

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 7-A

Creating a Sustainable Venture Capital Ecosystem in the APEC region

ABAC Canada

- PURPOSE*** For consideration.
- ISSUE*** Development of an APEC-oriented Fund-of-Funds to be established within APEC to act as a catalyst in the development of a sustainable venture capital ecosystem
- BACKGROUND*** At the ABAC 2 meeting in Singapore, ABAC Canada agreed to work with interested ABAC members to develop specific recommendations in its proposal for APEC-oriented Funds-of-Funds to be established within APEC.
- PROPOSAL*** Recommend that interested economies and multilateral institutions collaborate with ABAC and interested private sector firms to develop an APEC fund-of-funds for seeding and growing a private sector led venture capital ecosystem in the region.
- DECISION POINT*** Endorse the recommendations.

CREATING A SUSTAINABLE VENTURE CAPITAL ECOSYSTEM IN THE APEC REGION

ABAC Canada

Government and private sector collaboration is needed to establish a thriving and sustainable innovation ecosystem, with the role of government focused on mobilizing angel and venture capital through effective support programs, providing enabling environments for financing business activities across various stages of innovation, and ensuring the fundamental conditions for entrepreneurship and innovation.

APEC can play a role in promoting the development of regional innovation by exploring the creation of APEC-oriented funds-of-funds with a view to spurring the development of sustainable venture capital systems. The funds-of-funds is envisioned to be public-private partnerships that leverage government and private investments through investment in private sector-led venture funds operating in the region and specializing in the various sectors where there are significant potential for innovation.

The premise for APEC-oriented funds-of-funds is based on the following:

- Effective support programs and enabling environments are necessary to finance business activities across various stages of innovation, and to ensure the fundamental conditions for entrepreneurship and innovation in key sectors of the various economies.
- The overall financing ecosystem includes angel and venture capital in the early stages, progressing to bank and trade financing as companies emerge. An effective overall ecosystem can play an important role in the development of local, regional and global innovation; however, angel and venture capital frameworks are at present relatively underdeveloped in most APEC economies. Developed venture ecosystems have established funds specializing in the various sectors of the economy and technological innovation critical for driving innovation and technological progress.
- Evidence suggests that sustainable angel and venture capital could considerably benefit from close cooperation between government and the private sector, along with government support in seeding the development of a private sector led venture capital ecosystem that can then specialize in the key economic sectors and technological innovations needed in the APEC region.

Following are basic principles that may be considered in establishing an APEC-oriented fund-of-funds:

- Government support is used to create a fund-of-funds and to leverage contributions from multilateral development banks, commercial banks, private funds and investors and large corporations.
- To seed, secure and incentivize private sector participation, government funds should allow for upside leverage allowing the private sector to buy out government funding at a reasonably attractive interest rate and to provide downside protection, such as by offering to take a major portion of any losses.
- Increased participation from institutional investors, endowments and corporations into venture capital should be encouraged through the establishment of privately

managed funds-of-funds that can select portfolios of individual venture funds to invest in.

- To ensure healthy competition, the goal should be to operate a number of funds-of-funds throughout the APEC region.
- Fund managers should be selected by an experienced selection committee based on past experience in managing a funds-of-funds and through the use of requests for proposals.

The Advisory Group recommends that interested economies and multilateral institutions collaborate with ABAC and interested private sector firms to develop an APEC fund-of-funds for seeding and growing a private sector led venture capital ecosystem in the region.