The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Q&A: What Trips to 50 Regions Taught a Mexican Banker

By Andrew McChesney

September 13, 2012



Balvanera, pictured in his office, says that a form —with a stamp — is more important than substance in Russia. **Vladimir Filonov**

Bruno Balvanera, a Mexican banker who has been promoting investments in Russia for much of the past 16 years, is not afraid of paperwork.

When he bought a used Audi in Estonia, he decided to register it on his own in Moscow rather than turn to a broker for assistance. He wanted to find out firsthand what it was like to clear customs and register with the traffic police.

Bruno Balvanera

Education

1998 - The University of Chicago (U.S.),

Booth School of Business, MBA
1988 - ITAM (Mexico), diploma in finance
1987 - Universidad Iberoamericana (Mexico), diploma in political science
1986 - Universidad Iberomexicana (Mexico), diploma in industrial engineering

Work Experience

1996–Present — European Bank for Reconstruction and Development, including senior banker responsible for syndications, London (1996-2002); head of business development, London (2002-08); head of North West Federal District, St. Petersburg (2007–08); and head of regional development, Moscow (2008–Present)
1991-96 - Banco Nacional de Comercio Exterior (Mexico), director of international credit
1986-91 - Nacional Financiera (Mexico), credit analyst

Favorite book: "One Hundred Years of Solitude" (1967), by Gabriel García Márquez
Reading now: "The Man Who Loved Dogs" (2009) by Leonardo Padura Fuentes
Movie pick: "Frida" (2002) directed by Julie Taymor
Favorite Moscow restaurant: El Gaucho (three locations; elgaucho.ru)
Weekend getaway destination: Barcelona

The experience offered three insights into living in Russia.

"The first thing that I understood is that you need to comply with the rules," Balvanera said in an interview. "If the rules say, 'ABC,' you need to comply with ABC, even if you and everyone else thinks that C is not important. The person sitting at the other side of the window does not have the flexibility to change anything, so you need to bring all the papers."

The second insight was that all the rules could actually be met.

The third was that bureaucracy can be time-consuming — but that is no reason to slack off.

"The most important thing that you should know," Balvanera said, "is that you should prepare all the paperwork on time, before the rules change, because the rules change all the time."

Balvanera cleared customs and registered his car in just two days.

But that wasn't his only ordeal with cars — or with bureaucracy. On a Sunday last year, an intoxicated driver struck Balvanera's car and two other vehicles. The driver apparently fell asleep at the wheel while driving home from an all-night party.

"The guy managed to finalize the paperwork with the police first, insulted me in front of the police, and then drove away in his own car from the scene of the accident, presumably still drunk," Balvanera said.

But that was only the beginning. The driver's insurer refused to pay more than the legal minimum, an amount far below the damages. While Balvanera compiled documents to file a claim, the insurer folded.

"This is why I said you need to act quickly," Balvanera said.

Balvanera pushed ahead and stumbled across the Russian Union of Car Insurers, a nonstate, noncommercial organization that pays claims on behalf of insurers that go bankrupt or lose their licenses. He gathered the necessary paperwork, starting from scratch because the insurer refused to return his documents. To his surprise, his efforts paid off.

"It took me six months. I recovered a third of the cost of the damages of the car. But I made it through the system," he said, chuckling. "There was, of course, a lot of emotional stress. But I was happy."

Balvanera, who has visited 50 of Russia's regions, in part as head of regional development for Russia at the European Bank for Reconstruction and Development, sat down with The Moscow Times to explain why the key to eradicating corruption is creating a sense of community among Russians, why any of the country's 83 regions is a good bet for investment, and how his experience in Mexico is contributing to efforts to diversify Russia's economy.

Balvanera, who turned 50 last week, said paperwork must be accepted as a part of life both within and outside the government.

"Actually, they were very open, and they tried to help," he said of his contacts with the Russian Union of Car Insurers. "But they needed papers. You need to find ways to collect papers and put on all the stamps, because stamps and papers are what moves this country."

The views expressed in this interview, which has been edited for length and clarity, are Balvanera's own and do not represent the views of the EBRD.

Q: Why did you come to Russia, and why have you stayed?

A: I think it is fate that brought me to Russia. From a young age I have been interested in Russia, reading books about Frida Kahlo, Diego Rivera and Tina Modotti, who was a photographer and studied in Russia. Politics fascinated me, and I watched Red Square parades and Brezhnev arriving at the Kremlin on television.

When my first daughter was born on Aug. 19, 1991, a television in the hospital room showed

live CNN footage of tanks surrounding the White House. I remember my wife saying, "Don't pay attention to that. Pay attention to me!" I think this was a bit of fate.

Then in 1996 I joined the EBRD, which is very much about Russia. Even though I was initially based in London, my work has been about Russia from the very beginning.

I felt it was important to get a better understanding of the country, so I moved here in 2006, first to head the St. Petersburg office for two years, and then to work in Moscow.

