Where to invest? 120 countries ranked on private equity attractiveness

The US remains the best market for private equity investors, the 2015 Venture Capital and Private Equity Country Attractiveness Index reveals.

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Which countries offer the most promising markets, strongest institutions, most entrepreneurial support, best protections and strongest corporate governance practices that make investing attractive for venture capital and private equity (VC/PE) professionals?

At the very top of the charts sit the United States, the United Kingdom, Canada, Singapore and Japan. They take positions one through five, respectively, in the **2015 Venture Capital and Private Equity (VC/PE) Country Attractiveness Index**, now in its sixth annual edition.

Analyzing 120 countries, based on thousands of data points, and ranking them according to their overall attractiveness to VC/PE investors based on six key drivers, this index is a useful tool for spotting emerging market winners and for assessing risk/reward profiles around the globe. It may also help regulators set or revise policies in order to better attract VC/PE money down the road.

Completing this year's top ten are Hong Kong (sixth), Germany (seventh), Australia (eighth), New Zealand (ninth) and Switzerland (tenth).

Expanding scope

For the 2015 index, Malta and Panama were added to the mix, bringing the total up from 118 to 120 countries. The two debuted around the middle of the pack, with Panama ranked 51st

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and Malta 66th.

The 120 countries are analyzed according to six key drivers measured by 65 individual indicators. The six key drivers are:

- **Economic activity**, including GDP and expected GDP growth.
- **Depth of capital markets**, including IPO activity and financial market sophistication.
- **Taxation**, including incentives for entrepreneurs and the ease of filing.
- **Investor protections and corporate governance**, including legal protections.
- **Human and social environment**, including education, labor regulations and corruption measures.
- **Entrepreneurial opportunities**, including indicators of innovation, corporate R&D, and the ease of starting, running and closing a business.

To achieve a high ranking on the VC/PE Country Attractiveness Index, a country must score well on all six key drivers.

The index was designed and elaborated by IESE's Center for International Finance, working in conjunction with EMLYON Business School. The team includes IESE's Heinrich Liechtenstein, EMLYON's Alexander Groh, Karsten Lieser and Markus Biesinger.

Trend-spotting over five years

In the uppermost echelon of the rankings, relative stability reigns. Comparing 2015 results to those of five reports ago (the 2011 report), the United Kingdom climbed two spots to second place, switching places with Singapore, which dropped two spots to land at fourth. The United Kingdom has benefitted from improving entrepreneurial opportunities and GDP growth prospects, while Singapore has seen growth prospects dampen and tighter competition within Asia.

The index creators prefer to highlight five-year shifts to see the more important trends. They caution against reading too much into year-to-year changes, which may stem from short-term volatility.

They also note that private-equity investors will often set their sights on emerging regions, in search of new transactions with satisfying risk/reward ratios. Among the BRICS (Brazil, Russia, India, China and South Africa), China — ranked 21st this year — stands out for its economic growth, capital markets development, and favorable taxation practices for

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entrepreneurs. That said, China has remained relatively stable in the rankings, climbing just one spot in five years.

Meanwhile, the biggest gains within the top 20 over the past five years belong to New Zealand — climbing from 15th to ninth place — and Malaysia — climbing from 18th to 12th. Farther down the list, the Philippines jumped an impressive 22 spots, from 64th in 2011 to 42nd in 2015. The Philippines scores particularly well on the economic indicators, with impressive growth projections going forward.

In the bad news column, Cyprus stands out for its 28-spot drop in the index over the past five years. Now ranked 65th overall, the crisis-hit Mediterranean island is the ranked dead last (120th) for its ratio of non-performing bank loans to total gross loans. Growth prospects also look bleak.

Heat map

To help track region trends, the index is accompanied by a heat map. On the map, North America and Europe appear largely green, reflecting their attractiveness to investors, while Africa appears largely red, indicating its markets are still developing. Within Africa, South Africa and Morocco score highest, coming in at 37th and 50th, respectively. South Africa slipped five spots over five years while Morocco has gained six, with particular strides seen in Morocco's quality of corporate governance and security of property rights.

Seeing the long view is key to private equity investors, who might wait several years for an investment to bear fruit. To help provide this view, the index is accompanied by an interactive website to view five-year-trends and regional shifts.

Going forward, IESE and EMLYON plan to continue expanding the index's scope, while maintaining comparability. Looking back to 2006, when the project was first initiated at IESE with a Europe-only pilot, progress is obvious.

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