



**Asia-Pacific
Economic Cooperation**

**Financing APEC SME Innovation Workshop: Identifying
Government Policies that Promote Venture Capital In-
vestment in APEC Economies**

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APEC Small and Medium Enterprise Working Group

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Executive Summary

This report provides an overview and summary of the *Financing APEC SME Innovation Workshop* held between the 18th – 19th of June 2014 at the Sofitel Sukhumvit Hotel, Bangkok by the Office of Small and Medium Enterprises Promotion (OSMEP), on behalf of the APEC SME Working Group. The main objective of the two day workshop is to devise a set of policy recommendations to be enacted APEC-wide for both developed and developing member economies to encourage both domestic and cross-border venture capitalist investment, with a focus on encouraging venture capital market growth in latecomer economies. The main output from this workshop is identifying key recommendations on how to improve SMEs’ access to finance through venture capital. The recommendations made are hoped to become a framework for member economies to steer future policy decisions in order to promote the growth of domestic and international venture capital in APEC.

The set of recommendations derived from the workshop can be divided in to four sections. The first and most important are the recommendations on **government policy measures** that will help enhance SMEs and venture capital investments. The key recommendations were in regards to supporting innovation, which is the heart of VC investment, through education and a proper landscape for opportunities. Policies and regulations should be limited and stable to support a nurturing environment for a free capital market. To create such nurturing environment special care should be taken towards policies on tax regulations, banking and finance systems as well as supplying supportive factors such as basic infrastructure and education. One of the most important models for VC market is Singapore, as it remains the ‘hub’ for venture capital investment in the region because of its supportive government policies. However it is important to ensure that such policy programs, if mimicked, will not limit opportunities through increased restrictions.

Secondly, recommendations were made for APEC economies towards creating a **supportive and nurturing environment**, which includes keeping information updated and public. APEC as a corporative group should provide and continue to provide training programs as well as workshops aimed towards supporting SMEs and VCs. The main focus should be on innovation, the underlying bottom line in VC investment. In order to connect the region to the global market, support on labour mobility and education. Regional cooperation will allow for expansion in the investment pool to promote local SMEs. As has been previously pointed out in many APEC fora, VC can be a “way to overcome problems associated with advancing funds to entrepreneurs without collateral and with risky business plans involving new and untested products in new markets using untested technologies.” The encouragement of VC markets therefore should be supported by APEC members, particularly as its membership moves towards the status of knowledge-based economies.

Third, recommendations for **entrepreneurs** can be summarized from the workshop. In order to securing access to finance and improving business competitiveness entrepreneurs must have strong business models and corporate governance. All the while, innovation and marketing strategy remains the vital element towards securing investment, all of which can be enhanced through creating strong networks for information dissemination.

Lastly, recommendations for **venture capitals investors** on how to help improve the market environment were made in regards to sharing information and providing guidance for SMEs to foster in the ever changing market environment.

All in all, the workshop has successfully bridged together a network of parties with a total of 101 participants, with speakers and panelists representing professionals in various industries including key finance and SME policy-making agencies, venture capitalists and SMME leaders. More than half of the participants agreed that the objectives were clearly defined and met with relevant topics covered in the agenda as well as having useful materials distributed. While more than half of the participants strongly felt that the content of the workshop was well organized, sufficiently timed and easy to follow as well as having knowledgeable speakers and panelists. Participants have expressed that the workshop provided them with a venue for networking and a clearer understanding of the SME and venture capital landscape, mainly in the Southeast Asia point of view.

Financing APEC SME Innovation through Venture Capital Report

Financing APEC SME Innovation through Venture Capital: A Report Prepared for the APEC Small and Medium Enterprise Working Group

It is recognized that venture capital is important for financing start-up companies and ICT industries, and the private sector is the leading source of capital. Ministers acknowledged that venture capital funds will complement the financial sector in providing initial capital to new businesses and recognized that governments had a role in creating a better environment for SMEs and start-up companies to access capital markets. In this respect, Ministers concurred that SMEs that have growth potential could be assisted in accessing financial and capital markets.

- From the Ministerial Statement on the 7th Meeting of APEC Ministers responsible for Small and Medium Enterprises, Bandar Seri Begawan 22-23 June, 2000¹

Introduction

Improving access to finance for Small and Medium Enterprises (SMEs) particularly in lower-income member economies has long been acknowledged as a key objective for Asia Pacific Economic Cooperation (APEC), most recently in comments made by various economies during 37th Meeting of the APEC SME Working Group in Bali, Indonesia, September 4-5, 2013.² This finding is consistent with similar conclusions reached among other important international groupings such as the OECD and ASEAN.³ Improving access to finance for SMEs is a key means of spurring the growth of small and medium-sized businesses which are a pillar of APEC member economies, and this has been reflected in the current Strategic Plan (2013-2016) of the APEC SME Working Group, which aims to promote programming aimed at increasing SME access to finance over the three year period.

Venture capital (VC) has been widely acknowledged as a means for innovative but low-collateral SMEs, and particularly those in new technology-based business sectors to access such financing. As has been previously pointed out in APEC fora, VC can be a “way to overcome problems associated with advancing funds to entrepreneurs without collateral and with risky business plans

¹http://www.apec.org/Meeting-Papers/Ministerial-Statements/Small-and-Medium-Enterprise/2000_sme.aspx

² See, for example, Indonesia’s presentation on “Financial Inclusion and MSME Programs in Indonesia” by Eni V. Panggabean, Executive Director, Department of MSME and Financial Access Development Bank Indonesia, 37th Meeting of the APEC SME Working Group, Nusa Dua, Bali, Indonesia, Wednesday, September 4, 2013

³ See the OECD study *Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard*, OECD, 2012; Charles Harvie, SotheaOum, DionisiusNarjoko (Eds.), *Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies*, ERIA, 2011; Shigehiro Shinozaki, *A New Regime of SME Finance in Emerging Asia: Empowering Growth-Oriented SMEs to Build Resilient National Economies*, ADB, 2012

involving new and untested products in new markets using untested technologies.”⁴ The encouragement of VC markets is thus very attractive for APEC members particularly as its membership moves towards the status of knowledge-based economies.

Current APEC Venture Capital Markets

While thriving VC markets are already a reality in several APEC economies, and is a key objective for latecomer members seeking to increase innovation and grow their technology sectors, there is an enormous variance in both domestic and international VC presence across the APEC board. VC as an industry developed in the United States and remains the most dynamic there. In the second quarter of 2013 alone, U.S. tech investments totaled \$4,674 million, more than the entire amount invested in Europe in 2012 (\$3,905 million), the second most active VC arena globally. U.S. venture capitalists completed 563 deals compared to 229 in all of Europe.⁵

In the Asian region of APEC, China, Hong Kong, Japan, Korea, Singapore, and Chinese Taipei collectively account for over 95% of the venture capital industry, with only nascent VC markets in Malaysia, Thailand, and Viet Nam.⁶ Malaysia however has seen significant growth and interest in its startup potential, and achieved a remarkable 13th place finish globally in the *Venture Capital & Private Equity Country Attractiveness Index*.⁷ In Thailand the VC industry was initiated in 1988 through US government funding.⁸ Viet Nam is only beginning to see the entrance of funds since 2004, with forward progress to some extent hampered by the lack of management ability.⁹

Indonesia has experienced a major influx of foreign investment interest during the last few years, but enthusiasm has cooled somewhat due to the addition of online businesses to the 2010 Negative Investment List governing foreign ownership; the regulatory move has caused some concern among the VC community as well as entrepreneurs and companies wishing to set up e-commerce services.¹⁰

Australia has seen the growth of a modest but thriving domestic VC market, partially assisted by innovative AusIndustry-sponsored VC programs like the Innovation Investment Fund and Early Stage Venture Capital Limited Partnerships, which work with private venture capital fund

⁴ Dietrich, J. K., *Grass-Root and SME Development in the APEC Region: Addressing Impediments through Financial Cooperation and Other Measures*, 2003, p. 4

⁵ Wall Street Journal online, July 31, 2013, <http://blogs.wsj.com/tech-europe/2013/07/31/venture-capital-in-the-u-s-and-europe-compared/>

⁶ Dietrich, J.K., *Venture Capital in APEC Economies*, PECC, 2003, p. 7

⁷ See below, p. 7

⁸ http://www.bangkokpost.com/business/8025_info_thai-venture-capital-association.html

⁹ Anh-Min Do, “42 portfolio companies that IDG Ventures has invested in Vietnam” in *Tech in Asia*, October 25, 2013: <http://www.techinasia.com/idg-ventures-vietnam-42-startups/>

¹⁰ AuliaMasna, “Eight Venture Capital Firms Form an Alliance in Indonesia”, in *Daily Social*, 2013-08-29: <http://en.dailysocial.net/post/avcii>

managers to provide capital and professional expertise to innovative companies.¹¹ New Zealand has implemented similar programming through the New Zealand Venture Investment Fund.¹²

Russia is a major new horizon for VC, and the past ten years have seen exponential growth in the sector. In 2010-2012, the volumes of Russia's VC investment became significant, approaching one billion dollars – far behind China and India, but of a scale comparable to that of the US market in segments like e-commerce. As an illustration, more than one thousand projects from all over Russia compete every year at BIT, Russia's largest startup contest, compared with seventy when the contest began in 2003 and two hundred in 2009. Transparency, however, remains a major issue.¹³

Issues and Challenges

Major barriers to the growth of APEC VC markets thus exist owing to both domestic and international factors, and a variety of different approaches must be taken to overcome them.

