

# The Global Venture Capital and Private Equity Country Attractiveness Index

2009/2010 annual

*Alexander Groh & Heinrich Liechtenstein*



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# Contents

Foreword .....	6
Sponsors .....	8
About the editors .....	9
Research team .....	9
<b>I. The Global VC/PE Country Attractiveness Index .....</b>	<b>11</b>
How to measure a country's attractiveness for limited partners .....	12
The 2009/2010 Index .....	16
Comparisons of regions and countries .....	22
Tracking power of our index .....	28
Summary and outlook .....	30
<b>II. Legal systems, taxes and VC and PE activity .....</b>	<b>33</b>
After the storm: a global view on post-recession opportunities and challenges for the PE and VC industry .....	34
Global Venture Capital and Private Equity Country Attractiveness Index - Legal Conclusions .....	36
<b>III. An insight into different VC and PE markets .....</b>	<b>39</b>
Africa: Governance, development and budding VC and PE activity .....	40
Asia: Does vibrant entrepreneurial activity and expected growth compensate some weaknesses? .....	43
Latin America: VC and PE in Latin America after the crisis .....	46
<b>IV. Regional and country profiles .....</b>	<b>51</b>
How to read the country and regional profiles .....	52
Regional profiles .....	54
Country profiles .....	70
<b>V. Appendices .....</b>	<b>203</b>
Computation of the index .....	204
Statistical validation of the index .....	206
Limitations of our index and FAQs .....	207
Table with sources and explanations of the data series .....	208
References .....	216



# Foreword

## *from the research team*

In this annual, we want to present the results of a comprehensive research project on how to measure the attractiveness of a country for investors in Venture Capital (VC) and Private Equity (PE) limited partnerships. The project was initiated at IESE Business School in Barcelona in 2006 with a European pilot study. From the European study we gained experience and the confidence to extend the study globally. Since 2006 two professors, one doctoral student, and many research assistants have worked on the project. We selected and collected more than 300 different data series from all kind of providers – some ranging back to 2000. We attempted to include as many countries as possible in the study, and handled approximately 200,000 individual data records.

We would not have been able to realize this without the generous financial and non financial contributions from our sponsors, and we greatly appreciate the support of IESE Business School, their International Center for Financial Research (CIIF), Ernst &Young, and DLA Piper Weiss Tessbach.

This is the first edition of the Venture Capital and Private Equity (VCPE) Country Attractiveness Index. This index will be subject to critique and we invite constructive feedback to help us improve future editions of the index. Selected data series may be subject to change in future editions and new and more appropriate data series may be used as a substitute to existing data. The quality of data and the number of countries covered will increase. As a result, our index will be a dynamic product that always considers the most adequate and recent data. We believe this index is unique in providing the VC and PE market segment with such a broad scope. We hope investors will appreciate the information included in this index; politicians may utilize the index to make improvements in their countries to attract international risk capital.

We hope that you find our 2009/2010 Venture Capital and Private Equity Country Attractiveness Index of value.

### Website

Please visit our website <http://vcpeindex.iese.us/> where you will find more information, links to literature and several analytical tools for benchmarking purposes.

# Foreword

Professor Josh Lerner

Jacob H. Schiff Professor of Investment Banking  
*Harvard Business School*

Virtually every high growth business needs capital. Investors allocate assets to earn substantial returns. One would imagine that the two facts above would bring venture capitalists and entrepreneurs together.

But, in fact, a significant gap separates the two groups. Entrepreneurs live in great uncertainty and assume significant risk in pursuing their business, whether a young start up or a restructuring division. Venture capitalists and private equity investors are a special breed, who seek to help entrepreneurs triumph, but have fiduciary responsibilities to their own investors (whether pensions, sovereign wealth funds, endowments, or families), which limit their ability to absorb all the risk in new ventures. While venture capital and private equity has become a well developed industry in the United States and Western Europe, in many other parts of the world, a gap in experience and expectations has slowed the adoption of venture capital and private equity funds, and limited the success of the pioneering funds.

But in the past few years, the venture capital and private equity industry has been globalizing at a dramatic pace. Funds are increasingly being raised internationally and invested globally. More and more firms have established multinational operations. There is an increasing appreciation by entrepreneurs world wide of the benefits that venture and growth equity investors can bring. Company managers are increasingly setting ambitious goals and looking to these investors to provide the capital, advice, and strategic partnerships they need to bring their plans to fruition.

Another important trend has been the professionalization of the venture capital industry itself. Venture capital and private equity organizations have matured. Their investment policies, procedures, and systems have been refined over decades of experience, and are becoming formalized and structured. As a result of these two trends, it is no surprise that many nations are making greater efforts to encouraging venture capital activity with an eye to boosting innovation and entrepreneurship, and to counteracting the recessionary impact of the global economic crisis on growth.

With the emergence of venture capital and private equity investment as a professional practice, understanding the way in which this industry works is critically important for policymakers, practitioners, and would be practitioners, whether they are (or aspire to be) working for entrepreneurial ventures, venture capital and private equity firms, or large institutional capital pools. I applaud Alexander Groh and Heinrich Liechtenstein, who have taken the heroic step of trying to draw together all the information needed to assess whether a market is ready for venture capital and private equity.

The country attractiveness index—which builds on academic research into the determinants of these funds world wide—provides valuable information to investors and political leaders about which markets are most suited for private investments. The index results both provide answers and raise questions—e.g., to what extent will the financial crisis upend the established order of the most attractive markets?—but represent an important step in systemizing our understanding of these issues.

Enjoy the reading!

# Sponsors

We are very grateful to our sponsors IESE Business School/CIIF, Ernst & Young, and DLA Piper Weiss-Tessbach for the financial support, their feedback throughout the project and their direct contributions to the index.

**IESE Business School – University of Navarra** is one of the world's top 10 business schools and has pioneered executive education in Europe since its foundation in 1958 in Barcelona. In 1964 IESE introduced Europe's first full-time MBA program. IESE distinguishes itself in its general-management approach, extensive use of case method, international outreach, and emphasis on placing people at the heart of managerial decision-making. With a truly global outlook, IESE currently runs executive-education programs on four continents.

The CIIF, International Center for Financial Research, is an interdisciplinary center with an international outlook and a focus on teaching and research in finance. It was created at the beginning of 1992 to channel the financial research interest of a multidisciplinary group of professors at IESE

**Ernst & Young** is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Potential is a key word for equity capital management. Deal success doesn't end when the deal closes. Acquirers know success and stakeholder value lie in portfolio companies' continued growth under their watch and after their exits.

**DLA Piper Weiss Tessbach** is part of DLA Piper, one of the largest global legal services practices, with over 3,500 lawyers in 67 offices in 29 countries. From its offices in Asia, Europe, the Middle East and the US, legal and business advisers provide a broad range of services to local, regional and international clients. The firm is highly acknowledged in its core areas of expertise

Business School and has established itself as a nucleus of study within the School's activities.

Sixteen years on, our chief objectives remain the same:

- Find answers to the questions that confront the owners and managers of finance companies, and the finance director of all kind of companies in the performance of their duties.
- Develop new tools for financial management.
- Study in depth the changes that occur in the market and their effects on the financial dimension of business activity.

All of these activities are programmed and carried out with the support of our sponsoring companies. Apart from providing vital financial assistance, our sponsors also help to define the Center's research projects, ensuring their practical relevance.

Our private equity and venture capital practices therefore offer a holistic, tailored approach that encompasses the needs of funds, their M&A process and portfolio companies while addressing market, industry and regulatory concerns and opportunities.

We hope that the Global VC/PE Country Attractiveness Index proves to be a valuable tool in helping funds navigate through this uncertain time. For more information please visit [www.ey.com](http://www.ey.com)

including corporate, M&A, venture capital and capital markets, banking and finance, litigation and regulatory, general commercial law, real estate, employment law, IT, telecoms and IP and advises its clients as a full-service firm in all relevant areas of business law.

For further information, please visit: [www.dlapiper.com](http://www.dlapiper.com).



# About the editors

## Prof. Alexander Groh

Dr. Alexander Groh is Visiting Professor at IESE Business School, Barcelona – University of Navarra, Spain. His research activities focus on VC and PE, and include valuation issues, performance measurement and socio-economic determinants for the development of national markets. He is Associate Professor of Finance at GSCM – Montpellier Business School, France. Prior to that, he was visiting INSEAD, Fontainebleau, France, and was Assistant Professor of Corporate Finance and Entrepreneurial Finance at Darmstadt University of Technology, Germany. He is involved in training courses for the European Venture Capital and Private Equity Association (EVCA), and the Indian Venture Capital and Private Equity Association (IVCA), and has worked for Quadriga Capital, a Frankfurt based Private Equity fund, since 1996.

Dr. Alexander Groh was born in Frankfurt, Germany. He received a joint Master's Degree of Mechanical Engineering and Business Administration from Darmstadt University of Technology, where he also gained his Doctoral Degree in Finance.

## Prof. Heinrich Liechtenstein

Dr. Heinrich Liechtenstein is Professor of Financial Management at IESE Business School, Barcelona – University of Navarra, Spain. His areas of interest are entrepreneurial finance, VC and PE, wealth management, and owners' strategies. He is active in several supervisory and advisory boards of family holdings and foundations, as well as a private equity firm.

Dr. Liechtenstein has experience in wealth management and owners' strategies at Liechtenstein Global Trust, a family holding, and as a consultant at The Boston Consulting Group. He has previously founded and sold two companies.

Dr. Liechtenstein was born in Leoben, Austria, and received an MA in Business Administration from the University of Graz, an MBA from IESE Business School, and a Doctoral Degree of Business and Economic Sciences from the University of Vienna.

## Research team

**Alexander Groh**  
Visiting Professor,  
IESE Business School Barcelona

**Heinrich Liechtenstein**  
Assistant Professor,  
IESE Business School Barcelona

**Karsten Lieser**  
Visiting PhD Student,  
IESE Business School Barcelona

**Miriam Hesse**  
Research Assistant,  
IESE Business School Barcelona

**Renata Semmel**  
Research Assistant,  
IESE Business School Barcelona

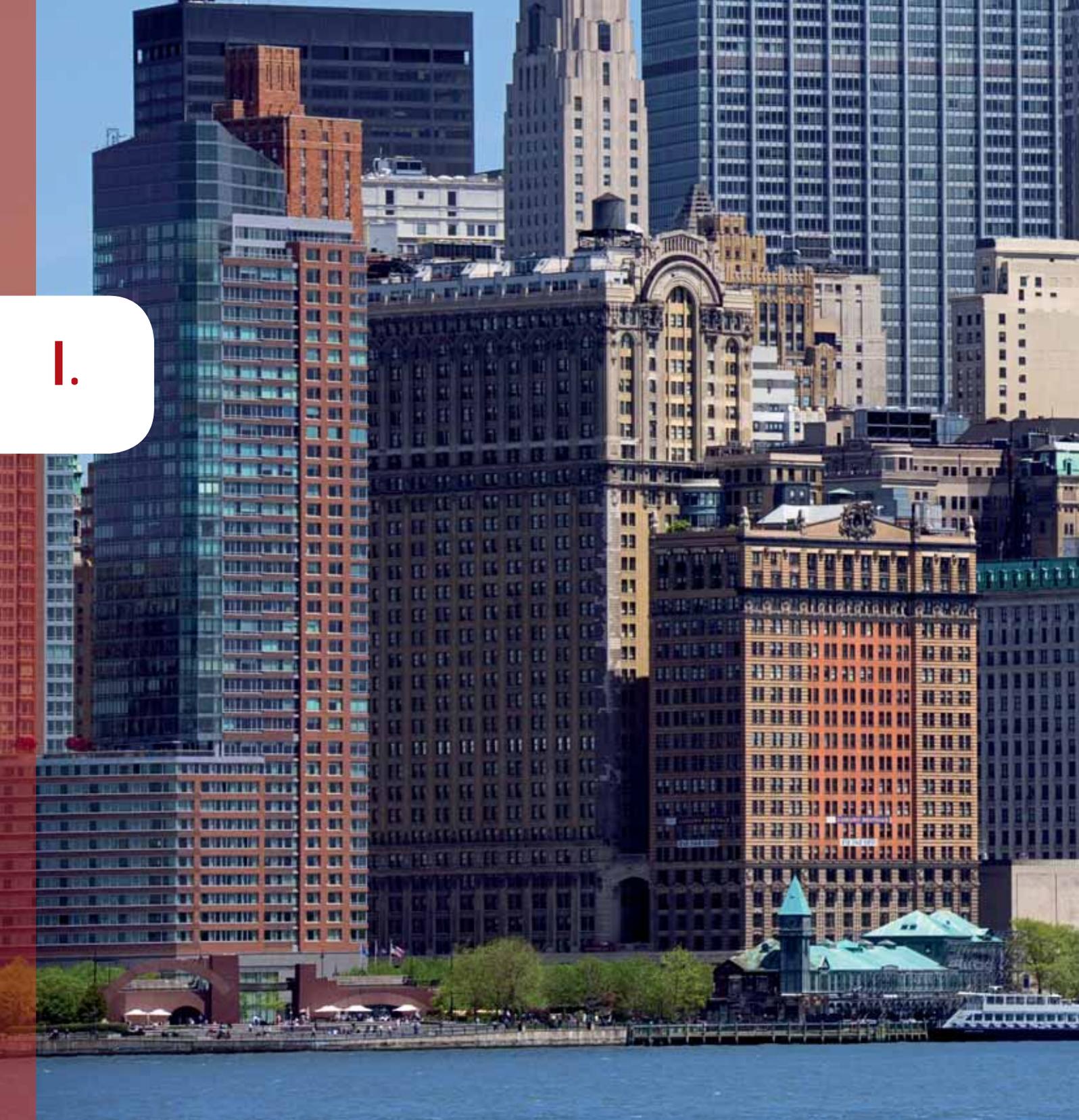
**Sarp Vardarizi**  
Research Assistant,  
IESE Business School Barcelona

**Matthias Wich**  
Research Assistant,  
IESE Business School Barcelona

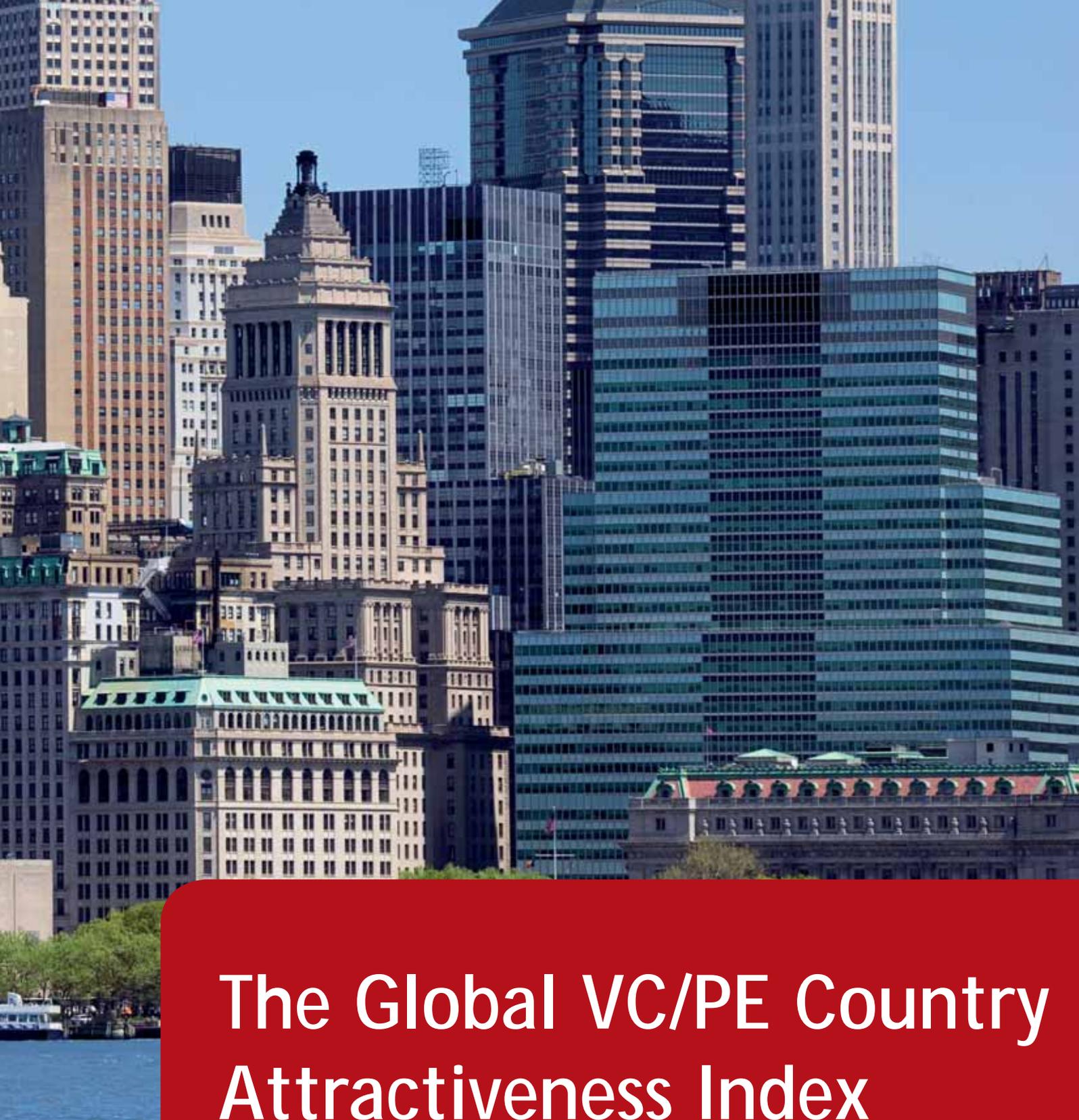
**Tobias Götz**  
Research Assistant,  
IESE Business School Barcelona

**Markus Grabellus**  
Research Assistant,  
IESE Business School Barcelona

**Markus Biesinger**  
Research Assistant,  
IESE Business School Barcelona



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# The Global VC/PE Country Attractiveness Index

Article written by Alexander Groh, [agroh@iese.edu](mailto:agroh@iese.edu), and Heinrich Liechtenstein, [hl@iese.edu](mailto:hl@iese.edu), both, IESE Business School Barcelona.

## How to measure a country's attractiveness for limited partners

The purpose of our index is to benchmark countries with respect to their attractiveness for institutional investors who decide upon international allocations in VC and PE limited partnerships. We therefore take an institutional investor's point of view for the aggregation and analyses of socio-economic data. We want to contribute to solving the investor's problem: where to allocate the capital. However, a politician may conclude that a vibrant risk capital market supports innovation, entrepreneurship, economic growth, employment, and wealth. Both the politician, who would like to increase risk capital market activity, and the investor, who seeks adequate compensation for the investment risk, will observe strengths and weaknesses, risks and opportunities

in particular nations and will benchmark them. A politician has the opportunity to influence the conditions that attract (or deter) international risk capital: an investor will respond to policy actions. Therefore, attempts to increase risk capital market activity in a particular country should focus on the relationship between the parties that deserve capital and those who provide it. Risk capital is a high liquid asset class with respect to international allocations. Funds will flow quickly into regions and countries where investors expect opportunities. Nations (and regions) are in strong competition for receiving allocations from limited partners.

### What are institutional investors' selection criteria?

Our index addresses the concerns of institutional investors and looks at the criteria they base their international VC and PE allocation decisions upon. Their allocation criteria will include, in the first instance, the expected economic opportunities of a country or region from a macro perspective. However, they will also include a particular investment strategy of a fund management team, the team's competence, their track record and other parameters. The latter criteria will be addressed as part of their fund due diligence before limited partners consider committing to a particular general partner. These criteria are beyond of the scope of our index because they depend on individual cases. Our index points to the general opportunities that arise from the socio-economic state of a country or region and as a result, we contribute to the macro perspective of the fund due diligence. Our index provides valuable information to investors as it is the first time that the different factors that determine the attractiveness of a country for limited partners have been summarized in a composite measure. The decisive factors that render a country attractive have been extensively discussed in literature about the determinants of vibrant VC and PE markets. We give a brief overview over this literature and group the articles into six sub-chapters that already reveal the structure of our index. Each heading represents one of six key drivers that we regard as important, appropriate and quantifiable to determine the attractiveness of a country for limited partners. The key drivers name and define a set of criteria we need to assess for our sample countries.<sup>1</sup>

1. Groh, Alexander, Liechtenstein, Heinrich and Lieser, Karsten (2009a): The European Venture Capital and Private Equity Country Attractiveness Indices, forthcoming in the Journal of Corporate Finance (Re-print). Available at <http://ssrn.com/author=330804>.

### Importance of Economic Activity

Intuitively, the state of a country's economy should affect the VC/PE activity. An economy's size is an indicator of the quantity of corporations and deal flow opportunities in general. Economic growth should lead to demand for finance. Gompers and Lerner (1998) focus on the VC segment and point out that more attractive opportunities exist for entrepreneurs if the economy is growing quickly. Wilken (1979) argues that a situation of economic prosperity and development facilitates entrepreneurship, as it provides a greater accumulation of capital for investments. The ease of start-ups is expected to be related to societal wealth, not solely due to the availability of start-up financing, but also to higher income among potential customers in the domestic market. Romain and van Pottelsberghe de la Potterie (2004) find that VC/PE activity is cyclical and significantly related to gross domestic product (GDP) growth.

### Importance of the Depth of a Capital Market

Black and Gilson (1998) focus on the differences between bank-centered and stock market-centered capital markets. They argue that a well-developed stock market that permits venture capitalists to exit through an initial public offering (IPO) is crucial for the existence of a vibrant VC market. In general, bank-centered capital markets show less ability to produce an efficient VC infrastructure. They affirm that it is not merely the strong stock market that is missing in bank-centered capital markets; it is also the secondary institutions, including the bankers' conservative approach to lending and investing, and the social and financial incentives that reward entrepreneurs less richly (and penalize failure more severely), that compromise entrepreneurial activity. While their paper focuses on the early stage segment,

the findings are equally valid for the later stage. Jeng and Wells (2000) stress that IPO activity is the main force behind cyclical swings because it reflects the potential return to the VC/PE funds. Kaplan and Schoar (2005) confirm this. Analogous to Black and Gilson (1998), Gompers and Lerner (2000) point out that risk capital flourishes in countries with deep and liquid stock markets. Likewise, Schertler (2003) uses either the capitalization of stock markets or the number of listed companies as a measure for the liquidity of stock markets. She finds that the liquidity of stock markets has a significant positive impact on VC investments in its early stages.

Alongside the disadvantages of bank-centered capital markets, Greene (1998) emphasizes that low availability of debt financing is an obstacle for start-ups in many countries. Entrepreneurs need to find backers - whether banks or VC/PE funds - who are willing to bear risk. Cettorelli and Gambera (2001) provide evidence that bank concentration promotes the growth of those industrial sectors that have a higher need for external finance by facilitating credit access to younger companies in said industry sectors.

### Importance of Taxation

We assume that two types of taxes affect VC and PE activity; those directly related to the asset class, such as taxes on dividends and capital gains, and those with an impact on corporations and entrepreneurship, such as corporate tax rates. Gompers and Lerner (1998) stress that the capital gains tax rate influences VC/PE activity. In fact, they confirm Poterba's finding (1989), who builds a decision-model to become entrepreneur. Bruce (2000 and 2002), and Cullen and Gordon (2002) prove that taxes matter for business entry and exit. Djankov *et al.* (2008) show that corporate tax rates strongly affect entrepreneurship. Bruce and Gurley (2005) explain that increases in the

personal income tax raise the probability of becoming an entrepreneur. Hence, the difference between personal income tax rates and corporate tax rates tends to be an incentive to create self-employment.

### Importance of Investor Protection and Corporate Governance

Legal structures and the protection of property rights also influence the attractiveness of a VC/PE market. La Porta *et al.* (1997 and 1998) confirm that the legal environment strongly determines the size and extent of a country's capital market and local companies' ability to receive outside financing. They emphasize the difference between statutory law and the quality of law enforcement in some countries. Roe (2006) comprehensively discusses and compares the political determinants of corporate governance rules for the major economies and focuses on the importance of strong minority shareholder protection to develop a vibrant capital market. Glaeser *et al.* (2001) and Djankov *et al.* (2003 and 2005) suggest that parties in common-law countries have greater ease in enforcing their rights from commercial contracts. Cumming *et al.* (2006) find that the quality of a country's legal system is more closely connected to facilitating VC/PE backed exits than the size of a country's stock market. Cumming *et al.* (2009) extend this finding and show that cross-country differences in legality, including legal origin and accoun-

ting standards have a significant impact on the governance of investments in the VC/PE industry. Desai *et al.* (2006) show, that fairness and property rights protection largely determine the growth and emergence of new enterprises. Cumming and Johan (2007), meanwhile, highlight the perceived importance of regulatory harmonization with respect to increasing institutional investor commitments to the asset class. La Porta *et al.* (2002) find a lower cost of capital for companies in countries with better investor protection, and Lerner and Schoar (2005) confirm these findings. Johnson *et al.* (1999) show that weak property rights limit the reinvestment of profits in start-up companies. Finally and more broadly, Knack and Keefer (1995), Mauro (1995), and Svensson (1998) demonstrate that property rights significantly affect investments and economic growth.

### Importance of the Human and Social Environment

Black and Gilson (1998), Lee and Peterson (2000), and Baughn and Neupert (2003) argue that national culture shapes both individual orientation and environmental conditions, which lead to different levels of entrepreneurial activity in particular countries. Megginson (2004) argues that, in order to foster a growing risk capital industry, research culture plays an important role, especially in universities or national laboratories.

Rigid labor market policies negatively affect the evolution of a VC/PE market. Lazear (1990) and Blanchard (1997) discuss how protection of workers can reduce employment and growth. Black and Gilson (1998) argue that labor market restrictions influence VC/PE activity, though not to the same extent as the stock market.

Djankov *et al.* (2002) investigate the role of several societal burdens for startups in different countries. They conclude that the highest barriers and costs are associated with corruption, crime, a larger unofficial economy, and bureaucratic delay.

### Importance of Entrepreneurial Culture and Opportunities

Access to viable investments is one of the most important factors for the attractiveness of a regional VC market, especially for early stage or start-up deals. The number of potential investments relates to the research output in an economy. Gompers and Lerner (1998) show that both industrial and academic research and development (R&D) expenditure significantly correlates with VC activity. Kortum and Lerner (2000) highlight that the growth in VC fundraising in the mid-1990s may be due to a surge of patents in the late 1980s and 1990s. Schertler (2003) emphasizes that the number of both R&D employees and patents, as an approximation of the human capital endowment, has a positive and highly significant influence on VC ac-

tivity. Furthermore, Romain and von Pottelsberghe de la Potterie (2004) find that start-up activity interacts with the R&D capital stock, with technological opportunities, and the number of patents. Similar to Djankov *et al.* (2002), Baughn and Neupert (2003) argue that bureaucracy in the form of excessive rules and procedural requirements, multiple institutions from which approvals are needed, and cumbersome documentation requirements may severely constrain entrepreneurial activity. Lee and Peterson (2000) stress that the time and money required to meet such administrative burdens may discourage new venture creations.

#### **Summary on the determinants of vibrant VC and PE markets**

The research findings discussed emphasize the difficulty of identifying the appropriate parameters for our index. There is neither consensus about the most important parameters for VC/PE investment, nor any ranking. While some parameters are more comprehensively discussed, and certainly of very high relevance, it remains unclear how these interact. For example, it is debatable whether the VC/PE activity in a country with a high corporate governance level is more affected by the liquidity of the national stock market or by labor regulations. While an IPO exit is, in principle, possible at many stock exchanges in the world, labor market frictions can hardly be evaded.

For the index calculation, it would be ideal to include all parameters. However, some of the cited papers focus on particular economies or regions, depending on the data available, and their datasets are difficult to compare. Therefore, we try to find the best possible proxies for the aforementioned drivers of VC/PE activity, which are available for a large number of countries. From the foregoing review of prior research, we identified six main criteria that ultimately determine the attractiveness of an individual country for VC/PE investments: Economic Activity, Depth of a Capital Market, Taxation, Investor Protection and Corporate Governance, Human and Social Environment, and Entrepreneurial Culture and Opportunities. We regard these criteria as “key drivers”, confirm their choice via a survey among institutional investors, reported in Groh and Liechtenstein (2009b) and (2009c), and base the index structure upon them. Since none of the key drivers are directly measurable, we regard them as “constructs” and seek for data series that adequately express their character.



# The 2009/2010 Index

## Assessing six latent key drivers

The basic and important principle of our index is to make use of "latent drivers". These are criteria that are not directly observable, but driven by others which can be measured. For example, while we do not get data on the number of investment banks, law firms, accountants, or consultants to assess the infrastructure of the deal supporting institutions for the majority of our sample countries, we can gather more general information on the level of debt provided by the banking sector, or estimates about the soundness of banks, the sophistication of the financial system and the ease of access to loans. We assume that the better these criteria are developed, the more deal supporting institutions will likewise exist to facilitate VC and PE activity. This principle is maintained at all individual stages for the index construction. An unobservable criterion is assessed with several proxy parameters. In principle, we measure the attractiveness of a country by six main criteria. The choice of these criteria is based on our own experience, the above review of academic literature and a survey we undertook among limited partners.<sup>2</sup>

We call them the "six key drivers" :

1. Economic Activity
2. Depth of a Capital Market
3. Taxation
4. Investor Protection and Corporate Governance
5. Human and Social Environment
6. Entrepreneurial Culture and Opportunities.

As discussed before, these six key drivers are not directly observable. For this reason, we disaggregate them, and use several proxies for their assessment.

2. The results of this survey are described in two academic working papers : Groh, Alexander and Liechtenstein, Heinrich (2009b) : International Allocation Determinants of Institutional Investments in Venture Capital and Private Equity Limited Partnerships, IESE Business School Working Paper No. 726, and in Groh, Alexander and Liechtenstein, Heinrich (2009c) : How Attractive is Central Eastern Europe for Risk Capital Investors ? Journal of International Money and Finance (28), 4, p. 625 – 647. Available at <http://ssrn.com/author=330804>.

## How we disaggregate the six key drivers

According to the principle to assess latent drivers of VC and PE attractiveness with observable data we disaggregate the six key drivers in sub-categories. These categories are either actual data series or further sub-constructs, and we call them "level 2 constructs". For example, in Table 1, we find, the key driver "2 Depth of a Capital Market" split into five sub-categories: "2.1 Size and Liquidity of the Stock Market", "2.2 IPO Market Activity", "2.3 M&A Market Activity", "2.4 Debt and Credit Market", and "2.5 Financial Market Sophistication". The last sub-category is a data series provided by the World Economic Forum (WEF), all the others are constructs by themselves. For example, we assess "2.1 Size and Liquidity of the Stock Market" with three different data series (and call them "level 3 data"): the "2.1.1 Market Capitalization of Listed Companies", the "2.1.2 Total Trading Volume", and "2.1.3 Listed Domestic Companies". This approach has two major advantages: first, individual data series do not gain too much weight when they are grouped; second, the overall results can be traced to more granulated levels and hence, facilitate interpretations.

## The weighting scheme

We spent a great amount of time with statistical analyses and optimization approaches to determine the weights for the data aggregation. Finally, we came to the conclusion not to apply a statistically sophisticated approach that deserves documentation and discussion, but to choose a simple, plausible, and robust weighting scheme. We apply equal weights for all data series, when we aggregate them to the level 2 constructs. Then again, we use equal weights for the level 2 constructs to aggregate the six key drivers. Finally, the weight of the key drivers depends on the number of level 2 constructs included. For example, "1 Economic Activity" consists of three level 2 constructs, while "3 Taxation" consists of only two.

Overall, we use 22 level 2 constructs for our index, and hence, "1 Economic Activity" receives a weight of 3/22, which is 0.136, while the weight of "3 Taxation" is 2/22 - 0.091. The advantage of this weighting scheme is that the key drivers that consist of more level 2 constructs gain more weight. That way, we also smooth outliers in individual data series.<sup>3</sup>

## Separate VC and PE indices

To account for differences with respect to the two market segments, VC vs. PE, we propose three alternative indices. The first combines both segments. The second focuses on early stage VC and the third on later stage PE only. For the VC and PE indices we simply discard data series that are less important for either market segment: for the VC index, we regard the level 2 construct "2.4 Debt and Credit Market" as relatively unimportant, and hence discard it. When calculating the PE index, we discard "3.1.2 Entrepreneurship Incentive", "3.1.3 Labor and Tax Contributions", and "3.2 Administrative Tax Burdens", and further, "5.1 Education and Human Capital", "6.1 Innovation and R&D", "6.2 Ease of Starting and Running a Business" and "6.4 ICT Infrastructure" from the criteria. The weights for the individual index items in the separate VC and PE indices are calculated analogue to the above explained procedure.

Table 1 presents the structures and the weights of the individual data series and constructs for the combined VCPE, the VC and the PE index. In the appendices, we provide detailed information on the data series used to aggregate the index, and all data sources. There, we also explain the exact data aggregation technique.

3. Details about the possible statistical approaches to determine weights for the data series are provided in the academic paper Groh, Alexander, Liechtenstein, Heinrich and Lieser, Karsten (2009a) : The European Venture Capital and Private Equity Country Attractiveness Indices, forthcoming in the Journal of Corporate Finance. Available at <http://ssrn.com/author=330804>.

Table 1: Structure of the VCPE Index, the separate VC, and PE Indices, and the weighting schemes

		VCPE Index	VC Index	PE Index			VCPE Index	VC Index	PE Index
<b>1</b>	<b>Economic Activity</b>	<b>0.14</b>	<b>0.14</b>	<b>0.18</b>	4.2.3	Intellectual Property Protection	0.33	0.33	0.33
1.1	Gross Domestic Product	0.33	0.33	0.33	<b>4.3</b>	<b>Quality of Legal Enforcement</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
1.1.1	Total Economic Size	0.33	0.33	0.33	4.3.1	Judicial Independence	0.25	0.25	0.25
1.1.2	GDP per Capita	0.33	0.33	0.33	4.3.2	Impartial Courts	0.25	0.25	0.25
1.1.3	Real GDP year-on-year Growth	0.33	0.33	0.33	4.3.3	Integrity of the Legal System	0.25	0.25	0.25
1.2	Inflation	0.33	0.33	0.33	4.3.4	Rule of Law	0.25	0.25	0.25
1.3	Unemployment	0.33	0.33	0.33	4.4	Regulatory Quality	0.25	0.25	0.25
<b>2</b>	<b>Depth of a Capital Market</b>	<b>0.23</b>	<b>0.19</b>	<b>0.29</b>	<b>5</b>	<b>Human and Social Environment</b>	<b>0.18</b>	<b>0.19</b>	<b>0.18</b>
2.1	Size and Liquidity of the Stock Market	0.20	0.25	0.20	5.1	Education and Human Capital	0.25	0.25	
2.1.1	Market Capitalization of Listed Companies	0.33	0.33	0.33	5.1.1	Quality of the Educational System	0.50	0.50	
2.1.2	Total Trading Volume	0.33	0.33	0.33	5.1.2	Quality of Scientific Research Institutions	0.50	0.50	
2.1.3	Listed Domestic Companies	0.33	0.33	0.33	<b>5.2</b>	<b>Labor Market Rigidities</b>	<b>0.25</b>	<b>0.25</b>	<b>0.33</b>
2.2	IPO Market Activity	0.20	0.25	0.20	5.2.1	Difficulty of Hiring Index	0.25	0.25	0.25
2.2.1	Market Volume	0.50	0.50	0.50	5.2.2	Rigidity of Hours Index	0.25	0.25	0.25
2.2.2	Number of IPOs	0.50	0.50	0.50	5.2.3	Difficulty of Firing Index	0.25	0.25	0.25
2.3	M&A Market Activity	0.20	0.25	0.20	5.2.4	Firing Costs	0.25	0.25	0.25
2.3.1	Market Volume	0.50	0.50	0.50	<b>5.3</b>	<b>Bribing and Corruption</b>	<b>0.25</b>	<b>0.25</b>	<b>0.33</b>
2.3.2	Number of Deals	0.50	0.50	0.50	5.3.1	Bribing and Corruption Index	0.33	0.33	0.33
2.4	Debt and Credit Market	0.20		0.20	5.3.2	Control of Corruption	0.33	0.33	0.33
2.4.1	Domestic Credit provided by Banking Sector	0.17		0.17	5.3.3	Extra Payments/Bribes	0.33	0.33	0.33
2.4.2	Ease of Access to Loans	0.17		0.17	<b>5.4</b>	<b>Costs of Crime</b>	<b>0.25</b>	<b>0.25</b>	<b>0.33</b>
2.4.3	Credit Information Index	0.17		0.17	5.4.1	Business Costs of Crime and Violence	0.50	0.50	0.50
2.4.4	Soundness of Banks	0.17		0.17	5.4.2	Costs of Organized Crime	0.50	0.50	0.50
2.4.5	Interest Rate Spread	0.17		0.17	<b>6</b>	<b>Entrepreneurial Culture and Opportunities</b>	<b>0.18</b>	<b>0.19</b>	<b>0.06</b>
2.4.6	Bank Non-performing Loans to Total Gross Loans	0.17		0.17	<b>6.1</b>	<b>Innovation and R&amp;D</b>	<b>0.25</b>	<b>0.25</b>	
2.5	Financial Market Sophistication	0.20	0.25	0.20	6.1.1	General Innovativeness Index	0.20	0.20	
<b>3</b>	<b>Taxation</b>	<b>0.09</b>	<b>0.10</b>	<b>0.06</b>	6.1.2	Capacity for Innovation	0.20	0.20	
3.1	Tax Incentives	0.50	0.50	1.00	6.1.3	Company Spending on R&D	0.20	0.20	
3.1.1	Marginal Corporate Tax Rate	0.25	0.25	0.50	6.1.4	Utility Patents	0.20	0.20	
3.1.2	Entrepreneurship Incentive	0.25	0.25		6.1.5	Scientific and Technical Journal Articles	0.20	0.20	
3.1.3	Labor Tax and Contributions	0.25	0.25		<b>6.2</b>	<b>Ease of Starting and Running a Business</b>	<b>0.25</b>	<b>0.25</b>	
3.1.4	Profit and Capital Gains Tax	0.25	0.25	0.50	6.2.1	Number of Procedures to start of Business	0.20	0.20	
3.2	Administrative Tax Burdens	0.50	0.50		6.2.2	Time needed to start a Business	0.20	0.20	
3.2.1	Number of Payments	0.50	0.50		6.2.3	Costs of Business Start-Up Procedures	0.20	0.20	
3.2.2	Time spent on Tax Issues	0.50	0.50		6.2.4	Minimum Capital	0.20	0.20	
<b>4</b>	<b>Investor Protection and Corporate Governance</b>	<b>0.18</b>	<b>0.19</b>	<b>0.24</b>	6.2.5	Administrative Requirements	0.20	0.20	
4.1	Corporate Governance	0.25	0.25	0.25	<b>6.3</b>	<b>Simplicity of Closing a Business</b>	<b>0.25</b>	<b>0.25</b>	<b>1.00</b>
4.1.1	Disclosure Index	0.20	0.20	0.20	6.3.1	Time	0.33	0.33	0.33
4.1.2	Director Liability Index	0.20	0.20	0.20	6.3.2	Costs	0.33	0.33	0.33
4.1.3	Shareholder Suits Index	0.20	0.20	0.20	6.3.3	Recovery Rate	0.33	0.33	0.33
4.1.4	Legal Rights Index	0.20	0.20	0.20	<b>6.4</b>	<b>ICT Infrastructure</b>	<b>0.25</b>	<b>0.25</b>	
4.1.5	Efficacy of Corporate Boards	0.20	0.20	0.20	6.4.1	Broadband Subscribers	0.25	0.25	
4.2	Security of Property Rights	0.25	0.25	0.25	6.4.2	Fixed Line and Mobile Phone Subscribers	0.25	0.25	
4.2.1	Legal Enforcement of Contracts	0.33	0.33	0.33	6.4.3	Internet Users	0.25	0.25	
4.2.2	Property Rights	0.33	0.33	0.33	6.4.4	Secure Internet Servers	0.25	0.25	

**The countries we cover**

The selection of our sample countries is purely driven by the availability of data. We would like to include many more nations but the lack of data is the constraint. At present, the African continent is under-represented with only four countries, but we hope to expand the number of countries in future editions of the index. We consider the following 66 nations and assign them to eight different geographic regions.

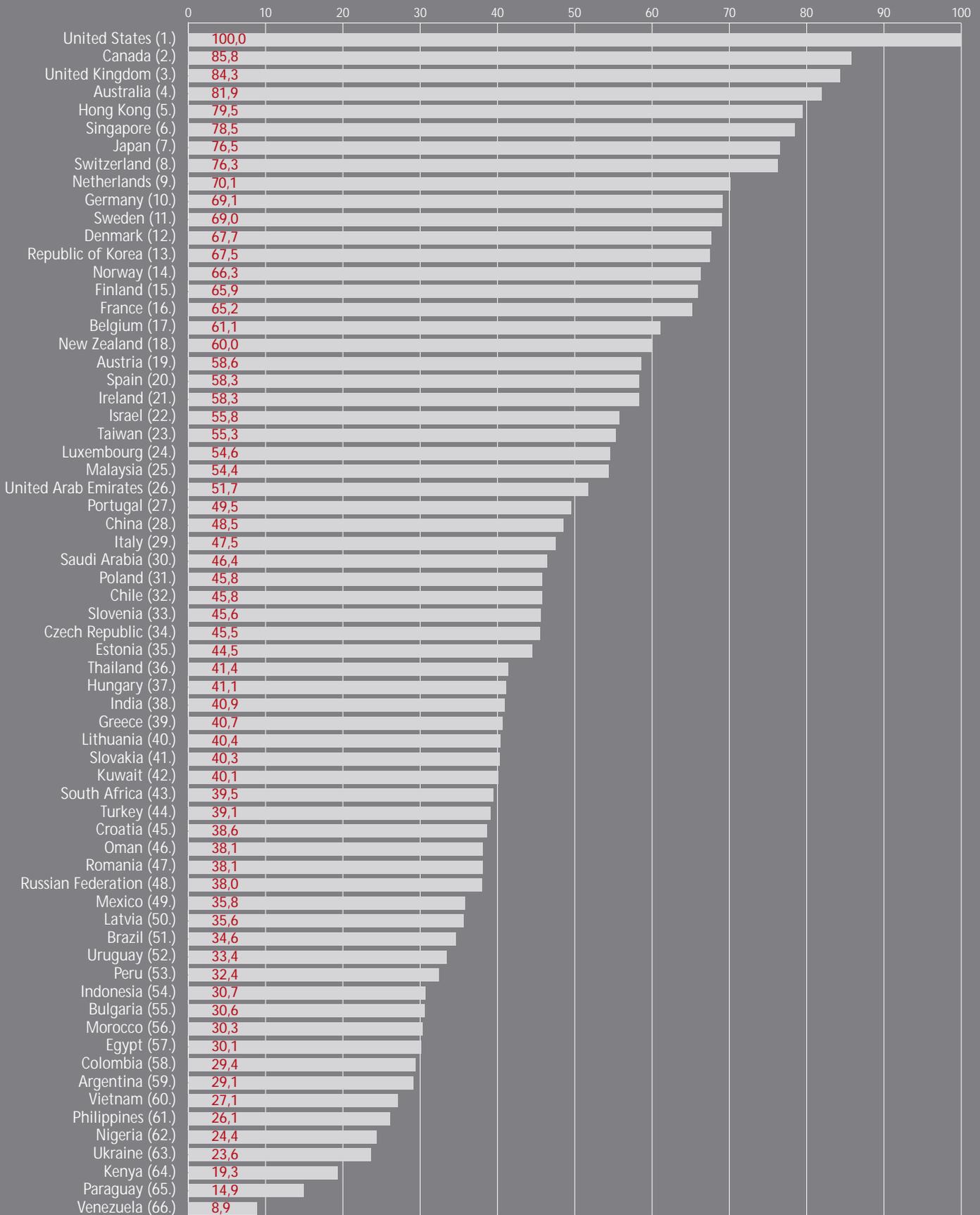
<b>Africa:</b>	Kenya, Morocco, Nigeria, South Africa
<b>Asia:</b>	China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Russian Federation, Republic of Korea, Singapore, Taiwan, Thailand, Vietnam
<b>Australasia:</b>	Australia, New Zealand
<b>Eastern Europe:</b>	Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, Turkey, Ukraine
<b>Latin America:</b>	Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay, Venezuela
<b>Middle East:</b>	Egypt, Israel, Kuwait, Oman, Saudi Arabia, United Arab Emirates
<b>North America:</b>	USA, Canada
<b>Western Europe:</b>	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom

**The VCPE country attractiveness ranking**

We gathered the data from Table 1 for the 66 countries as far back to the past, and as recent as possible. We calculated the index scores for 2009/2010 and realized, not surprisingly, that the United States is the most attractive country for VC and PE allocations, with some remarkable distance to its followers. Therefore, we use the US as the world benchmark: we rescale the index score for the US to 100. This enables us to directly compare all other countries on a percentage scale. We explain the rescaling procedure in the appendix to this index, and first present the ranking of the 2009/2010 VCPE Country Attractiveness Index.

Exhibit 1 shows the ranking of the 2009/2010 VCPE Country Attractiveness Index. We know that this exhibit opens room for discussion. Some readers might think that particular countries are ranked too high, others too low. However, we want to stress that the index ranking is the result of commonly available, aggregated socio-economic data. The results can be traced to the level of the individual data series, and hence, can be confirmed. We want to remark that the underlying data is historical, and does not include future estimates. Therefore, we show the attractiveness ranking as of today and want to leave it to investors and advisers to enrich the information we prepared with own knowledge, and expectations to draw their conclusions.

Exhibit 1: 2009/2010 VCPE Country Attractiveness Index



**Rankings according to the separate VC and PE indices**

**Exhibit 2** combines the prior results and the ranking according to the separate VC and PE indices. The red squares mark the VCPE index ranks. The white squares designate the VC index, and the grey squares the PE index ranks. The VC index country ranking does not change greatly. The ranking remains because we only discard the level 2 construct to assess the “Debt and Credit Market” from the VC index. However, we receive a stronger ranking variation if we focus on the PE segment only.

For the PE index, we discard all constructs that are related to innovations, and founding or running a business in early stages. We realize that Brazil, India, China, France, Spain and Malaysia gain many ranks with respect to their attractiveness for PE investments. The rationale is simple: the aforementioned countries show relative liquid and developed capital markets. As the measure for the depth of a capital market gains a higher weight in the PE index, these countries rank on superior levels, consequently.

Exhibit 2: Rankings of the three different indices



## Comparisons of regions and countries

### The general pattern: What renders the US so attractive?

Next, we break down the index scores to the level of the six key driving forces, and further down to the level 2 constructs to enhance the discussion about the ranking. We find a typical pattern with respect to the dominating attractiveness of the US for VC and PE allocations. We can demonstrate this pattern by comparing the first ranked with the medial ranked, and the final ranked country, the US, Slovenia, and Venezuela. **Exhibit 3** presents the key driver scores of Slovenia and Venezuela relative to the scores of the US (which scores 100 for each key driver).

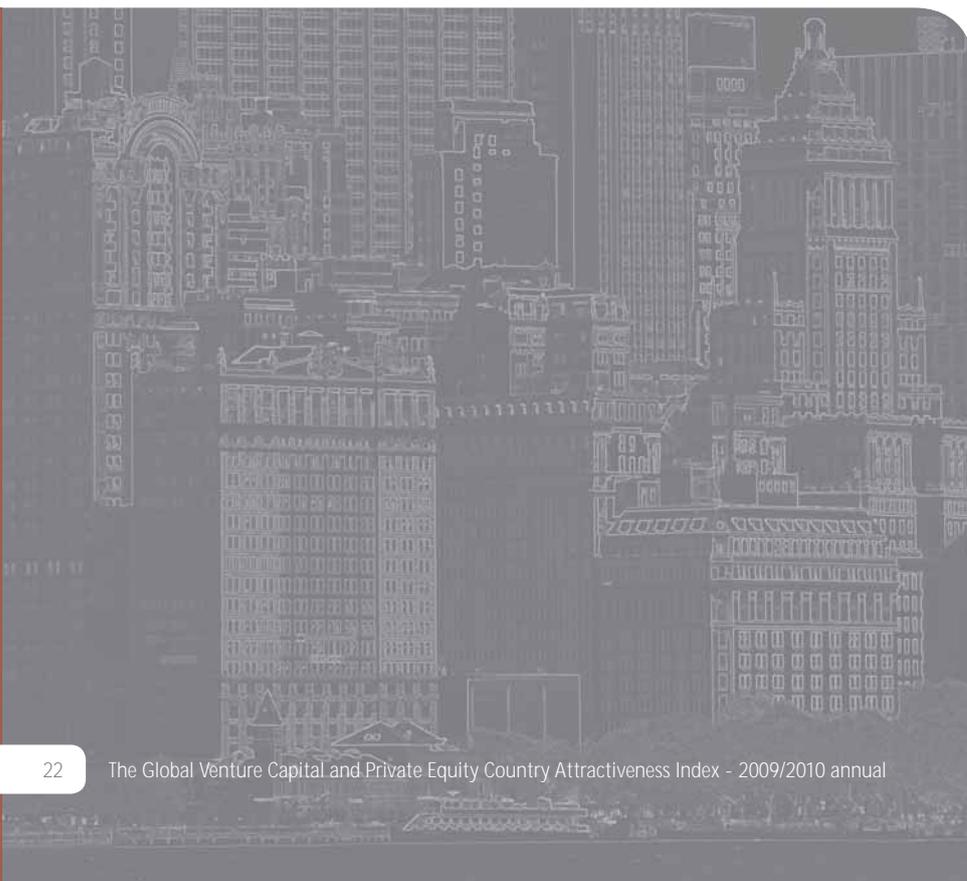
**Exhibit 3** reveals that the US ranks ahead of Slovenia and Venezuela with respect to all key drivers but Taxation. Emerging economies often attract investors with tax incentives. The criteria that really make the difference are the depth of the US capital market and its legislation and

enforcement possibilities with respect to investor protection and corporate governance. This pattern becomes even more obvious in the analyses presented in the appendix, where we benchmark every individual country with the US: there are many economically strong nations with vibrant entrepreneurial cultures and opportunities, with excellent human capital and social environment. However, the finally decisive criteria are the financial markets, and investor protection and corporate governance. That finding points to the discussion about the competition of legal systems, and the relation between law and finance: all strong countries show high scores for the Investor Protection and Corporate Governance key drivers. This likewise spurs the development of a national capital market, which is required for the establishment of VC and PE deal supporting institutions.

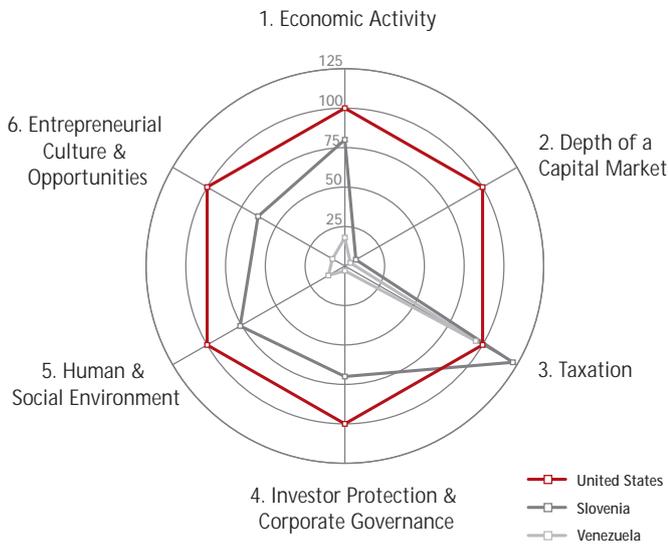
### More details

We can break-down our analysis to the level 2 constructs and provide more details to support the general pattern we detect.

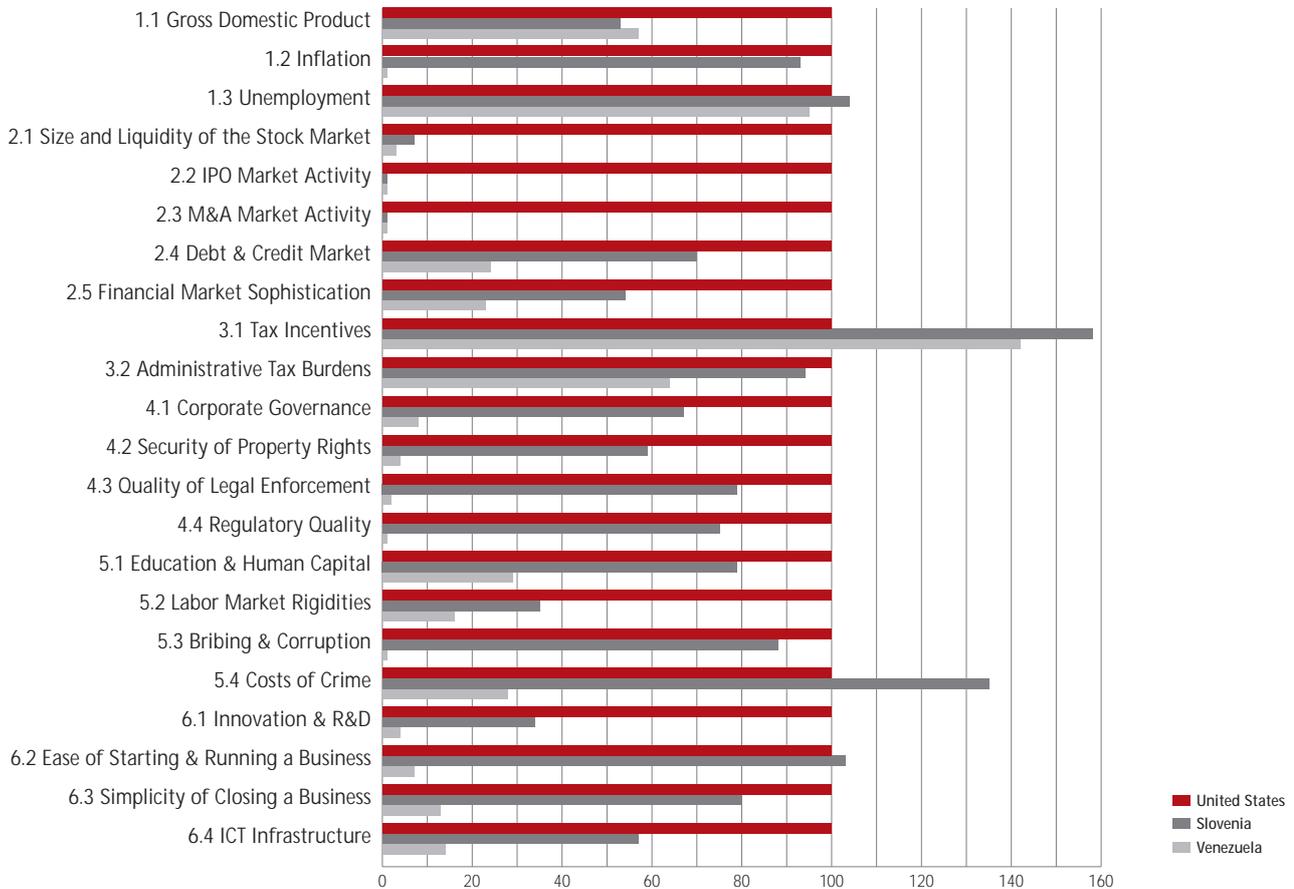
**Exhibit 4** points to the remarkable distance between the scores of the US, Slovenia and Venezuela with respect to the level 2 constructs that assess the capital market, investor protection and corporate governance.



**Exhibit 3: Six key driving forces. Comparison of the US, Slovenia and Venezuela**



**Exhibit 4: Level 2 constructs - Comparison of the US, Slovenia and Venezuela**



### Regional comparison

Beside the analyses for the individual countries, we can benchmark geographic regions against each other. We are aware that we should interpret regional comparisons with special care and want to highlight that many of our sample countries already represent somehow geographic regions. The point is that within large countries, such as the US, Russia, China, India, or Brazil the internal socio-economic differences might be larger than those between e.g., some European countries. Therefore, the scores of these large countries represent averages. We know that California attracts more VC and PE than Montana, but we cannot control for small clusters, and the US still receives one single average country score. Hence, we also keep our approach to calculate the index scores for the different geographic regions rather simple: we calculate either GDP-weighted, population-weighted, or arithmetic averages of the different data series, and aggregate the regional scores with these values. We use GDP-weighted averages for the data series that are related to the size of the economy, we use population weighted averages for those that are related to people and we use arithmetic averages for the rest. We highlight that, of course, these averages base on the

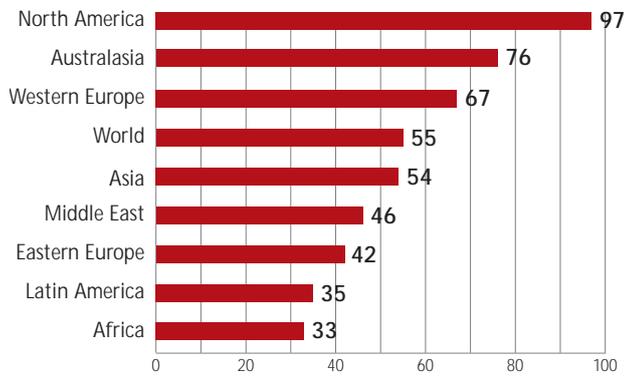
included sample countries only. Hence, especially for Africa, where we cover only four countries, the results should be interpreted with caution.

**Exhibit 5** presents the regional ranking. Again, the score of the US is rescaled to 100. It is in line with the contemporary use of the terms emerging regions and developed markets. Braking-down the index scores to the six key driving forces reveals the same pattern as described before. First, we compare the four leading regions North America, Australasia, Western Europe, and Asia.

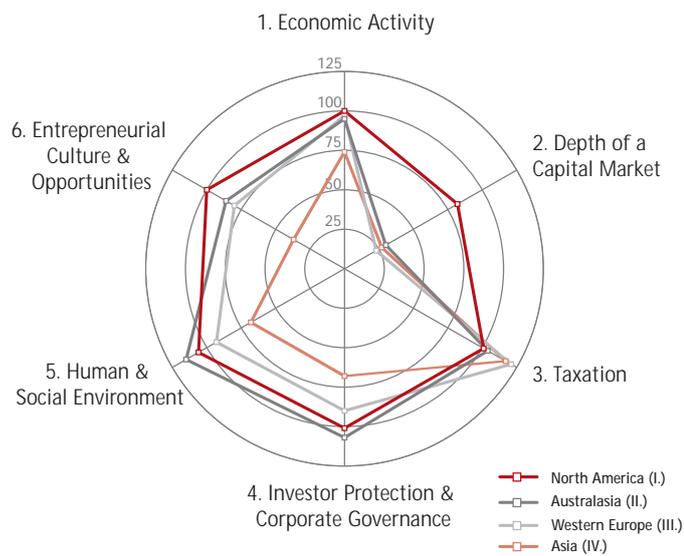
**Exhibit 6** highlights that only the common-law Australasian countries can compete with North America with respect to investor protection and corporate governance. It also shows that, compared to the North America, all other regional capital markets can be considered miniscule. A closer look to the emerging regions confirms this.

**Exhibit 7** compares the emerging regions Middle East, Eastern Europe, Latin America, and Africa. It reveals weaknesses especially with respect to entrepreneurial cultures and opportunities. Attempts to attract investors simply by tax incentives will probably not be fruitful as long as the obstacle of missing deal opportunities remains.

