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Securing the Future

**A NEW TYPE OF ENTREPRENEUR: THE VANGUARD OF PRIVATE CAPITAL
IN BRICS COUNTRIES**

Panel Discussion

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In cooperation with Ernst & Young

Moderator:

Ruben Vardanian, President, Troika Dialog

Panelists:

Kirill Androsov, Managing Partner, Altera Capital

Artem Avetisyan, Director of the New Business Stream, Agency for Strategic Initiatives

Kamran Elahian, Chairman and Co-Founder, Global Catalyst Partners

Leonid Kazinets, Chairman of the Board of Directors and Founder, Barkli Corporation

Gerard Lopez, Founder, Mangrove Capital Partners; Founder, Genii Capital

James Turley, Chairman, Chief Executive Officer, Ernst & Young Global

Maxim Volkov, Chief Executive Officer, Member of the Board of Directors, PhosAgro OJSC

Front row participants:

Ekaterina Trofimova, First Vice-President, Gazprombank

Lawrence Wright, Startup Project Director, Moscow School of Management SKOLKOVO

R. Vardanian:

Good afternoon, let us begin. Our schedule has already been disrupted due to the speech by the President of the Russian Federation. There are still a large number of events to come in the evening programme.

Let us begin our panel session and welcome all those present – both guests and the speakers who have agreed to give talks at this, in my opinion, very interesting session, A New Type of Entrepreneur: the Vanguard of Private Capital in BRICS Countries.

I will not spend much time on the introducing my colleagues. I shall just say that all of them are distinguished, successful businessmen, who head various companies both in Russia and in the world. I will just say a few words about each person. I also would like to first say a few words on the topic facing us.

As moderator, I am very grateful to Ernst & Young, which invited me a few weeks ago to participate in a unique contest held in Monte Carlo to select the world's best entrepreneur, a contest which the company has run for decades. I headed the jury, consisting of eight businessmen who were to choose the best of the twelve candidates. For two and a half days I listened to 50 success stories from people from many countries – from Liechtenstein to China. There were people who gave all their wealth to the workers and helped them to become rich, like a Chinese entrepreneur did, and people from Latin America, who had had their assets nationalized several times with everything taken from them, and they started from scratch and become successful again. These are people who love their work. I must say that this was a truly unique cross-section of people who made their money the hard way. It should be noted that these 50 people were responsible for USD 59 billion in revenue, and the amount of such growth was high in 2012 and 2011, during the economic crisis, when the situation was not very good in many countries. All of these people share one trait – they all possessed drive, and an inner desire to do what they believe in. This is a very great skill that truly extraordinary people have – the ability to believe in their dream and inspire their team to follow them.

I would like to begin today's discussion by recalling one of those people who started out at the age of 22, created a company that was later sold, then created many successful companies in the IT sector. I am talking about Gerard Lopez, founder of Mangrove Capital Partners and founder of Genii Capital. I want to ask you what is unique about an entrepreneur, what is the key to his entrepreneurial nature? How is an entrepreneur different from a successful manager in one of the larger corporations, and what are the inherent features of the new entrepreneur in the context of current realities?

G. Lopez:

Thank you, that is a tough question. I could write a book about it if I knew the exact answer! To be fair, I think the difference between an entrepreneur and someone who has a different professional career or lifestyle is just the way they view the world. As an entrepreneur, first of all, you see opportunities where very often people do not. That is the key. But the transition from seeing that opportunity to actually doing something about it is, I believe, what defines entrepreneurship. Not having the ability to do everything that you see is what defines the frustration of an entrepreneur. Your company environment has to live with the urge that you have to always do new things, which is not always good. So, as far as I am concerned, and I think I speak for other people that come from a similar background, you look at the world through different glasses. Where other people see problems, you are thinking about how you could take advantage of that and, as I said, you take action. As far as it relates to the current situation, I do not want to sound overly optimistic, but obviously, every time there are tensions or change, big companies and big groups suffer quite a bit and this typically opens up opportunities for quick thinkers and people that act quickly. So I think that the times we are in are good for entrepreneurship at a global level, not just in Europe or the United States, but certainly in the BRIC countries. That would be my answer.

R. Vardanian:

Okay, James, do you want to add something?

J. Turley:

Yes, very interesting. We have never met. First, Ruben was modest when he said he was on the jury – he was the head of jury for the Entrepreneur of the Year Programme. What I have witnessed over three decades of celebrating entrepreneurs and meeting them all over the world is how similar they are. They all started with the perspective that he just articulated, which is looking at the world outside themselves, seeing the problems and the needs that exist and, instead of wringing their hands about it, they have got a vision to create a product, service, or idea to go and meet the need that they have identified. They then have more courage than most of us to go and risk everything to follow their dream. Very importantly, they have persistence. As many of the most successful entrepreneurs that I have ever met around the world, from any country, have failed the first time round. They have picked themselves up, dusted themselves off and done it again and again.

We were just talking about all the different firms that you have formed and this is precisely what characterizes entrepreneurs. At Ernst & Young, we did a survey in the depths of the financial crisis – we surveyed hundreds of mature multinationals and hundreds of entrepreneurs, asking the same questions. During the depths of the crisis, fewer than one in five mature companies, 19%, were seeking opportunities. They were doing exactly what he said: protecting their assets and looking at the downsides. Two thirds of the entrepreneurs, even though they were hurting, were thinking that now might be the time to expand, as their competitor might be hurting more than them, so why not acquire them, roll up the industry sector or enter a new market. That is a mindset and a perspective that you articulated quite well.

R. Vardanian:

James Turley, from Ernst & Young. Once again, I wanted to express my appreciation that there was an opportunity for you to participate in this discussion.

Kirill, as a man who has worked in private business, worked in the government, and now returned to the private sector, could you tell us about the new type of entrepreneurship and about the changes we want. In your opinion, what has happened in Russia, what is happening, and what is necessary? To what degree does entrepreneurship exist or not exist in Russia, and how do we increase the growth of its activity?

K. Androsov:

Ruben, thank you very much.

