Investing in Central & Eastern Europe

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technology start-ups blow away stereotypes

Growing interest from foreign investors reflects the region’s potential for innovation, reports Henry Foy

I lost Budisteanu was 19 when he decided he could do a better job than Google. A Romanian student with an exceptional aptitude for computers, Mr Budisteanu started taking an interest in the technology that underpins Google’s much-hyped self-driving cars.

He realised he could replicate it at a fraction of the cost. His system costs $4,000, compared with the $75,000 price tag for the Google car, which many see as the future of transport.

Mr Budisteanu and his home-made self-driving car are at the leading edge of a technology revolution in central and eastern Europe.

Entrepreneurs, programmers and software engineers from the region, drawing on world-class mathematical and engineering education, are piquing the interest of the world’s information technology companies and investors, and building a reputation as an emerging technology hub.

“The stereotype of the region’s industry is manufacturing, basic production businesses. This is changing rapidly, and these are the people who are bringing the change,” says Wojciech Przybyl- ski, editor-in-chief of Polish political and cultural journal Res Publica, which compiled the list with support from Google, the Visegrad Fund, which promotes closer integration within the region, and the Financial Times.

“There are a lot of smart people who want to build stuff. It is like a cluster,” says Mr Budisteanu, now 20. “From what I know, Romania is the country with the most IT experts in Europe and fifth in the world. The first spark, the first step, is the most important for a maker, for a hobbyist like me.”

A key growth market for global investors before the 2008 financial crisis, central and eastern Europe is again rising in significance as a destination for overseas capital, with technology emerging as a one of the most targeted segments.

Mr Budisteanu is one of 100 innovators from the CEE region selected as part of the New Europe 100 project, which aims to raise the profile of emerging entrepreneurs and young business.

Creating the next Silicon Valley, the area of northern California that has cultivated some of the world’s biggest and most powerful technology firms, is the dream of hundreds of countries and cities, from London and Berlin to Bangalore and Beijing.

But investors betting on central and eastern Europe say the combination of a high level of mathematical education, low overheads and a globalised, westernised young generation makes for a heady and successful mix.

“There is a growing confidence among those who did not grow up under communism, who see the world so much differently from their parents,” says Jack Blanch, chairman of the supervisory board at Ceska Sporitelna, the Czech Republic’s biggest bank by deposits.

“From a private equity point of view, from an investment point of view, people are starting to look much more closely at central and eastern Europe. There is a lot of interest and scouting out of opportunities...”

Alongside Mr Budisteanu, who is launching a crowdsourcing campaign to fund the production of his concept, the New Europe 100 list boasts a Hungarian doctor who has created a medical advice website driven by social media, a team of Polish students who have built an award-winning robot that could operate on Mars, and a Slovak inventor of a flying car.

“Google begun life as a started one project by two computer programmers working from their apartment. The New Europe 100 list is aimed at helping people with the same kind of ambitious ideas to bring their projects to life.”

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Bureaucracy remains source of frustration for new businesses

Regulation

Countries come down world Bank ranking for starting new ventures, writes Henry Foy

Mieczyslaw Wilczek: opened a Pandora’s box of innovation in Poland

Technology start-ups blow away the old industrial stereotypes

The New Europe 100, the list of people and organisations by their innovation, big ideas and thought leadership have changed the course of history. The annual initiative is intended to raise the profile of world-leading innovation in central and eastern Europe, and to help bring together the region's best and brightest.

The 100 new names for 2014 are announced alongside the 100 previously selected. For the full list of previous honourees, visit @neweurope100

Three challenges are company leaders who are already building business legacies with potential or actual value to the region. They include technologies from the countries of the Visegrad Group, the inaugurate presentation software and the world’s top online security company; and the Visegrad Fund, a regional funder of arts and social projects. For more information visit ne100.com.

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Budapest builds on talent pool

**Business**

**Maraud Ahmed** tells that more relaxed immigration rules help attract foreigners, too

In 2008, Peter Arvai arrived from Sweden to Budapest. He was met at the airport by his uncle. This was a time when Hungary’s economy was suffering from the effects of the global financial crisis. On the drive back to his house, Mr Arvai’s uncle complained about the lack of “farming” jobs in the country and of how few global brands had created. Mr Arvai is Hungarian. When he arrived, he was asked why he could not have come to the city to start a business, too. “You don’t have the talent here, you would have to go abroad,” his uncle said.

