

The logo for FORA, consisting of the letters 'FORA' in a serif font, centered within a dark blue square. The square is divided into four quadrants by a thin white horizontal and vertical line.

FORA

Capital Markets and Informal Equity Investments

Framework Paper and Project Proposal

Glenda Napier

FORA

ICE Workshop

Copenhagen

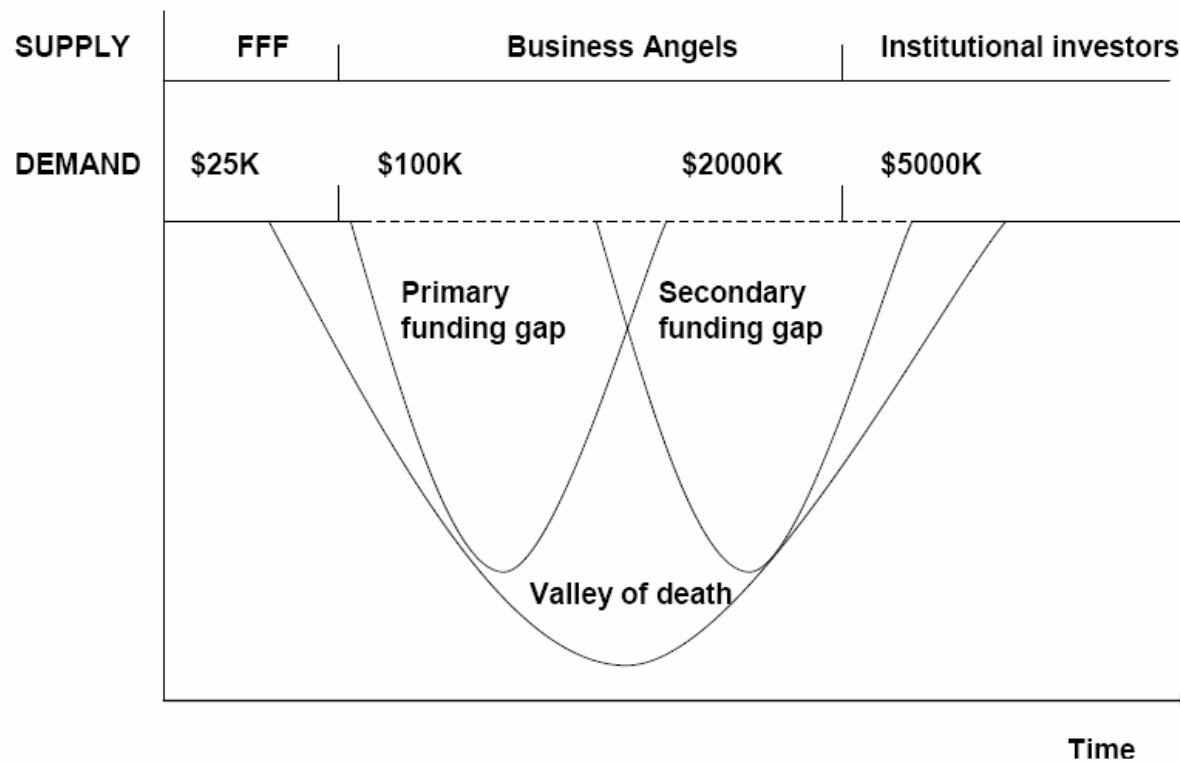
12-13 October, 2006

Outline

1. Financing Gaps Prevent Entrepreneurial Activity
2. Do We Have International Compatibility?
3. Some Supply and Demand Side Issues
4. Introduce the Analytical Framework
5. An ICE Risk Capital Project Proposal
6. Open the Floor for Discussion