I would like to begin my answer with the words of a famous guru in the field of entrepreneurship, Howard Stevenson, the founder of the entrepreneurship programme at Harvard Business School. In my opinion, he gave a very clear definition of entrepreneurship, or rather, the entrepreneur – it is an individual who is constantly in pursuit of opportunities without regard to the resources that they control. That phrase was uttered in 1983.

In response to your question, I will now allow myself to re-phrase this statement a little bit provocatively. In Russia, an entrepreneur is a person who always protects their resources, despite the abundance of natural resources in the country where he is located. And, in my opinion, this is true for most of the BRICS countries. The situation where an entrepreneur has to spend most of their time not on creativity, but on protection and preservation, is not unique to Russia. This is not news, but rather the condition that we have found ourselves in together with emerging economies; it is a particular feature of emerging economies. But today we should talk about this.

If we describe the new image of the entrepreneur and how it has changed over the past few years (especially after the crisis), then, in my opinion, there are three basic things that deserve attention.

Firstly, entrepreneurs have developed a global way of thinking, and they have increasingly begun to look beyond their own country. Geographic boundaries no longer play a significant role in development strategy.

Secondly, today's entrepreneurs are very well-informed about the benefits of capital structure and opportunities for funding their businesses. The modern entrepreneur has a large set of tools for financing his business.

And thirdly, there is less fear. The entrepreneur has become less fearful of the limitations and risks that his environment imposes on him.

In my opinion, these are the three things we should talk about.

R. Vardanian:

Thank you.

I wanted to ask Kamran Elahian, who is Chairman of Global Catalyst Partners and one of the businessmen who invests in places like China and India. As far as the situation in India is different from what is happening in China, what is the general situation in these countries, and what is characteristic of investments in each of these economies?

K. Elahian:

I guess I should probably first preface my response with this: for about 25 years I was an entrepreneur, before I became a high-tech venture capitalist. As an entrepreneur I saw amazing successes and failures. I started ten companies and three of them failed, and it never felt good. Thank god six of them did well, with three of them doing amazingly well, receiving multibillion dollar IPOs. One thing I would like to say first about all countries is that there is a new style of entrepreneurship that contrasts with the old style. We have always had entrepreneurs that have done things the way the previous wonderful speakers have

talked about. The new style of entrepreneurship, which originated in Silicon Valley, where I come from, has a few principles, including a principle of meritocracy. The new style of entrepreneurs promotes the people in their organization who have the best talent. They do not hire their brother, sister, or cousin, so it is not based on nepotism. The new style of management is based on participative management, where the boss is not a dictator and there is cooperation on setting goals and helping to achieve them. There is now shared ownership. In the old style of entrepreneurship, which you see in many countries, whether they are BRICs or others, the boss owns 90%, maybe 100%, of the business. In the new style of entrepreneurship, which again started in Silicon Valley, there is shared ownership. Everybody has a share in the company and so, when Facebook went public, many employees became quite rich. Even the receptionist and the clerk have shares in the company. So when you look at the transition to the new style of entrepreneurship from the old, it is slowly progressing in a number of countries. If I look at the first generation of Indian entrepreneurs – as our fund has investments in the United States, Japan, China, India, and Israel, we can compare them a little bit – they were basically the traditional style. We are now just seeing the second generation, who have started to adopt many of the things that we have mentioned. The first generation of Chinese entrepreneurs were the same. They had studied in the United States, worked in Silicon Valley and maybe listened to Jack Ma and the kind of things he adopted for his companies. It was very similar because he studied at UC Berkeley and learned so much about what was happening in Silicon Valley, so, when he went back to China, he used and applied those principles. The key thing that you see here is that this new style is moving to a number of BRIC countries, which is very positive. However, when you look at the areas where so much more needs to happen, part of this new style is an open style of management and transparency, which is largely missing in many BRIC countries to which I have had exposure. If you want to have the trust of investors, your employees and customers, that openness and transparency is crucial. I do not know how much of that comes from the governments in the BRIC countries and how much of it comes

from the entrepreneurs, but if a corporation adopts an open policy, shares information and shows reliable financials to people, so people can see who owns what and how performance is driving bonuses and salaries, then there is accountability. Investors will believe that they should buy the company's shares because they can trust the financials. Many of you must have heard about how many companies in China who went public had to state and re-state and re-state their financials because of the many things that were done wrong or were hidden. The new style of entrepreneurship is definitely a lot more open and a lot more transparent, which will hopefully translate into better governance and more transparency within the governments in BRIC countries as well.

R. Vardanian:

Thank you. I would like to ask the same question of Leonid Kazinets from Barkli, one of the entrepreneurs who has successfully worked in the very complex construction industry.

I have seen many entrepreneurs in my 20 years in business in Russia. Kirill is absolutely right in saying that they should insist on protecting their own resources and assets. And when you talk to some of our colleagues, they say that we are incredibly aggressive, that the entrepreneur has to be very aggressive to protect himself from the government and to protect himself from the competition. I remember when I talked to a very successful former oligarch, and he said, "Let us agree with each other that we will not fight and we will behave decently." I then asked him, "What about the young people who just appeared?" He said, "Let them prove that they can fight their way to the top, like us, because we will hold them down at first, and then, when they become like adults, we will work normally with them." So, what do you think about this view of entrepreneurship in our country – is it necessary to be very aggressive here and to be able to defend oneself by attacking and fighting? The issue of openness and transparency is an important topic, but I think that in a time of crisis it is more important to have the ability to save your assets.

L. Kazinets:

Ruben, we need to distinguish a few things here. I do not think that in our country, any more than in other countries, a degree of aggressiveness is a positive characteristic in the development of business. I think something different is important.

I am not sure that we are talking now about the new mentality of businessmen and about current developments. I remember an article from Fortune magazine stating that the changes in communications, movements, relationships between people, and access to continents will fundamentally alter human psychology and the manner in which people behave. In principle, the article is quite sensible, but it was written in 1929, and we can see that, fundamentally, nothing has changed. I think that there is a British saying in the business community, "You get what you pay for". So, what you are willing to spend on your business, how willing are you to sacrifice something – this, I think, is a more important criterion in business than having sharp teeth. Perhaps the need to protect assets is a normal feature of competition. The whole question is, what do we mean by this? If we develop core competencies, work out procedures, build up the legal protection and transparency of business, including removing dependency on administrative resources, this is the best way to protect business. If you depend on a particular favour from a certain head at some ministry in an area, it is a big risk. If you work in the economies of several countries, then perhaps the risks are minimal. In these cases, you do not need to act aggressively towards your colleagues, because there is such a great strategy called the 'Blue Ocean', which asserts that in fact the market for business is unlimited. However, the question is, how prepared are you to see this at this time, and what are your opportunities?

