

# Can We Create a VC Industry?

## Some Experiences and Policy Implications

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*Innovating and Increasing Venture Capital and Venture Business*

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## A Perception

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“Many governments today are striving to promote entrepreneurship and venture capital investment. Numerous *failed* experiments around the globe over the past three decades make clear that there are no easy recipes to accomplish these goals.” (Josh Lerner, Harvard Business School)



# Many Issues Facing Us

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- ❑ Adverse Selection
- ❑ Moral Hazard
- ❑ Crowding out
- ❑ Political Influence
- ❑ Scarce Supply of Risk Capital
- ❑ etc.....



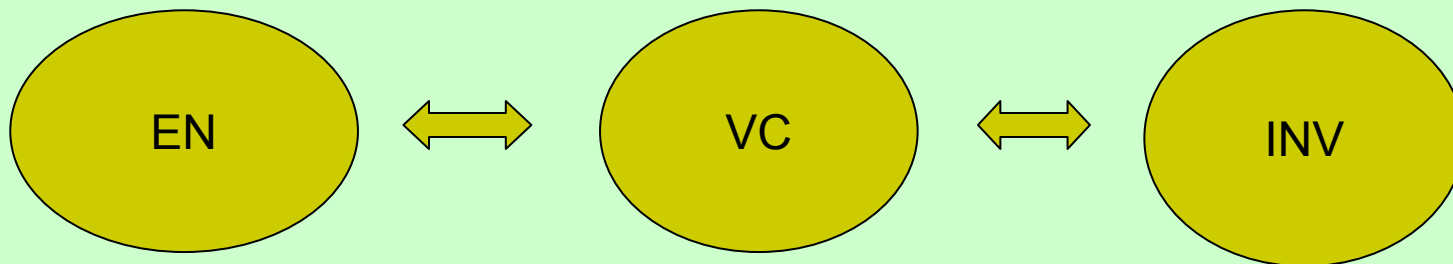
# Different Types and Contexts

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- ❑ Seed, Early, or later Stages
- ❑ Necessary-base or Professional-base Entrepreneurs
- ❑ Institutional or Individual Final Investors
- ❑ Country-Specific Macro Economic Conditions

# Basic Structure

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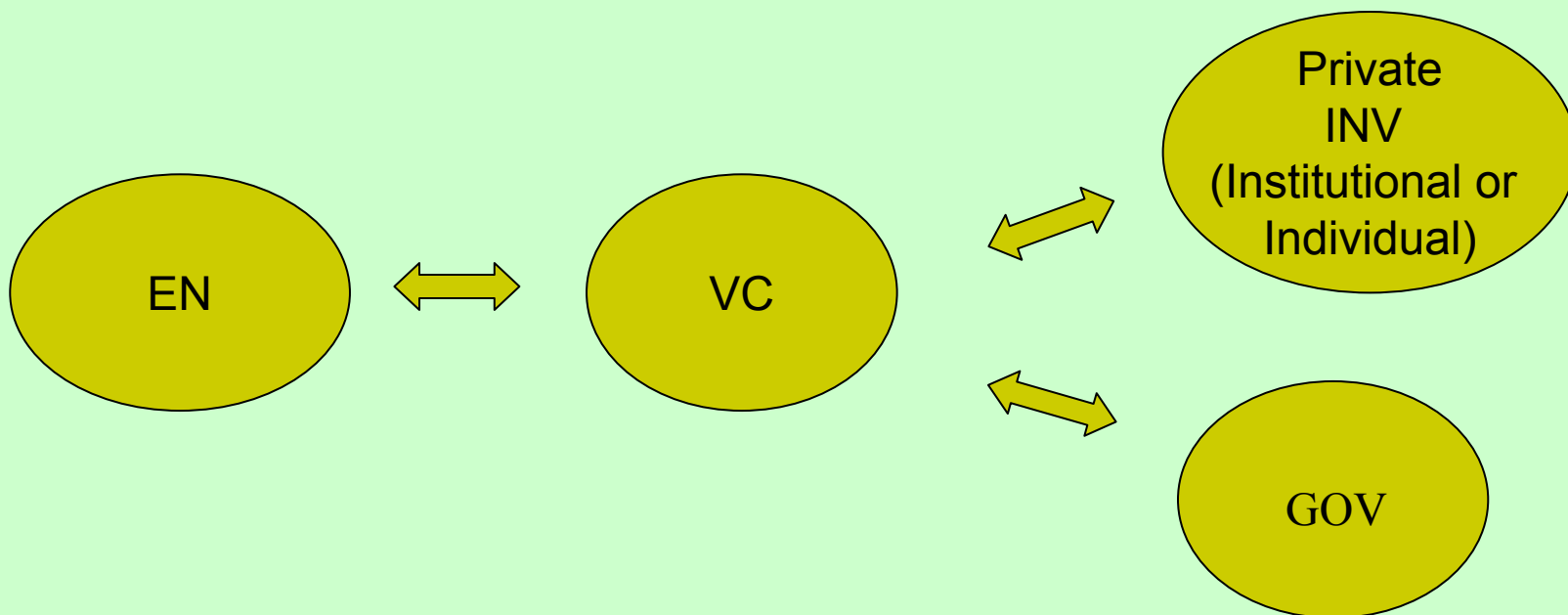
EN: Entrepreneur