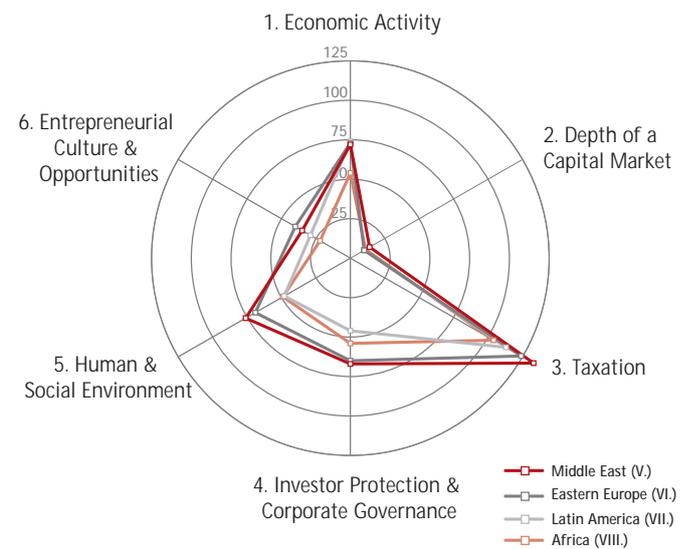
**Exhibit 5: Ranking of geographic regions**



**Exhibit 6: Key driver scores of geographic regions**



**Exhibit 7: Key driver scores of geographic regions**

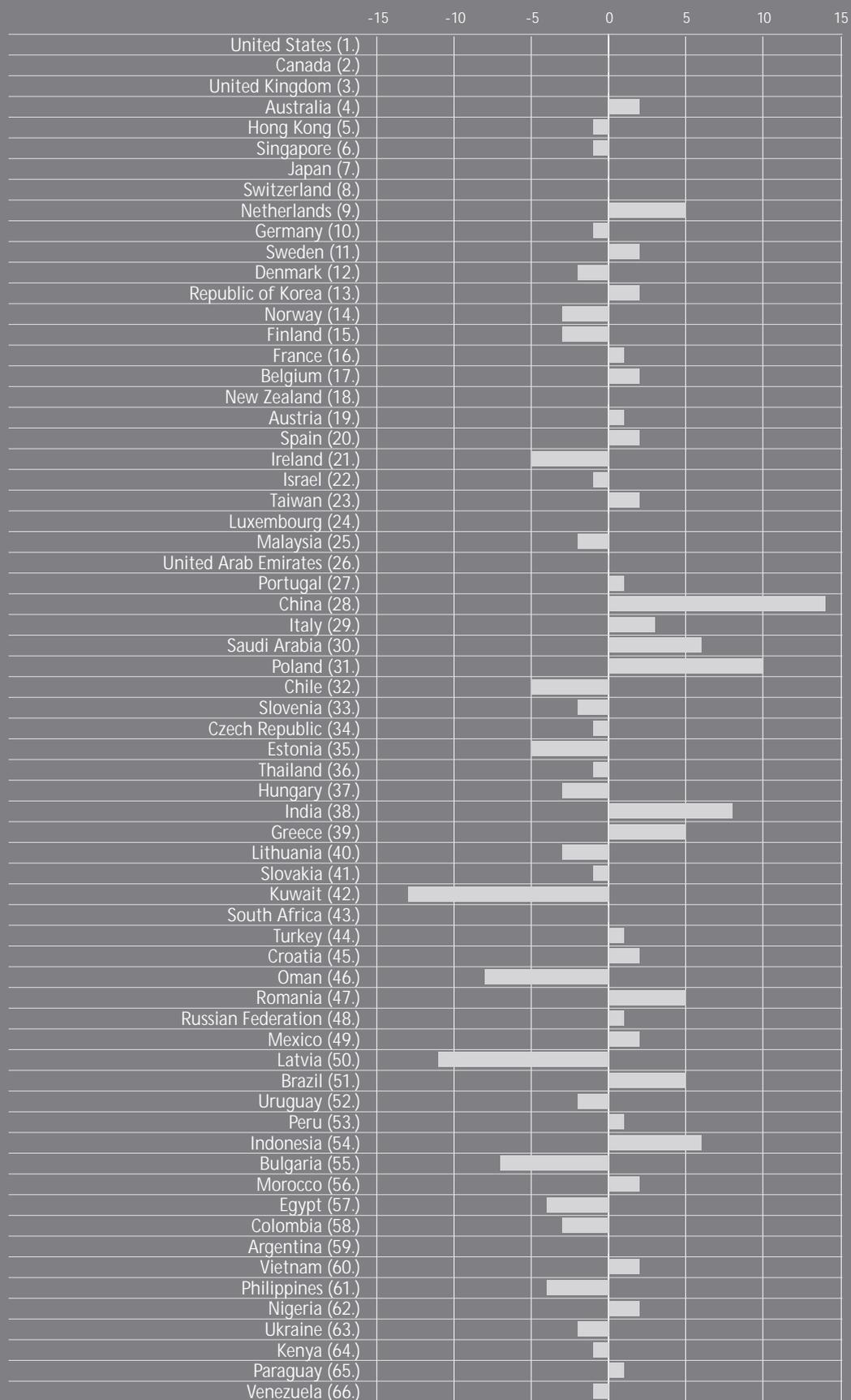


### Historic comparison – improvements of VCPE investment conditions

We can calculate back the index to the past, as far as 2005/2006. Thereby, we should note that some of the data series used (e.g., the General Innovation Index [GII]) do not date back to 2005. However, we assume that indicators like this one did not change to a large extent over the period of interest, and hence, keep them constant. The calculation of the 2005/2006 index allows interesting insights, and reveals the development and rank changes of particular countries.

Exhibit 8 underscores what we are used to learning from daily news about China, and India. Additionally, Poland improved its attractiveness for limited partners quite substantially during the last four years. For details, we refer to the individual country analyses in the appendix of this index. On the left axis of Exhibit 8, we find the countries' current ranks and the bars document the rank changes between the 2005/2006 and the 2009/2010 index versions. Kuwait, Latvia, and Oman are the countries that decreased remarkably in their rankings. Kuwait lost many ranks because of a tax reform with increasing corporate tax rates and deteriorating conditions regarding the protection of investors and corporate governance. Latvia and Oman were both exposed to worsening economic conditions with high inflation during the observed period. However, it should be stressed that the index scores are always calculated relative to the other countries. That means that all the countries that lost ranking positions did not necessarily deteriorate their investment conditions in absolute terms. They might just have been outperformed by others in the international competition for capital resources.

Exhibit 8: Rank changes between index version 2005/2006 and 2009/2010



## Tracking power of our index

The idea of our index is to assess the attractiveness of a country to receive VC/PE allocations from institutional investors based on socio-economic parameters that we regard relevant. The composite measure can deviate from the actual risk capital market activity, and deviations between our attractiveness score and actual activity might either point to under- or over-funding of particular countries, or to the fact that our chosen criteria are not relevant for VC and PE investors. Experience reveals that investors are often influenced by herding behavior and follow trends to invest in certain countries or regions. The countries might not have the “infrastructure” to absorb the investments, leading to over-funding. The “infrastructure” is exactly what we aim to measure: can we expect sufficient deal opportunities resulting from the entrepreneurial culture in a country, from its economic soundness, or from innovations? Are potential transactions sufficiently supported by the financial community? Are the stock and M&A markets sufficiently liquid to facilitate divestments? Are investors’ concerns legally taken care of? We do not claim that our index provides the correct answers to these questions. But, we claim that our index is very helpful in this respect. Therefore, we expect deviations between our attractiveness measure and actual VC and PE activity in the particular countries. However, these deviations should not be great on average. If they are great we would doubt the reliability of our index. Hence, we compare our index scores with

the actual VC and PE activity in the various countries. We use data from Thomson Financial on VC and PE activity. Our activity measure is the natural logarithm of an average of all VC and PE investments made by the general partners in a certain country over the last three years. We use the natural logarithm to account for the large activity divergence (e.g., activity in the US vs. Venezuela), and we use an average over three years to smooth fluctuations. Especially for some emerging countries, annual activity fluctuates strongly from peak levels to zero in subsequent years. We chose the criterion location of the general partners - and not of the investments - for the following reason: some financial centers serve as hubs and channel VC and PE investments abroad. Investors allocate their capital in these hubs because they rely on the efficiency of the financial community there. This is exactly what we measure with our index. In fact, we focus on the demand for VC and PE in a particular economy, and likewise on the state of the professional financial community to support the supply side. Therefore, investments, according to the location of the general partners, correspond best with the idea of our index. Additionally, we use investments - and not raised funds - because our index targets the “absorption-capacity” (either caused by direct local demand or by channeling funds abroad) of the particular economies. Funds raised might deviate from this capacity due to herding behavior of investors or negligence.

The statistical measure for such a comparison is the Pearson Correlation Coefficient. It ranges between 0 and 1, where 0 signals “no” and 1 “perfect tracking”. The coefficient for our index is 0.8104, signaling that the index excellently(!) tracks a country’s capacity to actually “absorb” the committed capital. If we compare the results of our VC index with VC activity, analogue to the above defined activity measure, the correlation is 0.8100. The correlation of our PE index with actual PE activity is 0.7807. Both results are still confirmative. However, the slightly decrease of the tracking power regarding the two separate indices is partly due to inhomogeneous definitions of the two market segments in different parts of the world. In other words, in some cases, VC transactions in emerging countries might rather be called infrastructure investments, or project financing (but not VC transactions) in more developed economies.

### Does the global financial crisis have an impact on the robustness of our index?

We have seen the biggest crisis since the great depression and the question remains whether this has an impact on the robustness of our index. The data for the last quarter of the year 2008 (where quarterly data is available) and later captures the major consequences of the financial crisis. We realize that the impact on economic activity and the depth of the capital market is large for many countries, especially for those that had high ran-

kings with respect to these two key drivers before the financial crisis. IPO and M&A activity has come down significantly. The size and liquidity of the stock markets melted down. The access to loans deteriorated and interest rates increased to peak levels. It became clear that the fraction of non-performing loans is probably the highest seen in banking history, and the soundness of banks might be doubted in several countries. These are all data series we use for our index construction, and we believe that the financial crisis will have a strong impact on all of them. However, the data series are not yet updated for all countries, and hence, we are not able to draw conclusions for the quality of our index at that time.

We assume that these effects will move several emerging countries to higher ranks for one simple reason. The rationale is the typical pattern we discussed above: the high ranked countries are particularly strong with respect to their capital markets. They will be affected most by the financial crisis because they lose disproportionately their competitive advantage by the deteriorated capital market conditions. Several emerging countries with sound growth opportunities, but negligible capital markets will benefit (in terms of index scores) from the crisis. It is said that their economic growth will be affected to a minor extent, only. The crisis will hardly impact their scores with respect to the other key drivers such as Taxation, Investor Protection and Corporate Governance, the Human and Social Environment, or their Entrepreneurial Culture. Therefore,

we expect several emerging countries to strongly improve their position over the course of 2009/2010. However, we have to wait for the following edition, to provide evidence for our expectations.

### **How our index differs from other, more general indices on competitiveness**

Some institutions provide competitiveness indices or assess the general conditions for making business in various countries. These indices have a broader scope and do not focus on the particularities of the VC and PE capital market segment. Therefore, their rankings usually differ from ours and their tracking power to explain VC and PE activity is lower. For example, the Global Competitiveness Index from the WEF tracks VC and PE activity with 0.69, while the IMD World Competitiveness Index correlates with 0.57 only. This reveals that our index is the more precise indicator for VC and PE country attractiveness. The reason for the superior tracking power of our index is simply that it is tailor-made, according to the particular determinants for vibrant VC and PE markets. There is no other indicator tracking the actual VC and PE activity over the 66 countries, and over time as good as our index.

## Summary and outlook

We provide a composite measure that determines the attractiveness of 66 countries to receive capital allocations from investors in the VC and PE asset class. The composite measure is based on six main criteria: Economic Activity, the Depth of Capital Markets, Taxation, Investor Protection and Corporate Governance, the Human and Social Environment, and Entrepreneurial Culture and Opportunities. The definition of these criteria is based on an extensive review of academic literature, and on a survey we conducted among institutional investors prior to our study. The six criteria are not directly observable, so we use proxy variables to assess them for each country. As a result, we receive a country ranking, and provide detailed analyses on the strengths and weaknesses of the particular nations and information on the historic development of the criteria. Our index tracks real VC and PE activity better than any other existing indicator. However, it shall not be interpreted as a crystal ball for investment advisers. We highlight our intention to challenge discussion and to propose a valuable informational tool, but not an arbitrage instrument.

We find a general pattern if we compare the country characteristics. There is a lot of dispersion with respect to the six key drivers. Especially, the emerging countries attract investors with tax incentives. Many countries show strong Entrepreneurial Culture and Opportunities. There is great dispersion in Economic Activity, and in the Human and Social Environment. However, the two key criteria, Investor Protection and Corporate Governance, and Depth of Capital Markets, make the difference. The common law countries dominate the others regarding these criteria. We can conclude that strong investor protection leads to liquid and efficient capital markets, and these evoke the required professional community to secure deal flow and exit opportunities for VC and PE funds. This ultimately affects a country's attractiveness for institutional investments in the VC and PE asset class.

However, this discussion reflects the capital supply side only. We should also take into account that, as revealed in our analyses, many countries lack several important attractiveness criteria. Without a sufficient entrepreneurial culture and entrepreneurial opportunities, with rigid la-

bor markets, bribery, and corruption, there will be no demand for VC and PE. If there is no demand, there is no opportunity to establish a vibrant VC and PE market.

We invite you to observe and thoroughly analyze our results. If you are an investor, please enrich the provided information with your own expertise and knowledge about the key driving forces and market conditions in the particular countries to make your allocation decisions. If you are a politician, please use our analyses as demonstration how investors evaluate and benchmark your country. If you are a researcher, and this is equally valid for the whole constituency, please do not hesitate to criticize our approach. We will continue with annual updates of our index. Thereby, we aim to cover more and more countries, include new data series (discard others), and we will optimize the data selection and index structure. Hence, we very much appreciate any critique and comments.





II.



# Legal systems, taxes and VC and PE activity

# After the storm: a global view on post-recession opportunities and challenges for the PE and VC industry

While the Global PE/VC Country Attractiveness Index reveals contrasting levels of opportunity, Ernst & Young takes a strategic view on the changing conditions, challenges and opportunities around the world.

After a period of remarkable growth in the amount of money raised and invested by VC and PE funds in the period up to 2007, the past two years have brought a number of major challenges to the industry – supporting existing investee companies, the backlog of exits, new deal pricing, debt finance constraints, fundraising, and the regu-

latory and tax regimes in which these funds operate. But the dynamic environment also brings with it opportunities for the funds to make impressive returns for their investors through backing the right businesses through the upturn. The VC and PE industry has a history of evolving to meet the challenges and opportunities it faces, and is doing so again in the context of the recent turbulence.

riod of ownership and then selling well. There are many elements to picking the right deals, of course, but a proper understanding of the geographies in which businesses operate is clearly a key part of the assessment.

## Signs of a positive future

PE funds have a significant amount of capital available to invest, and the PE ownership model can play a key role in helping businesses and the wider economy recover from the downturn. In the current environment, PE can be a solution for large corporates who may divest divisions where they can put the capital to better use elsewhere, for companies which need to time and investment to restructure. It can also be appropriate for companies with the potential to grow through investment, or through the minority investments and strategic partnerships we have seen evolving in recent times. There is recognition that a lot of people made very strong returns in the upturn from the last recession, but at the same time there is a real sense of caution not to jump too early.

In the VC sector, on a longer timescale, the innovation pipeline is quite robust, there is no shortage of capital and capital markets show signs of recovery. The indicators of recovery are, however, still just "signs".

In both the PE and VC segments, the dramatic slowdown in exits remains a key challenge, as the PE and VC business models only work if the funds can return

## Talent comes to the fore

In investing, as in many industries, a boom period can allow average performers to look very good, whilst challenging times are more likely to differentiate between the best performers and the rest. Many PE and VC funds made excellent returns in the boom years, aided by plentiful cheap debt for the LBO deals and rising underlying markets in general. Many PE funds have spent much of the past 18 months or so working with portfolio companies whose leveraged balance sheets have been strained by the economic downturn. With debt capacity significantly reduced and new debt more expensive and equity markets less reliable as a driver of sustainable increases in valuations, the challenge for funds is to prove to existing and potential LP investors that they can outperform on the fundamentals – in both the PE and VC segments this at its most basic level is about picking the right businesses and management teams, investing at the right time and price, working with the businesses to create value during the pe-

Article written by :

- **Simon Perry**  
Partner, Ernst & Young LLP, London  
[sperry@uk.ey.com](mailto:sperry@uk.ey.com)
- **Alexander Reiter**  
Partner, Ernst & Young GmbH, Munich  
[alexander.reiter@de.ey.com](mailto:alexander.reiter@de.ey.com)
- **Gil Forer**  
Partner, Ernst & Young LLP, New York  
[gil.forer@ey.com](mailto:gil.forer@ey.com)

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money to their investors. We have seen some VC-backed IPOs starting to come through again, and there is much speculation around the return of IPOs for large PE portfolio companies, but no-one really knows the pace of recovery or what volume we are going to see. The reopening of exit routes for PE and VC funds will be a major enabler of future fundraising and investing activity.

Geography will continue to be a key factor in future buoyancy, as the Global VC/PE Country Attractiveness Index shows it has in the past, although it is not always possible to generalize about which types of areas will prosper. Many people talk about China as a whole as being strong, for example, but in the US the VC ecosystem of Silicon Valley is the standard against which every other area is benchmarked.

### **A changing tax topography**

The tax treatment of venture capital and private equity is also changing rapidly. With governments easing fiscal purse strings but tightening anti-avoidance in ways pertinent to both VC and PE, investors need clear and up-to-date advice on what to do. In July, for example, the Obama administration proposed legislation that affects foreign investment in US funds – from next year, funds might have to consider how they restructure to attract foreign investment. Another big issue is the limitation of interest deductions – first applied by Germany and subsequently seen in Denmark and

Italy – which could continue to creep across Europe. Venture capital has also been pressured by the changing rules for the carry-forward of losses – in the current environment, many companies are making losses, but if the tax treatment of how those losses are carried forward changes then the investment may become unattractive. But for all of this, the tax implications on PE and VC are largely secondary to the overall quality of investment and the likelihood of a good fundamental return.

### **Picking the winners**

As LPs consider where to allocate their capital, and PE and VC funds look to make the right investments themselves, the investing landscape will inevitably change. There will undoubtedly be comparative winners and losers, and the Global PE/VC Country Attractiveness Index could prove to be a valuable tool in helping funds navigate through this uncertain time.

# Global Venture Capital and Private Equity Country Attractiveness Index - Legal Conclusions

From the perspective of a lawyer involved in private equity transactions and fund formation, the results of the Global Venture Capital and Private Equity Country Attractiveness Index invite certain conclusions. The following will highlight these general conclusions.

## Legal systems

There is a traditional distinction between legal systems of Anglo-Saxon countries, whose legal system built on a common law, and so-called civil law countries whose legal system is in the most part built on statutory law. Results of the index seem to suggest that countries whose legal systems are based on common law are clearly the more attractive countries for VC and PE. The top six spots in all indices are taken by countries deeply rooted in the common law tradition.

A bird's-eye view across jurisdictions suggests that the increased attractiveness of countries following the Anglo-Saxon common law system vis-à-vis the civil law systems are twofold.

PE and VC requires a certain degree of flexibility with regard to capital creation and capital maintenance rules, in particular with regard to structuring transac-

tions and protecting investor equity. PE investors have until very recently relied on leverage and debt push down structures to increase their return multiples. In most jurisdictions following the continental European law tradition such structures are either prohibited or discouraged under strict capital maintenance and/or creditor protection rules. As a consequence, structuring and executing such transactions in jurisdictions following the continental European law tradition is cumbersome and introduces an additional element of risk because investors and financing banks will not be able to rely on unqualified legal opinions.

VC transactions usually require ratchets and other anti dilution mechanisms to bridge the valuation gap between investors and management/founders. Investors will under preset circumstances require the issuance of additional free shares (e.g., when certain milestones are not met or in the event of "down rounds"). The flexibility in terms of timing when executing such mechanism will in most civil law jurisdictions not be possible because the creation of new shares requires shareholder approval with qualified majorities the adherence to certain notice periods. Moreover, most jurisdictions will not allow the creation of shares without a minimum issue price.

Common law countries generally show greater flexibility with regard to capital creation. Most common law jurisdictions allow issuance of no-par-value-shares or shares with negligible par-value. In addition, rules on capital maintenance will under certain circumstances allow debt-push-down structures and enable

lawyers to give unqualified opinions on such structures.

The second, arguably more pertinent reason may be that common law countries whose economies are based on strong capital markets traditionally give very strong protection to minority shareholder rights and offer a greater transparency to such shareholders. Therefore, given the need for flexibility in structuring and strong investor protection rights, it is not surprising that countries which have common law systems are at the top of the index.

In our view the German, Scandinavian and Netherland civil law systems offer slightly stronger investor protection rights and flexibility with regard to structuring than the more Roman law based countries following the French, Italian and Spanish tradition. This may be part of the reason why countries following the German, Scandinavian and Netherland legal regimes are in terms of attractiveness in the second tier of the index.

The third obvious reason is that common law jurisdictions have traditionally relied more on capital markets as a source of financing while jurisdictions following the continental European approach have resorted to lender financing. As a result, common law jurisdictions have developed capital markets systems which offer strong investor protection rights and forcefully prohibit insider dealings. The common law history of transparency and investor protection has resulted in sophisticated and mature capital markets. Such markets in turn offer both the sources (i.e., targets) for PE as well as an impor-

Article written by :

- Phillip Dubsky  
Partner  
DLA Piper Weiss-Tessbach, Vienna  
[phillip.dubsky@dlapiper.com](mailto:phillip.dubsky@dlapiper.com)



tant exit route. In summary, the common law countries were until now more successful in creating a PE and VC friendly environment with an experienced industry of market participants and advisers.

### **Investor protection - strength of judicial system – corruption**

The index clearly shows that countries with a strong judicial system and little or no perceived corruption take the top 20 places in terms of attractiveness.

Countries such as Nigeria, Venezuela or the Ukraine where judicial systems are generally said to be not very reliable and a certain degree of corruption is perceived by market participants rank at the bottom of the index. While economic and tax incentives are helpful ingredients bribery and uncertainty of enforcement of contractual commitments remain strong deterrents for building a vibrant VC and PE community. An example for this trend is Bulgaria which European Union membership notwithstanding remains troubled with regard to enforcement and transparency and thus ranks in the bottom tier of the index.

A good example for the positive development of a country is, in our view, Slovenia. Slovenia has since its accession to the European Union introduced the VC Act of 2007 and has made particular strong efforts to reform its judicial system and fight corruption. As a result, it ranks first among the former communist countries.

Therefore, one can conclude that an experienced and non-corruptible judiciary are the bed-rock for a country to be attractive for VC and PE investments.

### **Specific regulation targeted towards private equity**

The VCPE index shows a certain trend: countries, which have enacted specific incentives for VC and PE, tend to be more attractive than countries which have not enacted such rules.

The UK, for example, offers generous tax-incentives to investments in certain funds that target small unquoted high-tech companies, companies in disadvantaged areas or start-ups. Under certain circumstances private individuals can obtain tax relief on investments in unquoted companies and offset losses against income tax should there be no capital gains against which to offset them.

Another good example is Israel whose economy relies heavily on the high technology sector. Israel offers generous tax breaks for founders of start up businesses as well as VC funds. This is one of the reasons why Israel has one of the most vibrant VC scenes outside the United States. Therefore, notwithstanding its precarious geopolitical situation, Israel remains comparatively attractive for VC and PE financings and is ranked top among its peer group.

Another example for a regional winner (Latin America) is Chile where tax profits made by angel or seed capital investors in risk-capital funds are exempted from capital gains.

In some instances, however, specifically targeted but cumbersome regulations may not have the desired effect. One example is Austria, where notwithstanding certain legislative efforts, the hurdles to qualify for tax exemptions are

so high that in practice most funds tend to not use the specifically targeted structure but resort to more traditional or/and offshore fund structures. This may help to explain the comparatively low rank Austria takes among industrialised nations.

Other jurisdictions such as Germany have very recently enacted legislation which generally abolishes most tax advantages of certain types of PE funds by introducing a flat rate withholding tax of 25% percent for distributions.

### **Summary**

In summary it appears fair to conclude that jurisdictions with flexible and transparent legal systems with an emphasis on investor protection offer a fertile breeding ground for PE and VC investments. Specific legislation targeted towards improving PE will only improve such environment if tax incentives are not encumbered by hurdles which contravene established commercial market practice.





# An insight into different VC and PE markets

# Africa: Governance, development and budding VC and PE activity

## Introduction

According to a 2008 Organization for Economic Co-operation and Development (OECD) report, PE is "the African investment story to watch."<sup>4</sup> The International Monetary Fund (IMF) estimates that between 2000 and 2007, private capital flows into sub-Saharan African countries increased almost fivefold, from US\$11bn to US\$53bn, with Nigeria and South Africa accounting for about 47% of these figures. Within this, the amount of private equity raised, jumped by 200% between 2004 and 2006, to reach US\$2.3 billion in 2006.

According to the OECD, "This brought sub-Saharan Africa's share of emerging market private equity funds to 7%, which

although well behind Asia (58%), held up well compared to other emerging regions (Latin America: 8%; Middle East/North Africa: 8%; and CEE/Russia: 10%)."<sup>5</sup>

Significantly too, local sourcing of capital has also been on the increase, with a quarter of the funds raised for the continent coming from South Africa e.g., Pamodzi, a South African private equity firm, launched a US\$1.3 billion fund in 2007, Africa's largest. Overall, a lot of the recent activity is coming from sub-Saharan Africa, with South African funds managing 80% of total sub-Saharan VC/PE capital, followed by Nigerian funds with 10%.<sup>6</sup>

Much of this growth is driven by the efforts of an increasing number of African governments to encourage foreign participation in newly liberalized industries such as telecommunications and banking. In addition, increasing government emphasis on investments in infrastructure, along with a growth in the popularity of public-private partnerships (PPPs), were also determining factors for the considerable chunk of funds that ended up in infrastructure-related projects. As African governments turn to the private sector for help in funding urgently needed infrastructure investments (via PPPs), firms and funds with prior experience (mostly located in South Africa and Nigeria), are rolling out and replicating their business models across other countries.

Thus, VC, and especially PE, are acquiring a reputation for driving development, alongside considerable profit, in African countries. Investments in social and economic infrastructure in the areas of financial services, transportation and information and communication technologies are enhancing African development while de-

livering attractive returns to sophisticated investors. Consequently, as the previously cited OECD report put it, PE investments in "consumer-related and communications sectors ... have an arguably stronger impact on Africans' daily lives ... and stand out as a dynamic and diversified counterpoint to classic sources of foreign investment in Africa."<sup>7</sup>

## Structural problems continue to limit VC and PE growth

Nonetheless, although African funds might post higher returns than in many other markets, VC/PE investors in Africa have to contend with a number of socio-political problems which still continue to act as a dampener on growth. Fragile or/and often unrepresentative democratic institutions are still more the rule, than the exception. In many countries, freedom of the press, the rule of law and government transparency remain weak, and corruption is often extensive in the public sector.

Although the effects of the global recession, in the main, are not as severe as in most parts of the West, Africa has not been spared either. The OECD expects Africa's growth for 2009 to fall to 2.8%, after growing above 5% for four consecutive years. Nevertheless, a return to 4.8% growth is expected for 2010. In the meantime, economies like Nigeria, which are heavily reliant on commodity exports, will be harder hit in 2009/2010. In addition, persistent high prices of internationally traded food (e.g., grains and vegetable oils) and moderately rising inflation, will affect consumers, especially the urban poor.

As a result, in the short to medium term, most of the promising deals will continue to revolve around infrastructure, both social and economic, as well as around basic

4. Dickinson, T. 2008. *Private Equity: An Eye for Investment under African Skies?* OECD Development Centre Policy Insights 60: 1-2.

5. Ibid.

6. Ibid.

7. Ibid.

Article written by **Tunji Adegbesan**  
Lagos Business School  
Lagos, Nigeria  
[tAdegbesan@lbs.edu.ng](mailto:tAdegbesan@lbs.edu.ng)



needs, such as power and communication. For as long as consumer purchasing power remains low, there will be limited absorptive capacity for major funds outside the relatively wealthier African countries.

### **Africa retains a very strong medium- and long-term potential**

Nevertheless, there is a virtual consensus that Africa's long-term prospects remain attractive. Very often, steady positive and economically significant progress goes unnoticed by news channels more attuned to spectacular (usually negative) news.

For example, although democracy admittedly remains weak in many African countries, weak democracies are still a step forward from military dictatorships. As the Economist Intelligence Unit points out, "Over the next five years there will be national, multiparty elections in nearly every country in sub-Saharan Africa."<sup>8</sup> Less than 20 years ago, Africa's 54 countries were embroiled in about 10 major wars (none of which remain today), and the majority did not have functioning democracies. Today, the African country that does not profess a democratic system (even if inefficiently implemented) is very much the exception.

In fact, in a few countries, the last 10 years have also seen the appearance of a crop of younger, savvier political leaders who have begun to usher in economic development, attracting fresh investment and creating the conditions for local entrepreneurship to thrive. Such stable progress, even from poor initial conditions, creates attractive virgin soil in which VC/PE investors can find risk diversification, along with attractive returns.

The US\$3.4 billion PE-backed buyout of Mo Ibrahim's Celtel in 2006, for instance,

is emblematic of the rising opportunities in Africa's telecommunications and other infrastructure-related sectors. Similarly, Vodafone recently acquired full control of Vodacom Group Ltd, South Africa's leading wireless operator. In November 2008, it bought an additional 15% of Vodacom from Telkom South Africa Ltd., for US\$2.82 billion, raising its stake to 65%. The purchase valued Vodacom, which has 39.6 million customers in five African countries, at about US\$19.3 billion. Meanwhile, Bharti Airtel Ltd., India's largest mobile-phone operator, and Johannesburg-based MTN Group Ltd., Africa's largest operator, are in talks to buy stakes in each other to create a company with annual sales of US\$20 billion and 200 million subscribers, making it the third largest in the world. Almost 400 million Africans now have mobile phones, and Africa was the first region in the world to offer free, mobile roaming services across several countries.

Other recent deals have seen US\$382 million raised in November 2008 for Nigeria's first PPP, (and the first PPP toll road in West-Africa), the Lekki-Epe Expressway in Lagos; as well as the 2007 investment of US\$130 million in Diamond Bank (a West African bank) by Actis.

In these markets, the innovative use of information and communication technologies e.g., to scale up levels of bank-users, building on the ubiquity of mobile phones, is vital for breaking barriers to market development. For example, in Kenya, where only 26% of the population has a bank account, mobile-payment services have attracted over five million users in less than two years.

Nevertheless, good governance and the reduction of corruption remain as important as ever, since the deterioration of the economic situation could jeopardize

some of the advances made toward greater democracy and better governance. Yet, compared to 10 years ago, wiser macroeconomic policies and recent multilateral debt-relief will stand African economies in good stead. In addition, growing ties with Latin America and Asian emerging economies as development and trade partners reduce the continent's vulnerability to the global recession.

### **Governance and investment**

In the long term therefore, Africa's prospects are hinged on balancing macroeconomic fundamentals and structural reforms (infrastructure development, institutional improvements and poverty-reduction programs); sustainable fiscal policies; transparent governance; socio-political cohesion; a business-conducive environment; removal of hurdles to ICT infrastructure development; improved regulation and regional economic development.

Paul Collier, Professor of Economics at Oxford University, in a recent interview with Finance and Development said aid to Africa hasn't worked because the focus has been almost exclusively on macro issues: "It's largely a microeconomic agenda and so the macro depends upon the micro."<sup>9</sup>

To Collier, "The micro agenda that seems to work there involves freeing up firms to be able to enter quickly and exit quickly. Using the database from the World Bank's Doing Business surveys, this is what we find. Where countries have easy entry and exit for firms, the consequence of a falling commodity price is much smaller for GDP."

Multilateral organizations, economists and analysts say Africa needs a prolonged phase of investment – in physical infrastructure through public and private ca-

8. "Africa votes", The Economist Intelligence Unit ViewsWire, July 1st 2009.

9. "Still the Bottom Billion", Finance & Development, 46(2): June 2009.

pital – to catch-up with the rest of the world. According to Collier, “To catch up, to converge with other economies, (investment in Africa) needs to be over 30%. So they must move from under 20% to over 30%. That’s a big change.”

Governance also makes a huge change. The World Bank’s 2009 World Governance Indicators (WGI) lends weight to this. The report remarks that “improved governance strengthens development, and not the other way around. When governance is improved by one standard deviation, infant mortality declines by two-thirds and incomes rise about three-fold in the long run.” The rule of law provides stability. Stable laws mean businesses can predict, to some extent, future risks on potential outcomes. Risks are also minimized when there are legal institutions that curtail corruption, enforce property rights and enforce contracts.

### **African results in the Global VCPE Index**

In summary, Africa remains a continent with extraordinary potentials and challenges. The recent past has seen rapid development in Africa’s investment potential, but slower development in governance, although there has undeniably been progress on this front as well. These broad brushstrokes therefore present a context within which to understand the results of the VC/PE index. This index provides a glimpse of the opportunities, or lack thereof, facing the featured African countries.

Africa as a continent maintained the 8th position in the 2009/2010 VCPE ranking. As expected, South Africa performs best of the four considered African countries. Factors such as investors’ protection, taxation and capital markets, similar to what’s obtainable in half of the countries surveyed, buoyed South Africa’s position.

South Africa ranked 43rd overall, and 5th among its direct peers. In descending order, Israel, UAE, Saudi Arabia, Kuwait, South Africa, Oman, Morocco, Egypt, Nigeria and Kenya are the countries within this group. Between 2005/2006 and 2009/2010, South Africa slightly improved the ranking of the sub-indices capital market, and investors’ protection. Of the four African countries, Morocco’s capital market sub-index moved up the most by nine places. Overall Nigeria was ranked 62nd, slightly above Kenya (64). In Kenya, two factors, taxation and investor protection, declined strongly.

Looking forward therefore, although it is nothing new to remark that Africa remains, unfortunately, the least-developed continent, the massive upside potential that this situation implies, represents a very attractive potential for VC and PE funds, which are able to pick countries and sectors carefully in the short to medium term; as well as for those investors who are able to build significant local knowledge in the medium to long term.

# Asia: Does vibrant entrepreneurial activity and expected growth compensate some weaknesses?

## General points

The overall ranking of Asia as a region seems quite appropriate. It ranks 4th, after North America, Australasia, and Western Europe. Surprisingly, Hong Kong (5) and Singapore (6) beat Japan (7) in terms of overall attractiveness.

Malaysia (25), Taiwan (23), China (28) and Thailand (36) were in the mid-range, with their raw overall scores clustering around the sample average. Indonesia (54), the Philippines (61), and Vietnam (60) were in the bottom 20% of scores and rankings. It is surprising, though, that these countries are ranked so much worse, than for example, South Africa.

Anyway, as we will see below, these rankings may not fully reflect the opportunities in the different Asian markets, but are an interesting basis for actual de-

cision-making for VC and PE investments in the region. The qualitative factors are considered in the discussions below.

## The top Asian countries

Hong Kong took top spot in Asia, ranking 5th overall in attractiveness. It managed to obtain this ranking on the basis of high scores for all the categories, on a consistent basis. Its category ranking was 3rd in Investor Protection and Corporate Governance, 5th in Capital Market, and 9th in Taxation. In fact, Singapore ranks higher with respect to Investor Protection and Taxation. However, Hong Kong's worst position is rank 19 for Economic Activity. It is a small territory, though bigger than Singapore.

Singapore beats Japan and Korea on the basis of its attractiveness in the following areas: (1) Investor Protection and Corporate Governance, (2) Human and Social Environment, and (3) Taxation. It is a regional financial center with transparent, well-defined and well-applied laws and regulations. There are no foreign exchange controls, and capital and dividends, royalties etc., can be transferred abroad without question. Since stock market listings are not restricted to Singapore companies, a number of firms from other Asian countries are also listed at its stock exchange. The latter's rules on listings and disclosures are quite stringent and at par with world standards. Corporations, especially listed firms, play by the rules and correspondingly have good governance structures and enforcement. Thus, firms here will tend to be more transparent than in Japan or South Korea. For the second point, it has very high standard of education, which includes professors and researchers from all over the world. English is the official language. Labor regulations are fair for both employers and employees. But most of all, it has very little tolerance

for corruption. Civil servants are very well paid, with salaries that are at least comparable with the private sector. Taxes are relatively low, especially, at the indirect tax level. Income tax rates for both corporations and individuals are among the lowest in the region and compliance is excellent.

In the case of Japan, it outperforms Singapore only in the areas of Economic Activity and Depth of Capital Markets. In terms of economic activity, the size of its economy, being only 2nd to the United States, makes a lot of difference. Its inflation rate for the past two decades has been very low, and in fact, it fell into a deflationary mode from 1994-2004. However, Japan has only experienced low level economic growth in recent years. In terms of the capital markets, again the size and diversity of listed firms give it a big edge over Singapore. Its banking sector is able to provide credit to domestic firms and the availability of credit information is excellent.

South Korea plays a close third to Japan, which it outperforms only in the area of Taxation. Marginal corporate tax rates are lower than in Japan and more favorable profit tax and capital gains laws govern. It edges Singapore in capital market standing, since it has a larger and more diverse listing of companies in the stock market. The large size of the economy provides it with greater opportunities in M&A than Singapore. It should be remembered that South Korea undertook a very serious corporate and banking restructuring after it was battered by the Asian financial crisis in 1997-98. Its industry has moved to a high level of technology and is fiercely competitive in the world market. It is now threatening Japan in areas the latter used to dominate, such as in LCD technology, cell phones, shipbuilding, cars, etc. It does

Article written by **Victor Abola**  
The University of Asia and the Pacific  
Pasig City, Philippines  
[vabola@uap.edu.ph](mailto:vabola@uap.edu.ph)



stand fairly close to Singapore in terms of economic activity, since it has recovered very rapidly and effectively from the Asian financial crisis, building up its foreign exchange reserves to absolute levels well above US\$200 billion, or next only to Taiwan in the region. It also has managed to keep the inflation rate relatively low.

### Asian countries in the middle

Taiwan (23), Malaysia (25), China (28), and Thailand (36) may be considered to be in the middle range in terms of overall attractiveness.

Malaysia easily beats China in three areas: (1) Taxation, (2) Investor Protection and Corporate Governance, and (3) Human and Social Environment. The margins are largest in the latter two categories. In terms of taxation, Malaysia's advantage lies in lower corporate and VAT rates. China's VAT rate of 17% is one of the highest in the region. Malaysia also offers better investor protection than China because it functions with a well-established rule-of-law and good corporate governance practices. It has a long tradition of legal excellence, inherited from the British, and a fairly reliable judiciary. Corporate governance is definitely better than in China since it has stricter disclosure requirements, sanctions on directors, etc. In terms of the human and social environment, Malaysia manages a small, but highly effective educational system. Labor laws are clear, and employment and firing are not problematic. Finally, it can boast of little corruption in the government. Therefore, it is more transparent and accountable than China.

Taiwan is slightly ahead of Malaysia. It does better than Malaysia in two categories: (1) Entrepreneurial Culture and Opportunities, and (2) Economic Activity. Entrepreneurial opportunities are at the forefront of computer technology with

world-class brands, and sophisticated design capability. Besides that, it has a wide basis of small-to-medium support enterprises, which have enabled the country to withstand the Asian financial crisis since these were less dependent on external financing. Economic activity is higher than Malaysia given Taiwan's status as an advanced country and slightly bigger population. It follows Malaysia in two areas: taxation and capital market development.

China performs better than Malaysia and Taiwan in two areas: (1) Depth of a Capital Market, and (2) Economic Activity. The size and diversity of its economy is reflected in its capital market. This is mirrored in magnitude and liquidity of listed shares, in opportunities for mergers and acquisitions. It edges Malaysia and Taiwan in the area of economic activity again by virtue of the size of the economy (now the third largest in the world), and its very rapid growth in the last three decades. Annual growth has averaged close to 10% during this period, even with acceleration in the second half of this period. It is one of the few countries that are expected to post a positive growth in 2009 as a result of the size of its domestic market (1.3 billion population), high savings rate, and rapidly expanding middle class. Its main drawbacks are the weak judicial system and difficulty in maintaining the rule of law. Weakness of other institutions, like the media and academia, is also pronounced because of the great control still being exercised by the government (a monopoly of the Communist Party, even though this may only be nominal).

A bit distant third among these middle countries is Thailand. Actually, it outperforms China in half of the six categories of interest, such as (1) Taxation, (2) Investor Protection and Corporate Governance, and (3) Human and Social Envi-

ronment. Thailand has a low VAT rate of only 7% compared to China's 17%. However, it still offers tax incentives to foreign investors, like Malaysia. Finally, it has minimal labor taxes compared to China. In terms of investor protection and corporate governance, Thailand has better regulations on the liability of directors and affords better security of property rights than China, as already explained above. Thailand performs better than China in providing a good human and social environment. This is evident in the ease of firing of labor and lower incidence of corruption, especially with the presence of a more independent and reliable judiciary.

### Bottom three countries

The last three Asian countries are closely bunched together: Indonesia (54), Vietnam (60) and the Philippines (61). In terms of raw score, Indonesia grabs the top spot in three areas: (1) Economic Activity, (2) Depth of a Capital Market, and (3) Human and Social Environment. Surprisingly, Vietnam tops the other two countries in (1) Taxation, and (2) Entrepreneurial Culture and Opportunities. The Philippines managed to get highest scores only in the area of Investor Protection and Corporate Governance. It should be noted that Indonesia, Vietnam and the Philippines, in terms of raw score, are clustered with the lower-tiered Latin American countries like Argentina, Brazil, Colombia and Peru.

Indonesia has the largest economy and the highest per capita income among the three countries. Even though Vietnam had the fastest growth in recent years, Indonesia and the Philippines' growth record are above average. Because of an inflation rate above 20% in 2008, Vietnam lags way behind the other two economies. Actually, the Philippines stick very close to Indonesia in economic activities. Indone-

sia's large economic size makes it also the frontrunner in the capital market, again by a slight margin over the Philippines. This means greater stock market turnover, liquidity, and diversity of firms represented in the market. This means more IPOs and M&A opportunities as well.

In terms of human and social environment, the quality of the educational system and of scientific research spelled the difference between Indonesia and Vietnam. The Philippines lags badly behind the other two in this area. It should be noted that together with China, Indonesia and the Philippines are expected to have positive growth in 2009.

The Philippines rank behind Indonesia because of its economic activity, capital market, and taxation. The size of the Philippine economy was a little less than half of Indonesia in 2008 and growth was slightly slower at 4.1%, compared to Indonesia's 6.0% growth. But the Philippines performed much better in terms of inflation in 2008, clocking at 9.3%, while Indonesia had above 12.0% and Vietnam was way above 20%. The Philippines scored most among the three countries with respect to investor protection and corporate governance. Security of property rights and regulatory capacity were the strong points noted. The courts uphold the right to private property so much that expropriations for infrastructure projects get delayed.

Although it captured the top spot in two areas, Vietnam lagged much behind in the other areas where Indonesia and the Philippines were fairly closed. It ranks high in taxation mainly because of the generosity of tax incentives and lower tax rates. In terms of entrepreneurial opportunity, it bested the other two countries with a ratio of 2:1. This relies much on the ease of starting and running a business. This is surprising, for a

formally communist regime, but understandable, since it is trying to imitate the success of China. It also had a higher ICT infrastructure rating over the other two countries.

For the last tier, the rankings may be almost maintained even with qualitative considerations factored in. Actually, Indonesia has become an increasingly attractive investment area, considering the political and judicial stability that it has recently shown, and its large need for external finance. We think Vietnam comes a far third from Indonesia and the Philippines in view of export vulnerability and weaknesses in capital market development and in investor protection.

### Summary

China, particularly in its consumer sector, is certainly a very interesting country for VC and PE allocations. The breadth of market opportunities due to its rapid economic growth, the depth of talent and the capital markets, overcome the negative factor of poor investor protection. The latter is often addressed by having a reliable domestic partner and a management team that is attuned to the demands of government.

By virtue of their "being part of Greater China", as well as their specific strong points discussed above, we think that Hong Kong and Taiwan are particular attractive too. These territories both offer excellent jump-off points for the China market. Singularly, however, they have sufficiently high levels of income and sophistication in the capital markets that render them especially attractive.

South Korea is technologically very much advanced, supported by a large, highly qualified labor pool. It has a relatively large economy, and a powerful export sector. The capital market has improved dramatically in the last decade. Its currently

depressed export sector, and the improving consumer sector are clear areas where VC and PE can be quite promising, considering a long history of overleveraging. All these would tend to negate a somewhat less favorable situation of its investor protection and corporate governance.

Finally, Indonesia gains attraction. Its continued relatively strong growth since it began more serious reforms after the Asian financial crisis is providing ample opportunities in this largest population in the Association of Southeast Asian Nations (ASEAN). Improved political stability and the judicial system are proving to be responsive to an economy that was thought to be particularly vulnerable to China's emergence as an economic super power in the region. All these would tend to offset negative assessments on investor protection and corporate governance.

# Latin America: VC and PE in Latin America after the crisis

PE funds may become a fabulous tool for promoting economic and business development in the emerging Latin American markets, once the financial crisis starts to recede.

Considering the lack of much previous VC and PE activity in Latin America, the asset class can still be considered a “new species” in the region. However, taking into account the growth levels the asset class experienced in developed markets, the growth potential for VC and PE in Latin America seems enormous.

Worldwide, the total volume raised by VC and PE funds amounts more than US\$3.5 trillion.<sup>10</sup> The funds raised in Latin America are a very small part of this total. However, if the future growth of the asset

10. 2009 Preqin Global Private Equity Review, p. 34.

class in Latin America is only a fraction of what it was in the developed countries, we would be dealing with a phenomenon of considerable magnitude.

## Prospects for Latin America

Although the value of investments in emerging markets has been hit hard by the global financial crisis, we should keep in mind that the sources of the crisis were definitely not the emerging countries. These markets did not suffer any severe credit crises. Mortgages – which triggered the crisis – were not and will not be a cause of concern in the region.

Some Latin American economies might be better prepared to recover from the crisis than several of the more developed economies. They are, in principle, in better economic shape. The level of consumer debt among the Latin American middle classes is much less than that of developed countries and the banking system can be regarded stronger and more stable. A number of Latin American countries have followed orthodox macroeconomic policies, and some have even generated stabilization funds to support their economies.

Experts consider that the Latin American countries that seem to offer best conditions for a strong growth in VC and PE activity are Brazil and Chile.

Brazil is one of the emerging countries with the greatest appeal for the investment community.

- As one of the renowned BRIC (Brazil, Russia, India, and China) countries, Brazil has become an attractive target for VC and PE allocations because of the confidence created by the continuously good economic management of different democratic governments.

- The country's strong appeal arises from the size of its domestic market, the strength of the industrial sector and the expected high growth rates among several Brazilian industries.
- Moreover, the tax law in Brazil includes significant tax incentives for this type of investment.

Chile has been for some years a major target for foreign direct investment. This development could be similar for the flow into VC and PE funds.

- The Chilean economy has a strong foundation built on commodity production, particularly copper.
- The country's political leaders have won the trust of the investment community through the consistent economic policy followed by different democratic governments.
- One example that highlights successful efforts of Chilean policy makers has been the creation of a stabilization fund during the years of strong growth. This fund allows the present government now to soften the impact of the financial crisis.
- The country has a dynamic, modern entrepreneurial class with a strong focus on growth and exports. Within the region, a large number of leading Chilean companies have embarked upon a significant expansion process with investments in neighboring countries.

Another two countries can be added to the former two: Mexico, obviously, because of its strong ties to the US, and Peru, because of its strong recent growth. Similarly, Colombia and Uruguay showed sound economic growth in the last few years.

However, for various reasons, the analysts and the investment community

Article written by **Gabriel Noussan**  
IAE Business School  
Buenos Aires, Argentina  
[GNoussan@iae.edu.ar](mailto:GNoussan@iae.edu.ar)

are still not convinced about the development of the economies of Argentina, Paraguay, Ecuador, Bolivia and Venezuela.

### **“The Global Venture Capital and Private Equity Country Attractiveness Index”**

This index provides a good snapshot of the status of this type of asset class around the world, especially for emerging regions such as Latin America. By observing the relative position of individual Latin American countries and the region compared to the world, it is possible to infer the opportunities arising from likely future developments.

The index groups multiple factors in six dimensions. Latin America shows strengths in only two of the six dimensions analyzed: Economic Activity and Taxation. Within economic activity, the sub-factor with greatest importance is the annual growth rates of the GDP.

It is precisely in this aspect, where the main opportunities valued by investors in Latin America apparently lie: the region's enormous capacity for investments in businesses that showed growth in developed countries but which are not yet existent or only at infant stages in the region.

With respect to the impact of taxes on the attractiveness of VC and PE in Latin America, it becomes evident that tax incentives contribute comprehensively to the region's appreciation.

On the other hand, the other four dimensions where the region shows weaknesses are: the Depth of Capital Markets, Entrepreneurial Culture and Opportunities, Investor Protection and Corporate Governance, and the Human and Social Environment. Among these, the dimension in which the region is most fragile is the Depth of Capital Markets with

respect to the small number of listed domestic companies, the IPO opportunities, as well as the low dynamic of the M&A market.

Recapitulating, the index shows the importance of the level of economic activity for the development of VC and PE in Latin America. An analysis of the data provided by the index on the region's perceived weaknesses enables us to understand which key factors need to improve to achieve greater growth of the asset class in Latin America.

First, in developed countries, the PE's business model was originally based on extensive leverage. However, the current crisis will lead to a change in the business model, even in the more developed countries, as, at least for some time access to credit will not be as generalized as it was before the credit market crash. Consequently, it will not be possible to finance investments using a leveraged buy-out (LBO) type model. Instead it will be necessary to rely on capital from investors who seek growth.

In emerging countries in general, and Latin America in particular, PE activities were unable to apply the original model due to the lack of local debt finance. In fact, the PE funds showed incipient growth in the countries with the least lending facilities. Within the Depth of a Capital Market construct, the factor Debt and Credit Markets shows an interesting discriminating power between the various Latin American countries. This is not only consistent with the aforementioned, but also with the perception of these aspects in the investment community. For example, Argentina, which was the “Cinderella” of Latin America in the 1990's, now takes a poor ranking position. This is perfectly in line with Argentina's cur-

rent political and economic inclinations. On the other hand, Chile, a country with orthodox economic policies and management, is at the top of the Latin American ranking, with some sub-index rankings as good as those of Germany for example.

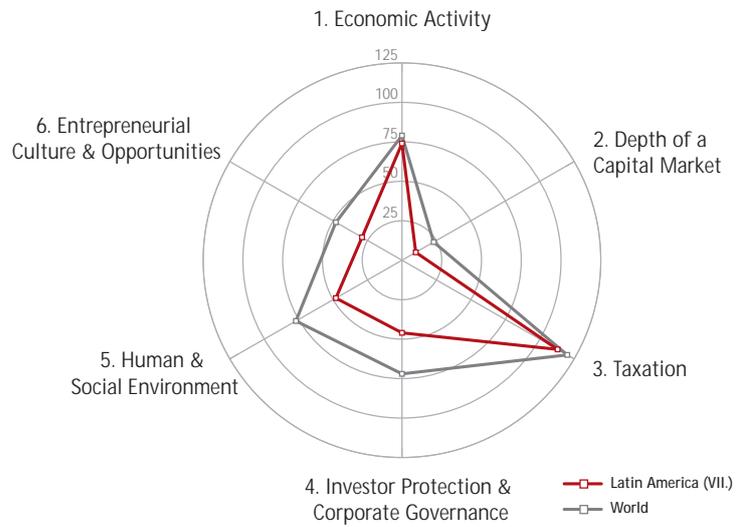
The results of the Global Venture Capital and Private Equity Attractiveness Index confirm what experts have been asking for a long time. The index points to the particular determinants for growth of VC and PE activities. We are especially talking about the urgent need for strong capital markets in the region. Depth of capital markets provide one of the main exit routes to investors in VC and PE funds – initial public offerings. This exit route, so common in the more developed markets, is virtually non-existent in Latin America. Consequently, financial investors mostly sell their holdings to strategic buyers.

The index also shows investors' fragility in certain countries from the region with respect to the protection of their rights. The protection of investors' rights is a clear weakness that, unfortunately, is widespread in almost all Latin American countries and inevitably has an impact on the perception of the region as a whole. Within this construct, the item that gives most fragility to the investors' perception of security is the protection of intellectual property. Although almost all of the countries in the region score poorly in these aspects, it is interesting to see how precisely the report differentiates between countries, with, for example, Venezuela at the bottom of the ranking and Chile at the top.

To close my remarks, I want to highlight that it is interesting to reflect on the characteristics of Latin America compared to the world average, using the in-

dex results. The spider chart shows significant gaps in the perception of the six key driving dimensions for VC and PE markets between the region and the average of all the countries included in the study.

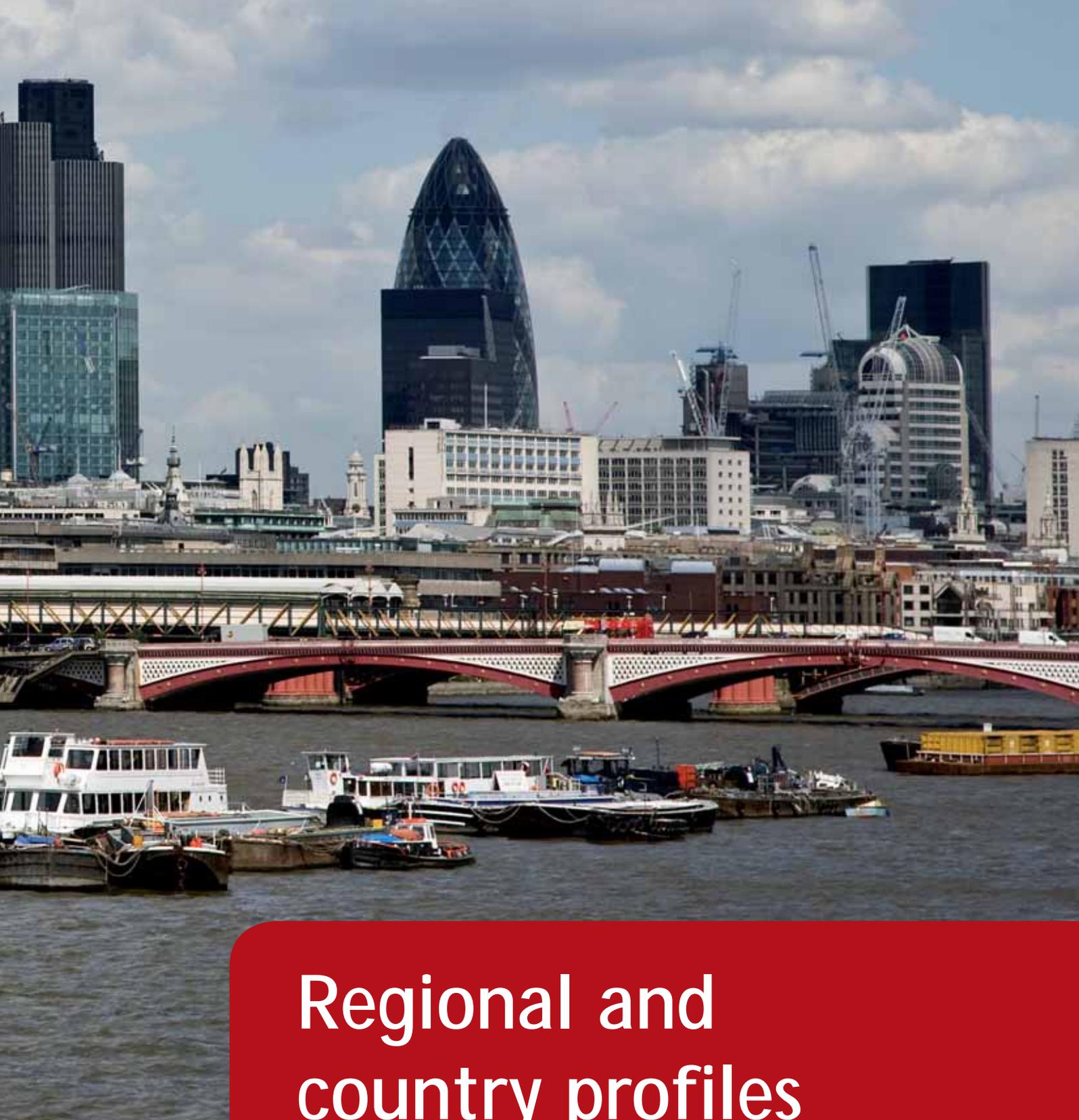
We can conclude that, in general, the results obtained by the index are consistent with each country's economic fundamentals and realities. Consequently, the prepared information provides a valuable tool to enable governments implementing policies that favor investment and economic development, and investors receive important support for their allocation decisions.





# IV.





# Regional and country profiles

# How to read the country and regional profiles

The first page of the performance overview shows basic facts, a strengths, weaknesses, opportunities and threats (SWOT) analysis provided by country leaders from Ernst & Young, the VCPE-Ranking, the key factor performance, the performance of the separate VC and PE Indices, as well as a comparison within the regional peer group.

## 1 Basic Facts and Opportunities and Challenges

Basic Facts comprises main indicators such as GDP, Population, and their growth rates, and the country's position regarding its IPO, M&A, and VC and PE market activity expressed in quartiles. The section "Opportunities and Challenges" provides the reader with a SWOT analysis with respect to the country's VC/PE investment conditions. These analyses are provided by local experts from Ernst & Young.

## 2 VCPE-Ranking and Key Factor Performance

The "VCPE-Ranking" table exhibits the index values and the ranking positions of the country for the overall index, and for each key driver separately, for the 2005/2006 and for the 2009/2010 VCPE Country Attractiveness Index. Next to the current rank, the change of a ranking position is indicated by green arrows for positive, red arrows for negative and yellow arrows for no movements. The quartiles indicate the country's position among all the countries in the sample. The spider chart on the right shows the performance of each key driver compared to the region's average where the country is located.

We should note that the overall VCPE Ranking is not the average rank from all the key drivers. First, the key drivers have different weights, and second, the ranking is always the result of a benchmark process: the rank of a country depends on the ranks of the other sample countries. A simple example helps to explain this issue: imagine there are four countries to benchmark with the following key driver ranks:

Key drivers/ranks	Country			
	A	B	C	D
Economic Activity	2	1	3	4
Depth of a Capital Market	2	1	3	4
Taxation	2	3	1	4
Investor Protection and Corporate Governance	2	3	1	4
Human and Social Environment	2	3	4	1
Entrepreneurial Culture and Opportunities	2	3	4	1
Overall rank	1	2	3	4

Even if country A ranks on the second position with all the key driver scores its final rank is number one.

## 3 Separate VC and PE indices and comparison within peer group

The upper chart shows the country's ranking position for the combined VCPE and for the separate Venture Capital and Private Equity Country Attractiveness Indices over time. Below, we present the country relative to its peers. The peer group is determined by nine countries from its region. If we cover less than nine countries from that region we add countries from other regions to the peer group. The set of peers is not always the same for a region. It is the selection of eight other countries in alphabetical order, and the country in question.

## 4 The Global Venture Capital and Private Equity Country Attractiveness Index in detail

The second page of information for the individual countries presents the ranks achieved for each of the level 2 constructs. Once again, the arrows mark ranking changes, and the crosses indicate the country's position measured in quartiles, with respect to all other countries from the sample.

