

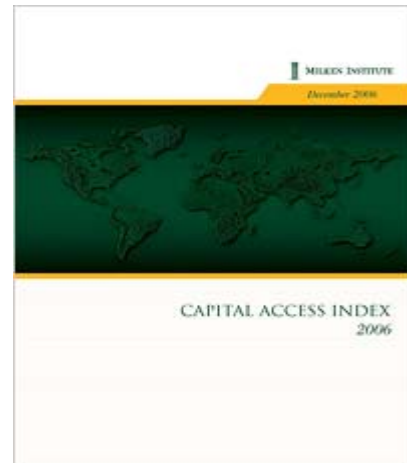


## Capital Access Index 2006: Best Markets for Business Finance

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The *Capital Access Index* ranks countries around the world in terms of the financial infrastructures that support entrepreneurial activity by providing access to capital. We look at such factors as macroeconomic environments, financial and banking institutions, the development of the equity and bond markets, and alternative capital sources. Because a firm's access to capital allows it to implement innovative ideas and contribute to technological advancement, job creation, and quality of life, the index is a tool for measuring how countries can act to reduce more fully their lending barriers.



Hong Kong moved to first place in this year's index, up from second place in 2005. Its general financial environment is among the world's best, with a sound banking system, a relatively large equity market and diversified sources of business funding, including venture capital. Singapore rank seconds, with a robust equity market and the availability of alternative sources of funds, such as credit cards, private capital funds and venture capital funds.

The United Kingdom drops from last year's first-place ranking to third place, due mainly to a decline in its macroeconomic environment score, which takes into consideration such variables as inflation rates, lending and tax rates, and a country's general financial sophistication. This drop does not necessarily indicate a deterioration in performance, but instead reflects the greater progress competitors have made in controlling inflation, relaxing lending rates and reducing interest rate volatility.

The number of countries covered by this year's index rose slightly, from 121 in the 2005 report, to 122. With the availability of more data, we were able to include Ecuador.

Among the top ten countries, seven saw improvement in their equity market rankings from the previous year. But all the countries also saw their rankings fall in terms of access to international capital. Australia improves its composite ranking, moving to sixth place and just behind the United States. Switzerland, at seventh, and the Netherlands, at eighth, are new additions to the top ten countries, and Ireland rounds out the list.

There are some significant changes in the 2006 top 20 rankings. In 2005, industrialized countries accounted for 16 of the top 20 rankings. In 2006, France and Spain dropped four and eight places, respectively. Emerging Asia countries — Malaysia (13th), Thailand (19th) and South Korea (20th) — now account for three of the top 20 rankings. (In 2005 Malaysia was the only emerging Asian country that ranked in the top 20.) Among countries ranked in the top half of the index, the largest improvements in both scores and rankings appear in the Middle East.

African countries remain at the lower part of the *CA* rankings. Indeed, sixteen of the bottom 20 countries are African countries. Laos remains the only Asian country ranked in the bottom 20.

Each year the index also addresses an important development in global financial markets. This year's focus is on the hedge fund industry. We provide a comprehensive examination of some important aspects of the global hedge fund industry. We pay particular attention to changes in the performance and risk of funds over time, and to the impact of various strategies on these differences. We also examine the associations between characteristics of a fund (such as management fees and lockup periods) and its performance and risk, and the associations between characteristics and the likelihood that a fund will remain alive or enter the graveyard.

We found that:

- the more volatile the return, the greater the likelihood of the fund not being alive.
- the greater the average monthly returns over the period 1997 to 2005, the higher probability of a fund being alive.
- the bigger the fund and the longer it has been in existence, the greater the probability that it will be alive.
- management fees and performance incentives are positively associated with the likelihood of a fund being alive.
- the longer the initial lockup period, the greater the likelihood of a fund being alive.
- fund domiciled outside the United States and funds with assets invested outside the United States are associated with higher probability of being alive, even after controlling for different strategies that fund employed.