Global Issues

The venture capital industry is fundamentally beholden to international financial markets and has fluctuated along with the major global contractions of the last twenty years. Both the 1997 and 2000 crises had major repercussions for VC markets in Asia, and venture capital has been dubbed “a lousy investment” internationally for the last fifteen years.¹⁴ From a high on VC investments of 83.4% on 10-year average international rates of return (IRR) in 1999, the most recent IRRs of 7.8% in 2013 suggest that VC is “not worth the risk”.¹⁵

Similarly, venture capitalists seek investments that offer a competitive advantage often based on projections and assumptions about the future of a product or service within a particular market, market acceptance of the new entry, and the competition. While they may do their due diligence in depth before investing, outside market factors ultimately play a major role in deciding the fate of a new company and VC activity at large.

At the same time, within the APEC forum, startups and VC have been seen as a key means of economic recovery for the region.¹⁶ This is particularly true as a large proportion of capital funds in Asia are directed to economic restructuring of traditional industries than is the case in developed markets, and thus serve an important reform purpose.¹⁷

¹¹ See <http://www.ausindustry.gov.au/programs/venture-capital/iif/Pages/IIF-VentureCapitalInAustralia.aspx>

¹² See www.nzvif.co.nz/

¹³ Orlovetsky, Boris, “Russian Venture Capital Market Overview 4Q2013”, 2013: <http://www.slideshare.net/BorisOrlovetsky/russian-venture-capital-market-overview-4q2013>

¹⁴ Cohan, Peter, “Will Venture Capital Beat The Market In 2014?”, *Forbes*, 1/03/2014: <http://www.forbes.com/sites/petercohan/2014/01/03/will-venture-capital-beat-the-market-in-2014/>

¹⁵ *Ibid.*

¹⁶ Most notably, by Chinese Taipei through its *Economic Revitalization through Start-up Companies and Venture Capital* initiative; see below

¹⁷ Dietrich, VC, p. 2

Domestic Environments

The success or failure of VC markets is not only due to global financial concerns. In many APEC economies conditions simply do not exist for such markets to flourish, either domestically or through foreign intervention. Factors such as the presence of viable startups, local business culture, local management ability, and government regulation all play a part in determining the viability of VC. Risk factors can include:

- political instability
- local economic downturns
- regulatory environments hostile or indifferent to domestic or international investment and/or ownership
- cultures of impunity regarding intellectual property theft and patent infringements.

Improving the environment for APEC VC thus requires the cooperation of several different groups of stakeholders:



Venture Capital at APEC

CTI and IEG

APEC works to overcome such barriers through a variety of different fora and activities, and achieving broad-based venture capital presence in APEC has been an important goal for the grouping for more than ten years. Efforts in this direction have been primarily taken place under the auspices of the Investment Expert Group (IEG) under the Committee on Trade and Investment (CTI), with funding from the Trade and Investment Liberalization and Facilitation Account (TILF).

As early as 1994-1995 the IEG has been implementing events aimed specifically at bringing together startups and VC, beginning with the “APEC Venture Capital Workshop” held on in Seoul.¹⁸ In 1999-2000, Chinese Taipei began the *Economic Revitalization through Start-up Companies and Venture Capital* initiative which resulted in the *APEC Start-up Companies and Venture Capital Survey*, an important effort which indicated that there was interest in establishing an APEC database to disseminate and exchange information on start-up companies and venture capital. The initiative spawned a number of related activities, including the “Securing Initial Equity Funding for Start-up Companies: The Birth and Growth of SMEs in a Knowledge-based Economy” in May 2000.

In 2003, China hosted a milestone event, the Seminar on Venture Capital and Start-up Companies (Beijing, December 10-11, 2003), which brought together a host of international VC practitioners and policymakers to discuss VC investment in APEC member economies, the challenges faced, and the mechanisms and legal environment needed for the development of venture capital investment.

In the following years however IEG activity on VC issues specifically has been much reduced. Relevant project work includes the following:

Host/Sponsor Economy	Date	Title	Objectives
Korea	September 20-22, 1995	APEC Venture Capital Workshop	Exchange experiences among members on issues of improving access to venture capital for SMEs; explore the means of promoting SMEs access to venture capital; exchange experience on venture capital; discuss means of internationalizing venture capital
Chinese Taipei	2000	<i>APEC Start-up Companies and Venture Capital Survey</i>	Survey member economies for feasibility and interest in establishing an APEC VC database

¹⁸RiyanaMiranti, Denis Hew Wei-Yen, eds., APEC in the 21st Century, 2004, p. 41

Chinese Taipei	May 2000	Securing Initial Equity Funding for Start-up Companies: The Birth and Growth of SMEs in a Knowledge-based Economy	Share best practices for accessing finance for high-tech SMEs
Chinese Taipei	October 2001	Emerging Enterprises and Corporate Governance: New Economy and Old Rules	Improving corporate governance for enterprises in order to improve access to financing
China	December 10-11, 2003	Seminar on Venture Capital and Start-up Companies	Explore the role of venture capital investment in APEC member economies, the challenges faced, and the mechanisms and legal environment needed for the development of venture capital investment.

PECC

The Pacific Economic Cooperation Council (PECC), the only non-government official observer of APEC, has also been active in drawing interest to the issue of VC within the APEC context.

At the 2nd Annual Conference of the PECC Finance Forum on July 9, 2003, Hua Hin, Thailand, Professor Kimball Dietrich presented a landmark paper entitled *Venture Capital in APEC Economies* that discussed developments in VC in the Asian Pacific region, explored trends in the VC industry in the United States, and analyzed policies and economic environments in APEC economies with the purpose of identifying best practices and regulatory barriers to the development of an efficient venture capital industry for financing SMEs.¹⁹

Professor Dietrich will be updating and expanding his findings in his presentation on APEC VC: Ten Years On at the present workshop.

SMEWG and Venture Capital

As early as 2000 APEC Ministers responsible for SMEs instructed the then-Ad Hoc Policy Level Group on SMEs (PLGSME) to cooperate with the IEG on the area of VC promotion.²⁰ Since the incorporation of the SMEWG as a formal working group, however, cooperation between the two groups has been negligible.

The **Financing APEC SME Innovation through Venture Capital Workshop** will seek to increase the level of SMEWG involvement in the APEC VC dialogue with respect to SMEs. Hosted by the Thailand Office of Small and Medium Enterprise Promotion, the Workshop is

¹⁹ Dietrich, VC, op cit.

²⁰http://www.apec.org/Meeting-Papers/Ministerial-Statements/Small-and-Medium-Enterprise/2000_sme.aspx

intended to address three pressing needs of the APEC community in establishing effective VC markets:

1) The need for APEC SME agency and financial policy makers to discuss policy measures and share best practices in attracting foreign venture capital investment and encouraging the growth of venture capital markets in their respective economies

The Workshop will provide a platform for these discussions to take place, allowing APEC SME agency and financial policy makers a venue to discuss outstanding policy measures and best practices to encourage venture capital market growth.

2) The need for international and domestic venture capitalists to be given an opportunity to discuss the regulatory framework with policy makers

The Workshop will provide a forum for venture capitalists to meet policy makers face-to-face and have their input heard both in terms of strategies to encourage venture capital market growth and their comments regarding business environment and regulation.

3) The need to increase access to finance for innovative SMEs by providing a forum for innovators to meet international and domestic venture capitalists, showcase their ideas, and discuss ways in which greater connectivity between investors and innovators can be achieved

The Workshop will be a showcase for innovative small and medium entrepreneurs both to have their voices heard by policy makers regarding ways in which the government can promote the sector, but also to meet venture capitalists and source financing.

Appendix I: APEC VC Markets: An Informal Comparison

The following figures taken from the *Venture Capital & Private Equity Country Attractiveness Index* are not endorsed by APEC and have no official standing within that grouping.²¹ They nevertheless present an interesting and important picture of the current attractiveness for venture capital and private equity of APEC member economies, and are remarkable for featuring APEC members in all top three positions, as well as six in the top ten. The Index is a project of the IESE Business School of the University of Navarra and measures the attractiveness of an economy for investors in Venture Capital and Private Equity limited partnerships through a series of criteria including

- economic activity (GDP, inflation, unemployment rate)
- size and liquidity of capital markets
- taxation
- investor protection and corporate governance

²¹ Alexander Groh, Heinrich Liechtenstein and Karsten Lieser, *Venture Capital & Private Equity Country Attractiveness Index*, IESE Business School, University of Navarra, EMLYON Business School, 2014: <http://blog.iese.edu/vcpeindex/>

- human and social environment (including human capital, labor market policies and crime)
- entrepreneurial culture and opportunities (including innovation capacity, the ease of doing business and the development of high-tech industries).

