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BROWN FORUM

2013

ENTREPRENEURSHIP AND VENTURE
CAPITAL – DEEPENING TIES
BETWEEN U.S. FIRMS AND
ENTREPRENEURS IN SOUTHEAST
EUROPE

Zadar, Croatia, April 8-9, 2013

Summary of Proceedings



Monday, April 8, 2013

1800 Welcome Remarks

Kenneth Merten, U.S. Ambassador to Croatia

Gordan Maras, Minister of Entrepreneurship and Crafts

Joško Klisović, Deputy Minister of Foreign and European Affairs

Nadan Vidošević, President of the Croatian Chamber of Economy

Ambassador Kenneth Merten welcomed delegates to the Brown Forum and thanked the Brown Forum Partners (the Croatian President's Office, the Croatian Government, the Croatian Chamber of Economy and the Croatian Employers' Association) for their continued commitment to the Brown Forum. He also thanked the Croatian Business Angel Network, Zagreb School of Economics and Management, and the hotel management for their support this year.

Ambassador Merten hailed the third year of this event that honors former U.S. Secretary of Commerce Ronald Brown, whom he met while posted to the U.S. Mission to the EU in Brussels. He noted that the Brown Forum has become a well-respected platform to discuss economic development in Southeast Europe and thus, a fitting tribute to Secretary Brown. Ambassador Merten said that 2013 is the right time to discuss startups, entrepreneurship, and venture capital. With Croatia joining the EU, investors are taking a fresh look at Croatia but Croatians in both the public and private sector must take advantage of this opportunity.

Ambassador Merten pointed out that business startups are crucial for a vibrant economy. There are many examples in the United States of companies that have relatively quickly become giants in their sectors, with global reach. He acknowledged that many startups do not succeed, but argued the process of creative destruction is important to maintain the business cycle and keep the economy moving. Startups are likewise important for the future of Croatia and Southeast Europe. Currently there is a cadre of small businesses that are succeeding and creating jobs in Croatia, several of which are participating in the Brown Forum this year. Ambassador Merten mentioned several others that have links to the United States, either through U.S. investment or by expanding their operations to the United States. Links of this sort benefit both Croatia and the United States – creating jobs and economic growth, and enhancing the competitiveness of both countries' economies.

Ambassador Merten described how the U.S. Embassy in Croatia helps foster a culture of entrepreneurship and innovation, through programs totaling roughly \$150,000 last year, including the Startup Camp on the island of Vis, the Ron Brown Apprentice Program held in conjunction with the Brown Forum, and a second Startup Camp to be held in Rijeka at the end of May. Ambassador Merten concluded by emphasizing the importance the United States places on Southeast Europe and its commitment the region's integration into Euro-Atlantic institutions.



Minister of Entrepreneurship and Crafts Gordan Maras noted that the Brown Forum is important for all countries in Southeast Europe. He said that Croatia has worked hard for accession to the EU and that Croatia's entry into the EU and its access to the common market will benefit not only Croatia, but the whole region. The Brown Forum provides an important impetus for entrepreneurship and investment. Due to recent economic trends, financing can be hard to get and, at the moment, sufficient financing for startups does not exist in the region.

Globalization has had a positive impact on entrepreneurship and, Minister Maras announced, the Croatian government is taking steps to improve the environment for entrepreneurs. For example, companies in Croatia can now register their business' name in any language. The Government of Croatia's goal is to develop to the level of EU standards in all areas. Access to the EU market is important, as is access to capital. Maybe ten years from now, the U.S. Ambassador who opens the Brown Forum will talk about a successful startup that doesn't exist now.

Deputy Minister of Foreign and European Affairs Joško Klisović noted that the Croatian region of Dalmatia has a tradition of openness to business and that the Falkensteiner hotel hosting the Brown Forum is an excellent example of that spirit.

Deputy Minister Klisović stated that Ron Brown had a vision of how trade can improve relationships between countries. He believed that bringing people together fosters a common vision of a bright future, a vision that Deputy Minister Klisović shares. He thanked the organizers of the Brown Forum for working to make the path to that bright future easier.

