

Enhancing Access to Finance for Technology Entrepreneurs:

Analysis of Highly Innovative, High Growth Start-ups in
Vietnam, Cambodia, and Nepal



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About *infoDev*

infoDev, a global trust fund program in the World Bank Group, supports growth-oriented entrepreneurs through creative and path-breaking venture enablers. It assists entrepreneurs to secure appropriate early-stage financing; convening entrepreneurs, investors, policymakers, mentors and other stakeholders for dialogue and action. We also produce cutting-edge knowledge products, closely linked to our work on the ground. This study was made possible thanks to the Australian Department of Foreign Affairs and Trade and the Ministry for Foreign Affairs of Finland. This study was commissioned by *infoDev*/World Bank and produced by Pennam Partners.

For more *information* visit www.infoDev.org or send an email to infoDev@worldbank.org.

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Acronyms, abbreviations and defined terms

A2F: Access to finance

AIC: Agribusiness Innovation Center

ASEAN: Association of South East Asian Nations

CIC: Climate Innovation Center

EFL: Entrepreneurial Finance Lab

FFFs: Family, friends, and fools

HI start-up: A start-up that is highly innovative and has high growth potential

High growth start-up: A start-up that is growing at a significantly faster rate than its peers and is generating significant cash flow

IC: Investment certificate

IFC: International Finance Corporation

Investee firm: HI start-up in need of capital injection

JSC: Joint stock company

Jurisdictions: Refers to Vietnam, Cambodia, and Nepal

LLC: Limited liability company

MSMEs: Micro, small, and medium enterprises

Private equity: Investing in private businesses

SBBN: Small Business Banking Network

SMEs: Small and medium enterprises

VC: Venture capital

VCIC: Vietnam Climate Innovation Center

Executive Summary

Limited access to finance is a major impediment small and medium enterprises (SMEs) in developing countries face when building and growing a sustainable venture. This is well documented in numerous studies and reports. Equally, the contribution SMEs can make at both micro and macro levels of an economy is well known. Keeping this in mind, this study is start-up-centric, and seeks to address the lack of access to finance experienced by highly innovative and high-growth start-ups (HI start-ups) in Vietnam, Cambodia, and Nepal. *infoDev* commissioned this study to assess firsthand the financing gap for HI start-ups in Vietnam, most importantly, as well as Cambodia and Nepal. In addition, the final objective of this study is to develop a series of recommendations, relevant to HI start-ups, which can directly or indirectly increase access to finance for HI start-ups in these countries.

The first part of the study provides contextual background to the **financing gaps** and associated **barriers**, which restrict access to finance for HI start-ups. These barriers are driven by both **supply** and **demand sides** of the financing equation. Supply side barriers include: **high transaction costs** associated with financing; **high levels of credit risk** associated with HI start-ups; **high collateral** required by financial institutions; **non-conducive legal and regulatory environments for investment** in HI start-ups; **lack of start-up expertise and dedicated resources** by financiers; and **finance products that are not tailored to HI start-ups' needs and circumstances**. Demand side barriers include: reliance by HI start-ups on **informal financing sources**; **lack of awareness on the process** to apply for funding from formal financing sources; **low levels of financial literacy** by HI start-ups; and the fear of **losing control by involving** external investors.

This section also contains a broad overview of the country frameworks governing the start-up sector, together with some of the initiatives relating to access to finance.

The second part of the study covers the fieldwork undertaken in Vietnam, Cambodia, and Nepal. The fieldwork gathered views from investee firms (irrespective of whether they were successful in raising finance or not), investors, and other stakeholders. The fieldwork was aimed at understanding the severity of the financing gap for HI start-ups, the stage(s) of financing impacted by lack of access to finance, and the sources of financing for HI start-ups.

The fieldwork covered 70 respondents across fifteen sectors. On an aggregated level, **72.5 percent** of investee firms surveyed said the severity in the financing gap is high (70 percent in Vietnam, 100 percent in Cambodia, and 60 percent in Nepal). **35 percent** of investee firms surveyed successfully obtained finance; with **64.29 percent** of them getting investments of over \$50,000. This substantiates the view that only a small proportion of HI start-ups successfully secure investments greater than \$50,000.

Feedback received during the fieldwork emphasized both on lack of access to finance and on other non-financing factors that directly or indirectly contributed to access to finance. These non-financing factors were grouped into four main categories: **investment readiness level** of investee firms; **legal, business, and start-up infrastructure**; **holistic business skills** of entrepreneurs; and **mentoring**. Based on responses from investors and other stakeholders, an investment-readiness checklist was developed to provide entrepreneurs guidance on what they need to do to prepare themselves for capital raising, and what are some expectations of investors. For instance, investors expressed a strong preference for HI start-ups to have multiple founding team members with complementary skillsets. This ensures continuity of operations, allows founders to leverage each other's skills, and reduce investment risks for the investor. This improves the likelihood of an investee firm getting funded.

Based on the fieldwork the following additional observations can be made at the local level:

- Vietnam: Pre-seed financing is the most difficult to access. Venture capital (VC) financing is easiest to access for HI start-ups. The other predominant source of funding for start-ups is from family and friends.
- Cambodia: Pre-seed and start-up financing are most difficult to access. Private equity financing provides HI start-ups with the highest access to finance. Angel investors and grant funding are the predominant sources of finance for HI start-ups.
- Nepal: Pre-seed financing is most difficult to obtain while private equity and venture capital financing provide HI start-ups with the highest access to finance. Family and friends are the predominant source of finance for HI start-ups.

Following fieldwork, a set of recommendations was developed, outlined herein as a stock-take worksheet. The recommendations are categorized into three categories: **financing instrument, financing mechanism or structure, and financing catalyst.**

The financing instrument category explores financing products, which by their nature and/or features are better tailored to HI start-ups when compared to traditional financial products. An example of a financial instrument is an IP-based loan product that accepts intellectual property as collateral rather than tangible assets.

The financing mechanism or structure covers measures that can directly facilitate access to finance by improving access to investors for HI start-ups (for instance, a crowdfunding platform).

Lastly, financing catalyst recommendations address non-financing impediments, which if overcome will have a positive impact on access to finance.

I. Background



1. Financing Gap

HI start-ups in developing countries generally lack financial resources and access to a sufficient customer base to effectively scale and grow their businesses. Access to traditional growth capital including debt and equity is not only limited but often prohibitively costly due to factors such as inefficient legal and regulatory policies, and inadequate financial markets.

For firms competing in highly innovative and high growth sectors - specifically ICT, clean technology and agribusiness the challenge of accessing growth capital is particularly acute. Young firms possess few tangible assets that can be leveraged as collateral for loans. **Despite increasing interest and attention from both public and private sectors to address this gap, access to seed and early stage finance of \$50,000 to \$1,000,000 remains limited for HI start-ups** (Zavatta 2008). The financing gap between small-scale capital sources (self-financing and microfinance institutions) and larger sources of growth capital (banks and private capital markets) in developing countries could be attributed to three reasons. First, identifying which companies are viable investment opportunities is **cumbersome and costly**. Second, these companies typically need, not just growth capital, but **technical assistance and capacity building** to manage high growth efficiently and sustainably. Thus, **transaction costs** for private investors, relative to the return on their modest investments, **are too high**¹. Third, developing countries vary widely with respect to their size, stages of development, education, skill levels of workforce and infrastructure. Therefore, HI start-ups in Vietnam, Cambodia and Nepal face **unique challenges** in their local contexts as they grow and scale their ventures.

Facilitating access to finance for the start-up sector is a priority across the world, given the role HI start-ups play in an economy. HI start-ups make significant contributions to the economic growth of a country, create jobs, and are drivers of innovation. However, due to their high risk profile and the reasons already listed, they have difficulty attracting finance, and are often overlooked by funders.

The gap in financing in the start-up sector varies depending on the amount of funding a HI start-up is looking for. All else being equal, HI start-ups looking for capital raising of less than \$50,000 or more than \$1,000,000, have a higher likelihood of getting finance. This is because there are more funders willing to finance at these levels. These include microfinance institutions, grant providers, and family and friends for capital raising of less than \$50,000. Due to their investment criteria and fund size, venture capital funds mostly service the \$1,000,000+ venture capital market. As a result, the \$50,000 to \$1,000,000 bracket is generally referred to as the **missing middle**.

¹ For instance, in Vietnam transaction costs on investments in HI start-ups can on average go up to \$40,000. These costs will vary based on investor profile and jurisdiction, and the complexity of the investment (including extent of due diligence, investment certificate, and holding investment structure).

1. Financing Gap

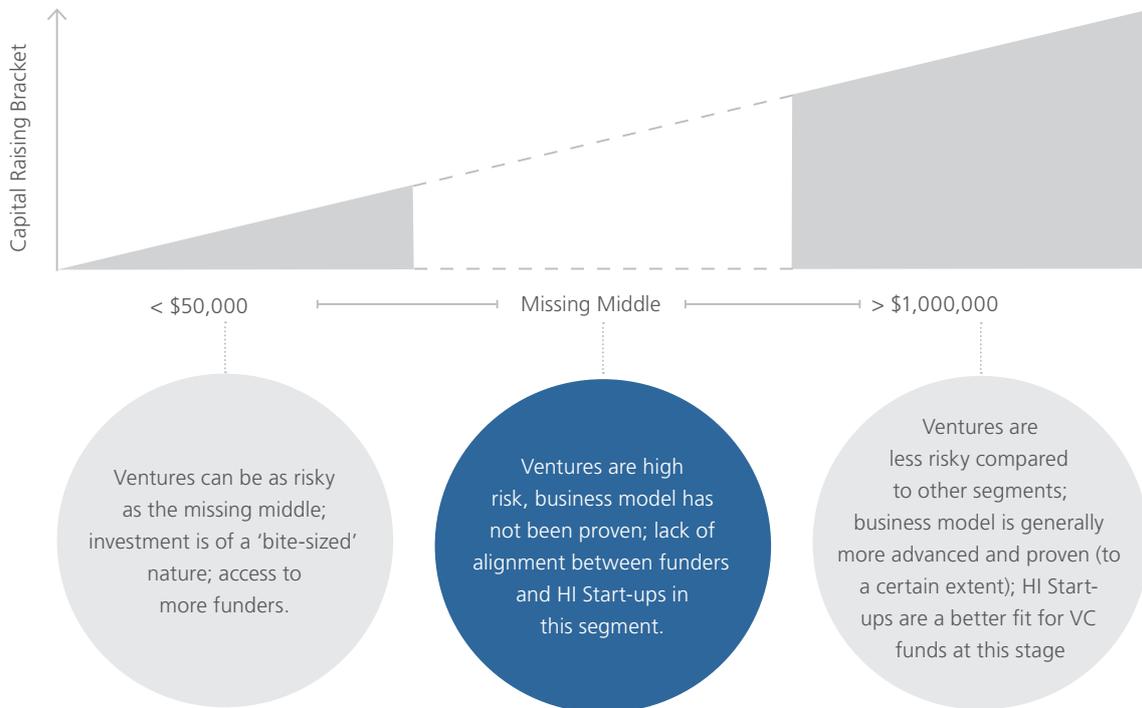


Figure 1.0: The Missing Middle

This study investigates the most pressing, unmet, early-stage financing needs of HI start-ups in Vietnam, Cambodia, and Nepal. During the fieldwork, a range of stakeholders in these countries were interviewed to get their views on their respective local financing landscapes and what could be done to improve access to finance. Consideration was given to initiatives implemented in these countries, and available sources of capital and their adequacy.

Before proceeding further it would be useful to understand the overall SME sector to provide context and put into perspective the role and importance of SMEs on an economy. Information (including statistics and initiatives) relating to HI start-ups in Vietnam, Cambodia, and Nepal are almost non-existent, so SMEs in general can serve as a proxy for HI start-ups throughout this study.

