

Brazil and China shine brighter in latest investor ranking

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An annual survey to rank countries' deal-making desirability once again sees the BRIC economies — especially Brazil and China — enhancing their appeal.

IESE's International Center for Finance Research has published, in partnership with Ernst & Young, [the 2011 edition of the Global VCPE Country Attractiveness Index](#). By broadening the index from 66 to 80 countries, the study now presents a clearer picture of investor attractiveness in emerging economies in Latin America, Africa and Asia.

In addition, the research team — headed by IESE Prof. [Heinrich Liechtenstein](#), Prof. Alexander Groh of EMLYON Business School (France) and Karsten Lieser, Project Manager at IESE's International Center for Finance Research — has enhanced the index structure to gain an even more accurate view of the driving forces behind the venture capital (VC) and private equity (PE) markets.

The top five

The study shows that the United States, the United Kingdom and Canada are, in that order, the three most attractive markets for investors, followed by Singapore and Switzerland.

These five countries earn top marks in terms of the six key drivers of VC and PE country attractiveness: economic activity; depth of capital market; taxation; investor protection and corporate governance; human and social environment; and entrepreneurial culture and deal opportunities.

Two areas in which they score exceptionally well — capital markets and investor protection/corporate governance — are the criteria that make the difference. These lead to more liquid and efficient capital markets, which, in turn, enable professionals to make the deals flow and provide exit opportunities.

The rise of the BRICs

Entrepreneurial culture and deal opportunities are equally interesting drivers. For that reason, it's no surprise that the BRIC economies — Brazil, Russian Federation, India and China — have become even more attractive.

Investors are increasingly drawn to these markets due to their economic growth and catch-up potential, their transition to liberal markets, and the availability of natural resources.

In particular, China and India have demonstrated an astonishing rate of development, both in their economic and capital market structures.

That said, investors still have to weigh up whether exceptional growth opportunities are worth the risks of increased exposure and lack of investor protection, in light of perceived bribery and corruption.

Similarly, in the case of Russia and Brazil, both will have to improve their socio-economic and institutional frameworks significantly, if they are to rise in their attractiveness ranking.

Beware of Middle East upheaval

Despite such concerns, it's clear that there's a fundamental restructuring process taking place in the global VCPE industry. Three factors point to a long-term shift toward emerging economies.

- *Big is beautiful.* Large markets, such as Brazil and China, will increasingly shine, given their winning combination of increased economic activity and improved capital markets/institutional frameworks.
- *Newcomers are improving their offer.* There has been an influx of newcomers in promising regions such as Indonesia, Vietnam, Morocco, Kenya, Nigeria and parts of the Middle East. Most of these countries have begun to improve their institutional investment environments in a bid to woo investors. However, as shown by recent developments in Tunisia and Bahrain, many still have some way to go in terms of improving their human and social environments. After all, political and social

upheaval is not conducive to the smooth flow of capital.

- *Nothing is set in stone.* Reversals of fortune can occur overnight. Many have occurred in Europe in the wake of the financial crisis. Ireland suffered a dramatic economic downturn, owing to the collapse of its banking system and credit facilities. This is reflected in the country's weak performance in the index, dropping 10 positions. As expected, Spain also fell in the ranking, from 20th to 23rd. In this brave new world, nothing can be taken for granted.

Invaluable informational tool

Given this market fickleness, a tool that can track reality and, more importantly, question reality is all the more useful.

The research team tested their index's tracking power. They accessed the largest data set on VCPE transactions, including performance details, which allowed them to calculate averages for countries. They then compared the return performances on countries with the attractiveness index.

On the whole, they found a strong correlation between the returns and the index, confirming that the more attractive the country according to the index, the higher the returns it should yield.

Of course, there were exceptions. There were some low attractiveness countries with high returns, a finding that only underscores the case for more information as opposed to guesswork.

The authors plan to continue with annual updates of the index. Provided the right data is available, they also hope to cover more countries. Africa, for example, remains underrepresented.

What's clear, though, is that the **Global VCPE Country Attractiveness Index** is an invaluable tool for reflecting the complex trends and developments in the highly volatile sectors of venture capital and private equity investment.

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