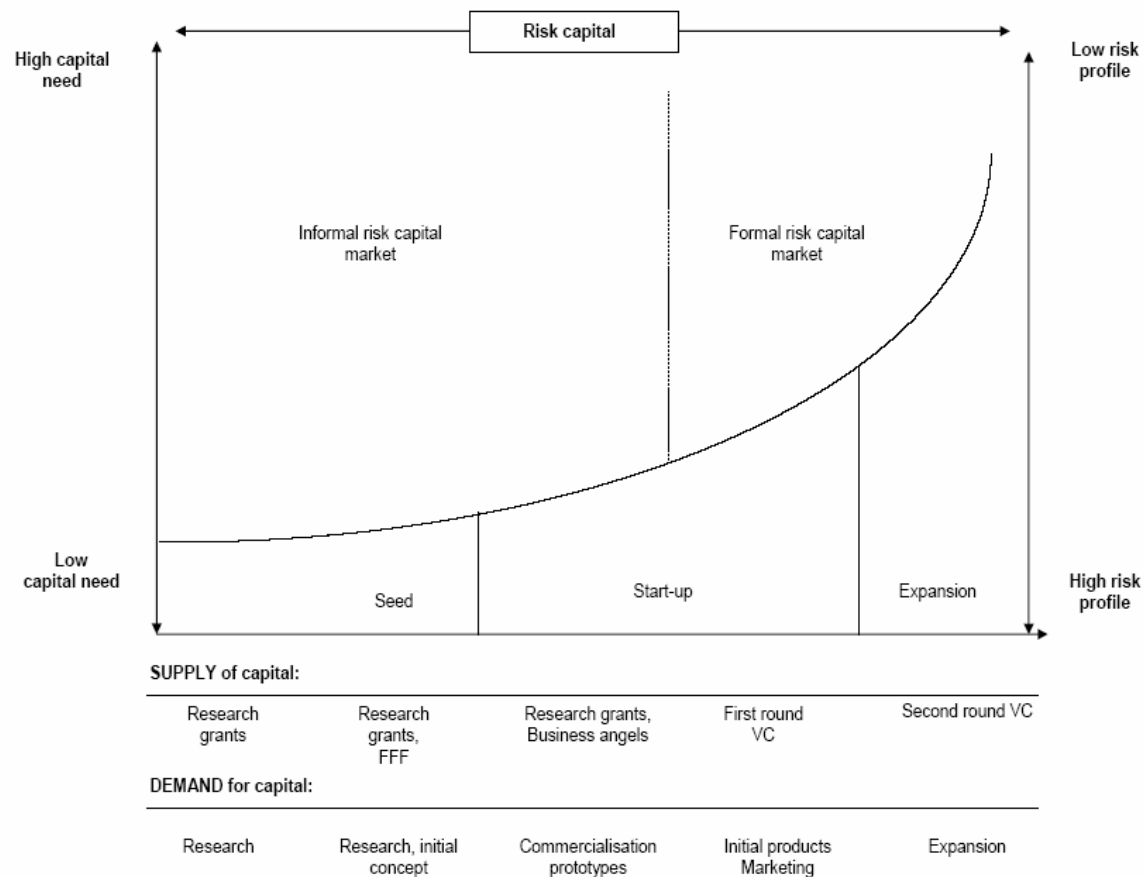
The Financing Gaps

– Why Do They Vary Between Countries?



Risk Capital

– Have We Finally Reached Consensus???

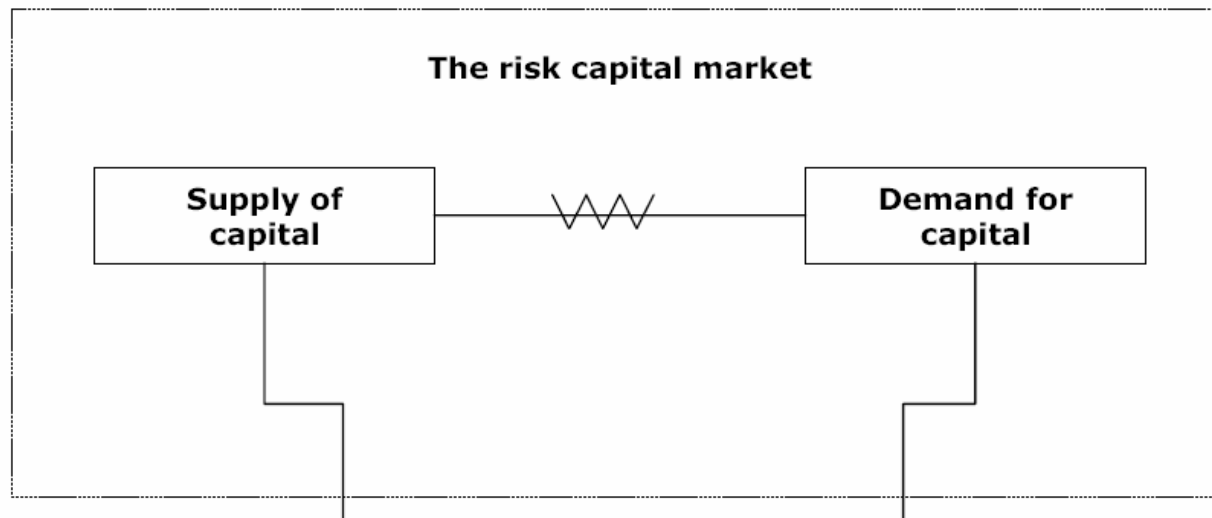


Risk Capital Consensus?