## Regional and country profiles

# Africa

### Basic Facts



GDP: 413 (bn USD)  
 Population: 771 (m)  
 GDP Growth: 5.2%  
 Pop. Growth: 1.8%

IPO Volume: C  
 M&A Volume: C  
 VC Activity: C  
 PE Activity: C

### VCPE Ranking

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
VCPE Ranking	8	33.2	8	C
Economic Activity	8	53.9	8	C
Depth of Cap. Market	6	161.9	6	C
Taxation	7	103.6	7	C
Inv. Prot. & Corp. Gov.	7	53.6	7	C
Hum. & Soc. Env.	8	48.5	7	C
Entrepr. Culture & Opp.	8	22.2	8	C

### Key Factors Performance



### SWOT Analysis

**Strengths**

- Continued economic growth across the continent
- Increased stability and favorable policies shifted perceptions of the region
- Before the financial crisis, investor confidence in Africa was increasing as was Africa's understanding of the VCPE offering

**Weaknesses**

- Large geographical region characterized by significant differences in culture, language, legal and regulatory systems across the continent
- Small number of pan-African funds competing with larger number of regional specialists
- Transaction activity is driven by a few countries, mainly South Africa and Nigeria
- VCPE is dependent on foreign investors who often prefer other emerging markets
- Preference of debt and public equity markets over VCPE funding

**Opportunities**

- Historical underinvestment in infrastructure and resources, and growing adoption of PPPs by African governments
- Under-banked population with rising incomes, improved access to credit and increasing spending tendencies

**Threats**

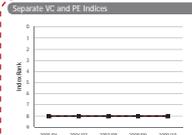
- A protracted global recovery could limit growth across the continent and restrict financing and fund raising initiatives
- Political risk, lack of transparency and immature regulatory and legal systems are likely to continue to act as barriers to VCPE activity

**Outlook**

- Recovery from recession in Africa may lag global recovery
- PE investment activity expected to increase again in 2010

Graham Stokes, Associate Director, Ernst & Young South Africa

### Separate VC and PE Indices



### Comparison within Peer Group

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
North America	1	98.9	1	A
Australia	2	76.4	2	B
Western Europe	3	65.5	3	B
Asia	4	53.5	4	C
Middle East	5	45.9	5	C
Eastern Europe	6	41.9	6	C
Latin America	7	34.9	7	C
Africa	8	33.2	8	C

### Details

#### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
1.1 Gross Domestic Product	8	31.5	8	C
1.2 Inflation	8	65.7	8	C
1.3 Unemployment	8	75.7	8	C

#### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
2.1 Size and Liquidity of the Stock Market	6	151.1	6	C
2.2 IPO Market Activity	8	1.4	8	C
2.3 M&A Market Activity	7	1.6	8	C
2.4 Debt & Credit Market	7	67.2	7	C
2.5 Financial Market Sophistication	5	54.4	6	C

#### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
3.1 Tax Incentives	7	122.7	6	C
3.2 Administrative Tax Burdens	6	87.4	7	C

#### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
4.1 Corporate Governance	4	71.5	5	B
4.2 Security of Property Rights	7	46.4	7	C
4.3 Quality of Legal Enforcement	7	52.4	7	C
4.4 Regulatory Quality	8	47.5	8	C

#### 5. Human and Social Environment

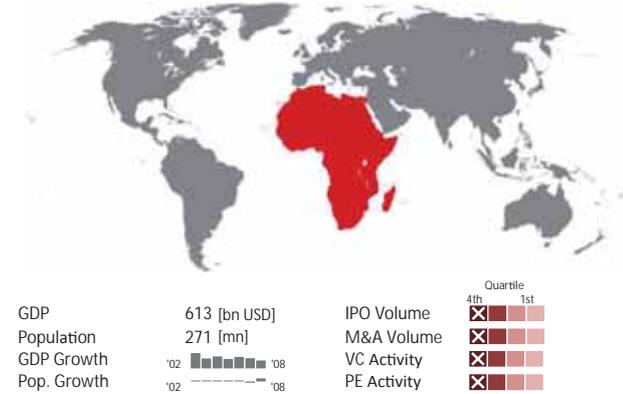
	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
5.1 Education & Human Capital	7	48.9	7	C
5.2 Labor Market Rigidity	5	64.5	5	B
5.3 Bribe & Corruption	8	31.3	8	C
5.4 Costs of Crime	8	56.2	8	C

#### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank	Quartile
6.1 Innovation & R&D	7	10.5	7	C
6.2 Ease of Starting & Running a Business	6	73.4	7	C
6.3 Simplicity of Closing a Business	5	58.2	7	C
6.4 ICT Infrastructure	8	5.4	8	C

# Africa

## Basic Facts



## SWOT Analysis

### Strengths

- Continued economic growth across the continent
- Increased stability and favorable policies shifted perceptions of the region
- Before the financial crisis, investor confidence in Africa was increasing, as was Africa's understanding of the VC/PE offering

### Weaknesses

- Large geographical region characterized by significant differences in culture, language, legal and regulatory systems across the continent
- Small number of pan-African funds competing with larger number of regional specialists
- Transaction activity is driven by a few countries, mainly South Africa and Nigeria
- VC/PE is dependent on foreign investors who often prefer other emerging markets
- Preference of debt and public equity markets over VC/PE funding

### Opportunities

- Historical underinvestment in infrastructure and resources, and growing adoption of PPPs by African governments
- Under-banked population with rising incomes, improved access to credit and increasing spending tendencies

### Threats

- A protracted global recovery could limit growth across the continent and restrict financing and fund raising initiatives
- Political risk, lack of transparency and immature regulatory and legal systems are likely to continue to act as barriers to VC/PE activity

### Outlook

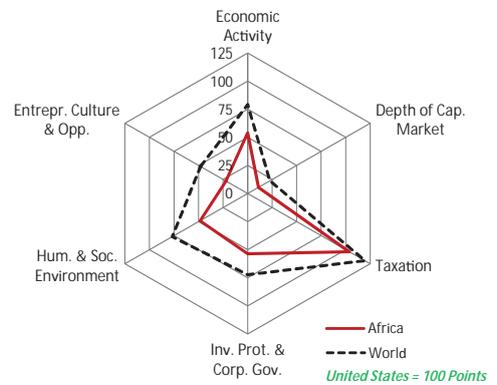
- Recovery from recession in Africa may lag global recovery
- PE investment activity expected to increase again in 2010

Graham Stokoe, Associate Director, Ernst & Young South Africa

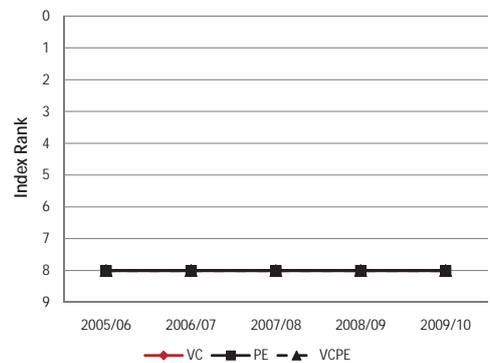
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	8	33,2	8	→	⊗
Economic Activity	8	53,9	8	→	⊗
Depth of Cap. Market	6	10,9	6	→	⊗
Taxation	7	103,6	7	→	⊗
Inv. Prot. & Corp. Gov.	7	53,6	7	→	⊗
Hum. & Soc. Env.	8	48,5	7	↑	⊗
Entrepr. Culture & Opp.	8	22,2	8	→	⊗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
North America	1	96,9	1	→	⊗
Australasia	2	76,4	2	→	⊗
Western Europe	3	67,5	3	→	⊗
Asia	4	53,5	4	→	⊗
Middle East	5	45,9	5	→	⊗
Eastern Europe	6	41,9	6	→	⊗
Latin America	7	34,9	7	→	⊗
<b>Africa</b>	<b>8</b>	<b>33,2</b>	<b>8</b>	<b>→</b>	<b>⊗</b>

# Africa

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
1.1 Gross Domestic Product	8	31,5	8	→	☒ ☐ ☐ ☐
1.2 Inflation	8	65,7	8	→	☒ ☐ ☐ ☐
1.3 Unemployment	8	75,7	8	→	☒ ☐ ☐ ☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
2.1 Size and Liquidity of the Stock Market	6	19,1	6	→	☒ ☒ ☐ ☐
2.2 IPO Market Activity	8	1,4	8	→	☒ ☐ ☐ ☐
2.3 M&A Market Activity	7	1,6	8	↓	☒ ☐ ☐ ☐
2.4 Debt & Credit Market	7	67,2	7	→	☒ ☐ ☐ ☐
2.5 Financial Market Sophistication	5	54,4	6	↓	☒ ☒ ☐ ☐

### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
3.1 Tax Incentives	7	122,7	6	↑	☒ ☒ ☐ ☐
3.2 Administrative Tax Burdens	6	87,4	7	↓	☒ ☐ ☐ ☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
4.1 Corporate Governance	4	71,5	5	↓	☒ ☒ ☐ ☐
4.2 Security of Property Rights	7	46,4	7	→	☒ ☐ ☐ ☐
4.3 Quality of Legal Enforcement	7	52,4	7	→	☒ ☐ ☐ ☐
4.4 Regulatory Quality	8	47,5	8	→	☒ ☐ ☐ ☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
5.1 Education & Human Capital	7	48,9	7	→	☒ ☐ ☐ ☐
5.2 Labor Market Rigidities	5	64,5	5	→	☒ ☒ ☐ ☐
5.3 Bribing & Corruption	8	31,3	8	→	☒ ☐ ☐ ☐
5.4 Costs of Crime	8	56,2	8	→	☒ ☐ ☐ ☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
6.1 Innovation & R&D	7	10,5	7	→	☒ ☐ ☐ ☐
6.2 Ease of Starting & Running a Business	6	73,4	7	↓	☒ ☐ ☐ ☐
6.3 Simplicity of Closing a Business	5	58,2	7	↓	☒ ☐ ☐ ☐
6.4 ICT Infrastructure	8	5,4	8	→	☒ ☐ ☐ ☐

# Asia

## Basic Facts



GDP	14941 [bn USD]	IPO Volume	4th 1st
Population	3379 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Very large and powerful economic region
- Market leading technologies in many sectors, cost leadership in others
- Comparative advantages in terms of labor costs and productivity
- Abundance of natural resources, well-educated workforce and skilled labors

### Weaknesses

- Persistent administrative inefficiencies
- VC/PE investors are seen critically regarding their commitment to the companies' interests
- Relatively weak corporate governance compared to Western standards
- Export-driven economies
- Cultural challenges in achieving control of private enterprises

### Opportunities

- Succession issues in family owned businesses foster VC/PE investment
- Several fragmented industries with potential for consolidation
- Relatively large, young and growing middle-income population in emerging urban centers

### Threats

- Increasingly negative sentiment towards the asset class if VC/PE investors are not regarded appropriately supporting investee companies in the current economic climate
- Inadequate power and transport infrastructure in selected areas
- Cultural, ethnical, religious, or even terroristic turmoil in certain regions

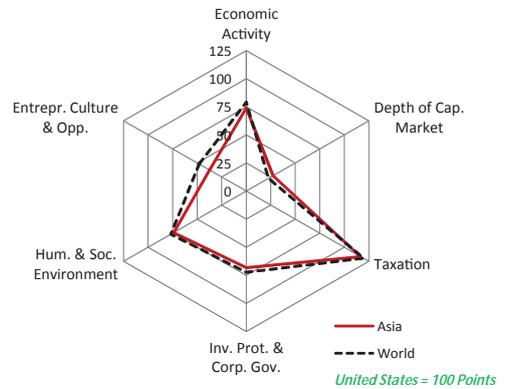
### Outlook

- Progress towards greater transparency and global economic integration
- Many companies will find it increasingly hard to obtain access to additional capital and will need to deploy their capital more effectively
- Many companies will be forced to divest non-core businesses
- Continuing strong global position in high-tech sector
- Continuing relaxation of restrictions of capital flows

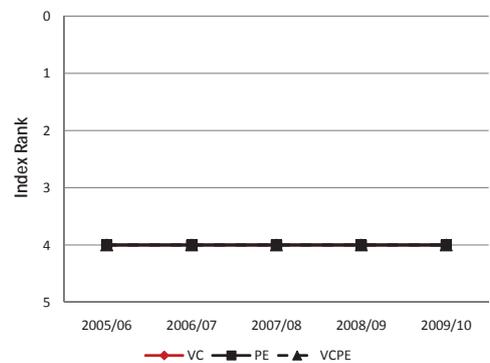
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
VCPE Ranking	4	53,5	4	→	■ ■ ■ ■
Economic Activity	5	73,9	4	↑	■ ■ ■ ■
Depth of Cap. Market	4	27,3	3	↑	■ ■ ■ ■
Taxation	5	116,5	4	↑	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	4	68,1	4	→	■ ■ ■ ■
Hum. & Soc. Env.	5	74,0	5	→	■ ■ ■ ■
Entrepr. Culture & Opp.	4	37,4	5	↓	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
North America	1	96,9	1	→	■ ■ ■ ■
Australasia	2	76,4	2	→	■ ■ ■ ■
Western Europe	3	67,5	3	→	■ ■ ■ ■
Asia	4	53,5	4	→	■ ■ ■ ■
Middle East	5	45,9	5	→	■ ■ ■ ■
Eastern Europe	6	41,9	6	→	■ ■ ■ ■
Latin America	7	34,9	7	→	■ ■ ■ ■
Africa	8	33,2	8	→	■ ■ ■ ■

# Asia

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	7	48,2	7	→	☒	☒
1.2	Inflation	5	85,0	4	↑	☒	☒
1.3	Unemployment	3	98,7	3	→	☒	☒

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	2	49,8	2	→	☒	☒
2.2	IPO Market Activity	3	8,6	2	↑	☒	☒
2.3	M&A Market Activity	4	7,6	3	↑	☒	☒
2.4	Debt & Credit Market	4	81,8	4	→	☒	☒
2.5	Financial Market Sophistication	4	57,0	4	→	☒	☒

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	3	146,4	5	↓	☒	☒
3.2	Administrative Tax Burdens	5	92,8	5	→	☒	☒

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	5	73,1	3	↑	☒	☒
4.2	Security of Property Rights	4	62,1	4	→	☒	☒
4.3	Quality of Legal Enforcement	5	75,9	5	→	☒	☒
4.4	Regulatory Quality	5	62,5	5	→	☒	☒

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	4	71,2	4	→	☒	☒
5.2	Labor Market Rigidities	4	68,0	4	→	☒	☒
5.3	Bribing & Corruption	5	57,1	5	→	☒	☒
5.4	Costs of Crime	5	108,7	6	↓	☒	☒

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	4	25,0	4	→	☒	☒
6.2	Ease of Starting & Running a Business	5	75,8	6	↓	☒	☒
6.3	Simplicity of Closing a Business	4	70,4	4	→	☒	☒
6.4	ICT Infrastructure	6	14,7	6	→	☒	☒

# Australasia

## Basic Facts



GDP	1106 [bn USD]	IPO Volume	4th 1st
Population	25 [mn]	M&A Volume	4th 1st
GDP Growth	'02 '08	VC Activity	4th 1st
Pop. Growth	'02 '08	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Innovation-driven economies with pioneering scientific research institutions and world class R&D facilities
- Strong economy and sound banking/capital/financial market systems
- Democratic and stable political, regulatory and legal environment

### Weaknesses

- Low tax incentives
- Performance of VC/PE investee companies facing tough market conditions
- Slow recovery from the recessionary environment predicted

### Opportunities

- Strong M&A market with international targets and sound prospects for exits
- Strong stock market culture, providing good IPO opportunities

### Threats

- High interest rate environment making current debt raisings difficult

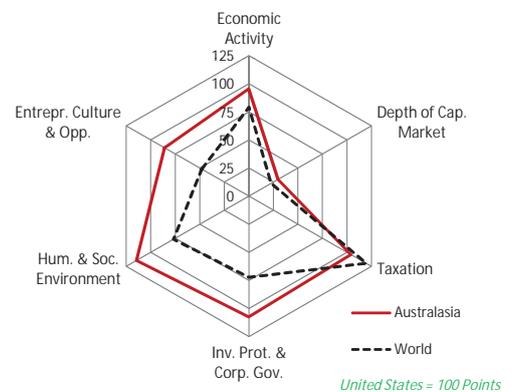
### Outlook

- Investment funds are likely to restrict allocation to PE, but the industry will continue to attract capital from other sources including sovereign wealth funds and high net worth individuals
- Business models and margins continue to be under pressure
- Increasing pressure from LPs to exit less successful investee companies
- Financing and acquisition opportunities are expected to increase

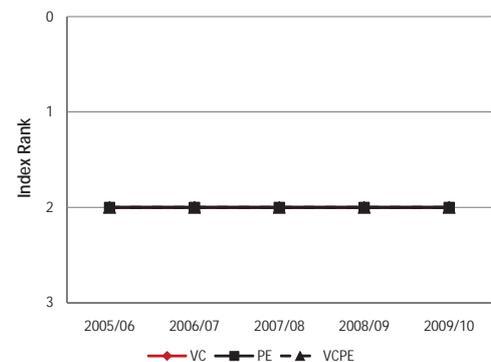
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	2	76,4	2	76,4	→	⊗
Economic Activity	2	95,5	2	95,5	→	⊗
Depth of Cap. Market	2	29,7	2	29,7	→	⊗
Taxation	8	104,1	6	104,1	↑	⊗
Inv. Prot. & Corp. Gov.	1	107,4	1	107,4	→	⊗
Hum. & Soc. Env.	1	114,5	1	114,5	→	⊗
Entrepr. Culture & Opp.	2	85,8	2	85,8	→	⊗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
North America	1	96,9	1	96,9	→	⊗
<b>Australasia</b>	2	76,4	2	76,4	→	⊗
Western Europe	3	67,5	3	67,5	→	⊗
Asia	4	53,5	4	53,5	→	⊗
Middle East	5	45,9	5	45,9	→	⊗
Eastern Europe	6	41,9	6	41,9	→	⊗
Latin America	7	34,9	7	34,9	→	⊗
Africa	8	33,2	8	33,2	→	⊗

# Australasia

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	2	84,9	2	→	■ ■ ■ ■	⊗
1.2	Inflation	3	98,2	3	→	■ ■ ■ ■	⊗
1.3	Unemployment	1	104,5	1	→	■ ■ ■ ■	⊗

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	5	34,9	4	↑	■ ■ ■ ■	⊗
2.2	IPO Market Activity	2	6,3	3	↓	■ ■ ■ ■	⊗
2.3	M&A Market Activity	2	10,6	2	→	■ ■ ■ ■	⊗
2.4	Debt & Credit Market	2	107,4	2	→	■ ■ ■ ■	⊗
2.5	Financial Market Sophistication	2	92,3	2	→	■ ■ ■ ■	⊗

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	8	106,1	7	↑	■ ■ ■ ■	⊗
3.2	Administrative Tax Burdens	1	102,0	1	→	■ ■ ■ ■	⊗

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	1	102,7	1	→	■ ■ ■ ■	⊗
4.2	Security of Property Rights	1	101,4	1	→	■ ■ ■ ■	⊗
4.3	Quality of Legal Enforcement	1	121,2	1	→	■ ■ ■ ■	⊗
4.4	Regulatory Quality	1	105,6	1	→	■ ■ ■ ■	⊗

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	2	99,0	2	→	■ ■ ■ ■	⊗
5.2	Labor Market Rigidities	2	96,8	1	↑	■ ■ ■ ■	⊗
5.3	Bribing & Corruption	1	132,0	1	→	■ ■ ■ ■	⊗
5.4	Costs of Crime	1	135,9	2	↓	■ ■ ■ ■	⊗

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	3	54,8	3	→	■ ■ ■ ■	⊗
6.2	Ease of Starting & Running a Business	2	104,6	2	→	■ ■ ■ ■	⊗
6.3	Simplicity of Closing a Business	2	103,4	2	→	■ ■ ■ ■	⊗
6.4	ICT Infrastructure	2	91,4	2	→	■ ■ ■ ■	⊗

# Eastern Europe

## Basic Facts



GDP	2466 [bn USD]	IPO Volume	
Population	228 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- High tax incentives among most of the Eastern European countries
- Strong stock market in Poland

### Weaknesses

- The financial crisis affected strongly the generally weak capital market structure
- Lack of experience in connection with structuring and completing complex transactions
- Lack of management teams for MBO situations

### Opportunities

- Catching-up entrepreneurial culture and opportunities for venture capital investors
- Privatization projects are still going on
- Reform of legal systems provides increasing security and attractive environment for VC/PE.

### Threats

- Financial crisis may make funding difficult for local GPs
- Increasingly unstable regulatory and enforcement environment if financial crisis continues for more than two years

### Outlook

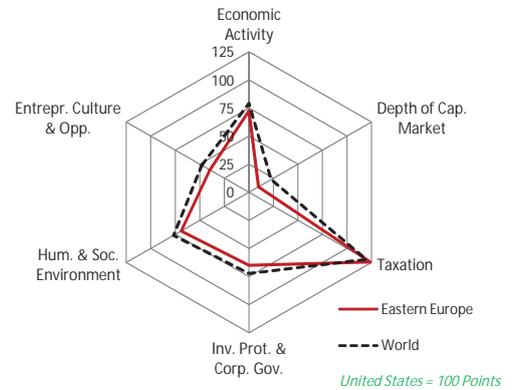
- Increasing VC/PE focus on privatizations
- Continuing regime of tax incentives
- Increasing experience in leverage transactions should these reappear post crisis

Dr. Dubsy, Partner, DLA-Piper, Austria

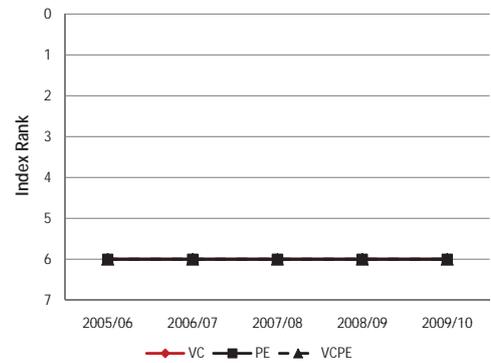
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	4th	1st	
<b>VCPE Ranking</b>	6	41,9	6			
Economic Activity	6	72,6	6			
Depth of Cap. Market	7	9,6	8			
Taxation	2	123,6	2			
Inv. Prot. & Corp. Gov.	6	64,8	6			
Hum. & Soc. Env.	6	69,0	6			
Entrepr. Culture & Opp.	5	39,8	4			

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	4th	1st	
North America	1	96,9	1			
Australasia	2	76,4	2			
Western Europe	3	67,5	3			
Asia	4	53,5	4			
Middle East	5	45,9	5			
<b>Eastern Europe</b>	6	41,9	6			
Latin America	7	34,9	7			
Africa	8	33,2	8			

# Eastern Europe

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	5	51,7	6	↓	■	■
1.2	Inflation	6	78,7	5	↑	■	■
1.3	Unemployment	7	94,0	7	→	■	■

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	7	11,1	7	→	■	■
2.2	IPO Market Activity	7	1,5	7	→	■	■
2.3	M&A Market Activity	6	1,6	7	↓	■	■
2.4	Debt & Credit Market	6	72,1	6	→	■	■
2.5	Financial Market Sophistication	7	42,3	8	↓	■	■

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	2	174,4	2	→	■	■
3.2	Administrative Tax Burdens	7	87,7	6	↑	■	■

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	6	65,3	6	→	■	■
4.2	Security of Property Rights	6	55,8	6	→	■	■
4.3	Quality of Legal Enforcement	6	65,1	6	→	■	■
4.4	Regulatory Quality	4	74,4	4	→	■	■

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	5	58,8	5	→	■	■
5.2	Labor Market Rigidities	7	61,3	7	→	■	■
5.3	Bribing & Corruption	6	56,3	6	→	■	■
5.4	Costs of Crime	6	111,9	5	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	6	16,4	6	→	■	■
6.2	Ease of Starting & Running a Business	4	88,4	5	↓	■	■
6.3	Simplicity of Closing a Business	6	59,6	6	→	■	■
6.4	ICT Infrastructure	4	29,0	4	→	■	■

# Latin America

## Basic Facts



GDP	3846 [bn USD]	IPO Volume	4th 1st
Population	471 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08		VC Activity	4th 1st
Pop. Growth '02 - '08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- The Latin American region has seen a strong increase of economic activity even during the financial crisis
- Strong tax incentives contribute comprehensively to the region's appreciation

### Weaknesses

- The dimensions in which the region is most fragile are the capital markets with respect to the small number of listed domestic companies, IPO opportunities, and the low dynamic of the M&A markets
- Lacking entrepreneurial culture hinders the developed of new companies

### Opportunities

- Some countries have followed Brazil's lead in cultivating domestic sources of institutional capital for private equity firms and a number of new funds have been raised with commitments from domestic pension funds
- Improvements with respect to law and enforcement bring more security to investors

### Threats

- Investor protection and corporate governance structures are still an import issue revealing room for development
- Many countries are perceived to have high levels of corruption

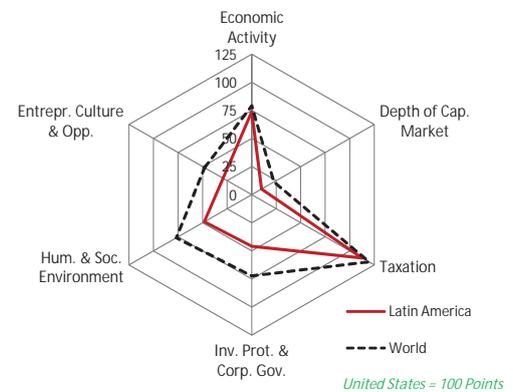
### Outlook

- While many economies grow strongly, some others remain under populist governments
- Lack of basic infrastructure hinders the development on one side, one the other, this provides investment opportunities

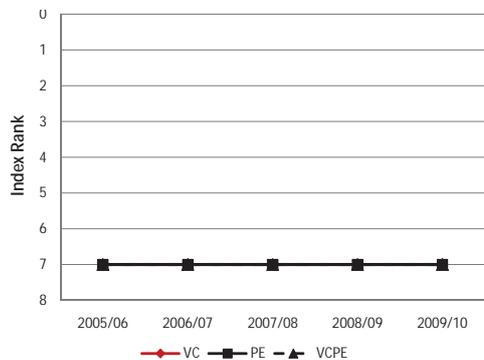
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	4th	1st	
<b>VCPE Ranking</b>	<b>7</b>	<b>34,9</b>	<b>7</b>	→	✗	✗
Economic Activity	7	73,6	5	↑	✗	✗
Depth of Cap. Market	8	10,0	7	↑	✗	✗
Taxation	6	112,6	5	↑	✗	✗
Inv. Prot. & Corp. Gov.	8	45,8	8	→	✗	✗
Hum. & Soc. Env.	7	48,2	8	↓	✗	✗
Entrepr. Culture & Opp.	7	29,1	7	→	✗	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	4th	1st	
North America	1	96,9	1	→	✗	✗
Australasia	2	76,4	2	→	✗	✗
Western Europe	3	67,5	3	→	✗	✗
Asia	4	53,5	4	→	✗	✗
Middle East	5	45,9	5	→	✗	✗
Eastern Europe	6	41,9	6	→	✗	✗
<b>Latin America</b>	<b>7</b>	<b>34,9</b>	<b>7</b>	→	✗	✗
Africa	8	33,2	8	→	✗	✗

# Latin America

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	6	53,8	5	↑	■	■
1.2 Inflation	7	77,7	6	↑	■	■
1.3 Unemployment	5	95,5	5	→	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	8	8,9	8	→	■	■
2.2 IPO Market Activity	6	1,6	6	→	■	■
2.3 M&A Market Activity	5	2,4	5	→	■	■
2.4 Debt & Credit Market	8	64,3	8	→	■	■
2.5 Financial Market Sophistication	8	43,7	7	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	4	149,6	3	↑	■	■
3.2 Administrative Tax Burdens	8	84,7	8	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	8	54,9	8	→	■	■
4.2 Security of Property Rights	8	39,4	8	→	■	■
4.3 Quality of Legal Enforcement	8	41,1	8	→	■	■
4.4 Regulatory Quality	7	49,4	7	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	8	35,3	8	→	■	■
5.2 Labor Market Rigidities	8	58,2	8	→	■	■
5.3 Bribing & Corruption	7	41,1	7	→	■	■
5.4 Costs of Crime	7	63,7	7	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	8	10,1	8	→	■	■
6.2 Ease of Starting & Running a Business	8	69,0	8	→	■	■
6.3 Simplicity of Closing a Business	7	59,8	5	↑	■	■
6.4 ICT Infrastructure	5	17,2	5	→	■	■

# Middle East

## Basic Facts



GDP	1270 [bn USD]	IPO Volume	4th 1st
Population	119 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Sufficiently diversified cash rich economies
- Relatively robust economic growth
- Steady growing population with "real demand"
- Government's commitment to continuous growth

### Weaknesses

- Weak corporate governance as most businesses are still controlled by families
- Underdeveloped legal framework to support VC/PE activity
- Highly dependent on volatile oil prices

### Opportunities

- Ideal time to focus on distressed companies with good business models
- Focus on businesses wishing to transform from family business to corporate structure
- Availability of assets at attractive valuations

### Threats

- Economic growth to slow down due to decrease in global tourism industry
- Managing expectations of existing shareholders/family members a key challenge
- Size and liquidity of stock markets may affect exits
- Decrease in availability of private funds as a result of the crisis
- Lack of liquidity impacting setting up new funds

### Outlook

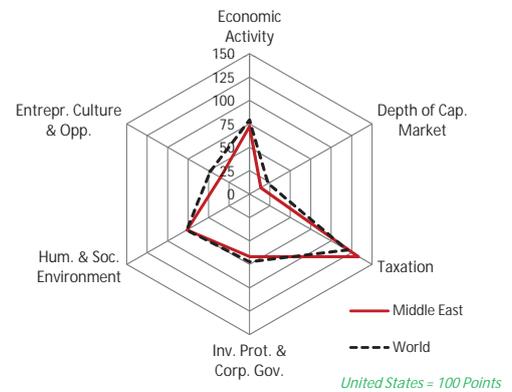
- Global economic downturn to slow down activity in the short term
- Potential for acquiring assets at attractive valuations
- Transformations from family run businesses to corporate structures
- IPO markets to re-open as a result of a gradual recovery

*Phil Gandier, Partner, Ernst & Young Middle East*

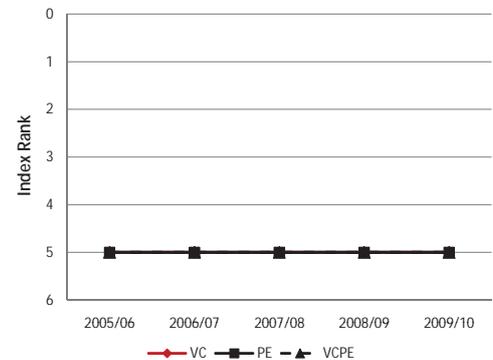
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
VCPE Ranking	5	45,9	5	→	⊗
Economic Activity	4	72,2	7	↓	⊗
Depth of Cap. Market	5	13,8	5	→	⊗
Taxation	1	133,3	1	→	⊗
Inv. Prot. & Corp. Gov.	5	66,6	5	→	⊗
Hum. & Soc. Env.	4	76,4	4	→	⊗
Entrepr. Culture & Opp.	6	35,5	6	→	⊗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
North America	1	96,9	1	→	⊗
Australasia	2	76,4	2	→	⊗
Western Europe	3	67,5	3	→	⊗
Asia	4	53,5	4	→	⊗
Middle East	5	45,9	5	→	⊗
Eastern Europe	6	41,9	6	→	⊗
Latin America	7	34,9	7	→	⊗
Africa	8	33,2	8	→	⊗

# Middle East

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	4	55,4	4	→	■	■
1.2	Inflation	4	71,8	7	↓	■	■
1.3	Unemployment	6	94,7	6	→	■	■

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	4	23,7	5	↓	■	■
2.2	IPO Market Activity	5	3,0	5	→	■	■
2.3	M&A Market Activity	8	1,6	6	↑	■	■
2.4	Debt & Credit Market	5	78,1	5	→	■	■
2.5	Financial Market Sophistication	6	55,7	5	↑	■	■

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	1	183,3	1	→	■	■
3.2	Administrative Tax Burdens	4	96,8	4	→	■	■

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	7	63,3	7	→	■	■
4.2	Security of Property Rights	5	58,0	5	→	■	■
4.3	Quality of Legal Enforcement	4	86,5	4	→	■	■
4.4	Regulatory Quality	6	61,8	6	→	■	■

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	6	55,4	6	→	■	■
5.2	Labor Market Rigidities	3	68,6	3	→	■	■
5.3	Bribing & Corruption	4	63,9	4	→	■	■
5.4	Costs of Crime	3	140,7	1	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	5	21,6	5	→	■	■
6.2	Ease of Starting & Running a Business	7	97,1	3	↑	■	■
6.3	Simplicity of Closing a Business	8	53,1	8	→	■	■
6.4	ICT Infrastructure	7	14,2	7	→	■	■

# North America

## Basic Facts



GDP	15984 [bn USD]	IPO Volume	
Population	342 [mn]	M&A Volume	
GDP Growth '02		VC Activity	
Pop. Growth '02		PE Activity	

## SWOT Analysis

### Strengths

- Strong innovation and entrepreneurship culture
- Strong US VC/PE market and financial community

### Weaknesses

- Financial services have a very large stake of the overall economic output, making the region especially vulnerable to the financial crisis

### Opportunities

- Innovations and fast growth segments such as cleantech, cloud computing, wireless and security

### Threats

- Succession planning in some funds
- Impact of lack of exits on the ability to raise new or follow on funds

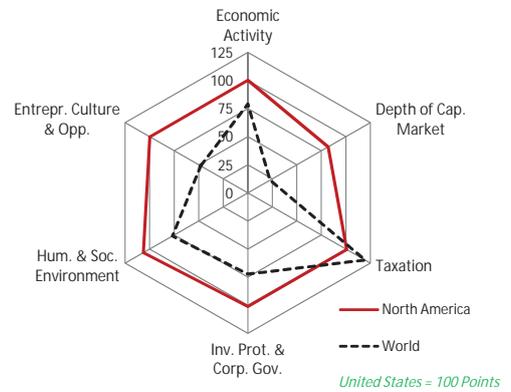
### Outlook

- Strong industry with new investment and growth opportunities
- The number of players will continue to shrink: less funds will be able to raise follow-on funds

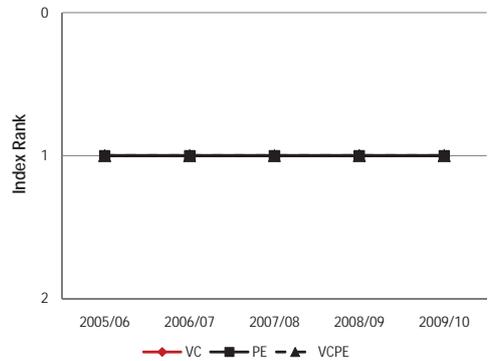
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	1	96,9	1		
Economic Activity	1	100,3	1		
Depth of Cap. Market	1	82,0	1		
Taxation	4	100,8	8		
Inv. Prot. & Corp. Gov.	2	101,1	2		
Hum. & Soc. Env.	2	106,3	2		
Entrepr. Culture & Opp.	1	99,9	1		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
North America	1	96,9	1		
Australasia	2	76,4	2		
Western Europe	3	67,5	3		
Asia	4	53,5	4		
Middle East	5	45,9	5		
Eastern Europe	6	41,9	6		
Latin America	7	34,9	7		
Africa	8	33,2	8		

# North America

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	1	98,5	1	→	■	■
1.2 Inflation	2	102,5	1	↑	■	■
1.3 Unemployment	2	99,9	2	→	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	1	87,2	1	→	■	■
2.2 IPO Market Activity	1	62,9	1	→	■	■
2.3 M&A Market Activity	1	61,0	1	→	■	■
2.4 Debt & Credit Market	1	107,6	1	→	■	■
2.5 Financial Market Sophistication	1	103,1	1	→	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	6	100,8	8	↓	■	■
3.2 Administrative Tax Burdens	2	100,9	2	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	2	99,5	2	→	■	■
4.2 Security of Property Rights	2	92,7	2	→	■	■
4.3 Quality of Legal Enforcement	3	111,6	2	↑	■	■
4.4 Regulatory Quality	2	101,3	2	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	1	104,2	1	→	■	■
5.2 Labor Market Rigidities	1	95,7	2	↓	■	■
5.3 Bribing & Corruption	3	112,2	2	↑	■	■
5.4 Costs of Crime	4	114,3	4	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	1	89,4	1	→	■	■
6.2 Ease of Starting & Running a Business	1	105,1	1	→	■	■
6.3 Simplicity of Closing a Business	1	106,2	1	→	■	■
6.4 ICT Infrastructure	1	99,6	1	→	■	■

# Western Europe

## Basic Facts



GDP	17763 [bn USD]	IPO Volume	4th 1st
Population	403 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Large sample of companies and still smaller private capital share than in the USA, which reveals some catch up potential

### Weaknesses

- There is an ongoing discussion about a new regulatory framework, which causes uncertainty and might burden investors with additional costs and efforts

### Opportunities

- Europe might recover from the crisis earlier and better than expected, leaving investors with two "buyers' years" (2010/2011) similar to 2002/2003

### Threats

- Regulation together with reputation damages from 2007/2008 investments and a deeper crisis than expected might cause a real shakeout in the industry and damage the VC/PE market for a longer period

### Outlook

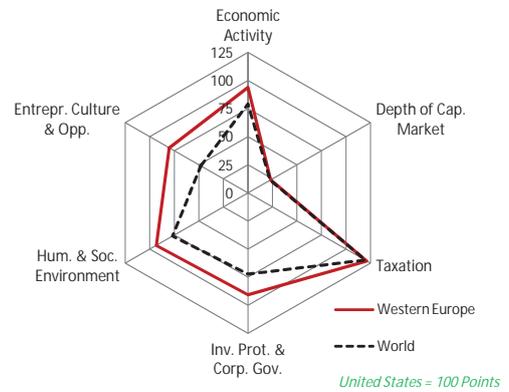
- It is more likely that we will see something like the 2002/2003 activity very soon and Western Europe maturing similar to US market 15 years ago. Coupled with all the infrastructure and expertise, deals will get sourced and done efficiently

Florian Huber, Senior Manager, Ernst & Young Germany

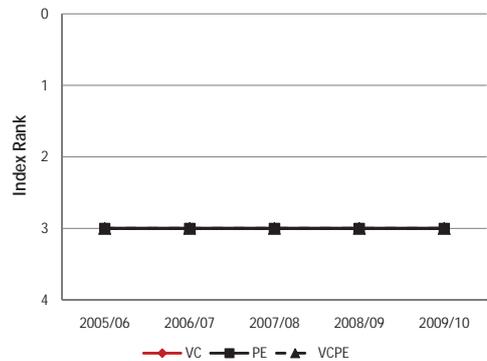
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	3	67,5	3	→	■ ■ ■ ■
Economic Activity	3	93,8	3	→	■ ■ ■ ■
Depth of Cap. Market	3	23,3	4	↓	■ ■ ■ ■
Taxation	3	121,1	3	→	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	3	90,5	3	→	■ ■ ■ ■
Hum. & Soc. Env.	3	93,3	3	→	■ ■ ■ ■
Entrepr. Culture & Opp.	3	80,2	3	→	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
North America	1	96,9	1	→	■ ■ ■ ■
Australasia	2	76,4	2	→	■ ■ ■ ■
<b>Western Europe</b>	3	67,5	3	→	■ ■ ■ ■
Asia	4	53,5	4	→	■ ■ ■ ■
Middle East	5	45,9	5	→	■ ■ ■ ■
Eastern Europe	6	41,9	6	→	■ ■ ■ ■
Latin America	7	34,9	7	→	■ ■ ■ ■
Africa	8	33,2	8	→	■ ■ ■ ■

# Western Europe

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	3	84,4	3	→	■	■
1.2 Inflation	1	101,4	2	↓	■	■
1.3 Unemployment	4	96,5	4	→	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	3	36,6	3	→	■	■
2.2 IPO Market Activity	4	3,1	4	→	■	■
2.3 M&A Market Activity	3	7,2	4	↓	■	■
2.4 Debt & Credit Market	3	93,9	3	→	■	■
2.5 Financial Market Sophistication	3	89,6	3	→	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	5	146,8	4	↑	■	■
3.2 Administrative Tax Burdens	3	100,0	3	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	3	72,0	4	↓	■	■
4.2 Security of Property Rights	3	87,4	3	→	■	■
4.3 Quality of Legal Enforcement	2	109,8	3	↓	■	■
4.4 Regulatory Quality	3	97,0	3	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	3	86,5	3	→	■	■
5.2 Labor Market Rigidities	6	62,3	6	→	■	■
5.3 Bribing & Corruption	2	106,9	3	↓	■	■
5.4 Costs of Crime	2	131,6	3	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	2	59,4	2	→	■	■
6.2 Ease of Starting & Running a Business	3	93,8	4	↓	■	■
6.3 Simplicity of Closing a Business	3	95,2	3	→	■	■
6.4 ICT Infrastructure	3	78,0	3	→	■	■

# Argentina

Capital: Buenos Aires ++ Official Language: Spanish ++ Currency: Argentine Peso

## Basic Facts



GDP	303 [bn USD]	IPO Volume	4th 1st
Population	40 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08	-----	VC Activity	4th 1st
Pop. Growth '02 - '08	█	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Tax advantages on dividends and share transfers

### Weaknesses

- Many regulatory hurdles to overcome to develop a stronger industry
- Legal framework for fund formation and operation presents difficulties, particularly for foreign funds
- Corporate governance standards and enforcement remains lengthy and cumbersome

### Opportunities

- Strength of entrepreneurial dynamism and quality of Argentina's accounting standards

### Threats

- With the pension system re-nationalisation, institutional investment is now effectively barred from the PE/VC industry
- High perception of corruption

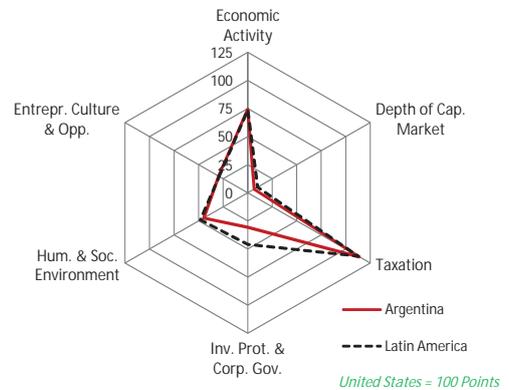
### Outlook

- The country is underperforming relative to its size and level of development
- Improvement in the VC/PE business environment does not appear to be a major near-term priority

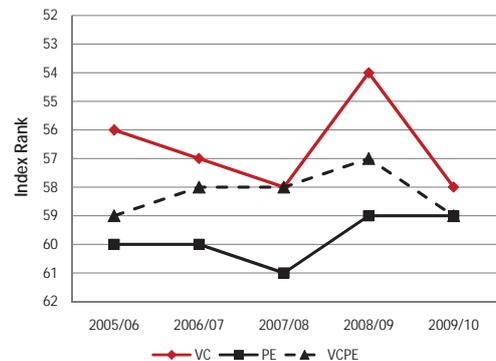
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	59	29,1	59	29,1	→	✗
Economic Activity	51	74,3	42	74,3	↑	✗
Depth of Cap. Market	60	6,5	59	6,5	↑	✗
Taxation	54	113,7	37	113,7	↑	✗
Inv. Prot. & Corp. Gov.	61	30,4	64	30,4	↓	✗
Hum. & Soc. Env.	62	44,9	53	44,9	↑	✗
Entrepr. Culture & Opp.	48	29,6	51	29,6	↓	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Chile	27	45,8	32	45,8	↓	✗
Mexico	51	35,8	49	35,8	↑	✗
Brazil	56	34,6	51	34,6	↑	✗
Uruguay	50	33,4	52	33,4	↓	✗
Peru	54	32,4	53	32,4	↑	✗
Colombia	55	29,4	58	29,4	↓	✗
<b>Argentina</b>	<b>59</b>	<b>29,1</b>	<b>59</b>	<b>29,1</b>	<b>→</b>	<b>✗</b>
Paraguay	66	14,9	65	14,9	↑	✗
Venezuela	65	8,9	66	8,9	↓	✗

# Argentina

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	32	52,9	40	↓	■	■
1.2	Inflation	60	82,5	45	↑	■	■
1.3	Unemployment	52	93,9	50	↑	■	■

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	50	5,6	58	↓	■	■
2.2	IPO Market Activity	52	2,5	25	↑	■	■
2.3	M&A Market Activity	47	1,9	38	↑	■	■
2.4	Debt & Credit Market	65	31,3	63	↑	■	■
2.5	Financial Market Sophistication	58	13,5	62	↓	■	■

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	51	136,5	37	↑	■	■
3.2	Administrative Tax Burdens	61	94,7	43	↑	■	■

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	46	44,5	55	↓	■	■
4.2	Security of Property Rights	59	26,0	61	↓	■	■
4.3	Quality of Legal Enforcement	62	27,2	63	↓	■	■
4.4	Regulatory Quality	63	27,2	65	↓	■	■

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	60	43,5	54	↑	■	■
5.2	Labor Market Rigidities	64	56,7	38	↑	■	■
5.3	Bribing & Corruption	58	22,4	57	↑	■	■
5.4	Costs of Crime	55	73,3	55	→	■	■

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	52	11,1	52	→	■	■
6.2	Ease of Starting & Running a Business	55	52,7	60	↓	■	■
6.3	Simplicity of Closing a Business	41	61,8	42	↓	■	■
6.4	ICT Infrastructure	44	21,1	44	→	■	■

# Australia

Capital: Canberra ++ Official Language: English ++ Currency: Australian Dollar

## Basic Facts



GDP	980 [bn USD]	IPO Volume	Quartile 4th 1st
Population	21 [mn]	M&A Volume	■ ■ ■ ■ ■
GDP Growth '02-'08		VC Activity	■ ■ ■ ■ ■
Pop. Growth '02-'08		PE Activity	■ ■ ■ ■ ■

## SWOT Analysis

### Strengths

- Strong economy and sound banking/capital/financial market systems
- Democratic and stable political, regulatory and legal environment
- Government support for foreign investors
- Significant number of VC/PE investments currently under management

### Weaknesses

- Competition from both local and overseas investors
- Tax rates are comparatively high
- Performance of VC/PE investee companies facing tough market conditions
- Slow recovery from the recessionary environment predicted

### Opportunities

- Strong M&A market with international targets and sound prospects for exits
- VC/PE investors have a significant amount of dry powder to make new investments
- Strong stock market listed culture, providing good opportunities for IPO

### Threats

- High interest rate environment making current debt raisings difficult
- Liquidity issues continue to restrict the level and availability of leverage
- P2P's and PIPES are proving more difficult in finding support from boards/shareholders
- Refinance of existing senior debt packages in the next two years

### Outlook

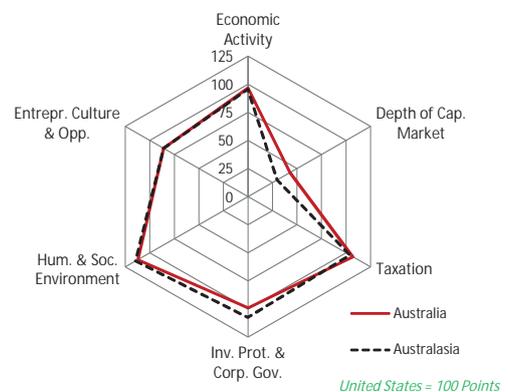
- Business models and margins continue to be under pressure
- Increasing pressure from LPs to exit less successful investee companies
- Financing and acquisition opportunities are expected to increase

Bryan Zekulich, Partner, Ernst & Young Australia

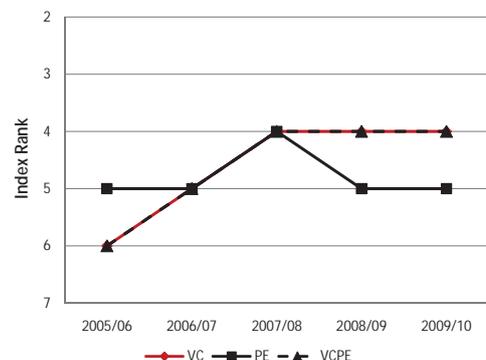
## VCPE-Ranking

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
<b>VCPE Ranking</b>	<b>6</b>	<b>81,9</b>	<b>4</b>	↑ ■ ■ ■ ■
Economic Activity	15	96,7	7	↑ ■ ■ ■ ■
Depth of Cap. Market	5	42,9	4	↑ ■ ■ ■ ■
Taxation	39	106,9	41	↓ ■ ■ ■ ■
Inv. Prot. & Corp. Gov.	10	99,0	11	↓ ■ ■ ■ ■
Hum. & Soc. Env.	6	112,3	5	↑ ■ ■ ■ ■
Entrepr. Culture & Opp.	13	86,1	13	→ ■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
Australia	6	81,9	4	↑ ■ ■ ■ ■
Hong Kong	4	79,5	5	↓ ■ ■ ■ ■
Singapore	5	78,5	6	↓ ■ ■ ■ ■
Japan	7	76,5	7	→ ■ ■ ■ ■
Republic of Korea	15	67,5	13	↑ ■ ■ ■ ■
New Zealand	18	60,0	18	→ ■ ■ ■ ■
Taiwan	25	55,3	23	↑ ■ ■ ■ ■
Malaysia	23	54,4	25	↓ ■ ■ ■ ■
China	42	48,5	28	↑ ■ ■ ■ ■

# Australia

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	13	89,2	7	↑	■	■
1.2	Inflation	31	97,1	26	↑	■	■
1.3	Unemployment	19	104,3	19	→	■	■

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	10	60,2	9	↑	■	■
2.2	IPO Market Activity	5	11,4	6	↓	■	■
2.3	M&A Market Activity	4	19,4	5	↓	■	■
2.4	Debt & Credit Market	11	108,6	2	↑	■	■
2.5	Financial Market Sophistication	5	100,0	8	↓	■	■

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	48	113,2	54	↓	■	■
3.2	Administrative Tax Burdens	15	100,9	14	↑	■	■

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	15	78,1	17	↓	■	■
4.2	Security of Property Rights	5	95,8	12	↓	■	■
4.3	Quality of Legal Enforcement	8	120,4	9	↓	■	■
4.4	Regulatory Quality	8	106,5	6	↑	■	■

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	8	100,3	9	↓	■	■
5.2	Labor Market Rigidities	11	99,2	2	↑	■	■
5.3	Bribing & Corruption	8	126,0	8	→	■	■
5.4	Costs of Crime	16	127,0	25	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	18	57,8	18	→	■	■
6.2	Ease of Starting & Running a Business	11	101,8	13	↓	■	■
6.3	Simplicity of Closing a Business	13	102,9	13	→	■	■
6.4	ICT Infrastructure	15	90,9	12	↑	■	■

# Austria

Capital: Vienna ++ Official Language: German (official nationwide); Slovene, Croatian, Hungarian (each official in one region) ++  
 Currency: Euro

## Basic Facts



GDP	411 [bn USD]	IPO Volume	4th 1st
Population	8 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Still a niche market which is not as crowded as Germany, while offering a similar, but smaller sample of companies and industries

### Weaknesses

- Almost a "closed shop", which takes a lot of effort to enter for a little deal flow and transactions of smaller size

### Opportunities

- Austria has a lot of hidden champions and family owned companies with succession problems

### Threats

- Regulation together with reputation damages from 2007/2008 investments and a deeper crisis than expected might cause a real shakeout in the industry and might damage the VC/PE Market on a longer term

### Outlook

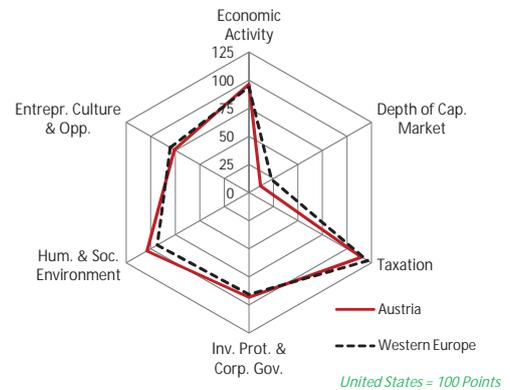
- Will stay a niche, but might be used as base for Eastern European acquisitions as Austria offers good resources with respect to the necessary language skills and the cultural understanding.

Florian Huber, Senior Manager, Ernst & Young Germany

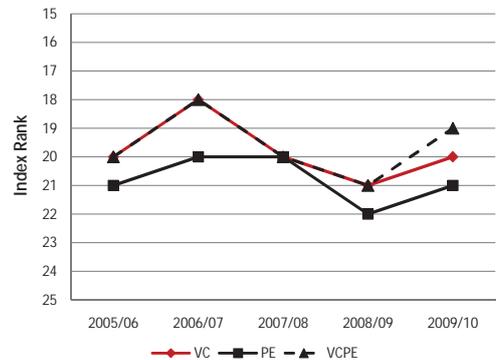
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	20	58,6	19	58,6	↑	■ ■ ■ ■
Economic Activity	17	96,3	8	96,3	↑	■ ■ ■ ■
Depth of Cap. Market	31	11,8	37	11,8	↓	■ ■ ■ ■
Taxation	38	114,7	36	114,7	↑	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	15	93,0	16	93,0	↓	■ ■ ■ ■
Hum. & Soc. Env.	11	103,9	9	103,9	↑	■ ■ ■ ■
Entrepr. Culture & Opp.	17	76,1	19	76,1	↓	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Norway	11	66,3	14	66,3	↓	■ ■ ■ ■
Finland	12	65,9	15	65,9	↓	■ ■ ■ ■
France	17	65,2	16	65,2	↑	■ ■ ■ ■
Belgium	19	61,1	17	61,1	↑	■ ■ ■ ■
<b>Austria</b>	20	58,6	19	58,6	↑	■ ■ ■ ■
Ireland	16	58,3	21	58,3	↓	■ ■ ■ ■
Luxembourg	24	54,6	24	54,6	→	■ ■ ■ ■
Portugal	28	49,5	27	49,5	↑	■ ■ ■ ■
Greece	44	40,7	39	40,7	↑	■ ■ ■ ■

# Austria

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	15	82,6	12	↑	■	■
1.2 Inflation	20	102,2	8	↑	■	■
1.3 Unemployment	23	105,8	13	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	42	11,2	45	↓	■	■
2.2 IPO Market Activity	27	1,2	50	↓	■	■
2.3 M&A Market Activity	35	2,0	37	↓	■	■
2.4 Debt & Credit Market	14	96,1	14	→	■	■
2.5 Financial Market Sophistication	16	90,7	18	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	45	137,3	36	↑	■	■
3.2 Administrative Tax Burdens	32	95,9	38	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	32	59,2	40	↓	■	■
4.2 Security of Property Rights	7	99,2	8	↓	■	■
4.3 Quality of Legal Enforcement	6	124,7	5	↑	■	■
4.4 Regulatory Quality	11	102,1	13	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	13	87,9	17	↓	■	■
5.2 Labor Market Rigidities	32	74,3	25	↑	■	■
5.3 Bribing & Corruption	9	119,0	11	↓	■	■
5.4 Costs of Crime	5	150,0	8	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	17	58,7	17	→	■	■
6.2 Ease of Starting & Running a Business	22	88,6	36	↓	■	■
6.3 Simplicity of Closing a Business	22	88,2	20	↑	■	■
6.4 ICT Infrastructure	17	73,2	18	↓	■	■

# Belgium

Capital: Brussels ++ Official Language: Dutch, French, German ++ Currency: Euro

## Basic Facts



	Value	Quartile
GDP	501 [bn USD]	4th
Population	11 [mn]	1st
GDP Growth '02-'08	Bar chart	
Pop. Growth '02-'08	Bar chart	
IPO Volume	Bar chart	
M&A Volume	Bar chart	
VC Activity	Bar chart	
PE Activity	Bar chart	

## SWOT Analysis

### Strengths

- Attractive taxation for investors with limited taxation on capital gains and on patent income
- Strong education system resulting in highly skilled workforce and important R&D activity

### Weaknesses

- Due to the limited size of the deals, takeover opportunities are still fundable from a bank perspective
- Prominent role of government backed VC's

### Opportunities

- Most SMEs are still in private hands
- More and more private SMEs are open to external investors

### Threats

- Available funds within PE sector, predominantly used for add-on investments
- Stock exchange: liquidity on small caps is very limited

### Outlook

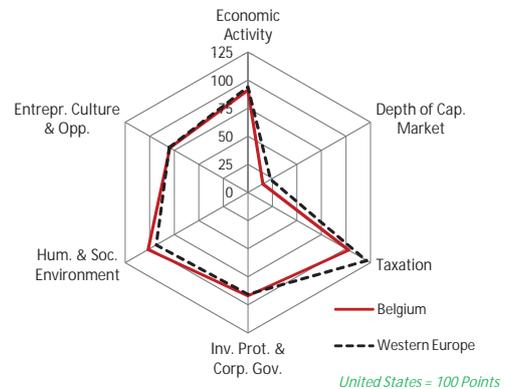
- Increasing number of strategic deals
- The new tax/legal framework favors R&D investments (tax incentives for researchers, patent income deduction, notional interest deduction), importantly decreasing the corporate effective tax rate

Marc Guns, Partner, Ernst & Young Belgium

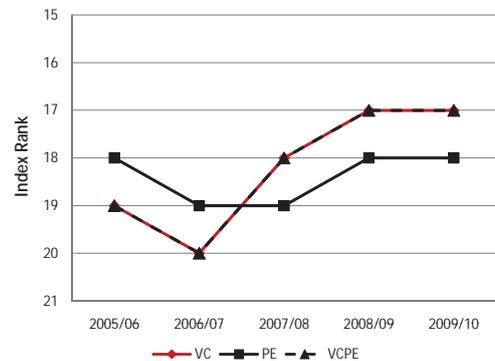
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>19</b>	<b>61,1</b>	<b>17</b>	↑	█ █ █ █
Economic Activity	26	91,1	16	↑	█ █ █ █
Depth of Cap. Market	20	15,2	27	↓	█ █ █ █
Taxation	61	102,8	47	↑	█ █ █ █
Inv. Prot. & Corp. Gov.	16	92,0	17	↓	█ █ █ █
Hum. & Soc. Env.	13	101,8	11	↑	█ █ █ █
Entrepr. Culture & Opp.	15	79,4	16	↓	█ █ █ █

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	█ █ █ █
Denmark	10	67,7	12	↓	█ █ █ █
Finland	12	65,9	15	↓	█ █ █ █
France	17	65,2	16	↑	█ █ █ █
<b>Belgium</b>	<b>19</b>	<b>61,1</b>	<b>17</b>	↑	█ █ █ █
Austria	20	58,6	19	↑	█ █ █ █
Ireland	16	58,3	21	↓	█ █ █ █
Italy	32	47,5	29	↑	█ █ █ █
Greece	44	40,7	39	↑	█ █ █ █

# Belgium

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	24	80,4	14	↑	■ ■ ■ ■	⊗
1.2 Inflation	29	97,5	25	↑	■ ■ ■ ■	⊗
1.3 Unemployment	42	96,5	40	↑	■ ■ ■ ■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	30	16,6	34	↓	■ ■ ■ ■	⊗
2.2 IPO Market Activity	22	1,5	37	↓	■ ■ ■ ■	⊗
2.3 M&A Market Activity	18	4,1	21	↓	■ ■ ■ ■	⊗
2.4 Debt & Credit Market	19	85,1	22	↓	■ ■ ■ ■	⊗
2.5 Financial Market Sophistication	16	90,7	18	↓	■ ■ ■ ■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	65	105,4	60	↑	⊗	■ ■ ■ ■
3.2 Administrative Tax Burdens	14	100,3	17	↓	■ ■ ■ ■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	13	86,4	13	→	■ ■ ■ ■	⊗
4.2 Security of Property Rights	15	84,4	19	↓	■ ■ ■ ■	⊗
4.3 Quality of Legal Enforcement	20	101,4	19	↑	■ ■ ■ ■	⊗
4.4 Regulatory Quality	20	96,7	17	↑	■ ■ ■ ■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	3	106,1	6	↓	■ ■ ■ ■	⊗
5.2 Labor Market Rigidities	24	75,0	21	↑	■ ■ ■ ■	⊗
5.3 Bribing & Corruption	18	99,7	19	↓	■ ■ ■ ■	⊗
5.4 Costs of Crime	18	135,4	19	↓	■ ■ ■ ■	⊗

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	15	59,9	15	→	■ ■ ■ ■	⊗
6.2 Ease of Starting & Running a Business	30	93,6	29	↑	■ ■ ■ ■	⊗
6.3 Simplicity of Closing a Business	6	110,8	6	→	■ ■ ■ ■	⊗
6.4 ICT Infrastructure	18	64,2	21	↓	■ ■ ■ ■	⊗

# Brazil

Capital: Brasilia ++ Official Language: Portuguese ++ Currency: Brazilian Real

## Basic Facts



GDP	1537 [bn USD]	IPO Volume	4th 1st
Population	194 [mn]	M&A Volume	4th 1st
GDP Growth '02		VC Activity	4th 1st
Pop. Growth '02		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Strong government support programs for start-ups, technology ventures and SMEs
- Number of companies listed on the Brazilian stock exchange increased remarkably in the past years
- An initial framework for VC activity, focused on smaller firms and start-ups, was provided by FIEs

### Weaknesses

- Fighting the perception of corruption remains a serious challenge
- The process of registering and enforcing patents and other intellectual property remains slow and cumbersome

### Opportunities

- Favourable legislation on fund formation and operation, permissive regulations on institutional investors and strong entrepreneurship

### Threats

- Corruption is pervasive throughout the public sector and there have only been a few sanctions against those involved in illegal campaign financing activities

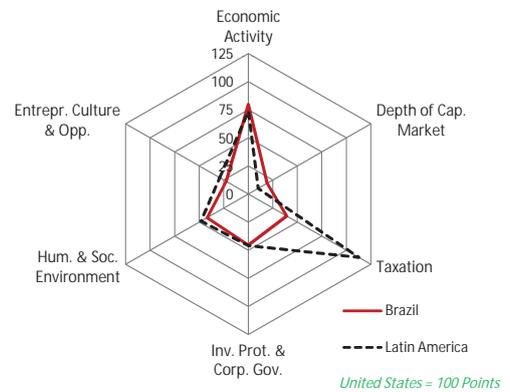
### Outlook

- Brazil leads the region in the development of a local PE/VC industry

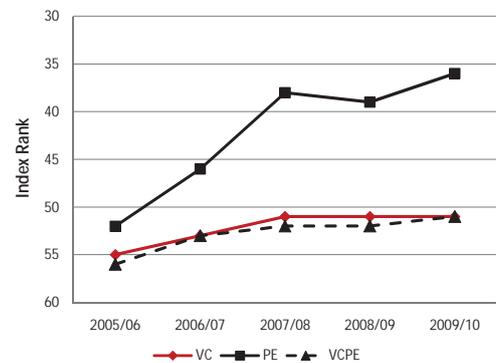
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	56	34,6	51	34,6	↑	⊗
Economic Activity	48	79,9	34	79,9	↑	⊗
Depth of Cap. Market	29	19,3	18	19,3	↑	⊗
Taxation	66	39,2	65	39,2	↑	⊗
Inv. Prot. & Corp. Gov.	52	45,4	54	45,4	↓	⊗
Hum. & Soc. Env.	54	42,0	56	42,0	↓	⊗
Entrepr. Culture & Opp.	65	22,7	57	22,7	↑	⊗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Chile	27	45,8	32	45,8	↓	⊗
Mexico	51	35,8	49	35,8	↑	⊗
<b>Brazil</b>	56	34,6	51	34,6	↑	⊗
Uruguay	50	33,4	52	33,4	↓	⊗
Peru	54	32,4	53	32,4	↑	⊗
Colombia	55	29,4	58	29,4	↓	⊗
Argentina	59	29,1	59	29,1	→	⊗
Paraguay	66	14,9	65	14,9	↑	⊗
Venezuela	65	8,9	66	8,9	↓	⊗

# Brazil

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	44	58,3	31	↑	■	■
1.2	Inflation	54	93,1	32	↑	■	■
1.3	Unemployment	48	93,9	50	↓	■	■

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	35	22,1	26	↑	■	■
2.2	IPO Market Activity	24	4,0	18	↑	■	■
2.3	M&A Market Activity	24	8,2	14	↑	■	■
2.4	Debt & Credit Market	59	39,8	61	↓	■	■
2.5	Financial Market Sophistication	18	93,8	13	↑	■	■

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	21	148,3	29	↓	■	■
3.2	Administrative Tax Burdens	66	10,4	65	↑	■	■

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	55	46,0	53	↑	■	■
4.2	Security of Property Rights	47	45,3	48	↓	■	■
4.3	Quality of Legal Enforcement	59	37,4	59	→	■	■
4.4	Regulatory Quality	50	54,6	49	↑	■	■

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	58	45,8	48	↑	■	■
5.2	Labor Market Rigidities	48	31,5	60	↓	■	■
5.3	Bribing & Corruption	49	37,8	50	↓	■	■
5.4	Costs of Crime	58	57,1	57	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	36	16,0	39	↓	■	■
6.2	Ease of Starting & Running a Business	66	20,7	65	↑	■	■
6.3	Simplicity of Closing a Business	66	44,5	55	↑	■	■
6.4	ICT Infrastructure	45	17,9	46	↓	■	■

# Bulgaria

Capital: Sofia ++ Official Language: Bulgarian ++ Currency: Bulgarian Lev

## Basic Facts



GDP	51 [bn USD]	IPO Volume	
Population	8 [mn]	M&A Volume	
GDP Growth		VC Activity	
Pop. Growth		PE Activity	

## SWOT Analysis

### Strengths

- Growing market
- Increasing number of investment opportunities
- Return has been higher than in mature markets

### Weaknesses

- Deal size is relatively small
- Quality of target information below standard

### Opportunities

- Market expects higher than average growth
- Current low penetration of the service sector: existence of growth opportunities

### Threats

- Continuing impact of crisis
- Small market
- Slow recovery of foreign markets

### Outlook

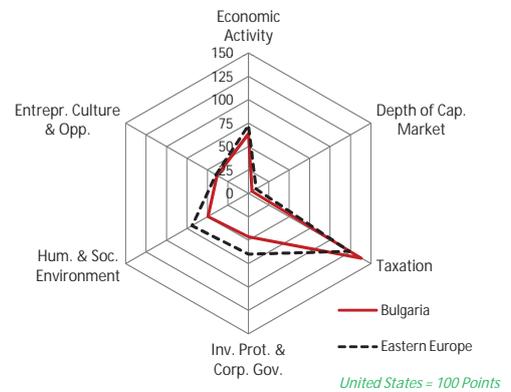
- Following the crisis, the VC/PE market in Bulgaria could be expected to become active with a six-month delay compared to developed markets. Opportunities will arise from smaller size deals

Diana Nikolaeva, Partner, Ernst & Young Bulgaria

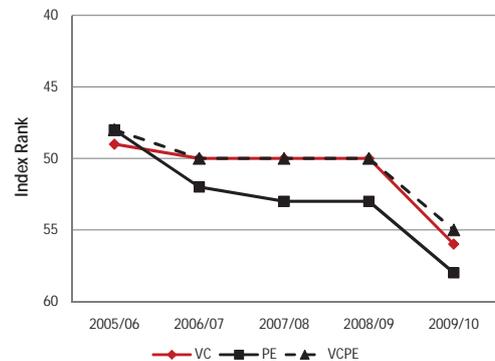
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>48</b>	<b>30,6</b>	<b>55</b>		
Economic Activity	54	63,6	53		
Depth of Cap. Market	56	4,4	64		
Taxation	13	138,1	8		
Inv. Prot. & Corp. Gov.	47	46,2	53		
Hum. & Soc. Env.	50	49,4	49		
Entrepr. Culture & Opp.	41	38,5	37		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31		
Czech Republic	33	45,5	34		
Estonia	30	44,5	35		
Hungary	34	41,1	37		
Lithuania	37	40,4	40		
Croatia	47	38,6	45		
Romania	52	38,1	47		
Latvia	39	35,6	50		
<b>Bulgaria</b>	<b>48</b>	<b>30,6</b>	<b>55</b>		

# Bulgaria

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	56	36,5	53	↑	☒	☐
1.2 Inflation	50	70,2	57	↓	☒	☐
1.3 Unemployment	51	100,3	26	↑	☐	☒

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	47	12,3	42	↑	☒	☐
2.2 IPO Market Activity	49	1,1	51	↓	☒	☐
2.3 M&A Market Activity	46	1,4	51	↓	☒	☐
2.4 Debt & Credit Market	40	74,0	37	↑	☐	☒
2.5 Financial Market Sophistication	64	1,2	66	↓	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	9	215,5	2	↑	☐	☒
3.2 Administrative Tax Burdens	49	88,5	52	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	38	51,3	47	↓	☒	☐
4.2 Security of Property Rights	57	31,7	59	↓	☒	☐
4.3 Quality of Legal Enforcement	53	38,5	58	↓	☒	☐
4.4 Regulatory Quality	38	72,8	36	↑	☐	☒

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	56	44,4	52	↑	☒	☐
5.2 Labor Market Rigidities	27	74,6	23	↑	☐	☒
5.3 Bribing & Corruption	44	32,1	55	↓	☒	☐
5.4 Costs of Crime	57	56,0	59	↓	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	55	11,9	48	↑	☒	☐
6.2 Ease of Starting & Running a Business	40	94,8	25	↑	☐	☒
6.3 Simplicity of Closing a Business	38	62,9	39	↓	☒	☐
6.4 ICT Infrastructure	39	30,8	36	↑	☐	☒



# Canada

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	10	83,2	11	↓	■	⊗
1.2 Inflation	25	105,1	2	↑	■	⊗
1.3 Unemployment	27	99,1	33	↓	■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	6	70,7	5	↑	■	⊗
2.2 IPO Market Activity	2	18,4	3	↓	■	⊗
2.3 M&A Market Activity	5	19,9	4	↑	■	⊗
2.4 Debt & Credit Market	2	111,2	1	↑	■	⊗
2.5 Financial Market Sophistication	5	106,2	3	↑	■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	23	98,6	62	↓	⊗	■
3.2 Administrative Tax Burdens	9	101,7	11	↓	■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	10	97,7	8	↑	■	⊗
4.2 Security of Property Rights	19	83,8	21	↓	■	⊗
4.3 Quality of Legal Enforcement	9	122,7	7	↑	■	⊗
4.4 Regulatory Quality	12	102,7	11	↑	■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	5	107,5	4	↑	■	⊗
5.2 Labor Market Rigidities	4	91,3	7	↓	■	⊗
5.3 Bribing & Corruption	14	124,3	9	↑	■	⊗
5.4 Costs of Crime	26	128,5	23	↑	■	⊗

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	12	68,6	12	→	■	⊗
6.2 Ease of Starting & Running a Business	4	109,7	5	↓	■	⊗
6.3 Simplicity of Closing a Business	4	112,4	4	→	■	⊗
6.4 ICT Infrastructure	4	95,0	10	↓	■	⊗

# Chile

Capital: Santiago ++ Official Language: Spanish ++ Currency: Chilean Peso

## Basic Facts



GDP	190 [bn USD]	IPO Volume	
Population	17 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Law establishes corporate governance norms like the formation of audit committees and strengthens management responsibility for ensuring fair market prices for transactions
- Lower incidences of perceived corruption in the region
- There is considerable entrepreneurial dynamism

### Weaknesses

- Low levels of market capitalization and high costs of meeting listing requirements mean that IPO exits are not accessible to the vast majority of SMEs
- Value-added tax on fund administrator commissions for foreign participants in funds
- Foreign investors from a majority of countries still face double-taxation

### Opportunities

- Law stimulates PE/VC activity through a new form of corporate organization, the share-issuing limited-liability company, which provides a more flexible instrument to receive venture capital

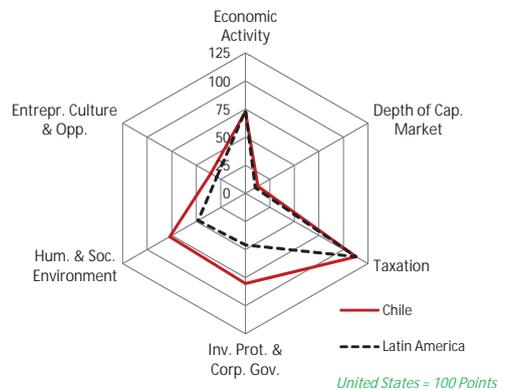
### Threats

- The cost of protecting trademarks and patents is high, and the country remains on the US Special 301 Watch List for intellectual property violations.