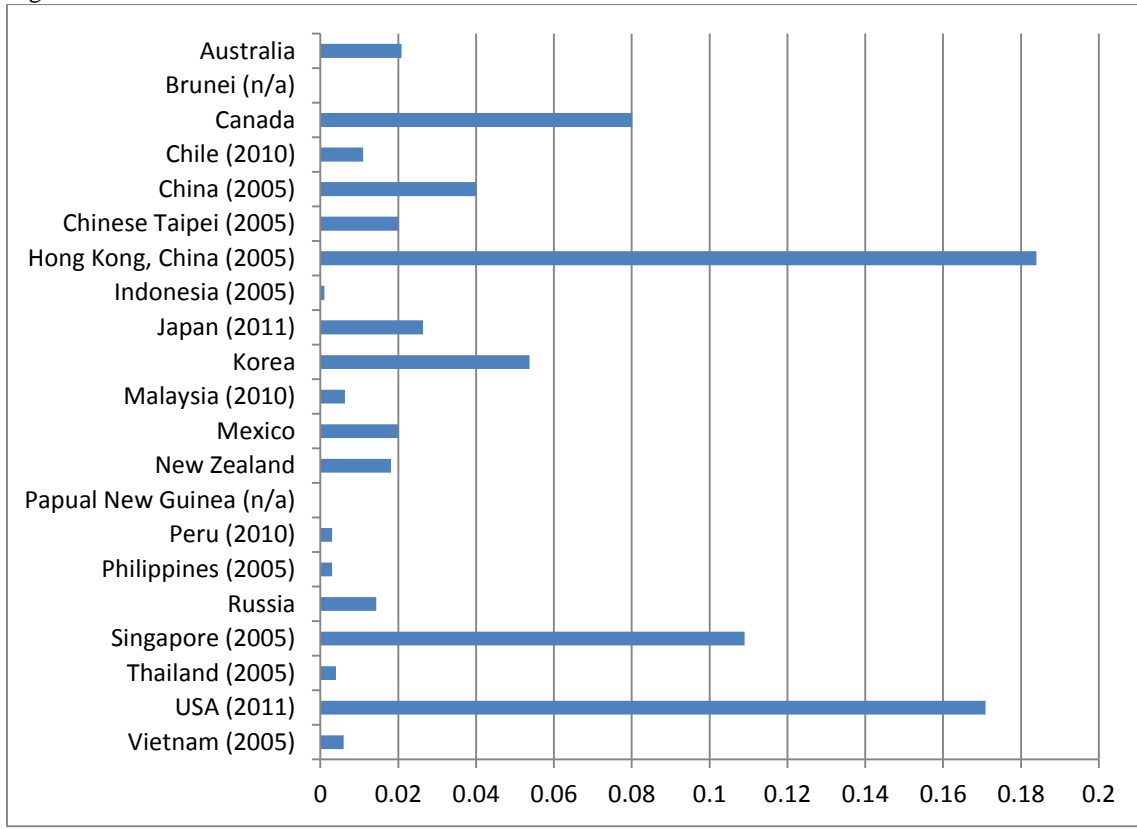
The scores and ranks of APEC member economies are presented here as stimulus for discussion.

NB: Rankings are in relation to 118 economies surveyed worldwide

Economy	Score	Ranking
USA	100	1
Canada	95.8	2
Singapore	95.6	3
Hong Kong, China	92.8	5
Japan	92	6
Australia	90.4	8
New Zealand	86.9	11
Malaysia	85.1	13
Economy	Score	Ranking
Korea	81.8	17
China	78.4	22
Chile	76.2	23
Chinese Taipei	75.8	24
Thailand	69.6	31
Mexico	64.1	39
Russia	63	41
Philippines	61.2	42
Indonesia	58.5	46
Peru	57.3	47
Viet Nam	46.5	68
Papua New Guinea	n/a	n/a
Brunei	n/a	n/a

Appendix II: Venture Capital investment as a percentage of GDP²²

Figures are from 2012 unless noted.



²²OECD, *Entrepreneurship at a Glance*, OECD, 2013; Oxford Business Group Country Reports; CNBC; *GEM Singapore Country Report*, 2005; Lingelbach, D. (2006), "Overview of the venture capital and private equity sectors in Indonesia", paper presented at workshop on Strengthening Finance Companies and Venture Capital in Indonesia, ; ACAFI, *Reporte de Venture Capital y Private Equity en Chile*, Santiago, 2011

Appendix III: VC Activity by Economy/SWOT Analysis²³

Australia

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Strong commodity prices driving investment boom
- Democratic and stable political, regulatory and legal environment
- Strong banking and capital market regimes
- Significant number of VCPE investments under management

Weaknesses

- High interest rate environment
- Heavy reliance on commodity cycle and comparatively high tax rates
- Strong competition from both local and overseas investors

Opportunities

- Strong stock market culture
- PE exits and maturing secondary market
- M&A market recovering

Threats

- High AU\$ impacting imports and domestic activity
- Interest rates are biased upward due to expected inflation
- Australian Tax Office (ATO) review of tax arrangements on offshore entities
- Difficult fund-raising environment
- Increasing competition from well-funded corporates

Outlook

- There will be pressure from LPs to exit investee companies with new fundraising becoming difficult
- Commodity-led activity will result in a two-speed economy, broadening to strong domestic demand in 2014
- Strong AU\$ and high interest rates will negatively impact global investment allocations

²³ Alexander Groh, Heinrich Liechtenstein and Karsten Lieser, *Venture Capital & Private Equity Country Attractiveness Index*, IESE Business School, University of Navarra, EMLYON Business School, 2013, 2014: <http://blog.iese.edu/vcpeindex/>, citing Ernst and Young, Thomson One Banker, with additions from the Kenan Institute Asia. Papua New Guinea and Brunei were not included in the sample. IPO, M&A, and VC Activity volumes have been given by quartile.

Canada

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Well-regulated banking sector which underpins financial stability
- Rapid economic growth since the recession, rising by an estimated 2.9% in 2010
- Small budget deficits (4%) compared with most developed economies
- Net exporter of energy
- Well-run legal system, similar to that of the US
- High standards of education with a well-educated workforce

Weaknesses

- Loss of competitiveness vis-à-vis the US, due to an appreciation of currency and slower productivity growth
- Less mature VCPE market than in the US
- Close integration with US capital markets leaves Canadian markets vulnerable to shocks
- Relatively length and costly enforcement of contracts

Opportunities

- High energy prices create investment opportunities in the Alberta Oil Sands
- Liberal immigration laws will help counteract the adverse effects of an aging population
- Underserved PE market relative to that of the US (5% of GDP in Canada vs. 7% in the US) suggests it has potential to grow
- Proximity to the US gives Canada access to the largest VCPE market in the world

Threats

- Household debt is high (about 90% of GDP), suggesting low consumer spending
- There is potential weakening in the housing market
- The slowdown in the US economy is leading to decreased demand for Canadian exports
- A dramatic fall in energy prices makes extraction of oil from tar sands unprofitable

Outlook

- Although GDP growth is forecast to slow in 2014, Canada's medium-term growth prospects look solid

Chile

IPO Volume (quartile) Q2

M&A Volume (quartile) Q2

VC Activity (quartile) Q2

Strengths

- Strong and developed capital market
- Good GDP growth (despite the impact of natural disasters, such as earthquakes)
- Laws on VCPE funds formation and operation, and regulations to stimulate the VCPE industry
- Low levels of corruption: ranked 21 of 178 economies in Transparency International's 2010 Corruption Perceptions Index
- Considerable entrepreneurial dynamism
- Transparent and clearly defined legislation concerning foreign investment: foreign investors enjoy the same rights as nationals and are able to operate in all but a few restricted areas
- Simplified procedures to obtain the Chilean tax identification number required for inward investments
- Recently strengthened corporate governance laws
- Mandatory IFRS application for listed companies

Weaknesses

- Double taxation for foreign investors from most economies, with a complex tax environment
- Slow judicial system: court proceedings can be subject to long delays, and high costs remain a barrier to pursuing legal actions
- Low levels of market capitalization, in addition to high costs of meeting listing requirements, limiting accessibility of IPOs for the majority of SMEs

Opportunities

- Pension funds and insurance companies are an important source of long-term financing and are allowed to invest in VCPE funds. However, these investments are limited to a small percentage of their assets