2. SMEs – Definition, Role and Access to Finance

The World Bank defines SMEs as enterprises with a maximum of 300 employees, \$15 million in annual revenue,

and \$15 million in assets. SMEs are defined differently in the three countries:



Figure 1.1: SME Definition²

SMEs play a crucial role in any economy. They make significant contributions to the gross domestic product (GDP) of a country, create jobs, and add to the export capacity of a country. Their importance is highlighted in the Association of South East Asian Nations (ASEAN) Strategic Action Plan for SME Development (2010–2015):

- SMEs make up to 96 percent of all enterprises in ASEAN³
- SMEs account for 50 to 95 percent of employment in ASEAN countries
- SMEs generally account for 30 to 53 percent of GDP in ASEAN
- SMEs account for 19 to 31 percent of exports.

² Note: Currency standardized to U.S. dollars for easy comparison

³ Nepal is not an ASEAN member

2. SMEs – Definition, Role, and Access to Finance

In light of their importance to economies, SMEs (and equally HI start-ups) must be provided with enabling business environments that will allow them to develop, grow, and become sustainable ventures. A major challenge faced by SMEs in developing countries is access to finance (including seed and expansion capital). According to the IFC Stock-taking Report to G20 (2010), **45 to 55 percent of formal SMEs in developing countries** do not have access to loans from formal financial institutions. The ratio increases to 65 to 72 percent if informal SMEs and micro enterprises are counted. The World Business Environment Survey⁴ of more than 10,000 businesses in 80 countries, found that on average 43 percent of businesses with 20 to 99 employees in low income countries rated access to finance or cost of finance as a major constraint to current operations. In high-income countries, only 11 percent of businesses of the same size rated access to finance as a

constraint. Research undertaken by the IFC and McKinsey and Company provides disquieting information about the credit gaps experienced by micro, small, and medium enterprises (MSMEs) in Asia (Stein, Goland and Schiff 2010). Generally, 70 percent of MSME financing is sourced from banks to fund growth. However, the research showed that (1) more than 85 percent of MSMEs in East Asia, South Asia, and Sub-Saharan Africa do not get access to bank funding and (2) around 45 percent of the credit gap (\$900 billion to \$1.1 trillion) is in East Asia.

The table below provides further background on the availability of finance in East Asia and Pacific, South Asia, Cambodia, Nepal, and Vietnam.

Economy	Firms with a bank loan/Letter of Credit (%)	Loans requiring collateral (%)	Value of collateral needed for a loan (%)	Firms using banks to finance investments (%)	Investments financed internally (%)	Investments financed by banks (%)	Investments financed by supplier credit (%)	Investments financed by equity or stock sales (%)
East Asia & Pacific	37.6	76.6	176.7	23.9	71.7	15.1	2.5	5.2
South Asia	30	82.2	211.6	26.9	73.1	19	0.6	3.4
Cambodia	20.7	89.9	173.7	11.3	44.3	6.1	7.7	-
Nepal	39.1	80.9	259.7	17.5	80.7	12.4	0.3	3.9
Vietnam	49.9	90.8	217.7	21.5	74.7	12	0.8	3.8

Table 1.0: Enterprise Survey Excerpt - Availability of Finance

Reprinted from: enterprisesurveys.org/Data/ExploreTopics/finance#--13

The following observations from the above table can be made:

- The majority of loans require collateral to be provided (ranging from 80.9 percent to 90.8 percent) with collateral needed being in the 173.7 percent to 259.7 percent range for Cambodia, Nepal and Vietnam

- Investments made by SMEs are predominantly financed internally, which means this will invariably impede growth and innovation financing given deferment of investments up until these can be financed internally; and
- Investments financed by equity or supplier credit are negligible, which means there is room to improve these avenues of funding.

⁴World Bank Group, Enterprise Surveys Database, 2010; <http://www.enterprisesurveys.org>; World Business Environment Survey

3. Sources of Financing

A HI start-up can access both formal and informal sources of financing to seed, proof, commercialize, grow or expand. Generally, financing is in the form of debt, equity or a hybrid of both. Debt financing is not synonymous with bank funding, and can come from other sources. It is common for entrepreneurs to receive investment in the form of a loan from their immediate network without having to sell equity in the venture. While banks are the main source of formal funding for SMEs in East Asia, bank funding is not an avenue that HI start-ups can generally avail of themselves due to lack of trading history and positive cash flows, nature of operations, and the composition of balance sheets with a heavy reliance on intangible assets.

Sources of financing that HI start-ups can explore are outlined below:

Bootstrapping: This is a self-funding source of finance where the entrepreneur funds the HI start-up from her/his own financial resources and from any revenue generated. This allows the entrepreneur to maintain full control and ownership of the business. However, this can severely restrict the development and growth of the venture since it is operating with lean financial capacity.

Grants: Grant funding is capital that does not need to be repaid. Grant funding is an important source of finance in developing countries. This may sometimes be the only way entrepreneurs can access capital in the early stages. Grants are generally disbursed through government related entities, development finance institutions, or start-up competitions. Grants are highly competitive and the application process can be as rigorous as raising capital from external parties.

Family, friends, fools: Family, friends and fools (FFF) play a vital part in financing HI start-ups at the seed and start-up stages. FFF generally invest at the seed stage in a venture and do so predominantly based on a personal assessment of the entrepreneur rather than an assessment of the venture itself. FFF are passive investors, have limited expectations of return on investment, and their financing tends to be done on an informal basis. Obtaining FFF financing can also help build traction in a fundraising round. With the advent of crowdfunding, FFF will play a bigger role in funding HI start-ups. Crowdfunding could also help tap into diaspora remittances to augment the investment capacity of an FFF group by being a conduit between diaspora remittances and HI start-ups.

Angel investors: Angel investment fills the gap between FFF financing and venture capitalists. Angel investors can be current or previous entrepreneurs, high net-worth individuals or professional investors attracted by private equity assets. As opposed to FFFs, angel investors invest in different HI start-ups for an overall high return across their investment portfolios. The arrangement between the angel investor and the HI start-up is formal. Angels invest with the aim of capturing the capital growth of the HI start-up; capital injection is generally by way of equity or convertible notes. In addition, start-ups benefit from angels through mentoring, management inputs, or active participation on the advisory/directors' boards.

Angel investors could also be part of an angel group, which makes syndicated investments. Here, several investors pool their money into a specific HI start-up. An angel group provides angel investors the opportunity to raise more capital and also leverage off each other expertise to assess investment opportunities.

3. Sources of Financing

Venture capital: Venture capital is a more formal and larger variant of an angel investor group. Venture capital is pooled via a fund, which is managed by a fund manager. Investors in the venture capital fund do not actively participate in the fund. The fund manager has the responsibility to generate deal flow, assess investment opportunities, monitor the investment portfolio, assist HI start-ups with growth and expansion, and maximize returns for investors with appropriate exit strategies. Venture capital is provided at the start-up, and early and late expansion stages. Of relevance to the countries in this study is the emergence of impact investment as an investment theme. Investors not only look for financial returns but also channel investments to generate positive social or environment impacts.

Venture capital (and angel investment to a certain extent) is referred to as ‘smart money’ because entrepreneurs see venture capitalists as both financing sources and strategic partners that can assist their growth, and leverage their networks and expertise at the same time. In addition, a HI start-up could benefit from any synergies across the investment portfolio of the venture capital fund. HI start-up could attract follow-up capital more easily from the same venture capitalists or from new ones.

Comparatively, obtaining venture capital is more complex in that HI start-ups are subjected to a more rigorous screening process. Before approaching venture capitalists, entrepreneurs need to ensure their ventures are investment ready, they have reviewed the investment criteria of venture capitalists, and their ventures, prima facie, satisfy the investment criteria. If the entrepreneur is successful, the terms and conditions attached will need to be carefully considered and understood. Venture capitalists are professional investors and will seek to minimize their investment risk through their investment terms.

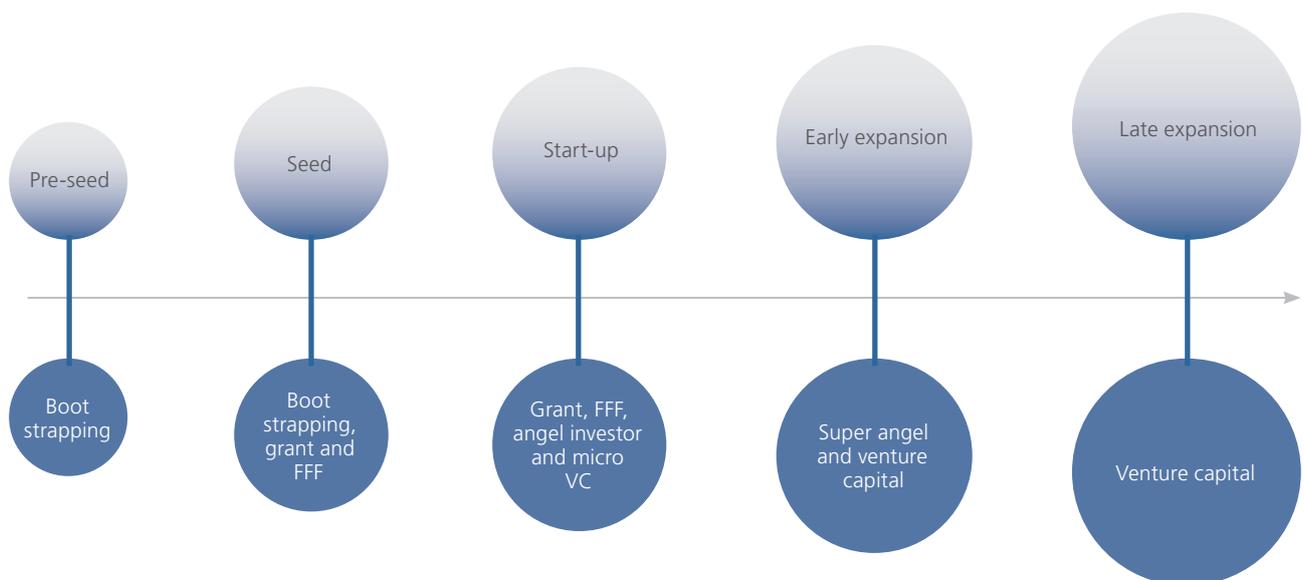


Figure 1.2: Sources and Stages of Financing

4. Barriers for Accessing Financing

Access to finance is impeded by various factors, both on the side of funders (**supply-side barriers**) and investee firms (**demand-side barriers**).

Supply-side barriers include the following:

- High levels of **collateral** required (predominantly 'hard' assets) by banks. HI start-ups do not generally have 'hard' assets on their balance sheets, since their assets are mainly intangibles.
- Higher levels of **credit risk** associated with the start-up sector. This impacts lending rates and loan terms. HI start-ups are subjected to higher lending rates and shorter loan terms.
- **Lending assessment** criteria used by banks strict and inflexible. These are not necessarily tailored to the start-up sector.
- High **transaction costs** for funders to assess and service the start-up sector when compared to the relatively low amounts of finance they require.
- Poor **legal and regulatory frameworks** in developing countries that do not incentivize funders to service the start-up sector.
- A lack of **dedicated start-up resources** (including technical expertise) among funders to properly service the start-up sector.

