



Manager of US Venture Capital Funds  
Investment Advisor to International Financial Institutions  
& Governments in Private Equity

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## **‘Scaling Up Investment:’ for More Agricultural Innovation in Peru IVI Master Class, Lima, Peru**

**Objectives:** Engage stakeholders in Peru with the ability, interest and resources to:

1. Finance technology commercialization—creation of a new grant scheme to advance agricultural innovation through commercialization and 1<sup>st</sup> sale to customers. This grant program improves the quality and quantity of innovations for market acceptance.
2. Create and finance an early stage tech venture capital fund with local money, designed and shaped to the risk behaviors of local investors, their need for safety and capital preservation.

### **Investment Issues in Peru**

1. Investors typically finance retail, wholesaling, fast moving consumer goods, banking, construction and real estate as examples—markets and investment opportunities they understand. But they are uncomfortable with the risk in technology SMEs & 1<sup>st</sup> time entrepreneurs. Until investors can understand and ‘buy’ the risk in start-ups & early stage SMEs, little capital will flow to the tech sector of Peru. Entrepreneurs attempt to ‘shape’ investors’ behavior to risk as their strategy to raise capital, but such actions rarely succeed.
2. Governments and their development banks conceive venture initiatives which attempt to change local investor behavior to the risk of early stage tech. When local investors don’t respond as expected—desired, Government leaders work to create a new class of investor—angels—since their risk behavior better matches the profile of entrepreneurial ventures. While angel investors are welcome, developing an angel investor community takes years to accomplish, with false starts and entrepreneurs *needing money today remaining unfunded*.

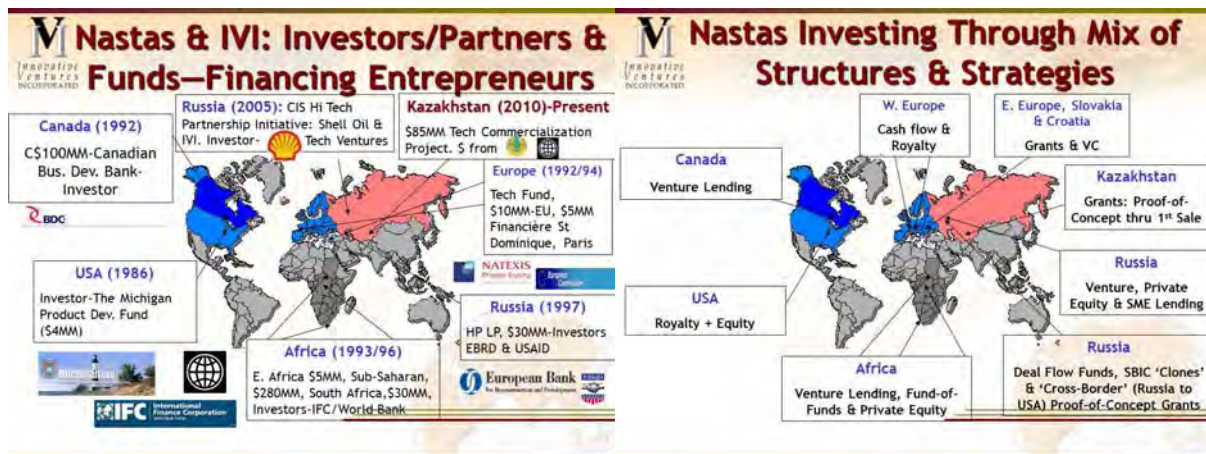
### **Solutions Delivered to these Issues in this Master Class**

Plenty of money exists in Peru to finance innovation. The issue is unlocking and mobilizing local capital for this investment in technology, 1<sup>st</sup> time entrepreneurs and early stage tech SMEs. Solutions to accomplish this objective are the contributions from this Master Class and they include:

1. *For the Government of Peru & government supported institutions which advance innovation, entrepreneurship & investment:* New grant program in commercialization, to advance Peruvian technology through customer acquisition.
2. *For investors in Peru:* Venture initiatives which better match local investors’ behavior to risk and the mentoring of local investors in early stage tech investment.
3. *For entrepreneurs in Peru:* Techniques to ‘shape’ business models in early stage tech to the risk attitudes & behaviors of local investors in Peru + learning to ‘sell risk, then opportunity.’

