MOBILIZING PRIVATE EQUITY AND DEBT FUNDS FOR SME AND INFRASTRUCTURE FINANCE IN EMERGING MARKETS AND DEVELOPING COUNTRIES
Outline

Part I: Global evolution of private equity and debt funds
• Section 1: Overall evolution of PE funds
  • Section 2: Emergence of private debt funds
  • Section 3: Venture capital funds
  • Section 4: Infrastructure funds

Part II: Mobilizing PE and debt funds in emerging markets and developing countries (EMDEs)
• Section 1: Developing ecosystem for PE/VC in EMDEs
• Section 2: Developing the PPP framework in EMDEs
• Section 3: The role of Strategic Investment Funds (SIFs)
Section 1: Private equity funds assets under management (AUM) have grown from US$ 716 billion in 2000 to US$ 3.8 trillion in 2014.

Private Equity Assets under Management
December 2004 - June 2014 (US$ billion)

Source: 2015 Preqin Global Private Equity Report
Section 1: By geographical area, the main areas of focus are the US and Europe, followed by Asia. The rest of the world is at a low level, but growing slowly.

Private Equity Dry Powder by Primary Geographic Focus
2003 – 2013 (US$ billion)

- North America
- Europe
- Asia
- Rest of World

Source: 2014 Preqin Global Private Equity Report
Section 1: Among emerging markets, emerging Asia is the main geographical focus area (with China and India leading), followed by Latin America (with Brazil leading)

Evolution on PE investments in Emerging Markets by region, in US$ billion

Source: EMPEA Database
Section 1: By type of fund, buyout funds dominate, followed by real estate, venture capital and infrastructure. Mezzanine debt represents a small share of the total, but is growing.

Source: 2015 Preqin Global Private Equity Report
Section 1: After dropping following the international financial crisis in 2008, private equity-backed exits have rebounded sharply in the 2010-2014 period.
Section 1: The investor base for private equity funds has undergone major transformation over the past 6 years.

Make-up of LPs in the Average Fund by LP Type (Capital Committed to Funds Closed in 2009-2014)

Source: 2015 Preqin Global Private Equity Report
Section 1: In terms of performance, private equity horizon IRR outperformed major market indices in 2014. However, this performance was driven by buyout funds, while venture capital underperformed market indices.

Private Equity Horizon IRRs vs. Public Indices as of 30 June 2014

Source: 2015 Preqin Global Private Equity Report
Outline

Section 1: Overall Evolution of PE Funds

Section 2: Emergence of Private Debt Funds

Section 3: Venture Capital Funds

Section 4: Infrastructure Funds
Section 2: Since the international financial crisis in 2008, private debt funds (including mezzanine funds) have grown rapidly.

Annual Private Debt Fundraising
2009 - 2014

No. of Funds Closed
Aggregate Capital Raised ($bn)

Year of Final Close

Source: 2015 Preqin Global Private Debt Report
Section 2: By geographical area, the main areas of focus are North America, followed by Europe and Asia and the rest of the world.

Breakdown of the Number of Private Debt Funds Closed by Primary Geographic Focus 2009 - 2014 YTD (As at 11.20.2014)

Section 2: By type of fund, mezzanine funds dominate, followed by direct lending and distressed debt.

Primary Strategy of Private Debt Fund Managers Established Since 2008

- Direct Lending: 23%
- Distressed Debt: 16%
- Mezzanine: 42%
- Special Situations: 15%
- Venture Debt: 4%

Source: 2015 Preqin Global Private Debt Report
Outline

Section 1: Overall Evolution of PE Funds
Section 2: Emergence of Private Debt Funds

Section 3: Venture Capital Funds
Section 4: Infrastructure Funds
Section 3: After reaching a peak in 2008, venture capital fund raising dropped significantly following the international financial crisis in 2009 and 2010. It rebounded significantly in 2011, but has tapered off since then in 2012 and 2013 followed by another peak in 2014.