When I arrived in Russia, the similarities between Russia and Mexico left a deep impression.

One area of similarity is the two countries' high dependence on energy. When I was a university student in the 1980s, oil accounted for 95 percent of Mexico's exports, which is somewhat like Russia today.

The second similarity is political. Mexico had one party in power for many years. Russia also has a strong party that has dominated the political landscape.

Then there was an evolution in Mexico, and the economy diversified. The government asked which of the big global players would like to commit to the country and gave them benefits, particularly in import duties and incentives to increase the production of local content. As a result, Mexican companies have consolidated their position as global suppliers of the automotive industry around the world.

Twenty years ago, Mexico produced about 300,000 cars annually. Now it is the world's fifth- or sixth-largest car producer and the largest exporter of cars to the U.S. One out of every four cars imported into the U.S. comes from Mexico.

I think the Russian government understands that the automotive sector has the potential to change the economy here as well.

We are currently speaking with some Mexican producers that want to come to Russia. The Russian government is pushing carmakers to have suppliers, and we are seeing an important development in localization, mainly of foreign companies coming here.

This is something that has kept me here because professionally I was part of that evolution when it took place in Mexico, and now I am helping make it happen in Russia.

Q: What advice would you offer a foreign investor who wants to enter Russia or expand here?

A: The first thing an investor needs to do is to check out the reality on the ground and not rely only on what is published in foreign newspapers, which tend to be overly critical of Russia.

When you come, talk to people who have invested here. I have been in touch with many companies that have invested here, and I cannot remember a single one that concluded that it was a mistake.

It's clearly not easy to invest here, and Russia places poorly in international rankings for a reason. But the reality is that committed companies are successful. Reviewing the available information on different sectors of the economy reveals above-average profits when

compared with Europe.

Many sectors are ripe for development and consolidation, including pharmaceuticals, food packaging, food preparation and retail.

To be honest, almost any sector is a good bet because Russia has everything needed for success: It has the market, a growing economy and disposable income. Also, there are relatively few investors working in Russia. I think an investment into any good idea or good product probably will be successful in Russia.

Some investors have decided to leave Russia, but probably for considerations such as a need to consolidate in other geographic areas. But very few would be able to say, "I have left Russia because it was not a good business."

Q: What is your secret for managing and retaining employees here?

A: It is not difficult to be a good leader and a good manager in Russia. You just need to be fair. People are not used to being treated well, respected and listened to.

As a friend of mine says, "There are three kinds of employees in Russia: those who work for foreign companies, those who work for private local companies and those who work for the government."

When you deal with the government, either in a private or professional capacity, you normally find that low-level bureaucrats are not interested in the results or the ethics of the job. They just do their work.

Private-sector companies are aggressive, smart and focused on achieving results. With the focus on objectives, the means and the ethics used in reaching them are sometimes not important.

At foreign organizations like the EBRD, achieving objectives and efficiency are important, but the ethics are more important.

Our employees like the way they are treated. They like to be respected, they like to be heard, they like to be given credit for their successes. They also like the transparency in our code of ethics. Whenever we have an opening, for example in a region, we advertise it internally and externally, we receive CVs, and in a very transparent way we decide who will make it to the next recruitment stage.

Yes, sometimes we are so transparent and so careful about the way we do things that it takes longer because we involve more people in the decision-making process. But at the end of the day, it pays off for everybody.

Q: How do you deal with corruption?

A: I will quote what President Putin said at the St. Petersburg forum: "Corruption represents a bigger threat to Russia than dependence on oil and gas."

Russia has always had a leadership class, starting in tsarist times and continuing with

the Communist Party, that did not face the same constraints as the people below. Now, once again, we have a heavy state apparatus that makes every single decision in the economic life of the country, and the rest of the people cannot influence it.

Many times, I feel that the form is much more important than the substance. You need to fill out so many forms to get anything done. You do not understand why you need to fill them out, and the person who receives them doesn't understand either. He just wants to have the form and the stamp. This country would not work without papers and stamps.

So we have ended up with big masses of people who find that corruption is the way to get through the heavy bureaucracy. Corruption is seen as the solution to administrative problems rather than a problem. Corruption affects mostly those who do not have power. I assume that large and powerful companies are immune.

We do not need a decision at a high level, like when Medvedev, as president, said, "We are going to tackle corruption." It needs to come from the bottom and include the top. We need a growing middle class. We need a growing democracy. We need more people able to run companies with high ethics. We need to create a legal system able to enforce existing laws.

As president, Medvedev ordered public servants to declare their wealth. We learned that many have became very rich. Their wealth, however, is probably not because they accept bribes but because they use information. In the West, the use of information for your own benefit is corruption.

