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Venture capital fuels Latin American entrepreneurship

By Boris Hirmas
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Venture capital has begun playing an increasing role in fueling the Latin American region's entrepreneurial endeavors.

In its 2011 Scorecard, the Latin American Venture Capital Association estimated that funding for venture capital and private equity deals in Latin America more than doubled from 2009 to 2010, topping $8.1 billion. Of the 12 nations in the region evaluated by the association, Chile, Brazil and Mexico respectively scored highest on a range of criteria that define a favorable investment climate, including political, legal, regulatory, tax and other risk measures.

Latin America (including Central America, Mexico and the Caribbean) is a diverse, dynamic market of nearly 600 million people, almost twice the U.S. and Canadian populations. While the region's $5.3 trillion 2010 GDP is just a third of those countries' combined GDP, prospects for the area's economic growth are bright, due to booming commodity exports and a rising middle class.

A United Nations study revealed that the number of Latin Americans considered "poor" declined from 44 percent of the population in 2002 to 32 percent in 2010. In effect, the region's market for middle-class consumption grew by 70 million people in just eight years.

For all that progress, Latin American venture capital investing lags behind countries such as the U.S., Europe, Israel and other major economies. That's partly due to the need for continued entrepreneurship support from governments, financial institutions and regulatory authorities. More fundamentally, however, Latin America's traditionally risk-adverse business culture must change its mindset to accept failure not as shameful defeat but as the price of eventual success.

Fortunately for the region, signs of entrepreneurship are growing. In a keynote speech at the Americas Venture Capital Conference in Miami last November, serial entrepreneur Wences Casares said that today, when he speaks before university-level business classes in Latin America, the number of students interested in starting their own companies is the highest he's ever seen.

"Fifteen years ago," he said, "everyone preferred working for large multinational companies or their governments."

As founder of two successful online businesses in Latin America, Casares also noted that technology allows startups to flourish with much less capital than more traditional brick-and-mortar businesses. What's more, Internet-based startups can transcend national boundaries in Latin America, effectively creating pan-regional markets where none existed before.

The Latin American Venture Capital Association has noted that the number of Latin America technology deals funded in the first half of 2011 rose 133 percent versus the year prior to nearly a third of all funded deals, far ahead of any other sector.

Miami serves Latin America as a wellspring of Angel and venture capital funding, thanks to a large expatriate community from the region that understands its history, traditions, culture, challenges and, above all, its potential. Miami's Angel and venture capital community has much more of a pan-regional view of Latin America's markets and cross-border business opportunities than in-country investors.

Given this broader perspective, Miami's Angel and venture capital community can provide Latin American startups with a more nurturing entrepreneurial environment and encouragement that's free of any national parochialisms that could hinder a new enterprise. For instance, a new venture in Chile aiming to quickly expand to other Latin American countries may receive pushback from its local Chilean investors.

The Miami Angel and venture capital community can also act as intermediaries with venture capitalists in Silicon Valley and elsewhere, providing introductions to Latin American entrepreneurs — along with guidance about navigating the region's challenging business environment.

That guidance can be vital to winning support in the United States. Latin American entrepreneurs who have traveled to Silicon Valley to pitch venture capitalism there, report a general lack of knowledge about the region. Certainly that's partly due to the overwhelming number of deals from within the Silicon Valley and elsewhere, where political, legal and regulatory risks are known and stable. After all, venture investing inherently involves high risks, so why add unknowns to the mix?

The answer to that question: Any Latin American entrepreneur making it past the seed stage has already met major challenges posed by their still-maturing Latin American business environment and that entrepreneur has a much greater chances of success. As that environment continues to mature, with risks better known and stabilized, the region itself will become ever more attractive to venture capitalist investments.

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