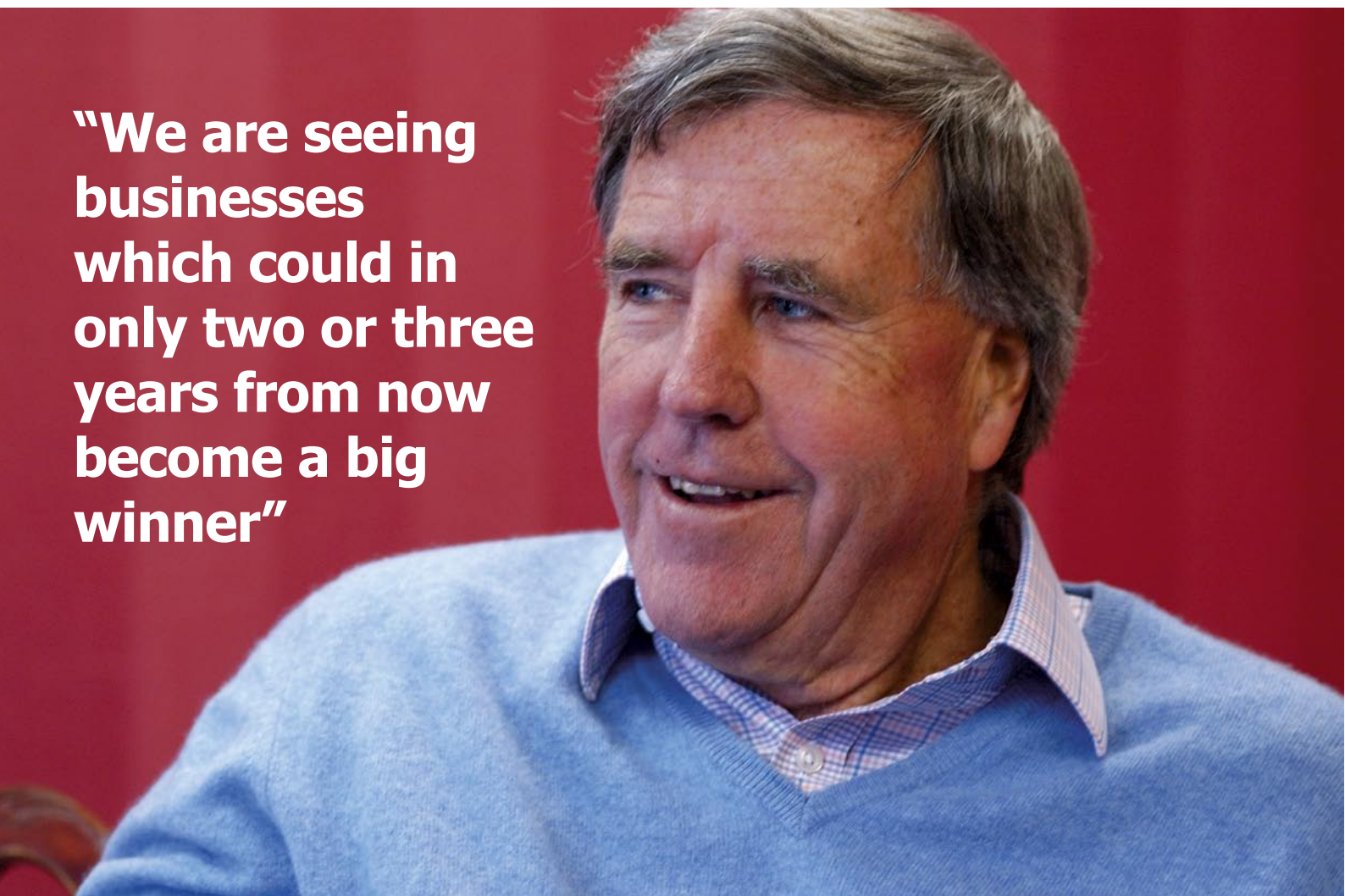


“We are seeing businesses which could in only two or three years from now become a big winner”



Photos: Alexei Kudikov

Veteran investor Harry Fitzgibbons, Managing Director, The Russian Technology Fund explains why as many Russian technology venture capitalists as possible should be trained up in the States and in the UK

How did you come to invest in Russia?