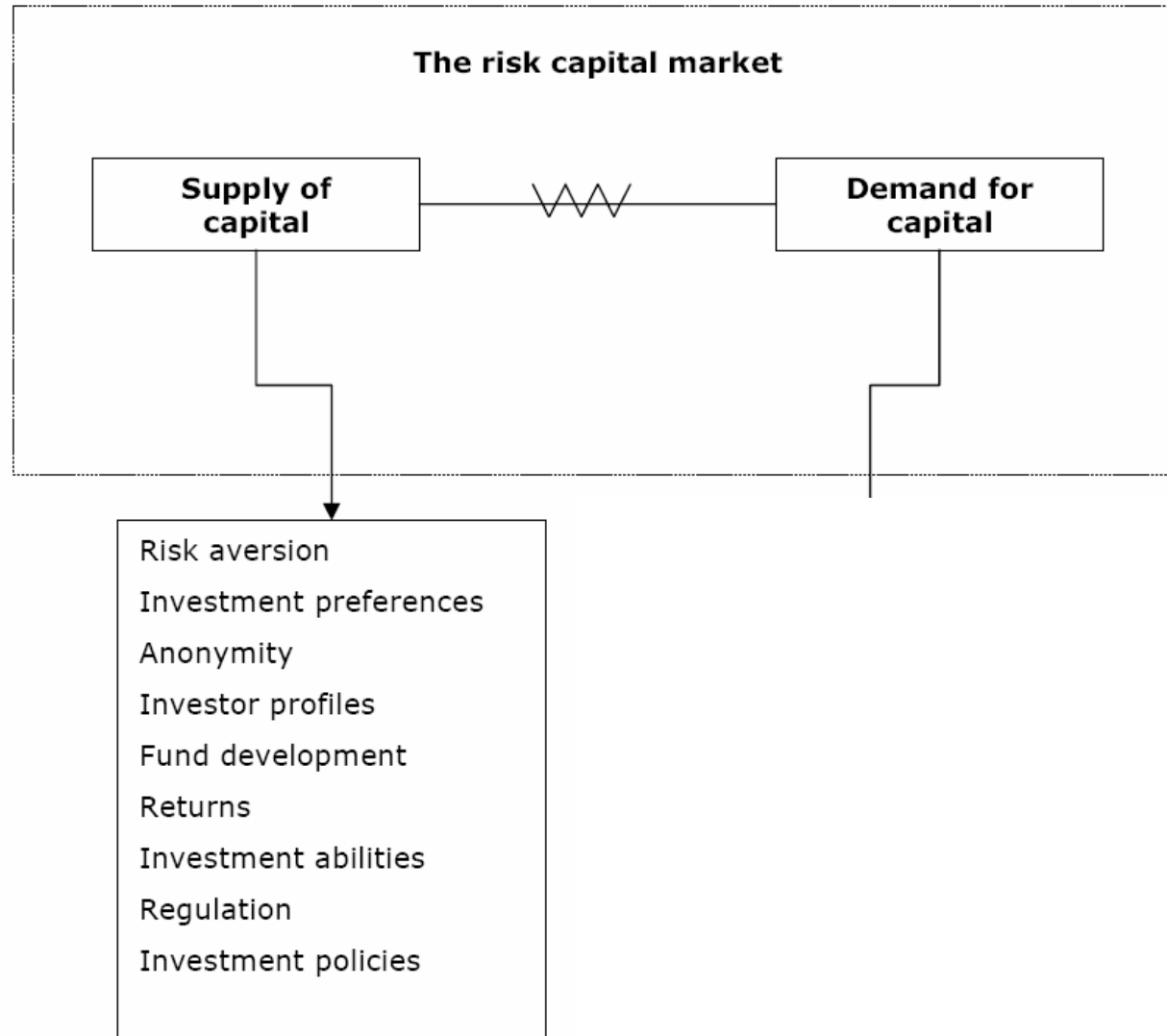
– No, Not Yet....

- > According to the National Venture Capital Association (NVCA), “the venture capitalist may invest in a company **throughout the company’s life cycle** and therefore some funds focus on **later stage** investing by providing financing to help the company grow to a critical mass to attract public financing through a stock offering. At the other end of the spectrum, some venture funds specialize in the **acquisition, turnaround or recapitalization** of public and private companies that represent favorable investment opportunities” (NVCA 2006).
- > On the contrary and according to the European Venture Capital Association (EVCA), “venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the **launch, early development, or expansion of a business**” (EVCA 2006).

