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BRAZILIAN PRESIDENT
DILMA ROUSSEFF

A FORMER MARXIST STOKES
AN ENTREPRENEURIAL ENGINE

THE 100 MOST POWERFUL WOMEN

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THE REAL DEAL

BY ALEXIS GLICK WITH MEGHAN CASSELY AND RICARDO GEROMEL
PHOTOGRAPH BY GABRIEL RINALDI/REDUX PICTURES FOR FORBES

Brazilian President Dilma Rousseff recently encountered a young couple in their 30s, with a brood of young children and a hopeful outlook on the future. Until recently the father had driven a bus in Brasília, but thanks to an expansion of electricity and irrigation infrastructure, he turned previously unusable land in the countryside into a thriving vegetable farm, along with a side business raising chickens.

"How much do you make?" Rousseff asked him.

"Four times what I used to earn as a bus driver," the independent farmer responded. More money was coming in, and the costs of raising a family in the countryside are lower as well. His new goal for his children: degrees in agricultural science.

Brazil's president, Dilma Rousseff, a former Marxist revolutionary, sits atop the globe's sixth-largest economy—which she stokes with a singular focus on entrepreneurship.

"We are wagering," smiles Rousseff, sitting in her minimalist, art-filled office in the Presidential Palace in Brasília as she recalls that conversation, "that people will be able to stand up on their own feet and walk by themselves."

Her wager—Brazil's wager—is on entrepreneurship. The past two decades have been formidable for her country: curbing inflation (by creating the real and pegging it to the U.S. dollar), privatization (notably, the state-owned telecommunication and mining companies) and a commodities boom (soybean and iron ore). Twenty years ago Brazil's GDP was at \$358 billion and ranked 11th in the world; today, at \$2.5 trillion, it's between sixth and eighth, depending on who's counting. No other BRIC balances democracy and widespread wealth nearly as well. Half of Brazil's population now occupies the middle class—their output alone surpasses the entire economy of neighboring Argentina. "There has been a shift, a change in the way we are [perceived]," says Rousseff, 64, whose position atop this shift now makes her the third most powerful woman in the world, according to FORBES' annual rankings.

Brazil has become one of the most entrepreneurial countries in the world, with one in four adults self-employed in some manner. Small businesses create two out of three jobs in Rousseff's private sector—Brazil's unemployment rate is an envious 5.8%—and 49% of entrepreneurs with companies less than 42 months old are women; the global average is 37%. In bustling São Paulo alone, 1.8 million small-business owners ply their trades, wares and ideas.

Technology has been a game changer. According to Nielsen, Brazil had 82.4 million Internet users in the first quarter of 2012 compared with 62.3 million three years earlier. On Facebook, Tumblr and Twitter Brazilians are the second most active social network users behind the U.S. "Technology is democratizing entrepreneurialism," says Bedy Yang, the founder of Brazilian Innovators, an organization helping young



Taking her measure: Rousseff at a press conference wearing her signature red.

tech entrepreneurs. "There are 200 million people in Brazil and 250 million mobile devices." The Brazilian-born Yang lives in Silicon Valley and travels each month to her homeland to host monthly meetups. Three years ago you couldn't find any venture capital, says Yang, as we lurch through the clogged streets of São Paulo. "Now I'm seeing Excel Venture, Redpoint Ventures and Sequoia. It's the formation of a new asset class."

Rousseff, who took office early last year, has a plan to keep the good times rolling: incentivizing the kind of entrepreneur that Yang cultivates and that her farmer friend embodies. Specifically, lower interest rates, to expand capital; investing in infrastructure; and targeted tax cuts. "In others words," says Rousseff, "pro-growth bonuses." This on top of an already robust layer of incentives for entrepreneurs, including retirement benefits and government microloans. "The corner hairdresser, the popcorn salesperson, we also like to help them," says Rousseff, who espouses a program that advances up to \$500 to these kinds of small operators.

The public supports her—a June poll put her approval rating at 77%, ahead of her predecessor and mentor, Luiz Inácio Lula da Silva, at a similar point in his term. Perhaps more critically, so does Brazil's entrepreneurial community. "Our government has made substantive reforms in recent years," Eike

Batista, Brazil's top entrepreneur (and the world's seventh-richest man, with an estimated net worth of \$30 billion), tells FORBES, "and Dilma is building a fertile environment for investors."

"I DON'T THINK I HAD A PLAN to be president," says Rousseff. That's an understatement: Rousseff's route to Brazil's entrepreneur-in-chief is as unconventional as they come.

Rousseff's father, a Communist exile from Bulgaria, made a good living in real estate and construction. His two daughters attended boarding school, where Dilma studied piano and inhaled books, a habit to this day. (Next up: James Carville's *It's the Middle Class, Stupid!*) "I used to play volleyball," recalls Rousseff. "My wrist is not that strong, but I could block my opponent."