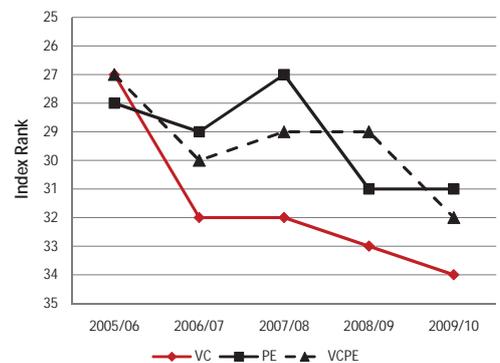
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	27	45,8	32	42		
Economic Activity	32	72,7	44	44		
Depth of Cap. Market	32	12,6	34	34		
Taxation	18	112,8	39	39		
Inv. Prot. & Corp. Gov.	24	80,2	22	22		
Hum. & Soc. Env.	27	77,0	27	27		
Entrepr. Culture & Opp.	36	35,2	42	42		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>Chile</b>	27	45,8	32	42		
Mexico	51	35,8	49	49		
Brazil	56	34,6	51	51		
Uruguay	50	33,4	52	52		
Peru	54	32,4	53	53		
Colombia	55	29,4	58	58		
Argentina	59	29,1	59	59		
Paraguay	66	14,9	65	65		
Venezuela	65	8,9	66	66		

# Chile

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	34	49,9	44	↓	■	■
1.2 Inflation	36	81,8	46	↓	■	■
1.3 Unemployment	28	94,2	49	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	31	17,1	33	↓	■	■
2.2 IPO Market Activity	44	1,0	57	↓	■	■
2.3 M&A Market Activity	44	2,0	35	↑	■	■
2.4 Debt & Credit Market	22	94,8	16	↑	■	■
2.5 Financial Market Sophistication	21	90,7	18	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	22	130,7	43	↓	■	■
3.2 Administrative Tax Burdens	20	97,3	31	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	30	66,6	28	↑	■	■
4.2 Security of Property Rights	27	66,6	27	→	■	■
4.3 Quality of Legal Enforcement	25	93,2	21	↑	■	■
4.4 Regulatory Quality	17	100,0	16	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	54	42,8	57	↓	■	■
5.2 Labor Market Rigidities	16	74,6	22	↓	■	■
5.3 Bribing & Corruption	20	95,5	20	→	■	■
5.4 Costs of Crime	34	115,4	34	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	39	15,2	41	↓	■	■
6.2 Ease of Starting & Running a Business	23	90,7	33	↓	■	■
6.3 Simplicity of Closing a Business	53	44,3	56	↓	■	■
6.4 ICT Infrastructure	35	25,2	41	↓	■	■

# China

Capital: Beijing ++ Official Language: Standard Mandarin ++ Currency: Yuan Renminbi

## Basic Facts



GDP	4192 [bn USD]	IPO Volume	Quartile 4th 1st
Population	1336 [mn]	M&A Volume	
GDP Growth '02-'08	■■■■■■■■■■	VC Activity	
Pop. Growth '02-'08	■■■■■■■■■■	PE Activity	

## SWOT Analysis

### Strengths

- Period from first VC/PE round to IPO is shorter than in other countries
- Various IPOs with high international recognition in the past few years
- Numerous alternative stock markets available for VC/PE exits
- Large companies acquiring VC/PE investees seen as attractive alternative exit

### Weaknesses

- Downturn of economy due to poor export atmosphere
- Poor market sentiment due to financial crisis
- Government policy may affect the availability of exits in overseas stock markets due to strict going public criteria

### Opportunities

- Strong growing economy
- Focus on new industries, such as solar and wind power
- Higher chances of success for green field investments

### Threats

- High valuation levels may reduce the number of transactions
- LPs are requesting the GPs to be more cautious with investment decisions
- Uncertainty on the success of stimulus policies

### Outlook

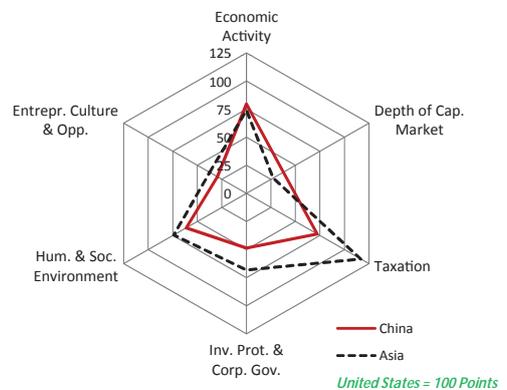
- Too early to assess the impact of the stimulus policies to the economy, but World Bank's economic growth forecast for China rose significantly
- Large increase in use of wind and solar power over the next decade planned: aimed to match Europe by 2020, producing a fifth of its energy from renewable sources

Ringo Choi, Managing Partner, Ernst & Young China

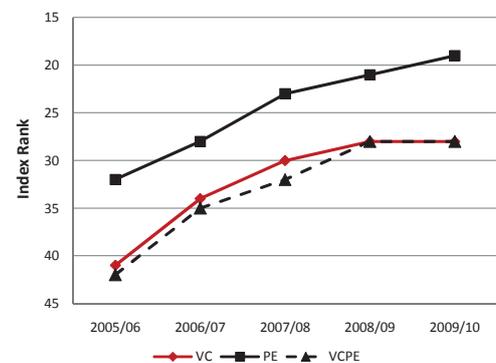
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>42</b>	<b>48,5</b>	<b>28</b>	↑	■ ■ ■ ■
Economic Activity	28	79,7	35	↓	■ ■ ■ ■
Depth of Cap. Market	16	37,7	6	↑	■ ■ ■ ■
Taxation	62	72,1	62	→	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	55	48,6	52	↑	■ ■ ■ ■
Hum. & Soc. Env.	42	61,4	42	→	■ ■ ■ ■
Entrepr. Culture & Opp.	50	29,6	50	→	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5	↓	■ ■ ■ ■
Japan	7	76,5	7	→	■ ■ ■ ■
Republic of Korea	15	67,5	13	↑	■ ■ ■ ■
Malaysia	23	54,4	25	↓	■ ■ ■ ■
<b>China</b>	<b>42</b>	<b>48,5</b>	<b>28</b>	↑	■ ■ ■ ■
India	46	40,9	38	↑	■ ■ ■ ■
Russian Federation	49	38,0	48	↑	■ ■ ■ ■
Indonesia	60	30,7	54	↑	■ ■ ■ ■
Philippines	57	26,1	61	↓	■ ■ ■ ■

# China

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	33	52,1	42	↓	■	■
1.2 Inflation	14	92,4	35	↓	■	■
1.3 Unemployment	11	105,2	14	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	26	67,4	7	↑	■	■
2.2 IPO Market Activity	3	36,0	2	↑	■	■
2.3 M&A Market Activity	9	13,3	7	↑	■	■
2.4 Debt & Credit Market	52	73,6	38	↑	■	■
2.5 Financial Market Sophistication	57	32,0	56	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	63	55,1	65	↓	■	■
3.2 Administrative Tax Burdens	56	94,3	45	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	62	46,1	52	↑	■	■
4.2 Security of Property Rights	43	45,6	47	↓	■	■
4.3 Quality of Legal Enforcement	51	64,3	44	↑	■	■
4.4 Regulatory Quality	55	41,2	58	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	33	62,2	33	→	■	■
5.2 Labor Market Rigidities	25	51,8	45	↓	■	■
5.3 Bribing & Corruption	56	39,0	47	↑	■	■
5.4 Costs of Crime	43	112,8	37	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	35	17,2	35	→	■	■
6.2 Ease of Starting & Running a Business	59	63,1	58	↑	■	■
6.3 Simplicity of Closing a Business	47	62,3	41	↑	■	■
6.4 ICT Infrastructure	50	11,4	54	↓	■	■

# Colombia

Capital: Bogotá ++ Official Language: Spanish ++ Currency: Colombian Peso

## Basic Facts



GDP	234 [bn USD]	IPO Volume	
Population	47 [mn]	M&A Volume	
GDP Growth		VC Activity	
Pop. Growth		PE Activity	

## SWOT Analysis

### Strengths

- Low barriers to participation for institutional investors
- Liberal policies towards foreign portfolio investment
- Under recent corporate governance reforms, standards for listed firms have improved

### Weaknesses

- Decline in the country's capital market development
- Low levels of market capitalization and high costs of meeting listing requirements mean that IPO exits are still not accessible to the vast majority of SMEs
- Efforts to transition to international accounting standards have met with continued delays

### Opportunities

- A loosening of restrictions will now allow further participation of pension funds in PE/VC activities

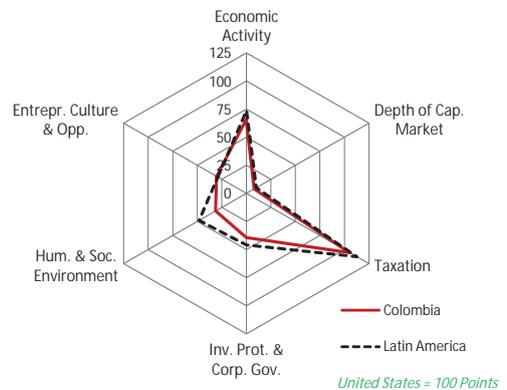
### Threats

- Corruption and the weakness of the local judicial system are still roadblocks
- Restricted size and liquidity of capital markets, and resulting difficulty of exits constitute an important impediment

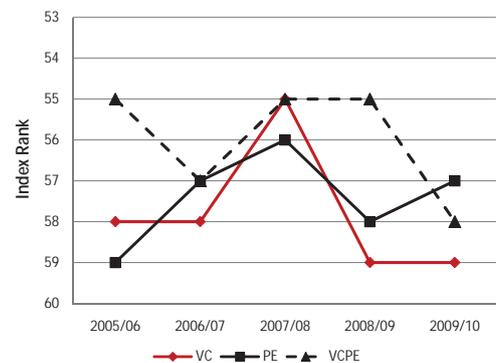
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	55	29,4	58		
Economic Activity	46	65,6	49		
Depth of Cap. Market	47	8,1	51		
Taxation	64	105,1	45		
Inv. Prot. & Corp. Gov.	59	39,1	58		
Hum. & Soc. Env.	60	31,3	64		
Entrepr. Culture & Opp.	51	30,2	49		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Chile	27	45,8	32		
Mexico	51	35,8	49		
Brazil	56	34,6	51		
Uruguay	50	33,4	52		
Peru	54	32,4	53		
<b>Colombia</b>	55	29,4	58		
Argentina	59	29,1	59		
Paraguay	66	14,9	65		
Venezuela	65	8,9	66		

# Colombia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	48	38,3	51	↓	☒	☐
1.2 Inflation	49	88,0	41	↑	☒	☐
1.3 Unemployment	59	83,8	63	↓	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	51	7,3	56	↓	☒	☐
2.2 IPO Market Activity	45	1,0	58	↓	☒	☐
2.3 M&A Market Activity	39	1,6	47	↓	☒	☐
2.4 Debt & Credit Market	42	71,3	41	↑	☒	☐
2.5 Financial Market Sophistication	51	41,3	46	↑	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	66	115,1	51	↑	☒	☐
3.2 Administrative Tax Burdens	62	95,9	37	↑	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	36	77,4	18	↑	☒	☐
4.2 Security of Property Rights	62	24,5	63	↓	☒	☐
4.3 Quality of Legal Enforcement	63	21,8	64	↓	☒	☐
4.4 Regulatory Quality	51	56,3	47	↑	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	46	46,0	46	→	☒	☐
5.2 Labor Market Rigidities	22	76,6	17	↑	☒	☐
5.3 Bribing & Corruption	48	38,3	49	↓	☒	☐
5.4 Costs of Crime	65	7,1	66	↓	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	59	8,4	61	↓	☒	☐
6.2 Ease of Starting & Running a Business	52	81,5	44	↑	☒	☐
6.3 Simplicity of Closing a Business	20	83,2	23	↓	☒	☐
6.4 ICT Infrastructure	52	14,7	49	↑	☒	☐

# Croatia

Capital: Zagreb ++ Official Language: Croatian ++ Currency: Croatian Kuna

## Basic Facts



GDP	61 [bn USD]	IPO Volume	
Population	5 [mn]	M&A Volume	
GDP Growth		VC Activity	
Pop. Growth		PE Activity	

## SWOT Analysis

### Strengths

- Significant demand for all kind of financing
- Government recently introduced strategy for innovations ("BICRO" and "CRANE")

### Weaknesses

- VC/PE market is in an initial phase of development
- Limited number of large potential investments
- Legal and business conditions are not supporting a dynamic SME sector due to lack of simple licensing and registration processes, and barriers for investments

### Opportunities

- Traditional bank loans become expensive and unavailable
- Growth potential in companies that are active in Croatia and neighboring countries
- Untapped midsize market

### Threats

- Cultural structure does not contribute to the development of entrepreneurship
- Reduced availability of debt financing and general illiquidity

### Outlook

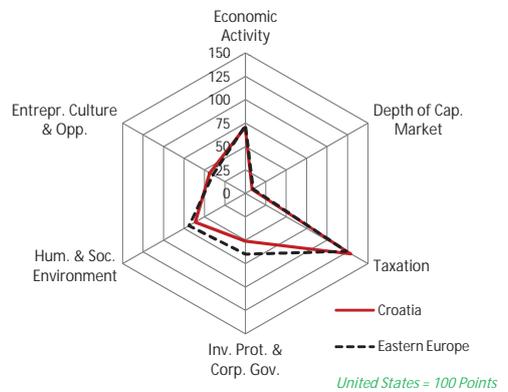
- The Croatian market is traditionally bank oriented. Reduced access to bank loans for SMEs is expected to provide a platform for increasing VC/PE activities. Hidden values are expected to be more tapped by VC/PE in the near future.

Balazs Tuske, Partner, Ernst & Young Hungary

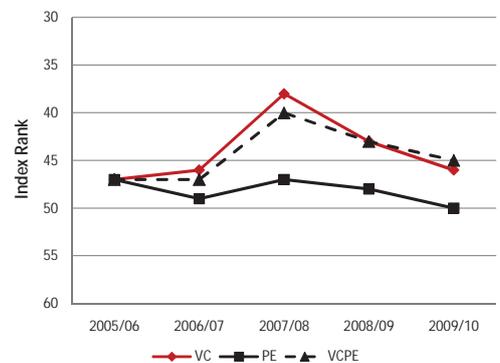
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>47</b>	<b>38,6</b>	<b>45</b>	<b>31</b>		
Economic Activity	44	70,6	46	46		
Depth of Cap. Market	59	8,4	49	49		
Taxation	16	128,9	15	15		
Inv. Prot. & Corp. Gov.	45	50,8	48	48		
Hum. & Soc. Env.	40	61,1	43	43		
Entrepr. Culture & Opp.	32	43,4	31	31		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Poland	41	45,8	31	31		
Czech Republic	33	45,5	34	34		
Estonia	30	44,5	35	35		
Hungary	34	41,1	37	37		
Lithuania	37	40,4	40	40		
<b>Croatia</b>	<b>47</b>	<b>38,6</b>	<b>45</b>	<b>31</b>		
Romania	52	38,1	47	47		
Latvia	39	35,6	50	50		
Bulgaria	48	30,6	55	55		

# Croatia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	47	41,9	49	↓	■	■
1.2 Inflation	37	90,9	38	↓	■	■
1.3 Unemployment	61	92,2	54	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	54	14,0	37	↑	■	■
2.2 IPO Market Activity	52	1,1	54	↓	■	■
2.3 M&A Market Activity	56	1,1	60	↓	■	■
2.4 Debt & Credit Market	61	70,1	44	↑	■	■
2.5 Financial Market Sophistication	46	35,1	52	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	17	170,9	16	↑	■	■
3.2 Administrative Tax Burdens	39	97,3	33	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	48	37,8	57	↓	■	■
4.2 Security of Property Rights	51	44,7	50	↑	■	■
4.3 Quality of Legal Enforcement	46	60,8	47	↓	■	■
4.4 Regulatory Quality	41	64,8	42	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	43	53,7	40	↑	■	■
5.2 Labor Market Rigidities	43	46,6	48	↓	■	■
5.3 Bribing & Corruption	46	50,3	44	↑	■	■
5.4 Costs of Crime	41	111,2	39	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	31	18,2	33	↓	■	■
6.2 Ease of Starting & Running a Business	47	84,3	41	↑	■	■
6.3 Simplicity of Closing a Business	44	58,8	47	↓	■	■
6.4 ICT Infrastructure	33	39,4	32	↑	■	■

# Czech Republic

Capital: Prague ++ Official Language: Czech ++ Currency: Czech Koruna

## Basic Facts



GDP	232 [bn USD]	IPO Volume	4th 1st
Population	10 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Relatively strong mid-term economic growth prospects
- Highly educated and skilled labor force, well developed infrastructure

### Weaknesses

- Illiquid capital market
- Negative perception/low profile of VC/PEs as a source of finance
- Few opportunities for large investments (>500m)
- Poor quality of legal enforcement and uncertain tax environment

### Opportunities

- Many good companies with poor financial management
- Large pool of owner managed businesses where owners are now reaching retirement
- Companies struggling to obtain credit from banks and looking for other sources of finance
- Opportunities in non-cyclical industries such as healthcare

### Threats

- 2010 elections may result in less favorable tax regime
- FX volatility (postponement of EURO adoption to at least 2015) and adverse impact on export competitiveness

### Outlook

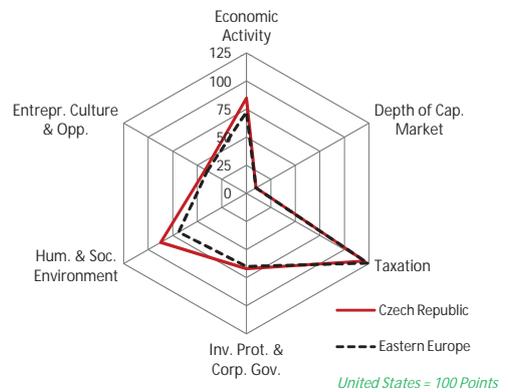
- Czech market continues to offer VC/PEs opportunities to execute leveraged transactions with companies showing reasonable growth prospects.

Vladislav Severa, Partner, Ernst & Young Czech Republic

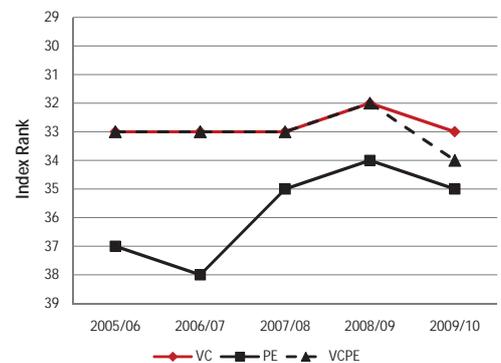
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>33</b>	<b>45,5</b>	<b>34</b>	↓	4th
Economic Activity	25	84,7	26	↓	4th
Depth of Cap. Market	43	9,9	44	↓	4th
Taxation	35	120,4	28	↑	4th
Inv. Prot. & Corp. Gov.	32	67,0	35	↓	4th
Hum. & Soc. Env.	23	87,2	20	↑	4th
Entrepr. Culture & Opp.	35	41,9	33	↑	4th

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31	↑	4th
<b>Czech Republic</b>	<b>33</b>	<b>45,5</b>	<b>34</b>	↓	4th
Estonia	30	44,5	35	↓	4th
Hungary	34	41,1	37	↓	4th
Lithuania	37	40,4	40	↓	4th
Croatia	47	38,6	45	↑	4th
Romania	52	38,1	47	↑	4th
Latvia	39	35,6	50	↓	4th
Bulgaria	48	30,6	55	↓	4th

# Czech Republic

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
1.1 Gross Domestic Product	27	64,3	28	↓	■ ■ ■ ■
1.2 Inflation	15	90,9	38	↓	■ ■ ■ ■
1.3 Unemployment	37	104,0	20	↑	■ ■ ■ ■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
2.1 Size and Liquidity of the Stock Market	44	7,7	55	↓	■ ■ ■ ■
2.2 IPO Market Activity	52	1,6	36	↑	■ ■ ■ ■
2.3 M&A Market Activity	34	1,8	42	↓	■ ■ ■ ■
2.4 Debt & Credit Market	36	79,5	31	↑	■ ■ ■ ■
2.5 Financial Market Sophistication	35	56,8	35	→	■ ■ ■ ■

### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
3.1 Tax Incentives	27	160,8	23	↑	■ ■ ■ ■
3.2 Administrative Tax Burdens	54	90,2	50	↑	■ ■ ■ ■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
4.1 Corporate Governance	25	62,8	34	↓	■ ■ ■ ■
4.2 Security of Property Rights	44	51,3	42	↑	■ ■ ■ ■
4.3 Quality of Legal Enforcement	36	74,7	35	↑	■ ■ ■ ■
4.4 Regulatory Quality	29	84,0	29	→	■ ■ ■ ■

### 5. Human and Social Environment

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
5.1 Education & Human Capital	23	86,4	19	↑	■ ■ ■ ■
5.2 Labor Market Rigidities	20	85,3	11	↑	■ ■ ■ ■
5.3 Bribing & Corruption	39	60,3	35	↑	■ ■ ■ ■
5.4 Costs of Crime	24	129,8	22	↑	■ ■ ■ ■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
6.1 Innovation & R&D	27	29,6	27	→	■ ■ ■ ■
6.2 Ease of Starting & Running a Business	48	79,1	45	↑	■ ■ ■ ■
6.3 Simplicity of Closing a Business	61	26,6	61	→	■ ■ ■ ■
6.4 ICT Infrastructure	28	49,6	27	↑	■ ■ ■ ■

# Denmark

Capital: Copenhagen ++ Official Language: Danish ++ Currency: Danish Krone

## Basic Facts



GDP	345 [bn USD]	IPO Volume	4th	1st
Population	6 [mn]	M&A Volume	4th	1st
GDP Growth '02-'08		VC Activity	4th	1st
Pop. Growth '02-'08		PE Activity	4th	1st

## SWOT Analysis

### Strengths

- Strong VC/PE environment with local as well as international players

### Weaknesses

- Low end of the VC market not powerful enough

### Opportunities

- Many PE houses have raised funds recently
- Backlog of exits from PE houses

### Threats

- Financing can still be a problem
- Imbalance between financing opportunities and market pricing on companies

### Outlook

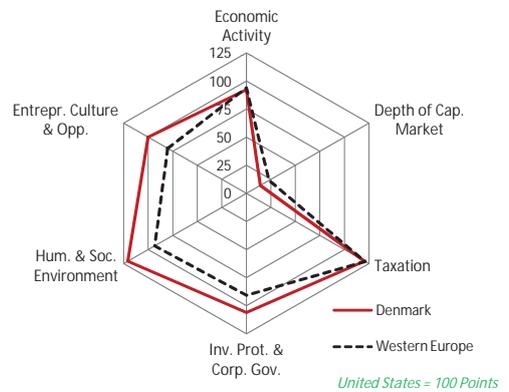
- Continuous PE activity expected

*Christian Aarasin, Partner, Ernst & Young Denmark*

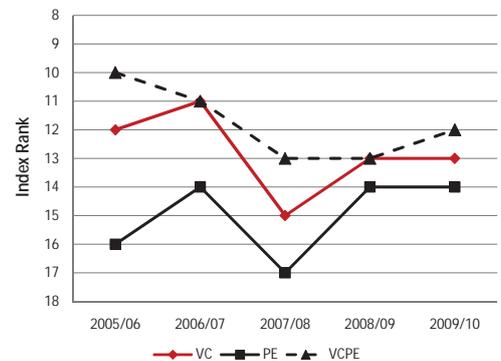
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>10</b>	<b>67,7</b>	<b>12</b>	↓	4th
Economic Activity	14	92,3	14	→	4th
Depth of Cap. Market	26	14,3	29	↓	4th
Taxation	33	120,5	27	↑	4th
Inv. Prot. & Corp. Gov.	4	106,0	4	→	4th
Hum. & Soc. Env.	2	120,8	2	→	4th
Entrepr. Culture & Opp.	7	100,1	2	↑	4th

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	4th
<b>Denmark</b>	<b>10</b>	<b>67,7</b>	<b>12</b>	↓	4th
Finland	12	65,9	15	↓	4th
France	17	65,2	16	↑	4th
Belgium	19	61,1	17	↑	4th
Austria	20	58,6	19	↑	4th
Ireland	16	58,3	21	↓	4th
Italy	32	47,5	29	↑	4th
Greece	44	40,7	39	↑	4th

# Denmark

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	16	72,5	21	↓	■	■
1.2 Inflation	13	101,5	10	↑	■	■
1.3 Unemployment	19	106,9	11	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	29	20,0	30	↓	■	■
2.2 IPO Market Activity	36	1,3	42	↓	■	■
2.3 M&A Market Activity	23	2,3	32	↓	■	■
2.4 Debt & Credit Market	4	104,3	4	→	■	■
2.5 Financial Market Sophistication	9	93,8	13	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	42	143,2	32	↑	■	■
3.2 Administrative Tax Burdens	10	101,4	12	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	11	89,9	11	→	■	■
4.2 Security of Property Rights	11	99,0	9	↑	■	■
4.3 Quality of Legal Enforcement	1	129,7	1	→	■	■
4.4 Regulatory Quality	5	109,3	4	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	6	107,5	4	↑	■	■
5.2 Labor Market Rigidities	6	91,6	6	→	■	■
5.3 Bribing & Corruption	3	137,6	2	↑	■	■
5.4 Costs of Crime	3	157,2	3	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	8	78,2	8	→	■	■
6.2 Ease of Starting & Running a Business	5	104,6	8	↓	■	■
6.3 Simplicity of Closing a Business	19	109,6	7	↑	■	■
6.4 ICT Infrastructure	5	111,8	2	↑	■	■

# Egypt

Capital: Cairo ++ Official Language: Arabic ++ Currency: Egyptian Pound

## Basic Facts



GDP	168 [bn USD]	IPO Volume	4th	1st
Population	77 [mn]	M&A Volume	4th	1st
GDP Growth	'02 - '08	VC Activity	4th	1st
Pop. Growth	'02 - '08	PE Activity	4th	1st

## SWOT Analysis

### Strengths

- Economy is sufficiently diversified and investors can find broad industries for investment
- Growth relies on reform initiatives that spurred FDI flow and strengthened the purchasing power of a large and growing population base

### Weaknesses

- Market is too fragmented, hence local knowledge and presence in the market is necessary
- Regulatory enforcement is still a key issue to be addressed in the country

### Opportunities

- Ideal time to look at defensive sectors such as FMCG, education, pharmaceutical and services related industries such as media and advertising
- Ideal time to have a closer look at distressed companies having good business models

### Threats

- Over the short-term, economic growth is projected to slow down as the global tourism industry slows down

### Outlook

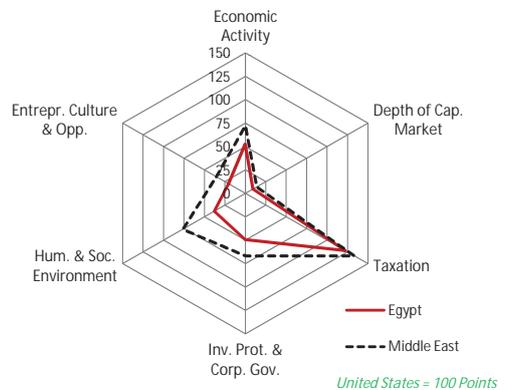
- Over the short-term period, global economic slow-down will impact growth prospects and overall business performance in Egypt. However, the long-term positive impact of the economic reforms will filter into the economy.

*Nawal Nely, Senior Manager, Ernst & Young Egypt*

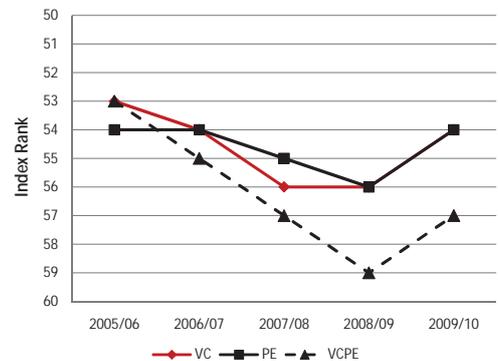
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>53</b>	<b>30,1</b>	<b>57</b>	<b>30,1</b>	↓	4th
Economic Activity	61	52,8	59	52,8	↑	4th
Depth of Cap. Market	51	9,3	45	9,3	↑	4th
Taxation	37	122,1	23	122,1	↑	4th
Inv. Prot. & Corp. Gov.	53	49,3	49	49,3	↑	4th
Hum. & Soc. Env.	49	37,9	61	37,9	↓	4th
Entrepr. Culture & Opp.	57	20,7	58	20,7	↓	4th

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Israel	21	55,8	22	55,8	↓	4th
United Arab Emirates	26	51,7	26	51,7	↑	4th
Saudi Arabia	36	46,4	30	46,4	↓	4th
Kuwait	29	40,1	42	40,1	→	4th
Oman	38	38,1	46	38,1	↓	4th
Morocco	58	30,3	56	30,3	↑	4th
<b>Egypt</b>	<b>53</b>	<b>30,1</b>	<b>57</b>	<b>30,1</b>	↓	4th
Nigeria	64	24,4	62	24,4	↑	4th
Kenya	63	19,3	64	19,3	↓	4th

# Egypt

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	60	33,8	57	↑	☒	☐
1.2 Inflation	58	47,6	62	↓	☒	☐
1.3 Unemployment	54	91,6	56	↓	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	23	21,8	27	↓	☒	☐
2.2 IPO Market Activity	38	1,4	38	→	☒	☐
2.3 M&A Market Activity	48	2,2	34	↑	☒	☐
2.4 Debt & Credit Market	62	38,9	62	→	☒	☐
2.5 Financial Market Sophistication	62	25,9	58	↑	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	31	171,1	15	↑	☒	☐
3.2 Administrative Tax Burdens	53	87,1	54	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	56	46,2	51	↑	☒	☐
4.2 Security of Property Rights	50	42,4	51	↓	☒	☐
4.3 Quality of Legal Enforcement	39	70,4	38	↑	☒	☐
4.4 Regulatory Quality	60	42,6	56	↑	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	64	28,0	64	→	☒	☐
5.2 Labor Market Rigidities	49	23,1	63	↓	☒	☐
5.3 Bribing & Corruption	52	23,7	56	↓	☒	☐
5.4 Costs of Crime	14	134,0	21	↓	☒	☐

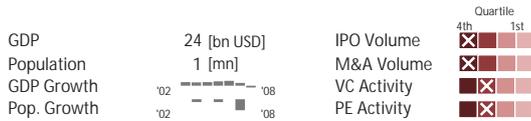
### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	60	8,6	60	→	☒	☐
6.2 Ease of Starting & Running a Business	60	95,1	23	↑	☒	☐
6.3 Simplicity of Closing a Business	58	37,8	59	↓	☒	☐
6.4 ICT Infrastructure	61	5,9	60	↑	☒	☐

# Estonia

Capital: Tallinn ++ Official Language: Estonian ++ Currency: Estonian Kroon

## Basic Facts



## SWOT Analysis

### Strengths

- Simple and attractive tax system
- Increasing "European" business culture
- Open economy with strong foreign direct investment inflows
- Strong track record of VC/PE companies' portfolios

### Weaknesses

- Overall small M&A market and low liquidity stock exchange
- Mostly investments in traditional industries
- Historical high account deficit

### Opportunities

- Government has no debt and has accumulated extensive stabilization reserves
- Government strives to meet the Euro adaption criteria and join the Euro-zone in 2011
- Increasing interest towards innovative industries

### Threats

- Difficulties in obtaining bank financing in the near future
- VC/PE companies may struggle to find attractive exit opportunities
- Baltic region, which is seen as one area, eclipses the amenities of Estonia

### Outlook

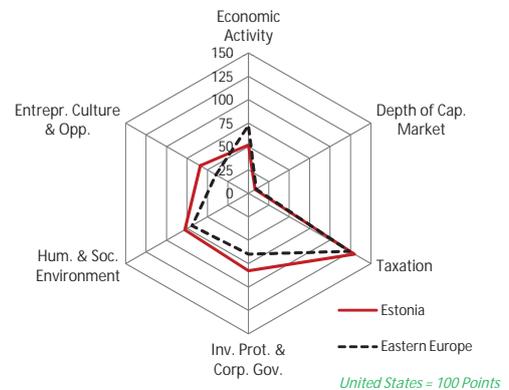
- Development of VC/PE investments is much dependent on the sentiment about growth prospects and devaluation risks in the Baltics
- Foreign VC/PE houses will start to show interest for Baltic companies if the bottom has been reached and solid growth opportunities arise

Lili Kirikal, Manager, Ernst & Young Estonia

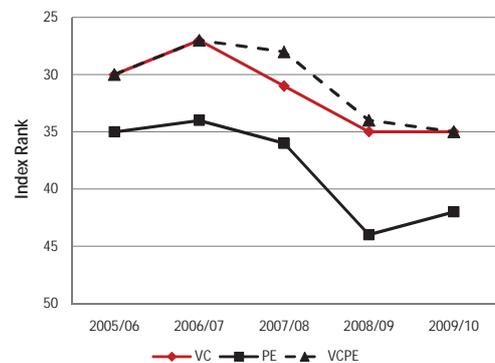
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>30</b>	<b>44,5</b>	<b>35</b>	<b>35</b>		
Economic Activity	39	51,6	60	60		
Depth of Cap. Market	44	8,3	50	50		
Taxation	25	129,7	14	14		
Inv. Prot. & Corp. Gov.	21	82,6	20	20		
Hum. & Soc. Env.	37	77,6	26	26		
Entrepr. Culture & Opp.	24	58,8	25	25		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Poland	41	45,8	31	31		
Czech Republic	33	45,5	34	34		
<b>Estonia</b>	<b>30</b>	<b>44,5</b>	<b>35</b>	<b>35</b>		
Hungary	34	41,1	37	37		
Lithuania	37	40,4	40	40		
Croatia	47	38,6	45	45		
Romania	52	38,1	47	47		
Latvia	39	35,6	50	50		
Bulgaria	48	30,6	55	55		

# Estonia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	45	17,9	63	↓	☒	☒
1.2 Inflation	44	76,0	51	↓	☒	☒
1.3 Unemployment	37	100,6	24	↑	☒	☒

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	56	5,0	60	↓	☒	☒
2.2 IPO Market Activity	48	1,0	58	↓	☒	☒
2.3 M&A Market Activity	49	1,1	58	↓	☒	☒
2.4 Debt & Credit Market	23	90,0	20	↑	☒	☒
2.5 Financial Market Sophistication	21	78,4	25	↓	☒	☒

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	32	164,6	19	↑	☒	☒
3.2 Administrative Tax Burdens	8	102,1	9	↓	☒	☒

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	24	64,3	31	↓	☒	☒
4.2 Security of Property Rights	22	83,9	20	↑	☒	☒
4.3 Quality of Legal Enforcement	27	89,3	25	↑	☒	☒
4.4 Regulatory Quality	19	96,4	18	↑	☒	☒

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	25	76,5	24	↑	☒	☒
5.2 Labor Market Rigidities	61	38,3	55	↑	☒	☒
5.3 Bribing & Corruption	25	89,0	22	↑	☒	☒
5.4 Costs of Crime	23	139,3	13	↑	☒	☒

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	28	22,6	28	→	☒	☒
6.2 Ease of Starting & Running a Business	10	108,8	6	↑	☒	☒
6.3 Simplicity of Closing a Business	31	68,4	33	↓	☒	☒
6.4 ICT Infrastructure	21	71,0	20	↑	☒	☒

# Finland

Capital: Helsinki ++ Official Language: Finnish, Swedish ++ Currency: Euro

## Basic Facts



GDP	274 [bn USD]	IPO Volume	4th 1st
Population	5 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08		VC Activity	4th 1st
Pop. Growth '02 - '08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- High education and R&D contribution
- Strong selected sectors

### Weaknesses

- Relative small local markets to support the business case
- Early stage VC financing needs to be further developed

### Opportunities

- New sectors arising, for example cleantech
- Build globally leading clusters in certain strong industries

### Threats

- Internalization is typically a must to success
- Challenges in financing in current environment

### Outlook

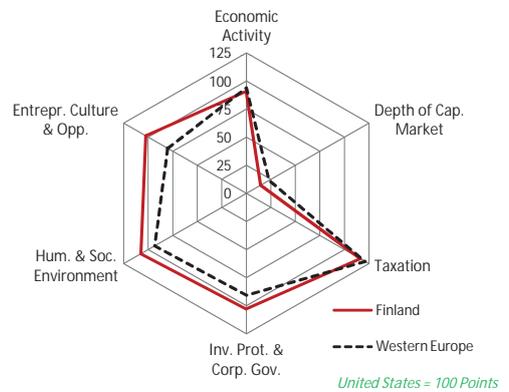
- Finland will be seen as an interesting area to invest

*Petri Ojala, Partner, Ernst & Young Finland*

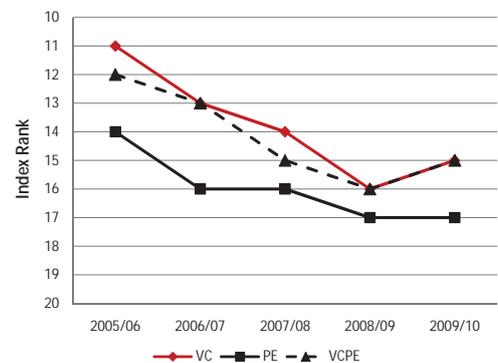
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	12	65,9	15	↓	4th 1st
Economic Activity	19	90,7	17	↑	4th 1st
Depth of Cap. Market	25	14,5	28	↓	4th 1st
Taxation	32	116,3	32	→	4th 1st
Inv. Prot. & Corp. Gov.	5	102,9	5	→	4th 1st
Hum. & Soc. Env.	7	107,4	7	→	4th 1st
Entrepr. Culture & Opp.	2	102,3	1	↑	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	4th 1st
Denmark	10	67,7	12	↓	4th 1st
<b>Finland</b>	12	65,9	15	↓	4th 1st
France	17	65,2	16	↑	4th 1st
Belgium	19	61,1	17	↑	4th 1st
Austria	20	58,6	19	↑	4th 1st
Ireland	16	58,3	21	↓	4th 1st
Italy	32	47,5	29	↑	4th 1st
Greece	44	40,7	39	↑	4th 1st

# Finland

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	18	76,7	16	↑	■	■
1.2 Inflation	4	98,9	20	↓	■	■
1.3 Unemployment	40	98,3	38	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	21	29,5	20	↑	■	■
2.2 IPO Market Activity	35	1,1	52	↓	■	■
2.3 M&A Market Activity	21	2,0	36	↓	■	■
2.4 Debt & Credit Market	13	101,0	7	↑	■	■
2.5 Financial Market Sophistication	18	93,8	13	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	38	135,9	39	↓	■	■
3.2 Administrative Tax Burdens	35	99,6	24	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	16	79,0	15	↑	■	■
4.2 Security of Property Rights	2	110,7	1	↑	■	■
4.3 Quality of Legal Enforcement	2	127,9	2	→	■	■
4.4 Regulatory Quality	4	100,1	14	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	2	108,8	3	↓	■	■
5.2 Labor Market Rigidities	44	56,4	39	↑	■	■
5.3 Bribing & Corruption	1	136,6	5	↓	■	■
5.4 Costs of Crime	2	158,6	2	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	5	90,4	5	→	■	■
6.2 Ease of Starting & Running a Business	2	112,2	4	↓	■	■
6.3 Simplicity of Closing a Business	5	111,2	5	→	■	■
6.4 ICT Infrastructure	10	97,2	9	↑	■	■

# France

Capital: Paris ++ Official Language: French ++ Currency: Euro

## Basic Facts



GDP	2834 [bn USD]	IPO Volume	4th 1st
Population	62 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Smaller decrease of number of deals in France than in Europe
- Early stage investments resist better in France than in Europe, due to convergent public incentives in favor of innovation
- Consistent deal-flow of high quality high tech projects

### Weaknesses

- French GPs realize less international deals than their European peers, e.g., UK, Germany, Sweden
- Cleantech investments are late in France, although accelerating

### Opportunities

- Tax policy in favor of asset class: "FCPI", "Loi Tapa"
- Tax policy in favor of innovation: "Credit Impot Recherche", "OSEO" incentives

### Threats

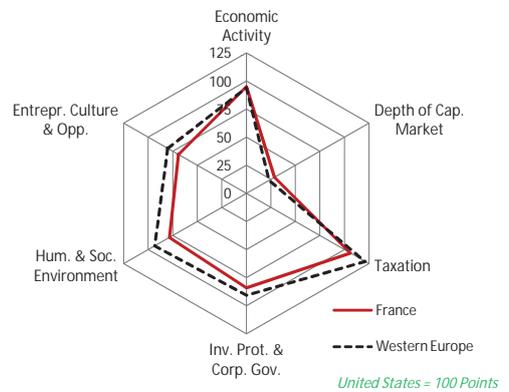
- Only a few large funds of funds
- French emerging companies have difficulties to grow (after four years of existence) and to become market leaders
- Outlook
- French tax policies may foster new promising opportunities for VC/PE

Philippe Grand, Partner, Ernst & Young France

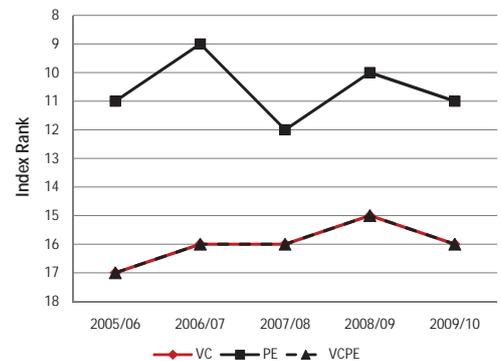
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>17</b>	<b>65,2</b>	<b>16</b>	<b>65,2</b>	↑	█ █ █ █
Economic Activity	24	95,0	11	95,0	↑	█ █ █ █
Depth of Cap. Market	7	28,8	10	28,8	↓	█ █ █ █
Taxation	58	106,1	44	106,1	↑	█ █ █ █
Inv. Prot. & Corp. Gov.	23	83,9	19	83,9	↑	█ █ █ █
Hum. & Soc. Env.	19	78,3	25	78,3	↓	█ █ █ █
Entrepr. Culture & Opp.	22	69,2	22	69,2	→	█ █ █ █

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Germany	9	69,1	10	69,1	↓	█ █ █ █
Denmark	10	67,7	12	67,7	↓	█ █ █ █
Finland	12	65,9	15	65,9	↓	█ █ █ █
<b>France</b>	<b>17</b>	<b>65,2</b>	<b>16</b>	<b>65,2</b>	↑	█ █ █ █
Belgium	19	61,1	17	61,1	↑	█ █ █ █
Austria	20	58,6	19	58,6	↑	█ █ █ █
Ireland	16	58,3	21	58,3	↓	█ █ █ █
Italy	32	47,5	29	47,5	↑	█ █ █ █
Greece	44	40,7	39	40,7	↑	█ █ █ █

# France

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	19	87,4	8	↑	■	■
1.2 Inflation	17	103,6	7	↑	■	■
1.3 Unemployment	44	94,5	46	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	14	36,4	16	↓	■	■
2.2 IPO Market Activity	9	4,4	16	↓	■	■
2.3 M&A Market Activity	8	14,0	6	↑	■	■
2.4 Debt & Credit Market	27	87,5	21	↑	■	■
2.5 Financial Market Sophistication	13	100,0	8	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	61	110,1	55	↑	■	■
3.2 Administrative Tax Burdens	31	102,2	8	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	44	58,3	42	↑	■	■
4.2 Security of Property Rights	13	91,4	13	→	■	■
4.3 Quality of Legal Enforcement	18	104,2	18	→	■	■
4.4 Regulatory Quality	27	89,4	23	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	14	87,7	18	↓	■	■
5.2 Labor Market Rigidities	53	35,2	57	↓	■	■
5.3 Bribing & Corruption	17	100,3	17	→	■	■
5.4 Costs of Crime	30	121,3	30	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	14	59,4	16	↓	■	■
6.2 Ease of Starting & Running a Business	29	83,9	42	↓	■	■
6.3 Simplicity of Closing a Business	25	79,0	26	↓	■	■
6.4 ICT Infrastructure	22	58,4	22	→	■	■

# Germany

Capital: Berlin ++ Official Language: German ++ Currency: Euro

## Basic Facts



GDP	3624 [bn USD]	IPO Volume	4th 1st
Population	83 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Large number of interesting targets of all sizes and strong potential from privately owned businesses facing succession problems
- Many corporations in technological and market leadership
- Diverse portfolio of industries in Europe's leading economy
- Very strong infrastructure and reliable administration
- Cultural attitude towards performance and diligence

### Weaknesses

- Crisis driven failures have damaged the reputation of the industry and it will take some time to win back sellers' and public confidence

### Opportunities

- Unfavorable loan situation makes many companies look for other sources of capital and VC/PE represents a promising option
- Comprehensive restructuring in current crisis will bring German industries into favorite competitive positions for the next cycle

### Threats

- Current portfolios are hit hard by the crisis
- German economy is export oriented, and hence, strongly dependent on the recovery of the world's markets

### Outlook

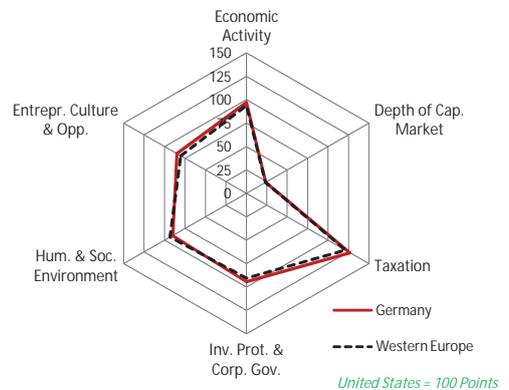
- Mid-term, the market will reach former performance as German targets are mostly leading players in important markets, and will fully participate from the post crisis upturn of the world economy.

Florian Huber, Senior Manager, Ernst & Young Germany

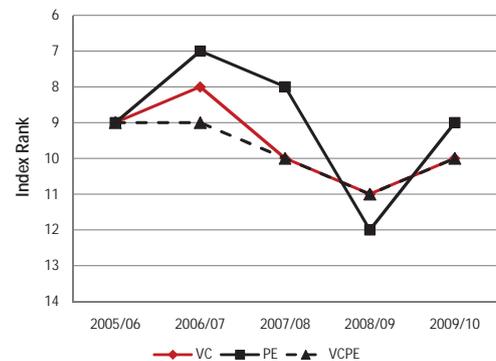
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>9</b>	<b>69,1</b>	<b>10</b>	<b>10</b>	↓	⊗
Economic Activity	43	97,1	5	5	↑	⊗
Depth of Cap. Market	8	23,6	14	14	↓	⊗
Taxation	24	126,6	16	16	↑	⊗
Inv. Prot. & Corp. Gov.	12	94,2	14	14	↓	⊗
Hum. & Soc. Env.	17	90,0	19	19	↓	⊗
Entrepr. Culture & Opp.	12	85,1	14	14	↓	⊗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Germany	9	69,1	10	10	↓	⊗
Denmark	10	67,7	12	12	↓	⊗
Finland	12	65,9	15	15	↓	⊗
France	17	65,2	16	16	↑	⊗
Belgium	19	61,1	17	17	↑	⊗
Austria	20	58,6	19	19	↑	⊗
Ireland	16	58,3	21	21	↓	⊗
Italy	32	47,5	29	29	↑	⊗
Greece	44	40,7	39	39	↑	⊗

# Germany

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	51	91,8	4	↑	■	⊗
1.2 Inflation	18	104,4	5	↑	■	⊗
1.3 Unemployment	57	95,7	42	↑	■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	25	27,7	21	↑	■	⊗
2.2 IPO Market Activity	12	4,1	17	↓	■	⊗
2.3 M&A Market Activity	7	8,5	13	↓	■	⊗
2.4 Debt & Credit Market	17	81,5	28	↓	■	⊗
2.5 Financial Market Sophistication	13	93,8	13	→	■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	29	164,1	20	↑	■	⊗
3.2 Administrative Tax Burdens	21	97,6	29	↓	■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	17	71,1	21	↓	■	⊗
4.2 Security of Property Rights	10	97,3	10	→	■	⊗
4.3 Quality of Legal Enforcement	11	118,5	12	↓	■	⊗
4.4 Regulatory Quality	18	96,1	19	↓	■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	12	93,7	13	↓	■	⊗
5.2 Labor Market Rigidities	50	44,7	51	↓	⊗	■
5.3 Bribing & Corruption	11	115,6	14	↓	■	⊗
5.4 Costs of Crime	12	135,7	17	↓	■	⊗

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	7	81,9	7	→	■	⊗
6.2 Ease of Starting & Running a Business	32	86,6	39	↓	⊗	■
6.3 Simplicity of Closing a Business	21	88,0	21	→	■	⊗
6.4 ICT Infrastructure	16	84,1	14	↑	■	⊗

# Greece

Capital: Athens ++ Official Language: Greek ++ Currency: Euro

## Basic Facts



GDP	355 [bn USD]	IPO Volume	4th 1st
Population	11 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Tax and legal environment supports VC/PE
- Small local VC/PE players
- Numerous companies are controlled by one shareholding family

### Weaknesses

- Limited number of large potential investments
- Long negotiation time for deal making

### Opportunities

- Untapped market
- Opportunities in companies that are also active in neighboring countries
- Growth of region

### Threats

- Reduced availability of debt financing
- Recent drop in confidence
- Local economy is expected to take longer to recover from the global downturn due to structural issues

### Outlook

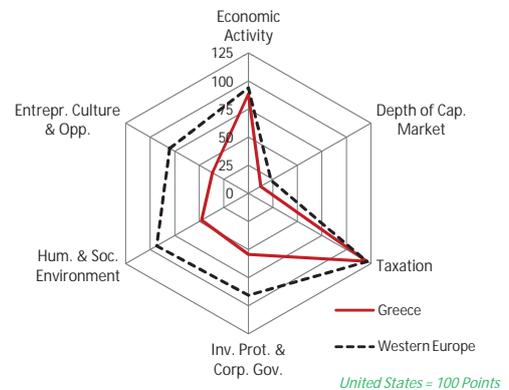
- The mid-cap market is expected to continue to be dominated by a handful of VC/PE players
- Downturn provides opportunities for established GPs to target diversified industries focusing on their core operations and selling non-core assets.

