Determinants of a good Regulation system in venture capital: a comparison of the East and West Africa and the European Union.

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Abstract: Venture capital regulation is an area of interest and concern in many parts of the globe. Using the European Union, East Africa and West Africa, this paper gives a discussion of venture capital employing a comparative lens. In the process it reveals that venture capital on the African continent is relatively new. In spite of this, it is growing albeit with attendant challenges such as low competitiveness. In contrast, venture capital in the European Union has enjoyed a longer lifespan. However, the experiences and performance of venture capital in that part of the world have tended to vary with some economies faring much better than others. In regulatory terms, this has not had much effect as concerns are generally similar across all geopolitical areas. It is the institutional differences which however appear to tip the scales in favour of one region over another, resultantly, it is advisable to attend to such institutional issues for better growth.

Keywords: venture capital, neoliberalism, entrepreneurship, regulation, private equity.

Introduction
Entrepreneurship is lauded as one of the leading instruments through which economic inclusion can be achieved while also contributing towards economic growth. Among some of the various vehicles through which entrepreneurship is practised is the creation of new innovative business. However, a major stumbling block for such businesses often is acquisition of capital by entrepreneurs. Difficulties tend to vary across geopolitical spaces. In addition to the challenges/ease of access to capital, regulations equally tend to vary from economy to economy. Comparative analyses are likely to be difficult given the differences. However, they are not impossible. This paper assumes a comparative stance using three geopolitical areas namely: east Africa, West Africa and the European Union. It considers the determinants of a good regulation system in venture capital. In making the discussion, the paper does away with the distinction between forms of venture capital – more for the sake of convenience more than as a way of conceptualising venture capital anew. Hence, the paper does not employ the distinction made by Vermeulen & Nunes (2012) where types of venture capital include corporate venture capital and government venture capital. Instead, a broad conception of venture capital is employed.

Modern venture capital was the brainchild of Harvard professor Georges Doriot, Karl Compton, Merrill Griswold and Ralph Flanders (Bottazzi & Da Rin, 2002). According to WordWeb dictionary1, venture capital is wealth available for investment in new or speculative enterprises. Venture capitalists are ‘particularly oriented towards financing the early stages of an enterprise’s existence, including seed financing, start-up and spin-off of new products, services or processes, mainly in sectors that are strong in scientific research or technology’ (Gai, et al., 2010). Venture capital (VC) firms are experts at solving problems of moral hazard and asymmetric information and thereby earn their keep by bridging the gap between financiers and entrepreneurs (Lerner & Ta, 2013). Venture capital provides finance to undertakings that are generally very small, that are in the initial stages of their corporate existence and that display a strong potential for growth and expansion. In addition, venture capital funds provide undertakings with valuable expertise and knowledge, business contacts, brand equity and strategic advice (Official Journal of the European Union, 2013). While venture capital is commonly associated with America’s Silicon Valley and other western economies which employ to varying degrees economic liberalism, its footprint is recognised on the African continent as well.

1 WordWeb (2008) version 5.52
Among the oft-repeated recommendations for reform in developing economies is the neoliberal approach characterised by among many other prescriptions, deregulation of markets (William, 2014). According to the neoliberal agenda, deregulation is a necessary precondition to ensuring broad economic participation and progressively towards attaining economic growth. This is because regulations and institutional impediments can discourage risk-taking either in establishing new ventures or expanding existing activities (Baygan & Freudenberg, 2000). For some African countries, the neoliberal prescriptions are restrictive and construed as difficult to implement. This is largely because of the proliferation of nascent industries which require protection, are exposed to limited sources of capital and generally tend to have lethargic uptake of technologies which often translates into a backward entrepreneurial space. In spite of the lethargic pace of formal business entrepreneurship in some parts of Africa, the informal sector as an entrepreneurial hub is very vibrant, dynamic and diverse. Numerous studies have attended to rural and urban informality across the African continent (Dhemba, 1999; Debrah, 2007; Potts, 2008; Osei-Boateng & Ampratwum, 2011; Ndabeni & Maharajh, 2013). Hence, entrepreneurship is active and well-researched albeit with a large representation being in informal sector entrepreneurship.