I think aggression towards one's colleagues on the shop floor or in some other area is a sign of weakness rather than strength. I have been doing business in Russia for at least 24 years and for 20 years, I have been building the Barkli brand. During that time we have never competed in anything coercive. Maybe those who protected

themselves had to compete much less than we did on the quality of construction management and financial technologies. Perhaps this is the best protection. If you have so much strength, you are not going to attack anybody, and no one will attack you, as they know your strength.

R. Vardanian:

Thank you, Leonid. I address this issue to Maxim Volkov of the company PhosAgro. Maxim works for an entrepreneur and is the one of the most important managers of one of the largest companies in the industry – a very interesting, dynamic, and global company. It is important to Maxim what happens in the entrepreneurial environment. How is a manager different from an entrepreneur? Or is a manager also an entrepreneur in today's rapidly changing markets and rapidly changing situations?

M. Volkov:

I completely agree with the view that it is worth considering the definition of an entrepreneur in today's world. In fact, even a mid-level manager in a large company, in my view, is much like an entrepreneur, because I have resources, and he has the resources of his own company, and he also uses these resources to achieve his personal goals.

For example, I saw Kirill Gromov of Troika-Dialog in the hall. Is he an entrepreneur or a hired manager? In my understanding, he is an entrepreneur, because the level of risk that he takes on every day, staking his reputation, is comparable to the level of risk an entrepreneur takes, putting everything at stake. It is the same in my company.

Therefore, if we talk about the level of aggression, I do not agree with the previous speaker. I believe that since we work with both India and China, and with Latin American countries, we see that the level of aggression among entrepreneurs in the BRICS countries is somewhat higher than in developed countries. In my opinion, this is due to the fact that entrepreneurs, as a class, are very young in these

countries, and they are ready to take on a much greater level of risk than their counterparts from developed countries. Accordingly, if people are willing to take more risks, they are more aggressive in protecting themselves. Why this happens is hard to say. This is, perhaps, an issue that psychologists and sociologists should concern themselves with. Perhaps one of the factors is that, for now, the life of the average entrepreneur in a BRICS country is much shorter than in developed countries. If we look at the average life expectancy in Japan and compare it with Russia, life expectancy in Russia is 20 years shorter. Accordingly, a Russian entrepreneur does not have these 20 years that a Japanese entrepreneur does. Therefore, we need to be more aggressive and fast moving.

R. Vardanian:

Thank you. An interesting perspective.

I want to pose a question on the same topic, but from a different angle, to Artem Avetisyan, Director of the New Business Stream at the Agency for Strategic Initiatives. As a person who is responsible, among other things, for changing the business climate in our country (one of the objectives of the Agency is to help the government create a favourable business climate in Russia and to move Russia from 120th place to 20th in this index), in your opinion, is the business environment different in Russia than in other BRICS countries? To what extent are entrepreneurs and/or managers more aggressive people? Are they the engines of change we want in our country? What do you think should be done to improve the business climate in Russia?

A. Avetisyan:

Thank you. Good afternoon.

Before I came to this session, I looked at some figures. It was very important for me to understand the comparison of Russia with the other BRICS countries. I came across a study, the Global Entrepreneurship Monitor – you can find it on the Internet, and I was alarmed by one figure. I saw that here in Russia, only 4.6% of

companies have been in operation less than three and a half years. This suggests that the proportion of new businesses is very small, and that it is very difficult to start a new business. It suggests that, in addition to the need to protect your business, it is still very difficult to start a business because there are a lot of barriers faced by the entrepreneur. When we talk about the entrepreneurial climate and business environment, we primarily have in mind the barriers to and procedures for conducting business in the country.

If we compare with the other BRICS countries, in two countries – Brazil and India – the situation is worse than in Russia. Everyone knows that according to the World Bank rating that everyone is citing, Russia is in 120th place. (By the way, we have gone up by four places, because last year we were in 124th place). Some progress is being made. There are BRICS countries that are worse than us. For example, Brazil is in 126th place, and India is in 132nd place. But China is way ahead of us in 91st place, and South Africa has pulled far ahead in 35th place. To compare: the US is in fourth place, and Germany, which is geopolitically closer to Russia, is in nineteenth place. Of course, the constant leader in recent years has been Singapore. I recently spoke with some leaders and heads of large companies, and with entrepreneurs that do business in Singapore. They tell incredible stories... It seems that it may be easier to take, copy, and bring this to Russia. Why should it not work here?

This is one of the topics that we can discuss today. We can talk about the business climate and the World Bank ranking that everyone is citing, and that we have begun to use to improve the situation, and over a certain period of time take it from 120th place to the top twenty.

There are simple and clear issues faced by entrepreneurs. Take for example an entrepreneur in Russia who is building a two-storey warehouse of 1,300 square metres. To build it, he must go through 51 procedures. It will take 423 days and cost USD 18,200. In Brazil, it will take 17 procedures, 469 days and USD 3,000. In Germany, it takes just 97 days. I think that Leonid Kazinets will add more to what I

said, because Leonid headed the working group that has already created a 'road map', and he will describe this in detail.

Another example is from the energy sector. According to this index, unfortunately, we are in very last place at 183rd. To connect the same warehouse to the networks – two-storey, 1,300 square metres, 140-kilovolt-amperes – requires 10 procedures, taking 281 days and costing USD 183,000. In Brazil, this takes six procedures and 34 days, and costs USD 12,000. And in Germany, it takes only three procedures, 17 days, and costs USD 21,000. This is not a warehouse to store food or any special equipment, but a warehouse for storing books; the World Bank has taken simple storage as its basis for measurement. Of course, who wants to do business if they are faced with such problems, if customs clearance takes a long time, and if there are other issues related to the protection of property, about which we have already spoken? Of course, all of this affects the business climate.