George Momferratos, Partner, Ernst & Young Greece

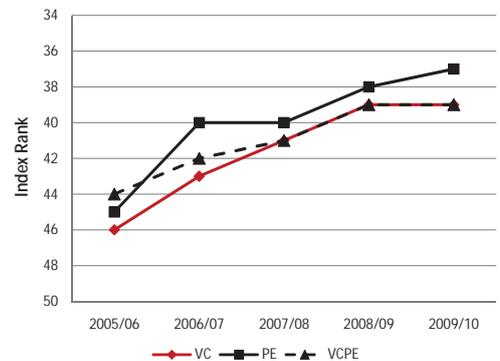
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	44	40,7	39	↑	4th 1st
Economic Activity	29	88,5	21	↑	4th 1st
Depth of Cap. Market	36	12,6	35	↑	4th 1st
Taxation	41	120,9	26	↑	4th 1st
Inv. Prot. & Corp. Gov.	48	54,2	45	↑	4th 1st
Hum. & Soc. Env.	46	47,7	50	↓	4th 1st
Entrepr. Culture & Opp.	37	36,7	39	↓	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	4th 1st
Denmark	10	67,7	12	↓	4th 1st
Finland	12	65,9	15	↓	4th 1st
France	17	65,2	16	↑	4th 1st
Belgium	19	61,1	17	↑	4th 1st
Austria	20	58,6	19	↑	4th 1st
Ireland	16	58,3	21	↓	4th 1st
Italy	32	47,5	29	↑	4th 1st
<b>Greece</b>	44	40,7	39	↑	4th 1st

# Greece

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	28	74,3	19	↑	■	■
1.2 Inflation	41	98,5	22	↑	■	■
1.3 Unemployment	49	94,8	45	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	36	17,2	32	↑	■	■
2.2 IPO Market Activity	29	1,8	31	↓	■	■
2.3 M&A Market Activity	43	2,6	29	↑	■	■
2.4 Debt & Credit Market	28	80,5	30	↓	■	■
2.5 Financial Market Sophistication	39	47,5	41	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	49	147,2	30	↑	■	■
3.2 Administrative Tax Burdens	36	99,2	25	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	64	29,3	63	↑	■	■
4.2 Security of Property Rights	41	53,9	40	↑	■	■
4.3 Quality of Legal Enforcement	35	73,4	36	↓	■	■
4.4 Regulatory Quality	32	74,7	34	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	52	42,8	56	↓	■	■
5.2 Labor Market Rigidities	60	22,4	64	↓	■	■
5.3 Bribing & Corruption	41	48,8	45	↓	■	■
5.4 Costs of Crime	21	110,8	40	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	38	14,4	43	↓	■	■
6.2 Ease of Starting & Running a Business	57	53,2	59	↓	■	■
6.3 Simplicity of Closing a Business	27	78,2	28	↓	■	■
6.4 ICT Infrastructure	40	30,5	37	↑	■	■

# Hong Kong

Capital: ++ Official Language: Chinese, English ++ Currency: Hong Kong Dollar

## Basic Facts



GDP	219 [bn USD]	IPO Volume	Quartile 4th 1st
Population	7 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Financial center with a very strong and professional infrastructure
- Period from first VC/PE round to IPO is shorter than in other countries
- Various IPOs with high international recognition in the last few years

### Weaknesses

- Downturn of Chinese exports due to world-wide recession
- Poor market sentiment due to financial crisis

### Opportunities

- Strong growing Chinese economy
- Focus on new industries, such as solar and wind power
- Higher chances of success for green field investments

### Threats

- High valuation levels may reduce the number of transactions
- LPs are requesting the GPs to be more cautious with investment decisions
- Uncertainty on the success of Chinese stimulus policies

### Outlook

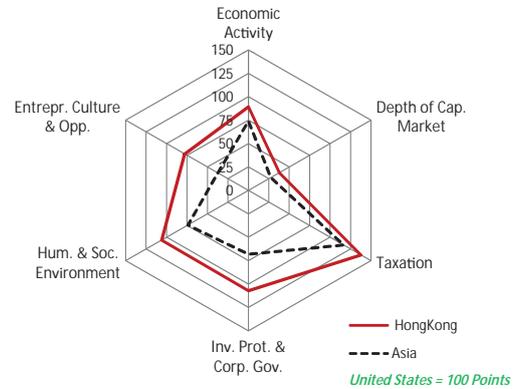
- Too early to assess the impact of the Chinese stimulus policies, but World Bank's economic growth forecast for China rose significantly, underlining Hong Kong's upside potential
- Large increase in use of wind and solar power over the next decade planned: aimed to match Europe by 2020, producing a fifth of its energy from renewable sources

Ringo Choi, Managing Partner, Ernst & Young China

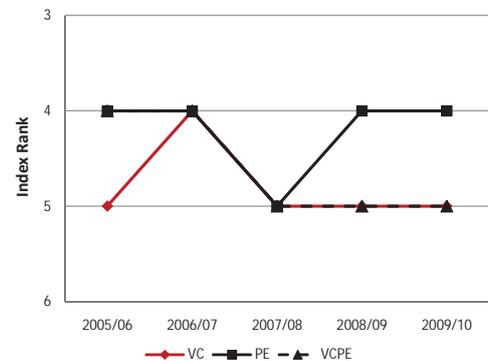
## VCPE-Ranking

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
<b>VCPE Ranking</b>	<b>4</b>	<b>79,5</b> <b>5</b>	↓	☒
Economic Activity	4	89,3 19	↓	☒
Depth of Cap. Market	6	37,7 5	↑	☒
Taxation	8	137,7 9	↓	☒
Inv. Prot. & Corp. Gov.	3	107,1 3	→	☒
Hum. & Soc. Env.	8	106,1 8	→	☒
Entrepr. Culture & Opp.	14	77,9 18	↓	☒

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
Hong Kong	4	79,5 5	↓	☒
Japan	7	76,5 7	→	☒
Republic of Korea	15	67,5 13	↑	☒
Malaysia	23	54,4 25	↓	☒
China	42	48,5 28	↑	☒
India	46	40,9 38	↑	☒
Russian Federation	49	38,0 48	↑	☒
Indonesia	60	30,7 54	↑	☒
Philippines	57	26,1 61	↓	☒

# Hong Kong

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	6	67,8	26	↓	■	■
1.2 Inflation	6	98,5	22	↓	■	■
1.3 Unemployment	24	106,6	12	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	2	104,1	1	↑	■	■
2.2 IPO Market Activity	8	7,4	10	↓	■	■
2.3 M&A Market Activity	11	9,3	10	↑	■	■
2.4 Debt & Credit Market	9	100,5	9	→	■	■
2.5 Financial Market Sophistication	2	106,2	3	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	11	181,8	13	↓	■	■
3.2 Administrative Tax Burdens	3	104,4	1	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	3	102,5	5	↓	■	■
4.2 Security of Property Rights	8	100,8	6	↑	■	■
4.3 Quality of Legal Enforcement	16	112,1	16	→	■	■
4.4 Regulatory Quality	1	113,7	1	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	24	73,9	25	↓	■	■
5.2 Labor Market Rigidities	7	98,1	4	↑	■	■
5.3 Bribing & Corruption	15	118,9	13	↑	■	■
5.4 Costs of Crime	7	146,9	9	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	23	38,9	23	→	■	■
6.2 Ease of Starting & Running a Business	3	118,0	2	↑	■	■
6.3 Simplicity of Closing a Business	15	101,8	15	→	■	■
6.4 ICT Infrastructure	11	78,6	15	↓	■	■

# Hungary

Capital: Budapest ++ Official Language: Magyar (Hungarian) ++ Currency: Forint

## Basic Facts



GDP	157 [bn USD]	IPO Volume	
Population	10 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Post privatization phase
- Hungary is known to have grown talent and know how in selected industries
- Tax laws are changing to attract foreign investors

### Weaknesses

- Macro-economic policy is heavily influenced by foreign investors
- Limited number of large potential investments
- Lack of maturity in deal making

### Opportunities

- Untapped midsize market
- Growth potential of Hungarian companies already invested in neighboring countries
- Growth opportunities of CEE region
- Market consolidation in various industries
- Difficult to raise financing for local players
- Hidden values due to under-developed management structures
- Government's support for the EU funded "Jeremie-Program" (Oct 2009) to fuel VC activities and to encourage companies to come to market, presenting viable investment opportunities

### Threats

- Reduced availability of debt financing
- Currency volatility
- Recent drop in investor confidence

### Outlook

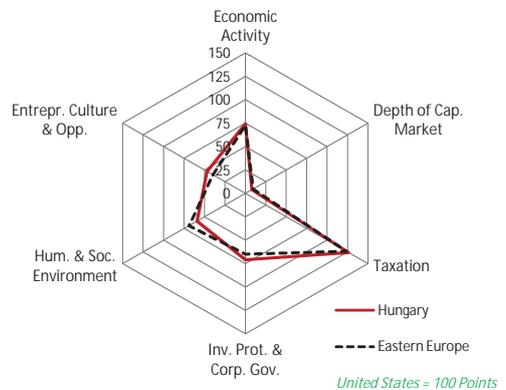
- Strengthening investments of regional VC/PE players leveraging market consolidation and untapped values

Balazs Tuske, Partner, Ernst & Young Hungary

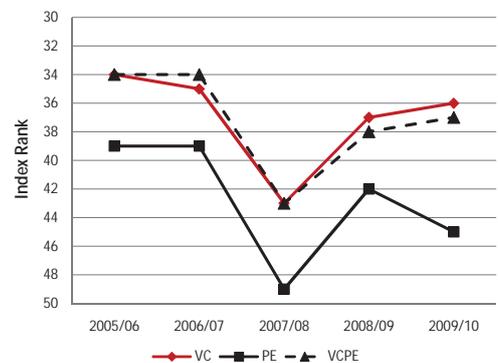
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>34</b>	<b>41,1</b>	<b>37</b>		
Economic Activity	34	74,3	41		
Depth of Cap. Market	48	8,0	54		
Taxation	15	126,4	17		
Inv. Prot. & Corp. Gov.	29	70,7	31		
Hum. & Soc. Env.	41	59,2	45		
Entrepr. Culture & Opp.	30	47,1	30		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31		
Czech Republic	33	45,5	34		
Estonia	30	44,5	35		
<b>Hungary</b>	<b>34</b>	<b>41,1</b>	<b>37</b>		
Lithuania	37	40,4	40		
Croatia	47	38,6	45		
Romania	52	38,1	47		
Latvia	39	35,6	50		
Bulgaria	48	30,6	55		

# Hungary

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
1.1 Gross Domestic Product	35	47,5	45	↓	■ ■ ■ ■
1.2 Inflation	42	92,0	36	↑	■ ■ ■ ■
1.3 Unemployment	29	93,9	50	↓	■ ■ ■ ■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
2.1 Size and Liquidity of the Stock Market	46	8,1	52	↓	■ ■ ■ ■
2.2 IPO Market Activity	52	1,0	58	↓	■ ■ ■ ■
2.3 M&A Market Activity	45	1,3	52	↓	■ ■ ■ ■
2.4 Debt & Credit Market	38	71,2	42	↓	■ ■ ■ ■
2.5 Financial Market Sophistication	45	41,3	46	↓	■ ■ ■ ■

### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
3.1 Tax Incentives	16	167,2	18	↓	■ ■ ■ ■
3.2 Administrative Tax Burdens	29	95,6	39	↓	■ ■ ■ ■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
4.1 Corporate Governance	39	53,8	44	↓	■ ■ ■ ■
4.2 Security of Property Rights	24	73,8	24	→	■ ■ ■ ■
4.3 Quality of Legal Enforcement	37	70,4	39	↓	■ ■ ■ ■
4.4 Regulatory Quality	25	89,5	22	↑	■ ■ ■ ■

### 5. Human and Social Environment

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
5.1 Education & Human Capital	40	61,6	34	↑	■ ■ ■ ■
5.2 Labor Market Rigidities	58	29,3	62	↓	■ ■ ■ ■
5.3 Bribing & Corruption	34	60,9	34	→	■ ■ ■ ■
5.4 Costs of Crime	33	111,8	38	↓	■ ■ ■ ■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
6.1 Innovation & R&D	32	20,4	31	↑	■ ■ ■ ■
6.2 Ease of Starting & Running a Business	37	82,4	43	↓	■ ■ ■ ■
6.3 Simplicity of Closing a Business	36	69,5	32	↑	■ ■ ■ ■
6.4 ICT Infrastructure	30	42,1	31	↓	■ ■ ■ ■

# India

Capital: New Delhi ++ Official Language: Hindi, English ++ Currency: Indian Rupee

## Basic Facts



GDP	1201 [bn USD]	IPO Volume	Quartile
Population	1186 [mn]	M&A Volume	4th 1st
GDP Growth	'02 - '08	VC Activity	
Pop. Growth	'02 - '08	PE Activity	

## SWOT Analysis

### Strengths

- Second-fastest growing economy; increased consumption among youth driving cross-sector growth
- Strong private sector; VC/PE investments growing at CAGR of 84% (from US\$1 billion in 2002 to US\$41.3 billion by 2008)
- High intellectual capital, leading to emergence of VC hotspots (e.g., Bengaluru)
- Active equity capital and transaction markets facilitating exit options

### Weaknesses

- Regulatory restrictions on foreign investment in certain sectors, albeit easing gradually
- Crowded market (~300+ GPs) with limited scale of assets limiting deal sizes; buy-out market in a nascent stage

### Opportunities

- Capital required for core (and defensive) sectors (e.g., infrastructure, manufacturing, healthcare)
- Stable government with a long-term secular and growth oriented outlook
- Few large domestic funds provide foreign investment opportunities

### Threats

- Competition from emerging nations (e.g., Brazil, China) to attract foreign VC/PE funds
- Unclear policy and taxation

### Outlook

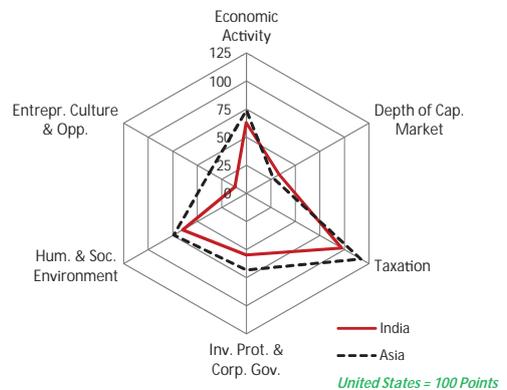
- Cross-sector growth and a strong financial services framework characterize the economy. A stable government is also expected to encourage further foreign investment, thereby providing opportunities for VC/PE

*Nishesh Dalal, Associate Director, Ernst & Young India*

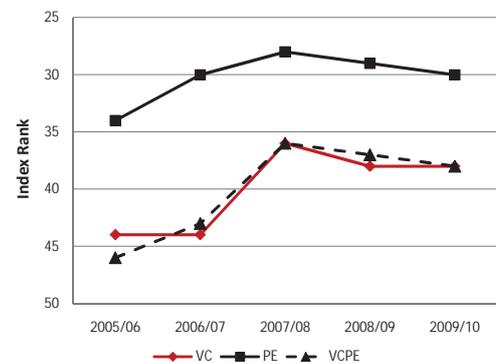
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>46</b>	<b>40,9</b>	<b>38</b>	↑	█
Economic Activity	45	63,0	55	↓	█
Depth of Cap. Market	9	33,5	8	↑	█
Taxation	56	97,1	58	↓	█
Inv. Prot. & Corp. Gov.	43	54,8	44	↓	█
Hum. & Soc. Env.	39	64,9	39	→	█
Entrepr. Culture & Opp.	63	11,5	64	↓	█

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5	↓	█
Japan	7	76,5	7	→	█
Republic of Korea	15	67,5	13	↑	█
Malaysia	23	54,4	25	↓	█
China	42	48,5	28	↑	█
<b>India</b>	<b>46</b>	<b>40,9</b>	<b>38</b>	↑	█
Russian Federation	49	38,0	48	↑	█
Indonesia	60	30,7	54	↑	█
Philippines	57	26,1	61	↓	█

# India

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	53	33,4	58	↓	☒	☐
1.2 Inflation	46	83,3	44	↑	☒	☐
1.3 Unemployment	46	89,9	57	↓	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	9	68,7	6	↑	☐	☒
2.2 IPO Market Activity	7	15,0	4	↑	☐	☒
2.3 M&A Market Activity	12	7,2	16	↓	☐	☒
2.4 Debt & Credit Market	41	78,5	33	↑	☐	☒
2.5 Financial Market Sophistication	29	72,2	29	→	☐	☒

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	56	119,4	49	↑	☐	☒
3.2 Administrative Tax Burdens	57	79,0	60	↓	☐	☒

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	28	72,9	20	↑	☐	☒
4.2 Security of Property Rights	54	39,2	54	→	☐	☒
4.3 Quality of Legal Enforcement	34	76,0	34	→	☐	☒
4.4 Regulatory Quality	54	41,4	57	↓	☐	☒

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	28	77,8	23	↑	☐	☒
5.2 Labor Market Rigidities	28	59,5	36	↓	☐	☒
5.3 Bribing & Corruption	55	33,6	54	↑	☐	☒
5.4 Costs of Crime	40	113,8	35	↑	☐	☒

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	43	12,7	46	↓	☐	☒
6.2 Ease of Starting & Running a Business	53	36,6	63	↓	☐	☒
6.3 Simplicity of Closing a Business	64	12,1	64	→	☐	☒
6.4 ICT Infrastructure	64	3,1	64	→	☐	☒



# Indonesia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	55	36,1	54	↑	☒	☐☐☐
1.2 Inflation	62	76,7	50	↑	☒☒	☐☐
1.3 Unemployment	56	92,5	53	↑	☒	☐☐☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	37	14,3	36	↑	☒☒	☐☐
2.2 IPO Market Activity	23	3,5	20	↑	☒☒☒	☐
2.3 M&A Market Activity	27	3,3	23	↑	☒☒☒	☐
2.4 Debt & Credit Market	57	63,5	52	↑	☒	☐☐☐
2.5 Financial Market Sophistication	53	47,5	41	↑	☒	☐☐☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	44	115,1	52	↓	☒	☐☐☐
3.2 Administrative Tax Burdens	59	82,5	58	↑	☒	☐☐☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	53	50,2	49	↑	☒	☐☐☐
4.2 Security of Property Rights	66	11,3	65	↑	☒	☐☐☐
4.3 Quality of Legal Enforcement	57	47,3	53	↑	☒	☐☐☐
4.4 Regulatory Quality	61	39,5	59	↑	☒	☐☐☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	29	64,1	30	↓	☒☒	☐☐
5.2 Labor Market Rigidities	51	39,7	53	↓	☒	☐☐☐
5.3 Bribing & Corruption	62	20,5	58	↑	☒	☐☐☐
5.4 Costs of Crime	36	98,8	46	↓	☒	☐☐☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	56	10,4	56	→	☒	☐☐☐
6.2 Ease of Starting & Running a Business	62	74,5	48	↑	☒	☐☐☐
6.3 Simplicity of Closing a Business	59	30,0	60	↓	☒	☐☐☐
6.4 ICT Infrastructure	62	3,2	63	↓	☒	☐☐☐

# Ireland

Capital: Dublin ++ Official Language: English, Irish ++ Currency: Euro

## Basic Facts



GDP	270 [bn USD]	IPO Volume	4th 1st
Population	4 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08	-----	VC Activity	4th 1st
Pop. Growth '02-'08	-----	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Strong focus on indigenous entrepreneurs/start-ups
- VC/PE co-invest with government funding which reduces institutional funding required
- Successful fundraisings

### Weaknesses

- Limited debt available
- Low risk appetite
- A number of sectors which VC/PE find less attractive such as retail, leisure and construction

### Opportunities

- Government focus on high potential and "Smart Economy" businesses such as new green technologies
- Strong medical device/pharmaceutical industry and renewable energy opportunities
- Valuations are coming down as there are less funding alternatives available to investees

### Threats

- Recession is significantly deeper than in other countries
- Company failures are increasing
- Declining opportunities for start-ups in the recession except in defensive sectors
- Declining M&A market means reduced exit opportunities and returns for VC/PE

### Outlook

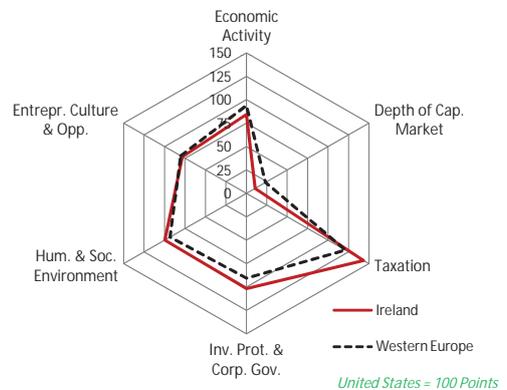
- Increasing VC/PE focus on technology and biotech with high expertise developed in these sectors less competition from private high net worth funds due to their exposure in declining markets
- Government provides tax breaks

John O'Halloran, Director, Ernst & Young Ireland

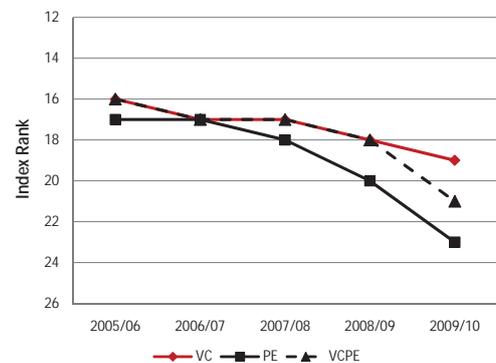
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>16</b>	<b>58,3</b>	<b>21</b>	↓	4th 1st
Economic Activity	1	84,4	28	↓	4th 1st
Depth of Cap. Market	28	10,7	41	↓	4th 1st
Taxation	6	143,3	5	↑	4th 1st
Inv. Prot. & Corp. Gov.	9	101,6	7	↑	4th 1st
Hum. & Soc. Env.	10	99,6	13	↓	4th 1st
Entrepr. Culture & Opp.	19	78,1	17	↑	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	4th 1st
Denmark	10	67,7	12	↓	4th 1st
Finland	12	65,9	15	↓	4th 1st
France	17	65,2	16	↑	4th 1st
Belgium	19	61,1	17	↑	4th 1st
Austria	20	58,6	19	↑	4th 1st
<b>Ireland</b>	<b>16</b>	<b>58,3</b>	<b>21</b>	<b>↓</b>	<b>4th 1st</b>
Italy	32	47,5	29	↑	4th 1st
Greece	44	40,7	39	↑	4th 1st

# Ireland

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	1	61,4	30	↓	■	■
1.2 Inflation	23	99,3	18	↑	■	■
1.3 Unemployment	12	98,6	35	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	38	11,4	44	↓	■	■
2.2 IPO Market Activity	31	1,1	56	↓	■	■
2.3 M&A Market Activity	36	1,9	39	↓	■	■
2.4 Debt & Credit Market	6	78,1	34	↓	■	■
2.5 Financial Market Sophistication	13	78,4	25	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	8	200,0	8	→	■	■
3.2 Administrative Tax Burdens	6	102,6	6	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	7	94,8	10	↓	■	■
4.2 Security of Property Rights	21	85,7	18	↑	■	■
4.3 Quality of Legal Enforcement	14	118,3	13	↑	■	■
4.4 Regulatory Quality	9	111,0	3	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	11	100,4	8	↑	■	■
5.2 Labor Market Rigidities	10	88,3	9	↑	■	■
5.3 Bribing & Corruption	16	81,7	28	↓	■	■
5.4 Costs of Crime	22	136,0	15	↑	■	■

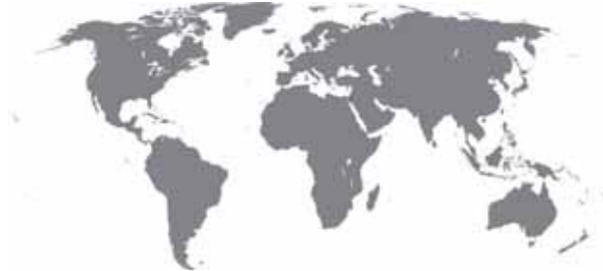
### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	20	47,3	20	→	■	■
6.2 Ease of Starting & Running a Business	9	101,3	14	↓	■	■
6.3 Simplicity of Closing a Business	8	108,7	8	→	■	■
6.4 ICT Infrastructure	19	71,5	19	→	■	■

# Israel

Capital: Jerusalem ++ Official Language: Hebrew, Arabic ++ Currency: New Israeli Shekel

## Basic Facts



GDP	203 [bn USD]	IPO Volume	4th	1st
Population	7 [mn]	M&A Volume	4th	1st
GDP Growth '02	-----'08	VC Activity	4th	1st
Pop. Growth '02	-----'08	PE Activity	4th	1st

## SWOT Analysis

### Strengths

- Strong entrepreneurial culture
- Mature market with very good infrastructure
- Government support, favorite tax regime and solid regulatory environment
- High level human capital
- International culture with a global vision
- Solid banking system

### Weaknesses

- Geo-political situation

### Opportunities

- Many late stage companies
- Lack of financing for mega deals
- Some privatization
- Opportunities in cleantech market

### Threats

- Security and political environment
- Lack of long-term planning

### Outlook

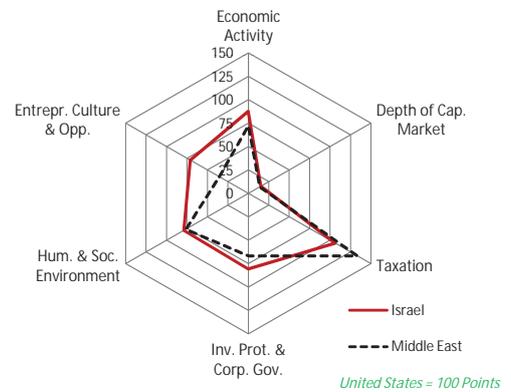
- Israel's economy is expected to have good growth mainly due to the perspectives in technology based industries.

Oren Bar-On, Partner, Ernst & Young Israel

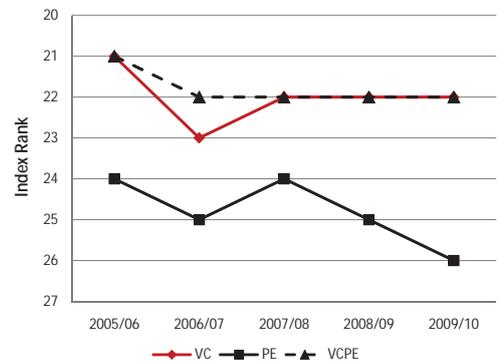
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	21	55,8	22	↓	4th
Economic Activity	23	87,7	24	↓	4th
Depth of Cap. Market	24	15,3	26	↓	4th
Taxation	51	106,3	43	↑	3rd
Inv. Prot. & Corp. Gov.	19	80,7	21	↓	4th
Hum. & Soc. Env.	21	78,8	24	↓	4th
Entrepr. Culture & Opp.	21	71,1	21	→	4th

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	4th
United Arab Emirates	26	51,7	26	↑	3rd
Saudi Arabia	36	46,4	30	↓	4th
Kuwait	29	40,1	42	→	4th
Oman	38	38,1	46	↓	4th
Morocco	58	30,3	56	↑	3rd
Egypt	53	30,1	57	↓	4th
Nigeria	64	24,4	62	↑	3rd
Kenya	63	19,3	64	↓	4th

# Israel

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	22	70,4	22	→	■	■
1.2 Inflation	9	96,4	29	↓	■	■
1.3 Unemployment	45	99,4	32	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	20	31,9	19	↑	■	■
2.2 IPO Market Activity	20	2,0	28	↓	■	■
2.3 M&A Market Activity	33	1,8	41	↓	■	■
2.4 Debt & Credit Market	25	83,0	26	↓	■	■
2.5 Financial Market Sophistication	21	84,6	21	→	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	57	124,8	46	↑	■	■
3.2 Administrative Tax Burdens	44	90,5	49	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	9	95,2	9	→	■	■
4.2 Security of Property Rights	36	55,1	38	↓	■	■
4.3 Quality of Legal Enforcement	21	92,6	22	↓	■	■
4.4 Regulatory Quality	33	87,5	25	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	22	63,5	31	↓	■	■
5.2 Labor Market Rigidities	39	58,1	37	↑	■	■
5.3 Bribing & Corruption	27	81,9	27	→	■	■
5.4 Costs of Crime	31	127,8	24	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	6	83,9	6	→	■	■
6.2 Ease of Starting & Running a Business	16	98,3	21	↓	■	■
6.3 Simplicity of Closing a Business	45	55,5	50	↓	■	■
6.4 ICT Infrastructure	20	55,9	24	↓	■	■

# Italy

Capital: Rome ++ Official Language: Italian ++ Currency: Euro

## Basic Facts



GDP	2286 [bn USD]	IPO Volume	4th 1st
Population	59 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08		VC Activity	4th 1st
Pop. Growth '02 - '08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Banking system only moderately hit by the global credit crunch compared to other industrialized countries
- Highly fragmented and flexible industrial base mainly comprised of small-to-mid family-owned businesses

### Weaknesses

- Companies operating in mature low value-added industries exposed to international competition from Eastern European and Asian countries
- Articulated and significant tax burdens both for companies and individuals
- Labor market less flexible compared to other industrialized countries
- Investments in infrastructure below European average and low level of Internet penetration and computer literacy
- SMEs companies with unsophisticated reporting systems and statutory accounts often only prepared for compliance/tax purposes

### Opportunities

- Market fragmentation leaves room for viable deals in the mid-cap market
- Launch of AIM Italy dedicated to small/mid size companies and simplified listing procedures
- Change in bankruptcy law creates opportunities for turnaround transactions

### Threats

- Limited VC role in supporting R&D activity and early stage financing in innovative ventures

### Outlook

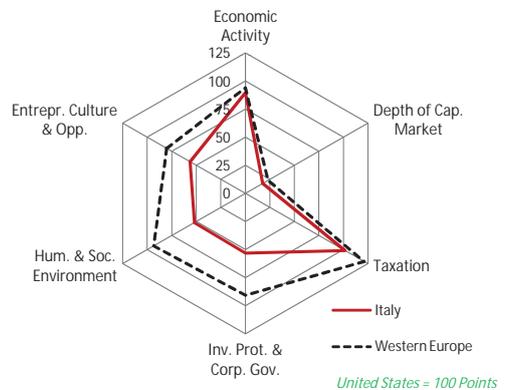
- Once current uncertainty is overcome, the Italian market may present good grounds for investment opportunities and growth

*Umberto Nobile, Partner, Ernst & Young Italy*

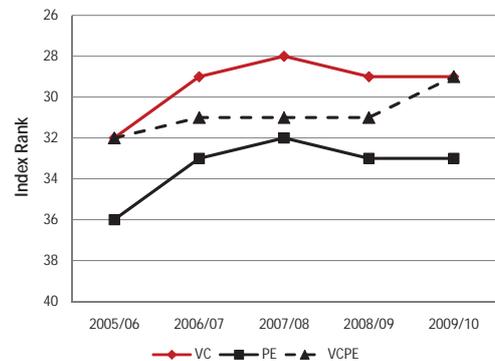
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>32</b>	<b>47,5</b>	<b>29</b>	↑	■ ■ ■ ■
Economic Activity	50	89,7	18	↑	■ ■ ■ ■
Depth of Cap. Market	17	17,7	21	↓	■ ■ ■ ■
Taxation	55	101,6	49	↑	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	46	53,1	46	→	■ ■ ■ ■
Hum. & Soc. Env.	48	52,0	47	↑	■ ■ ■ ■
Entrepr. Culture & Opp.	27	56,3	27	→	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	■ ■ ■ ■
Denmark	10	67,7	12	↓	■ ■ ■ ■
Finland	12	65,9	15	↓	■ ■ ■ ■
France	17	65,2	16	↑	■ ■ ■ ■
Belgium	19	61,1	17	↑	■ ■ ■ ■
Austria	20	58,6	19	↑	■ ■ ■ ■
Ireland	16	58,3	21	↓	■ ■ ■ ■
<b>Italy</b>	<b>32</b>	<b>47,5</b>	<b>29</b>	↑	■ ■ ■ ■
Greece	44	40,7	39	↑	■ ■ ■ ■

# Italy

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	59	73,0	20	↑	■	■
1.2 Inflation	24	101,8	9	↑	■	■
1.3 Unemployment	34	97,1	39	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	28	20,9	28	→	■	■
2.2 IPO Market Activity	14	3,2	22	↓	■	■
2.3 M&A Market Activity	6	10,1	9	↓	■	■
2.4 Debt & Credit Market	45	61,6	54	↓	■	■
2.5 Financial Market Sophistication	51	41,3	46	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	58	108,4	57	↑	■	■
3.2 Administrative Tax Burdens	33	95,2	42	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	57	37,4	58	↓	■	■
4.2 Security of Property Rights	38	46,1	46	↓	■	■
4.3 Quality of Legal Enforcement	47	58,1	50	↓	■	■
4.4 Regulatory Quality	31	79,4	32	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	57	44,4	52	↑	■	■
5.2 Labor Market Rigidities	23	61,5	33	↓	■	■
5.3 Bribing & Corruption	36	52,3	43	↓	■	■
5.4 Costs of Crime	60	51,2	60	→	■	■

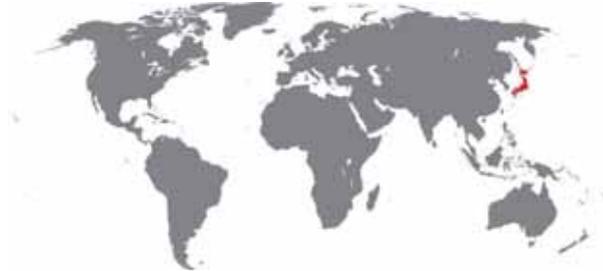
### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	24	35,6	24	→	■	■
6.2 Ease of Starting & Running a Business	49	74,5	49	→	■	■
6.3 Simplicity of Closing a Business	29	73,4	30	↓	■	■
6.4 ICT Infrastructure	26	51,8	26	→	■	■

# Japan

Capital: Tokyo ++ Official Language: Japanese ++ Currency: Yen

## Basic Facts



GDP	5009 [bn USD]	IPO Volume	Quartile
Population	128 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08		VC Activity	
Pop. Growth '02 - '08		PE Activity	

## SWOT Analysis

### Strengths

- Japan is still the world's second largest economy
- Market leading technology in many sectors

### Weaknesses

- VC/PE investors are seen critically regarding their commitment to the companies' interests
- Relatively weak corporate governance compared to Western standards

### Opportunities

- Japanese companies receive limited investments and would benefit from VC/PE as they are broadly diversified with many non-core businesses
- Succession issues in family-owned businesses foster VC/PE investment
- Take-private deals and PIPEs are becoming more understood and accepted by management

### Threats

- Increasingly negative sentiment towards VC/PE if VC/PE investors are not seen as appropriately supporting investee companies in the current economic climate
- Increasingly difficult funding environment

### Outlook

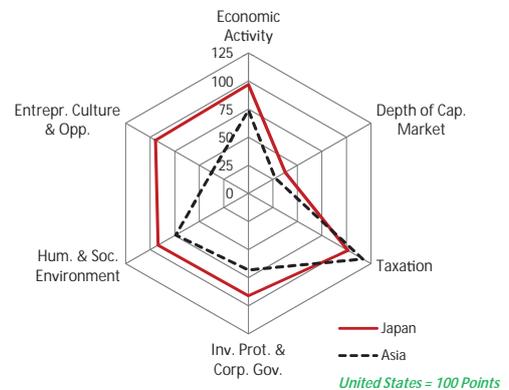
- VC/PE sector will likely pick up in 2011
- Many companies will find it increasingly hard to obtain access to additional capital and will need to deploy their capital more effectively
- Many companies will be forced to divest non-core businesses

Michael Buxton, Partner, Ernst & Young Japan

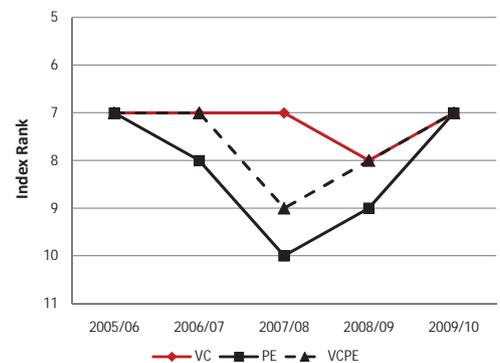
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>7</b>	<b>76,5</b>	<b>7</b>		
Economic Activity	9	96,9	6		
Depth of Cap. Market	4	37,5	7		
Taxation	60	101,6	48		
Inv. Prot. & Corp. Gov.	17	91,0	18		
Hum. & Soc. Env.	18	92,1	18		
Entrepr. Culture & Opp.	8	94,7	8		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5		
<b>Japan</b>	<b>7</b>	<b>76,5</b>	<b>7</b>		
Republic of Korea	15	67,5	13		
Malaysia	23	54,4	25		
China	42	48,5	28		
India	46	40,9	38		
Russian Federation	49	38,0	48		
Indonesia	60	30,7	54		
Philippines	57	26,1	61		

# Japan

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	17	79,4	15	↑	■ ■ ■ ■	⊗
1.2 Inflation	1	108,7	1	→	■ ■ ■ ■	⊗
1.3 Unemployment	13	105,2	14	↓	■ ■ ■ ■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	5	64,0	8	↓	■ ■ ■ ■	⊗
2.2 IPO Market Activity	4	8,4	8	↓	■ ■ ■ ■	⊗
2.3 M&A Market Activity	3	22,9	3	→	■ ■ ■ ■	⊗
2.4 Debt & Credit Market	20	100,3	10	↑	■ ■ ■ ■	⊗
2.5 Financial Market Sophistication	35	59,8	34	↑	⊗ ■ ■ ■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	64	108,2	59	↑	⊗ ■ ■ ■	■
3.2 Administrative Tax Burdens	26	95,4	40	↓	⊗ ■ ■ ■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	14	85,6	14	→	■ ■ ■ ■	⊗
4.2 Security of Property Rights	18	87,0	17	↑	■ ■ ■ ■	⊗
4.3 Quality of Legal Enforcement	17	104,3	17	→	■ ■ ■ ■	⊗
4.4 Regulatory Quality	23	88,5	24	↓	■ ■ ■ ■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	21	84,4	20	↑	■ ■ ■ ■	⊗
5.2 Labor Market Rigidities	9	85,6	10	↓	■ ■ ■ ■	⊗
5.3 Bribing & Corruption	19	100,8	16	↑	■ ■ ■ ■	⊗
5.4 Costs of Crime	44	98,8	46	↓	⊗ ■ ■ ■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	3	91,8	4	↓	■ ■ ■ ■	⊗
6.2 Ease of Starting & Running a Business	31	99,9	18	↑	■ ■ ■ ■	⊗
6.3 Simplicity of Closing a Business	3	115,3	2	↑	■ ■ ■ ■	⊗
6.4 ICT Infrastructure	12	76,0	16	↓	■ ■ ■ ■	⊗

# Kenya

Capital: Nairobi ++ Official Language: English, Swahili ++ Currency: Kenyan Shilling

## Basic Facts



GDP	30 [bn USD]	IPO Volume	4th 1st
Population	39 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Regional hub, providing access to the rest of East Africa
- Well developed IT and communication infrastructure
- Highly qualified pool of professionals in all disciplines
- Increased access to credit, and presence of Development Banks e.g., PTA Bank, IFC, EADB, ADB
- Government encouraging and facilitating PPPs
- Presence of International VC/PE firms coupled with large local firms

### Weaknesses

- Preference of bank debt and public equity markets
- Shocks of the 2008 political unrest result in higher risk rating
- High cost of doing business e.g., high cost of energy
- Predominantly agro-based economy
- Tax regime

### Opportunities

- Returning professionals from developed countries
- Economic liberalization programs, and Internationalization
- SMEs face financing challenges
- Robust emerging middle class will spur economy
- The emerging security exchanges in the East African region will provide better exit routes

### Threats

- Potential political instability
- Opening of COMESA markets may lead to cheap imports that harm local industries
- Level of corruption

### Outlook

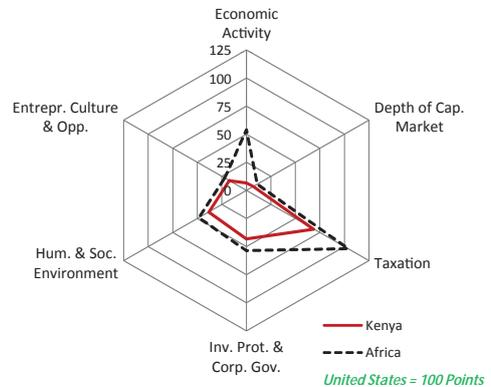
- Increased focus on PPP will boost the growth of VC/PE
- Projected higher economic growth
- The global crisis has increased interest in Africa, with Kenya being a beneficiary

Evans Kamau, Senior Manager, Ernst & Young Kenya

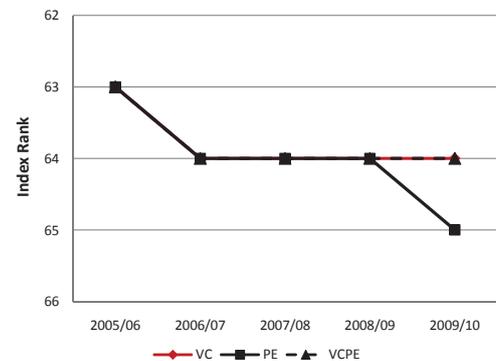
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>63</b>	<b>19,3</b>	<b>64</b>	↓	✗
Economic Activity	66	6,6	66	→	✗
Depth of Cap. Market	57	7,2	57	→	✗
Taxation	50	68,7	63	↓	✗
Inv. Prot. & Corp. Gov.	50	43,0	55	↓	✗
Hum. & Soc. Env.	58	38,3	59	↓	✗
Entrepr. Culture & Opp.	60	17,6	60	→	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	✗
Saudi Arabia	36	46,4	30	↑	✗
Kuwait	29	40,1	42	↓	✗
South Africa	43	39,5	43	→	✗
Oman	38	38,1	46	↓	✗
Morocco	58	30,3	56	↑	✗
Egypt	53	30,1	57	↓	✗
Nigeria	64	24,4	62	↑	✗
<b>Kenya</b>	<b>63</b>	<b>19,3</b>	<b>64</b>	↓	✗

# Kenya

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	65	14,3	64	↑	☒	☐
1.2 Inflation	61	18,2	65	↓	☒	☐
1.3 Unemployment	66	1,1	66	→	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	59	5,6	59	→	☒	☐
2.2 IPO Market Activity	52	1,4	39	↑	☒	☐
2.3 M&A Market Activity	62	1,0	65	↓	☒	☐
2.4 Debt & Credit Market	44	68,5	46	↓	☒	☐
2.5 Financial Market Sophistication	46	35,1	52	↓	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	55	56,2	64	↓	☒	☐
3.2 Administrative Tax Burdens	51	83,8	57	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	27	63,2	33	↓	☒	☒
4.2 Security of Property Rights	48	40,3	52	↓	☒	☐
4.3 Quality of Legal Enforcement	60	29,3	62	↓	☒	☐
4.4 Regulatory Quality	56	45,9	55	↑	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	27	69,7	28	↓	☒	☒
5.2 Labor Market Rigidities	15	76,6	18	↓	☒	☒
5.3 Bribing & Corruption	64	8,8	64	→	☒	☐
5.4 Costs of Crime	61	46,1	62	↓	☒	☐

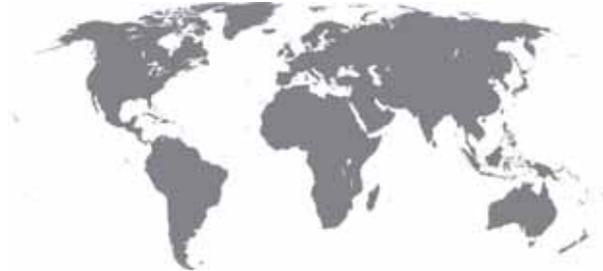
### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	57	9,7	58	↓	☒	☐
6.2 Ease of Starting & Running a Business	54	69,6	53	↑	☒	☐
6.3 Simplicity of Closing a Business	51	46,7	54	↓	☒	☐
6.4 ICT Infrastructure	66	3,0	65	↑	☒	☐

# Kuwait

Capital: Kuwait City ++ Official Language: Arabic ++ Currency: Kuwaiti Dinar

## Basic Facts



GDP	141 [bn USD]	IPO Volume	4th 1st
Population	3 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- High sovereign rating for Kuwait
- Cash rich economy
- Most businesses adopt/use IFRS

### Weaknesses

- Weakness of corporate governance as most businesses are controlled by influential families
- Asset starved economy – impacting asset pricing (too much cash chasing few good assets)
- Highly dependent on oil prices

### Opportunities

- Consolidation imminent in certain sectors
- Business houses need to restructure/transform into public companies as part of overall estate planning
- Opportunities for public to private transactions

### Threats

- Size and liquidity of stock market may affect exits

### Outlook

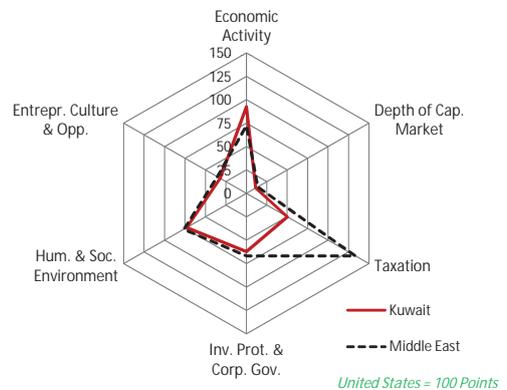
- Increased PE activity as a result of consolidation in selected sectors – motivated in part by the current economic environment
- Availability of assets at attractive valuations

Anil Menon, Director, Ernst & Young Kuwait

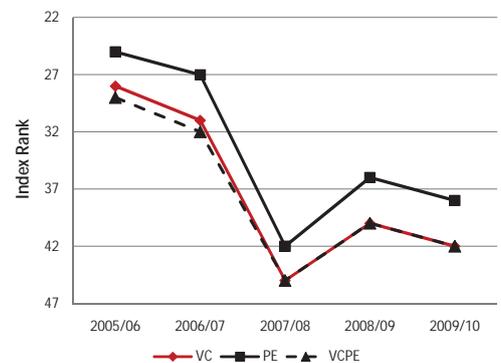
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	29	40,1	42	↓	⊗
Economic Activity	3	92,4	13	↓	⊗
Depth of Cap. Market	37	11,6	38	↓	⊗
Taxation	3	50,2	64	↓	⊗
Inv. Prot. & Corp. Gov.	35	62,1	40	↓	⊗
Hum. & Soc. Env.	30	73,0	33	↓	⊗
Entrepr. Culture & Opp.	39	32,0	45	↓	⊗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	⊗
United Arab Emirates	26	51,7	26	↑	⊗
Saudi Arabia	36	46,4	30	↓	⊗
<b>Kuwait</b>	29	40,1	42	→	⊗
Oman	38	38,1	46	↓	⊗
Morocco	58	30,3	56	↑	⊗
Egypt	53	30,1	57	↓	⊗
Nigeria	64	24,4	62	↑	⊗
Kenya	63	19,3	64	↓	⊗

# Kuwait

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
1.1 Gross Domestic Product	3	86,3	10	↓	■ ■ ■ ■
1.2 Inflation	45	81,1	47	↓	■ ■ ■ ■
1.3 Unemployment	2	112,7	1	↑	■ ■ ■ ■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
2.1 Size and Liquidity of the Stock Market	19	19,3	31	↓	■ ■ ■ ■
2.2 IPO Market Activity	52	2,0	29	↑	■ ■ ■ ■
2.3 M&A Market Activity	61	1,5	49	↑	■ ■ ■ ■
2.4 Debt & Credit Market	32	78,9	32	→	■ ■ ■ ■
2.5 Financial Market Sophistication	35	47,5	41	↓	■ ■ ■ ■

### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
3.1 Tax Incentives	3	25,3	66	↓	■ ■ ■ ■
3.2 Administrative Tax Burdens	17	99,6	23	↓	■ ■ ■ ■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
4.1 Corporate Governance	37	56,0	43	↓	■ ■ ■ ■
4.2 Security of Property Rights	39	59,4	33	↑	■ ■ ■ ■
4.3 Quality of Legal Enforcement	22	90,4	24	↓	■ ■ ■ ■
4.4 Regulatory Quality	39	49,5	52	↓	■ ■ ■ ■

### 5. Human and Social Environment

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
5.1 Education & Human Capital	53	43,1	55	↓	■ ■ ■ ■
5.2 Labor Market Rigidities	18	80,3	14	↑	■ ■ ■ ■
5.3 Bribing & Corruption	35	56,3	39	↓	■ ■ ■ ■
5.4 Costs of Crime	12	145,8	11	↑	■ ■ ■ ■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
6.1 Innovation & R&D	47	13,5	45	↑	■ ■ ■ ■
6.2 Ease of Starting & Running a Business	50	64,0	57	↓	■ ■ ■ ■
6.3 Simplicity of Closing a Business	30	63,4	38	↓	■ ■ ■ ■
6.4 ICT Infrastructure	41	19,3	45	↓	■ ■ ■ ■

# Latvia

Capital: Riga ++ Official Language: Latvian ++ Currency: Latvian Lats

## Basic Facts



GDP	33 [bn USD]	IPO Volume	
Population	2 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- EU efforts stimulate investments in growth companies with the JEREMIE fund – the launch has meant more cash available for future deals

### Weaknesses

- VC is historically underdeveloped
- Local PE houses have invested actively but with heavy leverage
- Only a few have saved cash or invested conservatively over the last years

### Opportunities

- Bank financing availability seems to be easing gradually, which raises hope for some deals to commence in the future

### Threats

- The prospects of many have been slashed by the crisis

### Outlook

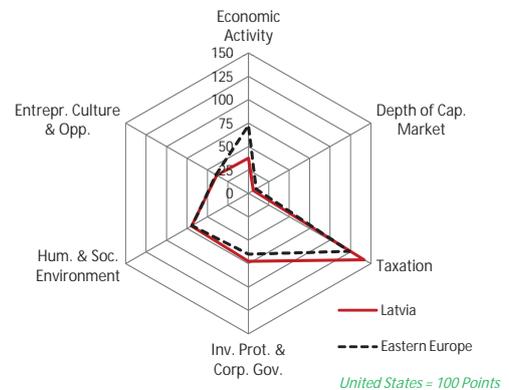
- Development of VC/PE investments will be much dependent on the general public perceptions about growth prospects of Baltic economies
- GPs from abroad will start showing stronger interest for Baltic companies when the bottom has been reached and the growth opportunities become visible

Raimonds Kulbergs, Manager, Ernst & Young Latvia

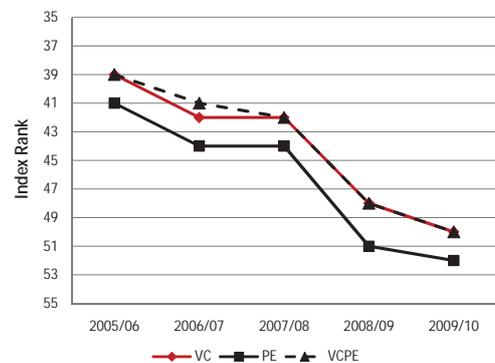
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	39	35,6	50		
Economic Activity	47	37,7	64		
Depth of Cap. Market	58	6,2	60		
Taxation	9	141,5	7		
Inv. Prot. & Corp. Gov.	27	72,5	29		
Hum. & Soc. Env.	35	69,5	36		
Entrepr. Culture & Opp.	33	38,7	36		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31		
Czech Republic	33	45,5	34		
Estonia	30	44,5	35		
Hungary	34	41,1	37		
Lithuania	37	40,4	40		
Croatia	47	38,6	45		
Romania	52	38,1	47		
<b>Latvia</b>	39	35,6	50		
Bulgaria	48	30,6	55		

# Latvia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	46	9,6	66	↓	☒	☐
1.2 Inflation	52	58,2	61	↓	☒	☐
1.3 Unemployment	43	95,4	43	→	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	62	3,1	63	↓	☒	☐
2.2 IPO Market Activity	52	1,0	58	↓	☒	☐
2.3 M&A Market Activity	60	1,1	62	↓	☒	☐
2.4 Debt & Credit Market	37	65,2	49	↓	☒	☐
2.5 Financial Market Sophistication	42	41,3	46	↓	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	7	202,0	7	→	☐	☒
3.2 Administrative Tax Burdens	40	99,2	26	↑	☐	☒

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	18	70,8	22	↓	☐	☒
4.2 Security of Property Rights	30	64,8	30	→	☐	☒
4.3 Quality of Legal Enforcement	38	72,0	37	↑	☐	☒
4.4 Regulatory Quality	30	83,4	31	↓	☐	☒

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	47	52,9	43	↑	☐	☒
5.2 Labor Market Rigidities	37	55,6	40	↓	☐	☒
5.3 Bribing & Corruption	40	58,4	38	↑	☐	☒
5.4 Costs of Crime	18	135,9	16	↑	☐	☒

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	49	10,9	53	↓	☐	☒
6.2 Ease of Starting & Running a Business	18	95,0	24	↓	☐	☒
6.3 Simplicity of Closing a Business	40	59,6	45	↓	☐	☒
6.4 ICT Infrastructure	32	36,3	33	↓	☐	☒

# Lithuania

Capital: Vilnius ++ Official Language: Lithuanian ++ Currency: Lithuanian Litas

## Basic Facts



Indicator	Value	Quartile
GDP	48 [bn USD]	4th
Population	3 [mn]	4th
IPO Volume		4th
M&A Volume		4th
VC Activity		4th
PE Activity		4th

## SWOT Analysis

### Strengths

- Flexibility of market players presents good prospects for the future
- Open market, having good relationships with both Western and Eastern Europe

### Weaknesses

- Lack of available capital and innovation in using alternative means of financing
- Low level of experience of local market players

### Opportunities

- Low priced market as a consequence of current downturn in the economy
- Numerous opportunities relating to the operational effectiveness of businesses, synergies, and management, enhancing the value of businesses in the future

### Threats

- Changing legislation in tax area as well as in other business related areas (e.g., competition, de-monopolization) towards unfavorable direction
- Late and very limited credit market reopening
- Negative short- and mid-term outlook on Lithuania from foreign investors

### Outlook

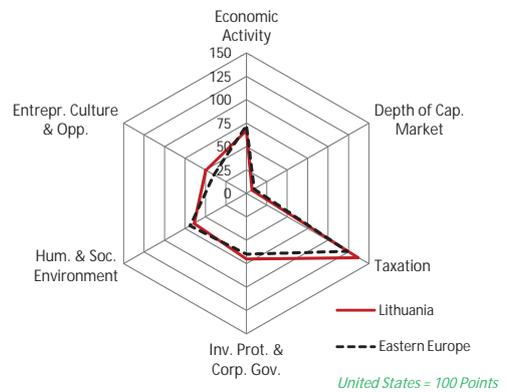
- Challenging economical environment will leave the strongest players in the market and will strengthen their position

Rolandas Laukaitis, Senior Manager, Ernst & Young Lithuania

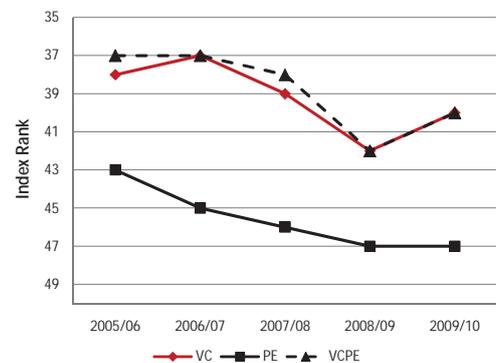
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>37</b>	<b>40,4</b>	<b>40</b>	↓	4th
Economic Activity	35	67,2	48	↓	4th
Depth of Cap. Market	54	6,9	58	↓	4th
Taxation	10	136,7	10	→	4th
Inv. Prot. & Corp. Gov.	31	69,9	32	↓	4th
Hum. & Soc. Env.	43	63,9	40	↑	4th
Entrepr. Culture & Opp.	29	49,6	29	→	4th

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31	↑	4th
Czech Republic	33	45,5	34	↓	4th
Estonia	30	44,5	35	↓	4th
Hungary	34	41,1	37	↓	4th
<b>Lithuania</b>	<b>37</b>	<b>40,4</b>	<b>40</b>	↓	4th
Croatia	47	38,6	45	↑	4th
Romania	52	38,1	47	↑	4th
Latvia	39	35,6	50	↓	4th
Bulgaria	48	30,6	55	↓	4th

# Lithuania

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	43	41,4	50	↓	■	■
1.2 Inflation	30	73,5	54	↓	■	■
1.3 Unemployment	40	100,0	28	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	60	4,3	61	↓	■	■
2.2 IPO Market Activity	52	1,2	48	↑	■	■
2.3 M&A Market Activity	54	1,2	54	→	■	■
2.4 Debt & Credit Market	30	75,8	35	↓	■	■
2.5 Financial Market Sophistication	46	35,1	52	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	12	187,5	11	↑	■	■
3.2 Administrative Tax Burdens	16	99,7	22	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	34	63,5	32	↑	■	■
4.2 Security of Property Rights	28	65,3	29	↓	■	■
4.3 Quality of Legal Enforcement	43	67,0	41	↑	■	■
4.4 Regulatory Quality	26	85,7	26	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	35	53,7	40	↓	■	■
5.2 Labor Market Rigidities	59	46,0	50	↑	■	■
5.3 Bribing & Corruption	37	54,1	40	↓	■	■
5.4 Costs of Crime	24	124,9	27	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	37	17,7	34	↑	■	■
6.2 Ease of Starting & Running a Business	24	92,4	31	↓	■	■
6.3 Simplicity of Closing a Business	23	85,6	22	↑	■	■
6.4 ICT Infrastructure	31	43,4	29	↑	■	■

# Luxembourg

Capital: Luxembourg ++ Official Language: Luxembourgish, French, German ++ Currency: Euro

## Basic Facts



GDP	54 [bn USD]	IPO Volume	4th 1st
Population	0 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Direct and personal contact with regulatory authorities with respect to accreditation processes and tax treatment
- Multilingual and internationally-oriented qualified workforce
- No constraints applicable to pension funds when investing in VC/PE and absence of geographical restrictions for investments outside Luxembourg
- Favorable tax policy with respect to investments in VC/PE, intellectual property and R&D expenditures
- Complete portfolio of products enabling maximum legal, tax and operational structuring flexibility

### Weaknesses

- Lack of specific tax rate for SMEs
- Limited deal flow

### Opportunities

- Re-domiciliation of businesses looking for an on-shore European VC/PE Fund label
- Stock options tax treatment could be used to support talent retention in investee company
- VC/PE structures very relevant for investment in cleantech and renewable energies

### Threats

- Duplication of available products and tax incentives by competitive locations
- Treaty access requires strict compliance with substance requirements

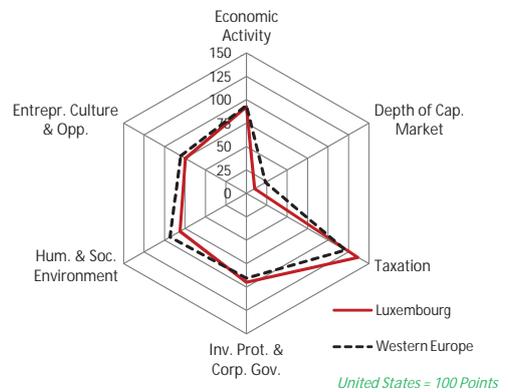
### Outlook

- Thanks to a tradition of innovation and client-focused attitude of authorities, Luxembourg managed to position itself as a major center for VC/PE on-shore investment and fund structuring in Europe. The country seems fully prepared to welcome VC/PE players considering on-shore re-domiciliation in a global context calling for increased regulation

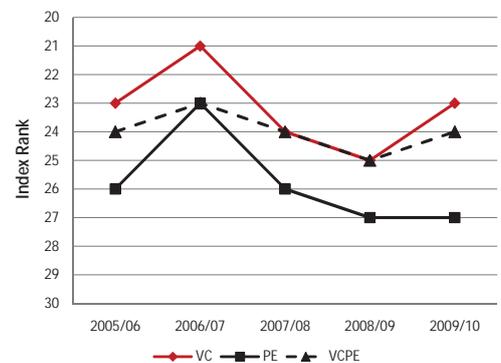
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	24	54,6	24	→	■ ■ ■ ■
Economic Activity	5	92,4	12	↓	■ ■ ■ ■
Depth of Cap. Market	40	10,1	42	↓	■ ■ ■ ■
Taxation	12	136,4	11	↑	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	13	94,7	13	→	■ ■ ■ ■
Hum. & Soc. Env.	34	81,1	22	↑	■ ■ ■ ■
Entrepr. Culture & Opp.	20	74,6	20	→	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	■ ■ ■ ■
Denmark	10	67,7	12	↓	■ ■ ■ ■
Finland	12	65,9	15	↓	■ ■ ■ ■
France	17	65,2	16	↑	■ ■ ■ ■
Belgium	19	61,1	17	↑	■ ■ ■ ■
Austria	20	58,6	19	↑	■ ■ ■ ■
Ireland	16	58,3	21	↓	■ ■ ■ ■
<b>Luxembourg</b>	24	54,6	24	→	■ ■ ■ ■
Greece	44	40,7	39	↑	■ ■ ■ ■

# Luxembourg

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	5	74,8	18	↓	■	■
1.2 Inflation	28	101,5	10	↑	■	■
1.3 Unemployment	15	104,0	20	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	53	8,3	51	↑	■	■
2.2 IPO Market Activity	33	1,3	46	↓	■	■
2.3 M&A Market Activity	40	1,5	48	↓	■	■
2.4 Debt & Credit Market	51	56,3	56	↓	■	■
2.5 Financial Market Sophistication	3	115,4	1	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	13	189,7	10	↑	■	■
3.2 Administrative Tax Burdens	23	98,0	27	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	31	62,4	36	↓	■	■
4.2 Security of Property Rights	9	104,0	4	↑	■	■
4.3 Quality of Legal Enforcement	12	118,9	11	↑	■	■
4.4 Regulatory Quality	3	104,4	9	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	32	68,3	29	↑	■	■
5.2 Labor Market Rigidities	63	32,1	59	↑	■	■
5.3 Bribing & Corruption	12	123,0	10	↑	■	■
5.4 Costs of Crime	6	160,6	1	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	21	42,8	22	↓	■	■
6.2 Ease of Starting & Running a Business	15	98,7	19	↓	■	■
6.3 Simplicity of Closing a Business	32	71,6	31	↑	■	■
6.4 ICT Infrastructure	6	102,5	5	↑	■	■

# Malaysia

Capital: Kuala Lumpur ++ Official Language: Bahasa Melayu ++ Currency: Malaysian Ringgit

## Basic Facts



	2009 [bn USD]	2009 [mn]	Quartile
GDP	209 [bn USD]	27 [mn]	4th
Population			1st
GDP Growth '02-'08			
Pop. Growth '02-'08			
IPO Volume			
M&A Volume			
VC Activity			
PE Activity			

## SWOT Analysis

### Strengths

- Established regulatory framework and financial markets, both conventional and Islamic
- Government support and tax incentives for the VC/PE industry
- Liberalization of foreign equity restrictions should widen the spectrum of opportunities in PIPEs and buyouts by foreign funds

### Weaknesses

- Sources of capital still come predominantly from government agencies, despite consistent calls for banks, pensions funds and insurance companies to increase their participation
- Governmental and regulatory approval processes remain sub-optimal despite current liberalization measures
- Government-linked investment corporations ("GLICs") and government-linked companies ("GLCs") continue to add to their portfolios through direct investments, which stiffens competition for larger deals
- Need for improvement of local PE and VC managers' skills

### Opportunities

- Large and diversified conglomerates and GLCs continue to rebalance their portfolios through divestment of non-core businesses
- Several GLICs hold substantial direct investments in related enterprises which provide attractive consolidation opportunities
- Stimulus packages are slowly taking effect, creating opportunities to participate in capital raising activities by private sector promoters

