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Venture Funding Challenges in Emerging Economies

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David Frankel, Founding Partner at Altirah Capital, suggests that in established venture environments, VC investors and entrepreneurs share common assumptions about what makes a fair investment deal. In emerging economies these rules of thumb have not been established and so raising money can take more time or be more challenging.

Transcript

It's such a crux question because you look at the U.S.. environment and the efficiency and the frequency of which deals take place, particularly in places like New York, Boston, Palo Alto, is a function of how institutionalized this market is where most venture capitalist's early stage will look at at a particular business, they'll say, "Okay, first time entrepreneurs, etc.. Pre-money of maybe maximum 3 million dollars." Exactly what I said earlier, the second time an entrepreneur comes along, "Great idea." You love everything else, maybe pre-money of 8 million dollars.. These are real rules of thumb.. The interesting thing is that in an entrepreneurial environment, if you talk to fellow entrepreneurs--that kind of rule of thumb is in place as well.. So what you get is this immediate zone of fairness or zone of overlap if you want where people aren't coming, "I've done a deal in Boston.. I've gone back to Johannesburg.. Seen a very very similar deal in terms of stage." Off of the exact same deal, an entrepreneur stood up on the table and said, "You're trying to steal my business." I think that speaks to the difficulties of emerging market environments.. It's just not enough.. There are not enough role models..

There are not enough venture capitalists, institutional venture capitalists as opposed to high net worth X entrepreneurs or angels, etc.. that just starts to smooth in this process.. So that's where using an Endeavor is fantastic.. It's unbelievable to have access to this kind of network if you're in a developing market.. But I'd say the crux of that is a term sheet negotiation is this unique dance.. It's like this culture.. You've got to be thinking of the subtext all the time.. If you're not meeting minds on some of these things and they're critical issues, the chances are - and there isn't all this muscle memory that regulates it - the chances are you either walk away from the deal really quickly or all the chances are it's just not going to work in the long term because you're not seeing eye to eye on these things.. It's much more inefficient.. It can work but, it came out earlier, you got to read the signs..

I think good entrepreneurs and certainly good funders of early stage ventures in emerging markets tend to walk away, speaking for ourselves, walk away pretty quickly.. If there isn't a meeting of minds, maybe six months later, you'll say, "Well, let the market tell this guy what it's worth." Maybe he finds a very wealthy investor or something like that, it's just that much more inefficient and tough...