Deputy Minister Klisović noted that the Brown Forum has been a successful bridge between governments and entrepreneurs. It has modeled a public-private partnership that has been an example for Croatia and other countries as they seek to attract investment. The Government of Croatia understands that good investors are very important and is committed to do all it can to facilitate the type of investment necessary to grow small and medium-sized enterprises, and to enable startups and entrepreneurs. Without facilitating investment, the economies of the region will not grow. The government of Croatia is trying hard to attract foreign investment by improving infrastructure, knowledge, and incentives and is committed to protecting and supporting investors, including foreign investors, and to provide a level playing field. Another way in which the Croatian government plans to support SMEs is by improving access to credit, as public sector support is key in this area.

Deputy Minister Klisović thanked the U.S. Embassy for its support on these issues. This cooperation has helped develop policies to foster entrepreneurship. Croatia wants to be a regional leader on these issues and hopes to play a constructive role in support of political and economic stability in the region. "Discussions here at the Brown Forum will help us to realize these goals," Deputy Minister Klisović said, and he expressed the hope that all attendees would be able to make good use of this experience.



Croatian Chamber of Economy President Nadan Vidošević reported that he had the privilege to wait for Ron Brown at the airport in 1996, but Commerce Secretary Brown never arrived. Today it is hard to understand the dynamics of that time. Croatia has the potential to participate actively in the immediate region, the wider Mediterranean region, and Europe. Croatia brings that unique perspective as it integrates into the European Union.

Vidošević posed the question, “How do we bring capital to sectors that do not have it?” He noted that the banking sector historically has not been well-prepared to serve startups and the governments of the region must look to facilitate additional means of finance, such as venture capital. Vidošević then turned his attention to the other resources necessary to achieve economic growth, noting that although Croatia is historically wealthy, it lacks certain natural resources, citing oil and mineral wealth as examples.

This year’s Brown Forum theme is vital, especially with Croatia’s EU accession approaching. Croatia’s entrance to the common market is a critical time and Croatia must be prepared. Vidošević disagreed with some other speakers when he acknowledged that Croatia has smart people, but, as he pointed out, that does not mean they are the best educated. Croatia has lost a lot of talent to brain drain and that is the main challenge of this time, he asserted. He pointed out that even with high education levels there is a lack of technical education. Institutional support is critical so young people can find jobs in Croatia, not only to New York. Development must happen at the individual and the institutional levels.

1850 Keynote Address

Kittu Kolluri, founder of WebMD and General Partner in New Enterprise Associates, surveyed the global view for entrepreneurs, investors, and regulators. He asserted that the global “ecosystem” for venture capital, characterized by strong innovation and a favorable investment climate, is thriving. The venture capital market, he noted, has finally “right sized” since the tech bubble burst. The world is changing for venture capital, and in just the last five to six years vast changes have occurred across the consumer products markets (with Smartphones, tablet computers, social media and video), across the enterprise side of global markets (in software development, for example), and across the energy sector (cheaper solar modules, improved batteries, electric cars, fuel cell technologies, etc.).

Kolluri suggested that there has never been a better time to start a technology company. Favorable factors include: the rise of cloud computing, increasing device mobility (with the iPhone, iPad, Android and other devices revolutionizing the way we work and communicate), big data analytics, and global connectivity, all of which levels the playing field for tech innovators to sell products and services globally. Evidence of change is seen in the rise of regional IT centers, for example in India, Israel, China and other global locations. Venture capital-backed start-ups are changing the world and driving innovation, asserted Kolluri. He



provided numerous examples of global innovators that started with just an idea and are transforming global markets, for example: Aerohive for Wi-Fi, Bloom Energy that provides clean energy from biogas, and Box that builds cloud structure infrastructure.

Kolluri illustrated the significant impact of venture capital by noting that while venture capital accounts for only 0.2 percent of U.S. GDP, it currently produces 21 percent of revenue contributions to U.S. GDP and generates 11 percent of U.S. jobs. Kolluri reviewed the factors that are critical to build a venture capital “ecosystem.” The key, he argued, is a partnership between venture capital, corporate partners, entrepreneurs, universities, and government regulators. Entrepreneurship requires a “risk culture” to flourish, such as exists in the United States where failures are a “learning tool” to be celebrated.