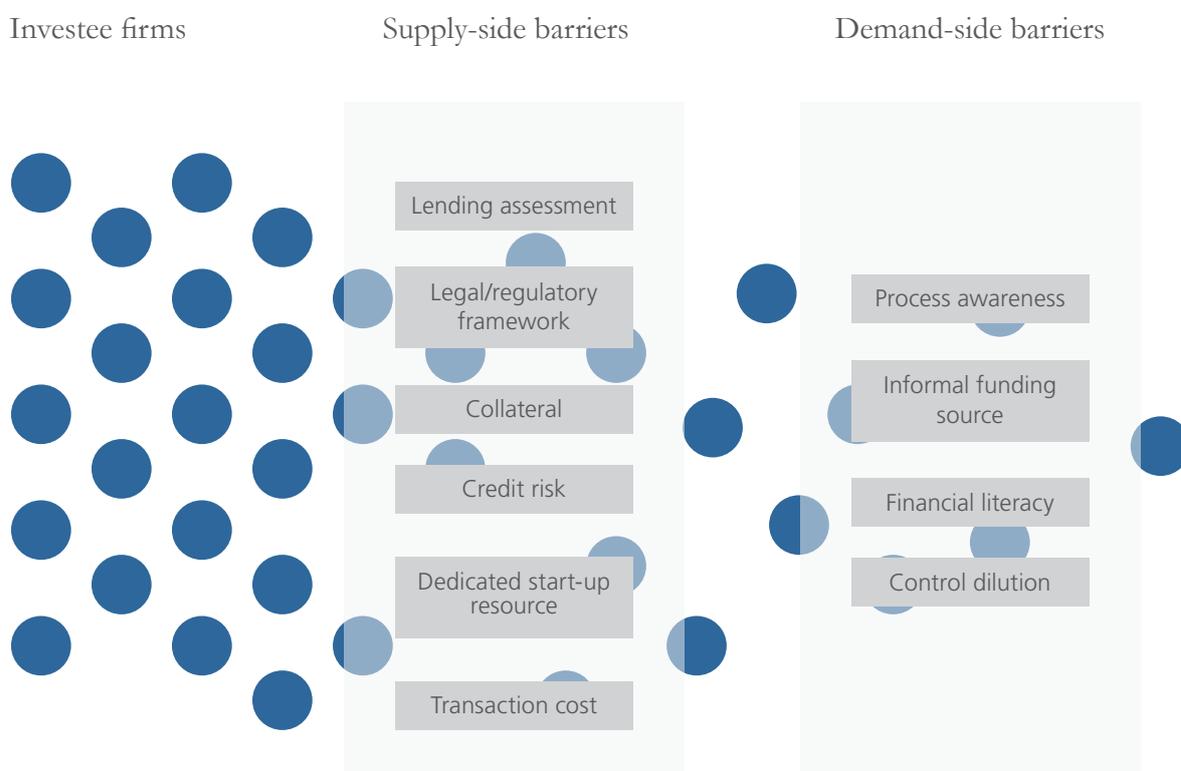


Figure 1.3: HI Start-ups Access to Finance Barriers

4. Barriers for Accessing Financing

Demand-side barriers include:

- HI start-ups' (and other SMEs) tendency to rely heavily on **informal funding sources** (such as family) to fund businesses rather than explore formal funding sources.
- Lack of **financial literacy**, including complicated and non-tailored application procedures, that generally deters HI start-ups from exploring formal funding.
- Lack of funding/investment **process awareness** leading to poor presentations of business cases by HI start-ups. This ultimately has an adverse effect on access to finance. For instance, HI start-ups may not convey adequate information on their market as part of their business case. This could be due to a lack of access to market intelligence, which in turn leads to not properly identifying the right market segment(s) and wrongly estimating market potential.
- Entrepreneurs in developing countries historically prefer to maintain **control** over their businesses. They therefore tend to avoid financing that can lead to equity dilution and loss of control.

5. Vietnam

5.1. Background

The snapshot below provides a broad overview on the economic, financing, legal, and regulatory landscape in Vietnam. It also provides an illustrative list of ongoing initiatives and measures that could, directly or indirectly, affect access to finance in Vietnam.

Box 1.0

Vietnam Snapshot

Highlights

The population of Vietnam is around 89 million.

The GDP was \$140 billion in 2012 with a 5.1 percent growth (the slowest in 13 years)

Banks have a high portion of non-performing loans on their balance sheet; this will have negative impact on start-up financing.

Growth in credit for 2012 was 8.9 percent (short of the 15 percent to 17 percent set by the central bank)

SMEs were allowed to defer their income tax and VAT payments in 2013.

Reprinted from: Asian Development Outlook 2013, ADB

Investors

- IDG Ventures Vietnam
- DFJ VinaCapital
- CyberAgent Ventures
- Prosperous Vietnam Corporation
- Savvi Angels
- Unitus Impact
- Kusto Tiger Fund
- CMC Fund
- Mekong Capital
- SEAF Blue Waters Growth Fund
- Vietnam Business Challenge Fund
- Mekong Brahmaputra Clean Development Fund (focuses also on Cambodia and Nepal)
- LGT Venture Philanthropy

Competitiveness

Vietnam ranked 70 out of 148 economies on the 2013-14 global competitiveness index.

Access to finance is considered to be the most problematic factor while doing business in Vietnam.

Vietnam experienced a drop in ease of access to loans (104 to 113). However, improvements have been made in venture capital availability (96 to 78) and financing through local equity markets (70 to 57)

Strength of investor protection (130 to 134) and protection of minority shareholders' interests (99 to 126) have also declined.

Reprinted from: The Global Competitiveness Report 2013-14

Incubators/accelerators

- Becamex TIC
- Founder's Institute
- 5Desire
- Hatch.vn
- Saigon Hi Tech Park
- VSV Accelerator
- Egg Agency

5. Vietnam

The following table was sourced from the Venture Capital and Private Equity Country Attractiveness Index – 2011 Annual. It provides an overview on the strengths, weaknesses, opportunities, and threats in financing in Vietnam.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Abundance of natural resources • Comparatively low labor costs • Political stability • Strong entrepreneurial culture • Strong and growing domestic demand. 	<ul style="list-style-type: none"> • Nascent VC population, lacking practical 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	Threats
<ul style="list-style-type: none"> • Rise in standard of living is creating demand for products and services, particularly in urban centers • Exports to US, China, and ASEAN are growing • Vietnamese enterprises have a greater appetite and scope for operational and financial improvements • Infrastructural demand is driven by the transformation of the economy. 	<ul style="list-style-type: none"> • More time consuming to do business given relatively stricter government regulations • High inflation rate • Escalating cost of borrowing.
Outlook	
<ul style="list-style-type: none"> • High potential in consumer sectors • Strong commodities production, with potential for more natural resource exploration and infrastructure development • Concern about inflation rate presents challenges for the public sector to gain investor confidence • Potential for higher growth, provided economic reforms are implemented efficiently to reduce the cost of doing business in Vietnam 	

Table 1.1: Vietnam SWOT
Reprinted from: Venture Capital and Private Equity Country Attractiveness Index – 2011 Annual

The SME framework in Vietnam was part of the five-year plan of 2011-2015, detailed in Decree 56/2009/ND-CP, June 30, 2009. On May 5, 2010, the government released Resolution No. 22/NQ-CP to effectively fast-track the implementation of the decree.

In Vietnam, SME support programs available are divided based on sectors and geography. Primarily, support available based on whether the SME operates in the economic development sector, social development sector or if it is based in certain geographical areas. SMEs owned by women or with higher female employees get priority assistance.

While local government ministries and organisations are responsible for building and administering the programs, central government approval is needed to maintain consistency and for appropriate integration.

The decree allows for new laws to be written that take a favorable and less onerous view of the SME community. However, its effectiveness is yet to be seen. Information on SMEs is fragmented and there is little transparency and consistency in interpretation. This has led to the government suggesting that information about and for SMEs be made available via a centralized portal.

The government is working on initiatives to support SMEs, such as a credit guarantee scheme and an SME development fund. The State Bank of Vietnam is now required to assume the responsibility to strengthen financial institutions to support SMEs with products and services. The framework extends to setting up business incubators to help SMEs realize commercial success of their ideas and technologies.

Other support mechanisms that are part of the SME framework include recognizing the importance of intellectual property, facilitating registration, protection and transfer of IP; facilitating SMEs to meet ISO and other global standards; training and assistance to meet appropriate corporate governance standards, and funding road shows to showcase resources available to SMEs.

Given below is a list of some initiatives by local and foreign organizations (including *infoDev*), directly and indirectly related to enhancing access to finance:

- As part of its Climate Technology Program, *infoDev* is setting up the Vietnam **Climate Innovation Center** (VCIC), to enable local firms to develop and commercialize innovative climate technology solutions. VCIC will operate on a four 'pillars' program, which includes access to finance, technology commercialization, venture acceleration, and market development. The VCIC is expected to launch in the second half of 2014. *infoDev* is also looking at facilitating the set-up of a seed capital facility, which will act as a venture capital source for VCIC incubatees and other HI start-ups in the climate innovation space.
- **mLab East Asia** was launched in 2012 as a pilot by *infoDev* in Vietnam. mLab East Asia offered an open platform for technology entrepreneurs and application developers to interact, work, access technical tools, and deploy solutions to incubate and develop their business. mLab East Asia also served as a bridge between investors and businesses to commercialize and take products from laboratories to the market. A related initiative in Vietnam is the **mobile application hub** (mHub). mHub is a multi-stakeholder network that organizes informal meetings on topics related to mobile technologies, competitions for entrepreneurs, local businesses, and individual users, and peer-learning sessions.
- *infoDev* is also piloting a **virtual business incubation** model in Vietnam. This initiative provides a way to extend the reach of business incubation beyond Hanoi and Ho Chi Minh City and into rural areas. Important objectives of the pilot are to assess the impact and cost-effectiveness of virtual incubation and, by way of a strong monitoring & evaluation component, to derive the necessary lessons for potential future scaling-up in Vietnam and/or replication in other countries.
- *infoDev* launched the **Mekong Women's Entrepreneurship Challenge** in 2012, covering women entrepreneurs in Vietnam, Cambodia, and Lao PDR. MWEC tackles problems that women in developing countries identify as major impediments to female-led growth-oriented firms: lack of relevant business information and knowledge, lack of supportive networks, and lack of self-confidence, in addition to cultural barriers. MWEC's goal is to facilitate the expansion of women-owned businesses by providing qualified women with the necessary tools to improve and grow their businesses, including financing, one-on-one support, peer-based learning, and training workshops and seminars. The program focuses on highly motivated women who are small business owners or managers eager to expand their businesses.
- The International Development Agency committed \$55 million in loan in 2013 to the **Vietnam Inclusive Innovation Project**. The objective of the Inclusive Innovation Project for Vietnam is to adopt, upgrade, and develop inclusive innovations for the benefit of the Base of Pyramid (BoP) population.
- The International Development Agency also committed \$100 million, with the Government of Vietnam co-contributing \$10 million, to the **Fostering Innovation through Research, Science and Technology (FIRST) Project**. The objective of the FIRST Project is support science, technology and innovation (STI) in Vietnam by designing and piloting of STI policies, enhancing the effectiveness of project-aided research and development (R and D) institutions, and encouraging the development of innovative technology enterprises.