**Tom Nastas: Master Class Instructor**

Tom Nastas is an investor since 1986, financing university tech in the USA, and then early stage tech and growth SMEs in Africa, Canada, Europe, Kazakhstan and Russia for profits & development.



Nastas delivers Master Class content to participants from three sets of accomplishments.

1. *As an investor mentoring investor colleagues*—Nastas invested his own capital + raised and deployed >\$300 million of seed, venture and expansion money to entrepreneurs as cash flow, venture, private equity and fund-of-fund structures. He speaks the language of investment with the financial results to earn the attention and respect of his investors/partners including:

• Gov't of Kazakhstan	• Shell Tech Ventures	• Canadian Development Bank	• European Bank for Reconstruction & Dev.	• Financiere St. Dominique
• United States Agency for Int'l Dev.	• State of Michigan	• International Finance Corp	• European Commission	• World Bank

2. *As an advisor to Governments, mentoring Governments & their development finance institutions.* Nastas advised the Development Bank of Canada, European Commission, European Bank of Reconstruction & Development, IFC/World Bank, Russian Venture Company, the Russian Corp., of Nanotechnology, Gov'ts of Slovakia, Croatia and the US Gov't in the startup, funding & management of venture capital, venture lending, royalty and fund-of-funds investment schemes. Additionally Nastas:
  - With six other directors, manages the \$85 million technology commercialization project in Kazakhstan, making grants to finance and advance science from proof-of-concept thru 1<sup>st</sup> commercialization. He and other directors selected & committed \$22.5 million to 21 development stage SMEs and R&D groups in 2011 & 2012, average grant ≈\$1MM
  - Leads creation of 1<sup>st</sup> technology commercialization office in Kazakhstan, to transfer Kazakhstan tech to market. He established key performance metrics and all tasks for commercialization & execution-budget of operation is \$2.8 million, staffing of four international experts + five Kazaks.
3. *As an entrepreneur himself mentoring entrepreneurs,* Nastas left Michigan in 1992 to pursue foreign markets, financing expansion with his own money. He created [international & emerging market funds](#), established legal entities, hired & managed staff in Africa, Canada, Europe, Kazakhstan and Russia. His other contributions to global entrepreneurship:
  - Mentored social entrepreneurs from 25 countries & five continents at the '[Unreasonable Institute](#),' Boulder, Colorado

- Mentored [80 entrepreneurs from 36 countries](#)—technology to solve global challenges—at [Singularity University](#) (Silicon Valley), created by [x-Prize Foundation](#) founder [Peter Diamandis](#) and inventor, entrepreneur & futurist [Ray Kurzweil](#)

**Has the Program been Delivered to the Market?** Yes, multiple times around the world.

1. **Russia:**

- Novosibirsk, Russia: participants included the Vice Governor, his staff, heads of state-owned enterprises, technoparks, incubators and investment funds + entrepreneurs.
- Kazan, Russia: participants included aides to the President-responsible for foreign direct investment, deputy ministers of finance, ICT, industry, economy & trade & economic free-trade zones; general directors from industry and local investment funds
- Kazan, Russia, Nastas invited, created and delivered a 2<sup>nd</sup> three-day Master Class ‘Path to Commercialization’ to scale up innovation, investment & entrepreneurship in Russia

2. **Croatia:** participants included staff from university technology transfer offices in Zagreb, incubators, technoparks, investors, state agencies, grant programs, entrepreneurs + representatives from the World Bank & the Government of Croatia.

3. **Washington DC:** participants included World Bank staff—seeking ideas and solutions to increase investment, technology and entrepreneurship in emerging market countries.

4. **Kazakhstan:** delivered to the [National Innovation Fund](#) (NIF), Astana, Kazakhstan. The NIF is the Government’s sovereign wealth fund with \$1 billion under management. Content delivered from this Master Class used to structure & finance technology proof-of-concept and commercialization grant programs. Participants included NIF staff, NIF investee funds, institutes, incubators, technoparks, entrepreneurs + staff from Kazak Ministries.