In 1964, when Rousseff turned 17, Brazil's military overthrew the leftist government of João Goulart, the fifth political coup in 20 years. Overnight civil rights gave way to arrests, disappearances and torture. In 1967, unbeknownst to her family, Rousseff took the nom de guerre Estela and joined a radical faction of the Brazilian Socialist Party that preached revolt but settled for robberies and car-bombings.

Her first marriage lasted less than two years, but the second, to activist lawyer Carlos Araujo, a prominent member of the Brazilian Communist Party, would stick for nearly three decades. Araujo and Rousseff joined an activist group responsible for stealing a safe containing \$2.5 million to fund political actions. Araujo has said his wife "never took up arms." (He also has said he didn't know his wife's given name until her arrest.) In early 1970 Rousseff was caught in a sting operation. Military officials tortured her for 22 days, sometimes using electric shocks, and she spent the next three years in prison.

By the time Rousseff was released in 1972, she was 20 pounds thinner and physically broken. Undaunted, she traded her radical politics for pragmatism. Rousseff pursued an economics

BRAZIL'S DOT-COM GOLD RUSH

ENTREPRENEURS, AMERICANS INCLUDED, ARE SCRAMBLING TO LAY CLAIM TO DIGITAL REAL ESTATE IN THE SOUTHERN HEMISPHERE.

During a spring break vacation in Rio de Janeiro in 2010, as his wife and 2-year-old son were playing on Copacabana beach, Kimball Thomas was sent out to buy diapers. It took three tries to even track down a store with diapers in stock—and provided a hugely lucrative inspiration.

Back home in Boston, Thomas, 33, described the experience to his cousin, Davis Smith, 34. Both were one year into M.B.A. programs, Harvard and Wharton, respectively, and looking for a business idea before graduation. In this case, the idea was simply replicating what works in America: starting a Brazilian variation of Diapers.com.

Launched last October, they hit the million-diapers-sold mark within six months. In less than two years Baby.com.br has gone from a derivative idea to 124 employees (120 of whom are Brazilians), with \$22.5 million raised over two rounds.

The Internet may already feel mature in America, but growth remains to be had in Brazil. While Brazilians already spend \$13 billion a year online, only 40% of the population is regularly connected to the Internet. Forrester predicts that sales figure will grow at a brisk 18% annual clip. That's what is drawing American entrepreneurs, like Thomas and Smith, and U.S. venture capitalists, too. (Redpoint and eVentures closed a \$130 million fund last year that will focus exclusively on Brazil.)

"Innovative online retail appears to be leapfrogging the physical infrastructure," says Accel's Kevin Efrusy, No. 9 on the FORBES Midas List. "It's similar to how many countries skipped good landline telecom infrastructure and went straight to mobile phones."

degree, and with Araujo, now parents of a daughter, Paula, supported the Democratic Labor Party, a cooperative movement composed of leftist groups (a decade ago she jumped to the ruling Workers' Party). As her reputation grew, Rousseff landed state-level positions as Secretary of the Treasury and Secretary of Energy before serving as chief of staff for President Lula da Silva,



Moment of Zen: Davis Smith (top) and Kimball Thomas, cofounders of Baby.com.br.

whom she succeeded.

Rousseff rarely discusses her days as a radical and torture victim, nor does she marvel much at her improbable journey from prisoner to president. For her time and country, she says, it's typical, "the 1968 generation."

TO SEE THE CHALLENGES that Rousseff now faces—and the opportu-

For Thomas and Smith the hardest sell was convincing their wives to move to a country where they couldn't speak the language. The main selling points were food and weather: São Paulo, where they decided to base the company, has over 12,000 restaurants, and the average temperature is 70 degrees. And they promised they would live no farther away than 5 miles from their offices, though they found out, says Smith, that 5 miles "can translate into an hour-and-a-half to two-hour commute in São Paulo."

Brazil still has challenges. Talent remains hard to find, and keeping stars is competitive and expensive. Like a flashback to 1990s Silicon Valley, Smith recounts that one employee, after six months on the job, received an offer to double his already high salary. Then there are government issues that Rousseff still needs to solve: an effective 70% payroll tax, a highly complex tax system beneath that and interest rates recently as high as 12.5%. The levels of

bureaucracy can also be stifling, translating into higher operating costs. "We recently ran out of room in our warehouse and had to rent something bigger," says Thomas. "The warehouse sat empty for two months while we waited to get the appropriate licenses to hold our own product in our own warehouse. We were paying \$75,000 a month for an empty warehouse."

Even so, Brazil's evident opportunity and entrepreneurial culture trump all. "I make a suggestion on a Monday and it's done by the next week," says Accel's Efrusy, who invested in Baby.com.br's second round. "They have what it takes to succeed." The partners have set aside the next five years to do it. —Ricardo Geromel

nities within her grasp—it's instructive to relive a recent trip to Fortaleza, a city with 2.5 million people in northeastern Brazil, taken by Gary Garrabrant, CEO and cofounder of Equity International. (Garrabrant is a big believer in Brazil. His \$2 billion private equity firm has half its money in local growth businesses, including homebuilding, commercial real estate, logistics and storage companies.)