I am sometimes surprised by the extent to which corruption has spread. You hear that people can buy the titles of doctor, engineer or lawyer instead of studying for it. That is what I think that President Putin referred to as a big threat, because people will enter the workforce with purchased licenses, not with the necessary skills.

So what is the solution? Society needs to evolve toward a sense of community. I have the impression that Russians lack a spirit of society, a feeling of common well-being, like we have in the West.

I'll give you an example. I don't find it difficult to drive in Moscow and St. Petersburg. It is aggressive driving, but not any more aggressive than in Rome and certainly not more aggressive than in Mexico.

But what I find incredible is the way people park. They don't park. They stop the car wherever it is convenient for them. My car has been blocked many times because somebody parked in the traffic lane closest to the curb. Many times people cannot use the sidewalks because cars are parked there.

Here's a second example. In St. Petersburg, I lived in a riverfront apartment building filled with foreigners and middle- and upper-class Russians. One day, I saw my neighbor take a bag of garbage and walk down to the street. But instead of walking one block to put it in the garbage container, he dumped it in the Moika River.

There is no sense of community. In buildings with housing management, people do not pay their monthly contributions, and you cannot force them to do so because they are not used

to pay for the cleaning of the staircase and the refurbishment of the faHade. In the West, residents readily pay their housing association, and if they don't, they end up in court.

My hope is that future Russian laws will be shaped by a spirit of society rather than individualism. People who push for laws sometimes have their own agendas. They are not looking out for the well-being of the people. The big change that I would like to see is a shift toward the well-being of the majority rather than the few. And this will help tame corruption.

Q: What advice would you share about working in the regions?

A: I've traveled extensively around the world, and in Russia I feel very fortunate that I have had the opportunity to visit 50 of the 83 regions.

What strikes me? First, the huge similarity throughout the country in terms of people, architecture, food and overall culture. I wonder how such a big country, which is four times bigger than Europe and stretches through nine time zones, can be so similar from Murmansk to Vladivostok. It is incredible.

In a country as small as Italy, Milan is very different from Sicily. In France, Paris is very different from Marseille. In the U.S., New York is very different from San Francisco. In Mexico, Tijuana is very different from Merida.

Food-wise, dishes like smoked fish and crab in Vladivostok may not be found in central Russia, but you have the same borshch everywhere. In other countries, you have local cuisine from place to place.

Ethnically, except for the republics, you see about the same kind of people everywhere. In Mexico, you won't see the same people in the south as in the north. In Spain, you see Catalans in Barcelona and Basques in Bilbao.

Another thing that strikes me is the lack of mountains — only a few in the Urals, in the south and in the Kamchatka region. Russia is very uniform and flat.

In terms of doing business, the situation has evolved greatly, especially over the past year, with the investment climate and regional development becoming a priority for the Russian government.

Competition is growing among governors to attract and retain investment. A good example is Kaluga. Before Volkswagen decided to go to Kaluga, the region was no different as an investment destination from Tula, Ryazan, Vladimir, Yaroslavl, Tver or any other region located 100 to 150 kilometers from Moscow. Actually, you could have argued that some of the other regions were better choices because they have better access to transportation routes.

But Kaluga was chosen because the investors understood that the regional government and not just the governor — was committed to working with them. A structure stood behind the governor that delivered on its promises. Other comparable regions include Tatarstan, Nizhny Novgorod, Ulyanovsk, Lipetsk, Tula and St. Petersburg. All of them have attracted a lot of investment.

I think an investor should choose two, three or four regions and carry out a beauty contest

to see what each regional government is prepared to offer and to measure whether he believes those promises will be fulfilled.

I would certainly recommend that investors look into the regions. They will find cheaper labor that is committed and reliable. There will be more opportunities because there is more room for development.

Of course, the regions have challenges, including housing, roads and airports. But I think the time has come for the regions to develop.

No single region in Russia should be discarded, because the country is changing very quickly. Sometimes we get frustrated that it is not changing fast enough. But when I look back, I see how much has changed since I arrived. During my first several years here, I had to use Sheremetyevo 1. This was the domestic airport of the capital of a G8 country, and it easily could have been included in a list of the worst airports in the world.

Now we have very good airports in Moscow. You saw the impressive work that went into the APEC summit in Vladivostok. I am sure that the world will be impressed with what they see in Sochi during the Winter Olympics in 2014. Russia has joined the WTO, something I had doubts would ever happen.

Q: Who or what inspires you?

A: What inspires me is a growing minority in the government that wants to change the country. What inspires me is seeing people going into the streets peacefully to ask for change. What inspires me is seeing how many smart, committed and diligent people serve in key positions in the government.

I personally know three or four ministers in the new Cabinet. I have worked with them. They are young. They are enthusiastic. They are committed. They are transparent. Of course, I cannot answer for anybody, but I don't think they are even corrupt. They are really trying to do what's best for the country. What inspires me and what keeps me here is the fact that Russia has a growing minority of people who want to change the country.

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