**Target Audience for this Master Class:**

Day #1 attended by staff working for the Government of Peru, Fincagro employees and guests

Day #2 attended by participants from Day #1 + investors & investing organizations in Peru

Day #3 attended by local entrepreneurs & company founders + participants from Day #1 & #2

Day #3 includes an evaluation of the start-up & financing of an American technology company. Participants learn how entrepreneurs’ attitudes to ownership and valuation impact commercialization decisions and the reactions of investors to these demands + negotiated settlements.

**Organization & Timing:** The program is 18 hours, 12 small group discussions, delivered over three (3) days (see page #9, the schedule). Attendees are free the mornings of days #1 & #2 so they have time for their daily job activities. Day #1 is held from 17:00-20:00. Day #2 is held from 13:00-20:00. Day #3 is conducted from 09:00-17:00.

**DAY 1: Audience—Peru Government officials & staff, Fincagro & invited guests**

1. Module subject: **‘Start an Entrepreneurial Revolution in Peru’**



Staff in the Peru Government has deep responsibilities to stimulate more innovation, investment and entrepreneurship, yet they have limited power, control and access to capital to make these objectives a reality.

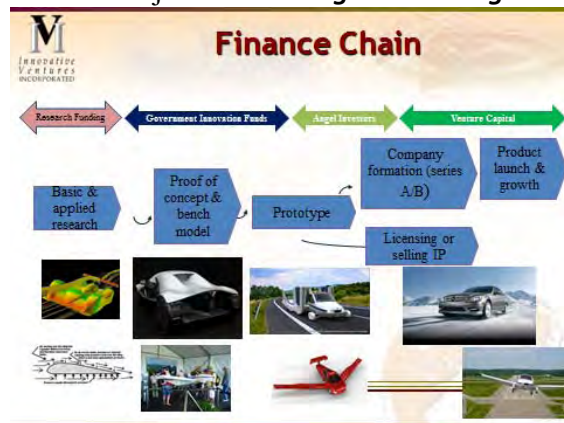
Subjects in this module present solutions to make the Peruvian ecosystem responsive to the objectives of Government and entrepreneurs, with an explanation on how to use the assets (political and network) that

Government staffers possess to advance economic development in Peru.

Discussion Topics:

- Entrepreneurship in emerging markets, the traits and characteristics of entrepreneurs. What works to encourage entrepreneurship in emerging markets vs. developed countries
- What investors in emerging markets seek—yes opportunity & profit but capital preservation dominates investment decisions. Early stage business models which meet their needs
- The cultures of risk & failure—emerging markets vs. developed markets—and the impact of these differences on entrepreneurs, mobilizing local capital and business models financed
- Risks and uncertainties which local money in Peru has dealt with as businessmen and investors. How to leverage these experiences so Peruvian tech entrepreneurs overcome these risks and uncertainties too
- Shaping grant and venture schemes to conditions in Peru and the culture of risk in Peru
- Building on strengths for more investment, innovation and investment in Peru. Learning from experiences; USA (Michigan), Russia, Kazakhstan & Croatia

2. Module subject: **'Financing R&D through Commercialization with Grants'**



Innovation starts with an idea to do something different, to improve the lives of customers, to make work that matters. Each step of the innovation process requires different forms of \$ & different institutions to finance innovation.

Discussion Topics:

- From idea to commercialization, the chain of finance, from research to grants, angel money through venture capital—sources & uses of capital to accomplish commercialization
- Grants for commercialization; why finance through grants, why finance this risk? Experiences from the \$85 million Kazakhstan technology commercialization project to;
  - ✓ Increase the quality and quantity of innovations for future investment
  - ✓ The need for, and how to get scientists to do customer discovery, customer engagement and customer development, so work results in products and solutions that customers truly want and demand
- Other grant schemes to speed innovation to market
  - ✓ 'Venture shaping grants'
  - ✓ 'Mini-grants'
  - ✓ 'Micro grant fund'
  - ✓ 'Engineering technology development grants'
  - ✓ 'Prototype creation grants'
- Building an IP portfolio and creation of an IP fund to pay the costs of filing domestic & international patents.
  - ✓ How to make the fund self-sustaining for future generations of scientists, researchers & innovation with a one-time investment by Government or other public sources of money



