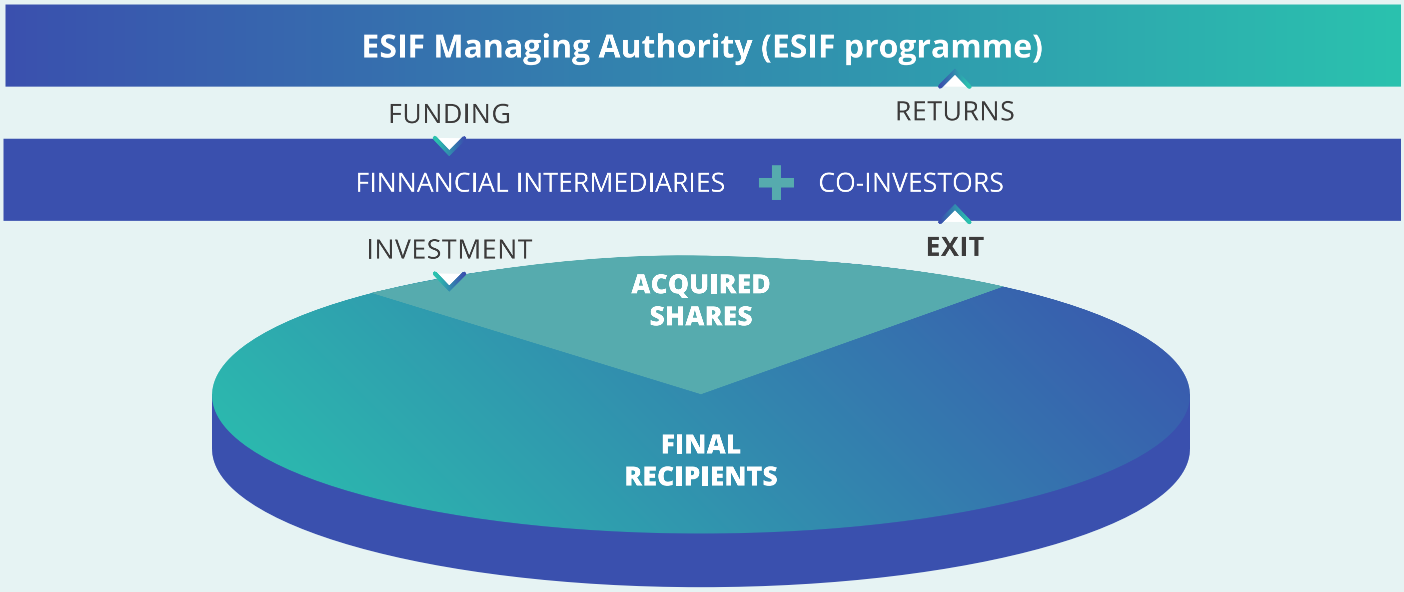
EQUITY

"Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits*".

How does it work?



TECHNICAL FEATURES

In equity investments the **exit** means the liquidation of holdings including a trade sale, sale by public offering (including IPO3), write-off, repayment of preference shares or loans, sale to another venture capitalist or sale to a financial institution. There is full insolvency **risk** for the invested capital in the target companies. Thus, a high risk is borne by the FI. However, this can be mitigated by portfolio investing and by having private sector co-investors.

PROS

1. There are higher potential returns compared to pure debt instruments.
2. Stimulates investment by local private equity industry also in riskier areas not previously serviced.
3. The need for equity investment might prompt changes in regulatory framework to encourage a private equity market.
4. The company can benefit from investor's management expertise.
5. Public investors can influence the configuration and mission of a company.

CONS

1. There is insolvency risk for all the invested capital.
2. Time-consuming and cost-intensive investment.
3. These investments are more difficult to administer than normal loans (high set-up and operational costs).
4. Short-term financing is not possible, since returns are feasible only in the long term.
5. Establishing the process for the investment can be challenging.
6. Compared to debt instruments, equity can be less atractive to FRs due to the obligation to yield control.