Therefore, improvement of this issue is our main goal. It is no coincidence that at today's Sberbank breakfast, which was attended by many members of the government, almost every one of them said that one of the main tasks is improvement of the business climate and investment climate in the country. Later, I will briefly speak about how the Agency for Strategic initiatives was started in December.

R. Vardanian:

Well, you will have the opportunity.

I want to bridge the gap and pose a question to Lawrence Wright, the Director of Start-up Projects of the Moscow School of Management at Skolkovo. They have said that it is very difficult to start a business in Russia, and yet you are helping students at the Skolkovo School of Management to begin new projects and new businesses. In your opinion, is this all correct or is it nonsense? Or are there no significant differences, and our entrepreneurs can easily start a business in Russia and achieve success?

L. Wright:

Indeed, the situation is not simple. New businesses and start-ups are always very, very problematic. But specifically for Russia, the chain of innovation and innovative entrepreneurs is the most critical issue. This is a question of competence, the level of which is still very low. In Russia, only 22% wish to start their own business. I consider myself quite competent in this matter. We need a practical approach to this issue, and we cannot ignore what is happening behind the walls, where issues are being discussed. At Skolkovo, genuinely new things, and new technologies are being created. However, scientists have brought their technologies to Skolkovo, and entrepreneurs are engaged in business. This area requires solid support from the government and conditions which permit the development of competence.

K. Elahain:

Yes, I just wanted to mention a couple of things. I am not sure exactly what the World Bank was ranking in those countries, whether it was the ease of building companies that were started with government support or simply entrepreneurial work. I worked as an Advisor to the Deputy Prime Minister of Singapore for five years and, during those years, the biggest problem that we faced was how to create a culture of entrepreneurship. While I admired what the government had done to create an amazingly pro-business, pro-high-tech start-up situation for entrepreneurs, the culture of entrepreneurship was not there, with many Singaporeans preferring to go and work in secure jobs, rather than going and risking everything. So that culture of entrepreneurship needs to exist. I have had very little exposure to Russian entrepreneurs, but I was asked in Moscow a few days ago to give a talk to a group of entrepreneurs and I was quite impressed. I met about 25 entrepreneurs and they were so enthusiastic and interested in going out to conquer the world and develop new products. I was really touched by that. So, in my opinion, the culture of entrepreneurship is the most important. Without it, you could remove a lot of the barriers and entrepreneurs would still not come. From my small sample in Russia, there seems to be a lot of zeal and a lot of interest and energy around

creating companies. That is why I am here and potentially looking at doing something to expand our activities into Russia. I can feel that here.

J. Turley:

Kamran, I agree with you. The culture is incredibly important. When we talk about the number of permits needed and such things, it is a cost and, although no one up here has said it, every time a permit is needed in any part of the world, not just Russia, it introduces the opportunity for corruption. Nothing discourages the entrepreneur more than that. So, for many countries those are trying to help develop that culture, a pre-existing condition is to try to reform their administrative processes to the greatest extent possible and to minimize corruption. One other thing, Kamran, is that you talked about the differences between Silicon Valley entrepreneurs and others. One of the other differences I see when I look at entrepreneurial businesses in Silicon Valley, compared to many other places, is the diversity of the talent within the companies. One of the things that characterizes most of the entrepreneurial businesses in Silicon Valley is that they look like the United Nations. There are men and women from all over the world, from China, India, Russia, Israel and elsewhere, all coming together. They have this culture that makes the team work so effectively and combines different perspectives. That is when the sparks fly and innovation happens. In many other parts of the world, even the most entrepreneurial businesses are primarily all Russian, Chinese, or Indian, and I think it tends to be a little bit of a barrier to getting the creative juices flowing.

R. Vardanian:

I agree, this is an important component of America's success: a multinational team of young people coming in and trying to succeed in business. Before taking questions from the audience, I would like to pose one more question to the participants.

In his speech today, President Putin described a new initiative on the establishment of an institution that would protect the interests of businesses, and the nominee who

has been appointed to this position was announced. I would like to hear your opinion about how this institution can help to create a new type of entrepreneurship and how effective this mechanism can be. For Russia, this is a new thing, and our foreign colleagues may have other examples. This is not a common mechanism, but it exists in some countries – for example Mexico, and in some others.

Kirill, in your opinion, to what extent will this mechanism improve the business climate, encourage growth, and change the image of the entrepreneur? To what degree can this initiative be effective in the Russian system of government, and how can individual personalities make it effective? Thank you.

K. Androsov:

Thank you, Ruben. The President's address was definitely major news today. I believe that entrepreneurship in Russia today is in such a terrible state that the appearance of any new institution designed to protect the interests of the entrepreneur and offering the possibility of a detailed analysis of problems is good – it is a positive initiative.

As for Boris Titov, I know him well and I think that he is very decent person who really has good business experience. He should understand the problems of entrepreneurs and pay a great deal of attention to this task.

On the other hand, I would urge us all not to overrate such activity. After all, the scale of the systemic problems that we are discussing today makes it clear that just one ombudsman will not be enough.

R. Vardanian:

Yes, please go ahead.

L. Kazinets:

There is a saying: practice makes perfect, but perfect practice is even better. And with all due respect to the wonderful Boris, whom I admire as a friend and a remarkable public figure and entrepreneur, none of his personal talents will make up

for the way the system works, even if he is able to change attitudes to business and succeed in getting certain laws adopted. We adopt a lot of laws, guided by good intentions, but we often do not ask one vital question: how much will this improve the state of the national economy?

If we understand the national economy as improving the condition of the domestic manufacturer, let us ask more questions about it. If we adopt the procedures of a legal code, will they help manufacturers to work better? If not, then it is not necessary to adopt them. These are fundamental issues. If Boris and his team are able to change the mindset of the executive branch in this way and establish serious procedures in the service of the national economy and the development of entrepreneurship, it will be a great success. If they are given the right to only intervene in some specific cases and issue a veto, appeal to the prosecutor's office, and appeal directly to the President, these will be isolated solutions that will result in some improvement, but not the kind of improvement we expect. The whole issue is about whether he will have the authority and ability within the system to fundamentally change the executive branch's approach to business, as the main engine of the economy.