**DAY 2: Audience—Peru Government officials & staff + investors & investing organizations**

3. Module subject: **'Catching Money: The Role of Venture Capital & Other Solutions'**



Venture capital (VC) is promoted as the solution to financing SMEs with huge investments made by governments to create a VC industry in their country; yet only 5% of the 500 fastest growing companies in the USA receive VC. What is the fascination with VC? What are the tools and products that SMEs can use to finance growth and where does VC fit in? What are the alternatives to finance SMEs in Peru given its still-developing capital markets?

Discussion Topics:

- What is venture capital, how does it work, institutions & sources of capital? What's needed from other institutions in Peru, e.g., banking sector, legal regimes, for VC to work properly?
  - Characteristics of tech vs. non-tech SMEs in the emerging markets
    - ✓ Products, services sold, competitive advantages
    - ✓ Customers and sources of growth
    - ✓ Cash generation, revenue and profit—potential for cash distributions to investors
    - ✓ Scalability
    - ✓ Types of money needed at different stages of growth, valuation and liquidity prospects
    - ✓ Characteristics & traits of entrepreneurs creating tech start-ups vs. no tech start-ups
  - The '[Valley of Death](#),' what it is, its impact on innovation, startup growth and the risks that it poses to early stage tech SMEs and investors
  - Match-mismatch of SMEs' investment needs to local capital in Peru
    - ✓ Early stage tech business models which unlock and release local money for investment
  - Alternative solutions to mobilize local capital and finance technology in Peru
    - ✓ Royalty based schemes
    - ✓ Venture lending schemes
    - ✓ 'Deal flow' funds—what they are, how they catalyze new innovation to solve national priorities
4. Module subject: **'The Cultural Divide Which Separates Local Wealth from Entrepreneurs in Peru: Solutions to Bridge this Gap'**



The culture of risk in emerging countries defines the behavior of local investors and their willingness to finance seed and early stage tech business models. American investors buy 'opportunity' and willingly pay the costs of entrepreneurial failure. Yet failures are labeled as losers for life in most emerging markets and local investors buy the 'risk' of execution; *the tolerance of emerging markets investors for the US model of entrepreneurial experimentation, trial and error & the funding of pivots is zero.*

Why is this so? And how do we use this culture of investor risk-taking as our friend, to make amazing things happen; more entrepreneurship, more innovation and more investment for the start-up of start-up communities in Peru?

Discussion Topics:

- Plenty of money exists in Peru; the issue is mobilizing local capital for Peruvian innovation. Discussion on shaping investment strategies and structures to the behaviors of investors to risk. Or work to create a new class of investor—angel investors—in Peru?

- The culture of venture capital; friend or enemy?
- The cultural divide in emerging markets, the risks which investors in emerging markets 'buy' vs. the culture of Silicon Valley. Why Silicon Valley is not the model to emulate
- What local investors in emerging markets seek and why
- How investors' attitude to risk shapes their risk taking, their acceptance of ambiguity and uncertainty to early stage tech deals, thereby attracting entrepreneurs with the wildest (and craziest) ideas. The 2-6-2 rule of venture capital investing
- Characteristics of seed and early stage tech investment opportunities, and how assess their potential, their growth and their risks in the [Valley of Death](#)
- Fears of investors to early stage tech risk. Do emerging market investors 'buy' growth or potential?

5. Module subject: **'From Ideas to Revenues: Development & Execution of Business Models'**

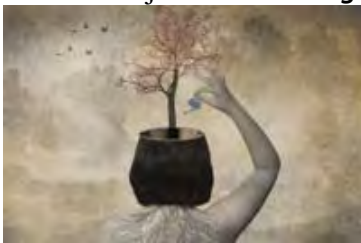


It's easy to spot successful business innovations. But it's more difficult for investors to spot the best opportunities & the rationale for investment before they've proven themselves. Creating new business ventures requires thinking imaginatively about the business model & how the new product or service changes the lives of its customers.