At this point, it is important to emphasise why regulation of VC is of concern. For a start, the legal environment in a country matters for venture capital activities because it affects the extent to which efficient contracts between venture capitalists and entrepreneurs can be written and enforced (Lerner & Ta, 2013). The level of investor protection provided by a country’s legal system is certainly a major factor in the development of the VC industry. Without strong legal systems, VC managers become too heavily dependent on prior relationships in selecting new ventures (Bruton, Fried, & Manigart, 2005, p.751). In addition, there is inevitably a high degree of information asymmetry between the fund managers, who play a relatively active role in the development and growth of portfolio companies, and the passive investors, who are not able to closely monitor the prospects of each individual start-up” (Vermeulen & Nunes, 2012). This discrepancy leaves one party (investors) exposed to the actions of fund managers. In addition to and associated with the concern for investor security is the need to hedge against systemic risks. Financial markets tend to be susceptible to systemic risk due to such patterns as herd-behaviour and interconnected financial products. A prime modern example of this is the global financial crisis which started with prime mortgage crises in the United States but went on to ravage bond and capital markets in Europe. Lastly, regulatory changes affecting pension funds, capital gains tax rates, overall economic growth, and research and development expenditures—as well as firm-specific performance and reputation—affect fundraising by venture capital organizations (Gompers & Lerner, 1999). An alteration in the regulatory framework will likely have downstream effects in the sector with different effects accruing. Clearly, a symbiotic relationship exists between regulatory institutions and venture capital performance (Jeng & Wells, 2000). Citing numerous studies, several studies show that the level of VC activity depends on the development of financial markets, quality of specific regulatory policies such as labour market regulations, tax policies, government sponsored funds and programs, and bankruptcy laws (Li & Zahra, 2012).

Given these concerns over venture capital, the paper will discuss effective regulation in various economic zones. The following sections are structured as follows: the first section outlines the methodology employed. A discussion of venture capital in Europe is made thereafter, looking at the challenges and structure. This is followed by a similar section which focuses on venture capital in western and eastern Africa. Thereafter, the regulation environment and challenges within it will be analysed in comparative terms. Conclusions mark the end of the paper.

Methodology
The paper is hinged on an extensive use of secondary data sources largely derived from electronic platforms as well as academic books from libraries. The literature sourced from the internet was selected first by typing into Google Scholar combinations of select keywords either prefixed or ending with the geopolitical location. For example, the keywords utilized were ‘regulation’, ‘venture capital’, ‘private equity’ were combined such that a search could be input for ‘venture capital regulation east Africa’ and so forth. Only articles from peer-reviewed journals which employ a blind-review were utilized. Thereafter, reports and news articles were relied upon in the case of East and West Africa were reviewed. Lastly, books which appeared online and were accessible to the researcher were utilized as part of the research. Evidently, this method was purposive in its sampling frame of literature. After reviewing the literature, comparisons in the geopolitical locations identified were made on the basis of the two bases identified by Vermeulen & Nunes (2012)—see the section titled ‘regulating venture capital: a comparison’.
Venture capital in Europe

Initial VC activity occurred in the late 1970s in the U.K. and in the early 1980s on the continent of Europe (Bruton, et al., 2005). Of course this general picture is not necessarily specific in historical terms for all countries. For example, Sweden began participating in VC activity as early as the UK. At this stage, we are not overly concerned with the historical trajectory and developments. Instead, the focus is on the nature, regulatory framework and structure of VC activity on the European escarpment. However, before turning to the structure and nature, it is important to note that since the early forays in the early 1970s and 1980s, volumes of capital have increased. The surge in new capital during the 1980s for instance was mainly attributed to regulatory changes, which allowed pension funds to invest in venture capital markets (Baygan & Freudenberg, 2000). Volumes of capital funnelled through venture capital also tend to vary across countries even within the same economic bloc. For example, when presented as a percentage of GDP, they range from close to 0% for Hungary to over 0.7% in the case of Sweden (Cumming & Johan, 2009). To emphasise this point, Figure 1 below shows the general upward trajectory of venture capital firms by location between 1991 and 2000.