R. Vardanian:

James.

J. Turley:

Probably not everyone knows this, but there has been experience here in Russia with an Ombudsman. Ernst & Young co-leads the Foreign Investment Advisory Council, in which big non-Russian foreign investors come together and work with the government. A couple of years ago, when he was Prime Minister, Prime Minister Putin, now President Putin, put in place an Ombudsman to work with the foreign investors. It has been highly effective – very, very effective. It was Mr. Shuvalov then. I think there has been experience in Russia of making great progress.

R. Vardanian:

Maxim.

M. Volkov:

There are two aspects here: the first is the individual, and the second is the institution – will it be effective or not? It is gratifying to see that in respect to the individual, the right choice has been made, in my opinion. Many of you here know Boris Titov – I also had the good fortune to work with him for two years in a joint project. He started in one business, and now, as we all know, he is engaged in winemaking. I do not know a more respectable person in the Russian business community. Everyone who has worked with him has only good things to say about him, and they say that he is a very decent man. I was not asked whether he should be chosen or not, but if I had been asked, I too would have voted for him because he is the right candidate.

Will he be able to change the systemic approach? Everything here depends on whether he can figure out the systemic error from looking at particular examples: why in one case or another, something did not work out according to the rules. Then there is a chance that this institution will become effective.

R. Vardanian:

Thank you.

Artem, as the person who heads the Agency for Strategic Initiatives, you must work very closely with such people.

A. Avetisyan:

I know Boris too. I think he is a worthy candidate. I would say that this is a definite signal for the creation of such a structure. The appointment of an ombudsman and the creation of the Agency for Strategic Initiatives, which has recently emerged to support the business community, demonstrate the attention the President is paying towards the problems of business. And it is very important. Of course, if it helps 50–

100 entrepreneurs, this is good in itself. If it results in a change in the system, this is even better. The main thing is that it is a signal that the government has become sensitive to the problems of business, and what we have been saying about the investment climate and about the National Business Initiative is further proof of that. I think it is very important.

R. Vardanian:

Thank you. I would like to give the audience the opportunity to ask questions, otherwise I will take up all the time allotted for our session. I still have many questions for the esteemed members of our panel. Please, raise your hand.

From the audience:

I am an entrepreneur from Germany and I just want to mention some ideas that have worked out quite nicely. In 1996, the European Entrepreneur Association founded a group that we call Europe's 500. These are selected by PwC or others as the fastest growing entrepreneurs in Europe. This is a mix between revenue growth and the number of employees, as 80% of all new jobs are created by these companies, so this is something that is very relevant. Secondly, the spirit of entrepreneurship is not something that you can read in a book. So, as entrepreneurs, we go out to universities, not to teach, but to talk about entrepreneurship and invite these people. Last year, as a member of the World Economic Forum, I was invited to a university in Jeddah and I can tell you that this was a very positive experience because spending money does not mean making money. When we talked to the Arab people and then later on to Australian entrepreneurs, there was a very big difference, which had nothing to do with being rich. Okay, when you live in Switzerland, everyone seems to have endless wealth, but you have to create a business plan, you have to create a business, and you have to create jobs. You then become an entrepreneur. I can only tell you that you are warmly invited to our annual meeting in Brussels, where a thousand entrepreneurs meet every autumn, to see how we go to others and talk about it.

R. Vardanian:

Thank you.

R. Vardanian:

Thank you for your presentation. Are there any questions? Please, go ahead.

From the audience:

My question is very simple: what is the attitude of society to wealth? An entrepreneur tries to create something, to succeed, and success is measured in money. People in Russia do not like the rich. What should be the PR role of government in promoting the image of the entrepreneur as a hero so that people want to become entrepreneurs?

R. Vardanian:

I would like to answer the question. So far, unfortunately, according to statistics, most of the graduates of our universities dream of entering the civil service, which is considered more prestigious and reliable. Either that, or Gazprom, or some other state company.

K. Elahain:

Yes, I would like to answer. Being an entrepreneur myself and having had innovations and invested in entrepreneurs in different countries around the world, I believe that not just Russian society, but any society, should love their entrepreneurs and look upon them as heroes, for the following reasons.

First of all, these people have the passion to go and create a new product or a new service that, in their mind, is going to benefit and change their society, or, as some of them believe, change the world. They do not go and start a company to speculate on a currency or commodity just to make money for themselves. The majority of high-tech entrepreneurs especially have an amazing passion for going and

developing a product or a service that really changes the lives of people for the better. While 50% of entrepreneurs will fail within the first year and maybe 70%-90% of them fail within 3-5 years, society wins because, during that period, these people create five jobs, ten jobs, twenty jobs, or fifty jobs, depending on how big they become. Each of their employees needs a computer, desk, chair, and cell phone, so they buy that for their employees, which creates more jobs.

This is something that benefits society as part of a circle that creates more jobs and makes society better. It is something that society should love, and people should look at entrepreneurs as heroes. This is very different from a person who goes and takes some money just to buy stock or to speculate on something that only benefits them and does not create any jobs.

R. Vardanian:

There is something else to add. Go ahead, but please be brief.

M. Volkov:

The person who asked the question is an honourable man and very clever, but this is a rare occasion when I do not agree with him. By and large, the government must make clear the rules of the game. But respect for entrepreneurship and entrepreneurs – this, first and foremost is the duty of entrepreneurs themselves. If we take a look at how many of our colleagues manage their status, power, money, and property, the only feeling that arises from their behaviour is shame. It is definitely not the duty of the government to whitewash this in some way, because words mean nothing compared to actions. This is primarily a question for the entrepreneurs themselves.