The *Capital Access Index* top 10 markets (with 2005 rankings):

1. Hong Kong (2)
2. Singapore (3)
3. United Kingdom (1)
4. Canada (10)
5. United States (4)
6. Australia (7)
7. Switzerland (12)
8. Netherlands (13)
9. Ireland (10)
10. Sweden (5)

*Milken Institute Capital Access Index and country rankings*

	2006		2005		2004	
	CAI	Rank	CAI	Rank	CAI	Rank
Hong Kong SAR	8.07	1	7.84	2	8.00	1
Singapore	8.00	2	7.77	3	7.99	2
United Kingdom	7.79	3	8.01	1	7.92	3
Canada	7.61	4	7.42	10	7.53	10
United States	7.59	5	7.75	4	7.76	6
Australia	7.55	6	7.60	7	7.63	7
Switzerland	7.52	7	7.39	12	7.63	7
Netherlands	7.50	8	7.20	13	7.51	12
Ireland	7.46	9	7.42	10	7.52	11
Sweden	7.35	10	7.62	5	7.81	4
Norway	7.16	11	7.47	8	7.33	13
Malaysia	7.12	12	6.88	16	7.22	14
Finland	7.09	13	7.46	9	7.78	5
Denmark	6.99	14	7.61	6	7.61	9
Germany	6.92	15	6.93	15	7.06	16
Japan	6.88	16	6.76	19	6.55	21
New Zealand	6.88	16	7.04	14	6.60	18
Estonia	6.83	18	6.59	21	6.57	20
Thailand	6.61	19	5.71	30	6.30	24
South Korea	6.58	20	6.37	23	6.20	28
Austria	6.53	21	6.41	22	6.26	26
Chile	6.45	22	6.78	18	6.60	18
France	6.44	23	6.62	20	6.62	17
Spain	6.42	24	6.80	17	7.08	15
Israel	6.39	25	6.19	27	6.21	27
Portugal	6.37	26	6.31	26	6.29	25
Kuwait	6.18	27	5.52	34	5.21	37
United Arab Emirates	6.08	28	5.14	39	5.07	42
Belgium	6.05	29	6.17	28	6.51	22
Saudi Arabia	6.00	30	5.56	33	5.40	36
Hungary	5.94	31	5.36	36	5.59	31
South Africa	5.81	32	6.36	24	6.03	29
Lebanon	5.78	33	4.87	48	5.13	38
Taiwan, China	5.76	34	6.34	25	6.43	23
Oman	5.75	35	5.30	37	5.08	41
Italy	5.63	36	5.66	31	5.67	30
Panama	5.61	37	5.13	40	5.09	39
Poland	5.54	38	4.98	45	4.93	46
Czech Republic	5.34	39	5.58	32	5.46	34
Latvia	5.32	40	4.92	46	5.09	39
Lithuania	5.32	40	5.51	35	5.41	35
Greece	5.25	42	5.85	29	5.58	32
Mexico	5.24	43	5.05	43	4.69	51
El Salvador	5.23	44	4.90	47	4.94	45
Peru	5.19	45	4.69	49	4.79	48
India	5.18	46	4.58	53	4.69	51
China	5.15	47	5.17	38	5.04	43
Slovakia	5.10	48	5.05	43	4.99	44
Colombia	5.03	49	4.68	50	4.56	57
Brazil	4.95	50	5.13	40	5.56	33
Jordan	4.95	50	5.11	42	4.91	47
Bulgaria	4.80	52	4.58	53	4.37	61
Russia	4.79	53	4.67	51	4.71	49
Turkey	4.74	54	4.37	60	4.21	66
Slovenia	4.73	55	4.56	55	4.50	58
Philippines	4.67	56	4.44	58	4.71	49
Argentina	4.57	57	4.23	66	3.67	76
Jamaica	4.55	58	4.09	69	4.35	63
Tunisia	4.49	59	4.67	51	4.67	54
Botswana	4.44	60	4.11	68	4.47	60
Romania	4.42	61	3.62	81	3.68	75