Figure 1: Venture Capital Firms US & EU

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>EU</th>
<th>UK</th>
<th>Germany</th>
<th>France</th>
<th>Sweden</th>
<th>Italy</th>
<th>Belgium</th>
<th>Spain</th>
<th>Nether.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>389</td>
<td>163</td>
<td>42</td>
<td>11</td>
<td>30</td>
<td>1</td>
<td>10</td>
<td>12</td>
<td>5</td>
<td>21</td>
</tr>
<tr>
<td>1992</td>
<td>397</td>
<td>161</td>
<td>38</td>
<td>15</td>
<td>29</td>
<td>2</td>
<td>12</td>
<td>11</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>1993</td>
<td>401</td>
<td>159</td>
<td>40</td>
<td>13</td>
<td>29</td>
<td>3</td>
<td>11</td>
<td>12</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>1994</td>
<td>400</td>
<td>162</td>
<td>42</td>
<td>15</td>
<td>27</td>
<td>5</td>
<td>11</td>
<td>14</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>1995</td>
<td>425</td>
<td>169</td>
<td>40</td>
<td>18</td>
<td>32</td>
<td>5</td>
<td>11</td>
<td>13</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>1996</td>
<td>460</td>
<td>176</td>
<td>42</td>
<td>20</td>
<td>31</td>
<td>4</td>
<td>13</td>
<td>13</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>1997</td>
<td>507</td>
<td>184</td>
<td>52</td>
<td>27</td>
<td>32</td>
<td>5</td>
<td>12</td>
<td>16</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td>1998</td>
<td>547</td>
<td>210</td>
<td>61</td>
<td>36</td>
<td>33</td>
<td>7</td>
<td>12</td>
<td>17</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>1999</td>
<td>620</td>
<td>331</td>
<td>79</td>
<td>51</td>
<td>48</td>
<td>11</td>
<td>16</td>
<td>23</td>
<td>14</td>
<td>32</td>
</tr>
<tr>
<td>2000</td>
<td>693</td>
<td>424</td>
<td>90</td>
<td>75</td>
<td>59</td>
<td>22</td>
<td>19</td>
<td>30</td>
<td>17</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: Bottazzi & Da Rin (2002, p244)

With the rise in capital as well as business activity has been an increased interest in regulating the sector. In Europe, the EU Financial Regulation has applied since 1st January 2013, and is accompanied by new Rules of Application (European Commission, 2016). The regulations focus on diverse matters pertaining to operations and administrative issues concerning VC ranging from operational definitions, scope, ethics and activities. Out of these regulations have emerged ways of assessing the regulatory fit in individual countries. Much like the ‘Doing Business’ reports compiled by Bretton Woods Institutions, indices capture the openness of economies on a scale. Figure 1 below reveals the regulatory framework indices for select countries in the European Union.
Figure 2: Regulatory Framework in Selected Member States

<table>
<thead>
<tr>
<th>Country average</th>
<th>U.K.</th>
<th>Germany</th>
<th>Italy</th>
<th>Belgium</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.) Fund structure issues</td>
<td>1.0</td>
<td>1.3</td>
<td>1.0</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>1.a) Suitable fund structure exists</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1.b) Tax transparent, domestic</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>1.c) No VAT on management fees</td>
<td>1.0</td>
<td>3.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1.d) No undue restrictions</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1.e) Perm. establishment avoidable</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1.f) Tax transparent, non-domestic</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2.) Entrepreneurship</td>
<td>1.2</td>
<td>1.2</td>
<td>1.7</td>
<td>1.3</td>
<td>2.0</td>
</tr>
<tr>
<td>3.) Economic environment</td>
<td>1.1</td>
<td>1.4</td>
<td>1.9</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>4.) Support scheme for YIC</td>
<td>1.0</td>
<td>3.0</td>
<td>3.0</td>
<td>1.0</td>
<td>3.0</td>
</tr>
<tr>
<td>5.) Exit possibilities</td>
<td>1.4</td>
<td>1.6</td>
<td>1.7</td>
<td>2.0</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: (Tykvová, Borell, & Kroencke, 2012, p.51)