VC: Venture Capital Fund

INV: Investors

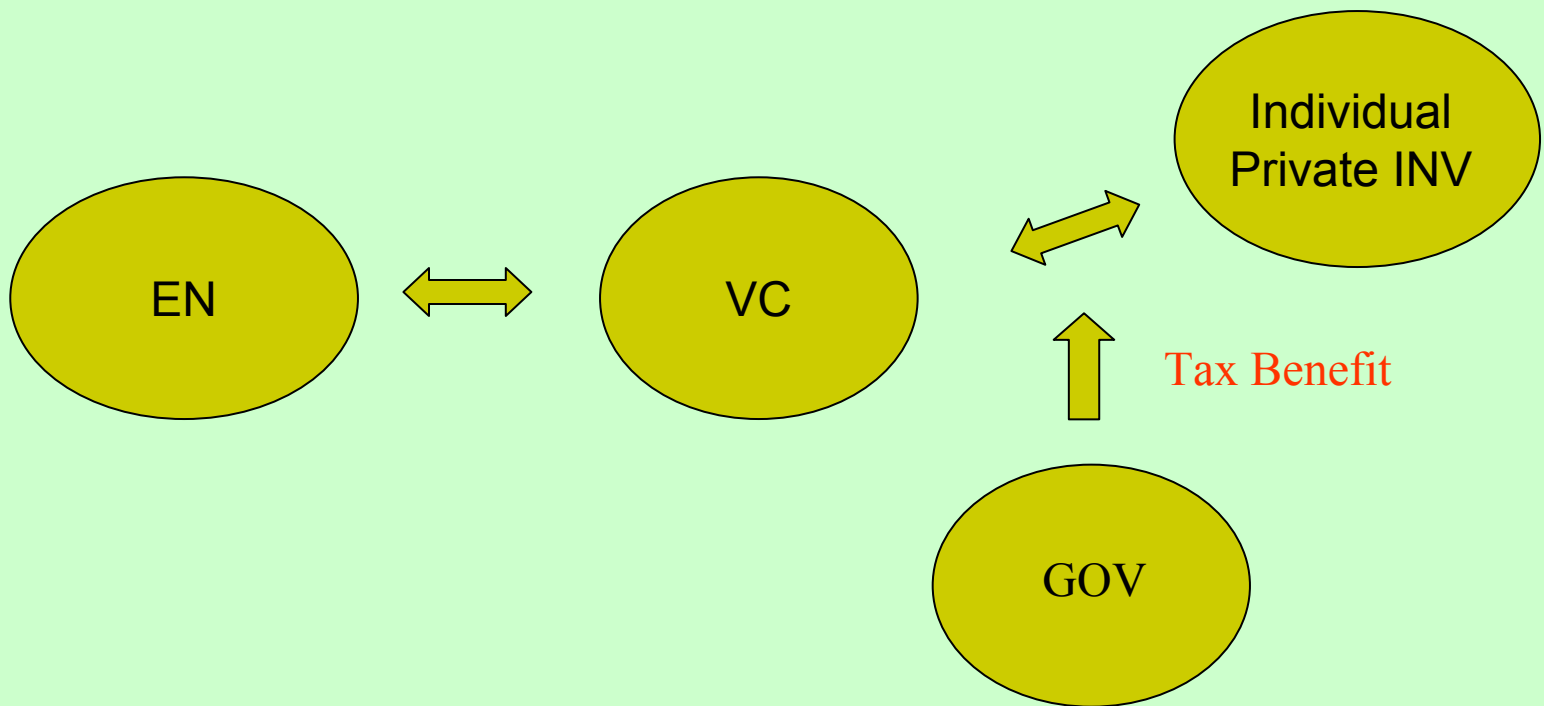
# Hybrid Fund

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# Labor-Sponsored VC (LVC)