	2006		2005		2004	
	CAI	Rank	CAI	Rank	CAI	Rank
Papua New Guinea	4.35	62	4.31	62	3.63	77
Indonesia	4.34	63	4.48	57	4.68	53
Uruguay	4.34	63	3.48	85	3.53	84
Pakistan	4.23	65	3.79	74	3.94	70
Croatia	4.21	66	4.30	63	4.26	65
Sri Lanka	4.21	66	4.27	64	4.48	59
Armenia	4.19	68	4.26	65	4.36	62
Morocco	4.08	69	4.40	59	4.57	56
Ghana	4.07	70	3.88	71	3.82	74
Costa Rica	4.06	71	4.49	56	4.63	55
Ukraine	4.02	72	3.88	71	3.53	84
Macedonia	3.90	73	3.79	74	3.88	73
Namibia	3.86	74	4.34	61	4.32	64
Vietnam	3.86	74	3.10	98	3.45	87
Dominican Republic	3.83	76	4.13	67	4.14	67
Nicaragua	3.81	77	3.78	76	3.91	71
Moldova	3.72	78	3.93	70	4.07	68
Venezuela	3.70	79	3.65	80	3.17	94
Iran	3.66	80	3.66	79	3.95	69
Kenya	3.64	81	3.87	73	3.89	72
Egypt	3.60	82	3.24	92	3.30	89
Nigeria	3.60	82	3.18	94	3.54	83
Honduras	3.59	84	3.53	84	3.56	82
Tanzania	3.55	85	3.60	82	3.63	77
Senegal	3.52	86	2.92	101	3.07	97
Ecuador	3.49	87	3.36	89	n.a.	n.a.
Uganda	3.49	87	3.73	77	3.60	79
Belarus	3.44	89	3.36	88	3.11	96
Paraguay	3.44	89	3.12	97	3.07	97
Guatemala	3.43	91	3.30	91	3.52	86
Bosnia and Herzegovina	3.41	92	3.46	86	3.60	79
Mongolia	3.40	93	3.73	77	3.58	81
Bolivia	3.37	94	3.32	90	3.41	88
Lesotho	3.33	95	3.19	93	3.27	90
Mozambique	3.33	95	3.36	88	3.27	90
Bangladesh	3.32	97	3.43	87	3.00	99
Zambia	2.92	98	3.07	99	3.14	95
Cameroon	2.90	99	2.54	113	2.50	113
Central African Republic	2.83	100	2.46	115	2.33	119
Cambodia	2.82	101	3.14	96	3.18	93
Benin	2.79	102	2.80	103	2.71	109
Burkina Faso	2.79	102	3.18	94	2.82	101
Mauritania	2.74	104	3.03	100	2.54	111
Laos	2.71	105	2.36	117	2.35	118
Mali	2.63	106	2.59	108	2.72	107
Syria	2.62	107	3.59	83	3.22	92
Malawi	2.60	108	2.74	104	2.76	105
Haiti	2.58	109	2.66	107	2.90	100
Yemen	2.56	110	2.50	114	2.54	111
Madagascar	2.50	111	2.36	117	2.79	103
Sierra Leone	2.50	111	2.74	104	2.40	115
Zimbabwe	2.50	111	2.46	115	2.79	103
Angola	2.47	114	2.88	102	2.81	102
Ethiopia	2.45	115	2.55	112	2.73	106
Guinea	2.35	116	2.24	119	2.39	116
Rwanda	2.33	117	2.57	110	2.45	114
Burundi	2.29	118	2.59	108	2.67	110
Togo	2.26	119	2.56	111	2.72	107
Niger	2.25	120	2.67	106	2.36	117
Chad	1.94	121	1.62	121	1.81	120
Republic of the Congo	1.81	122	1.63	120	1.80	121

Capital Access Index: Maximum possible score is 10. Median score for all countries is 4.64 in 2006.