EVCA is as follows: a score of 1 is assigned if a country satisfies a requirement overall, i.e. the country is close to best practices. A score of 2 is assigned if there is room for improvement with respect to this requirement. A score of 3 is assigned if the requirement is not fulfilled (bad practices).
Most countries in the European Union have in place market-driven economies. While such economies are not free-market in strict economic terms, they are relatively open by global standards. As a result, there is consistency in terms of the economic frameworks and business structure. However, as the figure 1 above shows, there are quite significant inconsistencies across countries when the regulatory structure of VC is considered. For instance, the United Kingdom has a much more satisfactory, accommodating and attractive structure compared to Poland. With regards to structure, Jeng & Wells (2000) note that in the US and UK, firms are organized as limited partnerships, while in France and Germany they have a different organizational structure with far more involvement of banks. These structures include limited liability partnership as well as formalisation as trusts and holding firms in other areas.

Participation in and the structure of VC activity in Europe is not necessarily uniform. This is evident in the differences which pervade markets such as Germany, Italy and France in such areas as bank involvement and extent of regulation. In addition, there are subtle differences in terms of government involvement. Making this point Lerner & Ta (2013) state that whereas the first US venture firms were private initiatives, in Sweden, the government was heavily involved from the start. Furthermore, in the study by Tykvová, Borell, & Kroencke (2012) it was observed that of the five Member States analysed, the United Kingdom reaches the highest levels of fundraising and investments (in absolute and relative terms) in all years under focus (with the exception of the year 2008, in which the absolute fundraising level of German funds exceeded that of UK funds). They add that the smallest VC industry is found in Poland and Italy.

Although VC has a relatively long history in Europe (at least when compared to Africa), the regulatory environment is still in its infancy. As such, numerous codes are still being fashioned to tackle challenges embedded within the system. Leading challenges in the regulation environment for small enterprises in Europe include:

- Access to financing
- Administrative regulations
- Lack of skilled labour
- Implementing new technology
- Infrastructure
- Quality assurance
- Changing organisation of production

The challenges affect venture capitalists just as they affect other entrepreneurial ventures. As a result, the appetite for VC activity is affected when above listed issues are left unattended. Resultantly, regulation is a central concern within the European union as it is deemed crucial in ensuring synchronisation in the sector as well as effectiveness and efficiency for businesses. To this end, in the European Venture Capital system, regulation has been promoted as necessary for the purposes of ‘EuVECA’ qualifying venture capital funds, in particular the composition of the portfolio of funds that operate under that designation, their eligible investment targets, the investment tools they may employ and the categories of investors that are eligible to invest in them by uniform rules in the Union (Official Journal of the European Union , 2013). In addition to these, the European Union has also adopted the Alternative Investment Fund Managers Directive (AIFMD) which aims to regulate management as well as marketing of AIF.

The regulations presented in the Official Journal of the European Union (2013) cover a raft of issues. For example, ‘Article 5’ attends to capital and financing. ‘Articles 7, 8, 9 &10’ focus on ethics while ‘Articles 12 & 13’ address disclosure and transparency. Although these efforts are an attempt to ensure harmonisation, numerous challenges continue to plague the European Union’s regulatory framework on venture capital. These challenges have been summed up as follows:

- Access to VC in the EU is complicated, as markets are highly fragmented. Fundraising and cross-border investment is complex and costly due to legal and administrative barriers.

- Double taxation is a major barrier for cross-border VC. Double taxation and the uncertainty about tax treatments it entails can cause cross-border VC to be very costly and prevent the development of larger EU markets.