Threats

- A certain level of legal protection for property rights, although enforcement has been questioned
- The cost of protecting trademarks and patents is high, and the economy remains on the US Special 301 Watch List for intellectual property violations

Outlook

- Chile has a well-developed and experienced VCPE industry

- Chile's environment is characterized by a positive attitude toward foreign investment, good infrastructural quality and a relatively liberal labor market

China

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Strong and stable GDP growth over the medium term
- Large pool of potential PE investments and price-to-earnings ratios at
- IPOs tend to be at least twice as high as in the US and Hong Kong
- Fast-growing middle class with high savings will drive demand for consumer and financial goods
- Urbanization to second and third tier cities provides growth opportunities and plentiful supply of low-cost labor

Weaknesses

- The success of the large Government-led stimulus package is progressing to the stage of interest rate and bank regulatory capital increases being applied to keep inflation in check
- Intellectual property rights remain a focus despite a certain level of improvement in the situation
- Approval times for domestic IPOs vary, with some proceeding at an expected pace, while a few can take several years

Opportunities

- China has the ability to get ahead of developed economies in the adoption of green technologies
- Greater provision of a range of financial instruments for consumers and corporates will be a necessary part of financial sector reform for China over the next 10 years

Threats

- An oversupply in some segments of the property market may render it vulnerable to asset price volatility
- Certain regulatory approvals can take some time, relying on local knowledge such as the process for IPO approval

Outlook

- Real GDP growth is expected to average 8% over the next 10 years

Chinese Taipei

IPO Volume (quartile) Q1

M&A Volume (quartile) Q2

VC Activity (quartile) Q2

Strengths

- Global leader in high-tech manufacturing
- Highly educated labor force
- Growth is underpinned by very good infrastructure and sound monetary and fiscal policy; politically stable
- Government debt is just 26% of GDP and inflation has averaged 1% over the last decade

Weaknesses

- Rapidly aging population, with the number of working people forecasted to begin shrinking in 2016
- High land and labor costs compared with East Asian neighbors
- Reliance on world markets, with exports equaling around 70% of GDP

Opportunities

- Chinese Taipei's access to the domestic market in mainland China has improved with the signing of the Economic Cooperation Framework Agreement (ECFA), which will reduce tariffs on 15% of Chinese Taipei's exports to mainland China
- Relaxed regulations regarding capital investment in mainland China
- The Chinese Taipei stock exchange (TWSE) is well developed
- The high-technology VC market is well established and encouraged by the Government

Threats

- Highly dependent on international markets
- Aging population will apply increasing pressure on the Government's budget
- Increasing exports to mainland China, in the context of past tensions

Outlook

- GDP is forecast to grow by 3% in 2014
- Utilizing its skilled workforce and existing position, the economy should retain its leading position in the high-tech industries in the medium term
- The increasingly free movement of capital between mainland China and
- Chinese Taipei will encourage listing activity on the TWSE
- The potential synergy between Chinese Taipei and Chinese mainland companies remain strong

Hong Kong

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Key global financial center with professional labor market and financial infrastructure
- One of the easiest places in the world to establish a business or generate an IPO
- Well-placed to benefit from mainland China's high growth and financial market development
- Quick IPO approval process compared with the mainland – important for fast-growing companies

Weaknesses

- Economy is concentrated in the financial sector and vulnerable to downturns in world trade and financial liquidity
- Strong rises in domestic and commercial property in recent years store up the potential for asset price volatility

Opportunities

- Potential for global investors to access the renminbi-denominated bond market in Hong Kong
- Large increase in use of wind and solar power in mainland China over the next decade, with the aim of producing a fifth of mainland China's energy from renewable sources; this is already generating significant PE transactions in Hong Kong
- IPO surge means bright 2014 for Hong Kong

Threats

- High valuations, particularly in property sectors, may reduce the number of transactions
- Managing capital inflows and inflationary pressures with the dollar peg remains a key challenge

Outlook

- Real GDP growth is expected to average 5% over the next five years
- Hong Kong is a key part of the growing integration of trade within Asia
- Hong Kong will be a key part of mainland China's financial development and can capitalize on this by providing a range of financial instruments targeted at mainland investors

Indonesia

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q4

Strengths

- Large, young and growing middle-income population
- Abundance of natural resources
- Political stability and ambition to develop the economy

Weaknesses

- Tax system covers double taxation on income and heavy spending on subsidies.
- Inadequate infrastructure in some areas
- Legal system comparatively less developed than in other markets and perceived widespread corruption
- Larger companies tend to be state or family owned
- Physical infrastructure is considered substandard. Moreover, the archipelagic nature of the economies makes it difficult to weave national infrastructure together

Opportunities

- Valuations are more attractive than in other major Asian economies
- Large untapped potential for natural resource exploration and infrastructure development
- Core sectors remain energy, mining, plantations and infrastructure, with retail, communications and pharmaceuticals likely to experience fast-growth
- If reforms to land laws are implemented, this will lead to many investment opportunities in the property market
- Indonesia is expected to reach investment grade, improving access to finance

Threats

- Concerns that the outcome of the 2014 presidential elections may result in a potential shift of the current business and investment landscape
- Continuous amendments in Investment's Negative List may discourage foreign investors
- Unpredictable and contradictory Government policies and or regulations

Outlook

- Robust growth, underpinned by strong domestic demand
- VCPE markets will probably continue to develop quickly as the competition from Indonesia's neighbors is increasing

Japan

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- The world's third-largest economy
- Firmly established economic and social infrastructure
- Weaknesses
- Unique corporate governance culture differs from Western standards
- High corporate tax burdens on corporate cash flow
- Stringent legislative protection of employee rights prevents flexible workforce, rightsizing and adaptation of human resource management initiatives to corporate strategies

Opportunities

- Companies receive only limited investments but would certainly benefit from VCPE as they are usually broadly diversified with many non-core activities
- Succession issues in family-owned businesses foster VCPE investment
- Take-private deals and PIPEs are becoming more understood and accepted by management

Threats

- Increasingly negative sentiment toward VCPE, as VCPE investors are not seen as appropriately supporting investee companies in the current economic climate
- Increasingly difficult funding environment
- Decreasing valuations of public companies reveal missed/unfavorable VCPE exit opportunities

Outlook

- More Japanese companies are likely to aim at expanding their business into the global market, requiring additional funds and professional support from VCPE
- Many companies will find it increasingly hard to obtain access to additional capital and will need to deploy their capital more effectively
- Many companies will be forced to divest non-core businesses in order to create shareholder value

Korea

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Solid, diversified economy with high standard of education
- Globally competitive in many major manufacturing sectors, such as electronics, telecoms, automobile, shipbuilding and nuclear power
- Increasingly strong trade links with China
- Among the most efficient and transparent markets in the world for availability of credit

Weaknesses

- Economic dynamism concentrated in manufacturing and technology sectors. The service sectors have created relatively fewer new jobs during the recovery
- Steady reduction in FDI inflows over the last five years, suggesting an increasingly challenging business environment for foreign investors
- Relatively high loan to deposit ratio of banks
- Some companies encumbered by inflexible practices, including boards that have comparatively less accountability for corporate actions
- A strong union culture, making labor restructuring difficult and firing costly

Opportunities

- Medium-term growth outlook among the highest of the large economies
- Corporate restructuring
- Major expansion in new sectors such as green energy

Threats

- Dominance of the economy by the large conglomerates, making it relatively more difficult for new firms to grow, either in existing or new industries
- Perception that tensions with North Korea will raise the risk of potentially challenging developments in the Korean peninsula

Outlook

- Korea has a positive medium-term growth outlook, given its strengths in technology and boost from China
- Significant pressure on the exchange rate to appreciate could trigger further capital control measures

Malaysia

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Established regulatory framework and financial markets, both conventional and Islamic
- Government support and tax incentives for the VC industry

Weaknesses

- Sources of capital come predominantly from government agencies
- Governmental and regulatory approval processes for movement of capital and labor remain suboptimal despite current liberalization measures
- Government-linked investment corporations (GLICs) and government-linked companies (GLCs) continue to add to their portfolios through direct investments, which stiffens competition for larger deals
- Local VC managers' skills can be improved

Opportunities

- The Government's Economic Transformation Program has seen large and diversified conglomerates and GLCs continue to rebalance their portfolios through divestment of non-core businesses and through partnerships with private corporations/equity
- Several GLICs hold substantial direct investments in related enterprises which provide attractive consolidation opportunities
- Liberalization of foreign equity restrictions has widened the spectrum of opportunities for foreign funds

Threats

- Increased competition for already limited quality deals by special purpose acquisition companies (SPACs) that raise public capital

Outlook

- Most advanced VC facilities in the area, as reflected by high position in 2013 *Venture Capital & Private Equity Country Attractiveness Index* (13th overall)