5. Vietnam

- The Ministry of Science and Technology launched the **Vietnam Silicon Valley** project in June 2013. The project will nurture HI start-ups and provide an enabling environment for innovation and technology commercialization. The Vietnam Silicon Valley project will provide a series of programs including pre-seed capacity building program and an accelerator program.
- The Government of Vietnam has announced the creation of an **SME Development Fund** to provide financial support to SMEs. Loans will not exceed \$1.4 million per SME.
- The Asian Development Bank (ADB) has supported Vietnam in many ways, including a recent loan of \$50 million to facilitate its **SME development program**. The SME development program aims to: enhance the policy and planning framework for SME development; facilitate SME access to finance; improve efficiency of administrative systems that support SME development and operations; and strengthen regulatory frameworks.
- The **Vietnam Energy Efficiency and Cleaner Production** (EECP) Financing Program is an initiative by the International Finance Corporation (IFC). IFC works with selected banks in Vietnam to build their sustainable energy portfolios and tailor financing products. This includes medium and long-term energy financing loans, which factor in clients' cash flows and align repayment timeframes accordingly.
- The **Vietnam Green Credit Trust Fund** is an initiative of the Swiss Secretariat for Economic Affairs. This financing initiative encourages entrepreneurs to adopt cleaner technologies. The financing mechanisms are grants by way of reimbursement or debt guarantee to financial institutions providing green credit.
- The **Vietnam Business Challenge Fund**, an initiative of the Department for International Development, provides funding of between \$100,000 to \$800,000 to innovative companies using inclusive business models and operating in agricultural, low carbon growth or infrastructure sectors.

5.2. Legal and Regulatory Overview for Private Equity Investment

This legal and regulatory overview for private equity investment was prepared by legal consultants in each respective jurisdiction. The summary is generic in nature and is meant to provide broad guidance only.

Characteristics	Funding type		Other types of funding sources (for example, convertible lending)
	Private offer		
Brief description	<p>Vietnamese law refers to “private placement of securities”, which is defined as “an arrangement for offering securities to less than 100 investors not including professional security investors without using the mass media or internet”⁵. However, the specific legislative framework governing “private placement of securities” is, in practice, limited to offering shares of joint stock companies (JSCs) only.</p> <p>HI start-ups in Vietnam may take other corporate forms and the comments here are aimed at “private placement” of equity in both JSCs and limited liability companies (LLCs), being by far the two most common corporate forms in Vietnam.</p> <p>In addition, “sale of equity” as used here is intended to cover both issuances of new shares⁶ to potential investors as well as transfer of existing shares to such investors⁷.</p>		<p>Typically, this is a situation where a lender reaches an agreement with an investee (and/or relevant shareholders) on converting the obligation to repay the loan to a corresponding amount of equity in favor of the lender.</p> <p>Depending on whether the borrower is the investee or its shareholder(s), the conversion would ultimately take the form of either a share acquisition or share subscription.⁸</p>
Types of private offers	Share acquisition (purchase of shares from an existing shareholder)	Share subscription (purchase of newly-issued or treasury shares ⁹ from a company)	Either share acquisition or share subscription, as the case may be.
Maximum offering	No limit.	No limit.	No limit.

(Table continued on next page)

⁵ Article 6.12(a) of the [Law on Securities of Vietnam dated 29 June 2006 as amended on 24 November 2010 (the “Securities Law”)]

⁶ It is noted that only JSCs not LLCs have “shares” per se. LLCs have chunks of “charter capital” to be contributed. “Shares” is used here throughout for consistency and to refer to a discrete amount of paid-in capital that a person (a “shareholder” in the case of a JSC and a “member” in the case of an LLC) has paid to a company. “Shareholder” is used here for both purposes.

⁷ NOTE: this report does not touch on share acquisition or share subscription in public companies.

⁸ Similarly, all other forms of seed investment such as angle investors, company matching or crowd investment would ultimately result in either share acquisition or share subscription in the investee company.

⁹ Investors may purchase “treasury” shares of existing JSCs, which are “stock issued by a joint stock company [arguably both public and non-public companies] and redeemed by that issuing company”. While Vietnamese law on securities sets out a number of conditions on the sale and purchase of treasury stock of public companies (Article 39 of Decree 58 dated July 20, 2012), it is silent on the same in relation to non-public companies. The better view is that the sale of treasury stock by a non-public company is treated the same as a typical JSC share subscription in terms of general conditions and licensing process.

5. Vietnam

Characteristics	Funding type		
	Private offer		Other types of funding sources (for example, convertible lending)
Overview of applicable disclosure regime	<p>No regime in connection with the <u>offering</u> itself.</p> <p>When the acquisition completes, the investee firm (Investee) must publicize the change in its ownership structure (in case of an LLC) or change of its “founding” shareholders (in case of a JSC)¹⁰ in a local or central newspaper for three consecutive issues.¹¹</p>	<p>No regime in connection with offering share subscription in an LLC per se.</p> <p>In case of a non-public JSC, the investee must apply to the competent licensing authority to register the private placement in advance of proceeding and the competent authority will simultaneously register and publish details of the private placement on its website.¹²</p> <p>When the subscription completes, the investee is obliged to report to the competent body on the results of the placement, pursuant to a standard form report.¹³</p> <p>Depending on the specific circumstances, the investor may need to apply to the competent licensing authority for issuance of amendment to the investee’s investment certificate (IC) or enterprise registration certificate (ERC).</p>	<p>Depending on whether the conversion ultimately results in a share acquisition or share subscription, the respective aforementioned disclosure regime will apply.</p>
Regulations on offer advertisements	See above.	Advertisement of the offering by a JSC on public media and internet is prohibited. ¹⁴	As above.
Any exemptions for advertising and disclosure regimes	No	No	As above.

(Table continued on next page)

¹⁰ Article 41 of Decree 43 dated April 10, 2013 on business registration (Decree 43). “Founding” shareholders are shareholders who have approved and signed the first charter of the JSC (Article 4.11 on Enterprises dated November 29, 2005 (the Enterprise Law).

¹¹ Article 28.2 of the Enterprise Law.

¹² Article 6.3 of Decree 58 dated July 20, 2012 (Decree 58). The actual identity of the competent authority for this purpose will depend on the exact nature and business activities of the investee. In the vast majority of cases, however, the competent authority will be the relevant provincial Department of Planning and Investment.

¹³ Article 6 of Decree 58.

¹⁴ Article 6.12.a of the Securities Law.

Characteristics	Funding type		Other types of funding sources (for example, convertible lending)
	Private offer		
Brief overview of procedures	<p>Typically for both JSCs and LLCs.</p> <ol style="list-style-type: none"> 1. The seller and the investor to express intention to sell and buy shares in the investee via a letter of intent, heads of terms or similar. 2. The investor carries out a due diligence on the investee. 3. The investor and the seller enter into a share sale and purchase agreement (SPA), drafted in part based on findings of the due diligence report. 4. The parties to the SPA take actions as agreed to complete conditions precedent to closing of the SPA and transfer of the shares in question. 5. Subject to specific facts of the case, the investee and/or investors may need to apply to the competent licensing authority for amendment of investee's IC or ERC as the case may be. 6. The legal representative of the investee will cause the investee's shareholders' register to be amended (if the investee is a JSC) or issue a certificate of ownership of capital to new investor (if the investee is an LLC). 	<p>For non-public JSCs:</p> <ol style="list-style-type: none"> 1. The general meeting of shareholders (GSM) of the investee to approve the share subscription plan (the plan) including plans for use of proceeds. 2. The investee to register the plan with the competent licensing authority. 3. The investee to approach and enter into share subscription agreement(s) with selected investors (the SSA). The selected investor may enter into preliminary agreements prior to the SSA and/or carry out due diligence on the investee. 4. The investee to report to the competent licensing authority within 10 days from the date the offer completes. <p>NOTE: In some cases the investee and/or new investor will have to apply to the competent licensing authority for issuance/amendment of an IC or ERC.</p> <ol style="list-style-type: none"> 5. The legal representative of the investee will cause the investee's shareholders register to be amended. <p>For LLCs:</p> <ol style="list-style-type: none"> 1. The investee and the investor to express intention to sell and buy shares in the investor via a letter of intent, heads of terms or similar. 2. The investor carries out a due diligence on the investee. 3. The investee and investor sign an agreement with respect to the obligation of the latter to contribute new capital to the investee. 4. The members' council (MC) of the LLC approves an increase of the LLC's charter capital by way of contribution by new member(s). 5. The investee applies to the competent licensing authority for issuance of amendment of its IC or ERC. The investor makes capital contribution to the investee. 6. The legal representative of the investee causes investee to issue a certificate of capital contribution/ ownership of capital to the new investor. 	As above.

(Table continued on next page)

¹⁵ In the case of an LLC this would be a capital transfer agreement.

5. Vietnam

Characteristics	Funding type		
	Private offer		Other types of funding sources (for example, convertible lending)
Statutory conditions for offer/investment	No specific conditions for the offer/investment. However general threshold matters include: (i) general conditions on market access in relevant sector for foreign investors in particular; and (ii) shares offered for sale must be fully paid up by the seller.	Conditions for non-public JSC: ¹⁶ a. Having decision of the GSM in the form of the plan which must include plans for use of the proceeds obtained from the offer b. Meeting any other conditions prescribed by specialized law in case the investee's scope of activities fall inside the list of conditional business sectors c. Meeting any general conditions on market access in relevant sector for foreign investors in particular.	As above.
Security requirements	No.	No.	No.
Any other financial/investor protection law applicable	Vietnamese law provides some mechanisms to protect minority shareholders. Most notably, Vietnamese law provides that the default voting ratio for a company's highest decision making body (GMS in the case of JSCs and MC in the case of LLCs) is 65 percent and 75 percent depending on the importance of the matter in question (far higher threshold than the conventional 51 percent majority ratio) ¹⁷ .	As aforementioned.	No.

¹⁶ Article 4.1 of Decree 58.

¹⁷ In some cases, it may be possible for companies to proscribe lower ratios but this is subject to assessment on case by case basis.

6. Cambodia

6.1. Background

The snapshot below provides a broad overview on the economic, financing, legal, and regulatory landscape in Cambodia. It also provides an illustrative list of ongoing initiatives and measures that could, directly or indirectly, affect access to finance in Cambodia.

Box 1.1

Cambodia Snapshot

Highlights

The population of Cambodia is around 14.5 million

The GDP was \$14.2 billion in 2012 with a 7.2 percent growth due to robust consumption and investment

Growth in credit for 2012 was 34.1 percent

Authorities are considering tightening loan-to-valuation/loan-to-deposit ratios to preserve financial stability

Reprinted from: Asian Development Outlook 2013, ADB

Investors

- Uberis Capital
- TriAsia Group
- Leopard Capital
- Devenco
- Golden Gate Venture
- Cambodia-Laos Development Fund S.C.A.
- Golden Gate Venture
- Cambodia Investor's Club (new)
- Emerging Markets Investments

Competitiveness

Cambodia ranked 88 out of 148 economies on the 2013-14 global competitiveness index; second last in ASEAN

Access to financing is considered to be the fifth most problematic factor in doing business in Cambodia

Rankings in ease of access to loans (47 to 56) and financing through local equity market (108 to 113) have declined with a minor improvement in venture capital availability

While protection of minority shareholders' interests has slightly improved, Cambodia has dropped to 69 in strength of investor protection ranking.

Reprinted from: The Global Competitiveness Report 2013 - 14

Incubators / accelerators

- Emerging Markets Entrepreneurs
- Kotra

Cambodia launched its SME development framework to provide SMEs with an enabling environment to increase competitiveness and productivity in 2005. The SME development framework considered the impact of regulatory and legal framework, access to finance, SME support activities, and SME policies. This led to the implementation of several initiatives related to access to finance, including the creation of a credit bureau and development of finance lease products. Supportive actions at a policy level can also be found in the updated National Strategic Development Plan 2009- 2013. Supplementary to the first SME development framework, the General Department of Industry released its strategic framework, Strategy 2015, with access to finance for SMEs forming one of its five intervention pillars. Strategy 2015 recognized that SMEs are at a disadvantage compared to large enterprises, and more must be done to provide incentives to them.