- The European Commission has recently encouraged the introduction of a European ‘passport’ for “European VC Funds” and VC managers. A voluntary registration has the potential to reduce cross-border VC complexity in a significant matter. As long as the European VC passport is not able to mitigate the problems associated with double taxation, tax issues remain an important threat to European cross-border VC which should be addressed in the future.
V Venture capital in East and West Africa

VC on much of the African continent is still in its infancy. VC funding specifically in the technology sector in East Africa is an even more recent development and has to a large extent been focused on Kenya (Gugu & Mworia, 2017). With much of the interest and activity from venture capitalists focused on technology in Silicon Savannah, it is clear that the sector is very new. While the sector is still very much in its nascent stage, funding actors in this region have contributed immensely in recent years. For example by 2015 $80 million VC fund backing had been allocated to the “New Stars” of East Africa through EIB’s Impact Financing Envelope (Novastar Ventures, 2015). In addition, more partners were coming to the fore such as CDC (DfID Impact Fund), Norfund, FMO, Proparco, JP Morgan, AXA, DGGF, Triodos Bank, family offices and HNWIs.

The East African bloc is a combination of five countries with different norms, legislation, and entrepreneurial cultures (Autio, et al., 2013). In general terms, regulating VC in the east african economic appears to be a hinderance especially for general partners. Gugu & Mworia (2017) observe that all of the investment funds in their sample were incorporated outside East Africa, mostly in European countries. Presumably, this is not only due to the legislative terrain but differences in approach and methods in structuring deals as well as cost structures and tax incentives.

The West African experience mirrors that of Eastern Africa in some respects. For example, VC is a relatively new approach in West Africa. However, with Nigeria being a dominant player in the continent’s economy, volumes of VC financing are skewed in favour of west africa.

Regulatory challenges notwithstanding, a plethora of normative codes for VC regulation has been identified and it advocates for the following matters in the system:

- Availability of a suitable fund structure
- Tax transparency for domestic investors
- Avoided value-added tax on management fees
- No undue investment restrictions
- Avoiding a permanent establishment
- Tax transparency for foreign investors

A normative position may not be enforced in practise. However, it points towards the direction which ought to be embraced according to policymakers. By highlighting what should be in place, the areas of concern among regulators are made clear. In addition to the above-listed best practices, Tyková, Borrell, & Kroencke (2012) add that improvement can be made through supporting entrepreneurship (cultural and legal issues, e.g. bankruptcy), offering an economic environment (labour market, bureaucracy, corruption), providing schemes to support young and innovative companies (YICs) and providing exit possibilities.

3 “EVCA: Benchmarking European Tax and Legal Environments 2008” report.

4 East Africa in this paper is construed to mean the East African Community which includes Burundi, Kenya, Rwanda, Tanzania, and Uganda. These different economies have differing experiences with VC and therefore those which have enjoyed more will be attended to. Such an approach will admittedly focus on bigger economies such as Kenya at the expense of smaller ones. However, such an approach remains sufficient for the analysis made here.

5 West Africa in this paper is construed to mean members of the Economic Community of West African States (ECOWAS). These states include Benin, Cote d’Ivoire, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo and Burkina Faso.
distributions is such that Nigeria receives the highest number of VC investments while Kenya enjoys the most foreign-based investments (Mohammed, 2015). Other countries such as Benin have made recent efforts aimed at becoming fierce competitors for capital (Alexander, 2017). Indeed, participation in West African economies has been immense as Figure 3 below reveals.

![Figure 3: Private Equity/Venture Capital Focus in West Africa](source: Dahlberg (2011, p.32)

The figure above shows a combination of private equity and venture capital projects in each country within West Africa. A caveat regarding Figure 3 above is necessary at this point; the figure comprises combined figures and only recognizes numbers of projects and not their value. As a result, it does not reveal the volume of capital pertaining to VC specifically—a situation which would alter the picture portrayed by the figure. Having laid this clarification out, it must be realized that quantitative elements alone are inadequate in drawing out a clear picture of the VC terrain in West Africa. Technical issues as well as regulatory measures also play a key role in outlining how VC is formed. In Nigeria, regulatory authorities outline the need for technical support and ‘for compliance as a measure of raising the standard of VC participation and for enriching the benefiting organisations’ technical capacity to deliver’. Furthermore, Small and Medium Enterprises Equity Investment Scheme (SMEEEIS) represents the major institutional framework for the promotion of VC financing (Dagogo & Ollor, 2005).

