy, Russia's economy has continued to be heavily dependent on its main export, oil, with about 40% of budget revenues coming from the sector.

"There will be investors, no doubt about it," said Julia Tsepliaeva, chief Russia economist at BNP Paribas. "Investors don't like the Russian investment climate, but the government should calm some of their fears by putting up its own money."

Sergei Guriev, rector of the New Economic School and a member of the president's commission on modernization, said the fund idea sounded "realistic." "Russia has a large number of investment opportunities," Mr. Guriev said. "The major problem is the investment climate, but having the government as co-investor will help protect foreign investors from expropriation, corruption and red tape."

By IRA IOSEBASHVILI

—*Nadia Popova and William Mauldin contributed to this article.*

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