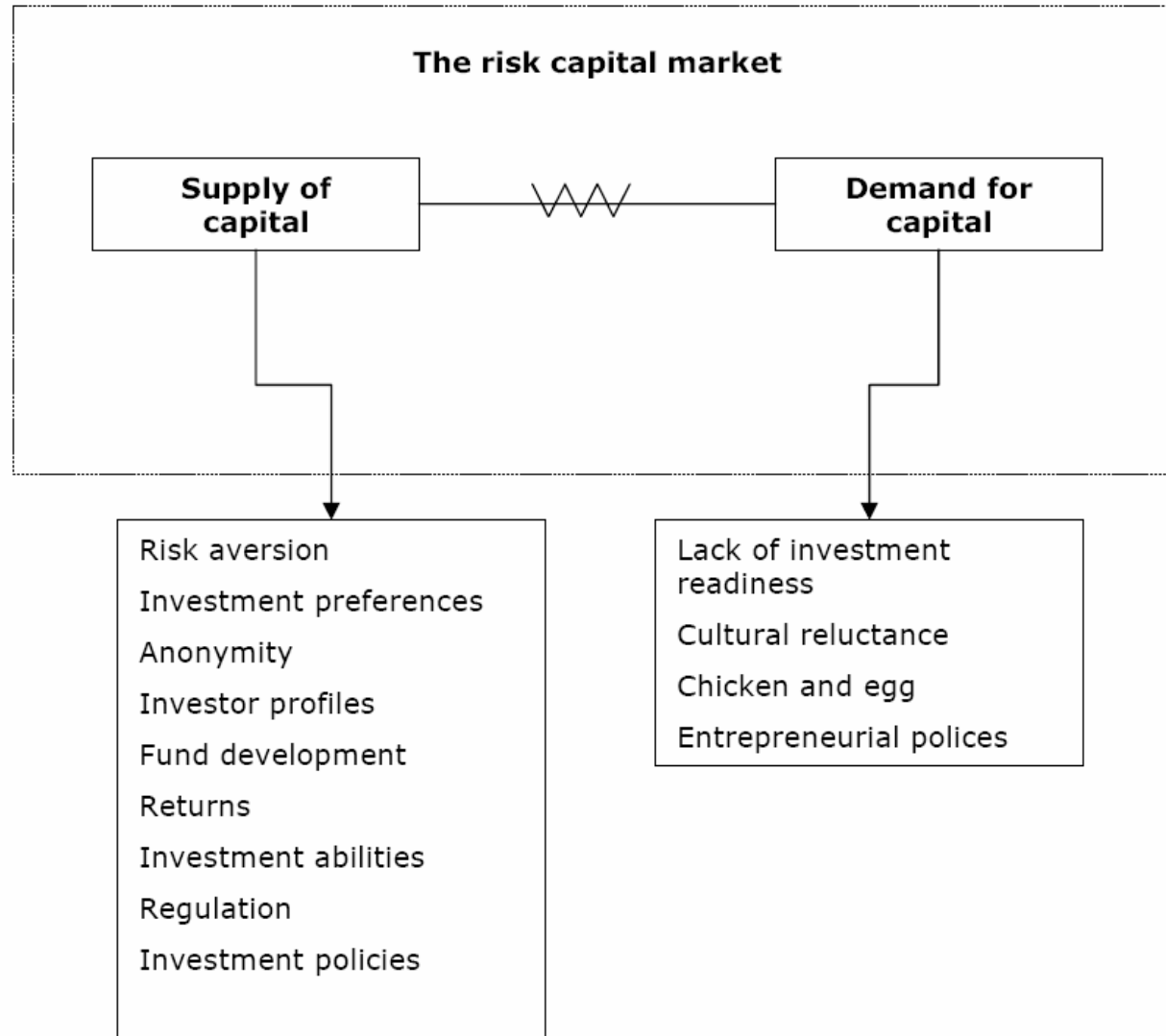
Explaining the Gaps and Finding Solutions – Turning to Public Policies..



Explaining the Gaps and Finding Solutions – Turning to Public Policies..



Explaining the Gaps and Finding Solutions – Turning to Public Policies..



