

(Read ebook) Private Equity Investments in Emerging Markets

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*Benjamin Heckmann*

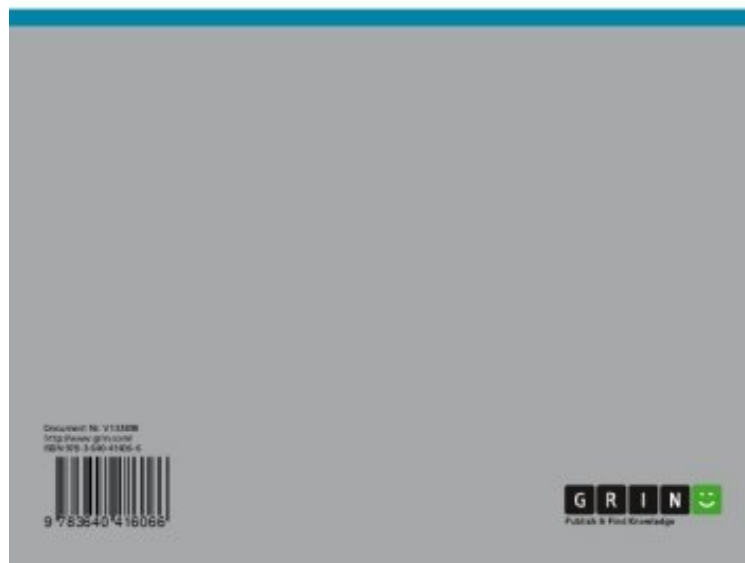
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Seminar paper



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Seminar paper from the year 2007 in the subject Business economics - Business Management, Corporate Governance, grade: 2,0, University of Muuml;nster (International Management), course: Seminar International Finance, language: English, abstract: The paper deals with Private Equity Investments in Emerging Markets. This asset class is associated with attractive opportunities and appropriate risk-adjusted returns. The Private Equity industry in Emerging Markets showed strong growth over the last few years ndash; after a period of disappointment and unmet expectations.Private

Equity is a primary source of equity for small and medium sized companies. It is associated with higher default risk but offers the opportunity to receive higher returns. One special characteristic is the provision of 'smart money', the integration of investment banking and management consultancy. The environment of Emerging Markets is challenging. The term refers to capital markets in developing countries with outstanding growth opportunities. 35 countries from Latin America, Central and Eastern Europe, Asia, Middle East and Africa belong to the group of Emerging Markets. These markets are characterised by weak legal institutions, political and economic risk, dysfunctional capital markets and a low standard of corporate governance. The combination of the high risk asset class Private Equity with the high risk environment of Emerging Markets results in high risk investments. But the superior return opportunities attract more and more investors. After a period of disappointment and setbacks due to an inappropriate approach; at the beginning of the 21st century this asset class took off. Fundraising figures from 2003 to 2006 are increasing strongly and the investors expect the growth to continue. The macroeconomic environment, the legal framework and the quality of capital markets are the main determinants for Emerging Markets Private Equity. The introduction of good corporate governance is essential for the provision of a hospitable investment climate. If the legal framework is weak, efficient governance structures can serve as a substitute. Intensive due diligence, monitoring, involvement, networks, diversification and exiting are the key success factors for Private Equity firms engaging in Emerging Markets. With an appropriate adjustment of the strategy, risk can be mitigated and the investment is likely to be successful. Emerging Markets Private Equity can be beneficial for both the investors and the entrepreneurs. Especially small and medium sized enterprises and family-owned companies in Emerging Markets benefit from this source of equity while investors receive potential extraordinary returns and diversify their portfolio.