Emerging Market VC

Early Stage Capital Goes Global

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EMVC: It’s What’s Next

- The Entrepreneurial Ecosystem
- 4 Pots
- Point: Diego May (Sloan ’02; CEO Junar)
- CounterPoint: Simon Olson (Partner, FIR Capital)
Definitions

• “Emerging Market” vs. “developed market” vs. “frontier market”
  – BRIC/Turkey/Indonesia/South Africa/Mexico/Chile/Korea vs.
  – US/Japan/EU vs.
  – Vietnam/Argentina/Nigeria/Ukraine/Pakistan/Kazakhstan/Qatar

• See www.mscibarra.com for more information

• “Venture Capital” vs. “Private Equity” vs. “Growth Equity”
  – “SME”
  – Consumer vs. Tech
So . . .

Think about Silicon Valley and Boston. What does it take to build an entrepreneurial ecosystem?
Entrepreneurial EcoSystem

• **Talent: technical and managerial**
  – Big companies to grow that talent
  – Academia/labs to train up folks and encourage creativity

• **Culture: entrepreneurship and risk taking is good**
  – Hero stories: a few high-profile big wins

• **[Government support]**
  – Research and development
  – Accelerators/incubators
  – Tax incentives
Entrepreneurial EcoSystem

• **Macro:**
  – A government that is stable enough with policies that don’t get in the way
  – An economy not in crisis (tho there is always opportunity in crisis, too)
  – A currency that is manageable or hedgeable
  – A legal and market infrastructure that doesn’t get in the way:
    Taxes make sense
    IP enforcement is more than just a dream
    Corporate governance sensible enough

• **Policies that don’t scare off foreign investors completely**
Entrepreneurial EcoSystem

- Big domestic markets or at least big regional markets

- Exits
  - IPOs, either on home or foreign exchange
  - Trade sales (M&A)

- Access to capital
  - Angels, VCs, foreign investors, strategics
Access to Capital:
4 Pots of Money

• First, the Government monies:
  • “IFIs”: International financial institutions (part of World Bank)
    – International Finance Corporation (IFC)
    – Development banks: Inter-American, African, Asian Development Banks, EBRD
• Local Country Government funding and support

• Value Add/Minus: Lots of money, lots of credibility, long experience;
  a SLOOOOW, bureaucratic investment process to the table
Second, the **Social VC** monies:

“Double bottom line,” “profit plus,” “mission-oriented,” “impact investing”: all looking for blended returns, and willing to trade off some absolute return in exchange for improved social metrics

- **Accion**, **Omidyar**, **Gates**, **Grameen**, **Calvert**; **Grey Ghost**
- Lumpy distribution in quality of investor
- Lack of clear benchmarks and standards

**Value Add/Minus:** Mission driven, knowledgeable of market, credibility from time on the ground, finds new markets; less sophisticated, mixed goals
4 Pots of Money

- Third, the “Meat-Eating Foreign VC” monies:
- US VCs who are pureplay profit-driven investors who want to find new value and new companies
- Have entered China and India in a variety of modes: local partners, co-investing, own offices, buying a local fund, parachuting in partners every few weeks.
- Some special relationships in Israel.
- IDG Ventures China, Matrix, Accel, Bessemer, Sequoia, Highland
- Now coming to Latin America, particularly Brazil

- **Value Add/Minus:** Sophisticated, experienced investors; clumsy bumbling foreigners with no access to deal flow
• Fourth, is **Local Investor monies:**
  – Vast majority of funding is thru angel funding, some formal, tho vast majority informal: access to rich people is good everywhere . . .
  – China (and somewhat India) have seen rapid rise of domestic-only funded VC firms in the last 5-10 years.
  – Latin America growth as well.

• **Value Add/Minus:** superior access to deal flow and pipeline, reputation and local market expertise, ability to execute; less sophisticated or creative as investor, less capital overall
4 Pots of Money

• No one source is ideal
• Rich networks among these players can create a powerful syndicate of co-investors
• Expect greater coordination and trust-building among the 4 Pots in future: will yield benefits to entrepreneurs and their ecosystems
Diego May

- www.junar.com