

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



4 Pots of Money

- 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 stumbling foreigners with no access to deal flow



4 Pots of Money

- **Fourth, is Local Investor monies:**
 - Vast majority of funding is thru angel funding, some formal, the 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**



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