

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Lima, Peru

Meeting Paper 6-B Venture Capital: A Role for Government in Supporting SMMEs

V. Paul Lee, ABAC Canada

Purpose: For consideration and discussion
Issue: Equity funding for SMMEs
Background: ABAC Canada made a presentation on venture capital financing in the SMME Working Group in Guangzhou in February 2011. This presentation was part of a broader discussion on alternative financing options for startups and the promotion of knowledge-based or innovative growth sectors. The SMMEWG asked that the issue be taken up by the FEWG and at the Seoul meeting in April 2011, it was decided that the AFSCB was best positioned to examine and carry forward future work on venture capital. The powerpoint presentation submitted by ABAC Canada to the AFSCB covers the following points: <ul style="list-style-type: none">• SMMEs need equity financing as they face difficulties in securing debt financing• Venture capital is a form of equity financing• Venture capital plays an important role in technological innovation• Governments play an important seed role in every major venture capital market• SMME venture capital policies in Canada have delivered positive results
Proposal /Recommendations: Governments should promote SMME entrepreneurial activity by: <ul style="list-style-type: none">• Ensuring creative ideas move easily from universities & government labs to new or existing businesses• Ensuring tax policy supports SMME activity• Allowing firms to enter into needed contracts• Ensuring business and technology students are exposed to entrepreneurship classes• Creating training opportunities in entrepreneurship for midcareer professionals• Ensuring international investors find jurisdiction an attractive one in which to invest• Ensuring a strong venture capital community to help allocate capital, resources and people to most promising companies
Decision Points: <ul style="list-style-type: none">• Next steps to advance the proposal for greater government support for SMME venture capital

**VENTURE CAPITAL:
A ROLE FOR GOVERNMENT IN
SUPPORTING SMME**

**V. PAUL LEE
ABAC CANADA
AUGUST 2011**

SMME NEEDS EQUITY FINANCING

- **SMME's are major employers and key economic players in all economies**



- **SMME's having difficulty getting debt financing**
 - Limited collateral
 - Limited operating history
 - Limited financial marketing & presentation skills
 - Too small to secure debt offering
 - Need more than capital to succeed – also need assistance, expertise and connections



WHAT IS VENTURE CAPITAL?

- Equity financing
- Financiers'/Investors' returns are based on investee company's success, not fixed rate of interest
- Unlimited upside allows more risk, portfolio approach
- Good VC's provide capital + expertise + connections because they share in success



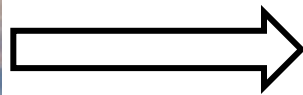
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VENTURE CAPITAL IS IMPORTANT

- 4000 professionals, 1500 new companies funded each year vs. 1M new companies, \$25-30B annually (less than 0.2%GDP)
- 21% of US GDP, 11% of private sector jobs, 6% of all jobs (most high tech)
- 13% of all public firms at end of 2008
- 8% of market capitalization (\$2 Trillion)
- 3% of corporate R&D but 10-12% of privately funded innovations



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GOVERNMENT ROLE

- Government programs have played an important seed role in every major venture capital market
- Venture Capital funds entrepreneurs and SMME's, a critical part of every economy
- Entrepreneurship + Venture Capital stimulated innovation
- Innovation spurs economic growth



A CALL TO GOVERNMENT TO PROMOTE SMME ENTREPRENEURIAL ACTIVITY

- Ensure creative ideas move easily from universities & government labs to new or existing businesses
- Ensure tax policy supports SMME activity
- Allow firms to enter into needed contracts
- Ensure business and technology students are exposed to entrepreneurship classes
- Create training opportunities in entrepreneurship for mid-career professionals
- Ensure international investors find jurisdiction an attractive one in which to invest
- Ensure a strong venture capital community to help allocate capital, resources and people to most promising companies



A CALL TO GOVERNMENT TO FUND SMME VENTURE CAPITAL

B.C. Example

- Angel Investors – 30% refundable investment tax credit
- Corporate Investors – 30% non-refundable investment tax credit
- BC Renaissance Capital Fund – invests in venture capital funds with a 5 (private sector) to 1 match of investment dollars in a pooled fund
- \$1 of tax credit has led to \$3 of additional direct taxes paid to government

Business Development Bank of Canada

- Invests in venture capital both directly and as a fund of funds to focus on the Canadian venture capital market

Export Development Bank of Canada

- Invests in venture capital directly and in international venture capital funds that might invest in Canada



Q & A

Thank you