Discussion Topics:

- The business model, what it is, how it works, differences vs. the business plan
- Business models vs. business plans, emerging markets vs. USA/Europe. Which is relevant?
- Characteristics of successful business models vs. unsuccessful models
  - ✓ Challenging conventional thinking with new business models in B2C & B2B commerce
- Business models as 'viruses' to spread more innovation and technology adoption in Peru, to challenge the ways we look at the world, to what B2C and B2B possibilities exist
- Case examples, 'Hot or Not,' Skype & Groupon: from idea to becoming a billionaire

6. Module subject: **'The Management Team: Building a Team of Glory when Talent is Scarce'**



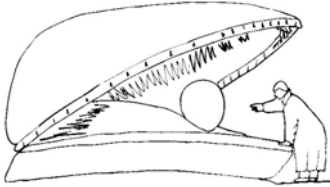
Investors universally state that the quality and competence of the management team is more important than the quality of the idea as investment criteria. Yet how do we explain the success of companies with young, unproven, 1<sup>st</sup> time entrepreneurs and investment in them by VCs and others? Many start-ups are low on talent, and as the company grows beyond the skills of founders, how and where can they attract needed talent.

Discussion Topics:

- What is a 'team of glory?' Elements of a team of glory
- Case examples—how teams form
  - Tech company: Netscape—management team of Marc Andreessen & Jim Barksdale
  - Consumer company: Tupperware—the (unlikely) team of Earl Tupper & Brownie Wise
- Building entrepreneurial 'teams of glory' in Peru
  - ✓ Locals vs. foreigners in the team?
  - ✓ Should you attract expat talent to Peru, when and under what circumstances?
  - ✓ The use of a [job bank](#) to build a team of glory—attract and retain specialists in Peru

**DAY 3: Audience—Peru Government officials & staff + investors & investment organizations + entrepreneurs & company founders**

7. Module subject: '*Shaping the Business Model to the Behavior of Local Investors to Risk. 'Sell Risk,' then Opportunity*'



US entrepreneurs sell opportunity to attract investors, raise \$. This works 200% in the USA since investors are comfortable with risk, ambiguity and uncertainty, and willingly pay the costs of failure when business models don't work, founders change direction (pivot) and their business models evolve into something different.

Except for a few, investors in Peru approach risk differently. They invest in known & understandable risks, the risks of execution since these are the uncertainties they have dealt with as businessmen and investors, and have the experience to help entrepreneurs to solve-avoid. The risks of execution are more than enough with the risks of innovation & potential, i.e., achieve promised performance, will demand develop & how generate money is just too much for them; the result is that increasing wealth in Peru is not as big a source of \$ as predicted, resulting in tech start-ups going unfunded, entrepreneurs frustrated & Government wondering what to do next.

Discussion Topics:

- Why investors buy 'opportunity' while others buy 'risk'
- The challenges of tech execution in Peru and why opportunity must be assured
- Shaping business models to the risk behavior of local money
  - ✓ Business models with low capital needs, and within the money resources of entrepreneurs. Business models that circumvent many of the costs and risks of failure
- Unlock local capital for investment
  - ✓ How to 'sell risk, then opportunity' to investors
  - ✓ Transform unknown risks of early stage tech SMEs to risks that Peruvian investors can understand and evaluate, even those with no revenue model (initially)

8. Module subject, '*Paying for Failure*'



It's great to talk about the need for failure, how great business models evolve from failed attempts and the need to encourage more failure. The question is who pays for this learning? Investors in Russia, as in Kazakhstan, Kenya, Peru & other emerging countries label a failed entrepreneur a loser for life, never to raise \$ again with failure an embarrassment that frequently impacts their family; such realities creates an environment where entrepreneurship is discouraged as a career path vs. a 'safe job,' e.g., working for Government, a state owned company, a large corporation or a multinational.

