PRIVATE EQUITY AND VENTURE CAPITAL IN AN EMERGING ECONOMY: EVIDENCE FROM BRAZIL (SUMMARY)

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SUMMARY

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Principal Topic

The outstanding success attained by Private Equity and Venture Capital (PE/VC) in fostering the U.S. entrepreneurial sector has encouraged several countries to import it. However, PE/VC was tailored to perform in the American institutional environment. As Gompers and Lerner (1999) state, the degree to which the U.S. venture model will – or can – be successfully adapted to other countries is a particularly interesting question.

Method

To answer this question we conduct an empirical study with all the 65 PE/VC management firms with offices in Brazil. The survey was conducted at the end of 2004 and attained a response rate of 100%. For this reason the results are fully representative. The analysis aims at the industry's size and structure. Relates them to economic and institutional factors and compares with international statistics.

Results and Implications

Results indicate a PE/VC industry whose size is heavily limited by the Brazilian institutional idiosyncrasies. At the same time, the lack of transportation, energy and telecommunications' infrastructure and security provides opportunities for PE/VC type of investments. As a main finding, this work identifies differences and similarities between the American and the Brazilian PE/VC models. The similarities are: (i) PE/VC firms are mainly independent and manage capital from institutional investors; (ii) capital is heavily concentrated regionally as well as in few management firms; (iii) investments are made within a close range from management firms; (iv) software and IT are preferred sectors; and (v) managers are highly qualified. The main differences suggest that the model has adapted to the new environment: (i) in line with a lack of high-expectation entrepreneurship, there is a tendency to invest in more advanced stages; (ii) since credit is scarce, few LBOs take place; (iii) low levels of sector specialization suggests few opportunities within each sector; (iv) management firms concentration in the financial cluster suggest a quest for commercial partners and strategic buyers to portfolio companies (IPO is a quite rare exit mechanism); and (v) Brazilian PE/VC regulation recognizes the inefficiency of the legal system and obliges the use of arbitration.

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