Mr Arvai also founded a start-up, Prezi, one of Europe’s leading technology start-ups. It writes presentations about the lack of “fulfilling” jobs in the country, and of how few global brands had created.

“Essentially, he thought this was mad,” Mr Arvai says. “I thought that if I could see my uncle’s jaw drop,” he says. “I had a really strong sense of what I wanted to do, and where I wanted to go.”

Today, the company Mr Arvai co-founded, Prezi, is one of Europe’s leading technology start-ups. It writes presentations online that are used by 65m people, providing a platform for the world to help solve the world’s dynamic presentations.

The 14-year-old project that was always unusual not to be a success was launched on his company to thrive. The first circumstance was a unique funding from. Mr Arvai’s uncle was Budapest’s mayor. He was a family friend of Mr Arvai, and he had visited his uncle again. Much to the surprise of Mr Arvai, he said, “I had tears in my eyes.”

This has saved more than Kč2bn for more than 2,000 households and Kč5bn for more than 2,000 small businesses, speeding up a revolution in how people buy energy supplies.

The model could develop further to produce aggregated management of demand and supply – with companies taking over more responsibility for the infusion of kilowatts. “Having for this aggregated demand directly from the wholesale market, and displacing this portfolio on the balancing market”, says Jan Ondrich, energy economist at Prague-based advisory firm CarbonPartners.

In Hungary, the omissions have not been much, but Mr Koren says a lot of money for a municipality of the size. “You can hardly blame us”, he says, “for the cultural heritage.”

Mr Arvai has yet to find out, however, whether the thinking will also salvage more than 30,000 families in local elections on October 19. “I don’t think we will get very popular. For my job as mayor,” he says.
The region must move beyond being a manufacturing powerhouse, says Neil Buckley.

In 2010, Peter Vajda and his long-standing business partners became one of a few tourists working for multinational companies and consultants in Hungary. They had significant expertise in the field of enterprise content management — managing documents for large enterprises.

“We realized that if we wanted to grow into something big, this kind of economy was just too small,” says Mr. Vajda. “We had to be more than just one person working with one company.”

Their company had annual revenues of just €61 million. The idea was to find a venture capital fund that would invest in their technology and advise them on their next steps.

But an additional three months of searching in 2013 revealed that the venture capital world was still new to Hungary. Vajda’s company had just €2 million in revenue and was looking to raise more than €50 million.

“Reaching out to other companies, we found that we were not alone,” he says. “The environment was ready for this.”

In 2010, Hungarian Internet and media analytics company Metrika, founded by László Károlyi, started work on a new software project. The company had just €200,000 in revenue, but it had a business plan and a vision for growth.

“Our investors were very interested in our technology, but they wanted to see more,” says Mr. Károlyi. “They were very excited when they saw the results.”

In 2011, Mr. Vajda and his partners founded a new company, Metrika, which would develop enterprise content management software. They raised €400,000 in seed money and built a team of 14 employees.

In 2012, the company was looking for a new funding round. They met with a local venture capital firm, and in March 2013, they raised €1.5 million in Series A funding.

The company’s success was a result of the venture capital industry’s growth in Hungary. In 2010, there were just 10 venture capital firms in the country. By 2013, there were 30.

In 2014, the country was home to 28 venture capital firms, and the total capital invested in Hungarian startups was €495 million. This was a 248% increase from 2010.

But there are still challenges to overcome. The venture capital industry is still small, and it is difficult to secure funding for early-stage startups.

“Venture capital is not a silver bullet,” says Ms. Vajda. “It takes time and effort to find the right investors and build a strong business.”

In 2015, the National Bank of Hungary raised €500 million in a new investment fund, and the country’s venture capital industry is expected to continue growing.

But for ideas to spread, people need to have access to capital. Hungary is making progress, but it needs to do more to support its startup community.

“Hungary is a great country for startups,” says Mr. Vajda. “The government is working hard to support entrepreneurship, and the venture capital industry is growing.”

But there is still work to be done. Hungary is one of the few countries in Europe that has not yet joined the European Union. This means that startups in the country are not eligible for the same resources as startups in other European countries.

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