An Investment Policy Model

- Mapping Countries' Policy Performance

Figure 4: The investment policy model

Investment opportunities

Entrepreneurial culture

Investment readiness (training)

Flow of investment proposals (start-up rates, meeting places)

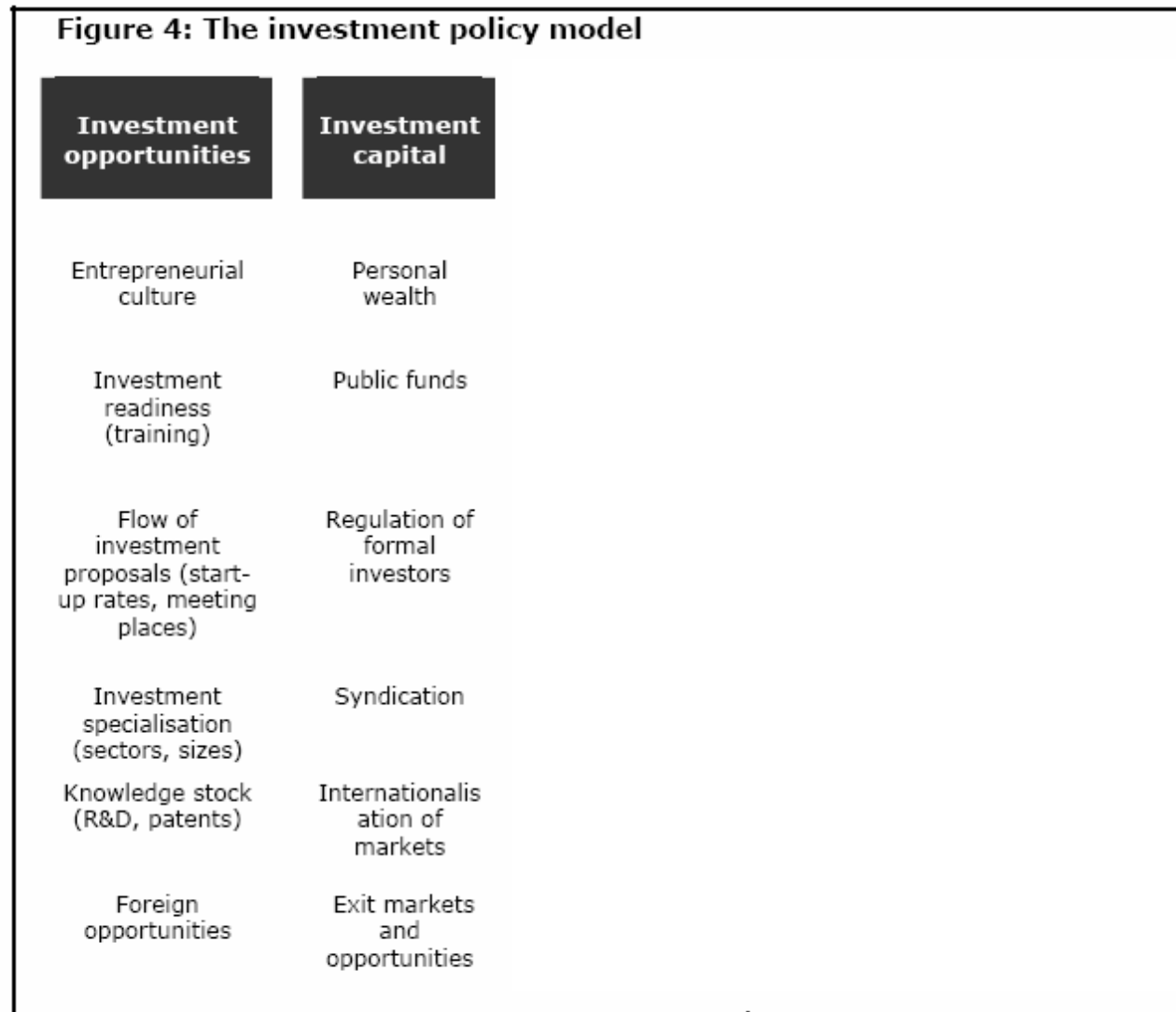
Investment specialisation (sectors, sizes)

Knowledge stock (R&D, patents)

Foreign opportunities

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Figure 4: The investment policy model

Investment opportunities	Investment capital	Investment abilities
Entrepreneurial culture	Personal wealth	Human capital (investor profile, competencies, experience)
Investment readiness (training)	Public funds	Social capital (networks, associations)
Flow of investment proposals (start-up rates, meeting places)	Regulation of formal investors	
Investment specialisation (sectors, sizes)	Syndication	
Knowledge stock (R&D, patents)	Internationalisation of markets	
Foreign opportunities	Exit markets and opportunities	