Mexico

IPO Volume (quartile) Q2

M&A Volume (quartile) Q1

VC Activity (quartile) Q4

Strengths

- Tax treatments present advantages for certain aspects of VC investment
- Quality of accounting standards, which are generally in line with international standards
- IFRS required for all listed companies other than financial institutions and insurance companies

Weaknesses

- Lack of proper VC fund formation and operation regulations
- Weak enforcement of the protection of IP law
- IPOs remain a difficult and unattractive exit option for VCPE investments
- Perception of slow judicial system

Threats

- High perception of corruption
- Concerns about the ability of the authorities to control the drug trade
- Increased drug-related violence could discourage new ventures

Opportunities

- Regulation provides strong protection for minority shareholder's rights
- Adopted reforms in the investment regime of pension funds (Afores) now allow pension funds to invest in VC funds.
- Improvement in the amount and quality of entrepreneurial activity, including programs sponsored by the Government
- Low inflation levels
- Mexico presents a favorable commercial environment with a large and increasingly sophisticated domestic market, making it a growing destination for trade and investment

Outlook

- The economy remains overly reliant on US demand, and is closely tied to the US economic cycle, leaving the economy vulnerable to economic difficulties in the US
- GDP growth prospects for 2014 and beyond assume a lower contribution of exports and an increasing role of local demand

New Zealand

IPO Volume (quartile) Q2

M&A Volume (quartile) Q2

VC Activity (quartile) Q2

Strengths

- Limited liability partnership regime, consistent with global investment structures
- Positive buying opportunities as price expectations have declined
- Significant number of VC/PE-owned assets meaning secondary options may develop

Weaknesses

- Relatively weak capital market
- Slow recovery from recessionary impacts of the global financial crisis
- Low level of investment in plant and machinery
- Young VC industry facing significant challenges

Opportunities

- The export market is developing in a strong growth region of Asia
- New Zealand's largest trading partner (Australia) is strong

Threats

- Deleveraging impact is reducing the availability of credit and debt for corporate transactions
- There is uncertainty around the timing of economic recovery
- Australia- and New Zealand-based LPs are reducing exposure to the PE industry, leading to fewer managers over time

Outlook

- Positive buying opportunities exist but VC industry is relatively immature
- NZVIF has made an impact, and invests USD 132 million through the Venture Capital Fund of Funds and the Seed Co-investment Fund
- Incubator Support programme facilitates the growth of early-stage businesses

Peru

IPO Volume (quartile) Q3

M&A Volume (quartile) Q2

VC Activity (quartile) Q4

Strengths

- IFRS requirement for listed firms
- High corporate governance requirements, demanding strong financial disclosure for companies
- History of VC funds, with some operating successfully for several years

Weaknesses

- Restrictions on investment in VC by pension funds: a small percentage of capital allowed
- Weak, slow judiciary, with a perception of corruption
- Inconsistent enforcement of legislation in the economy

Opportunities

- Costs of starting a business are relatively low
- Government remains committed to pursuing an investor-friendly business climate, with a Foreign Investment Law which offers automatic investment authorization and the same investment conditions to foreign and national investors
- IPOs have come back to Peruvian capital markets, which could represent an exit strategy for VC funds in the future

Threats

- IP protection is regulated; however, enforcement has been an issue
- The tax environment is complex and taxation for VC is expensive, but tax stability agreements to increase investor attractiveness have been reached
- Regulatory frameworks for fund formation and operation remain incomplete, and capital market reform projects to improve VC have been delayed for a number of years
- Low-skilled workforce presents management difficulties

Outlook

- Economic activity looks set to remain well supported by private demand and investment and the outlook for 2014 is positive at 6.3% (3rd in the region behind Panama and Bolivia)
- Recent changes to Peruvian regulations are allowing increased activity
- Peru has maintained an aggressive trade policy that has allowed it to sign free trade agreements with the US, Chile, Singapore, Thailand, China, Canada and Korea

Philippines

IPO Volume (quartile) Q2

M&A Volume (quartile) Q2

VC Activity (quartile) Q2

Strengths

- Cumulative investments of P3.8 trillion expected between 2011 and 2016
- High market potential from young and growing middle income population
- Remittances from over eight million Filipinos overseas contribute over 10% of GDP
- Highly educated professionals and a large pool of affordable workforce
- Increasing consumer spending, driven by rising per capita income (over US\$2,000) and a growing population

Weaknesses

- Inadequate infrastructure in selected areas and sectors
- Budget deficit limits the Government's ability to undertake infrastructure improvements (however, the Government is pushing PPP for infrastructure development, which will lead to increased infrastructure investments)
- Innovation structure capacity is somewhat limited

Opportunities

- Investment and trade opportunities from free trade agreements between ASEAN and other Asian economies are increasing with AEC
- Increased globalization, particularly in offshore and outsourcing activities in the US, provides investment opportunities
- Growth drivers for investment are food, technology, infrastructure and tourism
- Valuations are attractive compared with Asian neighbors
- Improving corporate governance and the ongoing effort to stamp out corruption should attract investments

Threats

- Economic reform is slow
- Perception of widespread corruption and security issues

Outlook

- Broad-based consumer demand and resurgent exports and investments should support economic growth, with the potential for higher growth if substantial infrastructure reforms are undertaken
- Global outsourcing is expected to accelerate
- Sustained economic growth in the Asian region will provide the Philippines a major source of skilled workers

Russia

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Moderately optimistic economic recovery supported by growing oil prices
- Low level of state debt
- Governmental support for VC investments in nanotechnologies (through the foundation and operation of RUSNANO, the state-owned corporation) and for innovation in general

Weaknesses

- Low levels of transparency
- Lack of solid track record in VC obstruct financing on favorable terms
- Weak private sector, infrastructure and corporate governance
- Low per capita income, with a significant difference between major cities and other geographies
- Second wave of privatization has failed to become a key driver of M&A deals as hoped

Opportunities

- 2014 Olympics and 2018 World Cup have/are expected to create a substantial flow of infrastructure opportunities
- Many business are willing to dispose of non-core assets, which may result in additional flow of deals

Threats

- Fallout from Ukraine crisis is yet to be fully understood and may be long term
- A fall in the oil price may substantially damage the economy
- An increasing proportion of the economy is being controlled by the state
- Competition from other emerging economies (e.g., China) for VC capital
- Foreign investors are tired of waiting for reforms and improvements
- Ruble has not yet stabilized following Ukraine crisis

Outlook

- VC players could be attracted if transparency increases
- Many global players see Russia as having stronger prospects in the near- and mid-term than most developed markets
- Ukraine issue leaves many uncertainties about foreign investment

Singapore

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Corporate perception of VC is positive
- Liberal financial environment conducive to optimizing innovative financing structures and access to a well-developed capital market
- Government has an active role through co-investment in new enterprises
- Excellent living environment with access to talent, and favorable taxation for VC funds and individuals
- Singapore is the regional hub for VC activity in South East Asia
- More sophistication among the corporate community, making deals easier to execute

Weaknesses

- Government links with some of the largest local companies, limiting their need for external capital
- VC market less robust than the PE market

Opportunities

- Certain sectors present consolidation opportunities
- Deal size is suitable for the limited leverage environment
- Singapore has not delivered “great enough returns” to attract immense funding; value for money still exists

Threats

- Stock-market multiples have become more attractive, offering efficient alternatives for capital raising
- While competition from hedge funds has declined, alternative financing sources still present a source of competition to VC
- Competition for deals is strong, due to the large quantum of “dry powder” resulting in higher deal multiples

Outlook

- Given greater regional integration, capital will flow to those regional markets that offer the best opportunities
- Strong fundamentals for economic growth and a liberal, supportive government should support the growth of VC activity
- Increased liquidity and stabilization of financial markets have supported a re-emergence of VC activity
- Asia-focused funds have significantly increased and will continue to do so as more LPs seek access to the Asian growth story

Thailand

IPO Volume (quartile) Q1

M&A Volume (quartile) Q2

VC Activity (quartile) Q4

Strengths

- Solid fundamentals with GDP growth still projected at 2-2.5% for 2014 despite political turmoil
- Improved fundamental competitiveness driven by the shift from industrial to service and creative economy and the increased stability of the financial market in the long term

Weaknesses

- Ongoing political uncertainty
- Banking-oriented economy and market perception of VC is not widely recognized
- Dependence on capital and low cost of labor

Opportunities

- Strong government support for “Regional Office Headquarter” concept
- Government’s substantial investment in public infrastructure, particularly transportation and the utilization of alternative energy
- Regional cooperation, with both bilateral and multilateral arrangements, supports increased productivity and free competition in the domestic market
- Corporate valuation is one of the lowest in the region despite substantial growth and a well-performing economy

Threats

- Political uncertainty and possibility for violence impact the confidence of both consumers and investors
- The situation for natural resources is declining
- Market perception of corruption and uncertain regulatory regimes
- Downward pressure on the value of the currency, reducing the competitiveness of the export market and adversely affecting the foreign investment environment