Furthermore, there are regulations which have been stipulated by Nigerian authorities to ensure that:

- All private equity and VC fund managers must register with the Securities and Exchange Commission (SEC) if the fund is domiciled in Nigeria and are subject to rules around market restrictions, investment limits, valuation standards and capital requirements.
- VC fund managers must comply with anti-money laundering/combatting financing of terrorism standards.
- VC funds can be structured as limited liability partnerships.
- Interests in VC are to be carried out as private offerings and not an invitation to the public (Abayomi-Olunkule, 2017).

While the regulations outlined here pertain to Nigeria, they are generally consistent with the outlook within the region. Part of the reason is that concerns within the financial sector emerge from common challenges attendant to the region.

Regulating venture capital: a comparison

While this paper focuses on regulation of private equity financing in the form of venture capital, it does so with the recognition that regulation itself is not a panacea. Indeed, writing on regulation in venture capital, Lerner (2002) observes that the mere suggestion of regulation in finance would most likely arouse scepticism among financial economists. As has already been noted of neoliberal economics, deregulation is the more fashionable approach and prescription in western economies. In spite of the reservations which some economists may have, the paper considers regulation due to its importance in crafting institutions through which intermediation is exercised. As Cumming & Johan (2009) observe in a study of Dutch regulation in the VC space, Dutch institutional investor participation in private equity is negatively affected by the comparative dearth of regulations in private equity. In general, there are four major differences in the regulatory frameworks of countries. These are underlying legal philosophy, legal protections for investors, legal enforcement, and the fundamental nature of the capital market system (Bruton, et al., 2005).

Regulations of investment capital can be viewed from either one of two perspectives; those which (1) seek to reduce systemic risk and promote the stability and efficiency of the financial markets, and those which (2) are expected to boost the venture capital industry (Vermeulen & Nunes,
Curbing systemic risk and promoting the stability and efficiency of the financial markets

The regulations which apply in Europe, East Africa and West Africa and have been identified in earlier sections can in part be comparatively assessed by looking at how they attempt to curb risks in the system as well as stability within the financial system. In all the selected regions, measures have been instituted to varying degree to ensure that ethical conduct and transparency. In all regions, the volumes of capital prescribed by fund managers and the scope of the fund managers is stipulated. Not only are regulations in place to ensure that non-speculative activities are made but clarification of the offering is also explicitly identified particularly in the case of the European Union. Related to this same matter is the Nigerian experience which revealed that fund managers are required to register their operations with the SEC. As such, any hint of activities which breach the regulations stipulated in such financial control organisations are easily identified.

Regulations to boost the venture capital industry

Regulations aimed at stimulating more activity within the industry tend to assume a broad raft of instruments. These include among others those tied to fiscal policy as well as those tied to economic reforms. For example, in both the African economies which have been considered, a key factor which determines activity is the level of taxation. As has been recognised earlier, Kenya loses out on attractiveness due to among other factors- taxation while the same factor has resulted in Ghana attracting funds at the expense of other West African economies. Similar comparisons prevail within Europe where the UK is more attractive compared to locations such as Poland and Germany. A cross-regional comparison reveals that fund managers with interests in Kenya are mostly located outside the east African economy, largely in Europe. The reason for this are institutional factors which include tax, regulation and those associated with ease of doing business. Due to variances within the European market, some economies gain capital while others miss out. Furthermore, havens such as the Seychelles and Cayman islands also compete with the lure of Europe.

Conclusion

The paper has discussed venture capital (VC) within the context of three different geopolitical areas. Focusing on the European Union (EU), East Africa and West Africa, the paper has identified the structure and regulatory environment within these regions. With the popularity of VC on the ascendency in all three regions, the paper has noted a need for regulation. The EU has a more vibrant regulation system compared to the west and east African areas presumably because of the latter two’s relative infancy. However, instruments have been instituted in all areas to ensure that (1) there is reduced systemic risk and financial markets are stable and efficient as well as (2) a boost to the venture capital industry. In this regard the regulations of all areas coincide to meeting these objectives. However, differences in some institutional factors such as taxation levels means that the competitiveness of regions such as Kenya – in relation to the EU – are diminished. As such, it would be prudent to ensure that regulations and tools available to authorities such as fiscal policy are in sync.

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