### Threats

- Increased competition for already limited quality deals by SPACs that raise public capital
- Government-driven national PE management company ("Ekuinas") with an initial allocation of RM500 million for investments in SMEs

### Outlook

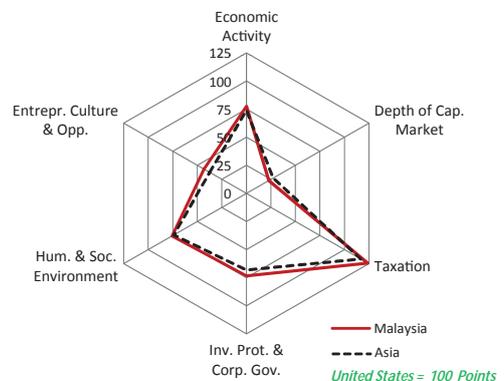
- Cautious optimism is returning, but competition in the industry is likely to increase

*Edwin Chew, Executive Director, Ernst & Young Malaysia*

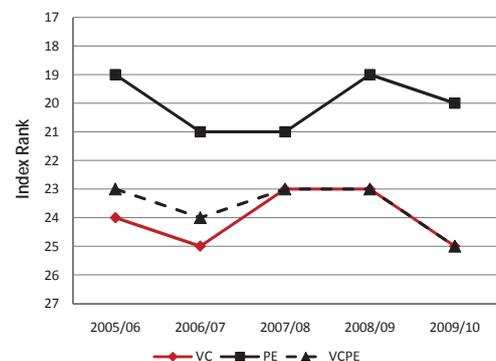
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
VCPE Ranking	23	54,4	25		↓	█ █ █ █
Economic Activity	33	77,5	38		↓	█ █ █ █
Depth of Cap. Market	12	23,0	15		↓	█ █ █ █
Taxation	27	123,7	21		↑	█ █ █ █
Inv. Prot. & Corp. Gov.	25	73,3	28		↓	█ █ █ █
Hum. & Soc. Env.	22	75,8	28		↓	█ █ █ █
Entrepr. Culture & Opp.	31	43,2	32		↓	█ █ █ █

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Hong Kong	4	79,5	5		↓	█ █ █ █
Japan	7	76,5	7		→	█ █ █ █
Republic of Korea	15	67,5	13		↑	█ █ █ █
Malaysia	23	54,4	25		↓	█ █ █ █
China	42	48,5	28		↑	█ █ █ █
India	46	40,9	38		↑	█ █ █ █
Russian Federation	49	38,0	48		↑	█ █ █ █
Indonesia	60	30,7	54		↑	█ █ █ █
Philippines	57	26,1	61		↓	█ █ █ █

# Malaysia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	42	47,2	46	↓	■	■
1.2 Inflation	35	92,0	36	↓	■	■
1.3 Unemployment	6	107,2	10	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	15	41,7	14	↑	■	■
2.2 IPO Market Activity	13	3,4	21	↓	■	■
2.3 M&A Market Activity	16	6,3	18	↓	■	■
2.4 Debt & Credit Market	18	95,8	15	↑	■	■
2.5 Financial Market Sophistication	27	75,3	27	→	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	26	152,9	27	↓	■	■
3.2 Administrative Tax Burdens	43	100,1	19	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	4	105,9	4	→	■	■
4.2 Security of Property Rights	34	57,9	35	↓	■	■
4.3 Quality of Legal Enforcement	28	82,6	32	↓	■	■
4.4 Regulatory Quality	40	57,1	45	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	17	80,9	21	↓	■	■
5.2 Labor Market Rigidities	13	74,5	24	↓	■	■
5.3 Bribing & Corruption	32	61,3	33	↓	■	■
5.4 Costs of Crime	42	89,2	51	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	29	20,6	30	↓	■	■
6.2 Ease of Starting & Running a Business	17	97,0	22	↓	■	■
6.3 Simplicity of Closing a Business	34	68,2	34	→	■	■
6.4 ICT Infrastructure	37	25,6	39	↓	■	■

# Mexico

Capital: Mexico City ++ Official Language: Spanish ++ Currency: Mexican Peso

## Basic Facts



GDP	1084 [bn USD]	IPO Volume	4th 1st
Population	108 [mn]	M&A Volume	4th 1st
GDP Growth	'02 - - - - '08	VC Activity	4th 1st
Pop. Growth	'02 - - - - '08	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Tax treatment, and quality of accounting standards are relative strengths
- Many newly registered businesses and entrepreneurial activities in recent years

### Weaknesses

- IPOs remain a difficult and unattractive exit option for VC/PE investments
- Insurers are not permitted to use VC/PE assets to cover solvency margins and face strong restrictions with respect to their VC/PE allocations
- Mexican law protects intellectual property rights, but enforcement is weak and pirated goods exist throughout the country

### Opportunities

- Arise by improvements of tax treatment, corporate governance, protection of minority rights and quality of accounting standards

### Threats

- Growing evidence of violence and crime
- Need to lift barriers to institutional investment and improve the access to equity markets for SMEs

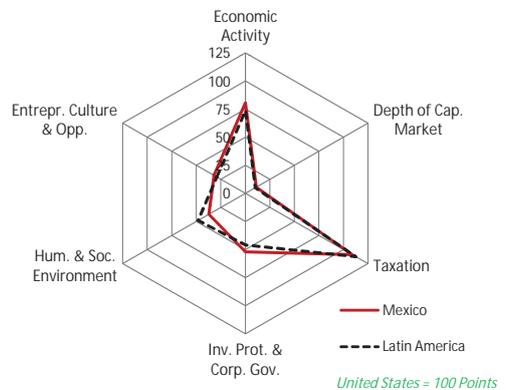
### Outlook

- Underperform relative to the size and the potential of the country's economy

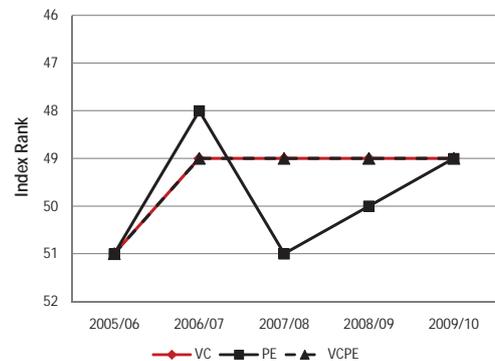
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	51	35,8	49	35,8	↑	█ █ █ █
Economic Activity	30	80,5	32	80,5	↓	█ █ █ █
Depth of Cap. Market	45	11,1	39	11,1	↑	█ █ █ █
Taxation	44	108,9	40	108,9	↑	█ █ █ █
Inv. Prot. & Corp. Gov.	51	51,9	47	51,9	↑	█ █ █ █
Hum. & Soc. Env.	59	37,1	62	37,1	↓	█ █ █ █
Entrepr. Culture & Opp.	43	31,9	46	31,9	↓	█ █ █ █

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Chile	27	45,8	32	45,8	↓	█ █ █ █
<b>Mexico</b>	51	35,8	49	35,8	↑	█ █ █ █
Brazil	56	34,6	51	34,6	↑	█ █ █ █
Uruguay	50	33,4	52	33,4	↓	█ █ █ █
Peru	54	32,4	53	32,4	↑	█ █ █ █
Colombia	55	29,4	58	29,4	↓	█ █ █ █
Argentina	59	29,1	59	29,1	→	█ █ █ █
Paraguay	66	14,9	65	14,9	↑	█ █ █ █
Venezuela	65	8,9	66	8,9	↓	█ █ █ █

# Mexico

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
1.1 Gross Domestic Product	36	52,1	41	↓	■ ■ ■ ■
1.2 Inflation	43	95,3	30	↑	■ ■ ■ ■
1.3 Unemployment	6	105,2	14	↓	■ ■ ■ ■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
2.1 Size and Liquidity of the Stock Market	49	8,4	50	↓	■ ■ ■ ■
2.2 IPO Market Activity	41	1,7	32	↑	■ ■ ■ ■
2.3 M&A Market Activity	37	3,3	24	↑	■ ■ ■ ■
2.4 Debt & Credit Market	43	69,1	45	↓	■ ■ ■ ■
2.5 Financial Market Sophistication	42	50,6	38	↑	■ ■ ■ ■

### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
3.1 Tax Incentives	46	125,7	45	↑	■ ■ ■ ■
3.2 Administrative Tax Burdens	47	94,3	44	↑	■ ■ ■ ■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
4.1 Corporate Governance	61	53,8	45	↑	■ ■ ■ ■
4.2 Security of Property Rights	45	50,3	43	↑	■ ■ ■ ■
4.3 Quality of Legal Enforcement	54	42,4	54	→	■ ■ ■ ■
4.4 Regulatory Quality	45	63,0	43	↑	■ ■ ■ ■

### 5. Human and Social Environment

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
5.1 Education & Human Capital	61	36,9	61	→	■ ■ ■ ■
5.2 Labor Market Rigidities	46	53,8	43	↑	■ ■ ■ ■
5.3 Bribing & Corruption	51	35,4	53	↓	■ ■ ■ ■
5.4 Costs of Crime	63	27,0	64	↓	■ ■ ■ ■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
6.1 Innovation & R&D	50	10,2	57	↓	■ ■ ■ ■
6.2 Ease of Starting & Running a Business	45	77,9	46	↓	■ ■ ■ ■
6.3 Simplicity of Closing a Business	24	81,5	24	→	■ ■ ■ ■
6.4 ICT Infrastructure	47	16,0	47	→	■ ■ ■ ■

# Morocco

Capital: Rabat ++ Official Language: Arabic ++ Currency: Moroccan Dirham

## Basic Facts



GDP	87 [bn USD]	IPO Volume	4th 1st
Population	32 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Low competition yet in one of the advanced African markets
- Will probably turn into a hub for European GPs expanding to Northern African countries
- Geo-political location and relations: close to Spain, and Portugal, strongly connected to France
- Tax breaks providing incentives to investors

### Weaknesses

- Barriers to trade and investment across the North African region have stymied economic integration
- Economy remains dependent on agriculture
- 15 percent of the population is considered poor

### Opportunities

- Economic growth rates of 5% expected
- Political activity to ease capital flows
- Opportunities from corporations that shift production to low cost facilities
- State-led projects for roads, railways, ports, health and education

### Threats

- Political tensions with Algeria

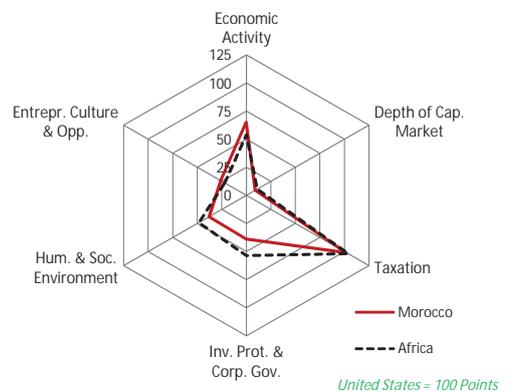
### Outlook

- Business-friendly reforms are expected to spur VC/PE activity

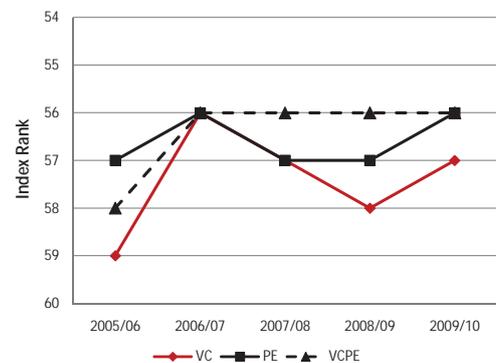
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	58	30,3	56	30,3	↑	✗
Economic Activity	53	65,0	51	65,0	↑	✗
Depth of Cap. Market	55	9,1	46	9,1	↑	✗
Taxation	59	101,4	50	101,4	↑	✗
Inv. Prot. & Corp. Gov.	60	38,8	59	38,8	↑	✗
Hum. & Soc. Env.	57	37,9	60	37,9	↓	✗
Entrepr. Culture & Opp.	52	26,2	53	26,2	↓	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Israel	21	55,8	22	55,8	↓	✗
Saudi Arabia	36	46,4	30	46,4	↑	✗
Kuwait	29	40,1	42	40,1	↓	✗
South Africa	43	39,5	43	39,5	↔	✗
Oman	38	38,1	46	38,1	↓	✗
<b>Morocco</b>	58	30,3	56	30,3	↑	✗
Egypt	53	30,1	57	30,1	↓	✗
Nigeria	64	24,4	62	24,4	↑	✗
Kenya	63	19,3	64	19,3	↓	✗

# Morocco

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	63	30,8	59	↑	☒	☐
1.2 Inflation	7	99,6	16	↓	☐	☒
1.3 Unemployment	53	89,3	59	↓	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	52	12,8	40	↑	☐	☒
2.2 IPO Market Activity	51	1,3	43	↑	☐	☒
2.3 M&A Market Activity	51	1,1	57	↓	☒	☐
2.4 Debt & Credit Market	54	73,1	39	↑	☐	☒
2.5 Financial Market Sophistication	46	44,4	45	↑	☐	☒

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	62	114,4	53	↑	☐	☒
3.2 Administrative Tax Burdens	41	89,9	51	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	66	18,0	65	↑	☐	☒
4.2 Security of Property Rights	55	39,0	55	→	☐	☒
4.3 Quality of Legal Enforcement	41	68,4	40	↑	☐	☒
4.4 Regulatory Quality	59	47,2	53	↑	☐	☒

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	59	33,1	62	↓	☐	☒
5.2 Labor Market Rigidities	65	16,5	65	→	☐	☒
5.3 Bribing & Corruption	53	36,0	52	↑	☐	☒
5.4 Costs of Crime	49	104,5	44	↑	☐	☒

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	63	7,3	63	→	☐	☒
6.2 Ease of Starting & Running a Business	34	94,4	26	↑	☐	☒
6.3 Simplicity of Closing a Business	39	65,5	35	↑	☐	☒
6.4 ICT Infrastructure	56	10,3	56	→	☐	☒

# Netherlands

Capital: Amsterdam ++ Official Language: Dutch ++ Currency: Euro

## Basic Facts



GDP	859 [bn USD]	IPO Volume	4th 1st
Population	17 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- VC/PE is of great economic importance
- GPs are real active shareholders with extensive experience
- Dutch GPs are successful in receiving financing from banks as they usually use less leverage

### Weaknesses

- VC/PE firms tend to focus primarily on financial results and cost cutting, often by cutting headcount

### Opportunities

- Increasing activity of foreign VC/PE firms
- VC/PE has become a fixed part of the investment portfolio of many banks and pension funds
- Sharp increase in private investors, such as families and wealthy individuals

### Threats

- Number of transactions in the Dutch buy-out market remains low
- Increasing interest rates
- Limitations regarding the fiscal advantage of deducting interest expenses

### Outlook

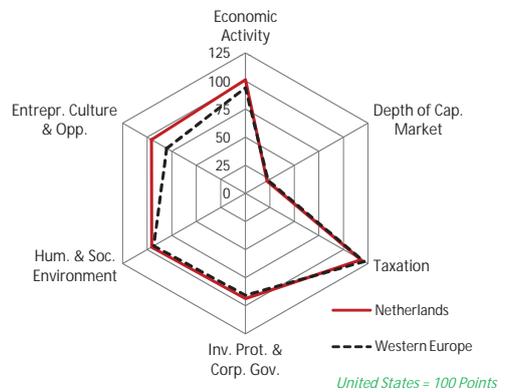
- More equity capital is required for new investments
- Disappointing performance of some portfolio companies
- Anticipated that portfolio companies of VC/PE firms surpass the financial performance of publicly-listed companies

Marc Guns, Partner, Ernst & Young Netherlands

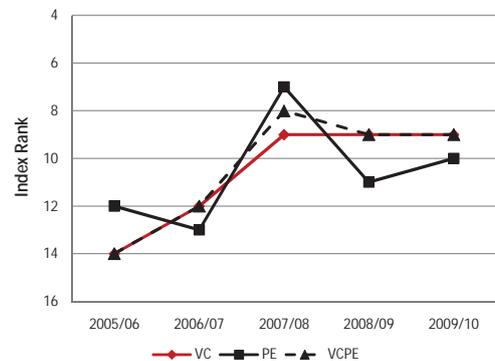
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	14	70,1	9	↑	■ ■ ■ ■
Economic Activity	18	101,2	3	↑	■ ■ ■ ■
Depth of Cap. Market	15	22,1	16	↓	■ ■ ■ ■
Taxation	46	118,0	29	↑	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	14	93,5	15	↓	■ ■ ■ ■
Hum. & Soc. Env.	16	95,6	16	→	■ ■ ■ ■
Entrepr. Culture & Opp.	9	95,7	6	↑	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Netherlands	14	70,1	9	↑	■ ■ ■ ■
Germany	9	69,1	10	↓	■ ■ ■ ■
Denmark	10	67,7	12	↓	■ ■ ■ ■
Finland	12	65,9	15	↓	■ ■ ■ ■
France	17	65,2	16	↑	■ ■ ■ ■
Belgium	19	61,1	17	↑	■ ■ ■ ■
Austria	20	58,6	19	↑	■ ■ ■ ■
Ireland	16	58,3	21	↓	■ ■ ■ ■
Greece	44	40,7	39	↑	■ ■ ■ ■

# Netherlands

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	23	91,1	6	↑	■	⊗
1.2 Inflation	10	104,7	4	↑	■	⊗
1.3 Unemployment	21	108,7	6	↑	■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	18	33,0	18	→	■	⊗
2.2 IPO Market Activity	18	2,2	27	↓	■	⊗
2.3 M&A Market Activity	13	7,1	17	↓	■	⊗
2.4 Debt & Credit Market	1	102,0	5	↓	■	⊗
2.5 Financial Market Sophistication	5	100,0	8	↓	■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	53	138,1	35	↑	■	⊗
3.2 Administrative Tax Burdens	34	100,8	15	↑	■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	23	65,9	30	↓	■	⊗
4.2 Security of Property Rights	17	88,4	15	↑	■	⊗
4.3 Quality of Legal Enforcement	4	124,3	6	↓	■	⊗
4.4 Regulatory Quality	6	105,6	7	↓	■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	9	100,3	9	→	■	⊗
5.2 Labor Market Rigidities	35	54,6	41	↓	■	⊗
5.3 Bribing & Corruption	10	129,2	7	↑	■	⊗
5.4 Costs of Crime	32	118,1	33	↓	■	⊗

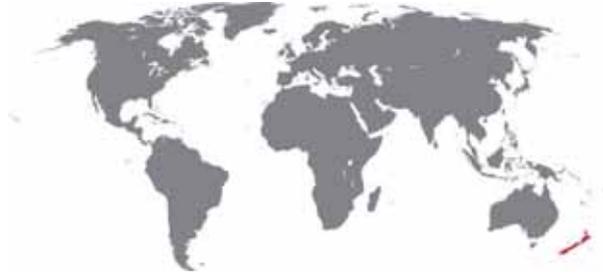
### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	9	72,7	10	↓	■	⊗
6.2 Ease of Starting & Running a Business	25	89,5	34	↓	■	⊗
6.3 Simplicity of Closing a Business	7	108,0	9	↓	■	⊗
6.4 ICT Infrastructure	2	119,5	1	↑	■	⊗

# New Zealand

Capital: Wellington ++ Official Language: English, Maori ++ Currency: New Zealand Dollar

## Basic Facts



GDP	126 [bn USD]	IPO Volume	
Population	4 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Encouraging clear and simple regulatory environment
- Recent introduction of limited liability partnership regime enhances global consistency
- Growing awareness and support of VC activity complementing already strong PE investment culture

### Weaknesses

- Relative weakness of capital market

### Opportunities

- Increasing allocation of government controlled funds to private VC enterprises – continued stimulation of sector through the NZ Superannuation Fund (SWF equivalent) and other initiatives
- Demographics mean there is a strong SME business base with ageing investors looking for exit route

### Threats

- Lack of sufficient IPO exit perspectives

### Outlook

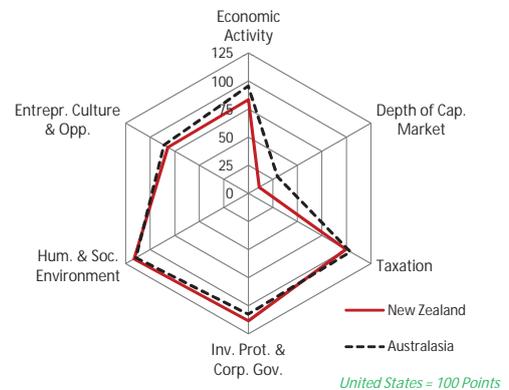
- Infrastructure opportunities expected to increase with a PPP regime to be created.
- Returning strength to debt markets expected to increase leverage opportunity.

Bryan Zekulich, Partner, Ernst & Young New Zealand

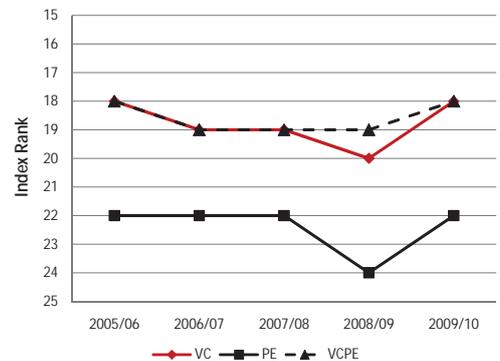
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>18</b>	<b>60,0</b>	<b>18</b>		
Economic Activity	27	83,5	29		
Depth of Cap. Market	27	11,1	40		
Taxation	52	99,6	54		
Inv. Prot. & Corp. Gov.	2	113,4	2		
Hum. & Soc. Env.	3	116,5	4		
Entrepr. Culture & Opp.	16	82,2	15		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Australia	6	81,9	4		
Hong Kong	4	79,5	5		
Singapore	5	78,5	6		
Japan	7	76,5	7		
Republic of Korea	15	67,5	13		
<b>New Zealand</b>	<b>18</b>	<b>60,0</b>	<b>18</b>		
Taiwan	25	55,3	23		
Malaysia	23	54,4	25		
China	42	48,5	28		

# New Zealand

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	30	55,8	34	↓	■	■
1.2 Inflation	34	99,3	18	↑	■	■
1.3 Unemployment	8	105,2	14	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	39	9,0	48	↓	■	■
2.2 IPO Market Activity	42	1,1	55	↓	■	■
2.3 M&A Market Activity	20	1,9	40	↓	■	■
2.4 Debt & Credit Market	8	106,1	3	↑	■	■
2.5 Financial Market Sophistication	25	84,6	21	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	60	96,1	63	↓	■	■
3.2 Administrative Tax Burdens	5	103,1	5	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	2	121,0	1	↑	■	■
4.2 Security of Property Rights	4	106,8	3	↑	■	■
4.3 Quality of Legal Enforcement	7	122,1	8	↓	■	■
4.4 Regulatory Quality	7	104,6	8	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	19	97,7	12	↑	■	■
5.2 Labor Market Rigidities	3	94,3	5	↓	■	■
5.3 Bribing & Corruption	2	138,0	1	↑	■	■
5.4 Costs of Crime	8	144,9	12	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	22	45,2	21	↑	■	■
6.2 Ease of Starting & Running a Business	7	107,3	7	→	■	■
6.3 Simplicity of Closing a Business	11	103,7	12	↓	■	■
6.4 ICT Infrastructure	14	90,9	13	↑	■	■

# Nigeria

Capital: Abuja ++ Official Language: English ++ Currency: Naira

## Basic Facts



GDP	213 [bn USD]	IPO Volume	4th 1st
Population	152 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08	-----	VC Activity	4th 1st
Pop. Growth '02 - '08	-----	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Good growth prospects driven by oil reserves and a large population

### Weaknesses

- VC/PE markets are still "infant" compared to debt and public equity markets
- Scarce talent for valuation and due diligence
- Entrepreneurs lack business skills
- Protectionist tariffs, currency and other controls
- Limited regulatory support for VC/PE and few bankable projects

### Opportunities

- Economic liberalization programs
- Improvements in legal infrastructure and corporate governance
- Increasing number of investment professionals
- Tax relief on some VC investments
- Opportunities caused by the SME Equity Investment Scheme

### Threats

- Poor infrastructure
- Social/ethnic and religious unrest
- High corruption levels

### Outlook

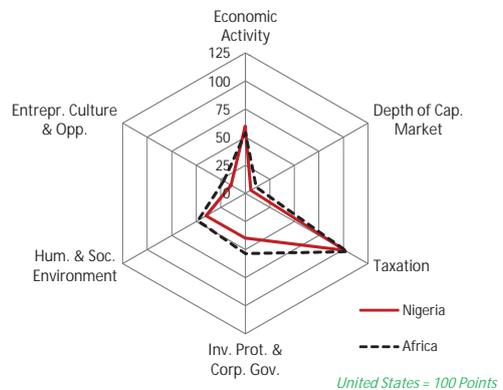
- Nigeria was strongly affected by the global economic downturn and might need longer to emerge from the slowdown

Graham Stokoe, Associate Director, Ernst & Young South Africa

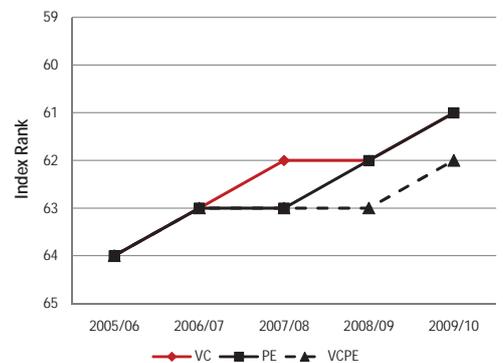
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>64</b>	<b>24,4</b>	<b>62</b>	↑	✗
Economic Activity	65	59,8	57	↑	✗
Depth of Cap. Market	63	5,6	62	↑	✗
Taxation	43	101,3	51	↓	✗
Inv. Prot. & Corp. Gov.	62	39,7	57	↑	✗
Hum. & Soc. Env.	64	40,0	57	↑	✗
Entrepr. Culture & Opp.	58	14,7	62	↓	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	✗
Saudi Arabia	36	46,4	30	↑	✗
Kuwait	29	40,1	42	↓	✗
South Africa	43	39,5	43	→	✗
Oman	38	38,1	46	↓	✗
Morocco	58	30,3	56	↑	✗
Egypt	53	30,1	57	↓	✗
<b>Nigeria</b>	<b>64</b>	<b>24,4</b>	<b>62</b>	<b>↑</b>	<b>✗</b>
Kenya	63	19,3	64	↓	✗

# Nigeria

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	62	29,0	61	↑	☒	☐
1.2 Inflation	66	73,8	53	↑	☒	☐
1.3 Unemployment	4	100,0	28	↓	☐	☒

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	57	9,6	47	↑	☒	☐
2.2 IPO Market Activity	52	1,3	45	↑	☒	☐
2.3 M&A Market Activity	59	1,2	55	↑	☒	☐
2.4 Debt & Credit Market	66	10,5	66	→	☒	☐
2.5 Financial Market Sophistication	53	35,1	52	↑	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	34	136,3	38	↓	☒	☐
3.2 Administrative Tax Burdens	60	75,3	61	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	19	68,7	25	↓	☐	☒
4.2 Security of Property Rights	56	39,5	53	↑	☒	☐
4.3 Quality of Legal Enforcement	64	32,8	61	↑	☒	☐
4.4 Regulatory Quality	65	28,0	64	↑	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	47	40,8	59	↓	☒	☐
5.2 Labor Market Rigidities	8	84,1	13	↓	☐	☒
5.3 Bribing & Corruption	66	14,7	61	↑	☒	☐
5.4 Costs of Crime	62	50,6	61	↑	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	61	9,4	59	↑	☒	☐
6.2 Ease of Starting & Running a Business	43	36,3	64	↓	☒	☐
6.3 Simplicity of Closing a Business	48	56,0	49	↓	☒	☐
6.4 ICT Infrastructure	65	2,4	66	↓	☒	☐

# Norway

Capital: Oslo ++ Official Language: Bokmål Norwegian, Nynorsk Norwegian ++ Currency: Norwegian Krone

## Basic Facts



GDP	444 [bn USD]	IPO Volume	Quartile 4th 1st
Population	5 [mn]	M&A Volume	■ ■ ■ ■ ■
GDP Growth '02	■ ■ ■ ■ ■	VC Activity	■ ■ ■ ■ ■
Pop. Growth '02	■ ■ ■ ■ ■	PE Activity	■ ■ ■ ■ ■

## SWOT Analysis

### Strengths

- Strong VC/PE environment with local and Nordic players
- Some international players: mostly large Swedish PE firms
- Large amount of VC funds
- Strong VC/PE environment focusing on energy, oil services and ICT

### Weaknesses

- Limited number of large PE funds in Norway

### Opportunities

- Approximately €4,000 million in committed non-invested capital
- A large portion of investments are mature
- Develop sectors towards cleantech, oil services and energy

### Threats

- Shortage of funding from Norwegian banks
- IPOs do not exist as an exit strategy

### Outlook

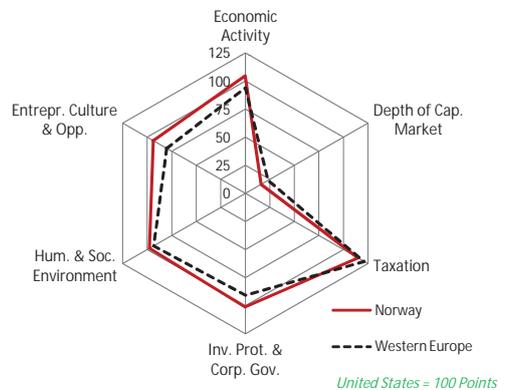
- Norway remains attractive for overseas investors, especially within oil services sector
- VC/PE activities expected to increase at the end of 2009

Vegard Stevning, Partner, Ernst & Young Norway

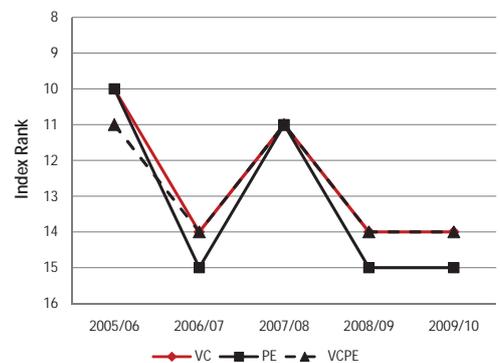
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	11	66,3	14	↓	■ ■ ■ ■ ■
Economic Activity	6	104,6	1	↑	■ ■ ■ ■ ■
Depth of Cap. Market	22	16,1	24	↓	■ ■ ■ ■ ■
Taxation	26	115,0	35	↓	■ ■ ■ ■ ■
Inv. Prot. & Corp. Gov.	7	101,0	8	↓	■ ■ ■ ■ ■
Hum. & Soc. Env.	9	97,7	15	↓	■ ■ ■ ■ ■
Entrepr. Culture & Opp.	11	93,8	9	↑	■ ■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	■ ■ ■ ■ ■
Denmark	10	67,7	12	↓	■ ■ ■ ■ ■
Norway	11	66,3	14	↓	■ ■ ■ ■ ■
Finland	12	65,9	15	↓	■ ■ ■ ■ ■
France	17	65,2	16	↑	■ ■ ■ ■ ■
Belgium	19	61,1	17	↑	■ ■ ■ ■ ■
Austria	20	58,6	19	↑	■ ■ ■ ■ ■
Ireland	16	58,3	21	↓	■ ■ ■ ■ ■
Greece	44	40,7	39	↑	■ ■ ■ ■ ■

# Norway

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	8	104,6	1	↑	■	■
1.2 Inflation	11	100,0	14	↓	■	■
1.3 Unemployment	16	109,3	4	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	27	23,2	23	↑	■	■
2.2 IPO Market Activity	21	1,3	44	↓	■	■
2.3 M&A Market Activity	22	3,9	22	→	■	■
2.4 Debt & Credit Market	15	96,7	12	↑	■	■
2.5 Financial Market Sophistication	18	93,8	13	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	35	126,8	44	↓	■	■
3.2 Administrative Tax Burdens	4	104,2	2	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	12	88,1	12	→	■	■
4.2 Security of Property Rights	3	102,3	5	↓	■	■
4.3 Quality of Legal Enforcement	3	125,4	4	↓	■	■
4.4 Regulatory Quality	15	92,2	20	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	15	90,7	15	→	■	■
5.2 Labor Market Rigidities	26	53,7	44	↓	■	■
5.3 Bribing & Corruption	7	118,9	12	↓	■	■
5.4 Costs of Crime	1	157,0	4	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	16	63,8	14	↑	■	■
6.2 Ease of Starting & Running a Business	8	100,1	16	↓	■	■
6.3 Simplicity of Closing a Business	2	114,8	3	↓	■	■
6.4 ICT Infrastructure	9	105,7	4	↑	■	■

# Oman

Capital: Muscat ++ Official Language: Arabic ++ Currency: Rial Omani

## Basic Facts



GDP	56 [bn USD]	IPO Volume	4th 1st
Population	3 [mn]	M&A Volume	4th 1st
GDP Growth '02 - '08		VC Activity	4th 1st
Pop. Growth '02 - '08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- High oil prices and increased perception of bargains in the international market

### Weaknesses

- Small market with very limited VC/PE activity and low attractiveness compared to the other GCC countries
- Any entering private VC/PE company competes against established governmental and quasi-governmental funds

### Opportunities

- Deal flow opportunities from family owned conglomerates
- Investment opportunities also exist in the form of second and third generation family owned business offices

### Threats

- Investment from government owned funds may decrease as the country is running a budget deficit
- Considerable reduction of the number of acquisitions should oil prices drop significantly

### Outlook

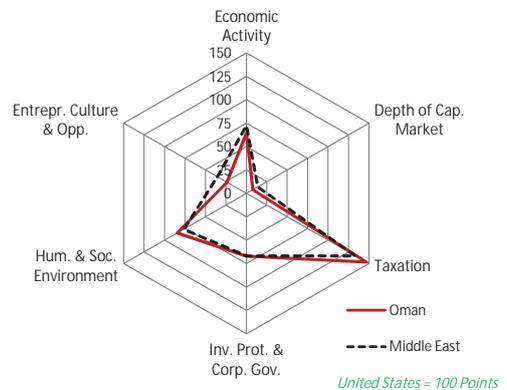
- In the short term, the activities of private funds may be constrained as the government has cash surpluses, some of which will be spent domestically. However, the government funds started investing overseas especially in real estate and the oil sector and become less keen to take equity stakes in local private enterprises

Ragheev Singh, Partner, Ernst & Young Oman

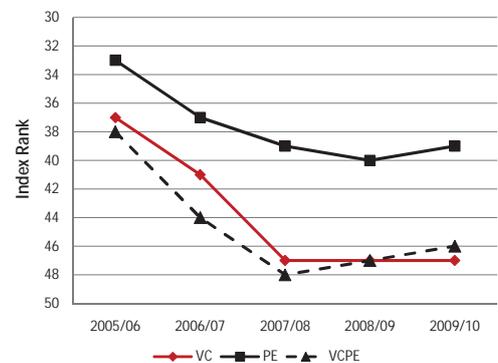
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>38</b>	<b>38,1</b>	<b>46</b>	↓	4th
Economic Activity	36	64,6	52	↓	4th
Depth of Cap. Market	49	8,0	53	↓	4th
Taxation	4	146,7	2	↑	1st
Inv. Prot. & Corp. Gov.	36	67,1	34	↑	4th
Hum. & Soc. Env.	26	84,5	21	↑	4th
Entrepr. Culture & Opp.	49	23,6	56	↓	4th

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	4th
United Arab Emirates	26	51,7	26	↑	4th
Saudi Arabia	36	46,4	30	↓	4th
Kuwait	29	40,1	42	→	4th
<b>Oman</b>	<b>38</b>	<b>38,1</b>	<b>46</b>	↓	4th
Morocco	58	30,3	56	↑	4th
Egypt	53	30,1	57	↓	4th
Nigeria	64	24,4	62	↑	4th
Kenya	63	19,3	64	↓	4th

# Oman

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	38	54,8	35	↑	■	■
1.2 Inflation	16	66,9	58	↓	■	■
1.3 Unemployment	62	73,4	64	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	43	7,8	54	↓	■	■
2.2 IPO Market Activity	40	1,2	47	↓	■	■
2.3 M&A Market Activity	64	1,0	63	↑	■	■
2.4 Debt & Credit Market	48	63,5	51	↓	■	■
2.5 Financial Market Sophistication	35	50,6	38	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	5	212,9	4	↑	■	■
3.2 Administrative Tax Burdens	12	101,0	13	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	45	48,0	50	↓	■	■
4.2 Security of Property Rights	29	66,5	28	↑	■	■
4.3 Quality of Legal Enforcement	26	91,2	23	↑	■	■
4.4 Regulatory Quality	37	69,7	38	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	41	54,4	39	↑	■	■
5.2 Labor Market Rigidities	17	79,4	15	↑	■	■
5.3 Bribing & Corruption	31	75,3	29	↑	■	■
5.4 Costs of Crime	17	156,6	5	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	46	11,8	49	↓	■	■
6.2 Ease of Starting & Running a Business	36	44,0	62	↓	■	■
6.3 Simplicity of Closing a Business	35	63,7	37	↓	■	■
6.4 ICT Infrastructure	57	9,4	57	→	■	■

# Paraguay

Capital: Asunción ++ Official Language: Spanish, Guaraní ++ Currency: Guaraní

## Basic Facts



GDP	16 [bn USD]	IPO Volume	
Population	6 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Tax incentives for entrepreneurs and companies
- Relatively low and decreasing unemployment rate

### Weaknesses

- Underdeveloped capital market
- Low investor protection and corporate governance structures
- Missing entrepreneurial culture
- Excessive bureaucracy, perceived crime and corruption, challenging infrastructure

### Opportunities

- Expected growth provides some investment opportunities

### Threats

- Democracy is not yet fully established and the possibility of a military putsch is omnipresent
- Political parties are discredited

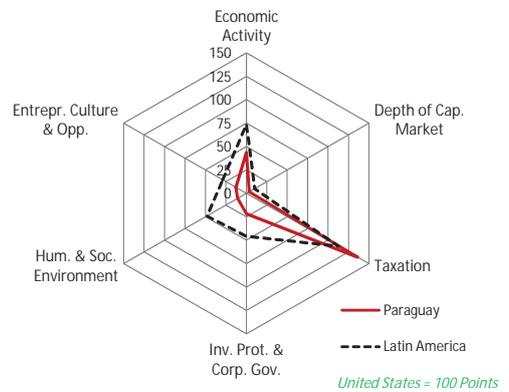
### Outlook

- With the stabilization of democratic power, Paraguay's prospects should comprehensively improve

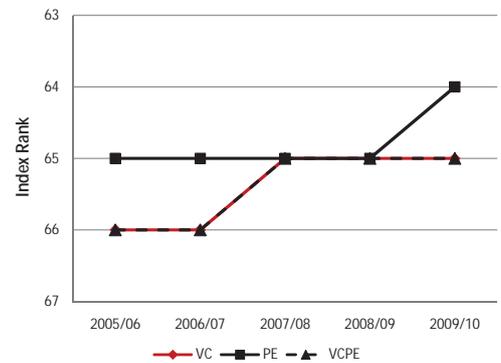
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>66</b>	<b>14,9</b>	<b>65</b>	<b>65</b>		
Economic Activity	64	43,6	61	61		
Depth of Cap. Market	66	3,5	66	66		
Taxation	11	136,2	12	12		
Inv. Prot. & Corp. Gov.	65	21,6	65	65		
Hum. & Soc. Env.	66	10,7	66	66		
Entrepr. Culture & Opp.	66	12,9	63	63		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Chile	27	45,8	32	32		
Mexico	51	35,8	49	49		
Brazil	56	34,6	51	51		
Uruguay	50	33,4	52	52		
Peru	54	32,4	53	53		
Colombia	55	29,4	58	58		
Argentina	59	29,1	59	59		
<b>Paraguay</b>	<b>66</b>	<b>14,9</b>	<b>65</b>	<b>65</b>		
Venezuela	65	8,9	66	66		

# Paraguay

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	66	10,3	65	↑	☒	☐
1.2 Inflation	53	79,3	48	↑	☒	☐
1.3 Unemployment	34	102,0	23	↑	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	63	2,6	65	↓	☒	☐
2.2 IPO Market Activity	52	1,0	58	↓	☒	☐
2.3 M&A Market Activity	65	1,0	66	↓	☒	☐
2.4 Debt & Credit Market	60	46,0	60	→	☒	☐
2.5 Financial Market Sophistication	66	4,2	65	↑	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	6	211,1	5	↑	☒	☐
3.2 Administrative Tax Burdens	48	87,9	53	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	59	33,7	61	↓	☒	☐
4.2 Security of Property Rights	63	18,1	64	↓	☒	☐
4.3 Quality of Legal Enforcement	65	11,1	65	→	☒	☐
4.4 Regulatory Quality	64	32,3	61	↑	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	66	1,2	66	→	☒	☐
5.2 Labor Market Rigidities	57	30,4	61	↓	☒	☐
5.3 Bribing & Corruption	65	6,3	65	→	☒	☐
5.4 Costs of Crime	59	57,1	57	↑	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	66	1,7	66	→	☒	☐
6.2 Ease of Starting & Running a Business	65	71,1	52	↑	☒	☐
6.3 Simplicity of Closing a Business	54	50,1	52	↑	☒	☐
6.4 ICT Infrastructure	63	4,6	62	↑	☒	☐

# Peru

Capital: Lima ++ Official Language: Spanish, Quéchuá (both official) ++ Currency: Nuevo Sol

## Basic Facts



GDP	128 [bn USD]	IPO Volume	
Population	28 [mn]	M&A Volume	
GDP Growth	'02 - - - - - '08	VC Activity	
Pop. Growth	'02 - - - - - '08	PE Activity	

## SWOT Analysis

### Strengths

- High-quality accounting standards
- Country openness
- Relatively advanced regulations for VC/PE

### Weaknesses

- Democratic institutions inspire little public trust
- Judicial system remains little efficient and prone to corruption
- Minority rights are weakly regulated and protected
- IPO market is non-existing

### Opportunities

- Pension funds are increasingly local active players
- Over the longer term, bureaucracy may be gradually reduced, making the business environment more conducive to entrepreneurship

### Threats

- The IIPA asked that Peru be elevated to the US Trade Representative's Special 301 priority watch list
- Local culture about VC/PE needs to be developed
- Unfavorable tax laws and inadequate tax incentives

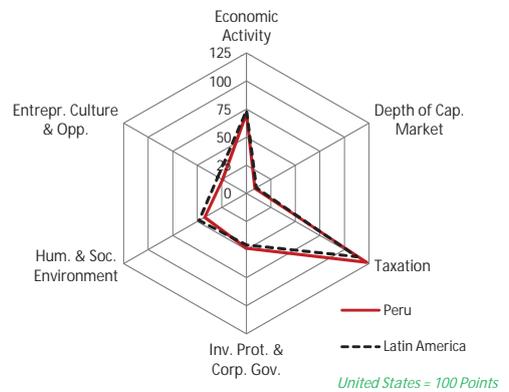
### Outlook

- Peru is considered an incipient new market for PE/VC investment
- Government support for the formation of a PE/VC industry remains tepid

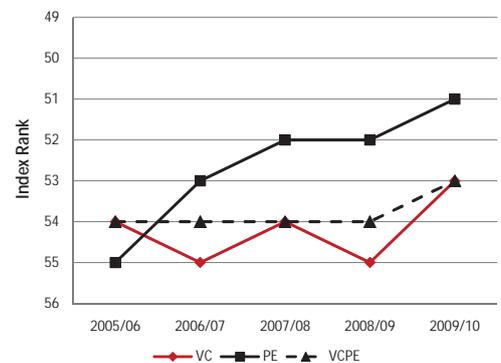
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	54	32,4	53	32,4		
Economic Activity	40	71,1	45	71,1		
Depth of Cap. Market	50	8,6	48	8,6		
Taxation	36	122,6	22	122,6		
Inv. Prot. & Corp. Gov.	57	48,9	51	48,9		
Hum. & Soc. Env.	61	42,4	55	42,4		
Entrepr. Culture & Opp.	54	24,3	54	24,3		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Chile	27	45,8	32	45,8		
Mexico	51	35,8	49	35,8		
Brazil	56	34,6	51	34,6		
Uruguay	50	33,4	52	33,4		
<b>Peru</b>	54	32,4	53	32,4		
Colombia	55	29,4	58	29,4		
Argentina	59	29,1	59	29,1		
Paraguay	66	14,9	65	14,9		
Venezuela	65	8,9	66	8,9		

# Peru

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	49	43,2	47	↑	■	■
1.2 Inflation	12	92,7	34	↓	■	■
1.3 Unemployment	58	89,9	57	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	48	10,3	46	↑	■	■
2.2 IPO Market Activity	52	1,0	58	↓	■	■
2.3 M&A Market Activity	50	1,5	50	→	■	■
2.4 Debt & Credit Market	49	59,5	55	↓	■	■
2.5 Financial Market Sophistication	39	53,7	36	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	43	156,1	26	↑	■	■
3.2 Administrative Tax Burdens	28	96,3	36	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	49	78,4	16	↑	■	■
4.2 Security of Property Rights	61	33,4	57	↑	■	■
4.3 Quality of Legal Enforcement	61	36,8	60	↑	■	■
4.4 Regulatory Quality	49	59,3	44	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	65	19,0	65	→	■	■
5.2 Labor Market Rigidities	42	61,8	32	↑	■	■
5.3 Bribing & Corruption	50	38,5	48	↑	■	■
5.4 Costs of Crime	56	71,5	56	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	64	6,8	64	→	■	■
6.2 Ease of Starting & Running a Business	58	68,8	54	↑	■	■
6.3 Simplicity of Closing a Business	37	59,7	44	↓	■	■
6.4 ICT Infrastructure	54	12,4	53	↑	■	■

# Philippines

Capital: Manila ++ Official Language: Filipino, English ++ Currency: Philippine Peso

## Basic Facts



GDP	170 [bn USD]	IPO Volume	4th 1st
Population	90 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Relatively large, young and growing middle-income population in emerging urban centers
- Competent professionals and affordable workforce
- Robust remittances from over 8 million overseas Filipinos drive consumer spending and economic activities

### Weaknesses

- Inadequate power and transport infrastructure in selected areas
- Persistent politicking in the National Capital Region and persistent terrorist activities in surrounding provinces
- Budget deficits restrain government from undertaking programs to improve infrastructure

### Opportunities

- Increasing off-shoring and outsourcing activities in the US and other industrial economies provide investment opportunities
- As signatory of China-ASEAN FTA, country is part of the world's most dynamic emerging regional market and investment destination

### Threats

- Politicking and terrorism concerns may disrupt business and economic activities
- Failure to improve infrastructure and lower cost of doing business may discourage prospective investors

### Outlook

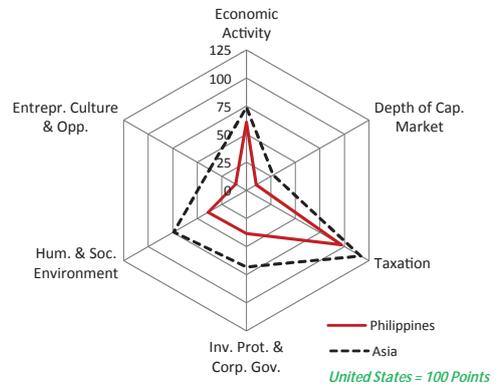
- Moderate growth may continue with large and young growing middle-income consumers
- Growth opportunities may accelerate with improved infrastructure facilities

Renato Galve Ernst & Young Philippines

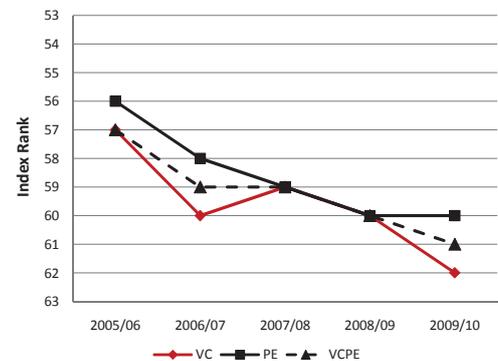
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>57</b>	<b>26,1</b>	<b>61</b>	<b>61</b>	↓	✗
Economic Activity	59	60,8	56	56	↑	✗
Depth of Cap. Market	41	9,9	43	43	↓	✗
Taxation	49	96,8	59	59	↓	✗
Inv. Prot. & Corp. Gov.	58	38,4	60	60	↓	✗
Hum. & Soc. Env.	53	38,9	58	58	↓	✗
Entrepr. Culture & Opp.	62	11,0	65	65	↓	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Hong Kong	4	79,5	5	5	↓	✗
Japan	7	76,5	7	7	→	✗
Republic of Korea	15	67,5	13	13	↑	✗
Malaysia	23	54,4	25	25	↓	✗
China	42	48,5	28	28	↑	✗
India	46	40,9	38	38	↑	✗
Russian Federation	49	38,0	48	48	↑	✗
Indonesia	60	30,7	54	54	↑	✗
<b>Philippines</b>	<b>57</b>	<b>26,1</b>	<b>61</b>	<b>61</b>	↓	✗

# Philippines

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	58	29,9	60	↓	☒	☐
1.2 Inflation	55	79,3	48	↑	☒	☐
1.3 Unemployment	39	94,5	46	↓	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	41	13,1	39	↑	☒	☐
2.2 IPO Market Activity	28	1,7	33	↓	☒	☐
2.3 M&A Market Activity	30	2,4	30	→	☒	☐
2.4 Debt & Credit Market	55	48,7	58	↓	☒	☐
2.5 Financial Market Sophistication	42	38,2	50	↓	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	52	109,6	56	↓	☒	☐
3.2 Administrative Tax Burdens	52	85,5	55	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	60	37,2	59	↑	☒	☐
4.2 Security of Property Rights	60	31,0	60	→	☒	☐
4.3 Quality of Legal Enforcement	55	40,6	57	↓	☒	☐
4.4 Regulatory Quality	53	46,6	54	↓	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	44	45,2	50	↓	☒	☐
5.2 Labor Market Rigidities	38	53,9	42	↓	☒	☐
5.3 Bribing & Corruption	61	12,5	62	↓	☒	☐
5.4 Costs of Crime	52	75,5	53	↓	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	62	8,2	62	→	☒	☐
6.2 Ease of Starting & Running a Business	61	49,2	61	→	☒	☐
6.3 Simplicity of Closing a Business	63	7,2	66	↓	☒	☐
6.4 ICT Infrastructure	60	5,1	61	↓	☒	☐

# Poland

Capital: Warsaw ++ Official Language: Polish ++ Currency: Zloty

## Basic Facts



GDP	530 [bn USD]	IPO Volume	4th 1st
Population	38 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Many experienced GPs relative to the rest of the CEE region
- Decent expectation of vendors
- Stronger position of VC/PE

### Weaknesses

- Limited bank financing
- Market situation worsened due to inappropriate approaches of selected VC/PE backed companies in pre-distressed situations

### Opportunities

- Expected economic growth
- Exits through IPOs at Warsaw stock exchange
- Privatization provides some opportunities
- Better condition and transparent perception of the Polish economy, caused by the limited involvement of the government during the slowdown

### Threats

- Financing investments with bank loans is unpredictable at this stage
- Size of local companies limits number of large transactions

### Outlook

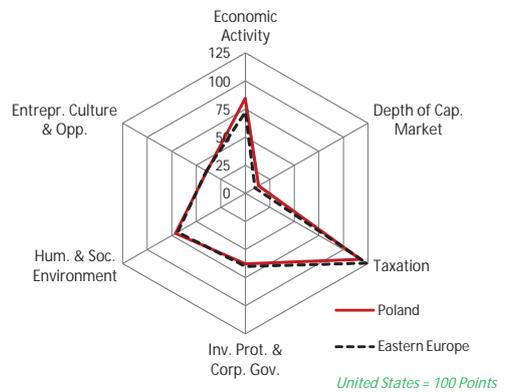
- Euro zone in 2014/2015

Brendan O'Mahony, Partner, Ernst & Young Poland

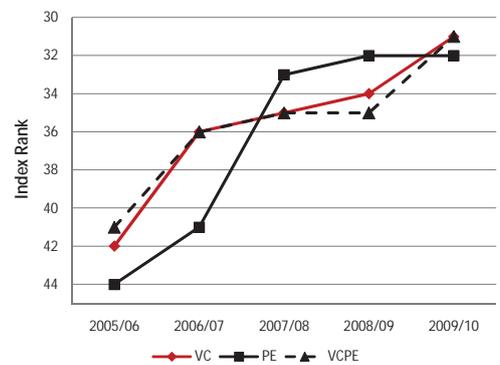
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>41</b>	<b>45,8</b>	<b>31</b>	<b>45,8</b>	↑	█ █ █ █
Economic Activity	42	84,5	27	84,5	↑	█ █ █ █
Depth of Cap. Market	42	13,5	32	13,5	↑	█ █ █ █
Taxation	19	117,3	30	117,3	↓	█ █ █ █
Inv. Prot. & Corp. Gov.	38	62,7	39	62,7	↓	█ █ █ █
Hum. & Soc. Env.	44	71,2	34	71,2	↑	█ █ █ █
Entrepr. Culture & Opp.	38	39,3	35	39,3	↑	█ █ █ █

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Poland	41	45,8	31	45,8	↑	█ █ █ █
Czech Republic	33	45,5	34	45,5	↓	█ █ █ █
Estonia	30	44,5	35	44,5	↓	█ █ █ █
Hungary	34	41,1	37	41,1	↓	█ █ █ █
Lithuania	37	40,4	40	40,4	↓	█ █ █ █
Croatia	47	38,6	45	38,6	↑	█ █ █ █
Romania	52	38,1	47	38,1	↑	█ █ █ █
Latvia	39	35,6	50	35,6	↓	█ █ █ █
Bulgaria	48	30,6	55	30,6	↓	█ █ █ █

# Poland

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	40	63,6	29	↑	■	■
1.2 Inflation	21	98,5	22	↓	■	■
1.3 Unemployment	64	96,2	41	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	40	12,7	41	↓	■	■
2.2 IPO Market Activity	25	4,7	13	↑	■	■
2.3 M&A Market Activity	38	3,1	25	↑	■	■
2.4 Debt & Credit Market	50	62,3	53	↓	■	■
2.5 Financial Market Sophistication	55	38,2	50	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	14	162,5	21	↓	■	■
3.2 Administrative Tax Burdens	50	84,6	56	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	33	67,9	26	↑	■	■
4.2 Security of Property Rights	49	50,0	44	↑	■	■
4.3 Quality of Legal Enforcement	45	61,6	46	↓	■	■
4.4 Regulatory Quality	36	73,6	35	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	37	62,7	32	↑	■	■
5.2 Labor Market Rigidities	34	73,1	26	↑	■	■
5.3 Bribing & Corruption	47	59,2	36	↑	■	■
5.4 Costs of Crime	53	94,5	49	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	42	16,6	37	↑	■	■
6.2 Ease of Starting & Running a Business	44	74,1	51	↓	■	■
6.3 Simplicity of Closing a Business	50	55,0	51	↓	■	■
6.4 ICT Infrastructure	36	35,4	34	↑	■	■



# Portugal

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	57	54,4	36	↑	■	■
1.2 Inflation	22	104,4	5	↑	■	■
1.3 Unemployment	34	94,5	46	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	45	12,0	43	↑	■	■
2.2 IPO Market Activity	32	1,9	30	↑	■	■
2.3 M&A Market Activity	32	2,3	33	↓	■	■
2.4 Debt & Credit Market	21	91,9	19	↑	■	■
2.5 Financial Market Sophistication	25	81,5	23	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	25	149,7	28	↓	■	■
3.2 Administrative Tax Burdens	19	97,8	28	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	51	51,1	48	↑	■	■
4.2 Security of Property Rights	26	72,2	25	↑	■	■
4.3 Quality of Legal Enforcement	24	86,3	29	↓	■	■
4.4 Regulatory Quality	22	85,1	28	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	34	61,2	35	↓	■	■
5.2 Labor Market Rigidities	54	40,4	52	↑	■	■
5.3 Bribing & Corruption	23	84,6	26	↓	■	■
5.4 Costs of Crime	9	135,7	17	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	30	20,7	29	↑	■	■
6.2 Ease of Starting & Running a Business	42	92,2	32	↑	■	■
6.3 Simplicity of Closing a Business	17	91,8	19	↓	■	■
6.4 ICT Infrastructure	27	44,2	28	↓	■	■

# Republic of Korea

Capital: Seoul ++ Official Language: Korean ++ Currency: South Korean Won

## Basic Facts



GDP	851 [bn USD]	IPO Volume	4th 1st
Population	48 [mn]	M&A Volume	4th 1st
GDP Growth	'02 - '08	VC Activity	4th 1st
Pop. Growth	'02 - '08	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Dynamic and solid economy with positive GDP growth
- Top 10 export country in the world, with leading industries such as electronics, semi-conductors, vessels, automobiles
- Increasing number of GPs with a rising influence in the M&A market

### Weaknesses

- Recent volatility of foreign exchange rate
- Lack of infrastructure for foreign investors compared to advanced countries

### Opportunities

- Corporate restructuring on a rise
- Leading technologies in mobile phones, internet network, display, shipbuilding etc. in favor of VC/PE investments
- Changes to partner with large conglomerates in the value chain

### Threats

- Dominance of large conglomerates (chaebol) in many key industries, making it hard for new enterprises to grow
- Saturation of domestic market in traditional industries, resulting in fierce competition

### Outlook

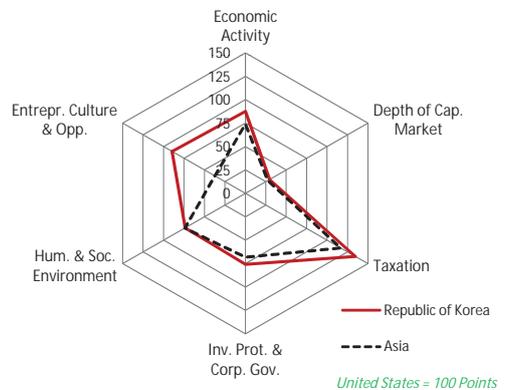
- M&A activities expected to rise as Korean economy rebounds and corporations continue to restructure
- Strong competition is expected in certain sectors such as green energy and high technology areas, as large companies have significant cash and look for profit sources

Ki Whan Jung, Partner, Ernst & Young Korea

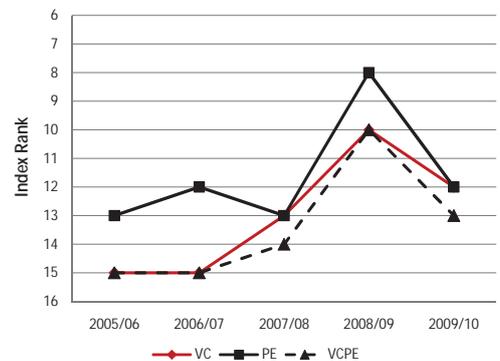
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	15	67,5	13	↑	4th 1st
Economic Activity	20	87,7	23	↓	4th 1st
Depth of Cap. Market	10	29,8	9	↑	4th 1st
Taxation	14	134,6	13	↑	4th 1st
Inv. Prot. & Corp. Gov.	20	75,7	26	↓	4th 1st
Hum. & Soc. Env.	24	73,6	30	↓	4th 1st
Entrepr. Culture & Opp.	18	89,7	12	↑	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5	↓	4th 1st
Japan	7	76,5	7	→	4th 1st
Republic of Korea	15	67,5	13	↑	4th 1st
Malaysia	23	54,4	25	↓	4th 1st
China	42	48,5	28	↑	4th 1st
India	46	40,9	38	↑	4th 1st
Russian Federation	49	38,0	48	↑	4th 1st
Indonesia	60	30,7	54	↑	4th 1st
Philippines	57	26,1	61	↓	4th 1st

# Republic of Korea

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	20	64,9	27	↓	■	■
1.2 Inflation	32	96,7	28	↑	■	■
1.3 Unemployment	8	107,5	8	→	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	7	57,3	10	↓	■	■
2.2 IPO Market Activity	10	10,3	7	↑	■	■
2.3 M&A Market Activity	19	10,4	8	↑	■	■
2.4 Debt & Credit Market	24	80,6	29	↓	■	■
2.5 Financial Market Sophistication	30	47,5	41	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	15	186,2	12	↑	■	■
3.2 Administrative Tax Burdens	25	97,3	32	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	22	62,7	35	↓	■	■
4.2 Security of Property Rights	16	81,2	22	↓	■	■
4.3 Quality of Legal Enforcement	23	89,3	26	↓	■	■
4.4 Regulatory Quality	35	72,2	37	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	18	72,6	27	↓	■	■
5.2 Labor Market Rigidities	45	46,5	49	↓	■	■
5.3 Bribing & Corruption	30	72,6	31	↓	■	■
5.4 Costs of Crime	28	119,6	31	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	13	69,2	11	↑	■	■
6.2 Ease of Starting & Running a Business	21	94,4	27	↓	■	■
6.3 Simplicity of Closing a Business	10	104,5	11	↓	■	■
6.4 ICT Infrastructure	23	94,9	11	↑	■	■

# Romania

Capital: Bucharest ++ Official Language: Romanian ++ Currency: Leu

## Basic Facts



GDP	193 [bn USD]	IPO Volume	4th 1st
Population	21 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- 5.8% expected annual economic growth during 2014 to 2018, above Euro-zone average (BMI)