Turning to the local environment, Kolluri said that prospects for Croatia and Southeast Europe are excellent. Among the favorable factors in the region are: the EU accession process, which will encourage investment; a stable political environment; good weather, which tends to attract entrepreneurs and innovators; a diversified economy and export markets; a silver-lining of high unemployment that tends to encourage entrepreneurship and makes recruiting talent relatively easy, and a well-educated workforce. The latter factor is perhaps most significant, as the greatest asset of countries in the region is their human resources.

Regarding the role of governments, Kolluri cited the following key areas in which government must be supportive if innovation is to thrive: tax policy and rate stability; keeping bureaucracy and red tape to a minimum; improving the efficiency of the judicial system; increasing labor market flexibility to incentivize job creation; protection of intellectual property rights; and support for research and development.

In conclusion, Kolluri commented that southeast Europe has great potential to create an environment that will nurture innovation, if government, entrepreneurs, companies and universities can work as partners. Kolluri left the young budding entrepreneurs in the audience with a final piece of advice – “Learn at least one new skill every year, and stay no longer than seven years at one company.”



Monday, April 8, 2013

0845 Welcome

Philip Reeker, U.S. Deputy Assistant Secretary for European and Eurasian Affairs

welcomed participants to the second day of the conference and set the stage for the panel discussions that followed. He commended participants for their dedication to reforming the business and economic climates of southeast Europe and asserted that Euro-Atlantic integration offered the “surest and most expeditious path” to transforming the economy and improving the lives of the people in the region. He also encouraged government leaders to implement the economic reforms necessary to attract and encourage investment, particularly reforms aimed at promoting a stable and transparent business environment and eliminating corruption. He closed by noting that with vision, determination, and communication, it is possible for entrepreneurs and other business people to work with government entities to achieve great things.

0900 Session 1: The Role of the Entrepreneur in Economic Growth

Jovan Jovetić, Montcarton

Predrag Balentović, Telegra

Julia Spicer, Mid-Atlantic Venture Capital Association

Moderator: Nevena Crljenko, Academy for Political Development

Jovan Jovetić, founder of Montcarton, explained that the government’s job is to create the right conditions for entrepreneurship by minimizing costs and regulations. He believes Montenegro has done a good job of eliminating red tape and notes it is much easier and cheaper to start a business now than when his family started their business over a decade ago. While the younger generation is more interested in entrepreneurship, Jovetić said that they also need to understand that it is a tough job and success will not come overnight.

Predrag Balentović of Telegra agreed that conditions in southeast Europe are suitable for entrepreneurship, especially when one is able to look at challenges as opportunities. While Balentović and the other panel members agreed that governments should do more to improve the business climate, especially in the field of education, they generally gave their governments good marks for the progress made in the past twenty years. Balentović pointed out that the idea of entrepreneurship in southeast Europe is still new and runs counter to the beliefs previously fostered by socialism.

Julia Spicer of Mid-Atlantic Venture Capital Association explained that while the government should be held responsible for creating a good environment for doing business, the entrepreneur must take advantage of that environment. She said that when she invests in a startup, the most important factor is the quality and commitment of the team in which she is investing. Spicer cautioned entrepreneurs that while support from the government and from the business community is valuable, success is ultimately up to the entrepreneur and his or her team.