Evolution of Venture Capital Fundraising, 2008 – 2014 (US$ billion)

Source: 2015 Preqin Global Private Equity Report
Section 3: By stage, venture capital deal flow is led by angel/seed deals, followed by round 1 deals and round 2 deals, showing the critical role played by private equity at early stages of development of SMEs. Venture debt represents less than 7% of the total.

Proportion of Number and Aggregate Value of Venture Capital Deals by Stage 2012 – 2013

Source: Preqin Global Private Equity Reports, 2014 & 2015
Section 3: By geographical area, venture capital deal flow is highly concentrated in North America, followed by Europe and China. The rest of the world represents a small share of the total.

Proportion of Aggregate Value of Venture Capital Deals by Region, 2007 - 2014*

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>Europe</th>
<th>China</th>
<th>India</th>
<th>Israel</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>73%</td>
<td>14%</td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>2008</td>
<td>69%</td>
<td>13%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2009</td>
<td>73%</td>
<td>15%</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2010</td>
<td>69%</td>
<td>14%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>2011</td>
<td>67%</td>
<td>11%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>2012</td>
<td>71%</td>
<td>12%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>2013</td>
<td>67%</td>
<td>17%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>2014</td>
<td>62%</td>
<td>15%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: 2015 Preqin Global Private Equity Report
* Figures exclude add-ons, grants, mergers, secondary stock purchase and venture debt
Section 3: By industry, venture capital deal flow is led by internet, followed by software, healthcare and telecoms.

Proportion of Number and Aggregate Value of Venture Capital Deals by Industry 2012 – 2014

<table>
<thead>
<tr>
<th>Industry</th>
<th>2012 No. of Deals</th>
<th>2012 Aggregate Deal Value</th>
<th>2013 No. of Deals</th>
<th>2013 Aggregate Deal Value</th>
<th>2014 No. of Deals</th>
<th>2014 Aggregate Deal Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Software &amp; Related</td>
<td>4%</td>
<td>9%</td>
<td>8%</td>
<td>14%</td>
<td>8%</td>
<td>15%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>Telecoms</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Other IT</td>
<td>12%</td>
<td>25%</td>
<td>16%</td>
<td>22%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Business Services</td>
<td>18%</td>
<td>14%</td>
<td>21%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Clean Technology</td>
<td>27%</td>
<td>22%</td>
<td>25%</td>
<td>23%</td>
<td>26%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Preqin Global Private Equity Reports, 2014 & 2015
Outline

Section 1: Overall Evolution of PE Funds

Section 2: Emergence of Private Debt Funds

Section 3: Venture Capital Funds

Section 4: Infrastructure Funds
Section 4: Unlisted infrastructure funds AUM have grown from US$ 7 billion in 2002 to US$ 296 billion in 2014.

Unlisted Infrastructure Assets under Management
December 2002 - June 2014

Source: 2015 Preqin Global Infrastructure Report
Section 4: By project stage, infrastructure fund deals are led by secondary stage, followed by greenfield and brownfield.

Breakdown of Unlisted Infrastructure Deals by Project Stage 2008 – 2013

Source: 2014 Preqin Global Infrastructure Report
Section 4: By geographical area, the main areas of focus are North America, followed by Europe and Asia.

Unlisted Infrastructure Assets under Management by Fund Primary Geographic Focus as of June 2014

- North America: 93 $bn (Unrealized Value) and 53 $bn (Dry Powder)
- Europe: 59 $bn (Unrealized Value) and 32 $bn (Dry Powder)
- Asia: 20 $bn (Unrealized Value) and 11 $bn (Dry Powder)
- Rest of World: 19 $bn (Unrealized Value) and 9 $bn (Dry Powder)

Source: 2015 Preqin Global Infrastructure Report
Section 4: By industry, infrastructure fund deal flow is led by renewable energy, followed by transport, social infrastructure and energy.