An Investment Policy Model

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Figure 4: The investment policy model

Investment opportunities	Investment capital	Investment abilities	Investment incentives
Entrepreneurial culture	Personal wealth	Human capital (investor profile, competencies, experience)	Public guarantee schemes
Investment readiness (training)	Public funds	Social capital (networks, associations)	Public co-investment schemes
Flow of investment proposals (start-up rates, meeting places)	Regulation of formal investors		Fiscal initiatives
Investment specialisation (sectors, sizes)	Syndication		Taxation
Knowledge stock (R&D, patents)	Internationalisation of markets		Administrative barriers
Foreign opportunities	Exit markets and opportunities		Opportunity costs

An Investment Policy Model

- Mapping Countries' Policy Performance

Figure 4: The investment policy model

Investment opportunities	Investment capital	Investment abilities	Investment incentives	Investment culture
Entrepreneurial culture	Personal wealth	Human capital (investor profile, competencies, experience)	Public guarantee schemes	Special cultural beliefs (values, basic assumptions)
Investment readiness (training)	Public funds	Social capital (networks, associations)	Public co-investment schemes	Capital market traditions
Flow of investment proposals (start-up rates, meeting places)	Regulation of formal investors		Fiscal initiatives	Investment history
Investment specialisation (sectors, sizes)	Syndication		Taxation	
Knowledge stock (R&D, patents)	Internationalisation of markets		Administrative barriers	
Foreign opportunities	Exit markets and opportunities		Opportunity costs	

Need for More Accurate Data - Supply, Demand and Policy

- > The supply side indicators could include new international agreeable definitions and more accurate data on informal risk capital such as Business Angels and FFF, investor's human capital, investment preferences...
- > The demand side indicators could include entrepreneurs' investment readiness, information about sector and stages...
- > The policy indicators could include aspects such as syndication, evaluation, regulation, institutional structures of markets, capital markets traditions, internationalisation and
- > Policies should be grouped according to sectors, stages and investors.

The Risk Capital Policy and Data Project - Purpose and Aim

- > Provide policymakers and others with a more systematic view on risk capital policies in order to stimulate better policymaking
- > Enhance the access to international comparable risk capital data and encourage the use of international standards and definitions across countries and regions

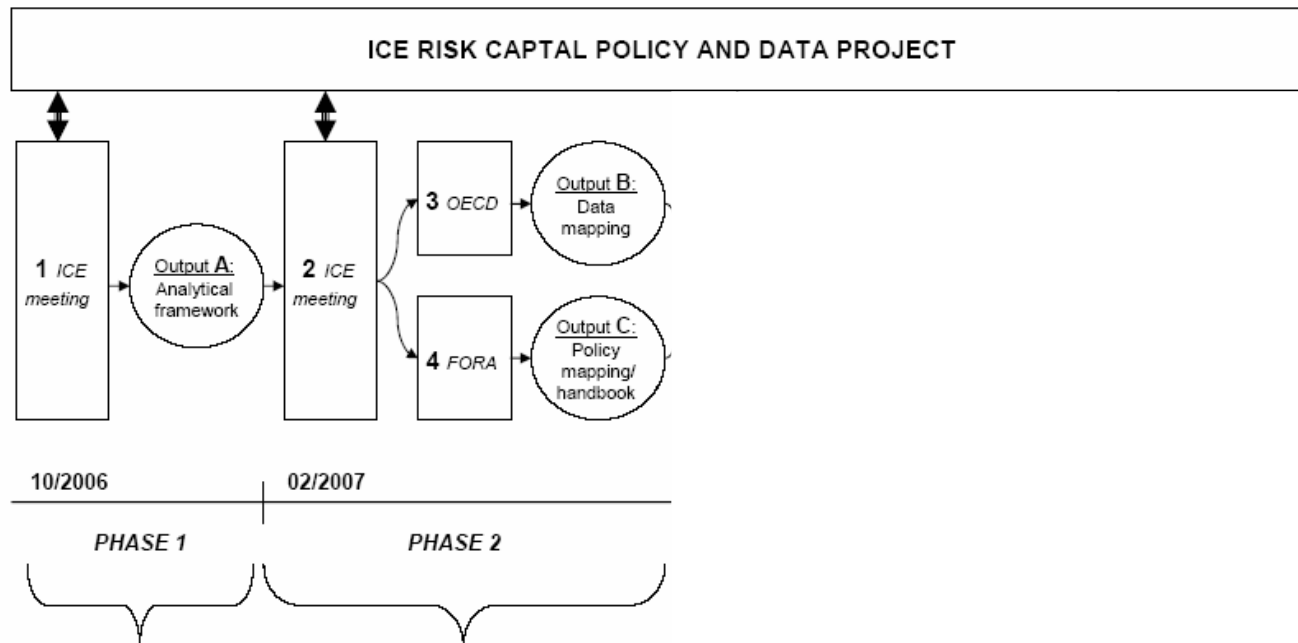
The Risk Capital Policy and Data Project - Structure and Process

