BUSINESS MODELS IN VENTURE CAPITAL IN EMERGING MARKETS (INTERACTIVE PAPER)

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Recommended Citation
Lange, Julian E.; Leleux, Benoit F.; and Moncef, Amin (2008) "BUSINESS MODELS IN VENTURE CAPITAL IN EMERGING MARKETS (INTERACTIVE PAPER)," Frontiers of Entrepreneurship Research: Vol. 28: Iss. 3, Article 17. Available at: http://digitalknowledge.babson.edu/fer/vol28/iss3/17
VENTURE CAPITAL (VC) is a relatively recent financing tool in emerging markets (EM), but it is attracting an increasing amount of capital, due to the growth and perceived development potential of the private sector and the structural limitations to growth financing observed in many regions. This paper focuses on a microanalysis of the evolving business models of venture capital firms in emerging and frontier economies. It concentrates on understanding how the funds are operating on the ground, the challenges faced, and some of the initiatives launched by selected countries to attract more VC activity.

Method

Data collection relied on direct interviews with selected VC funds in four regions: Middle East and Africa (MEA), Latin America, Asia (principally China and India) and Central and Eastern Europe (CEE). When available, secondary data sources were also utilized to complement the primary field research, including databases and reports of regional venture capital associations. EMPEA and its annual surveys of the state of the industry also proved invaluable. Data includes fund structure, amounts available for investment, investment sizes, industry focus, geographic focus, stage of development focus, sources of funds, management and incentive structures, and key opportunities and challenges going forward.

Results/Implications

VC performance in emerging markets has historically been lower than in developed countries. The main reasons highlighted are:

• Lack of experienced management.
• Poor deal flow.
• Inability of venture capital funds to optimize capital structures.
• Difficult exits for VC funds.

However, some initiatives were identified which governments have implemented to make their country more attractive to VC financing, such as:

• Allowing insurance companies and pension funds to adopt lower levels of “prudence” so that they can invest more in riskier areas of the economy and more effectively channel the retirees’ money to the most potent sectors of the economy.
• Adopting government programs to guarantee part or all of some bank loans to small businesses.
• Increasing the ease of listing companies on stock exchanges so it is easier for venture capitalists to exit from their investments.

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