THE 100 MOST POWERFUL WOMEN

Rain had washed out the roads, forcing him to rent a four-wheel Jeep, which he navigated over high sand dunes (“no road, no signage”) with the help of a surfer he picked up along the way. He eventually made it to the city, where, he says, “two to three attractive investment opportunities were discovered.” Bad infrastructure; great prospects.

To increase the latter, Rousseff has decided to invest in the former. A short-term dividend of infrastructure spending: It should goose growth, which has slowed to an expected 2% this year, from a white-hot 7.5% in 2010. A medium-term advantage: Brazil will be more ready for its two-pronged coming-out party—the soccer World Cup in 2014 and the Summer Olympics in 2016. To her credit, though, Rousseff’s strategy centers mostly on long-term projects—her equivalents of the Eisenhower Interstate System—that will encourage entrepreneurial activity for decades.

Physical infrastructure is the most obvious need: As Garrabrant discovered, only 14% of the roads in the world’s fifth-largest country are paved. Of 142 countries surveyed, the World Economic Forum ranks Brazil’s quality of physical infrastructure 104th—behind fellow BRICs China, India and Russia. In August Rousseff announced plans for competitive auctions in which private contractors can bid for projects, such as the right to operate 7,500km of roads and 10,000km of railways. Total expected investment: \$66 billion, with nearly half spent in the next five years.

Broadband is next. In Brazil high-speed Internet costs around \$27 per month—if you can get it—versus \$10 in China. To make the Web more accessible, Rousseff has allocated \$500 million per year. Brazil’s mobile telecommunication plumbing needs more help. Connection fees are 48 cents per minute, versus an average 6.2 cents

a minute in the average developed country, and the service quality is so horrendous that Brazil’s telecom regulator banned three big mobile phone operators from selling new plans in some areas until they improved. To fix the problem, Rousseff is pressuring the four foreign companies that dominate telecommunications to invest more and deliver faster. If they don’t have 4G running by the World Cup, they will face big penalties.

For Rousseff, “infrastructure” also means clearing the way for entrepreneurs to create. Starting a new business in Brazil isn’t easy. According to the World Bank, it takes up to 120 days to incorporate versus 6 in the U.S., with startup costs running ten times what they do in China. Rousseff is pushing to move business-tax payments online, which should curb the need to file with different authorities. This year Rousseff has also tried to boost smaller farmers,

like the one she met outside Brasília, providing \$8 billion in small, negative-interest loans.

But taxes remain her stickiest issue. “Brazil’s tax system is among the most complex in the world,” says Henry McVey, head of global and macro asset allocation at KKR, the private equity giant. These complications, which involve regional fiefdoms, make it highly difficult for Rousseff to cut Brazil’s onerous payroll tax, which is effectively 70%, across the board. Instead, she’s been content with targeted cuts to make domestic manufacturers more competitive. She’s also expanded a break for young companies with less than \$1.8 million in revenues. Ultimately, she tells FORBES, she pines for a VAT-type system. “We have to change the tax structure from a payroll-based to a turnover-based taxation structure,” she says.

For all of her business-friendly policies, Rousseff also stays true to

her background in social justice. She doesn’t feel these are mutually exclusive. “If you think the market alone was able to lift 70 million people out of poverty, I mean, you’re wrong,” she says.

In education, Rousseff aims to train more—and better—scientists and engineers. Until now few Brazilians have studied abroad. Last year only 9,000 Brazilians studied in the U.S. (excluding language students), compared with 260,000 from China and India. Under Rousseff’s Science Without Borders program, by 2015 that figure will jump to 100,000 (U.S. schools have already agreed to take 20,000).

Rousseff, now a grandmother, also advocates, via policy, on behalf of children. Every household with a child under age 6 gets \$35—on the condition that the kids attend school and abide by a vaccination calendar. When Lula da Silva engineered the stipend in 2003, critics howled “as if we were giving hope to the beggars,” says

Rousseff. The harsh truth: “The older you are the more protected you are. Stark poverty in Brazil is female and child.” Rousseff adding her own perks: 6,000 day care centers for lower- to middle-class families and free medicine for kids. Aid to children is funneled to mothers. (“Always the woman,” says Rousseff, “because the man tends to get the money and spend it in alcoholic beverage.”)

Rousseff faces major challenges. All this tax-trimming and social spending raise the prospects of a Brazilian fiscal cliff. Inflation remains a real concern. And corruption still festers nationwide and in the capital: Rousseff has already sacked six ministers and her chief of staff amid various scandals.

For what’s it’s worth, though—about \$30 billion, in this case—the man with more personally at stake in Brazil than anyone, Eike Batista, is betting on Rousseff. “She is brave enough to carry Brazil ahead.” **F**



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