I have run this business for 25 years, investing mostly in British technology companies. It is like owning horses – you always think you might win the Derby, but most of the horses are nags and most technology investments get to the starting gate, but don't get around the track, never mind win a race. We were lucky – I invested in

Vodafone in 1982, one of the best technology venture capital deals ever. As a result, I was able to relax a little and look outside of the UK. I did a few deals in the States and one or two on the Continent, and then all of a sudden in 1991, I got a fax from the Deputy Mayor of St. Petersburg, Mr. Vladimir Putin. He invited me and Matts Andersson of SITRA, Finland to talk to his City Council about starting small

companies. At that time the whole of the St. Petersburg military-industrial complex had imploded. The idea was that maybe new little businesses could provide a safety net for the employees and hopefully the technical talent.

At the airport I was met by Alexei Vlasov, who had shared an office with Mr Putin in the “olden days”. Putin had sent him to meet me at the airport. Alexei spoke perfect English and

seemed to understand what one was about commercially. He was my interpreter.

After I had spoken at the meeting with Mayor Sobchak, Putin and the City Council, one of the councillors spoke out and they all started shouting. "What did I say that caused such a reaction?" I asked Alexei. He said, "Forget it – they aren't talking about what you said, they are complaining about all the potholes in the streets". I learned that my ideas were not the first priority at that time, but two years later Matts and I had hired Aleksei and in 1995 started the Russian Technology Fund.

Are you confident that the right economic policy direction is being followed in Russia?

Putin was, and still is, very focused on small business – rather like Gordon Brown. Brown believes – rightly, I think – in small business and that the American model can actually provide employment, create wealth and give young people the idea that they can have a stake in society. That is certainly happening in Russia.

We decided to start a fund in 1993. When we went out to market our Fund to investors in the West, it was very stony ground. In Russia there was no private capital; there was no one you could even talk to. The banks were just deposit takers – accepting deposits and lending to the government.

Russia was similar to what I experienced when I came to the UK from the States in 1972. At that time there was little cash in the British system and all the wealth seemed to be tied up in racehorses, big houses and pictures. There was no liquid capital but that has changed dramatically over the years. The same thing is happening in Russia, but much faster. A lot of wealth has been created and it has been converted into cash very quickly. That cash is now finding its way into small businesses particularly because of Russia's science base – a legacy from the educational system. It has been natural to take some of the new wealth and put it into small technology companies. In fact the domestic market has been growing so fast that it has

provided the environment for these companies to grow 'like topsy'.

If I had been clever I would have not pursued in Russia in 1995 what I have always done, which is to invest in technology – because they have been the last kind of businesses to catch fire. First it was consumer goods, natural resources, oil & gas – that is where the big money has been made. In technology it has thus far been in consumer related technology – particularly in wireless but other kinds of technology companies are finally gaining traction

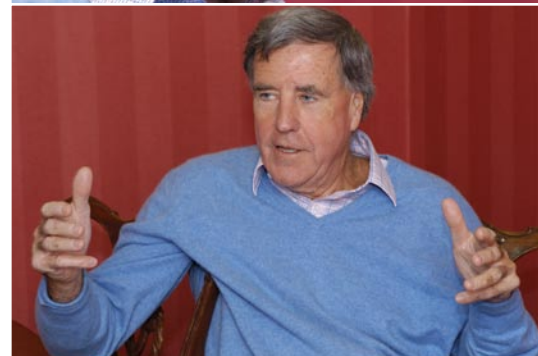
What were the biggest problems that you faced?

One of the things that held us back was that we had no frame of reference in terms of what a capable Russian entrepreneur was going to be like. In the UK, if a guy comes in and makes a presentation, you have a pretty good idea if he is going to be a horse you want to ride. But it really was a difficult learning curve in Russia as neither Alexei nor I had ever invested in people there.

