

## **INDUSTRY ANALYSIS**

The government sees venture capital as a catalyst for facilitating economic development. It can stimulate new, desirable economic activity by pooling risk capital with entrepreneurial talent and advanced technology or innovative business concepts to create new products and companies. With this in mind, the EDB has identified five factors for generating a successful venture investment climate:

- An ample supply of risk money, namely investors
- An ample supply of available investment projects and entrepreneurs
- A mechanism for matching investors with entrepreneurs
- The presence of divestment mechanisms
- A congenial, modern business environment

Because of its youthful nature, the Singapore venture capital industry is undergoing some difficulties in its development. In particular, there have been some difficulties with Singapore funds invested in the region. Since the aims and means of venture capitalists are not widely known, there is an element of distrust by investors, government authorities and entrepreneurs. Thailand, Malaysia, Indonesia and the Philippines all have nominee laws that prohibit majority ownership in any foreign venture in those countries. Businessmen and government authorities alike are apprehensive about losing control of their interests to what they perceive as the whims of out-of-touch foreigners.

Currently, there is both a shortage of entrepreneurs with experience and skills and a shortage of venture capital professionals. The inflow of money has been enormous; thus, compounding the dearth of qualified people is the problem of too much money chasing too few quality business prospects. The result has been export of capital to the United States where the venture capital industry is well established in places like Silicon Valley and Boston. Hence opportunities exist for foreign SMEs from established venture investment countries since none of the funds is fully invested.

With these challenges has come progress. Tax incentives are being discussed in Thailand and Malaysia. There has been an influx of investment managers from other professions, and venture capitalists are learning to work within the various equity rules. As the industry matures, industry officials anticipate greater acceptance and institutional support.

