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Timing the inevitable

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great as an investor if you have guidelines on what is actually the playing field."

Singapore is a regional leader in striking a balance between government involvement and private innovation in the technology sector. The city-state has supercharged its VC industry through a string of matching funds, whereby the National Research Foundation makes commitments to funds on the condition that an equal amount of capital is sourced from the private sector. The manager has sole responsibility for investment decision-making.

The advantage of such approaches is that they give professional direction to government involvement and add to the lines of communication between policymakers and industry. This strategy appears to have had a direct impact on the local start-up ecosystem. Total VC investment in the country has increased steadily from $61.1 million in 2010 when the matching system was implemented to $918.1 million in 2015.

VC investment has already reached a new high of $1.2 billion so far this year, but the number of deals is down by one third on 2015 as a whole, suggesting a shift in emphasis towards later-stage activity. While this is evidence of a maturing ecosystem, it also points to potential holes in the country's ambitious innovation agenda, which includes a multifaceted smart city program and a number of financial sweeteners from government-backed accelerators.

"From a VC perspective, the grants in Singapore have helped enormously," says Michael Lints, a venture partner at Golden Gate Ventures. "But there is a shift in focus where the grants are slowing down at the seed level. This is basically because companies are seeking more later-stage funds and the government is now opening grants for the corporates."

Encouraging the expansion of later-stage investment activity does not have to include a retraction of start-up support, however. As markets become more advanced, governments will be better situated to help early-stage entrepreneurial communities through education systems.

Indian education

India provides a good example of combining a government push for early-stage company creation with broader educational support by hosting a widespread program of campus-connected accelerators where research is exchanged for equity or simply a space to work. But unlike much of Asia, India has never contended with a pervasive culture of conservatism, roundly frowning on entrepreneurialism in favor of more traditional, secure career paths. As a result, such investments may not be the best use of funds when fostering a start-up ecosystem.

"I don't think the government needs to do necessarily anything on the accelerator front. The IITs [Indian Institutes of Technology], which are partly government funded all have their own incubators, so they're already contributing to the ecosystem," says Ben Mathias, managing director at Vertex Ventures India. "But some of the government-funded incubators are still useful to the extent that entrepreneurs need initial seed funding, particularly in newer, un-established sectors. Once they get beyond that point of idea-to-product, the VC ecosystem is very well established."

Government influence in company support at such an early stage is not always measureable, but India has charted some promising progress. In 2015, seed funding reached its highest level since the global financial crisis last year at $6.6 million, compared to only $1.4 million across the preceding five-year period.

This momentum has recently been boosted by Startup India, a funding campaign that also aims to add clarity to some complex issues such as tax exemptions. Having only been in effect for six months, however, it mirrors much of the immature and unproven nature of Asia's government policy environment in general.

"There could be more clarity on taxation, particularly for companies that are co-located and co-managed in India and, say, the US or Singapore," Mathias adds. "Nobody wants to be called up three years from now for unintentionally not paying their taxes just because they didn't understand the rules."

CASE STUDY

India: Blume Ventures

India's government started the year with promising signals about its willingness to engage the venture capital community, including the launch of a INR100 billion ($1.5 billion) venture capital fund-of-funds. This coincided with a Union Budget that offered incentives ranging from a streamlined registration processes for new companies to a tax holiday for three of the first five years of a start-up's life.

Improved sentiment around these measures has underpinned the establishment of a flurry of new incubators, the launch of the Startup India campaign and a move by the India Venture Capital Association (IVCA) to broaden its traditional PE-related mandate with the introduction of an arm focused on start-ups. Significantly, this new IVCA stream is expected to deliberate extensively on one of the unexpected complications of the government's VC initiative: determining what constitutes a start-up.

"Start-ups extend well beyond what is defined as one by a VC firm. So coming up with a policy to define it tightly will always be very challenging " says Karthik Reddy, co-founder and managing partner at Blume Ventures, which recently closed its second technology-focused VC fund at $60 million.

The concern is that unqualified legacy companies will exploit government start-up tax holiday incentives by finding mechanisms to create new companies that can handle the parent group's contracts in lieu. This has led to a slowdown in policy implementation as the government mulls the most effective measures for policing related regulations.

"That's an unfortunate part of business in India, but it's a hard reality that anytime you create a new policy, there are enough creative minds who will find loopholes to abuse this policy," Reddy says. "We are trying to boost start-ups by creating a wide enough umbrella that encompasses everybody, but it's a struggle."

Perhaps the greatest concern is that these cultural barriers are not merely gumming up tax break plans in the near term. Such headwinds are indicative of a fundamental difference in business attitudes between India and the country whose success story it most wants to replicate.

"The things that led to China accelerating its venture ecosystem and almost catching up with the US over a 15-year period – I don't think we have all those ingredients in India," Reddy adds, evoking China's "walled garden" approach to foreign investment protectionism, India's cumbersome regulations in areas such as e-commerce and cynicism among Indians about their ability to compete globally. "Nothing has been unshackled. People ask if we'll be able to do what China has managed to do, but I can't see it happening in less than 10 years."