![Breakdown of Infrastructure Deals by Industry, 2008-2014](chart)

Source: 2015 Preqin Global Infrastructure Report
Section 4: By type of investor, superannuation schemes dominate, followed by endowment plans, public pension funds and private sector pension funds.

Average Current and Target Allocations to Infrastructure by Investor Type, 2014

Source: 2015 Preqin Global Infrastructure Report
Section 4: Since 2007, infrastructure investment funds have outperformed the private equity class.

Source: 2015 Preqin Global Infrastructure Report

**Annual Infrastructure Debt Fund Raising, 1998-2013**

<table>
<thead>
<tr>
<th>Year of Final Close</th>
<th>No. of Funds Closed</th>
<th>Aggregate Capital Raised ($bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-2005</td>
<td>5</td>
<td>5.0</td>
</tr>
<tr>
<td>2006</td>
<td>3</td>
<td>1.2</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>3.5</td>
</tr>
<tr>
<td>2008</td>
<td>9</td>
<td>3.6</td>
</tr>
<tr>
<td>2009</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>2010</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>2011</td>
<td>7</td>
<td>6.2</td>
</tr>
<tr>
<td>2012</td>
<td>10</td>
<td>3.4</td>
</tr>
<tr>
<td>2013</td>
<td>7</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: 2014 Preqin Global Infrastructure Report
Section 4: By geographical area, the main areas of concentration are North America, followed by Europe and the rest of the world.

Breakdown of Unlisted Infrastructure Debt Fund Universe by Primary Geographic Focus, 2013

- **North America**: 15 funds, $18.3bn
- **Europe**: 19 funds, $10.9bn
- **Asia**: 19 funds, $6.3bn
- **Rest of World**: 21 funds, $8.2bn

*Source: 2014 Preqin Global Infrastructure Report*
Section 4: The number of listed infrastructure funds raised increased from 2001 to 2011 with a drop in 2012 and peaking in 2013.

Listed Infrastructure Fund Launches, 2005-2014

Source: 2015 Preqin Global Infrastructure Report
Section 4: Listed infrastructure funds AUM have grown from US$ 4.6 billion in 2004 to US$ 21.4 billion in 2013 (valued at vintage).

Source: Preqin Database and staff calculations
Note: The table represents 44 listed infrastructure funds from Preqin database and AUM shown is at vintage
Part II: Mobilizing PE and debt funds in EMDEs

Section 1: Developing the ecosystem for PE/VC in EMDEs

Three pillars:

• Pillar 1: legal and regulatory framework for PE/VC operations
• Pillar 2: legal and regulatory framework for investments by institutional investors in asset class
• Pillar 3: business enabling environment
Pillar 1: legal and regulatory framework for PE/VC operations

- **Fund regulator and capacity**

- **PE/VC fund and fund manager regulations**
  - fund legal structure (incl compartments)
  - qualified assets
  - qualified investors
  - management company legal structure
  - qualification of persons who conduct the business of management company
  - disclosure of ultimate controllers of management company
  - disclosure and resolution of conflict of interest
  - delegation of core manager functions
  - own funds
  - asset valuation rules
  - content of fund prospectus
  - disclosure to investors
  - auditing
  - reporting
  - depositary rules
  - cooperation with supervisory agency
  - penalties
Pillar 1: legal and regulatory framework for PE/VC operations

- **Tax treatment**
  - tax residency for foreign investment funds
  - tax pass through for fund legal structures (capital gains tax, withholding tax)
  - double taxation agreements

- **Investor protection**
  - protection of minority shareholder rights
  - protection for investors in funds

- **Interest in portfolio companies**
  - restrictions on issue or transfer of shares

- **Buyouts**
  - regulations on buyouts by public auction
  - regulations on buyouts of listed companies

- **Protection of intellectual property rights**
  - legal and regulatory framework for patents and trademarks
  - international treaties
  - enforcement

- **Bankruptcy procedures/creditor rights/partner liability**
  - legal and regulatory framework for bankruptcy
    - treatment of foreign and domestic creditors
    - partner liability
  - enforcement
Pillar 1: legal and regulatory framework for PE/VC operations