- > Two-Track Project: a Policy and Data Track
- > 4 Phases from October 2006 - February 2008 (Full Project)
- > Five Possible Outcome:
 - > Policy Mapping and Handbook
 - > Data Mapping and Handbook
 - > International Benchmarking System
- > Possible to choose one/both project tracks, and to decide on one or more phases at the time

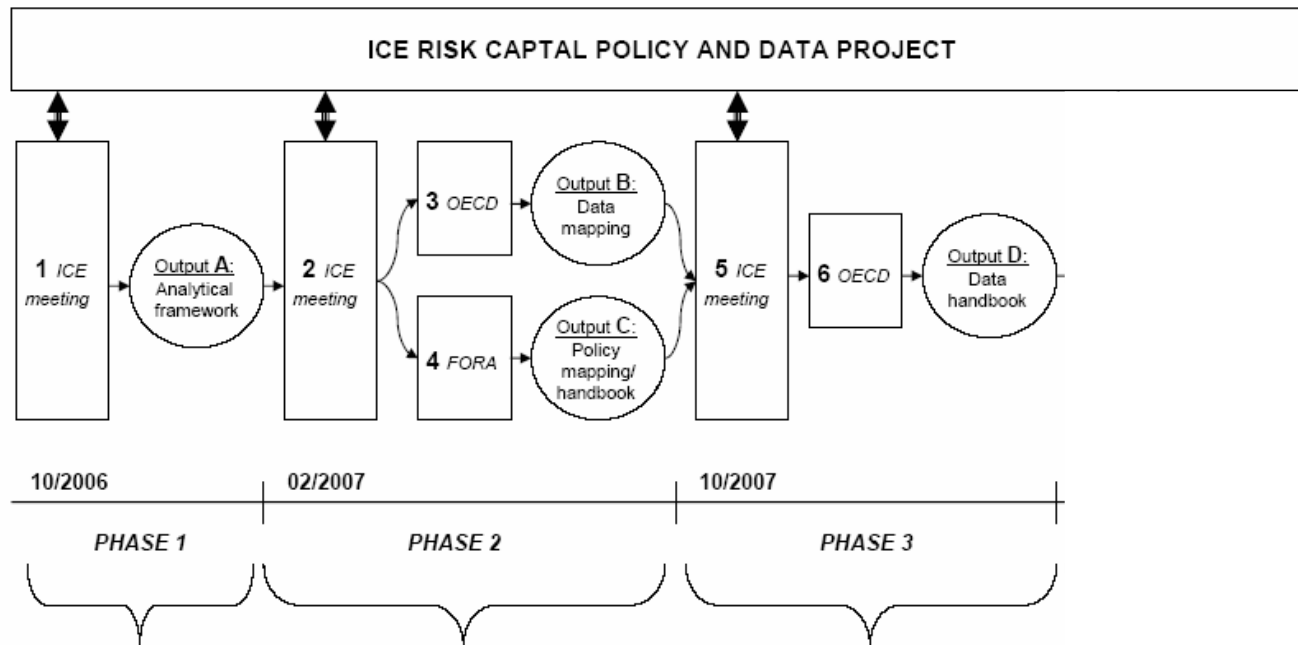
Phase 1: Analytical Framework, Advisory Group, Policy Questionnaire



