

# VC/PE guide to country attractiveness

November 23, 2009

## **How do investors in VC/PE funds pick their most attractive options? The 2009/2010 Global Venture Capital and Private Equity Country Attractiveness Index may help.**

Alexander Groh and [Heinrich Liechtenstein](#), together with a group of researchers from [IESE's International Center for Financial Research \(CIIF\)](#) and support from Ernst & Young and DLA Piper Weiss-Tessbach, have rated the varying levels of "attractiveness" of 66 countries for venture capitalists and private equity investors. Having produced a similar ranking for Central Eastern European Countries in 2007, the professors have cast their net wider with the 2009/2010 Global Venture Capital and Private Equity Country Attractiveness Index.

The composite measure used in the index is based on six main criteria, or "key drivers," previously identified as most important to institutional investors: Economic Activity; Depth of Capital Markets; Taxation; Investor Protection and Corporate Governance; the Human and Social Environment; and Entrepreneurial Culture and Opportunities.

According to the index, the most attractive of the 66 countries is the United States, followed by Canada and the United Kingdom. The authors remark that what sets the U.S. and other high-ranked countries apart from the competition are the financial markets, and investor protection and corporate governance. These key drivers evoke the professional community needed to secure deals and exit opportunities for the VC and PE funds.

## **Entrepreneurial culture**

However, many countries also lack other key criteria to make them as attractive as the U.S., namely the human and social environment and entrepreneurial culture and opportunities.

"Without innovations and research output, and with rigid labor markets, bribery and corruption, there will be no demand for venture capital and private equity," the authors say.

The researchers also highlight the changes in countries' attractiveness over the past several years. China, Poland and India, now ranked 28, 31 and 38 respectively, have remarkably improved their standing from four years ago. In contrast, Kuwait, Latvia and Oman have plunged substantially. The authors explain that this drop in status is caused by increases in corporate tax, declining investor protection and worsening economic conditions with higher inflation.

It is important to note that the index scores are calculated relative to the other countries, meaning that all countries that lost rankings did not necessarily experience deterioration in investment conditions in absolute terms. "They might have just been outperformed by others in the international competition for capital resources," the authors stress.

## **Africa and Asia: Regions to watch**

Investors can also find an insider's look into different markets. Africa is highlighted as a soon-to-be hotspot, with private capital flows into the sub-Saharan countries increasing almost fivefold between 2000 and 2007. The authors attribute this growth to African governments' encouragement of foreign participation in newly liberalized industries, such as telecommunications and banking. Still, these countries are not without hurdles, including the need for infrastructure development to support growth, industrial improvements and reducing poverty.

Asia also presents a strong force to be reckoned with, ranking fourth in the world after North America, Australasia and Western Europe, with Hong Kong and Singapore beating Japan in terms of overall attractiveness.

## **Crisis may affect ranking**

What role does the economic downturn play in all of this? The authors predict that the index scores of the high-ranking countries, which are particularly strong with respect to their capital markets, will get hit the hardest from the crisis, as they will disproportionately lose their competitive advantage by deteriorating market conditions. As these countries drop in standing, there will be a chance for several emerging countries with sound growth opportunities, but negligible capital markets, to snag a higher status.

"However, we will have to wait for the following edition of our index to provide evidence for our expectations," the authors note.

[www.iese.edu/insight](http://www.iese.edu/insight)