How do you explain the growth of entrepreneurship in Russia?

Why has the Russian small business economy flourished and the East German one never flourished? Because for 80 years Russians looked for ways to beat the system – they had all kinds of rules and regulations and would get up in the morning and start thinking 'how am I going to get past that'. And that is a fundamental part of being an entrepreneur – in that if you hit an obstacle you immediately have to figure out how to get around it or over it. The East Germans hit a wall and seems to just sit there expecting someone else to get them past it

I have been stunned by how entrepreneurial the Russians in general are – and it is good that the younger ones are much more so than the older generation. It is a very good thing for Russia – the successful young entrepreneurs aren't looking for an early exit. The oligarchs really were looking for the endgame partly because they had made so much money by buying assets cheap that they felt it wise to move it elsewhere.





What changes have you seen over the last decade?

August '98 was interesting because everyone said that the crisis would kill small businesses. Our companies still survived, but they did so through lots of barter transactions which really test an entrepreneur. In fact the '98 devaluation wiped out foreign goods. One of the problems we had in the early '90s was that everybody in Russia seemed to think that if something was imported, it was better. In '98, all of a sudden, nobody could afford imports even if they were on the shelves – so they had to buy domestic products. There were plenty of entrepreneurs who were willing to upgrade quality quickly, and as a result they were able to seize terrain which they have not lost since.

When we were investing early on, the Russian market was the 'low-hanging fruit' – so all one had to do was exploit it and you had 50% of the market. But the Russian market is flattening out in terms of growth. So what do you do? You look abroad. It is incredible how comfortable the Russians now are pursuing their businesses outside of Russia – they are not inward looking at all.

The Russian government has said publicly that Russia welcomes venture capital in IT for the first time, is this somewhat too late?

It is never too late. If you look at the UK venture capital industry, when I started my first fund there were about four venture capitalists in the UK, while there were lots in the States. Today, per capita, there is more private equity in the UK than in America. So I don't think it is too late for Russia at all. If I were to say what I would do to try and correct the trend – I would train up as many Russian technology venture capitalists as possible in the States and in the UK.

In fact, technology venture capital is now more sensibly pursued in the UK – because in the States too much money was made too fast by my counterparts there and they no longer seem to have the stomach for the battle. They are almost gun shy, whereas in the UK VCs are much more risk-oriented. There is a substantial company here,

IP2IPO, which specialises in spinning out technology businesses from UK universities – which is a good model for Russia, but there is no equivalent company in the States.

Do you believe that Russian businessmen are reinvesting?

Yes – it is happening, now. Cash flow is being ploughed back into business development rather than taken out in dividends. Also, there is business angel cash going into these young companies. There are successful entrepreneurs putting money into other small companies – and that is exactly what you want to happen. The problem though is that there is no experience in Russian venture capital in dealing with the "people issues" of small companies. I have invested in over 100 small technology companies, 40 of which have gone down the tube or are 'walking wounded'. Of those, 10% of the time it was the technology that didn't make it, in 20% we got the market wrong and in 70% it was people problems which sank the business. People problems don't just burst forth – you can anticipate and correct them. But if you don't deal with them they can destroy you. Most of my reactions now are based on scar-tissue, because since the seventies there isn't a mistake that I haven't made. What you have to do is remember the errors and a successful venture capital firm is one where the mistakes of a veteran like me are not repeated by the younger generation.

And you are now raising a second fund, again dedicated to Russian technology

Yes – I think that the timing is right. We are seeing businesses in Russia now, which could in only two or three years from now become a big winner, whereas when we started it was five or eight years. Secondly, we now have several successful companies in our portfolio – and that is what new investors want to see. Also, although Aleksei has moved on to Gazprom, we have a very experienced and professional team managing the Fund. I am sure that we will find more than enough who really believe in Russia and want to invest with us. [rir](#)