If we want to be respected in the community, what are we prepared to do for this? Pre-revolutionary merchants gave a significant proportion of their earnings to charity. Do we do this today? No. God forbid we give a few percent. Some give, and others do not give anything. And some brag about this wealth, rather than understanding that, by and large, we owe the money we made to the people who

work in our companies. This is very important. There is a saying: science is a way to satisfy curiosity in return for university fees. So, entrepreneurship is a kind of attempt to satisfy ambitions for money. But money is created by people who work. The first question is, how do entrepreneurs relate to society, and how much they are willing to give back to society in return for what society gives them? That is the test of the 'society–entrepreneur' relationship. It seems to me that we are still very immature about this. Of course, our society is far from being ideal, but our entrepreneurs are also, to put it mildly, not models of behaviour. The government's obligation in this situation is to quickly create the rules of the game.

R. Vardanian:

Thank you. Maxim.

M. Volkov:

I believe that this is the overarching question. We are working on this at the institute, because we have a country in which there is folk saying: "I do not want a cow – I just want my neighbour's cow to die." The phrase: "Who do you think you are, a know-it-all?", is already perceived as aggression. We all have to change our mentality, and the state's role in this is invaluable.

R. Vardanian:

I see. Thank you. Please go ahead, but be as brief as possible.

K. Elahain:

I think we should really separate entrepreneurs from some of the other individuals that we in America read about in connection to corruption. I am not talking about wealthy businessmen, where I do not know how they made that amount of wealth and there have been some records of illegal gains and things that receive the disapproval of society. What I am talking about are the high-tech entrepreneurs that I met a few days ago. This is the type of entrepreneurs that I see – they have no

money, but are putting everything on the line, going and trying to develop a great product. They should be the pride of society. I was not talking about that.

R. Vardanian:

Thank you. I honestly did not want to address this topic, but I looked at our panel and I see that there are only men sitting here. When I was on the jury, 50 entrepreneurs from all kinds of countries were there, and there was only one woman from Jordan. I wanted pose a question to Ekaterina Trofimova, who worked for a long time, three years, for S&P, responsible for risk and for monitoring what happens in our business, and is now the First Vice President of Gazprombank.

In your opinion, Ekaterina, what is preventing women from becoming entrepreneurs? Is it a general problem of society, which is intolerant to the fact that women are successful? Or is there some particular problem? Secondly, what do you think about protection, risk protection? How important is it for you? You have seen many high-risk people.

E. Trofimova:

To paraphrase the famous expression, 'business does not have a woman's face'. Having said that, the situation is changing, and the proportion of working women in the world and in Russia is increasing. There is a lot of research on this subject, showing that, in particular, female employment is still one of the most important drivers of economic growth in a number of countries. The proportion of women in senior management positions has increased. Here, we have been discussing how Russia lags behind in many respects, but I can provide some good news: the proportion of women in senior management roles (excepting the top jobs) in Russia is more than 40%. This is significant; it is almost double the average figure for the rest of the world, and is even higher than in the United States. This, by the way, is about misconceptions.

Of course, they are not at the highest level of top management. Today, I purposefully flipped through the pages for all major Forum partners, and there are

only four women, all of them from the media and communications business. This has certain advantages though. If you notice, here at the Forum, the queue for the men's toilet is much longer than the women's. All of these statistics significantly understate the degree of influence of women in business, not taking into account family relationships. I want to emphasize that the main types of businesses that women establish are microbusinesses. Moving on now to the risks. Risk management by female managers is one of the most attractive businesses, as women create businesses in less risky sectors. There is considerable potential here for Russian businesses and entrepreneurship.

R. Vardanian:

Thank you. I would like to return to Anton Kirillov's topic, 'The New Type of Entrepreneurship', and to the very successful dialogue about a Spaniard who lives in Luxembourg and invests in a company in America, in Argentina, and around the world. Indeed, the entrepreneur is becoming mobile and multicultural, not just in America, but worldwide.

How can you comment on this trend? That is, when will it be possible for not just Stephen Jennings, or a few individuals, but for many foreigners to once again achieve success in Russia, as they did in the 19th century? Is there a trend emerging and are we returning to a situation where Russia will be attractive to a large number of entrepreneurs that are not from Russia, so that they can become part of the engine of change in Russia? Or is this an illusion? A large number of Spaniards are currently out of work, and if I remember correctly, 50% of people with a university education in Spain cannot find a job. Maybe we should bring them here and give them an opportunity, and this will give us a brand new impetus?

I am being a bit controversial, but I would like to hear the opinion of Kirill and Gerard about how the entrepreneur is changing.

G. Lopez:

It is such a good business idea, we might go into a joint venture on this one! First of all, I was giving a speech this morning about the Next Big Thing and what people are inventing and investing in and so on and indeed, one of the things that is happening is that we are indeed global, which also holds true for entrepreneurship. The big difference, from just 15 years ago when I was still starting businesses to now, is that most entrepreneurs, especially in technology, now think globally right away. Fifteen years ago, you created a piece of software and you had language barriers. If you were German, you would write the software for Germany and then hopefully sell it somewhere else and start translating it and so on. Today, you are looking globally first. The best example is a small company we invested in in Cambridge, in the UK. I think they have five people and the first customers happened to be in China. So from the first day, they were going international. That is a trend, but not necessarily one for countries like Russia. We have invested here in a number of companies and you very often find that, when you have the first generation of entrepreneurs, countries that are big enough still tend to look within their borders because that is what they are comfortable with. It is not a mistake, as it is just the way it is. Very often there is a language barrier that inhibits where you are going to go. So in Russia, the companies we have backed, funnily enough, are very Russian-centric, but have been successful and that is what we care about at the end of the day. As far as the entrepreneurial spirit in Russia is concerned, it is early days. We were giving examples of how difficult it is to start a business and it is not easy. For us, even just wiring money into Russian companies is a very difficult task. The money sits in the bank account forever. You know it has gone, so you do not have it anymore, but the person that is waiting for it does not have it yet, so he is looking at his account and cannot use it, which is frustrating. So nobody has the money, essentially. That is not good for business. So that is one of the issues: the slow set-up issue. As I said, the second problem is one of examples. There have to be more examples. We know there are successful companies in Russia being started and built up that will eventually prove to be big successes. The moment you have something to emulate and look up to is the moment that you start deciding not

to go to work for the government, not to go to work for Gazprom or anybody else. I live in Luxembourg, which is not exactly a hotbed of entrepreneurship. It is very similar to Singapore in that it is a huge country in terms of financial services. I think it is the third largest investor in Russia, at something like USD 37 billion, plus it holds what I believe is the second largest reserve in terms of Euro transactions. Nevertheless, most people who graduate from the education system in Luxembourg still expect a job within the government, a bank, or whatever. So it is not necessarily the case that, if you have a good business climate, you suddenly get entrepreneurship – that is why Singapore is also a good example. Russia has the advantage of potentially having both because of its breadth. It is big and so it could have entrepreneurs as well as the right business climate. That is the challenge.