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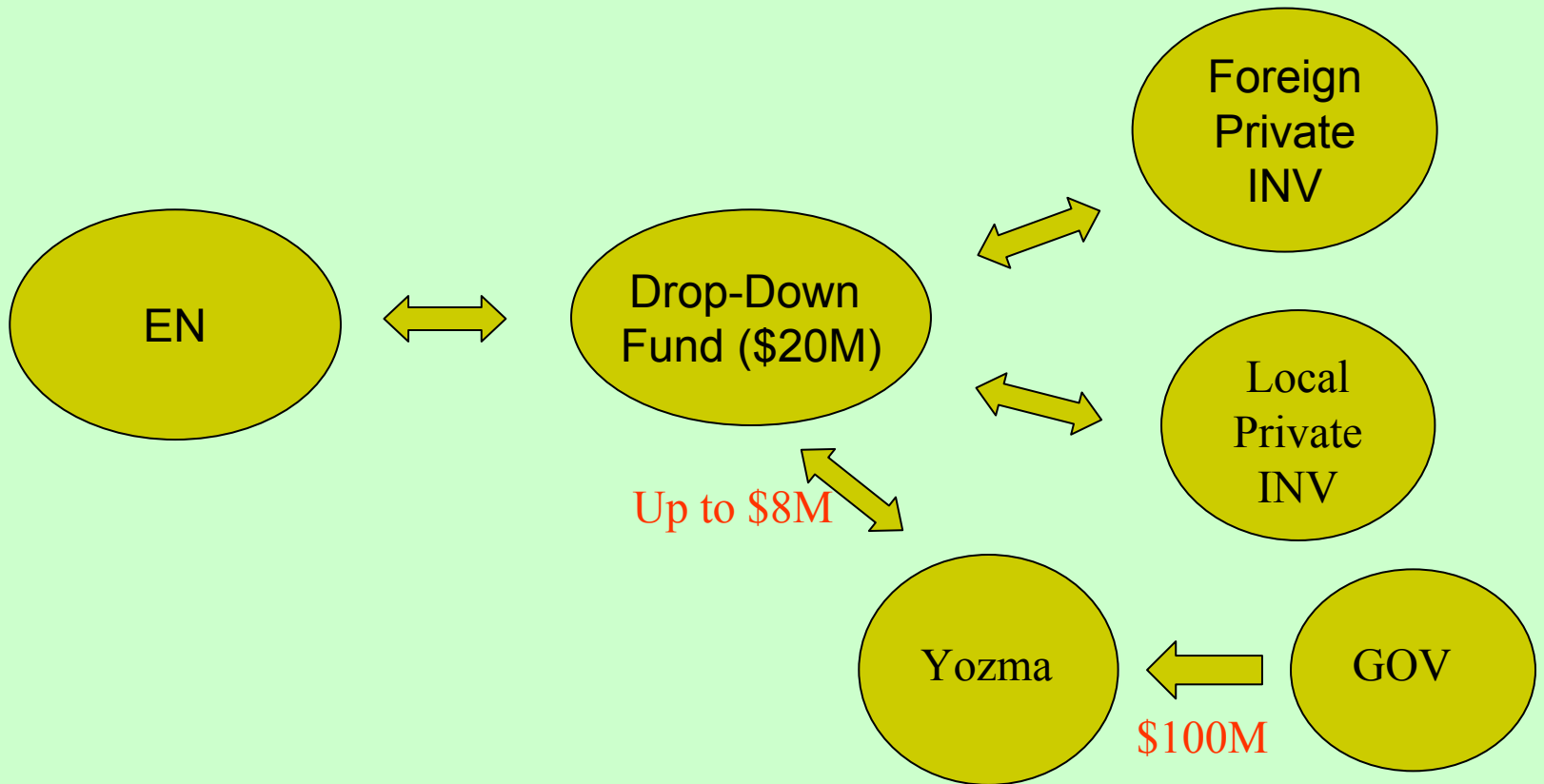


# LVC – Canadian Experiment

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- ❑ The concept was introduced in the province of Quebec in 1983
- ❑ Tax-driven vehicle
- ❑ Union-sponsored
- ❑ Raises its money from individuals (max. \$5,000 per person per year)
- ❑ Investment is encouraged by federal and provincial tax credits (15% each).
- ❑ Location: Investment must be in province where money is raised