Outlook

- Much rests on a long-term resolution to the political conflict
- Coup may be a stabilizing factor in the short term, reducing risk of further violence
- Shaken investor confidence may limit deals in the short term

United States of America

IPO Volume (quartile) Q1

M&A Volume (quartile) Q1

VC Activity (quartile) Q1

Strengths

- Venture capitalists and CEOs of portfolio companies optimistic about prospects in 2014
- Strong innovation and entrepreneurship culture
- Fully developed and robust VC “ecosystem”
- Remained the most active market for VC backed IPOs

Weaknesses

- Poor returns on VC for almost a decade
- Continuous decrease in the number of VC funds
- Increase in VC-backed IPOs but with amount raised falling back by 27% to US\$8.2b

Opportunities

- Robust innovation and fast growth can be seen in segments such as cloud computing, social networks, wireless and big data
- Opportunities for strategic partnerships are increasing
- Crowdsourcing making it easier for seed and start-up businesses to access projects, debt and equity funding
- Angel and incubator investors are becoming more significant and better organized, having doubled in the US in 2013
- Corporate investors are pioneering new ways to collaborate with fast growth businesses and VCs

Threats

- Cleantech, medical device, and biopharmaceutical sectors all expected to shrink
- Accelerated global competition
- State deficit is likely to lead to an increase in taxation and will weaken the US dollar, thus adding foreign exchange risk

Outlook

- Industry is strong with investment and growth opportunities in new and innovative segments
- Consolidation of players in the VC industry is expected
- “Four forces” of mobile, social, cloud and big data expected to dominate
- Growth towards the end of 2013 in the US economy, which accounts for 68% of global VC activity, bodes well for 2014

Viet Nam

IPO Volume (quartile) Q2

M&A Volume (quartile) Q2

VC Activity (quartile) Q4

Strengths

- Abundance of natural resources (particularly rice, coffee and tea)
- Comparatively low labor costs
- Political stability
- Strong entrepreneurial culture
- Strong and growing domestic demand

Weaknesses

- Workforce lacks management experience in various sectors
- Administrative procedures still lagging behind regional peers
- Underdeveloped financial markets
- Relatively weak corporate governance
- Financial reporting not yet in line with international standards

Opportunities

- A rise in the standard of living is creating increasing demand for products and services, particularly in emerging urban centers
- Exports to the US, China and ASEAN bloc are growing, along with increased market access through bilateral and multilateral trade agreements
- Enterprises have appetite and scope for operational and financial improvements
- Infrastructural demand is driven by the transformation of the economy

Threats

- More time-consuming to do business than in neighboring economies due to relatively stricter government regulations
- High inflation rate
- Escalating cost of borrowing
- Relatively slow progress in the equalization process, infrastructural development and administrative reforms
- Conflict with China over South China Sea threatens trade relationship and poses risk of escalation

Outlook

- Economy expected to grow by 5.5% in 2014, supported by strong domestic demand and increasingly diverse exports.
- High potential in consumer sectors
- Strong position in commodities production, with potential for more natural resource exploration and infrastructure development

Workshop summary

The workshop on Financing APEC SME Innovation through Venture Capital was held between the 18th – 19th of June 2014 at the Sofitel Sukhumvit Hotel, Bangkok by the Office of Small and Medium Enterprises Promotion (OSMEP), on behalf of the APEC SME Working Group. The main objective of the two day workshop is to devise a set of policy recommendations to be enacted APEC-wide for both developed and developing member economies to encourage both domestic and cross-border venture capitalist investment, with a focus on encouraging venture capital market growth in latecomer economies. The goal is hear from policy makers, venture capitalists, and entrepreneurs in order to enhance our understanding of issues and challenges related to growing venture capital markets in APEC economies, in order to allow innovative APEC SMEs greater access to financing.

The two day workshop has effectively bridged together a network of parties with a total of 101 participants; 7 APEC delegates, 11 embassies staffs and foreign trade associations, 31 from the public sector which includes officers from the Ministries of Finance, Ministries of Industry, Ministries of Commerce, Boards of Trade and Investment, 30 from private sectors which includes venture capital entrepreneurs, and 22 from Kenan Institute Asia and the Office of the Small and Medium Enterprises Promotion (OSMEP) in attendance.

The workshop's agenda is designed to synergize and extract the barriers and opportunities towards venture capital investment. Speakers are professionals in various industries including key finance and SME policy-making agencies, venture capitalists and SMME leaders who have brought with them expertise, knowledge and lessons learned on promoting innovation through venture capital. The workshop agenda is as follow;

WORKSHOP AGENDA



Asia-Pacific
Economic Cooperation

Financing APEC SME Innovation through Venture Capital Workshop
Sofitel Sukhumvit, Bangkok, June 18-19, 2014

Day 1		
Time	Content	Speakers
09:00-09:05	Welcome Speech	Dr. PatimaJeerapaet , Director General of the Office of Small and Medium Enterprise Promotion (OSMEP), Ministry of Industry
09:05-09:15	Opening remarks	Mrs. LuckanaTangchitnob , Director of the International Affairs Bureau at Office of Small and Medium Enterprise Promotion (OSMEP)
09:15-09:45	Keynote Address: Venture Capital in APEC: Ten Years On	Professor Dr. Kimball Dietrich , Associate Professor of Finance and Business Economics, USC Marshall School of Business
09:45-10:30	Presentation: Early Days: Growing the Venture Capital Industry in Thailand followed by Q+A	Mr. VorasitPokachaiyapat , President, Thai Venture Capital Association
10:30-10:45	Coffee Break	
10:45-11:30	Sectorial Presentation, Digital Content and Media: World Class Content and Games from Thailand followed by Q+A	Mr. JakobLykkegaard Pedersen Co-Founder/Partner Pocket Playlab
11:30-12:15	Sectorial Presentation: ECom-merce	Mr. Paul Srivorakul Regional CEO of aCommerce
12:15-13:30	Lunch	
13:30-14:30	Success Stories followed by Q+A	Mr. NatavudhPungcharoenpong , CEO, Ookbee; Mr. PataiPadungthin , Principal / Evangelist, Builk.com
14:30-15:15	Presentation: Venture Capital in APEC: A regional investor's perspective followed by Q+A	Adrian Vanzyl CEO, Ardent Capital
15:15-15:30	Coffee Break	
15:30-16:30	Moderated Discussion: Achieving a Policy Environment Encouraging Entrepreneurship and Innovation Through Venture Capital followed by Q+A	Mr. Tiwa York , Head Coach, OLX co.th Mr. NatavudhPungcharoenpong , CEO, Ookbee Mr. JakobLykkegaard Pedersen ,

		Co-Founder/Partner, Pocket Playlab. Moderated by Dr. Kimball Dietrich Associate Professor of Finance and Business Economics, USC Marshall School of Business
Day 2		
09:00-09:45	Panel Discussion: Venture Capital Markets in emerging APEC economies: Issues and Challenges followed by Q+A	Mr. Tom Kim, CEO, Co-Founder Inspire Group Mr. Nobuaki Kitagawa CEO, Cyber Agent Ventures. Ms. Plern Tee Suraphongchai Director, Ardent Capital Moderated by Mr. Charles Blocker, CEO, Invision Capital and a trustee of Kenan Institute Asia
09:45-10:30	Case Study: Growing the Asian internet industry followed by Q+A	Mr. Nobuaki Kitagawa CEO, Cyber Agent Ventures
10:30-10:45	Coffee Break	
10:45-11.30	Success Stories followed by Q+A	Mr. Amarit Charoenphan, Managing Director EMBRYA HUBBA Mr. Bancha Dhammarungruang, Co-Founder at MangaMagazine.net
11.30-12.00	APEC Economic Trends Analysis: Innovate for a Better Future with Sustainable Growth followed by Q+A	Ms Quynh Le Macroeconomist Policy Support Unit APEC Secretariat
12.00-13.00	Lunch	
13:00-13:45	Presentation: The Regulatory Framework: Tools for Venture Capital followed by Q+A	Mr. Thanakrit Chatraporn, Senior Economist Fiscal Policy Office, Ministry of Finance
13.45 – 14.05	Presentation: Technology Innovation Business Startup Fostering Program	Mr. Chalernpol Tuchinda Director, Software Park Thailand
14.05 – 14.20	Closing Remarks	Dr. Wimonkan Kosumas Deputy Director General Office of Small and Medium Enterprise Promotion (OSMEP)
14.20 – 14.35	Networking and Refreshments	

Policy Recommendations

The Financing APEC SME Innovation Workshops' goal is to find ways to improve SMEs' access to finance through venture capital by identifying opportunities and obstacles that will promote venture capital investment in APEC economies. Such issues were addressed through presentations and discussions by professions, all of which have brought with them insights from direct experience in their respective fields. The recommendations made are hoped to become a framework for member economies to steer future policy decisions in order to promote the growth of domestic and international venture capital in APEC. The recommendations are intended for SME policy makers, including Ministries of Finance, Ministries of Industry, Ministries of Commerce, SME Promotion Agencies, Boards of Trade and Investment, Venture Capitalists in developed and developing APEC economies, SMMEs in developed and developing APEC economies intending to seek venture capital funding, banks, industry associations.