R. Vardanian:

Kirill.

K. Androsov:

Yes, thank you, Ruben.

When I talked about the new trend of the global nature of entrepreneurs, I rather meant the opposite. I wanted to show the example of Russia, where we now have many young people who have created a successful business model, not only in IT but in the consumer sectors, in science, and also in mechanical engineering. However, having rapidly become successful, they began to look for the exit, they found that exit, and are now continuing their careers or family life in Singapore, Switzerland, or America. People like Chichvarkin, in London. This is exactly what those countries...

R. Vardanian:

And they leave of their own will.

K. Androsov:

Singapore, Switzerland – these are countries where there is a good business climate. These countries are at the top of the rankings, and these people do not move there accidentally. This is a trend. This shows that the people who struggled here and succeeded, nevertheless choose comfort for their family and the comfort of the business environment abroad.

Speaking about success and the chances of foreigners being successful in Russia, I would note two components. These are our colleagues and partners both from emerging markets and from developed countries. Colleagues from emerging markets – from India, Brazil, and Iran – demonstrate examples of their success in Russia, in Moscow. They understand the rules of the game and understand how to conduct themselves here because they see many similarities. That is why they succeed so much more quickly.

Colleagues who come here from developed European countries and the United States of America to do business often give up and go home after several years of struggle. “You can't understand Russia with reason, and you cannot measure it with a common yardstick...”

R. Vardanian:

In your opinion, what is the reason for this defeatism – what is not working out? Is the environment never transparent and is so aggressive that people cannot succeed in it? Or they are not willing to fight; are they are too tired and have been comfortable for too long?

K. Androsov:

This is exactly how I ended my talk. There is a lot that is unclear. A person with a European way of thinking is used to a certain stereotype or a certain formula of behaviour, which has been part of their culture for hundreds of years. You can fight in Russia and it is possible to achieve success, but eventually you will cease to understand what is happening around you. Now I am not talking about myself, I am

speaking on behalf of a hypothetical foreigner who is trying to do business in Russia. Many discouraged people leave due to this inability to comprehend.

R. Vardanian:

I see. Yes, please go ahead.

From the audience:

I would like to ask a question before Kirill makes his comments. My question is specifically about a situation where we, Russian entrepreneurs, can do business abroad. My company has representative offices in nine countries – it provides capacity for processing different types of waste. In order for us, Russian entrepreneurs, to set up a business there, it is quite difficult. In other words, it is like scratching your left ear with your right hand. And our legislative environment does not allow us to invest wisely there.

I would like to hear Kirill's comments and I would like to hear comments from some of the foreign visitors. How do they see our integration into Luxembourg, into Switzerland, Italy, Romania, Bulgaria, and other countries of Western and Eastern Europe?

R. Vardanian:

That is, when we invest there, what do people expect of us, so that we achieve success there?

From the audience:

I just wanted to hear: if they were to change places with us, what would they do?

G. Lopez:

That is actually a very good point because it is one of the things that we have been talking about to people in Luxembourg. I have to say that it is not even provocative. It is the truth. Very often, if you show up with money and a Russian passport, you

will not receive the most positive reception. I think that is very negative. We know of a lot of financial centres that will accept money from a lot of places, but will make it very difficult for Russian businesspeople, companies, and so on to do business. I am not saying Luxembourg is one of them. As a matter of fact, Luxembourg has an excellent relationship with Russia. But I think there is a misconception or a negative perception, if you will, of Russian investors going out of Russia and investing in other countries. I think that is something where time, obviously, will prevail and change things. But, for sure, I think efforts have to be taken, probably also from the side of the Russian government. On the one hand, we have been talking about inviting investment into Russia and, on the other hand, promoting Russian investment outside of Russia and the acceptance of the combination of a Russian passport and money as something positive. That is not always the case.

R. Vardanian:

Thank you. Yes, please go ahead.

From the audience:

I would like to address the subjects of culture, image, and environment. Here is Mr. Kamran – a friend of ours. Fifty percent of the money he has earned, and still earns, he pays into a fund that engages in philanthropy. He has built over 600 schools. When do you think a businessman in Russia will reach the stage where the thirst for profit will end, and where he will then direct at least 5–10% of the money to the development of the business environment, or the development of something else? Why has this culture not been instilled, even though there are a lot of rich people in Russia? What is the reason? How much time will it take for such an environment to emerge here? I know Kamran, and there are many other examples, especially in Silicon Valley – this happens all the time. Perhaps this also relates to the subject of attitudes towards entrepreneurship? I would like to hear some comments on this.

R. Vardanian:

I will say a few words as the moderator.

You know, my father always told me that a person with the flu is very visible in the crowd – he is sneezing. Everything that is bad is a lot easier to see than what is good. Sometimes, we discuss a lot of bad examples, and we very rarely discuss the good ones. Things that are normal do not leave an impression. I think there is some exaggeration here. As a person who knows a lot of rich people, I know they are doing a lot in Russia. But there are two problems. The first problem is that they do not really want to reveal this and purposely do not engage in a lot of public relations, because they are afraid that the government will ask them for more money because the government also actively asks for money for various charitable projects. When different projects start, collection for football clubs, for example, every official considers it his duty to call and say, “You should give money for this”. So, there is some fear that when you do these things you will become a cash cow.

And the second problem is, really, in contrast to what happens in the West, there is no personalization of charity in Russia. We have no philanthropy industry as such, it is not institutionalized, it is not personalized, it is not professional, and it is a very complicated undertaking.

Let me give an example of a person whom everyone knows: Dmitry Zimin. Incidentally, there are people who publicly gave all of their property to charitable funds and quietly engaged in the support of science. There is no need to despair.