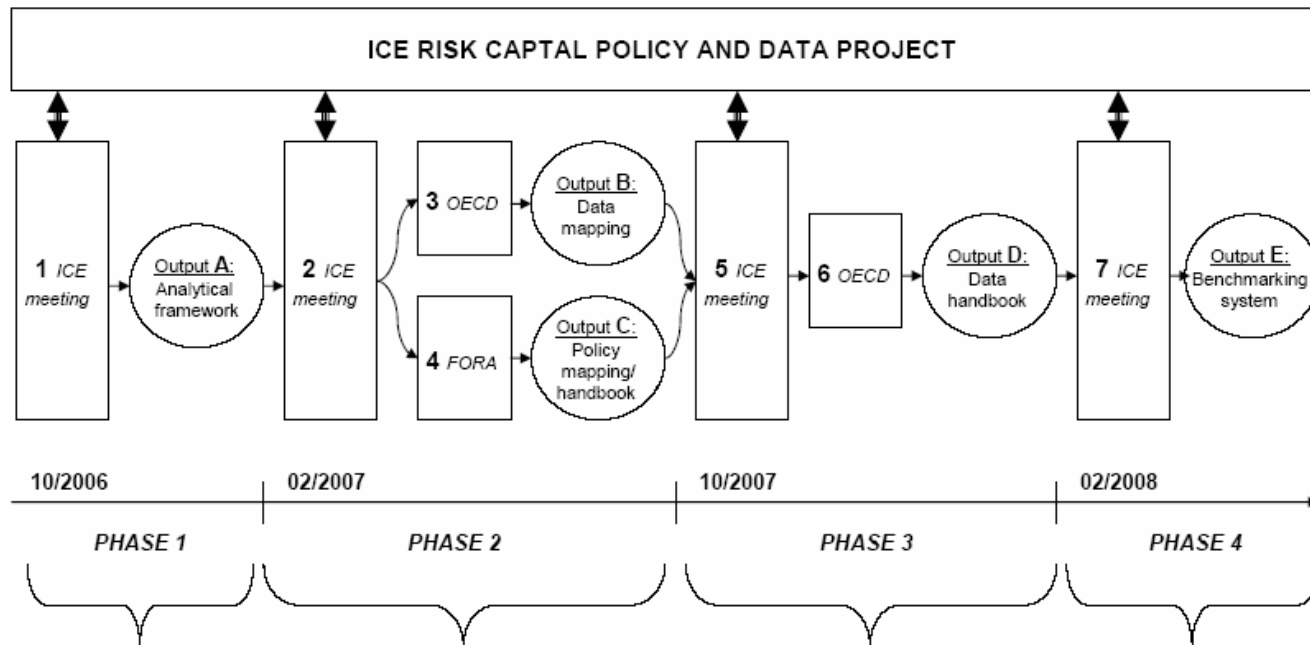
Phase 2: Policy Mapping and Handbook, OECD Data mapping



Phase 3: OECD Data Handbook



Phase 4: International Benchmarking System based on the Policy Mapping and Data Handbook



Outcome and Milestones

- > **SPRING 2006**: Policy Mapping (FORA)
- > **SUMMER 2006**: Policy Handbook (FORA)
- > **SUMMER 2006**: Data Mapping (OECD)

- > **WINTHER 2007**: Data Handbook (OECD)
- > **WINTHER 2007**: Start International Benchmarking System

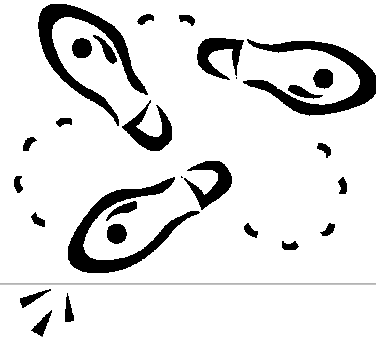
Possible Project Partners

- > ICE Member Countries
- > The OECD Entrepreneurship Indicators Project, Statistics Directorate
- > The OECD Working Party on SMEs and Entrepreneurship
- > Non ICE Member Countries (for instance Israel)
- > EVCA, CVCA, NVCA, Asian VC Journal, ISVA, Australia VC Association
- > Experts and other sources of knowledge

Resources

- > Phase 1: €20000
- > Phase 2: €80000 (incl. phase 1)
- > Phase 3: Not to be decided until next year
- > Phase 4: Not to be decided until next year

Next steps...



1. Option A: FORA continues with finalising the analytical framework including wrapping up the framework paper, establishing an international advisory group and preparing a policy questionnaire. Total cost €20000
2. Option B: FORA initiates the policy track including policy mapping and policy handbook (part of phase 2). Total cost €40000 (incl. option A)
3. Option C: FORA and the OECD initiate both the data and policy track including data and policy mapping. The policy mapping results in a policy handbook. Total cost €80000 (incl. option A)
4. The ICE should not engage in further risk capital work

Discussion...



- > Is the Analytical Framework Reflecting Reality?
- > The Project Proposal?
- > Which Activities Should We Prioritize?
- > Which Outcome Should We Aim For?
- > Who are the Project Partners?