### Weaknesses

- Longer payback periods
- Relative expensive financing
- Pricing gap between buyers and sellers due to a few opportunistic deals in the past

### Opportunities

- Sizeable market with important domestic demand and uncovered needs in the following sectors: infrastructure, housing, green energy and healthcare
- Still unconsolidated sectors, such as agro-food, logistics and IT

### Threats

- Poor infrastructure
- Wages tend towards Western EU levels

### Outlook

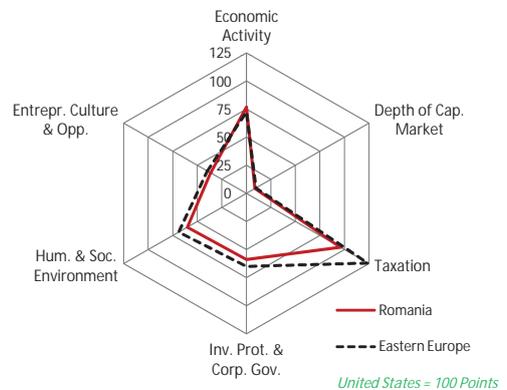
- Distressed assets, debt transactions and turnaround opportunities likely to rise
- Key success factors for closing Romanian deals: local presence or connections, focus, determination and patience to complete deals on a longer timeframe than expected

Cornelia Bumbacea, Partner, Ernst & Young Romania

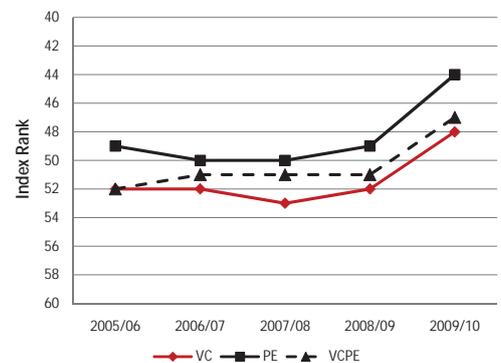
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	52	38,1	47	↑	█
Economic Activity	55	76,8	39	↑	█
Depth of Cap. Market	46	8,8	47	↓	█
Taxation	65	95,8	60	↑	█
Inv. Prot. & Corp. Gov.	44	58,7	41	↑	█
Hum. & Soc. Env.	55	60,1	44	↑	█
Entrepr. Culture & Opp.	47	36,6	40	↑	█

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31	↑	█
Czech Republic	33	45,5	34	↓	█
Estonia	30	44,5	35	↓	█
Hungary	34	41,1	37	↓	█
Lithuania	37	40,4	40	↓	█
Croatia	47	38,6	45	↑	█
<b>Romania</b>	52	38,1	47	↑	█
Latvia	39	35,6	50	↓	█
Bulgaria	48	30,6	55	↓	█

# Romania

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	50	53,2	38	↑	■	■
1.2 Inflation	59	85,1	43	↑	■	■
1.3 Unemployment	29	100,0	28	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	32	13,8	38	↓	■	■
2.2 IPO Market Activity	50	1,2	49	↑	■	■
2.3 M&A Market Activity	42	1,7	44	↓	■	■
2.4 Debt & Credit Market	47	65,6	48	↓	■	■
2.5 Financial Market Sophistication	58	29,0	57	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	18	181,8	14	↑	■	■
3.2 Administrative Tax Burdens	65	50,5	64	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	26	69,8	23	↑	■	■
4.2 Security of Property Rights	52	46,4	45	↑	■	■
4.3 Quality of Legal Enforcement	52	55,8	52	→	■	■
4.4 Regulatory Quality	48	65,8	41	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	49	44,5	51	↓	■	■
5.2 Labor Market Rigidities	62	51,2	46	↑	■	■
5.3 Bribing & Corruption	54	45,5	46	↑	■	■
5.4 Costs of Crime	45	125,7	26	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	53	10,7	54	↓	■	■
6.2 Ease of Starting & Running a Business	13	98,4	20	↓	■	■
6.3 Simplicity of Closing a Business	52	59,0	46	↑	■	■
6.4 ICT Infrastructure	46	28,9	38	↑	■	■

# Russian Federation

Capital: Moscow ++ Official Language: Russian ++ Currency: Russian Ruble

## Basic Facts



GDP	1653 [bn USD]	IPO Volume	4th 1st
Population	142 [mn]	M&A Volume	4th 1st
GDP Growth '02		VC Activity	4th 1st
Pop. Growth '02		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Consumers continue to desire "Western style" goods
- Many global players see Russia as having stronger prospects in the near- and mid-term than most developed markets

### Weaknesses

- Confidence and transparency in corporate laws and weak local accounting and auditing standards
- The need to be "on the ground" creates challenges for foreign GPs
- Weak infrastructure

### Opportunities

- Financial pressures placed on oligarchs and other business owners may bring unexpected deal flow

### Threats

- A "second wave" of the financial crisis could severely damage Russian's economy, and government's reserves will likely not be sufficient to intervene as heavily as in fall 2008
- Increasing proportion of economy becoming state controlled

### Outlook

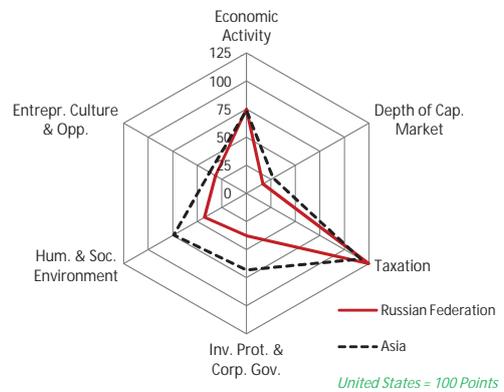
- The more challenging economic environment will make it easier to distinguish strong performers from those who have "risen with the tide", and limits the number of local players who have traditionally used connections and speed to their advantage, thereby presenting interesting opportunities

Doug Jenkinson, Partner, Ernst & Young Russia

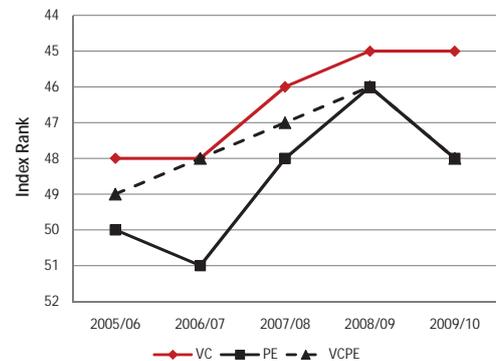
## VCPE-Ranking

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
<b>VCPE Ranking</b>	<b>49</b>	<b>38,0 48</b>	↑	█
Economic Activity	57	75,0 40	↑	█
Depth of Cap. Market	38	16,9 23	↑	█
Taxation	22	124,7 19	↑	█
Inv. Prot. & Corp. Gov.	56	37,6 61	↓	█
Hum. & Soc. Env.	51	42,6 54	↓	█
Entrepr. Culture & Opp.	45	31,4 47	↓	█

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
Hong Kong	4	79,5 5	↓	█
Japan	7	76,5 7	→	█
Republic of Korea	15	67,5 13	↑	█
Malaysia	23	54,4 25	↓	█
China	42	48,5 28	↑	█
India	46	40,9 38	↑	█
<b>Russian Federation</b>	<b>49</b>	<b>38,0 48</b>	↑	█
Indonesia	60	30,7 54	↑	█
Philippines	57	26,1 61	↓	█

# Russian Federation

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	31	67,9	25	↑	■	■
1.2 Inflation	63	62,9	60	↑	■	■
1.3 Unemployment	33	98,6	35	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	33	22,7	24	↑	■	■
2.2 IPO Market Activity	19	7,5	9	↑	■	■
2.3 M&A Market Activity	15	8,6	12	↑	■	■
2.4 Debt & Credit Market	63	47,7	59	↑	■	■
2.5 Financial Market Sophistication	58	19,7	61	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	20	160,5	24	↓	■	■
3.2 Administrative Tax Burdens	42	96,9	35	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	54	42,8	56	↓	■	■
4.2 Security of Property Rights	53	37,3	56	↓	■	■
4.3 Quality of Legal Enforcement	58	41,5	56	↑	■	■
4.4 Regulatory Quality	58	30,1	63	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	30	59,7	36	↓	■	■
5.2 Labor Market Rigidities	41	60,8	34	↑	■	■
5.3 Bribing & Corruption	59	11,0	63	↓	■	■
5.4 Costs of Crime	54	82,6	52	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	40	15,4	40	→	■	■
6.2 Ease of Starting & Running a Business	41	77,8	47	↓	■	■
6.3 Simplicity of Closing a Business	43	57,2	48	↓	■	■
6.4 ICT Infrastructure	48	14,2	51	↓	■	■

# Saudi Arabia

Capital: Riyadh ++ Official Language: Arabic ++ Currency: Saudi Riyal

## Basic Facts



GDP	468 [bn USD]	IPO Volume	4th 1st
Population	25 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Robust economic growth and government's focus to keep KSA on the growth path is expected to result in favorable investment climate
- Large population base and related "real demand" key business drivers

### Weaknesses

- Overhang of family businesses with weak corporate governance framework
- Underdeveloped legal framework to support VC/PE activity

### Opportunities

- Availability of attractive businesses which may consider transitioning from family based to corporate structure
- Relatively larger size of businesses in Saudi makes it attractive from a VC/PE ticket size perspective

### Threats

- Limited appreciation of VC/PEs' role and value added
- Most VC/PE activity is happening in the private/family space
- Managing expectations of existing shareholders/family members is a key challenge

### Outlook

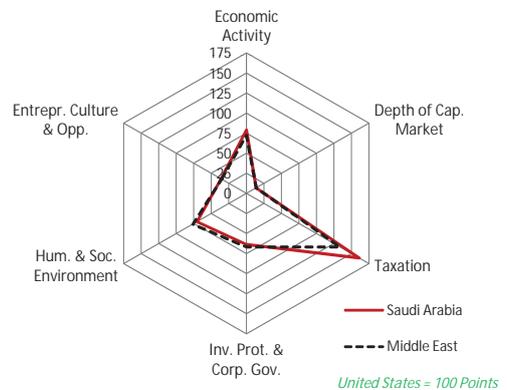
- Significant interest from regional and international GPs looking to Saudi Arabia
- As more transactions take place, the sellers' market will mature

Tanuj Paruthi, Director, Ernst & Young Saudi Arabia

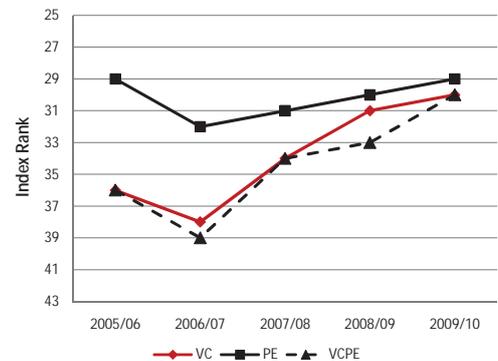
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>36</b>	<b>46,4</b>	<b>30</b>	↑	4th 1st
Economic Activity	16	79,1	36	↓	4th 1st
Depth of Cap. Market	35	13,9	30	↑	4th 1st
Taxation	2	160,9	1	↑	4th 1st
Inv. Prot. & Corp. Gov.	40	63,5	37	↑	4th 1st
Hum. & Soc. Env.	33	70,4	35	↓	4th 1st
Entrepr. Culture & Opp.	55	36,2	41	↑	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	4th 1st
United Arab Emirates	26	51,7	26	↑	4th 1st
<b>Saudi Arabia</b>	<b>36</b>	<b>46,4</b>	<b>30</b>	↓	4th 1st
Kuwait	29	40,1	42	→	4th 1st
Oman	38	38,1	46	↓	4th 1st
Morocco	58	30,3	56	↑	4th 1st
Egypt	53	30,1	57	↓	4th 1st
Nigeria	64	24,4	62	↑	4th 1st
Kenya	63	19,3	64	↓	4th 1st

# Saudi Arabia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	21	68,4	24	↓	■	■
1.2 Inflation	3	72,0	55	↓	■	■
1.3 Unemployment	25	100,6	24	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	13	25,4	22	↓	■	■
2.2 IPO Market Activity	37	4,5	14	↑	■	■
2.3 M&A Market Activity	65	1,2	53	↑	■	■
2.4 Debt & Credit Market	33	72,9	40	↓	■	■
2.5 Financial Market Sophistication	46	50,6	38	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	2	257,0	1	↑	■	■
3.2 Administrative Tax Burdens	13	100,7	16	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	42	61,8	37	↑	■	■
4.2 Security of Property Rights	32	57,5	36	↓	■	■
4.3 Quality of Legal Enforcement	32	84,9	31	↑	■	■
4.4 Regulatory Quality	52	53,8	50	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	39	59,4	37	↑	■	■
5.2 Labor Market Rigidities	12	63,6	29	↓	■	■
5.3 Bribing & Corruption	42	53,5	42	→	■	■
5.4 Costs of Crime	39	121,6	29	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	41	15,0	42	↓	■	■
6.2 Ease of Starting & Running a Business	63	112,3	3	↑	■	■
6.3 Simplicity of Closing a Business	49	64,4	36	↑	■	■
6.4 ICT Infrastructure	55	15,9	48	↑	■	■

# Singapore

Capital: Singapore ++ Official Language: English, Malay, Chinese, Tamil ++ Currency: Singapore Dollar

## Basic Facts



GDP	186 [bn USD]	IPO Volume	4th
Population	5 [mn]	M&A Volume	1st
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Corporate perceptions of VC/PE is positive
- Liberal financial environment conducive to optimizing innovative financing structures, and access to a well developed capital market
- Government's active role through co-investment in new enterprises, and favorable taxation for VC/PE funds

### Weaknesses

- Cultural challenges in achieving control of private enterprises
- Lack of new deal opportunities; tight control by the GLC of the economic landscape limits the need for external capital
- Valuation gap continues

### Opportunities

- Several fragmented industries with potential for consolidation
- Less chasing of deals compared to other markets in the region
- Deal size suitable for limited leverage environment

### Threats

- Competition from the SWF and government-backed VCs
- Competition by hedge funds and other speculative players

### Outlook

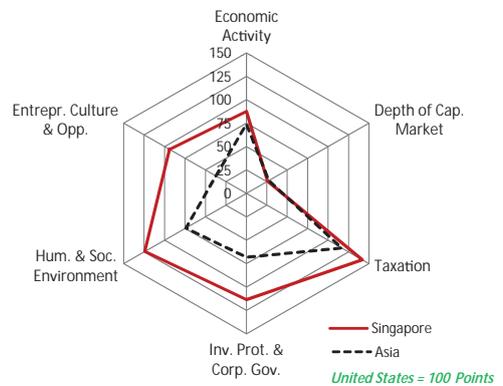
- Strong fundamentals for economic growth and a liberal, supportive government should support the growth of VC/PE activity
- Increased liquidity and stabilization of financial markets in the recent months should soon support a reemergence of VC/PE activity

Purandar Rao, Partner, Ernst & Young Singapore

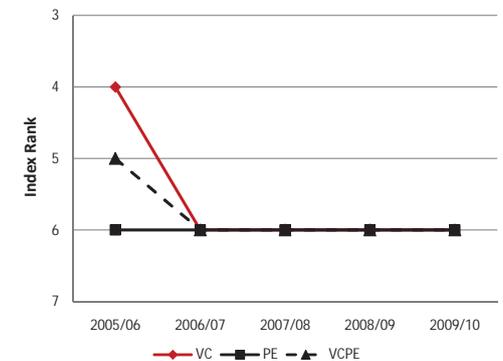
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>5</b>	<b>78,5</b>	<b>6</b>		
Economic Activity	2	87,5	25		
Depth of Cap. Market	11	26,0	13		
Taxation	7	141,7	6		
Inv. Prot. & Corp. Gov.	1	113,5	1		
Hum. & Soc. Env.	1	124,1	1		
Entrepr. Culture & Opp.	6	93,8	10		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5		
Singapore	5	78,5	6		
Japan	7	76,5	7		
Republic of Korea	15	67,5	13		
Malaysia	23	54,4	25		
China	42	48,5	28		
India	46	40,9	38		
Indonesia	60	30,7	54		
Philippines	57	26,1	61		

# Singapore

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	7	68,8	23	↓	■	■
1.2 Inflation	2	90,2	40	↓	■	■
1.3 Unemployment	18	107,8	7	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	8	48,8	12	↓	■	■
2.2 IPO Market Activity	15	5,0	12	↑	■	■
2.3 M&A Market Activity	17	5,2	20	↓	■	■
2.4 Debt & Credit Market	26	93,3	17	↑	■	■
2.5 Financial Market Sophistication	9	100,0	8	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	10	193,2	9	↑	■	■
3.2 Administrative Tax Burdens	1	103,9	4	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	1	119,0	2	↓	■	■
4.2 Security of Property Rights	1	108,0	2	↓	■	■
4.3 Quality of Legal Enforcement	15	116,1	14	↑	■	■
4.4 Regulatory Quality	2	111,1	2	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	4	112,8	2	↑	■	■
5.2 Labor Market Rigidities	2	99,2	2	→	■	■
5.3 Bribing & Corruption	4	136,6	4	→	■	■
5.4 Costs of Crime	4	155,3	7	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	10	73,4	9	↑	■	■
6.2 Ease of Starting & Running a Business	1	123,6	1	→	■	■
6.3 Simplicity of Closing a Business	1	116,4	1	→	■	■
6.4 ICT Infrastructure	13	73,3	17	↓	■	■

# Slovakia

Capital: Bratislava ++ Official Language: Slovak ++ Currency: Euro

## Basic Facts



GDP	91 [bn USD]	IPO Volume	
Population	5 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Skilled workforce represents the main determinant of FDI inflows
- Completed market reforms are judged positively from abroad

### Weaknesses

- Cost-based competitiveness is no longer sufficient in many industries
- Too much exposure to EU import demand
- Further pursuit of market reforms less of a priority for the current government

### Opportunities

- Growth prospects remain positive despite the current global turmoil
- Structural reforms should gradually improve the health of public finance and country prospects
- Accession to the Euro zone in 2009 should increase the appeal for foreign investors

### Threats

- Export-oriented economy with a significant exposure to automotive
- Substantial dependency on Russia's gas/oil supplies
- Euro zone entry means loss of exchange rate flexibility and poses a threat to price levels

### Outlook

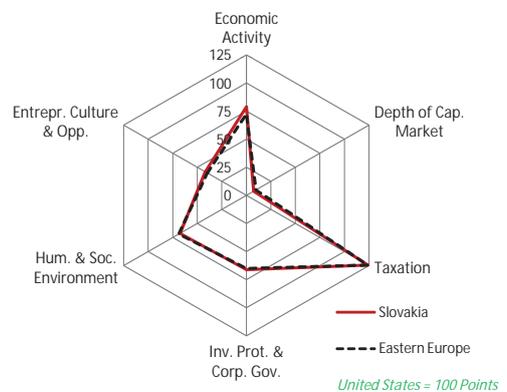
- Challenging economic environment will facilitate distinguishing strong performers and those who have "risen with the tide", and limits the number of local players who have traditionally used connections and speed to their advantage, thereby presenting interesting opportunities.

Vladislav Severa, Partner, Ernst & Young Czech and Slovakia

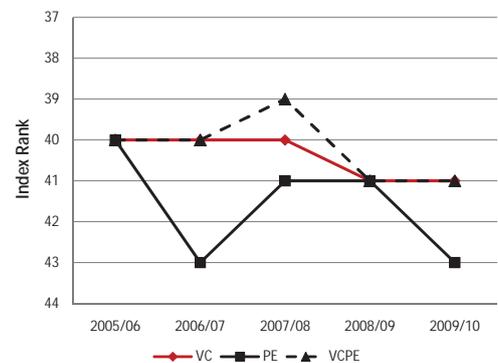
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>40</b>	<b>40,3</b>	<b>41</b>		
Economic Activity	41	78,9	37		
Depth of Cap. Market	52	7,4	56		
Taxation	21	123,9	20		
Inv. Prot. & Corp. Gov.	33	66,1	36		
Hum. & Soc. Env.	38	67,6	37		
Entrepr. Culture & Opp.	34	41,8	34		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31		
Czech Republic	33	45,5	34		
Estonia	30	44,5	35		
Hungary	34	41,1	37		
Lithuania	37	40,4	40		
<b>Slovakia</b>	<b>40</b>	<b>40,3</b>	<b>41</b>		
Croatia	47	38,6	45		
Latvia	39	35,6	50		
Bulgaria	48	30,6	55		

# Slovakia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	37	56,8	33	↑	■	■
1.2 Inflation	33	97,1	26	↑	■	■
1.3 Unemployment	63	89,0	60	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	61	3,7	62	↓	■	■
2.2 IPO Market Activity	47	1,0	58	↓	■	■
2.3 M&A Market Activity	53	1,1	56	↓	■	■
2.4 Debt & Credit Market	31	81,8	27	↑	■	■
2.5 Financial Market Sophistication	32	62,9	31	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	19	169,2	17	↑	■	■
3.2 Administrative Tax Burdens	45	90,8	48	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	20	69,4	24	↓	■	■
4.2 Security of Property Rights	42	52,9	41	↑	■	■
4.3 Quality of Legal Enforcement	44	60,7	48	↓	■	■
4.4 Regulatory Quality	24	85,6	27	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	51	41,6	58	↓	■	■
5.2 Labor Market Rigidities	31	75,4	20	↑	■	■
5.3 Bribing & Corruption	38	58,8	37	↑	■	■
5.4 Costs of Crime	36	113,3	36	→	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	33	17,2	36	↓	■	■
6.2 Ease of Starting & Running a Business	33	88,1	37	↓	■	■
6.3 Simplicity of Closing a Business	46	60,4	43	↑	■	■
6.4 ICT Infrastructure	34	33,5	35	↓	■	■

# Slovenia

Capital: Ljubljana ++ Official Language: Slovene ++ Currency: Euro

## Basic Facts



GDP	53 [bn USD]	IPO Volume	4th 1st
Population	2 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- One of the strongest economies in Central and Eastern Europe
- High demand for financing

### Weaknesses

- Very limited number of local VC/PE funds and transactions in the past
- Unfavorable tax and legal regulations for VC/PE investments
- Limited number of potential large investments

### Opportunities

- Generally underdeveloped VC/PE market provides room for new market entrants
- Increased demand for capital injections
- Potential for participation in the privatization of numerous state owned/influenced companies
- Difficult to raise financing for local players

### Threats

- Legal and business conditions are not supporting a dynamic SME sector due to complicated licensing and registration processes and investment barriers
- Lack of maturity in deal making, slow legal processing and underdeveloped capital market

### Outlook

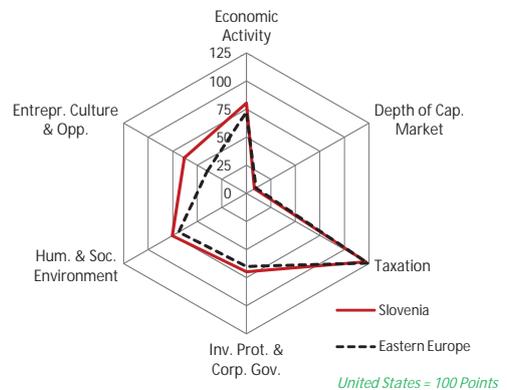
- Underdeveloped market with small number of transactions, lack of regulatory framework, difficulties in accessing traditional bank financing and the lack of experience in restructuring will demand for more VC/PE activities in Slovenia
- Start-ups exhibiting a dedicated growth and global reach present under-valued opportunities to GPs

Balazs Tuske, Partner, Ernst & Young Hungary

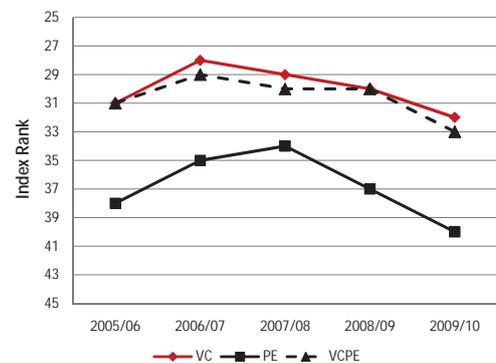
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>31</b>	<b>45,6</b>	<b>33</b>	↓	4th 1st
Economic Activity	31	80,2	33	↓	4th 1st
Depth of Cap. Market	53	8,0	52	↑	4th 1st
Taxation	23	121,8	24	↓	4th 1st
Inv. Prot. & Corp. Gov.	30	69,7	33	↓	4th 1st
Hum. & Soc. Env.	25	75,5	29	↓	4th 1st
Entrepr. Culture & Opp.	25	63,3	23	↑	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31	↑	4th 1st
<b>Slovenia</b>	<b>31</b>	<b>45,6</b>	<b>33</b>	↓	4th 1st
Czech Republic	33	45,5	34	↓	4th 1st
Estonia	30	44,5	35	↓	4th 1st
Hungary	34	41,1	37	↓	4th 1st
Lithuania	37	40,4	40	↓	4th 1st
Croatia	47	38,6	45	↑	4th 1st
Latvia	39	35,6	50	↓	4th 1st
Bulgaria	48	30,6	55	↓	4th 1st

# Slovenia

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
1.1 Gross Domestic Product	39	53,2	37	↑	■ ■ ■ ■
1.2 Inflation	27	93,1	32	↓	■ ■ ■ ■
1.3 Unemployment	26	104,0	20	↑	■ ■ ■ ■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
2.1 Size and Liquidity of the Stock Market	58	7,3	57	↑	■ ■ ■ ■
2.2 IPO Market Activity	52	1,1	53	↓	■ ■ ■ ■
2.3 M&A Market Activity	57	1,1	61	↓	■ ■ ■ ■
2.4 Debt & Credit Market	35	70,4	43	↓	■ ■ ■ ■
2.5 Financial Market Sophistication	39	53,7	36	↑	■ ■ ■ ■

### 3. Taxation

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
3.1 Tax Incentives	24	157,6	25	↓	■ ■ ■ ■
3.2 Administrative Tax Burdens	37	94,1	46	↓	■ ■ ■ ■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
4.1 Corporate Governance	21	67,4	27	↓	■ ■ ■ ■
4.2 Security of Property Rights	40	59,1	34	↑	■ ■ ■ ■
4.3 Quality of Legal Enforcement	33	79,2	33	→	■ ■ ■ ■
4.4 Regulatory Quality	34	75,0	33	↑	■ ■ ■ ■

### 5. Human and Social Environment

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
5.1 Education & Human Capital	26	79,3	22	↑	■ ■ ■ ■
5.2 Labor Market Rigidities	52	34,7	58	↓	■ ■ ■ ■
5.3 Bribing & Corruption	26	87,5	25	↑	■ ■ ■ ■
5.4 Costs of Crime	20	135,0	20	→	■ ■ ■ ■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10 Value	2009/10 Rank		Quartile 4th 1st
6.1 Innovation & R&D	25	34,4	25	→	■ ■ ■ ■
6.2 Ease of Starting & Running a Business	35	103,0	10	↑	■ ■ ■ ■
6.3 Simplicity of Closing a Business	28	79,8	25	↑	■ ■ ■ ■
6.4 ICT Infrastructure	24	56,8	23	↑	■ ■ ■ ■

# South Africa

Capital: Pretoria (exec.), Bloemfontein (judic.), Cape Town (legis.) ++ Official Language: Afrikaans, English and others ++  
 Currency: Rand

## Basic Facts



GDP	283 [bn USD]	IPO Volume	4th 1st
Population	49 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- One of the most sophisticated VC/PE industries among emerging markets
- Very positive with respect to investment and fund raising activity
- Expert transaction advisory services (tax, financial, legal, commercial) locally available
- SAVCA Association that maintains ethical and professional standards

### Weaknesses

- Local fund raising limited by caps of local pension funds

### Opportunities

- Continent's largest and most diverse economy
- Limited competition from international VC/PE firms
- In principle, government's policies have and will continue to encourage transaction activity

### Threats

- Government perceived as being soft in wage negotiations

### Outlook

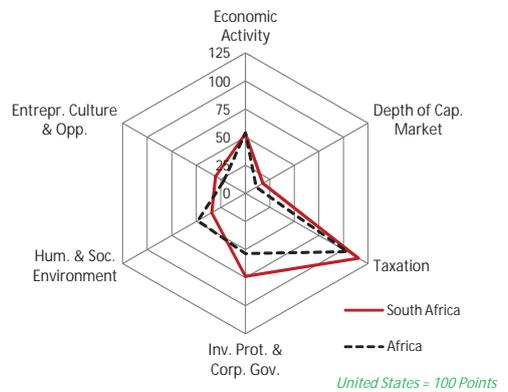
- Recovery from recession in South Africa may lag global recovery
- VC/PE investment activity expected to increase again in 2010

Graham Stokoe, Associate Director, Ernst & Young South Africa

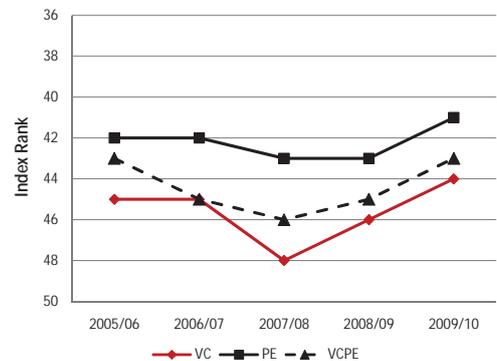
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>43</b>	<b>39,5</b>	<b>43</b>	→	4th 1st
Economic Activity	56	53,3	58	↓	4th 1st
Depth of Cap. Market	23	18,0	20	↑	4th 1st
Taxation	34	115,2	34	→	4th 1st
Inv. Prot. & Corp. Gov.	28	73,8	27	↑	4th 1st
Hum. & Soc. Env.	63	34,3	63	→	4th 1st
Entrepr. Culture & Opp.	46	30,3	48	↓	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Israel	21	55,8	22	↓	4th 1st
Saudi Arabia	36	46,4	30	↑	4th 1st
Kuwait	29	40,1	42	↓	4th 1st
<b>South Africa</b>	<b>43</b>	<b>39,5</b>	<b>43</b>	→	4th 1st
Oman	38	38,1	46	↓	4th 1st
Morocco	58	30,3	56	↑	4th 1st
Egypt	53	30,1	57	↓	4th 1st
Nigeria	64	24,4	62	↑	4th 1st
Kenya	63	19,3	64	↓	4th 1st

# South Africa

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	41	42,1	48	↓	■	■
1.2 Inflation	40	71,3	56	↓	■	■
1.3 Unemployment	65	50,6	65	→	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	12	45,3	13	↓	■	■
2.2 IPO Market Activity	43	1,4	41	↑	■	■
2.3 M&A Market Activity	29	3,1	26	↑	■	■
2.4 Debt & Credit Market	10	96,2	13	↓	■	■
2.5 Financial Market Sophistication	9	103,1	6	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	39	132,5	41	↓	■	■
3.2 Administrative Tax Burdens	27	100,1	20	↑	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	5	107,6	3	↑	■	■
4.2 Security of Property Rights	33	60,5	31	↑	■	■
4.3 Quality of Legal Enforcement	42	65,9	42	→	■	■
4.4 Regulatory Quality	42	69,1	39	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	55	40,7	60	↓	■	■
5.2 Labor Market Rigidities	33	62,6	30	↑	■	■
5.3 Bribing & Corruption	33	64,3	32	↑	■	■
5.4 Costs of Crime	66	8,4	65	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	34	16,4	38	↓	■	■
6.2 Ease of Starting & Running a Business	39	89,0	35	↑	■	■
6.3 Simplicity of Closing a Business	42	62,7	40	↑	■	■
6.4 ICT Infrastructure	51	9,2	58	↓	■	■

# Spain

Capital: Madrid ++ Official Language: Spanish ++ Currency: Euro

## Basic Facts



GDP	1609 [bn USD]	IPO Volume	4th 1st
Population	45 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Strong banking system, even during the credit crunch
- Strong PE sector in small and mid market due to the amount of family owned companies

### Weaknesses

- Relatively inflexible labor regulation restricts companies' ability to change headcount
- Low work force mobility

### Opportunities

- Favorable access to fast growing Latin American markets through Spanish companies
- The boards of directors of many companies are not involved in the strategy definition and decision-making process, leaving room for VC/PEs to improve the quality of board members
- Improved exit conditions due to the launch of a new stock exchange

### Threats

- Current discussion about a more restrictive EU regulation on investments

### Outlook

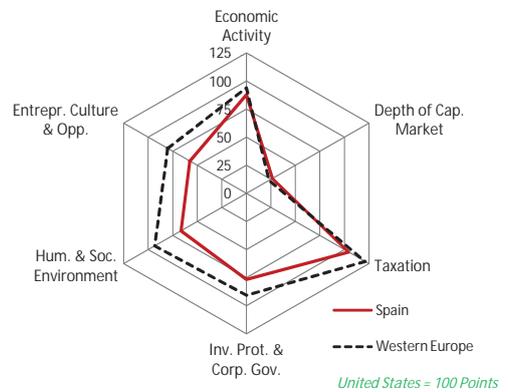
- These challenges may create an attractive market for transactions in the future

Remigio Barroso, Partner, Ernst & Young Spain

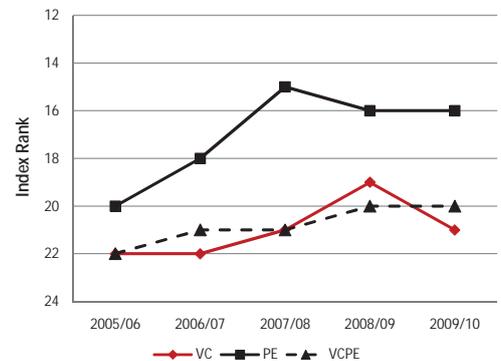
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	22	58,3	20	↑	■ ■ ■ ■
Economic Activity	22	87,7	22	→	■ ■ ■ ■
Depth of Cap. Market	14	26,6	12	↑	■ ■ ■ ■
Taxation	53	104,1	46	↑	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	26	76,4	24	↑	■ ■ ■ ■
Hum. & Soc. Env.	32	66,5	38	↓	■ ■ ■ ■
Entrepr. Culture & Opp.	23	57,6	26	↓	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10	↓	■ ■ ■ ■
Denmark	10	67,7	12	↓	■ ■ ■ ■
Finland	12	65,9	15	↓	■ ■ ■ ■
France	17	65,2	16	↑	■ ■ ■ ■
Belgium	19	61,1	17	↑	■ ■ ■ ■
Austria	20	58,6	19	↑	■ ■ ■ ■
<b>Spain</b>	22	58,3	20	↑	■ ■ ■ ■
Ireland	16	58,3	21	↓	■ ■ ■ ■
Greece	44	40,7	39	↑	■ ■ ■ ■

# Spain

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	11	81,1	13	↓	■	■
1.2 Inflation	39	98,9	20	↑	■	■
1.3 Unemployment	47	84,1	62	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	4	74,0	4	→	■	■
2.2 IPO Market Activity	39	2,7	24	↑	■	■
2.3 M&A Market Activity	10	8,8	11	↓	■	■
2.4 Debt & Credit Market	16	92,6	18	↓	■	■
2.5 Financial Market Sophistication	21	81,5	23	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	59	108,2	58	↑	■	■
3.2 Administrative Tax Burdens	18	100,2	18	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	29	60,8	38	↓	■	■
4.2 Security of Property Rights	25	70,9	26	↓	■	■
4.3 Quality of Legal Enforcement	31	87,9	27	↑	■	■
4.4 Regulatory Quality	21	90,0	21	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	37	53,2	42	↓	■	■
5.2 Labor Market Rigidities	56	38,5	54	↑	■	■
5.3 Bribing & Corruption	22	87,8	24	↓	■	■
5.4 Costs of Crime	35	108,9	41	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	26	30,0	26	→	■	■
6.2 Ease of Starting & Running a Business	38	74,4	50	↓	■	■
6.3 Simplicity of Closing a Business	18	93,0	18	→	■	■
6.4 ICT Infrastructure	25	53,0	25	→	■	■

# Sweden

Capital: Stockholm ++ Official Language: Swedish ++ Currency: Swedish Krona

## Basic Facts



GDP	490 [bn USD]	IPO Volume	
Population	9 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Relatively long-established PE industry in Sweden
- Swedish companies tend to think globally from start up

### Weaknesses

- Early stage financing less well established
- Large public sector in Sweden can stifle entrepreneurship

### Opportunities

- Develop existing sectors where Sweden has a strong reputation e.g., ICT, life sciences
- New sectors growing, such as cleantech

### Threats

- Shortage of leveraged financing for new investments
- Global economic downturn increases the risk of defaults among VC/PE-backed companies

### Outlook

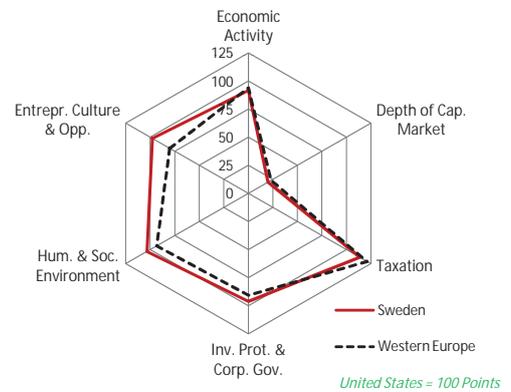
- Sweden remains attractive to both local and overseas investors

David Ramm, Partner, Ernst & Young Sweden

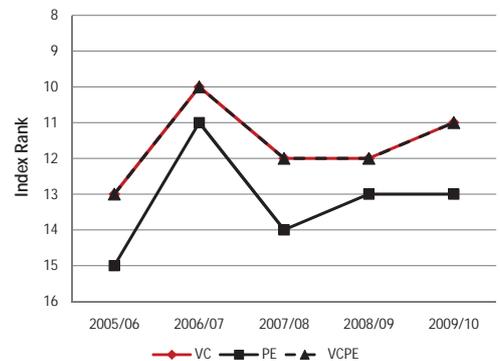
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	13	69,0	11		
Economic Activity	10	91,6	15		
Depth of Cap. Market	18	20,0	17		
Taxation	31	113,7	38		
Inv. Prot. & Corp. Gov.	18	96,1	12		
Hum. & Soc. Env.	12	103,4	10		
Entrepr. Culture & Opp.	3	97,8	4		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Germany	9	69,1	10		
Sweden	13	69,0	11		
Denmark	10	67,7	12		
Finland	12	65,9	15		
France	17	65,2	16		
Belgium	19	61,1	17		
Austria	20	58,6	19		
Ireland	16	58,3	21		
Greece	44	40,7	39		

# Sweden

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	9	76,6	17	↓	■	⊗
1.2 Inflation	5	101,5	10	↓	■	⊗
1.3 Unemployment	32	98,8	34	↓	■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	17	34,6	17	→	■	⊗
2.2 IPO Market Activity	34	1,4	40	↓	■	⊗
2.3 M&A Market Activity	14	6,2	19	↓	■	⊗
2.4 Debt & Credit Market	12	100,7	8	↑	■	⊗
2.5 Financial Market Sophistication	5	106,2	3	↑	■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	40	124,0	47	↓	■	⊗
3.2 Administrative Tax Burdens	2	104,2	3	↓	■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	35	73,6	19	↑	■	⊗
4.2 Security of Property Rights	20	87,7	16	↑	■	⊗
4.3 Quality of Legal Enforcement	5	127,7	3	↑	■	⊗
4.4 Regulatory Quality	14	103,5	10	↑	■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	9	101,7	7	↑	■	⊗
5.2 Labor Market Rigidities	36	59,6	35	↑	■	⊗
5.3 Bribing & Corruption	5	137,1	3	↑	■	⊗
5.4 Costs of Crime	14	137,7	14	→	■	⊗

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	4	94,2	3	↑	■	⊗
6.2 Ease of Starting & Running a Business	14	102,5	12	↑	■	⊗
6.3 Simplicity of Closing a Business	16	94,4	17	↓	■	⊗
6.4 ICT Infrastructure	3	100,3	7	↓	■	⊗

# Switzerland

Capital: Bern ++ Official Language: German, French, Italian, Romansh ++ Currency: Swiss Franc

## Basic Facts



GDP	491 [bn USD]	IPO Volume	4th 1st
Population	8 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Strong biotech, med-tech and pharmaceutical focus, in general: innovative high-tech industries
- Research universities provide a flow of technology spin-offs
- Strong lobbying/support networks improve the VC/PE fiscal and regulatory environment
- Plenty of business angels
- Liberal labor law
- Excellent tax treaty network

### Weaknesses

- Small market
- Average deals are small- or medium-sized and so below the radar of major PE houses

### Opportunities

- Presence of major multinationals leads to spin-off opportunities
- Large cash pools looking for opportunities
- Biotech opportunities resulting from depressed prices

### Threats

- Increased regulation post financial crisis
- Fewer transactions as GPs focus on portfolio management

### Outlook

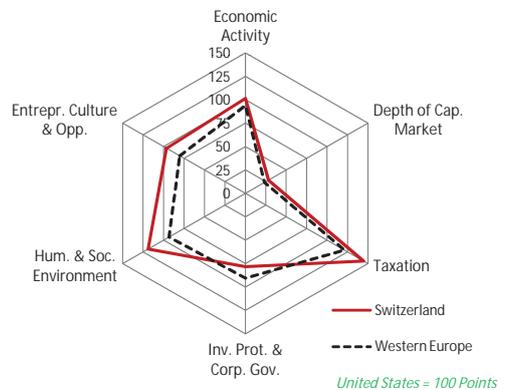
- Short-term outlook is still uncertain and will depend on the global economy
- Expect to see a continuation of smaller and mid-size deals resulting from forced divestments
- Increasing focus on cleantech as a growth area

Matthew Keson-Lee, Partner, Ernst & Young Switzerland

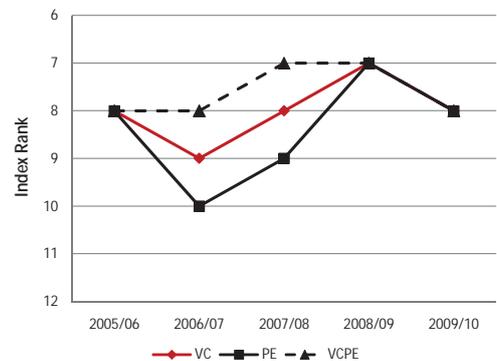
## VCPE-Ranking

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
<b>VCPE Ranking</b>	<b>8</b>	<b>76,3</b>	<b>8</b>	
Economic Activity	8	101,6	2	
Depth of Cap. Market	13	28,3	11	
Taxation	5	144,6	4	
Inv. Prot. & Corp. Gov.	22	78,2	23	
Hum. & Soc. Env.	4	119,0	3	
Entrepr. Culture & Opp.	4	96,5	5	

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
Switzerland	8	76,3	8	
Germany	9	69,1	10	
Denmark	10	67,7	12	
Finland	12	65,9	15	
France	17	65,2	16	
Belgium	19	61,1	17	
Austria	20	58,6	19	
Ireland	16	58,3	21	
Greece	44	40,7	39	

# Switzerland

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	12	91,7	5	↑	■ ■ ■ ■	⊗
1.2 Inflation	8	105,1	2	↑	■ ■ ■ ■	⊗
1.3 Unemployment	13	109,0	5	↑	■ ■ ■ ■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	11	55,1	11	→	■ ■ ■ ■	⊗
2.2 IPO Market Activity	17	3,9	19	↓	■ ■ ■ ■	⊗
2.3 M&A Market Activity	26	7,4	15	↑	■ ■ ■ ■	⊗
2.4 Debt & Credit Market	7	101,8	6	↑	■ ■ ■ ■	⊗
2.5 Financial Market Sophistication	1	112,4	2	↓	■ ■ ■ ■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	4	215,3	3	↑	■ ■ ■ ■	⊗
3.2 Administrative Tax Burdens	30	97,2	34	↓	■ ■ ■ ■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	50	31,8	62	↓	■ ■ ■ ■	⊗
4.2 Security of Property Rights	12	95,9	11	↑	■ ■ ■ ■	⊗
4.3 Quality of Legal Enforcement	10	119,7	10	→	■ ■ ■ ■	⊗
4.4 Regulatory Quality	16	102,6	12	↑	■ ■ ■ ■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	1	118,6	1	→	■ ■ ■ ■	⊗
5.2 Labor Market Rigidities	21	89,3	8	↑	■ ■ ■ ■	⊗
5.3 Bribing & Corruption	6	129,4	6	→	■ ■ ■ ■	⊗
5.4 Costs of Crime	10	146,2	10	→	■ ■ ■ ■	⊗

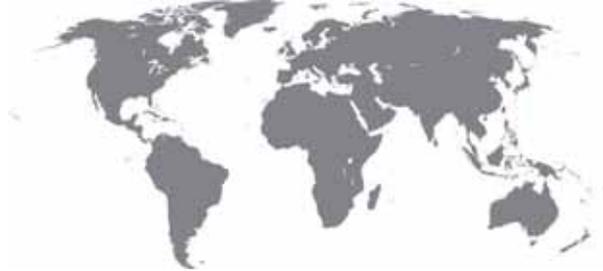
### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	2	100,4	1	↑	■ ■ ■ ■	⊗
6.2 Ease of Starting & Running a Business	6	104,2	9	↓	■ ■ ■ ■	⊗
6.3 Simplicity of Closing a Business	26	77,7	29	↓	■ ■ ■ ■	⊗
6.4 ICT Infrastructure	7	106,6	3	↑	■ ■ ■ ■	⊗

# Taiwan

Capital: Taipei ++ Official Language: Standard Mandarin ++ Currency: New Taiwan Dollar

## Basic Facts



GDP	406 [bn USD]	IPO Volume	4th 1st
Population	23 [mn]	M&A Volume	VC Activity
GDP Growth '02-'08		VC Activity	PE Activity
Pop. Growth '02-'08			

## SWOT Analysis

### Strengths

- Strong global position in the manufacturing of semiconductors and other high-tech products
- Abundance of well-educated workforce and skilled labors
- Robust infrastructure

### Weaknesses

- As export-driven economy, Taiwan has suffered severely from the recession in the US and Europe
- Considerably high tax levels compared to regional peers
- Rising land and labor costs have forced manufacturers to move plants to China or South East Asian countries

### Opportunities

- Improved investment environment through normalization of the cross-strait relationship with Mainland China
- Relaxation of restrictions on capital flows between Taiwan and Mainland China
- Progressive tax reforms by the government with an aim to bolster domestic demands and attract foreign investments
- Well-established ties to Silicon Valley and the global tech investing community provide opportunities for Taiwanese VC/PE to replicate successful business models

### Threats

- Taiwan's trade growth is increasingly dependent upon China
- If the current thawing of relations with Mainland China is reversed, this has a negative impact on Taiwan's growth

### Outlook

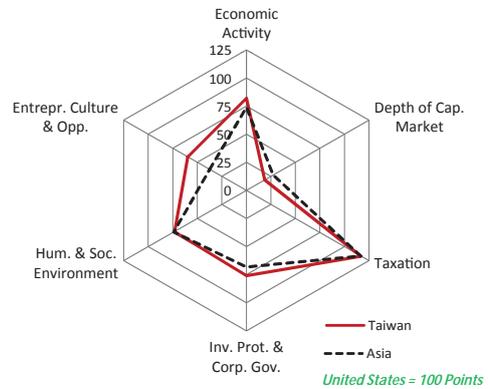
- Continuing strong global position in high-tech sector
- Continuing relaxation of restrictions of capital flows between Taiwan and Mainland China would attract overseas Taiwanese enterprises to return to Taiwan to being listed

Audry Ho, Director, Ernst & Young Taiwan

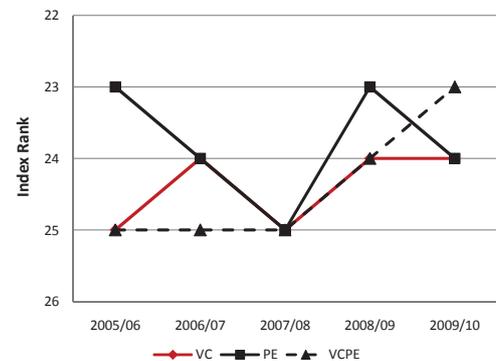
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>25</b>	<b>55,3</b>	<b>23</b>	↑	■ ■ ■ ■
Economic Activity	21	82,2	30	↓	■ ■ ■ ■
Depth of Cap. Market	19	18,7	19	↔	■ ■ ■ ■
Taxation	28	116,9	31	↓	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	37	75,8	25	↑	■ ■ ■ ■
Hum. & Soc. Env.	28	73,2	31	↓	■ ■ ■ ■
Entrepr. Culture & Opp.	26	59,9	24	↑	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5	↓	■ ■ ■ ■
Japan	7	76,5	7	↔	■ ■ ■ ■
Republic of Korea	15	67,5	13	↑	■ ■ ■ ■
<b>Taiwan</b>	<b>25</b>	<b>55,3</b>	<b>23</b>	↑	■ ■ ■ ■
Malaysia	23	54,4	25	↓	■ ■ ■ ■
China	42	48,5	28	↑	■ ■ ■ ■
India	46	40,9	38	↑	■ ■ ■ ■
Indonesia	60	30,7	54	↑	■ ■ ■ ■
Philippines	57	26,1	61	↓	■ ■ ■ ■

# Taiwan

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	26	53,1	39	↓	■	■
1.2 Inflation	26	99,6	16	↑	■	■
1.3 Unemployment	10	104,9	18	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	15	41,7	14	↑	■	■
2.2 IPO Market Activity	11	4,5	15	↓	■	■
2.3 M&A Market Activity	31	2,3	31	→	■	■
2.4 Debt & Credit Market	39	84,6	24	↑	■	■
2.5 Financial Market Sophistication	34	62,9	31	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	30	143,5	31	↓	■	■
3.2 Administrative Tax Burdens	38	95,2	41	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	52	60,0	39	↑	■	■
4.2 Security of Property Rights	23	77,4	23	→	■	■
4.3 Quality of Legal Enforcement	29	85,2	30	↓	■	■
4.4 Regulatory Quality	28	83,4	30	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	20	90,7	16	↑	■	■
5.2 Labor Market Rigidities	55	36,6	56	↓	■	■
5.3 Bribing & Corruption	29	72,9	30	↓	■	■
5.4 Costs of Crime	29	119,0	32	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	19	49,2	19	→	■	■
6.2 Ease of Starting & Running a Business	27	100,6	15	↑	■	■
6.3 Simplicity of Closing a Business	12	102,1	14	↓	■	■
6.4 ICT Infrastructure	37	25,6	39	↓	■	■

# Thailand

Capital: Bangkok ++ Official Language: Thai ++ Currency: Baht

## Basic Facts



GDP	277 [bn USD]	IPO Volume	4th 1st
Population	64 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Well performing economy, despite the political uncertainty
- Substantial decrease in country's vulnerability to capital outflows
- A "moderately free" economy

### Weaknesses

- Dependence on exports and tourism
- Small size of the skilled workforce
- Poor protection of intellectual property
- Domestic political woes
- Lack of investment incentives

### Opportunities

- Government policy emphasizing on large scale infrastructure projects and economic relief for rural communities
- Forceful effort to protect intellectual property rights

### Threats

- Continued political turmoil risks damaging attractiveness to foreign investors
- Unstable prices of key export commodities causing burdensome subsidies to the government
- Dependence on exporting products to China
- Controversial privatization program of state-owned companies
- Negative corruption perception

### Outlook

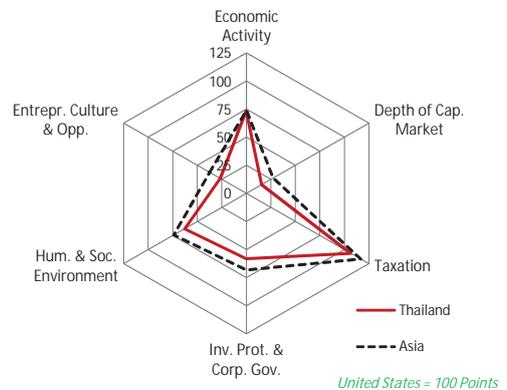
- Thailand has current account surpluses and the accumulation of a sizeable foreign exchange reserve buffer
- Political concerns over a deep divide between the rural poor population and the urban middle class/royalist elite, and separatism and terrorism in the South

Vorapoj Amnauyanit, Partner, Ernst & Young Thailand

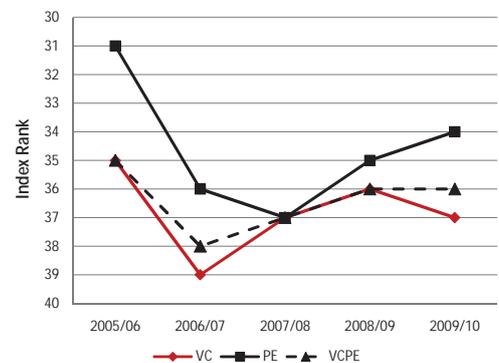
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>35</b>	<b>41,4</b>	<b>36</b>	↓	4th 1st
Economic Activity	38	73,4	43	↓	4th 1st
Depth of Cap. Market	21	15,6	25	↓	4th 1st
Taxation	42	106,4	42	→	4th 1st
Inv. Prot. & Corp. Gov.	41	58,1	42	↓	4th 1st
Hum. & Soc. Env.	36	62,8	41	↓	4th 1st
Entrepr. Culture & Opp.	53	26,6	52	↑	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Hong Kong	4	79,5	5	↓	4th 1st
Japan	7	76,5	7	→	4th 1st
Republic of Korea	15	67,5	13	↑	4th 1st
Malaysia	23	54,4	25	↓	4th 1st
China	42	48,5	28	↑	4th 1st
<b>Thailand</b>	<b>35</b>	<b>41,4</b>	<b>36</b>	<b>↓</b>	<b>4th 1st</b>
India	46	40,9	38	↑	4th 1st
Indonesia	60	30,7	54	↑	4th 1st
Philippines	57	26,1	61	↓	4th 1st

# Thailand

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	52	37,5	52	→	☒	☒
1.2 Inflation	47	93,8	31	↑	☒	☒
1.3 Unemployment	1	112,7	1	→	☒	☒

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	24	20,7	29	↓	☒	☒
2.2 IPO Market Activity	16	3,0	23	↓	☒	☒
2.3 M&A Market Activity	25	2,7	28	↓	☒	☒
2.4 Debt & Credit Market	29	84,0	25	↑	☒	☒
2.5 Financial Market Sophistication	31	66,0	30	↑	☒	☒

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	47	120,9	48	↓	☒	☒
3.2 Administrative Tax Burdens	46	93,7	47	↓	☒	☒

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	40	66,4	29	↑	☒	☒
4.2 Security of Property Rights	35	53,9	39	↓	☒	☒
4.3 Quality of Legal Enforcement	49	55,8	51	↓	☒	☒
4.4 Regulatory Quality	44	56,8	46	↓	☒	☒

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	41	51,5	44	↓	☒	☒
5.2 Labor Market Rigidities	14	78,3	16	↓	☒	☒
5.3 Bribing & Corruption	45	36,8	51	↓	☒	☒
5.4 Costs of Crime	38	105,0	43	↓	☒	☒

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	51	11,5	50	↑	☒	☒
6.2 Ease of Starting & Running a Business	20	92,8	30	↓	☒	☒
6.3 Simplicity of Closing a Business	57	42,3	57	→	☒	☒
6.4 ICT Infrastructure	58	11,0	55	↑	☒	☒

# Turkey

Capital: Ankara ++ Official Language: Turkish ++ Currency: Turkish Lira

## Basic Facts



GDP	808 [bn USD]	IPO Volume	4th 1st
Population	76 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Large economy with substantial young population and highly skilled workforce
- High and sustainable growth potential along the economy with increasing efficiency
- Local banking system healthy and liquid
- Entrepreneurial skills highly developed
- High quality management despite being an emerging market

### Weaknesses

- Low level of institutionalization where majority of the businesses are family owned
- Legal and regulatory framework still converging to EU system
- Lack of robustness in financial statements and non compliance with international standards for certain family owned businesses

### Opportunities

- Positive outlook for nearly all industries, especially in consumer related sectors
- Increasing understanding and acceptance of VC/PE

### Threats

- Low protection of intellectual property rights
- Highly volatile market

### Outlook

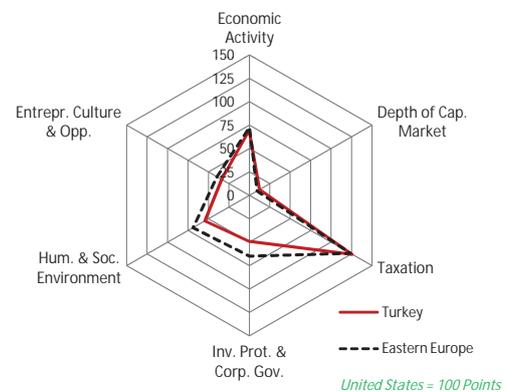
- High potential growth market

Musfik Cantekinler, Partner, Ernst & Young Turkey

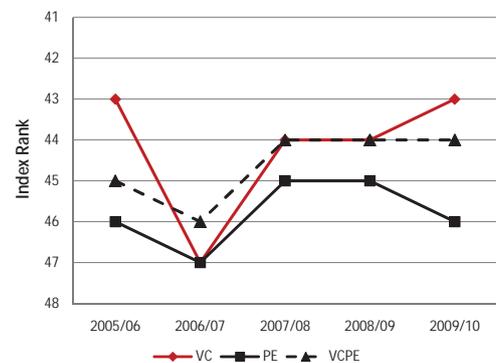
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	45	39,1	44	↑	4th 1st
Economic Activity	37	69,5	47	↓	4th 1st
Depth of Cap. Market	33	12,5	36	↓	4th 1st
Taxation	30	125,8	18	↑	4th 1st
Inv. Prot. & Corp. Gov.	49	49,1	50	↓	4th 1st
Hum. & Soc. Env.	45	54,3	46	↓	4th 1st
Entrepr. Culture & Opp.	44	33,9	44	→	4th 1st

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Poland	41	45,8	31	↑	4th 1st
Czech Republic	33	45,5	34	↓	4th 1st
Estonia	30	44,5	35	↓	4th 1st
Hungary	34	41,1	37	↓	4th 1st
Lithuania	37	40,4	40	↓	4th 1st
<b>Turkey</b>	45	39,1	44	↑	4th 1st
Croatia	47	38,6	45	↑	4th 1st
Latvia	39	35,6	50	↓	4th 1st
Bulgaria	48	30,6	55	↓	4th 1st

# Turkey

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	25	51,3	43	↓	■	■
1.2 Inflation	56	76,0	51	↑	■	■
1.3 Unemployment	50	86,1	61	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	34	15,4	35	↓	■	■
2.2 IPO Market Activity	30	1,6	35	↓	■	■
2.3 M&A Market Activity	28	2,9	27	↑	■	■
2.4 Debt & Credit Market	46	66,3	47	↓	■	■
2.5 Financial Market Sophistication	32	62,9	31	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	36	162,4	22	↑	■	■
3.2 Administrative Tax Burdens	24	97,5	30	↓	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	58	36,0	60	↓	■	■
4.2 Security of Property Rights	46	44,7	49	↓	■	■
4.3 Quality of Legal Enforcement	40	65,2	43	↓	■	■
4.4 Regulatory Quality	47	55,4	48	↓	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	45	45,9	47	↓	■	■
5.2 Labor Market Rigidities	47	46,8	47	→	■	■
5.3 Bribing & Corruption	43	53,7	41	↑	■	■
5.4 Costs of Crime	50	75,1	54	↓	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	45	13,9	44	↑	■	■
6.2 Ease of Starting & Running a Business	28	87,0	38	↓	■	■
6.3 Simplicity of Closing a Business	56	49,2	53	↑	■	■
6.4 ICT Infrastructure	43	22,2	43	→	■	■

# Ukraine

Capital: Kyiv ++ Official Language: Ukrainian ++ Currency: Hryvnia

## Basic Facts



GDP	185 [bn USD]	IPO Volume	4th 1st
Population	46 [mn]	M&A Volume	4th 1st
GDP Growth '02-'08		VC Activity	4th 1st
Pop. Growth '02-'08		PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Strong economic growth increased business opportunities in many sectors
- Extension of a US\$16.4bn emergency Stand-By Agreement from the IMF significantly reduced the likelihood of a sovereign credit default
- Decrease of inflation rate is expected in 2009 compared to 2008

### Weaknesses

- Corruption remains a serious problem
- Ukraine's economy is poised for a significant slowdown due to continuing deterioration in external credit conditions and the ongoing low demand throughout Europe
- Absence of developed stock markets
- Production facilities are outdated and require significant capex

### Opportunities

- Prospects of a more formal trade arrangement with the EU
- Financial pressure placed on business owners together with local currency depreciation may lead to unexpected deal flow
- Liquidity problems of Ukrainian firms might lead to low valuations
- Low labor costs
- Euro-2012 championship hosted by Ukraine and Poland