Discussion Topics:

- Fear of failure is ingrained in our psyche, yet failure accepted by American investors
- Examples, how failure leads to success: J. Dyson (worth £920 million), Evan Williams (Twitter) & Andrew Mason (Groupon, company with fastest growth to \$1 billion in sales)
- Creating a culture for failure, who pays, and how Government & entrepreneurs can impact failure-to-success role models
  - ✓ Solutions to make failure tolerable & how to leverage failure into success
- Tools to speed experimentation, trial and error at low cost until the business model is proven

9. Module topic **'Networks & Network Creation'**



It's profitable (& sexy) to partner and sell into international markets, but execution is expensive & uncertain with big risk. When is international partnering the 'right' decision vs. a domestic partnering strategy and what are the ways to extract maximum value? International partnering also includes attracting foreign investment since the support sought from foreigners is a partnering commitment.

Discussion Topics:

- Why partner vs. do all work internally?
- Business models needed to attract partners & int'l capital
- Necessity of shared benefits/risks to all parties
- Case analysis: Russia, Universities of Colorado, Michigan & Utah & IVI: tech dev./transfer

10. Module subject: **'Entrepreneurial Decision-Making: Financing SMEs, Tradeoffs, Choices & their Implications'**

Discussion Topics:

- Venture capital method of financing and valuation
- Determine the funding requirements and the ways of dealing with multiple financing rounds
- Discuss the use of these methods in actual negotiations and valuation of entrepreneurial companies financed by venture capitalists and the trade-offs that entrepreneurs make in financing their company

11. Case Analysis: **'Deal or No Deal: Hotmail'**



- Case describes the challenges of financing a start-up with an unproven business model, and the choices and trade-offs it forces entrepreneurs to make and the strategies of investors to cope
- Participants organized into groups to analyze the case analysis & present their finding

12. Discussion—Conclusion: **'What Fincagro Can Do to Start-up Peru!'**

Discussion Topics:

- Next steps: how Fincagro, local investors & entrepreneurs must work together to startup a start-up community in Peru
- Leadership from Fincagro to startup a start-up community in Peru



	<b>Master Class- Objectives:</b> <b>1). Establish a grant program to finance 1<sup>st</sup> commercialization &amp; a venture fund: Engage with Peruvian stakeholders for these initiatives</b> <b>2). Accelerate entrepreneurship &amp; mobilize local capital to finance entrepreneurial ventures in Peru</b>		
	Day 1 (Fincagro +Gov't + guests)	Day 2 (Fincagro + Gov't + Investors)	Day 3 (Fincagro + Gov't + Investors + Entrepreneurs)
09:00			<i>'Shaping the Business Model to the Behavior of Local Investors to Risk: 'Sell Risk, then Opportunity'</i>
10:00			<i>'Paying for Failure'</i>
10:30			
11:00			Coffee Break
			<i>'Networks &amp; Network Creation'</i>
12:00			
13:00		<i>'Catching Money: the Role of Venture Capital &amp; Other Solutions'</i>	Lunch
14:00			<i>'Entrepreneurial Decision Making: Financing SMEs, Trade-offs, Choices &amp; their Implications.'</i> Discussion on Hotmail.
15:00		Break	<i>'Deal or No Deal: Hotmail.'</i> Case analysis/solutions & PowerPoint presentations on Hotmail case to the entire class.
15:30		<i>'The Cultural Divide Which Separates Local Wealth from Entrepreneurs in Peru: Solutions to Bridge this Gap'</i>	Discussion/Conclusion: <i>'What Fincagro Can Do to Start-up Peru!'</i>
16:00		<i>'From Ideas to Revenues: Development &amp; Execution of Business Models'</i>	
16:30			
17:00	Intro, Objectives & Expectations in this Master Class		Drinks & buffet. Informal discussions and next steps
17:30	<i>'Start an Entrepreneurial Revolution in Peru''</i>	Dinner & discussion	
18:00			
18:30			
19:00	Break	<i>'The Management Team: Building a Team of Glory When Talent is Scarce'</i>	
19:15	<i>'Financing R&amp;D through Commercialization with Grants'</i>		
20:00	Distribution of HBS Hotmail Case: Discussion & Expectations.	Informal discussion over drinks & food, Hotmail case & presentations.	
20:30	Informal talks, drinks & food		