We are correct in raising this issue because we are still far from ideal. But we have good examples, we just talk about them less. It is easier to talk about bad things. But I agree 100% that this is a trend for Russia, and we will engage in this more and in better ways.

Take the competition for the best entrepreneur that I was talking about. There were people there who were much more successful than the Kenyan banker who won the main prize. The Kenyan banker did not just built a successful bank, did not just create a very successful business model, but he also helped 30,000 children to get an education, and he was actively involved in building the country and society.

When we look at some of our people, we see that our contribution to changing society is much less than it should be. I agree with this.

We are the elite, we are responsible for changing our country and we need to do more and better. It will happen, we just need time. For now it is not possible to change anything, and we need to understand that good deeds like silence. This must also be remembered. In any case, society must also realize that this is done by people who create wealth.

I shall move on to the third problem. There is a very clear position: if I pay all my taxes and the government takes them, then the government should be doing all of these things. This attitude is more common in European culture than it is in America. This position also has the right to exist: a person has decided that he paid all the taxes and fully given the opportunity to the government to spend the money correctly.

This is a separate discussion and a big topic, it is better to provide the opportunity to ask more questions. Are there any more questions? We have literally a few minutes remaining.

From the audience:

I have a question for Kirill Androsov.

It was said here that entrepreneurs create many jobs. If there are entrepreneurs in the corporate environment, there are probably also entrepreneurs in the government, and they also make the rules of the game and create more and more jobs in the public sector. I have seen the statistics: for each businessman, there are about 10 people working in the back office. These are people who support the business. We have 5% of the population in the prime of their lives working as security guards.

If the government has to attend to the image of entrepreneurs so that they seem like heroes, so that people try to become entrepreneurs, then who in the government is monitoring the workforce? That is, in a commercial company, for every one person from the front office, there are, let us say, three people from the middle and back

office. Is anyone in the government monitoring how many people one person who creates a business – that creates jobs – supports in terms of those who are serving in the army, working in Municipal Housing Offices, and working in the civil service? Five million accountants work in Russia, and this is out of 45 million people in our country who are able to work.

Thank you.

R. Vardanian:

Thank you. I think Artem can comment on this better, as he is a person who is responsible for strategic initiatives. How efficient is the government, and when will there be entrepreneurship in government institutions?

A. Avetisyan:

Ruben, thank you for the question.

I still want us to continue to distinguish, despite Maxim's idea, between the concepts of the entrepreneur and the manager. Yes, of course, a hired manager today has begun to take on much more responsibility and more risk. People expect more creativity from a hired manager. But there is a key word: responsibility for family capital and responsibility to their employees. In my opinion, this is what makes an entrepreneur different. The fact that is impossible to pass this liability to the hired manager, as his liability is always limited. The entrepreneur's liability is always unlimited. This, in my opinion, is the fundamental difference.

But there is a formal aspect, and there is an informal aspect. Formally, the government system of management of the Russian Federation has two bodies that are responsible for maintaining balance and distributing all resources. This is a department of the Presidential Administration, and the second body is in an office of the government. And the so-called Commission on Administrative Reform balances the two. According to its ideology, this commission must also pay attention to the disparities in the civil service, in the public sector, and in the private sector. How

effectively does it work? In my opinion, you yourself provided the answer in your question.

R. Vardanian:

Thank you.

Artem, would you like to comment on the efficiency of the government, as, for example, an institution that provides a sufficient balance? How relevant is such a task to your Agency, or is this another issue?

A. Avetisyan:

I think this is somewhat a different issue. I would like to say that entrepreneurs now have the opportunity to get involved in the processes that are occurring in the country. I will return to a sensitive topic that we have discussed – the investment climate. Entrepreneurs are creating working groups on this topic. Officials are involved in this, and they can work in this area. It is also possible to work remotely, using crowdsourcing tools. Therefore, I urge all concerned entrepreneurs to get involved in these processes. We were talking about philanthropy. Of course, this is something that cannot be instilled from the outside, as it can only arise from within. At some point, an entrepreneur, a businessman, just a simple person, feels that he has a need to give something. The same is true here. If a person who is not indifferent sees that he can do something and change something, if he has any ideas or thoughts, there are now many opportunities to participate in this process. This is the answer to another question. But Kirill answered the first question adequately.

K. Elahain:

If I understand the question correctly, my view is that, coming from a capitalist country like the United States, we do not want to encourage state employees to create more jobs for more state employees. Pretty soon there would be a society where everybody works for the government – I do not believe that that is a utopian

society to which we should all aspire. So I want entrepreneurs that go and create jobs in the private sector and make things better by doing this, but not at our expense. When you make government bigger and bigger, somebody needs to feed that government and that means the taxes that come out of all of our pockets. So I do not believe that we should reward the people within the government – state or federal – who keep creating more jobs within the organization. I think that we should reward the ones that actually make it more efficient, open, and transparent. My opinion would be that much can be done to benefit society with fewer people. But again, I am new to Russia and I do not want to overstep the mark and say something that might not be appropriate. I offer my apologies if I have said the wrong thing.

R. Vardanian:

Thanks to all the participants. I would like to thank you for an interesting discussion on a subject, which, I think, concerns not only entrepreneurs, but also society as a whole. What should be the place and role of entrepreneurs in our society, to what degree are they the engines of change that the society as a whole needs, how can we nurture entrepreneurs, and can entrepreneurs succeed in Russia if they are not Russian citizens? How different are BRICS countries from developed markets? To what degree is entrepreneurship a new medium that will not only change business but also public institutions in general, and to what degree can the government manage entrepreneurship and people with an entrepreneurial mentality? What kind of government is necessary for this, and when it will be the norm for all of us and for all of our entrepreneurs?

In general, we have raised many questions. I am not sure if we were able to answer all of them, but at least we had the opportunity to reflect on them in a public forum, in front of all our distinguished guests who came from different countries and who work in Russia and, by their example, demonstrate that the impossible is possible.

I would like to wish everyone success and the best of luck in what you do. I hope that all members of this Forum will leave with the feeling that, despite all the

difficulties, we can change everything, we can achieve anything, and there is nothing beyond our reach.

Thank you.