# Yozma - Israeli Experience



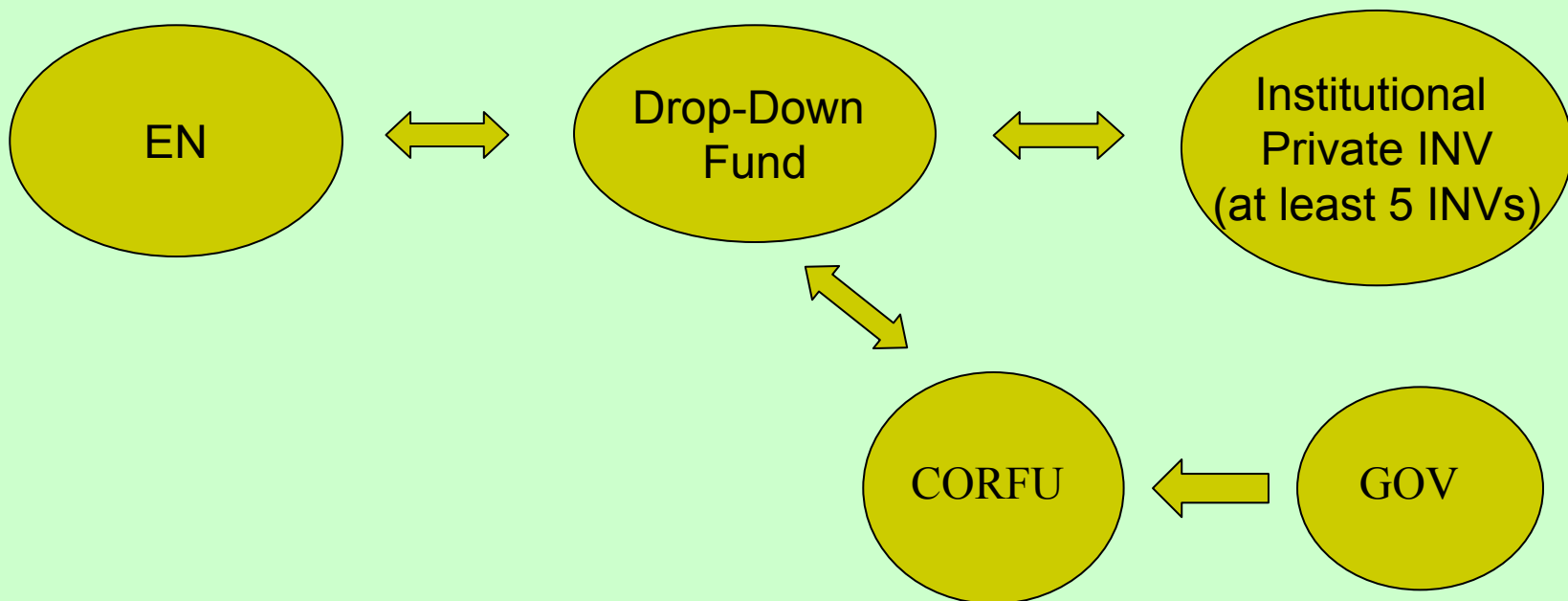
# Yozma

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- ❑ In 1993 Israeli government established fund-of-funds Yozma (Hebrew for “Initiative”).
- ❑ Each drop-down fund got money from both foreign investors and local institutions.
- ❑ Each fund had to raise a minimum of \$12M from private investors. Government investment are not allowed to invest more than \$8M per fund.
- ❑ Each fund must provided private investors with a 5 year option to buy the government shares.

# CORFU – Chilean Program

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# CORFU

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- ❑ A cap on return to CORFU
- ❑ Leveraged higher return to private investors
- ❑ GP is requested to invest at least 15% of its own total assets
- ❑ Each fund must either have at least 5 unrelated investors, each holding at minimum 10%, or at least one institutional investor holding at minimum 20%.

# CORFU

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- ❑ A cap on return to CORFU
- ❑ Leveraged higher return to private investors.  
(Good incentives on the upside to private investors)
- ❑ GP is requested to invest at least 15% of its own total assets. (Avoid moral hazard of GP)
- ❑ Each fund must either have at least 5 unrelated investors, each holding at minimum 10%, or at least one institutional investor holding at minimum 20%.  
(Avoid weak monitoring)

# CORFU

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- Got the structure very right, with additional incentive mechanisms.
- However, the program did not work.
- Maybe due to lack of deal flows.
  
- What can we do?