Given below is a list of some initiatives by local and foreign organizations (including *infoDev*), directly and indirectly related to enhancing access to finance:

- **infoDev** launched the first business incubator, **Emerging Markets Entrepreneurs**, in Cambodia in 2011 under its Creating Sustainable Businesses program. The business incubator is managed by Emerging Markets Consulting (EMC), in collaboration with the Royal University for Law and Economics and the Young Entrepreneurs' Association of Cambodia.
- **Cambodia Credit Bureau**, the country's first credit bureau established in 2012, is likely to have a positive impact on access to finance for businesses, although it could be of most benefit to microfinance institutions and banks. Credit bureaus allow lenders to assess risk more accurately, which could lead to an increase in lending and loan products being more appropriately priced.
- **Agence Française de Développement (AFD)**, and its subsidiary Proparco, are active in funding projects, directly and indirectly. AFD's activities in Cambodia include: loans, equity and quasi-equity investments in companies; loan guarantees to local banks for servicing SMEs; technical assistance grants; and training and capacity building activities for businesses.

6.2. Legal and Regulatory Overview for Private Equity Investment

This legal and regulatory overview for private equity investment was prepared by legal consultants in each respective jurisdiction. The summary is generic in nature and is meant to provide broad guidance only.

Characteristics	Funding type		
	Private offer [Note: This would be an offer other than a sophisticated/ accredited offer]	Sophisticated/accredited offer (e.g. – subordinated loans, guarantees, etc.)	Other types of funding sources (for example, convertible lending)
Brief description	<p>A private offer is regulated by Law on the Issuance and Trading of Non-Government Securities (2007) and relevant implementing regulations issued by the Security Exchange Commission of Cambodia (SECC).</p> <p>Private offer is an offer that:</p> <ol style="list-style-type: none"> 1. May only be accepted by the person to whom it is made; and 2. Is made to a person who is likely to be interested in the offer, having regard to: (a) previous contact between the person making the offer and that person; (b) a professional or other connection between the person making the offer and that person; or (c) statements or actions by that person that indicate he is interested in offers of that kind. 	<p>Cambodian laws and regulations do not distinguish sophisticated investor from public investor. That is to say there is no separate regulatory requirement for certain groups of investors.</p>	<p>There is no specific regulation governing convertible lending. The terms and conditions of the convertible loan are usually determined by contractual provisions. However, a loan is subject to the Civil Code. The legal maximum lending interest rate is capped at 18 percent per annum by the Ministry of Justice. In addition, in case a loan is granted by banking and financial institutions, additional specific regulations mainly issued by the National Bank of Cambodia are applicable.</p>
Maximum offering	<p>Each private offer of equity that is made to more than 30 persons is treated as a public offer.</p> <p>There is no implementing regulation governing the private offer of debt securities yet.</p>	N/A	<p>Generally no limit on amount of loan is imposed. However, some restrictions are applied to loans granted by banking and financial institutions, such as limit on large exposure and/or loans to a related party.</p>
Overview of applicable disclosure regime	<p>According to Article 3 of the SECC's Prakas on the Issuance of Equity Securities, any person who proposes to make a private offer of equity securities must file related documents with the SECC. When the private offer is completed that person must report the result without delay to the SECC.</p> <p>Despite the above provisions, the SECC is yet to provide further details as to how the filing of the documents on private offers should take place.</p>	N/A	<p>Generally no limit on amount of loan is imposed. However, some required restrictions are applied to loans granted by banking and financial institutions.</p>

(Table continued on next page)

6. Cambodia

Characteristics	Funding type		
	Private offer [Note: This would be an offer other than a sophisticated/ accredited offer]	Sophisticated/accredited offer (e.g. – subordinated loans, guarantees, etc.)	Other types of funding sources (for example, convertible lending)
Regulations on offer advertisements	The private offer cannot be publicly advertised by any means including advertisements inviting requests for information on the equity securities investment. There is no law or regulation governing advertisement of private offer of debt securities.	N/A	No restriction on advertisements by any specific regulation.
Any exemptions for advertising and disclosure regimes	No exemptions are provided by the law.	N/A	No restriction on advertisements by any specific regulation.
Brief overview of procedures	Detailed procedures not yet issued by the SECC.	N/A	No specific procedure required.
Statutory conditions for offers/ investments including licensing procedures	Detailed regulations defining statutory conditions for offer/investment licensing procedures not yet issued by SECC.	N/A	Other than the standard conditions applicable to loans, no specific regulation governing convertible loans.
Security requirements	No requirements for security.	N/A	No requirements for security.
Any other financial/ investor protection laws applicable?	<ul style="list-style-type: none"> • Law on Commercial Enterprises (2005) • Law on the Issuance and Trading of Non-Government Securities (2007) • Sub-Decree on the Implementation of The Law On Issuance and Trading of Non-Government Securities (2008) 	N/A	<ul style="list-style-type: none"> • Civil Code (2007) • Law on Banking and Financial Institutions (1999)

7. Nepal

7.1. Background

The snapshot below provides a broad overview on the economic, financing, legal, and regulatory landscape in Nepal. It also provides an illustrative list of ongoing initiatives and measures that could, directly or indirectly, affect access to finance in Nepal.

Box 1.2

Nepal Snapshot



Highlights

The population of Nepal is around 30.5 million

The GDP was \$19.4 billion in 2012, with a 4.6 percent growth

SMEs accounted for 95 percent of registered businesses in Nepal and 21.7 percent of value added to the GDP

The banking sector experienced an increase in non-performing loans; banks were directed to have at least 10 percent of their loan portfolio allocated to the agricultural and energy sectors

An excessive number of banking and financial institutions (213) is putting pressure on the financial sector.

Reprinted from: Asian Development Outlook 2013, ADB

Investors

- Business Oxygen
- Udhyami Impact Fund
- Dolma Impact Fund I
- Typehost Capital

Competitiveness

Nepal ranked 117 of 148 economies on the 2013-14 global competitiveness index

Access to financing is considered to be the 9th most problematic factor in doing business in Nepal

Nepal experienced a drop in ease of access to loans (91 to 107), financing through local equity market (44 to 53), and venture capital availability (83 to 102)

There was also a decline in the protection of minority shareholders' interests and the strength of investor protection rankings.

Reprinted from: The Global Competitiveness Report 2013 - 14

Incubators/accelerators

- Biruwa Ventures
- Business Incubation Program

7. Nepal

The SME industry in Nepal is regulated by the Industrial Enterprises Act, 1992 and the Industrial Policy 2011. While the act provides for the definition of small and medium enterprises and associated industries, the Industrial Policy provides for strategies and their implementation for industrial development. Some of the objectives of the Industrial Policy 2011 are:

- Establishment of industrial entrepreneurship as a sustainable and reliable sector by utilizing the latest technology and environment friendly production process
- Increase Nepal's investment attractiveness by enhancing its human resources and managerial capacity.

To achieve these objectives, the Industrial Policy 2011 has considered the following strategies:

- Providing technical and financial assistance to enterprises that use environment-friendly and energy-saving technologies
- Establishing funds such as the Technology Development Fund, the Small Industries Development Fund, and the Industrial Investment Protection Fund to improve the investment environment in Nepal
- Allowing tax deduction for research and development expenses to promote research and development activities in Nepal
- Forming a committee, which will consider industrial policies and foreign investment policies best practices, and their relevance to Nepal
- Use angel and venture capital funds to assist business incubators provide finance to incubates, thus creating employment.

Given below is a list of some initiatives by local and foreign organizations (including *infoDev*), directly and indirectly related to enhancing access to finance:

- *infoDev* is in the process of launching an **Agribusiness Innovation Center** (AIC) in Nepal under a larger World Bank project for agriculture commercialization and trade (PACT). The AIC will foster and accelerate growth of Nepal's agro-processing sector, helping to commercialize agricultural production, increase agricultural income, and reduce poverty. The AIC's services will hinge on five pillars: technical knowledge, advisory services, incubation/acceleration platform, access to facilities, and access to finance.
- **Business Oxygen** is a \$14 million private equity fund set-up by the IFC SME Ventures program together with the Bank of Kathmandu and Beed Management. Business Oxygen will invest risk capital in Nepal's SMEs with a ceiling of \$500,000 per investee firm. The fund will fill the financing gap left by banks by targeting entrepreneurs who cannot access bank funding due to the lack of collateral required.
- The **Deposit and Credit Guarantee Corporation**, a government-sponsored corporation, provides credit guarantees to eligible financial institutions servicing SMEs. The credit guarantee scheme is capped at \$15,000 and a financial institution can only recover 75 percent of the default loan amount. While this is a noteworthy initiative, it will be of limited use to the missing middle as the level of credit guarantee is low.
- **Mobile Nepal** (mHub) is an initiative by *infoDev* and Young Innovations Pvt. Ltd aimed at fostering the mobile ecosystem in Nepal. It acts as a hub for mobile technology entrepreneurs by providing mentoring and training programs, and serves as a conduit for the creation and implementation of ideas for mobile applications.

7.2. Legal and Regulatory Overview for Private Equity Investment

This legal and regulatory overview for private equity investment was prepared by legal consultants in each respective jurisdiction. The summary is generic in nature and is meant to provide broad guidance only.

Characteristics	Funding type		
	Private offer		Other types of funding sources (for example, convertible lending)
Brief description	Section 42 of Companies Act, 2006 refers to "private placement of securities" which is defined as "an arrangement for offering securities to less than 50 potential investors including security investors using circular, letter or any electronic media. However, the specific legislative framework governing "private placement of securities," is, in practice, limited to offering shares of private companies or unlisted public limited companies. Securities Board of Nepal is the regulating authority for public issues. Private placement covers private issue as well as transfer of existing shares.		Convertible debentures or preference shares can be issued in case convertible lending is required which is in practice in some of the companies in Nepal - subsection 3 of section 35 of Companies Act, 2006 Depending on whether the borrower is the investee or its shareholder(s), the conversion may ultimately take the form of a share subscription with voting rights.
Types of private offer	Share acquisition (purchase of shares from an existing shareholder).	Share subscription (purchase of newly-issued or treasury shares from a company).	Either share acquisition or share subscription, as the case may be.
Maximum amount of offering	No limit.	No limit.	No limit.
Overview of applicable disclosure regime	The information on transfer or acquisition of shares is to be given to the office of the company registrar pursuant to section 47 and 51 of the Companies Act 2006.	Legal stipulation does not exist for issue of equity of private companies and non-profit companies are not governed by the laws regarding the issue of shares. Share certificate is issued to the shareholders as an evidence of investment.	The concerned company has to report any changes in portfolio concentration subsequent of conversion or acquisition - section 47 of Companies Act, 2006.
Regulations on offer advertisements	See above.	It can be advertised on internet or electronic media.	See above.
Any exemptions for advertising and disclosure regimes	No.	No.	See above.
Brief overview of procedures	For all types of companies: 1. The buyer and seller of the shares should have a 'meeting of the mind' on the deal. 2. The buyer may carry out due diligence on the seller if required. 3. The buyer and seller have to sign sale and purchase deed which is to be submitted to the board of directors of the company - subsection 3 of section 42 of Companies Act, 2006. 4. The company is responsible for statutory compliance for sale and purchase of shares and subsequent transfer of shares - subsection 2 of section 47 of Companies Act, 2006.	The board of directors of the relevant company has to approve any type of share transfer, and this is to be informed to the office of the company registrar, pursuant to section 51 of the Companies Act 2006.	See above.

8. ASEAN Economic Community

Box 1.3

ASEAN SME Regional Development Fund

An SME Regional Development Fund to help overcome the financing gap for the missing middle is being set up for the ASEAN region. As part of this process, a conceptual framework report was done to consider different models of existing SME funds (including the EU SME Fund and Kula II Fund). The report also sought inputs from SME agencies.