### Threats

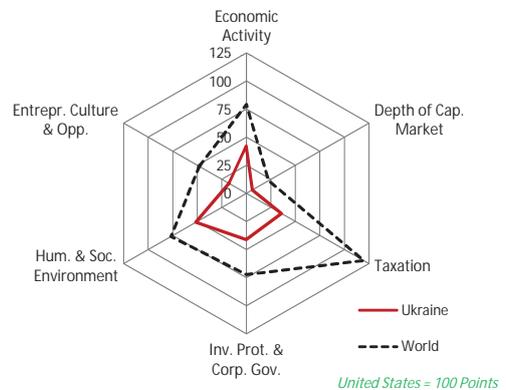
- Economic policy is likely to remain politically motivated as parliamentary fractions continue to compete for control and influence. The unstable political situation will continue to hamper the government's ability to respond to persistent macroeconomic challenges
- Economy highly depends on prices of natural gas imported from Russia
- Transparency, such as in the conduct of privatizations, will remain elusive

Aaron Johnson, Partner, Ernst & Young Ukraine

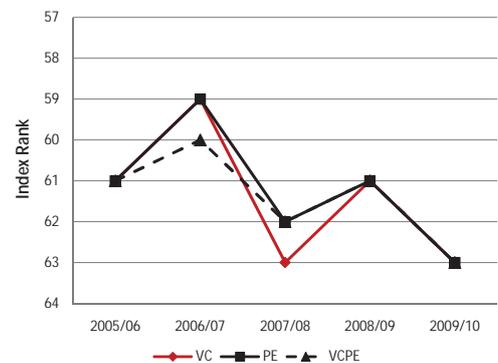
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>61</b>	<b>23,6</b>	<b>63</b>	<b>63</b>	↓	✗
Economic Activity	63	42,1	63	63	→	✗
Depth of Cap. Market	61	6,1	61	61	→	✗
Taxation	63	35,8	66	66	↓	✗
Inv. Prot. & Corp. Gov.	54	41,2	56	56	↓	✗
Hum. & Soc. Env.	47	51,6	48	48	↓	✗
Entrepr. Culture & Opp.	59	17,7	59	59	→	✗

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Poland	41	45,8	31	31	↑	✗
Czech Republic	33	45,5	34	34	↓	✗
Estonia	30	44,5	35	35	↓	✗
Hungary	34	41,1	37	37	↓	✗
Lithuania	37	40,4	40	40	↓	✗
Croatia	47	38,6	45	45	↑	✗
Latvia	39	35,6	50	50	↓	✗
Bulgaria	48	30,6	55	55	↓	✗
<b>Ukraine</b>	<b>61</b>	<b>23,6</b>	<b>63</b>	<b>63</b>	↓	✗

# Ukraine

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	64	34,1	56	↑	☒	☐
1.2 Inflation	64	22,2	64	→	☒	☐
1.3 Unemployment	29	98,6	35	↓	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	55	8,7	49	↑	☒	☐
2.2 IPO Market Activity	46	1,7	34	↑	☒	☐
2.3 M&A Market Activity	41	1,7	46	↓	☒	☐
2.4 Debt & Credit Market	64	26,5	64	→	☒	☐
2.5 Financial Market Sophistication	61	13,5	62	↓	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	28	141,8	34	↓	☒	☐
3.2 Administrative Tax Burdens	64	9,1	66	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	43	58,5	41	↑	☒	☐
4.2 Security of Property Rights	58	33,1	58	→	☒	☐
4.3 Quality of Legal Enforcement	56	41,6	55	↑	☒	☐
4.4 Regulatory Quality	57	35,6	60	↓	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	31	57,2	38	↓	☒	☐
5.2 Labor Market Rigidities	40	70,2	28	↑	☒	☐
5.3 Bribing & Corruption	57	18,5	59	↓	☒	☐
5.4 Costs of Crime	51	95,4	48	↑	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	48	11,9	47	↑	☒	☐
6.2 Ease of Starting & Running a Business	56	68,8	55	↑	☒	☐
6.3 Simplicity of Closing a Business	65	8,7	65	→	☒	☐
6.4 ICT Infrastructure	53	13,6	52	↑	☒	☐

# United Arab Emirates

Capital: Abu Dhabi ++ Official Language: Arabic ++ Currency: UAE Dirham

## Basic Facts



GDP	234 [bn USD]	IPO Volume	4th 1st
Population	5 [mn]	M&A Volume	VC Activity
GDP Growth	'02 - '08	VC Activity	PE Activity
Pop. Growth	'02 - '08		

## SWOT Analysis

### Strengths

- Expected GDP growth and increasing population expected to sustain investment opportunities

### Weaknesses

- Large amounts of businesses are owned by government or private family houses which are not willing to sell
- Existing portfolio companies may face challenging market conditions
- Weak corporate governance

### Opportunities

- Availability of assets at attractive valuations

### Threats

- Size and liquidity of stock markets may affect exits
- Lack of liquidity impacts setting up new funds

### Outlook

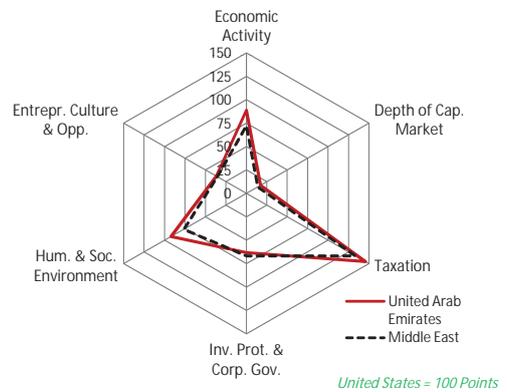
- Given a significant accumulation of dry powder and reduced valuation expectations, we could see increased VC/PE activity
- Availability of assets at attractive valuation

Andrew Brierly, Director, Ernst & Young United Arab Emirates

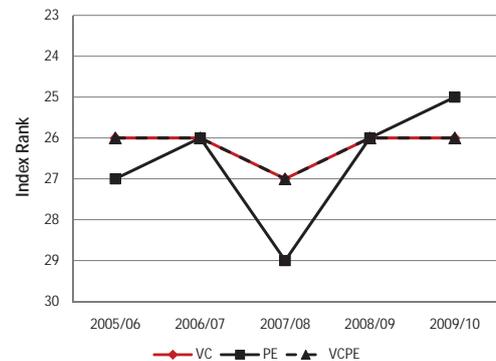
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
<b>VCPE Ranking</b>	<b>26</b>	<b>51,7</b>	<b>26</b>	<b>51,7</b>	→	■ ■ ■ ■
Economic Activity	11	88,8	20	88,8	↓	■ ■ ■ ■
Depth of Cap. Market	30	17,3	22	17,3	↑	■ ■ ■ ■
Taxation	1	145,5	3	145,5	↓	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	39	63,3	38	63,3	↑	■ ■ ■ ■
Hum. & Soc. Env.	20	92,2	17	92,2	↑	■ ■ ■ ■
Entrepr. Culture & Opp.	40	36,8	38	36,8	↑	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	Value	4th	1st
Israel	21	55,8	22	55,8	↓	■ ■ ■ ■
<b>United Arab Emirates</b>	<b>26</b>	<b>51,7</b>	<b>26</b>	<b>51,7</b>	→	■ ■ ■ ■
Saudi Arabia	36	46,4	30	46,4	↑	■ ■ ■ ■
Kuwait	29	40,1	42	40,1	↓	■ ■ ■ ■
Oman	38	38,1	46	38,1	↓	■ ■ ■ ■
Morocco	58	30,3	56	30,3	↑	■ ■ ■ ■
Egypt	53	30,1	57	30,1	↓	■ ■ ■ ■
Nigeria	64	24,4	62	24,4	↑	■ ■ ■ ■
Kenya	63	19,3	64	19,3	↓	■ ■ ■ ■

# United Arab Emirates

## Details

### 1. Economic Activity

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
1.1	Gross Domestic Product	2	97,4	3	↓	■	⊗
1.2	Inflation	51	66,9	58	↓	⊗	■
1.3	Unemployment	5	107,5	8	↓	■	⊗

### 2. Depth of Capital Market

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
2.1	Size and Liquidity of the Stock Market	22	22,5	25	↓	■	⊗
2.2	IPO Market Activity	26	6,4	11	↑	■	⊗
2.3	M&A Market Activity	55	1,7	43	↑	⊗	■
2.4	Debt & Credit Market	34	85,1	23	↑	■	⊗
2.5	Financial Market Sophistication	28	75,3	27	↑	■	⊗

### 3. Taxation

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
3.1	Tax Incentives	1	207,4	6	↓	■	⊗
3.2	Administrative Tax Burdens	11	102,0	10	↑	■	⊗

### 4. Investor Protection and Corporate Governance

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
4.1	Corporate Governance	47	45,5	54	↓	⊗	■
4.2	Security of Property Rights	31	60,3	32	↓	■	⊗
4.3	Quality of Legal Enforcement	30	86,9	28	↑	■	⊗
4.4	Regulatory Quality	43	67,4	40	↑	⊗	■

### 5. Human and Social Environment

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
5.1	Education & Human Capital	36	73,1	26	↑	■	⊗
5.2	Labor Market Rigidities	19	71,5	27	↓	■	⊗
5.3	Bribing & Corruption	24	88,3	23	↑	■	⊗
5.4	Costs of Crime	11	156,6	5	↑	■	⊗

### 6. Entrepreneurial Culture and Opportunities

		2005/06	2009/10			Quartile	
		Rank	Value	Rank		4th	1st
6.1	Innovation & R&D	44	18,3	32	↑	■	⊗
6.2	Ease of Starting & Running a Business	26	102,9	11	↑	■	⊗
6.3	Simplicity of Closing a Business	60	22,5	62	↓	⊗	■
6.4	ICT Infrastructure	29	43,3	30	↓	■	⊗

# United Kingdom

Capital: London ++ Official Language: English ++ Currency: Pound Sterling

## Basic Facts



GDP	2674 [bn USD]	IPO Volume	4th	1st
Population	61 [mn]	M&A Volume	4th	1st
GDP Growth	'02 - '08	VC Activity	4th	1st
Pop. Growth	'02 - '08	PE Activity	4th	1st

## SWOT Analysis

### Strengths

- Established key global VC/PE and financial centre
- Large numbers of assets currently under VC/PE ownership
- Asset class is recognized as a key element of the investment landscape

### Weaknesses

- Lack of leverage has stifled deal activity
- Existing portfolio facing challenging market conditions
- Continuing significant economic uncertainty

### Opportunities

- Many unique investment opportunities at attractive valuations
- Pent up flow of exits due to transactions lull
- IPOs expected to be an increasingly common exit route

### Threats

- Potential increasing regulatory burden placed upon Houses
- Re-financing challenges for investees over the next two years
- Fund raising difficulties due to liquidity issues and LPs becoming more selective

### Outlook

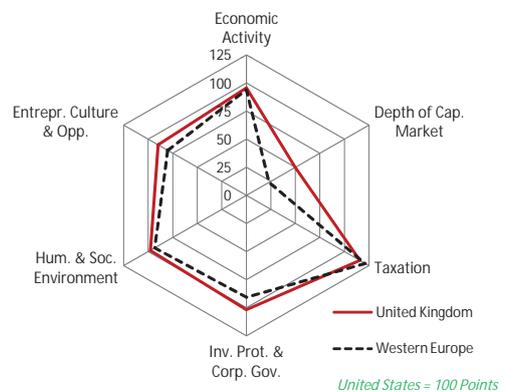
- Numerous assets exiting and therefore many opportunities for selective acquisitions will exist. Deals are likely to be smaller as the case for leverage becomes tougher. Fund raising expected to be much harder, with a "flight to quality" by investors

Steve Ivermee, Partner, Ernst & Young United Kingdom

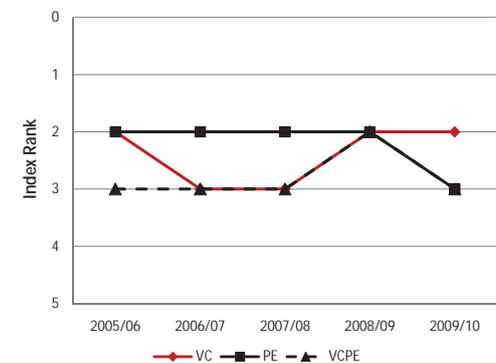
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	<b>3</b>	<b>84,3</b>	<b>3</b>	→	■ ■ ■ ■
Economic Activity	12	95,8	9	↑	■ ■ ■ ■
Depth of Cap. Market	2	49,9	2	→	■ ■ ■ ■
Taxation	29	115,7	33	↓	■ ■ ■ ■
Inv. Prot. & Corp. Gov.	6	101,6	6	→	■ ■ ■ ■
Hum. & Soc. Env.	15	97,9	14	↑	■ ■ ■ ■
Entrepr. Culture & Opp.	10	90,0	11	↓	■ ■ ■ ■

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>United Kingdom</b>	<b>3</b>	<b>84,3</b>	<b>3</b>	→	■ ■ ■ ■
Germany	9	69,1	10	↓	■ ■ ■ ■
Denmark	10	67,7	12	↓	■ ■ ■ ■
Finland	12	65,9	15	↓	■ ■ ■ ■
France	17	65,2	16	↑	■ ■ ■ ■
Belgium	19	61,1	17	↑	■ ■ ■ ■
Austria	20	58,6	19	↑	■ ■ ■ ■
Ireland	16	58,3	21	↓	■ ■ ■ ■
Greece	44	40,7	39	↑	■ ■ ■ ■

# United Kingdom

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	14	86,9	9	↑	■	■
1.2 Inflation	19	100,7	13	↑	■	■
1.3 Unemployment	16	100,3	26	↓	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	3	84,8	3	→	■	■
2.2 IPO Market Activity	6	13,9	5	↑	■	■
2.3 M&A Market Activity	2	33,7	2	→	■	■
2.4 Debt & Credit Market	5	75,4	36	↓	■	■
2.5 Financial Market Sophistication	9	103,1	6	↑	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	37	130,9	42	↓	■	■
3.2 Administrative Tax Burdens	7	102,3	7	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	8	98,1	7	↑	■	■
4.2 Security of Property Rights	14	90,1	14	→	■	■
4.3 Quality of Legal Enforcement	13	112,9	15	↓	■	■
4.4 Regulatory Quality	10	106,9	5	↑	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	16	93,1	14	↑	■	■
5.2 Labor Market Rigidities	5	84,8	12	↓	■	■
5.3 Bribing & Corruption	13	108,3	15	↓	■	■
5.4 Costs of Crime	46	107,3	42	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	11	64,5	13	↓	■	■
6.2 Ease of Starting & Running a Business	19	93,9	28	↓	■	■
6.3 Simplicity of Closing a Business	9	107,3	10	↓	■	■
6.4 ICT Infrastructure	8	101,1	6	↑	■	■

# United States of America

Capital: Washington D.C. ++ Official Language: English ++ Currency: US Dollar

## Basic Facts



GDP	14493 [bn USD]	IPO Volume	4th 1st
Population	309 [mn]	M&A Volume	4th 1st
GDP Growth '02	[Bar chart]	VC Activity	4th 1st
Pop. Growth '02	[Bar chart]	PE Activity	4th 1st

## SWOT Analysis

### Strengths

- Strong innovation and entrepreneurship culture
- Fully developed and robust "VC/PE eco-system"

### Weaknesses

- Lack of VC/PE-backed exits, both IPOs and M&A
- Limited partners face challenges

### Opportunities

- New innovation and fast growth segments such as cleantech, cloud computing, wireless and security
- Collaboration with China

### Threats

- Succession planning in some funds
- Impact of lack of exits on the ability to raise new or follow on funds

### Outlook

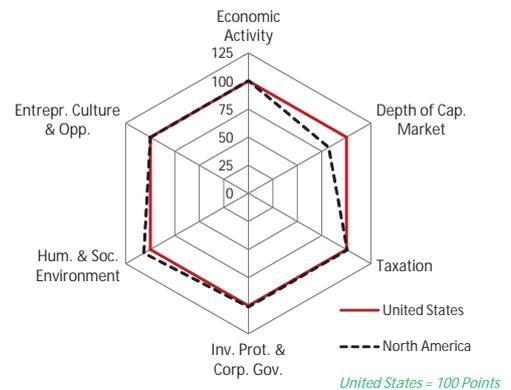
- Strong industry with new investment and growth opportunities
- The number of players will continue to shrink: less funds will be able to raise follow-on funds

*Gil Forer, Global Cleantech Leader, Ernst & Young*

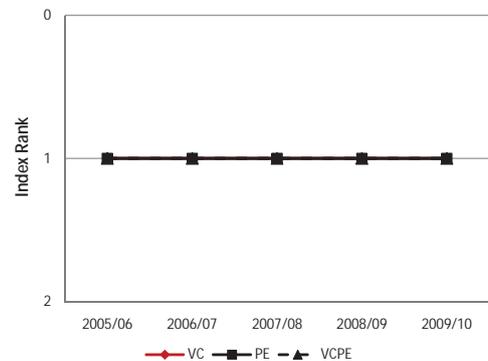
## VCPE-Ranking

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
VCPE Ranking	1	100,0 1	→	☒
Economic Activity	7	100,0 4	↑	☒
Depth of Cap. Market	1	100,0 1	→	☒
Taxation	47	100,0 53	↓	☒
Inv. Prot. & Corp. Gov.	8	100,0 10	↓	☒
Hum. & Soc. Env.	14	100,0 12	↑	☒
Entrepr. Culture & Opp.	1	100,0 3	↓	☒

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10	Quartile	
	Rank	Value Rank	4th	1st
United States	1	100,0 1	→	☒
Canada	2	85,8 2	→	☒
United Kingdom	3	84,3 3	→	☒
Switzerland	8	76,3 8	→	☒
Netherlands	14	70,1 9	↑	☒
Germany	9	69,1 10	↓	☒
Sweden	13	69,0 11	↑	☒
Denmark	10	67,7 12	↓	☒
Norway	11	66,3 14	↓	☒

# United States of America

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	4	100,0	2	↑	■ ■ ■ ■	⊗
1.2 Inflation	38	100,0	14	↑	■ ■ ■ ■	⊗
1.3 Unemployment	21	100,0	28	↓	■ ■ ■ ■	⊗

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	1	100,0	2	↓	■ ■ ■ ■	⊗
2.2 IPO Market Activity	1	100,0	1	→	■ ■ ■ ■	⊗
2.3 M&A Market Activity	1	100,0	1	→	■ ■ ■ ■	⊗
2.4 Debt & Credit Market	3	100,0	11	↓	■ ■ ■ ■	⊗
2.5 Financial Market Sophistication	3	100,0	8	↓	■ ■ ■ ■	⊗

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	54	100,0	61	↓	⊗ ■ ■ ■	⊗
3.2 Administrative Tax Burdens	22	100,0	21	↑	■ ■ ■ ■	⊗

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	6	100,0	6	→	■ ■ ■ ■	⊗
4.2 Security of Property Rights	6	100,0	7	↓	■ ■ ■ ■	⊗
4.3 Quality of Legal Enforcement	19	100,0	20	↓	■ ■ ■ ■	⊗
4.4 Regulatory Quality	13	100,0	15	↓	■ ■ ■ ■	⊗

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	7	100,0	11	↓	■ ■ ■ ■	⊗
5.2 Labor Market Rigidities	1	100,0	1	→	■ ■ ■ ■	⊗
5.3 Bribing & Corruption	21	100,0	18	↑	■ ■ ■ ■	⊗
5.4 Costs of Crime	47	100,0	45	↑	⊗ ■ ■ ■	⊗

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	1	100,0	2	↓	■ ■ ■ ■	⊗
6.2 Ease of Starting & Running a Business	12	100,0	17	↓	■ ■ ■ ■	⊗
6.3 Simplicity of Closing a Business	14	100,0	16	↓	■ ■ ■ ■	⊗
6.4 ICT Infrastructure	1	100,0	8	↓	■ ■ ■ ■	⊗

# Uruguay

Capital: Montevideo ++ Official Language: Spanish ++ Currency: Uruguayan Peso

## Basic Facts



GDP	29 [bn USD]	IPO Volume	
Population	3 [mn]	M&A Volume	
GDP Growth '02 - '08		VC Activity	
Pop. Growth '02 - '08		PE Activity	

## SWOT Analysis

### Strengths

- Human and social environment is strong and improving
- Tax regulation, control of corruption, accounting standards, and openness to inward portfolio investment are the major strengths.

### Weaknesses

- A tax reform that became effective in July 2007 has a slightly negative impact on individual deals
- Minority rights protection is generally weak
- Uruguay has practically no capital market

### Opportunities

- Public efforts to foster start-ups and innovation, such as a small business loan guarantee programme or a new National Association of Innovation are growing in strengths
- A new bankruptcy framework is still under consideration that would facilitate the merger or sale of insolvent companies

### Threats

- Minority rights are generally weak
- Uruguay has almost no capital markets, so IPOs are not a viable exit option.

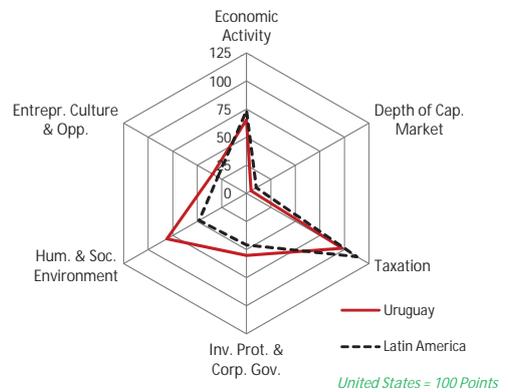
### Outlook

- The country could make its PE/VC business environment more attractive by adopting a better legal framework for nationally domiciled fund formation and operation

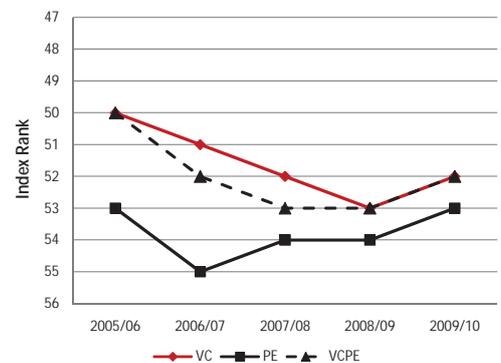
## VCPE-Ranking

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
<b>VCPE Ranking</b>	50	33,4	52		
Economic Activity	52	65,4	50		
Depth of Cap. Market	64	4,7	63		
Taxation	45	97,7	56		
Inv. Prot. & Corp. Gov.	42	55,3	43		
Hum. & Soc. Env.	31	81,1	23		
Entrepr. Culture & Opp.	42	34,3	43		

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06	2009/10		Quartile	
	Rank	Value	Rank	4th	1st
Chile	27	45,8	32		
Mexico	51	35,8	49		
Brazil	56	34,6	51		
<b>Uruguay</b>	50	33,4	52		
Peru	54	32,4	53		
Colombia	55	29,4	58		
Argentina	59	29,1	59		
Paraguay	66	14,9	65		
Venezuela	65	8,9	66		

# Uruguay

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	54	35,4	55	↓	☒	☐
1.2 Inflation	48	85,8	42	↑	☒	☐
1.3 Unemployment	60	92,2	54	↑	☒	☐

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	66	1,8	66	→	☒	☐
2.2 IPO Market Activity	52	1,0	58	↓	☒	☐
2.3 M&A Market Activity	63	1,0	64	↓	☒	☐
2.4 Debt & Credit Market	58	56,2	57	↑	☒	☐
2.5 Financial Market Sophistication	62	22,8	59	↑	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	41	118,5	50	↓	☒	☐
3.2 Administrative Tax Burdens	55	80,5	59	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	41	51,3	46	↓	☒	☐
4.2 Security of Property Rights	37	57,2	37	→	☒	☐
4.3 Quality of Legal Enforcement	48	62,3	45	↑	☒	☐
4.4 Regulatory Quality	46	51,0	51	↓	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	50	50,1	45	↑	☒	☐
5.2 Labor Market Rigidities	30	76,5	19	↑	☒	☐
5.3 Bribing & Corruption	28	91,6	21	↑	☒	☐
5.4 Costs of Crime	27	123,0	28	↓	☒	☐

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	54	11,2	51	↑	☒	☐
6.2 Ease of Starting & Running a Business	46	65,8	56	↓	☒	☐
6.3 Simplicity of Closing a Business	33	78,4	27	↑	☒	☐
6.4 ICT Infrastructure	42	24,0	42	→	☒	☐

# Venezuela

Capital: Caracas ++ Official Language: Spanish ++ Currency: Bolivar Fuerte

## Basic Facts



GDP	326 [bn USD]	IPO Volume	
Population	28 [mn]	M&A Volume	
GDP Growth '02-'08		VC Activity	
Pop. Growth '02-'08		PE Activity	

## SWOT Analysis

### Strengths

- Tax incentives for entrepreneurs and investors

### Weaknesses

- Weak capital market
- Low investor protection and governance structures
- Poor infrastructure

### Opportunities

- Arise with the establishment of a democratic government

### Threats

- Strong decrease of GDP and productivity

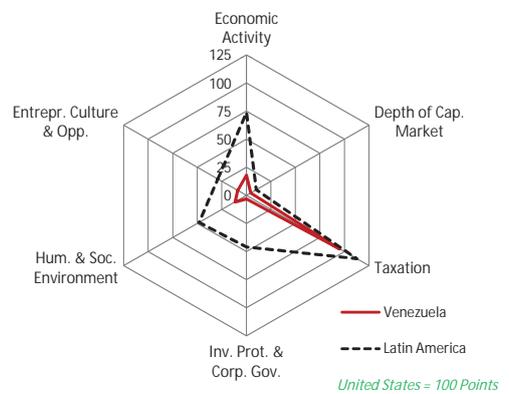
### Outlook

- The political situation renders the country not very attractive for international investment

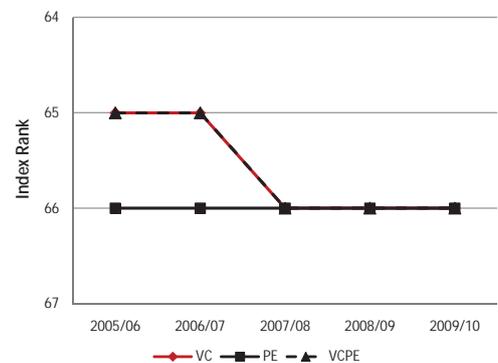
## VCPE-Ranking

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	4th	1st	
<b>VCPE Ranking</b>	<b>65</b>	<b>8,9</b>	<b>66</b>			
Economic Activity	62	18,1	65			
Depth of Cap. Market	62	4,4	65			
Taxation	57	95,2	61			
Inv. Prot. & Corp. Gov.	66	3,0	66			
Hum. & Soc. Env.	65	11,5	65			
Entrepr. Culture & Opp.	64	8,8	66			

## Key Factors Performance



## Separate VC and PE Indices



## Comparison within Peer Group

	2005/06		2009/10		Quartile	
	Rank	Value	Rank	4th	1st	
Chile	27	45,8	32			
Mexico	51	35,8	49			
Brazil	56	34,6	51			
Uruguay	50	33,4	52			
Peru	54	32,4	53			
Colombia	55	29,4	58			
Argentina	59	29,1	59			
Paraguay	66	14,9	65			
Venezuela	65	8,9	66			

# Venezuela

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	29	57,0	32	↓	■	■
1.2 Inflation	65	1,1	66	↓	■	■
1.3 Unemployment	55	95,4	43	↑	■	■

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	64	2,7	64	→	■	■
2.2 IPO Market Activity	52	1,0	58	↓	■	■
2.3 M&A Market Activity	52	1,1	59	↓	■	■
2.4 Debt & Credit Market	56	23,8	65	↓	■	■
2.5 Financial Market Sophistication	56	22,8	59	↓	■	■

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	50	142,5	33	↑	■	■
3.2 Administrative Tax Burdens	63	63,6	63	→	■	■

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	65	7,7	66	↓	■	■
4.2 Security of Property Rights	65	3,9	66	↓	■	■
4.3 Quality of Legal Enforcement	66	2,4	66	→	■	■
4.4 Regulatory Quality	66	1,1	66	→	■	■

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	63	28,6	63	→	■	■
5.2 Labor Market Rigidities	66	15,6	66	→	■	■
5.3 Bribing & Corruption	63	1,4	66	↓	■	■
5.4 Costs of Crime	64	28,4	63	↑	■	■

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	65	4,2	65	→	■	■
6.2 Ease of Starting & Running a Business	64	7,5	66	↓	■	■
6.3 Simplicity of Closing a Business	62	13,3	63	↓	■	■
6.4 ICT Infrastructure	49	14,2	50	↓	■	■



# Vietnam

## Details

### 1. Economic Activity

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
1.1 Gross Domestic Product	61	24,0	62	↓	☒	☐
1.2 Inflation	57	30,2	63	↓	☒	☐
1.3 Unemployment	3	111,0	3	→	☐	☒

### 2. Depth of Capital Market

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
2.1 Size and Liquidity of the Stock Market	65	7,9	53	↑	☒	☐
2.2 IPO Market Activity	52	2,3	26	↑	☐	☒
2.3 M&A Market Activity	58	1,7	45	↑	☒	☐
2.4 Debt & Credit Market	53	64,1	50	↑	☐	☒
2.5 Financial Market Sophistication	65	13,5	62	↑	☒	☐

### 3. Taxation

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
3.1 Tax Incentives	33	133,4	40	↓	☒	☐
3.2 Administrative Tax Burdens	58	73,7	62	↓	☒	☐

### 4. Investor Protection and Corporate Governance

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
4.1 Corporate Governance	63	22,9	64	↓	☒	☐
4.2 Security of Property Rights	64	25,6	62	↑	☒	☐
4.3 Quality of Legal Enforcement	50	58,9	49	↑	☐	☒
4.4 Regulatory Quality	62	31,0	62	→	☒	☐

### 5. Human and Social Environment

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
5.1 Education & Human Capital	62	45,6	49	↑	☒	☐
5.2 Labor Market Rigidities	29	62,1	31	↓	☐	☒
5.3 Bribing & Corruption	60	17,6	60	→	☒	☐
5.4 Costs of Crime	48	93,7	50	↓	☐	☒

### 6. Entrepreneurial Culture and Opportunities

	2005/06 Rank	2009/10			Quartile	
		Value	Rank		4th	1st
6.1 Innovation & R&D	58	10,5	55	↑	☒	☐
6.2 Ease of Starting & Running a Business	51	85,5	40	↑	☐	☒
6.3 Simplicity of Closing a Business	55	38,5	58	↓	☒	☐
6.4 ICT Infrastructure	59	9,2	59	→	☒	☐





# Appendices

Methodology, technical descriptions, limitations, data descriptions, data sources and references

# Computation of the index

The VCPE attractiveness of each of the covered countries is computed by calculating a weighted average of country performance scores in the before mentioned categories. The scores within each category are derived from several raw data series.

Some of the raw data series provide values that are highly related to other country characteristics (e.g., it is quite comprehensible that a country with a high population has higher expenditures on educations than a country with a lower population). Therefore, all data series measuring efficiency rather than absolute size are deflated by an appropriate measure. We use the GDP and population to deflate those data series.



## Regional averages

The regional and world averages are calculated for each data series. They are calculated either without weights or weighted by GDP, or population.

$$\text{Average Value}_q = \frac{\sum_i (v_i \times x_{q,i})}{\sum_i v_i} \qquad \text{Average Value}_q = \frac{\sum_i x_{q,i}}{\sum_i i}$$

- $x_{q,i}$  = raw data value of category q and country i
- $v_i$  = weight for country i
- $i$  = country i

## Normalization

In order to make the cross-sectional data series comparable, the raw data has to be converted into a common range. The rescaling method is used to normalize indicators to such a range by linear transformation. Thereby, 100 represents the best score, while 1 the worst.

For every individual variable, we define whether high values influence the attractiveness for investors positively or negatively, and hence, assign 100 points either to the highest score (e.g., in case of the GDP per capita) or to the lowest (e.g., in case of high hiring costs).

The sub-item points for every country are calculated according to the following formula:

$$y_{q,i} = 99 \times \left[ \frac{x_{q,i} - \min(x_q)}{\max(x_q) - \min(x_q)} \right] + 1$$

- $y_{q,i}$  = normalized value of category q and country i
- $x_{q,i}$  = raw data value of category q and country i
- $\min(x_q)$  = Minimum raw data value of category q within the sample
- $\max(x_q)$  = Maximum raw data value of category q within the sample

### Example

Raw data value [any unit]	1 (lowest value in sample)	12	20 (highest value in sample)
Normalized value [1-100]	$99 \times [(1-1)/(20-1)] + 1 = 1$	$99 \times [(12-1)/(20-1)] + 1 = 58$	$99 \times [(20-1)/(20-1)] + 1 = 100$

## Aggregation

For the index-score calculation, we use geometric aggregation because it is better suited than arithmetic aggregation. Geometric aggregation rewards those countries or those sub-indicators with higher scores. Overall, a shortcoming in the value of one variable or sub-index can be compensated by a surplus in another. Compensability is constant in linear aggregation, while it is smaller in geometric aggregation for the sub-indicators with low values. Therefore, countries with low scores in some sub-indices would benefit from linear aggregation.

For this reason, we use geometric aggregation as follows.

$$Index\ Value_i = \prod_{q=1}^Q y_{q,i}^{w_q}$$

- $Index\ Value_i$  = Index value of country i
- $y_{q,i}$  = normalized value of category q and country i
- $w_q$  = weight of category q

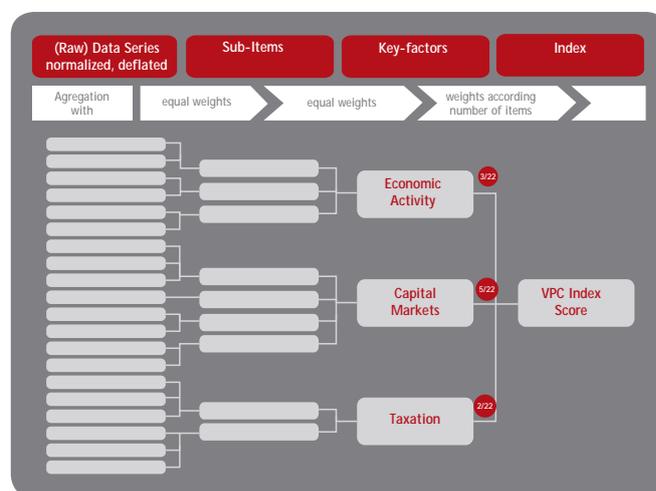
### Example

Category	Economic Activity	Depth of a Capital Market	Investor Protection
Weight	0.5	0.25	0.25
Normalized value of country i ( $y_{q,i}$ )	30	40	50
Index value for the country	$(300.5) \times (400.25) \times (500.25) = 36.63$		

## Weighting

After calculating the performance scores for each data series on the lowest level, the scores are aggregated using the aforementioned aggregation method. On the lowest level, items are aggregated with equal weights, i.e., the weights are derived from the number of components that are aggregated.

The following Exhibit shows the aggregation path from the normalized and deflated (raw) data series to the final VCPE Country Attractiveness Index score.



# Statistical validation of the index

Correlation is a measure for the strength and directionality of a linear relationship between two variables. The Pearson-Correlation-Coefficient  $\rho_{x,y}$ , ranges from 0 to  $\pm 1$  (or 0 to  $\pm 100\%$ ), with 0 indicating a non-linear or missing relationship between two data sets and  $\pm 1$  indicating perfect linearity. A positive (negative) correlation indicates a positive (negative) relationship.

$$\rho_{x,y} = \frac{cov(X,Y)}{\sigma_x \sigma_y} = \frac{E((X - \mu_x)(Y - \mu_y))}{\sigma_x \sigma_y}$$

To test the results of the index calculations, we calculate the correlation between the index scores with the control variable. The results of these analyses are displayed in the following Table. The correlation coefficients are very high for all cases considered. These high values proof the accuracy of the index scores and its ability to measure a countries' attractiveness for investors in VC and PE funds.

	VC/PE invest- ments LN (average 2006-2008)	VC investments LN (average 2006-2008)	PE investments LN (average 2006-2008)
VC/PE Index 2009/2010	0,8104	-	-
VC Index 2009/2010	-	0,8100	-
PE Index 2009/2010	-	-	0,7807

# Limitations of our index and FAQs

From interviews with limited partners we learnt: "For us, a country is attractive if there is low competition among experienced general partners for many high quality transactions, which can be executed quickly at low valuation levels with excellent exit perspectives." Hence, we were advised to assess exactly these criteria with our index, and as a result

## How to measure GP quality and potential deal flow?

How should we determine the experience and quality of local fund managers and the competition for transactions among the teams in an objective way for all our sample countries? It is already challenging to find information about the number of VC and PE players in many of them. How shall we estimate the potential deal flow in the particular countries? We could try to assess the number of start-ups that deserve VC backing. We could also run analyses on the number of corporations that might spin-off from larger conglomerates, on the number of medium-sized firms, which might have a succession problem, turn into restructuring activities; or, in principle, qualify for PE backing just due to a typical size or business segment. Additionally, we could try to determine potential take private candidates. This might be feasible for selected economies. However, it is impossible for the majority of our countries covered, due to missing data. How could we conclude from the potential deal flow to the quality of the proposed transactions? We would need to gather information on industry segments, growth potential, and on the corporate management teams for thousands of transactions – and we would still not be able to distinguish the quality of potential deals in an objective way.

## How to proof current levels of valuation?

How shall we estimate if a current level of valuation is appropriate? Valuations are the result of a benchmarking process where the benchmark value is observable. This first raises the question about the adequate benchmark, and then, problems to control for liquidity risks, leverage risks, size, growth, and finally sovereign and currency risks for all the different countries. We are unable to control for these factors for two simple reasons: first, there is no model yet to account for all of these risks, and second, once again, we do not get the necessary data on the valuations of VC and PE transactions.

## How to assess the professionalism of deal supporting institutions?

How should we assess the required time to perform transactions, and the perspectives to divest holdings after a certain holding period? We would first need to collect data on the number (and

we would create the crystal ball for investment advisers. Unfortunately, we are unable to do that – at least to the extent described above. The constraint is not insufficient knowledge on the drivers of VC and PE activity, the constraint is data availability and (very much related) the lack of quantitative measures.

the quality) of deal supporting institutions, such as investment banks, M&A boutiques, consultants, law firms, and similar. Second, we would have to assess the IPO and M&A market activity for some time in the future to determine exit perspectives. While we might find data on the number of investment banks, law firms, and deal supporting institutions (not about their quality) for some of the more developed economies, this information is non-existent for the majority of our sample countries. And, investors might be more interested in learning about the less developed countries and regions they do not deal with on a regular base. We want to draw their attention to the different emerging regions of the world which they might not cover yet.

## Our proposed solution: Assessing the six key drivers

We hope that our arguments reveal the impossibility to create the investment adviser's crystal ball. We propose the use of the six latent key drivers to assess the attractiveness of a country for VC and PE investors. We regard this as the only solution to overcome the measurement problem for the magnitude of our sample countries.

## Is our index a good indicator of special opportunities or individual fund performances?

We are aware that there are probably many successful general partners in countries scoring low in our index. This means that smart managers of these funds are able to benefit from deficiencies of the local markets and might also be successful due to low competition. Anyway, the opposite might be valid for the very attractive countries. Our index cannot capture these special opportunities, nor can it explain individual fund or aggregate country performance. We point to the focus of our index again: we aim to assess attractiveness of countries for investors in VC and PE on a macro-perspective by general socio-economic conditions and not by special opportunities or quality assessments of particular management teams.

# Table with sources and explanations of the data series

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
<b>1</b>	<b>Economic Activity</b>						
1.1	Gross Domestic Product						
1.1.1	Total Economic Size	[LN GDP in USD]	+	X	X	The economic size of a country is measured by its GDP, which is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	Euromonitor International from IMF (International Financial Statistics)
1.1.2	GDP per Capita	['000 USD per capita]	+	X	X	Find definition above (Economic Size 1.1.1). "Per Capita" describes the division of each data point by the corresponding size of the country's population (e.g. Finland's GDP in 2004 divided by its size of population in this year).	Euromonitor International from IMF (International Financial Statistics)
1.1.3	Real GDP year-on-year Growth	[%]	+	X	X	Gross domestic product is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Real GDP: the number reached by valuing all the productive activity within the country at a specific year's prices. When economic activity of two or more time periods is valued at the same year's prices, the resulting figure allows comparison of purchasing power over time, since the effects of inflation have been removed by maintaining constant prices.	Euromonitor International from IMF (International Financial Statistics and World Economic Outlook/ UN/national statistics)
1.2	Inflation	[%]	-	X	X	The annual average inflation rate indicates the average percentage increase in the price of goods and services comparing every month of the year with corresponding month last year. Data are averages for the year, not end-of-period data.	IMF
1.3	Unemployment Rate	[%]	-	X	X	Unemployment rate: the International Labor Organization (ILO) international standard definition of unemployment is based on the following three criteria which should be satisfied simultaneously: "without work", "currently available for work" and "seeking work".	Euromonitor International from ILO
<b>2</b>	<b>Depth of a Capital Market</b>						
2.1	Size and Liquidity of the Stock Market						
2.1.1	Market Capitalization of Listed Companies	[% of GDP]	+	X	X	Market capitalization is the share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies do not include investment companies, mutual funds, or other collective investment vehicles.	World Bank (World Development Indicator)
2.1.2	Stock Market Total Value Traded	[% of GDP]	+	X	X	"Stock Market Total Value Traded" refers to the total value of shares traded during the period. This indicator complements the market capitalization ratio by showing whether market size is matched by trading.	World Bank (World Development Indicator)
2.1.3	Listed Domestic Companies	[% of total sample sum]	+	X	X	Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. This indicator does not include investment companies, mutual funds, or other collective investment vehicles.	World Bank (World Development Indicator)

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
2.2	IPO Market Activity						
2.2.1	IPO Volume	[% of total sample sum]	+	X	X	Proceeds amount + over-allotment sold in this market: This data series shows the proceeds amount of the issue in this market plus the over-allotment amount (a.k.a. green shoe) sold in this market; i.e., number of shares in this market plus the over-allotment shares sold in this market multiplied by the offer price. A green shoe clause in an underwriting agreement provides that, in the case of excess demand, the issuer will authorize additional shares to be sold through the existing syndicate.	Thomson One Banker
2.2.2	Number of IPOs	[% of total sample sum]	+	X	X	Number of IPOs in a country.	Thomson One Banker
2.3	M&A Market Activity						
2.3.1	M&A Market Volume	[% of total sample sum]	+	X	X	The data comprise M&A ranking value incl. net debt of target. According to Thomson the ranking value is calculated as follows: RANKVAL = VALNOLIA + straight debt + short-term debt + preferred equity-cash; VALNOLIA = transaction value excluding liabilities assumed; transaction value minus the value of any liabilities agreed to be assumed in the transaction.	Thomson One Banker
2.3.2	Number of M&A Deals	[% of total sample sum]	+	X	X	Number of M&A deals in a country.	Thomson One Banker
2.4	Debt and Credit Market						
2.4.1	Domestic Credit provided by Banking Sector	[% of GDP]	+	-	X	Domestic credit provided by the banking sector includes all credit to various sectors on a gross basis, with the exception of credit to the central government, which is net. The banking sector includes monetary authorities and deposit money banks, as well as other banking institutions where data are available (including institutions that do not accept transferable deposits but do incur such liabilities as time and savings deposits). Examples of other banking institutions are savings and mortgage loan institutions and building and loan associations.	World Bank (World Development Indicator)
2.4.2	Ease of Access to Loans	[-]	+	-	X	This data series measures the perceived simplicity of obtaining a bank loan in a country with only a good business plan and no collateral.	WEF
2.4.3	Credit Information Index	[-]	+	-	X	The depth of credit information index measures rules affecting the scope, accessibility and quality of credit information available through either public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. If the registry is not operational or has coverage of less than 0.1% of the adult population, the score on the depth of credit information index is 0.	World Bank, Doing Business
2.4.4	Soundness of Banks	[-]	+	-	X	This data series measures the perceived "Soundness of Banks" in a country. The index ranges from 1 to 7, with higher values indicating that banks are generally healthy with sound balance sheets and low values indicating that banks are in danger of insolvency and may require a government bailout.	WEF
2.4.5	Interest Rate Spread	[%]	-	-	X	Interest rate spread is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits.	International Monetary Fund (IMF), World Development Indicators (WDI)
2.4.6	Bank Non-performing Loans to Total Gross Loans	[%]	-	-	X	Bank non-performing loans to total gross loans are the value of non-performing loans divided by the total value of the loan portfolio (including non-performing loans before the deduction of specific loan-loss provisions). The loan amount recorded as non-performing should be the gross value of the loan as recorded on the balance sheet, not just the amount that is overdue.	World Bank (World Development Indicator)
2.5	Financial Market Sophistication	[-]	+	X	X	This data series measures the perceived level of sophistication of financial markets in a country. The index ranges 1 to 7, with higher values indicating that financial market sophistication is excellent by international standards and low values indicating that it is poor by international standards.	WEF

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
3	Taxation						
3.1	Tax Incentives						
3.1.1	Marginal Corporate Tax Rate	[%]	-	X	X	Highest marginal tax rate (corporate rate) is the highest rate shown on the schedule of tax rates applied to the taxable income of corporations.	World Bank (World Development Indicator); KPMG's Corporate and indirect tax rate survey 2008
3.1.2	Incentive for being an Entrepreneur	[%]	+	X	-	Difference: income tax - corporate tax. The meaning of this driver is based on the fact that an employee tends to become entrepreneur if the individual tax payment is significant higher than the corporate tax.	Please see 3.1.1, Fraser Institute for Income Tax
3.1.3	Labor Tax and Contributions	[%]	-	X	-	Doing Business measures all taxes and contributions that are government mandated (at any level - federal, state or local), apply to a medium-sized business and have an impact in its income statements.	World Bank (Doing Business)
3.1.4	Profit and Capital Gains Tax	[%]	-	X	X	Commercial profits are defined as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other expenses, minus provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses.	World Bank (Doing Business)
3.2	Administrative Tax Burdens						
3.2.1	Number of Payments	[#]	-	X	-	The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment and the number of agencies involved for this standardized case during the second year of operation. It includes payments made by the company on consumption taxes, such as sales tax or value added tax. These taxes are traditionally withheld on behalf of the consumer. Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments measure.	World Bank (Doing Business)
3.2.2	Time spent on Tax Issues	[Hours per year]	-	X	-	Time is recorded in hours per year. The indicator measures the time to prepare, file and pay (or withhold) three major types of taxes and contributions: the corporate income tax, value added or sales tax and labor taxes, including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable. If separate accounting books must be kept for tax purposes - or separate calculations made - the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfill the tax accounting requirements. Filing time includes the time to complete all necessary tax forms and make all necessary calculations. Payment time is the hours needed to make the payment online or at the tax office. Where taxes and contributions are paid in person, the time includes delays while waiting.	World Bank (Doing Business)
4	Investor Protection and Corporate Governance						
4.1	Corporate Governance						
4.1.1	Disclosure Index	[-]	+	X	X	This index measures the extent to which transparency of enterprise related party transactions exists. The index ranges from 0 to 10, with higher values indicating greater disclosure.	World Bank (Doing Business)
4.1.2	Director Liability Index	[-]	+	X	X	This index measures the extent of liability for self-dealing. The index ranges from 0 to 10, with higher values indicating greater liability of directors.	World Bank (Doing Business)

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
4.1.3	Shareholder Suits Index	[-]	+	X	X	This index measures the extent of shareholders' ability to sue officers and directors for misconduct. The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction.	World Bank (Doing Business)
4.1.4	Legal Rights Index	[-]	+	X	X	The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.	World Bank (Doing Business)
4.1.5	Efficacy of Corporate Boards	[-]	+	X	X	Corporate governance by investors and boards of directors in your country is characterized by (1 = management has little accountability, 7 = investors and Boards exert strong supervision of management decisions)	WEF
4.2	Security of Property Rights						
4.2.1	Legal Enforcement of Contracts	[-]	+	X	X	This component is based on the World Bank's Doing Business estimates for the time and money required to collect a clear-cut debt.	Fraser Institute
4.2.2	Property Rights	[-]	+	X	X	"Property rights" is an assessment of the ability of individual to accumulate private property, secured by clear laws that are fully enforced by the state.	Heritage Foundation
4.2.3	Intellectual Property Protection	[-]	+	X	X	This data series measures the perceived "Intellectual Property Protection" in a country. The index ranges from 1 to 7, with higher values indicating that Intellectual property protection and anti-counterfeiting measures in a country are strong and enforced whereas low values indicate the opposite.	WEF (Executive Opinion Survey 2007, 2008)
4.3	Quality of Legal Enforcement						
4.3.1	Judicial Independence	[-]	+	X	X	This data series measures the perceived "Judicial Independence" in a country. The index ranges from 0 to 7, with higher values indicating that the judiciary in a country is independent from political influences of members of government, citizens, or firms and lower values indicating that it is heavily influenced.	Fraser Institute. WEF (Global Competitiveness Report )
4.3.2	Impartial Courts	[-]	+	X	X	This data series measures the perceived quality of the legal framework in a country. The index ranges from 0 to 10, with higher values indicating that the framework in a country for private businesses to settle disputes and challenge the legality of government actions and/or regulations follows a clear, neutral process. Lower values indicate that the framework seems to be inefficient and subject to manipulation.	Fraser Institute
4.3.3	Integrity of the Legal System	[-]	+	X	X	This component is based on two sub-components. Each sub-component equals half of the total. The "law" sub-component assesses the strength and impartiality of the legal system, and the "order" sub-component assesses popular observance of the law. The index ranges from 0 to 10. High rating values indicate a sound legal system.	Fraser Institute. PRS Group (International Country Risk Guide)
4.3.4	Rule of Law	[-]	+	X	X	"Rule of Law" measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. The index ranges from 0 to 100.	World Bank (Worldwide Governance Indicator)
4.4	Regulatory Quality	[-]	+	X	X	"Regulatory Quality" measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The index ranges from -2.5 to 2.5 with higher values corresponding to better governance outcomes.	World Bank (Worldwide Governance Indicator)

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
5	Human and Social Environment						
5.1	Education and Human Capital						
5.1.1	Quality of the Educational System	[-]	+	X	X	This data series measures the perceived "Quality of the Educational System" in a country. The index ranges from 1 to 7, with higher values indicating that the educational system in a country meets the needs of a competitive economy. Low values indicate that the system does not meet the needs of a competitive economy.	WEF
5.1.2	Quality of Scientific Research Institutions	[-]	+	X	X	This data series measures the perceived "Quality of Scientific Research Institutions" in a country. The index ranges from 1 to 7, with higher values indicating that Scientific research institutions in a country (e.g., university laboratories, government laboratories) are the best in their fields internationally. Low values indicate that they are not competitive or nonexistent.	WEF
5.2	Labor Market Rigidities						
5.2.1	Difficulty of Hiring Index	[-]	-	X	X	This Index measures the "Difficulty of hiring" regarding (i) whether fixed term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed term contracts; and (iii) the ratio of the minimum wage for a trainee or first time employee to the average value added per worker. The index ranges from 0 to 100. High scores are assigned to countries where fixed-term contracts are prohibited for permanent tasks, the maximum cumulative duration of fixed-term contracts is low, and if the ratio of the minimum wage to the average value added per worker is high.	World Bank (Doing Business)
5.2.2	Rigidity of Hours Index	[-]	-	X	X	This index measures the "Rigidity of hours index" regarding five components: (i) whether night work is unrestricted; (ii) whether weekend work is unrestricted; (iii) whether the work week can consist of 5.5 days; (iv) whether the workweek can extend to 50 hours or more (including overtime) for two months a year to respond to a seasonal increase in production; and (v) whether paid annual vacation is 21 working days or fewer. The index ranges from 0 to 100. High scores are assigned to countries where the five before mentioned statements are not true.	World Bank (Doing Business)
5.2.3	Difficulty of Firing Index	[-]	-	X	X	The "Difficulty of Firing Index" has eight components: (i) whether redundancy is disallowed as a basis for terminating workers; (ii) whether the employer needs to notify a third party (such as a government agency) to terminate one redundant worker; (iii) whether the employer needs to notify a third party to terminate a group of 25 redundant workers; (iv) whether the employer needs approval from a third party to terminate one redundant worker; (v) whether the employer needs approval from a third party to terminate a group of 25 redundant workers; (vi) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (vii) whether priority rules apply for redundancies; and (viii) whether priority rules apply for reemployment. For the first question an answer of yes for workers of any income level gives a score of 10 and means that the rest of the questions do not apply. An answer of yes to question (iv) gives a score of 2. For every other question, if the answer is yes, a score of 1 is assigned; otherwise a score of 0 is given. Questions (i) and (iv), as the most restrictive regulations, have greater weight in the construction of the index.	World Bank (Doing Business)
5.2.4	Firing Costs	[Weeks of wages]	-	X	X	The "Firing Cost indicator" measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. If the firing cost adds up to eight or fewer weeks of salary, a score of 0 is assigned. If the cost adds up to more than eight weeks of salary, the score is the number of weeks. One month is recorded as four and 1/3 weeks.	World Bank (Doing Business)

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
5.3	Bribing and Corruption						
5.3.1	Bribing and Corruption Index	[-]	+	X	X	This index describes the overall extent of corruption (frequency and/or size of bribes) in the public and political sectors. The index ranges from 0 to 10. Countries where bribing and corruption cases are frequent receive a low rating score.	Transparency International
5.3.2	Control of Corruption	[-]	+	X	X	This data series measures the perception of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Countries in which seemingly public power is frequently used for private gain a low rating score. The index ranges from -2.5 to 2.5 with higher values corresponding to better governance outcomes.	World Bank (Worldwide Governance Indicator)
5.3.3	Extra Payments/Bribes	[-]	+	X	X	This index measures the frequency of extra payments and bribes firms pay in a country. The index ranges from 0 to 10 with higher values corresponding to better governance outcomes. Countries where these payments are frequent receive a low rating score.	Fraser Institute
5.4	Costs of Crime						
5.4.1	Business Costs of Crime and Violence	[-]	+	X	X	This data series measures the costs on businesses imposed by the incidence of common crime and violence in a country. The index ranges from 1 to 7. High values are assigned to countries where crime does not impose significant costs on businesses.	WEF
5.4.2	Cost of Organized Crime	[-]	+	X	X	This data series measures the perceived "Cost of Organized Crime" in a country. The index ranges from 1 to 7 with higher values indicating that organized crime (mafia-oriented racketeering, extortion) in a country does not impose significant costs on businesses. Lower values indicate that organized crime imposes significant costs on businesses.	WEF
6	Entrepreneurial Opportunities						
6.1	Innovation and R&D						
6.1.1	General Innovativeness Index	[-]	+	X	-	The framework groups the eight pillars of innovation into two categories: inputs and outputs. The five input pillars – institutions and policies, human capacity, infrastructure, technological sophistication and business markets and capital – represent aspects which enhance the capacity of a nation to generate ideas and leverage them for innovative products and services. The three output pillars – knowledge, competitiveness, and wealth – represent the ultimate benefits of innovation for a nation – more knowledge creation, increased competitiveness and greater wealth generation. Each pillar of the GI model is measured by a number of quantitative and qualitative variables. The averaged scores for the input and output pillars together give an overall score – the Global Innovation Index. The values of each variable for the country are scaled on a range of 1 to 7.	INSEAD
6.1.2	Capacity for Innovation	[-]	+	X	-	This index measures the perceived "Capacity for Innovation" in a country. The index ranges from 1 to 7 with higher values indicating that companies obtain technology by conducting formal research and pioneering their own new products and processes. Low values indicate that companies obtain technology exclusively from licensing or imitating foreign companies.	WEF
6.1.3	Company Spending on R&D	[-]	+	X	-	This index measures the "Company Spending on R&D" in a country. The index ranges from 1 to 7 with higher values indicating that companies in a country spend heavily on research and development relative to international peers. Low values indicate that companies do not spend money on research and development.	WEF

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
6.1.4	Utility Patents	[# per mn population]	+	X	-	This data series provides the number of utility patents (i.e., patents for invention) granted between January 1 and December 31, 2007, per million population.	WEF
6.1.5	Scientific and Technical Journal Articles	[# per capita]	+	X	-	The data series "Scientific and Technical Journal Articles" refer to the number of scientific and engineering articles published in the following fields: physics, biology, chemistry, mathematics, clinical medicine, biomedical research, engineering and technology and earth.	World Bank (World Development Indicator)
6.2	Ease of Starting and Running a Business						
6.2.1	Number of Procedures to start a Business	[#]	-	X	-	This data series provides the average number of administrative procedures necessary to start a business in a country. A procedure is defined as any interaction of the company founder with external parties (for example, government agencies, lawyers, auditors or notaries). Interactions between company founders or company officers and employees are not counted as procedures. Only procedures required of all businesses are covered. Industry-specific procedures are excluded. For example, procedures to comply with environmental regulations are included only when they apply to all businesses conducting general commercial or industrial activities. Procedures that the company undergoes to connect to electricity, water, gas and waste disposal services are not included.	World Bank (Doing Business)
6.2.2	Time needed to start a Business	[Days]	-	X	-	This data series provides the average number of days necessary to start a business in a country. Time is recorded in calendar days. The measure captures the median duration that incorporation lawyers indicate is necessary to complete a procedure with minimum follow-up with government agencies and no extra payments. It is assumed that the minimum time required for each procedure is one day.	World Bank (Doing Business)
6.2.3	Cost of Business Start-Up Procedures	[% of income per capita]	-	X	-	This data series provides the average amount of money necessary to start a business in a country. Cost is recorded as a percentage of the country's income per capita. It includes all official fees and fees for legal or professional services if such services are required by law. Fees for purchasing and legalizing company books are included if these transactions are required by law. The cost excludes bribes.	World Bank (Doing Business)
6.2.4	Minimum Capital	[% of income per capita]	-	X	-	The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to three months following incorporation and is recorded as a percentage of the country's income per capita. The amount is typically specified in the commercial code or the company law. Many countries have a minimum capital requirement but allow businesses to pay only a part of it before registration, with the rest to be paid after the first year of operation.	World Bank (Doing Business)
6.2.5	Administrative Requirements	[-]	+	X	-	This data series measures the perceived "Administrative Requirements" in a country. The index ranges from 0 to 10 with higher values indicating that complying with administrative requirements (permits, regulations, reporting) issued by the government in a country is not burdensome. Lower values indicate that the administrative requirements are perceived as burdensome.	Fraser Institute
6.3	Simplicity of Closing a Business						
6.3.1	Time	[Years]	-	X	X	This data series provides the average number of years necessary to close a business in a country. Time is recorded in calendar years. Information is collected on the sequence of procedures and on whether any procedures can be carried out simultaneously. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration.	World Bank (Doing Business)

	Indicators	Dimension for index calculation	Positive/negative impact	VC	PE	Explanation	Source
6.3.2	Cost	[% of estate]	-	X	X	This data series provides the average costs of closing a business in a country. The cost of the proceedings is recorded as a percentage of the estate's value. The cost is calculated on the basis of survey responses by insolvency practitioners and includes court fees as well as fees of insolvency practitioners, independent assessors, lawyers and accountants. Respondents provide cost estimates from among the following options: less than 2%, 2–5%, 5–8%, 8–11%, 11–18%, 18–25%, 25–33%, 33–50%, 50–75% and more than 75% of the value of the business estate.	World Bank (Doing Business)
6.3.3	Recovery Rate [Cents on US\$]	[Cents on US\$]	+	X	X	The recovery rate is recorded as cents on the dollar recouped by creditors through the bankruptcy or insolvency proceedings. The calculation takes into account whether the business emerges from the proceedings as a going concern as well as costs and the loss in value due to the time spent closing down. If the business keeps operating, no value is lost on the initial claim, set at 100 cents on the dollar. If it does not, the initial 100 cents on the dollar are reduced to 70 cents on the dollar. Then the official costs of the insolvency procedure are deducted (one cent for each percentage of the initial value). Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account, including the loss of value due to depreciation of the hotel furniture. Consistent with international accounting practice, the depreciation rate for furniture is taken to be 20%. The furniture is assumed to account for a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, based on end-2006 lending rates from the IMF's International Financial Statistics, supplemented with data from central banks.	World Bank (Doing Business)
6.4	ICT Infrastructure (Information and Communications Technology)						
6.4.1	Broadband Subscribers	[# per 100 people]	+	X	-	This data series provides the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies in a country.	World Bank (World Development Indicator)
6.4.2	Fixed Line and Mobile Phone Subscribers	[# per 100 people]	+	X	-	Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.	World Bank (World Development Indicator)
6.4.3	Internet Users	[# per 100 people]	+	X	-	Internet users are people with access to the worldwide network.	World Bank (World Development Indicator)
6.4.4	Secure Internet Servers	[# per mn people]	+	X	-	Secure servers are servers using encryption technology in Internet transactions.	World Bank (World Development Indicator)
Correlation Data							
	Venture Capital Investments	LN [USD mn]		X		Amount of venture capital investments in a country per year. The country is defined by fund location. Thomson Reuters uses the term to describe the universe of venture investing. It does not include buyout investing, mezzanine investing, fund of fund investing, secondaries, etc.	Thomson One
	Private Equity Investments	LN [USD mn]			X	Amount of private equity investments in a country per year. The country is defined by fund location. Thomson Reuters uses the term to describe the universe of all venture investing, buyout investing and mezzanine investing.	Thomson One
	Venture Capital and Private Equity Investments	LN [USD mn]		X	X	The sum of venture capital and private equity investments in a country per year.	Thomson One

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### The Global Venture Capital and Private Equity Country Attractiveness Index

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