The recommendations derived from the workshop has been divided into four sections; 1. Recommendations on government policy measures that can help enhance SMEs and venture capital investments, 2. Recommendations for APEC economies towards creating a supportive and nurturing environment, 3. Recommendations for entrepreneurs on securing access to finance and improving business competitiveness and 4. Recommendations for venture capitals investors on how to help improve the market environment.

1. Recommendations for Government policy measures that can help enhance SMEs and venture capital investments

Rules and Regulations

One of the key elements in enhancing SMEs and VC investment is with **innovation**, especially in the APEC economy where high technology is not yet central. **Raising minimum wages** is one of the ways government can push to promote innovation. Costly labor has shown to encourage the need towards innovation, especially for those in traditional industries. This has shown true in the US and European countries and low labor incentive economies.

Libertarianism is said to be the principal objective towards supporting startups and VC. **Limiting regulations** and an open/flexible policy decision with allow the market to create a nurturing environment towards a free capital market. Regardless of policy or regulations, more importantly however, is to keep the policies clear and constant, mixed signals has shown to create a hazardous environment for SMEs and VCs. Therefore, regulations are not as important as consistency.

Foreign ownership laws are a strong factor that both hinders and supports foreign investment and growth for SMEs and entrepreneurs. **Work permits** were also addressed as an obstacle towards maintaining business expertise.

Singapore has become a 'hub' for venture capital investment. The **governments matching funds** program has proven to be a very effective incentive package to promoting SMEs and investments. Governments can choose to enact a similar program to incentivize the market. However, as with Singapore, funds come hand in hand with strict requirements and restrictions. Therefore it is importantly to ensure that such programs will not limit opportunities.

Tax system

Tax laws and corporate tax can help attract foreign investment and promotes limited partnerships. With limited partnerships, money can be raised by General Partners from wealthy investors where limited partners will have preferential tax treatment.

Tax can help incentivise entrepreneurs and investment, for example, setting up tax privileges to priority sectors to create targeted growth in superior and competitive industries.

Banking and finance system

Trust Laws can help increase acceptance of VC as a means of financing and support corporate VCs. For example; shadow banking by investors who can afford to take a loss or non-traditional institutional financing forms.

The need for strong bank regulations policies is apparent, especially for emerging economies. Such regulations should follow international standard to cater to foreign investors. For example, in regards to balance sheets, revenue tracks record or collaterals.

Most SMEs and investors are looking for ease in money transfers (For example, ease for foreign expats financial and income management). Such ease is most apparent in the digital sector where transactions are made 'in the air' and therefore require fast pay-outs. Therefore the government should help **simplify such banking procedures**.

To enhance innovation among SMEs the government can help support **non-traditional financing** methods. Traditional financing tend to invest in fixed assets rather than intangibles assets such as R&D, thus innovation is hindered.

Recognize **equity financing** as an alternative source of funding.

Public Policy (supporting enabling environment)

Education has been identified as a major supporting factor towards promoting SMEs by;

- Creating effective managers and entrepreneurs that are lacking in many potential startups.
- Producing qualified graduates in high technology and science fields that will help promote innovation.

- Universities have been proven to provide the best incubator where ideas, startups and investors can network.
- Improving language proficiency, an area that have shown to hinder opportunities in many economies.
- Changing mindsets towards failure (a culture shift). Provide opportunity to fail since a young age through experimental and risk taking opportunities as an important training ground.

For many Asian economies where families and politics play an important role in the business sector, **transparency and governance** must be improved to create a more stable environment for VC. Risk takers must be rewarded and corporate failures must be accepted as a part of business life. Denmark has been identified as an example where risk taking is encouraged through providing a social safety net and basic public infrastructure.

To ensure a growth in market environment requires **building strong infrastructure** in areas of technology; internet, telecommunication, E-payments and transportation; postal services as the business trend, even for new start-ups and SMEs is moving towards online transactions and Ecommerce.

Strengthening **Intellectual Property Rights laws** help spur innovation and attract foreign investors.

Promote local SMEs through **educating foreign investors** to the local market potential. Many economies, especially in SEA show high potential and many opportunities for investors who are often unaware.

Recommendation made specifically towards APEC economies were addressed as follow;

China should limit financing with short term certificates (especially in high-tech or real estate industries) that present a risk to the entire economy. Rules and regulations are often unclear and uncertain; however, investors are willing to take risks if there is market potential as long as there is still a ‘common practice’ for all.

Japan is remarked as having language, culture and business models that are too different and difficult for start-ups.

Singapore remains the ‘hub’ for VC capital investment due to its supportive policy measures. However, the business culture is considered very tight and regulated, limiting opportunities for many start-ups. Keeping the regulations clear and structured remains the key, Singapore has done quite well in disseminating information.

Thailand has been losing opportunities and benefits as a hub for local start-ups. Most businesses turn to Singapore and Hong Kong to set up business but conduct business operations in Thailand. The consensus was made that it is because of the BOI processes

and tax structures that are still deemed difficult and redundant. Also, restrictions on foreign own businesses and the regulatory red tape makes it extremely problematic to establish businesses in Thailand. However, Thailand shows huge potential in terms of technological advancement, especially in terms of telecommunications. In one year, Thailand's growth in internet and smartphone matched the growth China saw in three years. Such signal shows potential for a massive boom in start-ups and SME innovation. It is therefore important that policy makers take note of this change in market trend in order to fuel SMEs and SME innovation.

ASEAN governments should prepare for the upcoming AEC that will allow for movement of money and entrepreneurs. Increasing market competitiveness will drive down costs through opening of borders and removing the friction for start-ups, especially in Ecommerce.

2. Recommendations for APEC economies towards creating a supportive and nurturing environment

Investment Structure

It is understood that many start-ups will choose to move to economies with clear structures for business and investors. For example, many economies have stock option classes that make it difficult for both investors and founders. To create a supportive environment for SMEs, an **accredited investment system** should be implemented. Implementing and creating a supportive environment for an accredited investment system will help foster SMEs.

Labour Mobility

There is need in talent and expertise in certain industries. This can be supported through creating a **cross-cultural incubating environment** that will allow greater labour mobility. There should be greater leniency in granting business visas for professionals. While existing policies such as the APEC Business Travel Card program for business leaders should be promoted and extended to skilled workers as well.

Education and Innovation

It is agreed that innovation, technological advancement and knowledge create ideas that is the drive for SME and VC investment growth, therefore a nurturing environment towards innovation needs to be created. Silicon Valley is one of the successful examples of an innovation hub, through creating the so called **"Iron Triangle"** phenomenon, bringing together academia, entrepreneurs and investors. Additionally, economies should understand what it is that is hindering innovation. For some it is regulatory red tape, or the education system while for others it can be culture or lack of basic infrastructures.

Many APEC economies have high potential and opportunities for investment. **Regional cooperation** should be enhanced in order to educate investors and expand the investor pool. This can be done through resource sharing, networking, setting up groups and partnerships.

Rules and Regulations

In order to promote VC investment, some **deregulations** are needed, for example;

- Allowing investment of convertible debts to take on a position of responsibility which is a standard VC technique that is not allowed in many economies.
- Allowing pension fund investment
- Easing regulations on contractual forms and disclosure.
- Supportive options for exits and trade sales for example; IPO listing.

Business Environment

APEC growth forecasts for the next 5 years have been lowered from 5 to 4.1% as job loss and total labor productivity has reduced in the lower-income economies therefore APEC economies need to **look abroad to increase competitiveness**.

To promote VC market, there must be enough supply as well as having equilibrium between entrepreneurs seeking start-up capital and investors, paving way for **Angel financiers**.

3. Recommendations for entrepreneurs on securing access to finance and improving business competitiveness

Start-up Business Model

There are many pitfalls start-up companies who are looking for investors make. Successful start-up share the same traits, one most importantly is having that right ‘innovative’ idea and the right timing. However, great ideas are not enough, successful SMEs require a **sound business model** at the onset. Investors look for security and structure to ensure their return on investment. Having ownership structure and being properly registered from the start creates transparency and confidence, especially from foreign investors who may not be familiar with local laws. Secondly, entrepreneurs must develop multiple revenue streams and **diversify monetization** in order to gain investor confidence. Furthermore, many start-ups and entrepreneurs lack the experience on how to effectively spend money that further hinders VC investment in many economies where entrepreneurial skills are not as strong. Lastly, entrepreneur must not be afraid to take risks and not be afraid to fail, no matter how many times. “High risk, high return” is a concept VCs expect entrepreneurs to fathom.

