The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russian Tech Sector Reliant on U.S. Investors and Expertise

By Guennadi Moukine

November 10, 2013



The only route to success for Russian technology firms is to launch an operation and find investors in U.S., an investment forum heard.

The venture capital market in the U.S. is mature, and investors have experience that Russia, whose investment institutions are relatively young, does not have, speakers at the SelectUSA Technology Investment Forum in Moscow said Thursday, though others pointed to a budding startup scene in the capital that is busy creating local expertise.

"If you are sitting in Silicon Valley, in New York, or Washington D.C., and you are a young entrepreneur, it is relatively easy to find ten people who had done [similar businesses to yours] before, who would want to help you," said Evan Burfield, the cofounder of 1776, an incubator platform for startups based in Washington D.C.

"But if you are sitting here in Russia and you are a young entrepreneur, you might find ten

other people who are all doing the same thing, but it is much harder to find those ten people who have done it before, and willing to help you," he added.

Vadim Balashov, a partner with consultants EY, agrees that experienced investors are the key to success, but disagrees that there are no such people in Russia.

"Some investors are ready to invest in the very early stages and help with experience and connections here on the Russian market," Balashov said. "Though they are hard to find, it is still possible."

Investcafe analyst Andrei Shenk pointed out that there are "many specialized platforms where representatives of small business and startups are able to present their projects to investors," many of which are in Moscow.

However, Igor Sysoev, whose web server proxy software NGINX, created in 2002, is now responsible for one third of worldwide web traffic, said that finding an investor in the U.S. was critical to his company's success. To him, it was logical development, he told the forum.

"The U.S. market is the primary market for our company," Sysoev said. "It is the most dynamic market and as a firm you always have to move forward."

After raising $3 million from three funds — German BV Capital, Russian Runa Capital and Michael Dell's venture fund MSD Capital — in 2011, last month NGINX announced that it raised an additional $10 million from a consortium led by U.S.-based venture capital firm New Enterprise Associates.

The size of the investment is less important than the fact that a large investment firm is behind it, which means connections in the industry, Sysoev said.

"The U.S. has a huge investment medium, which should be working as a bridge between Russia and the U.S.," Christopher Rose, partner from law firm Squire Sanders said.

"If you want to build a new Facebook or a new Instagram, you do not have to be in Silicon Valley, but you absolutely need to have relationships there, you need to build connections," Burfield said.

The U.S. State Department funded the publication of a booklet, written by Burfield, to help Russian entrepreneurs in the U.S. ''The Global Startup Community: From Russia to America'' is available for download from the U.S. Embassy website.

In the first six months of 2013, Russia attracted $7.6 billion in investment from the U.S., according to government statistics. However, the vast majority of this sum was absorbed by the oil and manufacturing sectors.

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Original url:
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se-a29391