1030 Session 2: Public Sector Support for the Entrepreneur

Zdenka Lončar, Ministry of Entrepreneurship and Crafts

Mark Crandall, Continental Wind Partners

Robert Peaslee, Commercial Counselor, U.S. Embassy Budapest

Moderator: Saša Cvetojević, Croatian Business Angel Network

Zdenka Lončar, Assistant Minister of Entrepreneurship and Crafts, explained the government of Croatia is working hard to support Croatian entrepreneurs, and those from the region who want to do business in or with Croatia. The recent creation of the Ministry of Entrepreneurship and Crafts recognizes the importance of supporting entrepreneurship. Most (99.7%) businesses in Croatia are SMEs, and the Ministry is working hard to support them. The Ministry also promotes the concept and culture of entrepreneurship in society at large by hosting entrepreneurship weeks in kindergartens, partnering with high school student groups, and working to increase its cooperation with and activities for university students. The Ministry offers start-up grants in amounts from 3,000 to 30,000 Euros targeted at companies with one to nine employees. In addition to financial support, the Ministry has established regional business support centers and incubators, and is working to make sure that information about their services is widely available. Lončar admitted her Ministry has a lot of work to do, but believes that it is heading in the right direction and is working as fast as possible. The Ministry is working to improve transparency and increase confidence in the entrepreneurial sector among the public and investors. “We are setting up a legal framework that is transparent, simple, and predictable. We aren't done yet, but we're working on it,” Lončar concluded.

Mark Crandall, founder of Continental Wind Partners, believes the best thing governments can do to encourage entrepreneurs is to share information. Crandall described how he was forced to stop trying to develop renewable energy projects in Croatia, because the government was unwilling or unable to share its strategic plan for energy development. Without this information, it was impossible to move forward. Crandall asserted that business cannot survive without government support – a system of rational laws and a functioning legal system. Crandall noted that countries in this region inherited a very complex legal system that does not support entrepreneurs. As an example of how the system is burdensome and outdated, he described how, when submitting documents to register a 300 million Euro wind farm in Croatia, he was asked to provide a financial feasibility study even though he was investing his own money.

Commercial counselor **Robert Peaslee** disagrees with the conventional wisdom that the best thing government can do for business is stay out of the way. He offered the U.S. Small Business Administration (SBA) as an example of the type of simple, but effective program that governments ought to provide. The SBA not only provides financial support, but also mentoring and guidance through all aspects of starting a business. These services are essential to the establishment of strong new businesses. Many countries (even those more developed than those



in this region) are sending young innovators to the United States to take advantage of business incubators and bring their experience home, creating a richer entrepreneurial community.

Moderator **Saša Cvetojević** steered the conversation towards the public's perception of entrepreneurs – that there are still negative connotations and assumptions that private companies are fronts for shady business. The panelists agreed on the need to highlight success stories and the need for consistent, transparent processes for business registration and support.

1200 Session 3: How to Attract Investment in Good Projects

Sava Marinković, Teleskin

Thomas Nastas, Innovative Ventures, Inc.

Tarik Bilalbegović, Ascendant Project Finance

Moderator: Saša Cvetojević, Croatian Business Angel Network

Sava Marinković, founder of Teleskin, opened the session by discussing lessons learned from his efforts to start his company in Serbia. He urged entrepreneurs not to expect – or await – government funding. Instead, he said, they should be proactive and expect to speak to the full spectrum of potential investors, learning from failures to improve approaches to other potential investors. Marinković said that as part of the pitch, entrepreneurs should evaluate their potential investors' needs and desires and not assume that their idea is good just because it is theirs. They should adapt. He used the example of his company, which started out focusing on skin cancer, but expanded its focus to general skin health, based on market analysis and investor feedback. Martinović noted that many opportunities exist to find funding and to learn. The entrepreneur's ideas should be balanced with realism, and should be tested to know if they are going to work. Marinković urged potential entrepreneurs to focus on quickly and cheaply accumulating customers, as a path to success.

Thomas Nastas, founder of the venture capital company Innovative Ventures, argued that innovation attracts venture capital, rather than venture capital driving innovation as Kolluri had seemed to suggest in his keynote address. He stressed that government efforts to encourage venture capital are not the best way to achieve progress. Rather, direct approaches by entrepreneurs to investment sources are better. He went on to explain that entrepreneurs should tailor their approaches to investors' needs and desires to be successful. Nastas explained that investors are willing to take risks and try new markets, but only if they can see the potential for return. He cited the example of Russia, where copy cat companies, such as a Groupon copy, have been successful because the business model was known to be sound. He emphasized that having an ego is a weakness when approaching potential investors in the sense that entrepreneurs need to understand the needs of investors. Nastas ended his presentation with the message that startups need to have a vision of their company's future they can articulate to investors, who want to be able to see the path to future revenue, not just the first stage of the startup.