The current proposal is to set up the SME Regional Development Fund as a central fund, which will be a co-investor in individual funds. Each individual fund will be established in an ASEAN member country and will in turn provide financing to SMEs via financial intermediaries.

Except Nepal, which is not part of ASEAN, Vietnam and Cambodia will benefit from ASEAN economic integration. ASEAN economic integration aims to facilitate the flow of goods, services, investment and capital, and human resources. Vietnam and Cambodia will both benefit from initiatives being developed to strengthen their competitiveness at both regional and global levels with support from ASEAN's developed economies. Changes would be required at the domestic level from a legal, policy, and regulatory perspective to ensure that each domestic economy meets the harmonization process necessary to facilitate the ASEAN Economic Community integration. Such changes (for instance, an appropriate intellectual property rights protection mechanism) will help to enhance the appeal of Vietnam and Cambodia as an investment destination and attract investment from other ASEAN members as well as other foreign investors.

Given the importance of SMEs (including HI start-ups) in ASEAN economies, there is a strong focus on the development and strengthening of the SME sector. The ASEAN strategic action plan for SME development has outlined strategies and associated actions that have been or are will be implemented, including the following:

Strategies	Activities
<ul style="list-style-type: none"> Enhance access to finance for SMEs 	<ul style="list-style-type: none"> Establish an ASEAN SME Regional Development Fund for SMEs
<ul style="list-style-type: none"> Access to financing - capacity building 	<ul style="list-style-type: none"> Strengthen technology business incubators in ASEAN; launch ASEAN business incubator network
<ul style="list-style-type: none"> Widening and deepening SME access to credit 	<ul style="list-style-type: none"> Develop common curriculum for Entrepreneurship in ASEAN
	<ul style="list-style-type: none"> Establish an ASEAN SME service center and SME financial facilities in each country
	<ul style="list-style-type: none"> Conduct feasibility study of SME credit systems to enhance SME access to finance

Table 1.2: ASEAN SME Strategies & Initiatives

Box 1.3: ASEAN SME Regional Development Fund

II. Fieldwork



Fieldwork for this study was done in Vietnam, Cambodia, and Nepal. Its purpose was to collect information from different stakeholders in the start-up community (including HI start-ups, investors and facilitators), get their views on access to finance, and any recommendations they may have. The first step was to identify relevant stakeholders (listed in the table below; some parties have remained anonymous). Next, a set of survey questionnaires was developed to facilitate discussions with the stakeholders (a sample of

the investee firm survey questionnaire can be found at Appendix B). In Vietnam, fieldwork was carried out through face-to-face interviews with investee firms and a roundtable workshop where the views from investors and facilitators were collectively gathered. In Cambodia and Nepal, fieldwork was carried out through face-to-face interviews, phone interviews, and online surveys.

Country	Investee Firms	Investors/Banks/Facilitators/Other contributors
Vietnam	• SanOTC	• IDG Ventures
	• OhYeap	• DFJ VinaCapital
	• 1Pay	• CyberAgent Ventures
	• PTT Solution	• Becamex TIC
	• Blue Up	• TechInAsia
	• Berich	• Shujog
	• Hula	• mLab East Asia
	• Appota	• AITI
	• Terra Book	• ANZ Vietnam
	• Climate Change Resilience Centre	• Vietnam Chamber of Commerce and Industry
Cambodia	• Osja Studio	• Cambodia Investors' Club
	• Project Alba	• Uberis Capital
	• Mango Map	• Tri Asia Group
	• Chibi	• Leopard Capital
	• Yoolk	• Devenco
	• TrendX (now Adscool)	• Golden Gate Venture
	• Reminiscence	• Canadia Bank
		• Kotra (Incubator and Investor)
Nepal	• Rooster Logic Pvt. Ltd.	• Biruwa Ventures Pvt. Ltd.
	• Pasa Yard Pvt. Ltd.	• Dolma Impact Fund
	• CloudFactory	• Rooster Logic Pvt. Ltd. – investor
	• Karkhana	• High Value Agriculture Project
	• Watabaran Cards & Paper	• Business Universal Development Bank Ltd.
	• KhetiBazaar	• CED Nepal
	• R-Tech Nepal	• Hamro Bikas Bank Limited
	• Danphe Energy Pvt. Ltd.	• Mega Bank Nepal Limited
	• Karnali Herbal Industry, Jumla	• Udhyami Impact Fund
	• Sasto Deal Pvt. Ltd.	• Business Oxygen
	• Sahakarya Agro Farm	

Table 2.0: Fieldwork Contributors

1.1. General Findings

At an aggregated level, 72.5 percent of investee firms felt that there is a high financing gap in the region. 35 percent of them successfully received finance, predominantly through equity issuance. However, the majority of capital raising (64 percent) was for amounts less than \$50,000. This substantiates the view that it is harder for the missing middle to access finance. Additional findings, including views from investors and investee firms, on a per country basis have been given the relevant sections below.

The respondents' views collected as part of the fieldwork have been broadly classified into four headings:

Finance: From the investee firms' perspective, there is a lack of access to finance for the missing middle. They want to see capacity building initiatives to deepen the capital pool, which could increase the likelihood of getting funded. While investors agree action is needed to improve the investment landscape from both the supply and demand side, they felt entrepreneurs could do more to improve the quality of investment opportunities that they present.

Mentoring: HI start-ups can benefit from formal and informal mentoring. Mentors act as sounding boards, contribute their own expertise and experience, and assist HI start-ups address gaps in their businesses.

Investment readiness: Entrepreneurs should be better prepared when approaching investors. They should already have developed an investment ready business case, understand the capital raising process, and consider the investment criteria of respective investors and how these would apply to them. This study contains an investment readiness checklist as a generic guide for entrepreneurs.

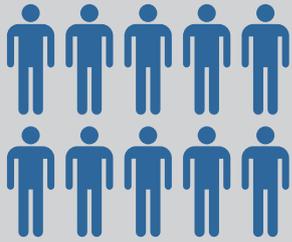
Legal, business and start-up infrastructure: Both investors and entrepreneurs agree that a more conducive infrastructure is needed for the start-up sector. There is a need to address the legal and business framework to facilitate the development and growth of HI start-ups, and to incentivize investors to allocate more financial resources to the sector. The start-up ecosystem could be improved, for example, by providing more incubation facilities for HI start-ups.

Entrepreneurial skills: Entrepreneurs lack some necessary business attributes and this negatively impacts investment readiness of their ventures. There is a need to train entrepreneurs so they have holistic entrepreneurial skills in addition to existing technical expertise they bring to their ventures.

A2F Field Work

3 Jurisdictions

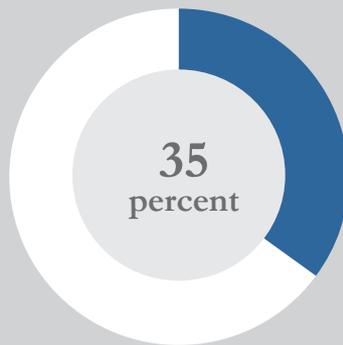
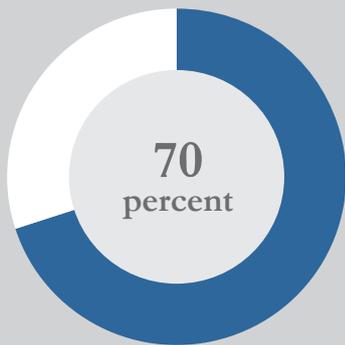
Vietnam | Cambodia | Nepal



- Tech (Online, mobile, climate, other)
- Retail
- Financial services
- Energy
- Agribusiness
- Media
- Healthcare
- Media
- Telecommunication
- Hospitality
- Manufacturing
- Infrastructure

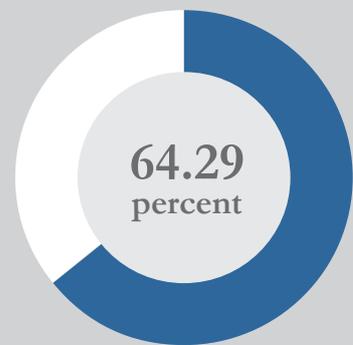
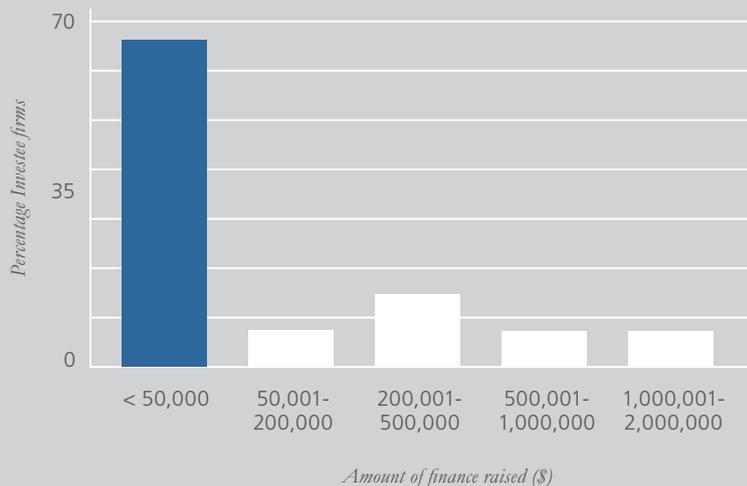
70 participants

15 sectors



of investee firms surveyed sought finance

of investee firms successfully obtained finance



of investee firms that obtained finance raised < \$50,000

2. Investors in the Jurisdictions

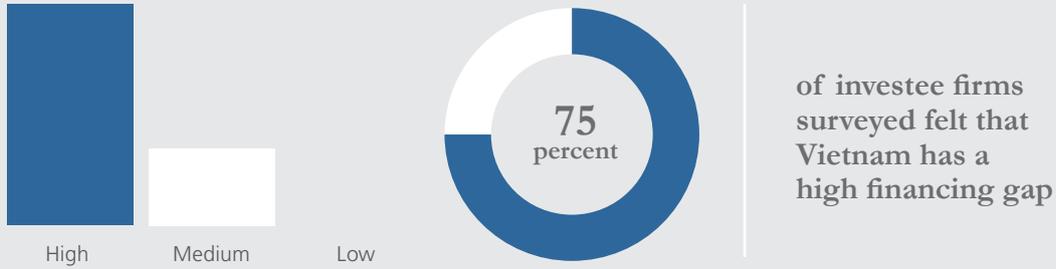
Jurisdiction	Investor	Profile
Vietnam	IDG Ventures Vietnam	IDG Ventures Vietnam is a \$100 million technology venture capital fund in Vietnam with investments in over 40 companies in the technology, media, telecommunications, and consumer sectors, which include VC Corp, VSMC, VietnamWorks, Socbay, and Vinapay.
	DFJ VinaCapital	DFJ VinaCapital is a joint venture between VinaCapital, a leading asset manager in Vietnam, and Draper Fisher Jurvetson, a global venture capital firm. DFJ VinaCapital primarily invests in technology start-ups at the early and late VC stages. DFJ VinaCapital's investment portfolio includes TaxOnline, Yeah1, Greenvity, Chicilon Media, DirectWithHotels, GapIT, and Vietnam Online Network.
	CyberAgent Ventures	CyberAgent Ventures is a Japanese venture capital firm with representation in Vietnam. CyberAgent Ventures is an active investor in e-commerce start-ups in and is one of the three main VC investors in Vietnam. Some of its portfolio companies are DKT, Foody, Tiki, and Vat Gia.
	Prosperous Vietnam Investment Corporation (PVNI)	PVNI is an angel/venture capital network with focus on pre-seed, seed, and early stage venture capital financing in highly innovative ventures. Its focus is predominantly in high quality consumer goods and services, green food, high tech, social media, and education.
Cambodia	Devenco	Devenco is a venture capital and investment consulting firm established in 2007. Devenco looks for investment opportunities that can contribute to the social and economic development of Cambodia, including in the following sectors: manufacturing, healthcare and life science, agribusiness, infrastructure, water supply, and waste management. Devenco plays an ongoing project management role in all their portfolio companies.
	Uberis Capital	Uberis Capital is an impact investing venture capital firm with offices in Cambodia and the United Kingdom. It operates a non-profit loan fund and an impact investment fund. Uberis Capital's investment criteria include are social innovation, business model scalability, ability to generate strong return on investment, and operating in a dynamic market.
Nepal	Udhyami Impact Fund	Udhyami Impact Fund is a non-profit social venture incubated by Biruwa Ventures. Udhyami Impact Fund provides seed financing to entrepreneurs. It directly or indirectly provides mentoring.
	Business Oxygen	Business Oxygen is an SME venture fund established by the IFC, Bank of Kathmandu, and Beed Management. Business Oxygen targets SMEs that cannot secure funding from financial institutions. Business Oxygen generates investment through equity or quasi-equity.
Other	500 Startups	500 Startups operates an accelerator program and is also a seed investor (\$25,000 – \$250,000). 500 Startups invests in start-ups globally and approximately 20 percent of its portfolio is outside of the US. In 2013, 500 Startups set up a \$10 million micro fund, 500 Durians, to make seed investments in South-East Asia.
	Golden Gate Ventures	Golden Gate Ventures is a \$10 million seed-level investment fund with focus on consumer internet products and services start-ups in South East Asia (including Vietnam and Cambodia) with launched products or already established distribution partnerships in the region. Golden Gate Ventures invests by way of minority equity stake.