Globalization is changing the market sphere for some industries, especially IT, where a product can be developed in one place and sold elsewhere, creating different optimum strategies. This makes it increasingly possible for start-ups to open operations anywhere, wherever you feel most comfortable. The challenge remains towards **knowing the market** and how to **effectively distribute talent** by gaining the right people to work for you.

Certain industries require a **flatter organization structure** in order to support innovation and creativity that are still rare in many Asian cultures that generally operate in a pyramid (hierarchical) manner.

Governance

Corporate governance laws help promote investor confidence. Effective governance systems can help make companies attractive for trade sales. A challenge for many VCs is to **make companies attractive for exits**, which is a determining factor for VC investment.

In the local market, it is important to hire local managers who understand the local market and culture. Having an **independent and local director** (non-founders, non-shareholders) sitting on the board is important. There should be more means for investors to recruit competent directors with sector experience. Choosing the right business and investment partner is also vital.

Marketing Strategy

To attract VC both locally and regionally requires being in the spotlight, this can be done through coverage in blogs and other media. Build investor confidence through **reputation and networks** is vital. For example, VC and angel financing is very due-diligence dependent. Having an international exposure is vital to building reputation.

When pitching, entrepreneurs should not be modest about how much money is needed nor should they be modest on the horizon of your vision and business potential. VCs tend to want to see businesses that can scale, not SMEs that want to stay small and keep control. Most entrepreneurs often do not think big enough which is what VCs are looking for.

VC Investor Trend

In Asia, there is still potential to grow. VC can still buy low and sell high instead of buying high and selling higher as in the global trend. Therefore there is still room for bigger investment in the demand side that means more liquidity that can drive the Asian market more strongly.

Opportunities for entrepreneurs in South East Asia are in the online business platforms such as online navigation and local information services as well as online learning and tutoring.

The Singapore government provides money towards VC and start-ups, but to raise money in Singapore comes with many regulations, those include; having to register, have shareholder agreements, pay taxes, open main operations in Singapore.

Regional Networks

A network of businesses should be developed to act as a **mentor** and expand business potential through channelling with governments and VCs. For example, Singapore has a club for those who have sold companies for more than 10 million dollars. Such network helps link members with government officials and VCs as well as being mentors. This is one way to promote more seed and angel investors to invest in early stage – series A funding who are generally not as visible. Because VCs tend to wait for winners to emerge but winners are hard to find in the ‘hay stack’.

4. Recommendations for venture capitals investors on how to help improve the market environment.

Access to Information

There is a lot VCs can do to help drive the market forward. There should be **greater information sharing** and opportunities between VCs by setting up Angel VC networks.

Training

VCs can support activities to help start-ups such as providing **pitch training** for local start-ups. Match investor supply and demand needs and give recommendations to increase overall business potential.

Investing

There is a need for greater **series A investment** that will help improve the market. It has become a big challenge for entrepreneurs to secure growth stage funding that is necessary for the business success. The development stage is difficult to monetize until there is a user-base but to create that user-base require funding, a continued dilemma for businesses.

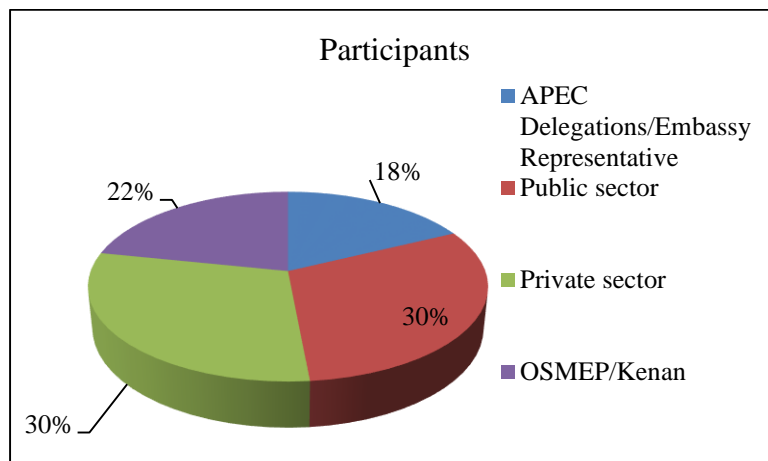
Workshop Evaluation Results

From the two day workshop, there were a total of 101 participants; 18 from APEC delegations and embassy representatives, 31 from public sectors, 30 from private sectors, and 22 from Kenan Institute Asia and the Office of the Small and Medium Enterprises Promotion (OSMEP) in attendance.

Table 1: Summary of workshop participants

Participants	Frequency
APEC Delegations/Embassy representatives	18
Public sector	31
Private sector	30
OSMEP/Kenan	22
Total	101

Figure 2: Percentage of participants who attended the workshop.



Remark: APEC funding was allocated for a total of 40 participants to receive reimbursement in attending the workshop. The rest of the participants were self-funded.

The participants were asked to complete an evaluation survey as well as a survey recommendation for VC and SME market trends. A total of 38 surveys have been returned to the operation team. The results were compiled with the following details;

Overall, the evaluation survey shows an above average overall satisfaction rate:

Table 1: Evaluation survey results

	Disagree	Agree	Strongly Agree
1. The objectives of the training were clearly defined	-	22 (58%)	16 (42%)
2. The project achieved its intended objectives	-	24 (63%)	14 (37%)
3. The agenda items and topics covered were relevant	-	22 (58%)	16 (42%)
4. The content was well organized and easy to follow	-	17 (45%)	21 (55%)
5. Gender issues were sufficiently addressed during implementation	7 (18%)	25 (66%)	6 (16%)
6. The trainers/experts or facilitators were well prepared and knowledgeable about the topic	-	16 (42%)	22 (58%)
7. The materials distributed were useful	-	23 (61%)	15 (39%)
8. The time allotted for the training was sufficient.	2 (5%)	17 (45%)	19 (50%)

Comments:

- Some participants would like to request for document summary after the workshop
- Some participants would like to learn more topics related to other economies such as Canada, Mexico, Peru and Singapore.
- Participants who disagreed with this statement said that gender issues were not addressed in the workshop.
- All participants according to the survey were impressed with speakers
- Participants viewed that materials distributed were useful. However, some of materials were not available in hard copy. As a result, some participants suggested that there should be presentations available online.
- Participants who disagreed with this statement request for longer time at the workshop.

Apart from the rating score, the evaluation survey was also asked participants to answer the following questions.

1. How relevant was this project to you and your economy?

Very	9	(24 %)
Mostly	23	(60 %)
Somewhat	6	(16 %)

Explain: Most of participants said that the workshop was relevant to their current work and their economy, especially in terms of policy framework and the venture capitalists' point of view.

2. In your view what were the project's results/achievements?

Explain: According to survey results, the two most important achievements from the workshop were knowledge sharing of the venture capital market in the region, especially in Thailand as well as raising awareness from both venture capitalist and SMEs' point of view on how to invest and attract venture capitalists.

3. What new skills and knowledge did you gain from this event?

Explain: The results showed that participants were getting clearer pictures on SME and venture capital landscape, mainly on the perspective of the Southeast Asia. In addition, types of SMEs in which venture capitalists are interested in as well as marketing skills were also addressed as part of knowledge they had learnt from the workshop.

4. Rate your level of knowledge of and skills in the topic prior to participating in the event

Very high	2	(5 %)
High	4	(10 %)
Medium	14	(37 %)
Low	17	(45 %)
Very low	1	(3 %)

5. Rate your level of knowledge of and skills in the topic after participating in the event

Very high	3	(9 %)
High	21	(62 %)
Medium	10	(29 %)

Explain: Most of participants could acquire more knowledge and lesson learnt from case studies, especially from successful startup speakers.

6. How will you apply the project's content and knowledge gained at your workplace? Please provide example (e.g. develop new policy initiatives, organize training, develop work plans/strategies, draft regulations, develop new procedures/tools etc.).

Explain: The results could be divided in to 2 points of view per explanations below

Venture capitalists/SMEs: they could develop new strategies in order to gain easier access to sources of fund for startup business such as develop work plan and do coaching with investment companies from their sharing experiences.

Governments/Policy makers: the results showed that they could develop new policy initiative, regulations in promoting innovation among SMEs and new procedure related to financing SMES as well as provide recommendations to SMEs when they are facing the problems related to such regulations, policies and procedures.

7. What needs to be done next by APEC? Are there plans to link the project's outcomes to subsequent collective actions by fora or individual actions by economies?

Explain: The survey pointed out that APEC should keep information updated and APEC training program should be continued with workshops while action plan should focus on innovation in order to connect the region to global.

8. How could this project have been improved? Please provide comments on how to improve the project, if relevant.

Explain: As a result from the survey, this workshop could be improved by bringing regulators, venture capitalists, entrepreneurs from other APEC economies (beside Thailand) to share their experience.

Appendix – See Appendix Report Attached

APEC Project: SME03 2013A

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