- **Exits**
  - listing rules on main exchange
  - listing rules on SME exchange

- **Exchange controls**
  - regulations on inward investments
  - regulations on outward transfers of profits and capital gains

- **Corporate governance requirements**
  - corporate governance requirements for funds
  - corporate governance requirements for investee companies

- **Contract enforcement**
  - contract enforcement through court system
  - contract dispute resolution framework

- **Perceived corruption**
  - transparency international index
  - doing business index

- **Accounting**
  - IFRS implementation
Pillar 2: Legal and regulatory framework for investments by institutional investors in asset class

❖ Laws/regulations for investments by pension funds in PE/VC asset class
  
  • rules-based regime: limits on investment in asset class
  • risk-based regime: benchmark portfolio

❖ Laws/regulations for investments by insurance companies in PE/VC asset class

  • rules-based regime: limits on investment in asset class
  • risk-based regime: roadmap to Solvency II/risk-based regulatory regime
Pillar 3: Business enabling environment

❖ Supply side
  • Business incubators
  • Business accelerators
  • Angel investors
  • Angel investor groups

❖ Demand side
  • Seed co-investment funds
  • Hybrid PE/VC funds
Section 2: Developing the PPP framework in EMDEs

- **Legal framework**
  - enable contract form encompassing multiple obligations (DBFOM: design-build-finance-operate-maintain)
  - enable DBFOM contract for both user-pay and government-pay models
  - enable tender model based on dialogue with prospective bidders

- **Selection, preparation and appraisal**
  - guidelines to assess and select PPP projects at all levels of government
  - focus on affordability, commercial feasibility and value for money

- **Fiscal management**
  - relevance for government-pay projects
  - valuation of contingent liabilities
  - public debt limits

- **Institutional framework and architecture**
  - roles of procuring agency, promoter, treasury, general attorney
  - creation of specialized bodies
Section 2: Developing the PPP framework in EMDEs (cont’d)

- Key drivers for mobilization of institutional investors including infrastructure PE/debt funds

  - Significant project pipeline
  - Successful track record including resolution of disputes
  - Strong process management framework
  - Clarity of legal framework (PPP legality, enforceability and procurement transparency)
  - Strong political commitment and support
  - Public acceptability
  - Fiscal sustainability
Section 3: The role of Strategic Investment Funds (SIFs)

- SIFs being created by increasing number of governments and regional economic communities to serve as anchor investors for international and domestic institutional investors in domestic projects
- Sectors: SOE turnaround, infrastructure PPP projects, SMEs
- Original inspiration: Singapore Temasek, Malaysia’s Khazanah, South Africa Public Investment Corporation
- More recent examples:
  - EU: European Fund for Strategic Investments (EFSI)
  - Sénégal: Fonds Souverain d’Investissement Stratégique (FONSIS)
  - Chile: Strategic Investment Fund
- Under preparation
  - Indonesia, Congo, Côte d’Ivoire, Morocco
Section 3: The role of SIFs  (cont’d)

❖ SIF Feasibility: key elements

❖ governance structure:
  • separation between ownership and management functions
  • fund board defining overall investment strategy
  • fund management company responsible for investment and exit decisions
  • funds/compartments targeting specific sectors/ investor risk profile

❖ regulatory framework
  • funds regulated by capital market authority

❖ investment strategy
  • SIF to invest as GP in infrastructure fund
  • SIF to invest as LP in SME PE/VC funds managed by private manager and GP
Section 3: The role of SIFs  (cont’d)

- human resource strategy
  - recruitment from private sector (investment banking, project finance, private equity/venture capital) through international private recruitment agency

- project selection criteria
  - double trigger: IRR/ERR

- fund manager remuneration
  - fund management fees, share of carry, hurdle rate

- preliminary market sounding
  - international and domestic institutional investors incl pension funds, insurance companies, sovereign wealth funds (SWFs), private equity and debt funds
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