Table 2.1: List of Investors in the Jurisdictions

Investee Firm Survey in Vietnam

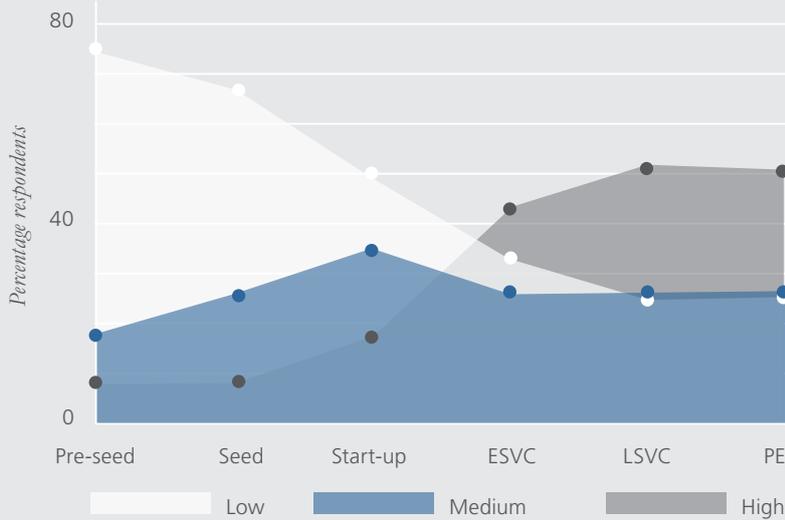


Severity of Financing Gap in Vietnam

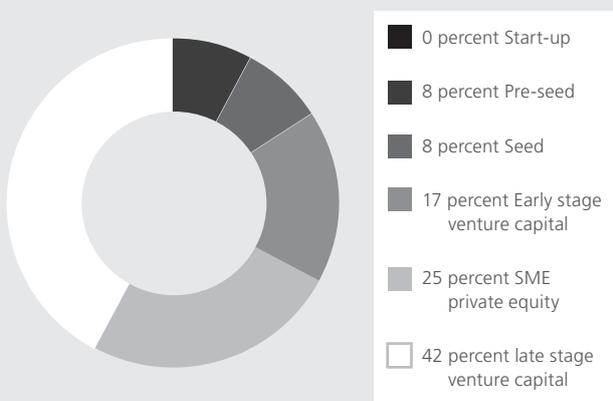


Level of Access to Finance by Financing Stages

Correlation between Stage of Finance and Level of Access to Finance

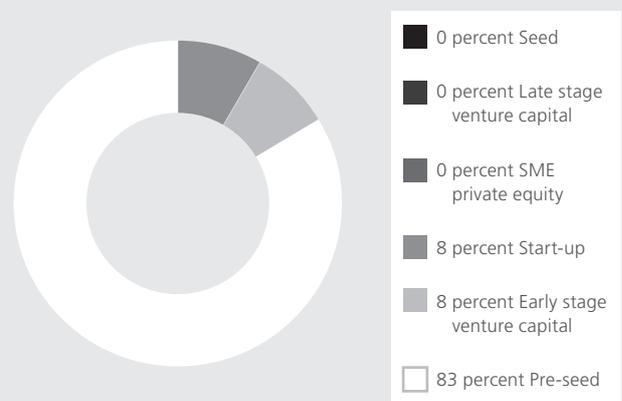


Highest Level of Access (percentage)

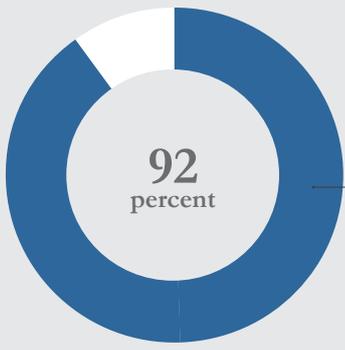


Of all the financing stages, respondents said that late stage VC financing has the highest level of access to finance, with none of the respondents choosing start-ups.

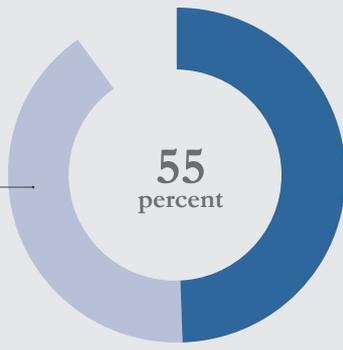
Lowest Level of Access (percentage)



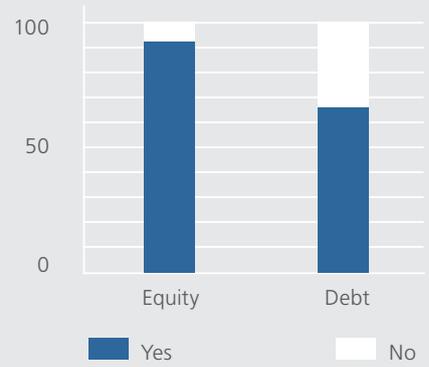
Respondents said that pre-seed financing has the lowest level of access to finance.



92 percent of investee firms surveyed sought finance in the past

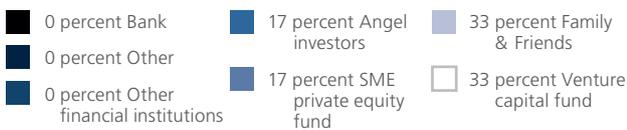
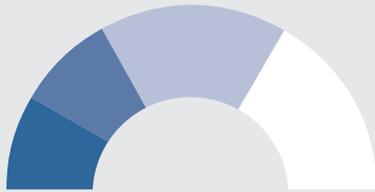


55 percent were successfully financed



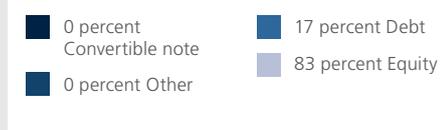
92 percent of investee firms would consider equity issuance for future capital raising; only 67 percent would consider borrowing

Source of Finance (percentage)



Surveyed investee firms sourced finance predominantly from family and friends and venture capital funds

Finance Instruments (percentage)



83 percent of finance provided to surveyed investee firms was by way of equity issuance

Factors impacting investment readiness of investee firms (percentage)



Measures to improve access to finance (percentage)



Note: The above information is compiled from inputs obtained during the fieldwork in Vietnam and provides a sample representation of the financing landscape for HI start-ups in Vietnam.

3. Vietnam Fieldwork Findings

Classification	Views from investors and investee firms in Vietnam
Finance	<ul style="list-style-type: none"> • Investors agree that there is no shortage of capital for equity investments in the missing middle. Investors say they have spare financial resources ('dry powder') to make investments but they are unable to deploy capital due to the following reasons: <ul style="list-style-type: none"> ◦ Investments pitched to investors are of poor quality; the products are not strong enough and entrepreneurs cannot differentiate themselves enough. Their differentiation strategy is generally price competitiveness and better customer service. ◦ Entrepreneurs do display innovation in their ideas and replicate offshore models in local markets without properly understanding how and whether the particular business model will fit. ◦ Generally, entrepreneurs do not assess their markets properly and demonstrate how their ventures can realistically capture a share of the market. A lack of market assessment, which is partly due to a lack of access to market intelligence, negatively impacts credibility of the investment proposal. • Family and friends tend to be the main source of finance for pre-seed and seed funding stages. • Entrepreneurs would like to see more venture capital firms operating in Vietnam. There are only three main VC firms servicing the local market: IDG Ventures Vietnam, DFJ VinaCapital, and CyberAgent Ventures. • Entrepreneurs want more exposure to angel investors. An intermediary network/platform is needed to link the two groups together while providing angel investors with the opportunity to invest in vetted investment opportunities. In contrast, entrepreneurs easily get access to venture capital firms, but this does not necessarily translate into investments due to the reasons mentioned above. • Entrepreneurs want more focus on two stages of financing: seed funding and later stage venture capital funding (\$5 million+, which cannot be serviced by local venture capital firms). • Younger entrepreneurs are more open to equity dilution compared to traditional entrepreneurs.
Legal, business and start-up infrastructure	<ul style="list-style-type: none"> • The investment regime in Vietnam is not conducive to venture capital investment. Investment is subject to red tape and is a costly procedure. For instance, since most venture capital investors operate via offshore investment vehicles, each investment requires an investment certificate, and the fee for this can be costly. This has deterred foreign investors from entering the Vietnam market. Some foreign investors choose to co-invest with existing venture capital fund managers already operating in Vietnam and are familiar with the investment rules. • While physical infrastructure in Vietnam is good (for instance, (free) wi-fi access), the legal/ business infrastructure needs to stimulate investments in HI start-ups. Respondents feel that the start-up sector is not a high priority for the government and there are little or no government initiatives to stimulate investments by improving the legal and regulatory framework. There is strong view that a separate start-up regime that is not subject to the same regulatory/compliance regime as other enterprises needs to be developed. • There is a need for more effective business incubators and accelerators that would help entrepreneurs address the shortcomings mentioned above. • A matching funding mechanism to encourage new equity providers in the Vietnamese venture capital market needs to be created. Development agencies and/or relevant government bodies can provide financial support to new venture capital funds through co-contributions to newly established funds. There are similar regimes in Singapore and Australia.
Investment readiness	<ul style="list-style-type: none"> • Focus is needed on an investment-readiness program to ensure entrepreneurs make their venture investment-friendly before approaching investors.