Tarik Bilalbegović of Ascendant Project Finance used the example of real estate development to highlight the impact that different policy frameworks in different countries can have on market



development. Bilalbegović has been successful in real estate development in Montenegro and has also tried to develop projects in Croatia. Montenegro is open to high-end property development as well as mass market development, and as a result, is attracting more large-scale developments than Croatia. Bilalbegović noted that although Croatia has a longer coastline, development has been restricted by policies that are designed to protect the environment. In addition, rather than developing the services in the tourist destination necessary to keep a visitor occupied for longer periods of time, Croatia's policies have resulted in, and encouraged, day-trips to key sites, such as Dubrovnik.

1430 Session 4: Building the Next Generation of Entrepreneurs

Laszlo Czirjak, iEurope

Kristina Ercegović, Zaokret

Vladimir De Franceschi, Founder Institute

Moderator: Nevena Crljenko, Academy for Political Development

Laszlo Czirjak, founder of company iEurope, emphasized that pessimism is currently a key problem in this region, but he believes that “the next generation will look at the glass half-full.” He said, “We are going to turn this pessimism into something positive.” Czirjak reported that he is working with one of the committees of the American Chamber of Commerce in Hungary to issue a book of success stories in business, which is meant to provide models that people can look up to. Czirjak explained that “entrepreneurship is not a genetic thing.” When asked the characteristics of successful entrepreneurs, he said that a person's life experiences are most influential, and that the best entrepreneurs are those who were challenged growing up. Furthermore, Czirjak emphasized that it is important to learn from mistakes. He said that there is a difference between being responsible and accountable and that the entrepreneur has to be “accountable” – to his or her investors, employees, and customers. Czirjak also said that, in order to succeed, it is important to surround yourself with people who “are smarter than you” and to pay attention to what the market wants.

Kristina Ercegović, a successful entrepreneur who sold her first start-up company and is establishing a new company called “Zaokret,” assessed that today young people “might be a little impatient.” She stated that starting a business takes patience and that one cannot expect instant results. She also said that money should not be the first objective in business, but rather the focus must be on delivering a quality product or service and the money will follow. She spoke for the entire panel when she summed up: “Your instinct and your stomach make a good entrepreneur.” The entrepreneur needs good market instincts and a high tolerance for risk.

Vladimir De Franceschi, a lawyer and founder of the Croatia chapter of Founder Institute, agreed with Czirjak stating a “large factor in entrepreneurship is environment.” He elaborated there are no big differences between entrepreneurs in Croatia or elsewhere in the region and those in the United States, but there are differences in environment. De Franceschi stated that most successful entrepreneurs are those between the ages of 25-35 and that there is a “direct correlation between life experience and business success.” He spoke from experience when he



claimed that Silicon Valley had the same challenges 10-15 years ago as Croatia has today. He expressed the belief that “environment will force the generation to change.” De Franceschi identified one difference between Europe and United States – the attitude toward bragging and humility. He said that while in United States it is “normal” to advertise and promote yourself, while in Europe a person is expected to be modest about himself and expect others to judge his work. This statement sparked a discussion among the panel and the audience about the need to balance assertiveness and humility, concluding that it is important to demonstrate confidence in oneself and the product, but not to come across as arrogant when seeking investment. De Franceschi agreed with Ercegović that risk tolerance is an important characteristic for an entrepreneur. He provoked further discussion with the audience when he claimed that “those who go down the entrepreneurship path soon become institutionally unemployable.” If their business fails, they discover that they are no longer comfortable working as an employee, and will soon make another attempt as an entrepreneur.

1545 Closing Remarks

Croatian Chamber of Economy President **Nadan Vidosević** made brief closing remarks, thanking all of the guests, panelists, and hosts for their active participation and their support for the Forum. He reiterated the view espoused by many panelists that Croatia and the other countries in the region must move away from a culture that is jealous of the success of others and transform into a market that promotes entrepreneurship and achievement by all individuals.