(Table continued on next page)

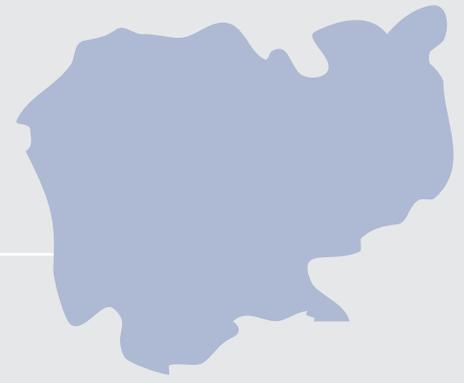
Classification	Views from investors and investee firms in Vietnam
Entrepreneurial skills	<ul style="list-style-type: none"> • Young entrepreneurs do not have appropriate business background ('lack of business mind'), which has an impact on the management of the business. Investors prefer diversified teams where at least one key person has a business background to ensure that the team can execute its idea and still be well-equipped to handle financial aspects (such as cash flow monitoring/burn rate). • Educating entrepreneurs needs stronger focus. A mix of formal (entrepreneurship courses/subjects at university level) and informal education packages should be developed.
Mentoring	<ul style="list-style-type: none"> • Mentoring is seen as vital for entrepreneurs to up-skill themselves and benefit from sounding boards.

Table 2.2: Views from Investors and Investee Firms in Vietnam

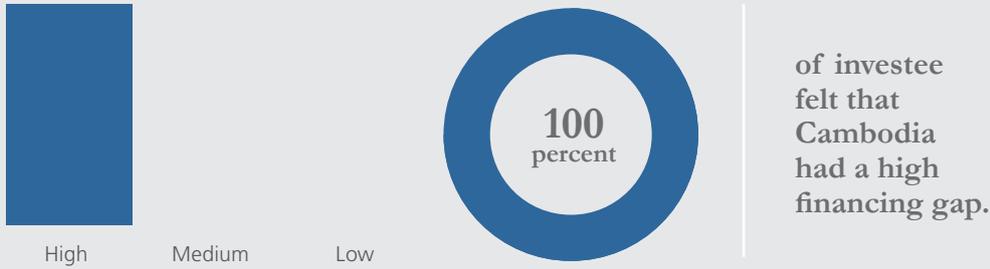
Appota is a mobile platform that provides applications to smartphone users. Appota has 38.7 million downloads and 6 million active users. Tuan Anh, the founder, has more than ten years work experience in mobile services. He actively participated in local and international ICT events to attract investors and raise funding. These events included TechCrunch Disrupt, Demo Asia, Start-up Asia, Founder Institute Program, and Echelon. He successfully raised series A funding and has just recently closed series B funding from Japanese and Singaporean investors.

San OTC was founded in 2006 as a securities trading platform and financial information portal in Vietnam. It has since added around 250,000 registered users. Son Hoang, the founder, managed to secure investment from IDG Ventures Vietnam in 2007 when San OTC started ranking among the top 20 websites in Vietnam.

Investee Firm Survey in Cambodia

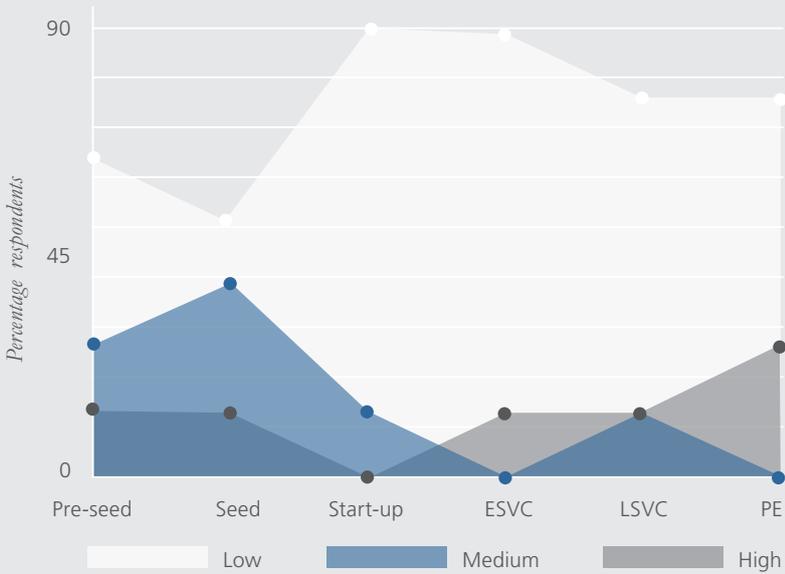


Severity of Financing Gap in Cambodia

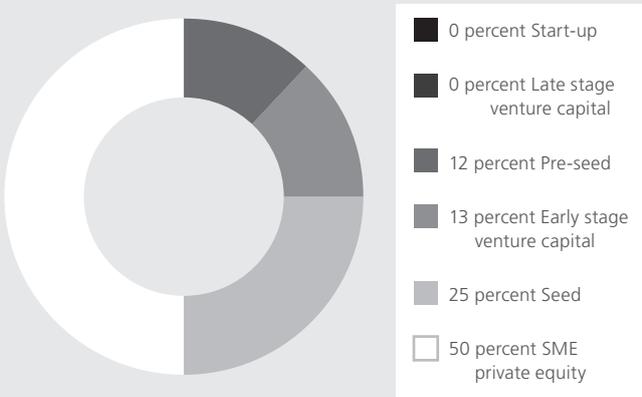


Level of Access to Finance by Financing Stages

Correlation between Stage of Finance and Level of Access to Finance

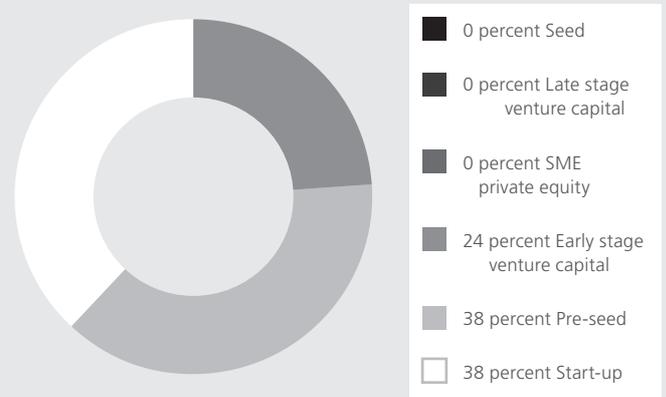


Highest Level of Access (percentage)

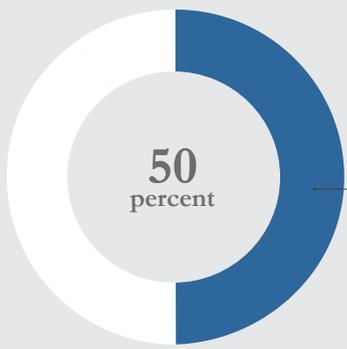


Of all financing stages, respondents found that SME private equity financing had the highest access to finance. None of the respondents chose start-ups.

Lowest Level of Access (percentage)



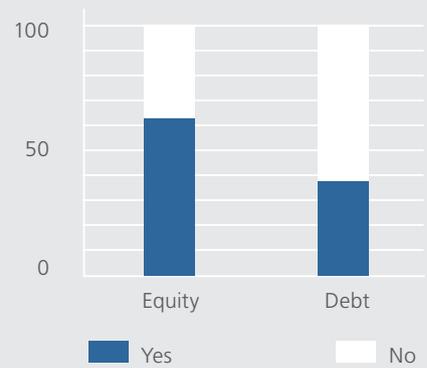
Of all financing stages, respondents found that pre-seed financing and start-up financing had the lowest access to finance.



50 percent
of investee firms surveyed sought finance in the past

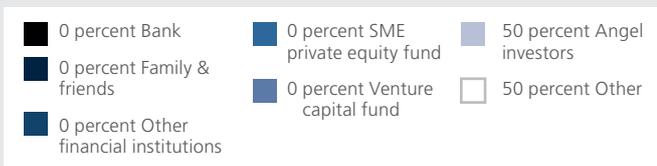


50 percent
were successful in getting finance



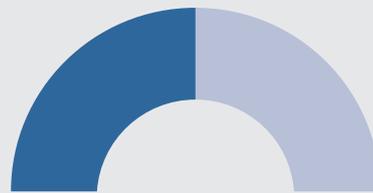
62 percent of investee firms would consider equity issuance for future capital raising; only 38 percent would consider borrowing

Source of Finance (percentage)



Surveyed investee firms have sourced finance from angel investors and from grants

Finance Instruments (percentage)



50 percent of finance provided to surveyed investee firms was made through equity

Factors Impacting Investment Readiness of Investee Firms (percentage)



Measures to Improve Access to Finance (percentage)



Note: The above information is compiled from inputs obtained during the fieldwork in Cambodia and provides a sample representation of the financing landscape for HI start-ups in Cambodia.

4. Cambodia Fieldwork Findings

Classification	Views from investors and investee firms in Cambodia
Finance	<ul style="list-style-type: none"> • Most investors agree that start-ups have specific needs in Cambodia, and most require small-sized investments at the beginning. Cambodia does not have investment resources that cater to this size (unless the focus is on social impact), and access to loans are restricted. As a result, start-ups that need small amounts of funding to get started struggle to grow. • Sectors that have good growth potential are agribusiness, food and beverage, other consumer products (such as health and beauty products), finance solutions (leasing), and logistics. While ICT is a sector of interest, most investors consider the market is not mature enough to experience a tech explosion (most foresee the advent of new technologies in about 4-5 years). • Cambodia can be a 'closed shop' with business arrangements based largely on personal relationships and within close networks. This approach can be a challenge for foreign investors. • There is a disconnect between investors and entrepreneurs, which is due to a lack of visibility of each to the other. More networking events are needed to facilitate connections between the two groups and more (online) coverage through, say, Geeks in Cambodia can increase visibility of the two groups. • Family and/or friends tend to be the main source of finance for pre-seed and seed funding stages for local entrepreneurs. While there are local angel investors who support Cambodian start-ups, finding start-ups is difficult if they do are not part of entrepreneur networks or introductions are not made through mutually known intermediaries. • Entrepreneurs feel that foreign investors see the Cambodian economy as too small, and do not understand its peculiarities and opportunities. Further, they feel that Cambodian firms are slotted into strong stereotypes. This must overcome by increasing visibility of local markets, its resources and opportunities. • Cambodia is subject to a talent drain. Promising local entrepreneurs leave the country to find support elsewhere (such as the U.S. and Singapore). As a result, the probability of investors finding promising start-ups in Cambodia is low. There is a need to retain existing talent and also attract entrepreneurs back to Cambodia.
Legal, business and start-up infrastructure	<ul style="list-style-type: none"> • Businesses are run in an informal manner. Some businesses are not legally registered and/or do not keep proper records. This presents a challenge for investors when assessing a business and acts as an investment deterrence since it is hard to verify information, confirm real balance sheet positions, and properly value businesses. Focus should be on transitioning to more formal levels of business with proper business processes and procedures in place. • Increase in regulatory risks have negative impacts on business confidence and hinders investment (this applies to political uncertainty in Cambodia). • The start-up industry is still nascent. Considerable time and resources needs to be committed to develop the sector. Every entrepreneur interviewed said they were eager to see the sector being further developed.
Investment readiness	<ul style="list-style-type: none"> • Local companies and entrepreneurs are unfamiliar with the investment processes of investors currently servicing Cambodia. They generally do not meet investor requirements of the investors in terms of their businesses being investment ready and/or their ability to supply appropriate information. This limits access to quality investment opportunities. From a foreign investor's point of view, entrepreneurs need education on how to make their businesses investment friendly and how to approach the investment process. The survey found that entrepreneurs were aware of this.
Entrepreneurial skills	<ul style="list-style-type: none"> • There is an urgent need to up-skill entrepreneurs to develop management, accounting, financial and broader business skills, and develop holistic business acumen. This calls for a focus on training, professional development, mentorship, and incubation services. • Foreign entrepreneurs based in Cambodia felt that there is a lack of resources to educate, train, advice, and support local entrepreneurs in Cambodia.

Table 2.3: Views from Investors and Investee Firms in Cambodia

4. Cambodia Fieldwork Findings

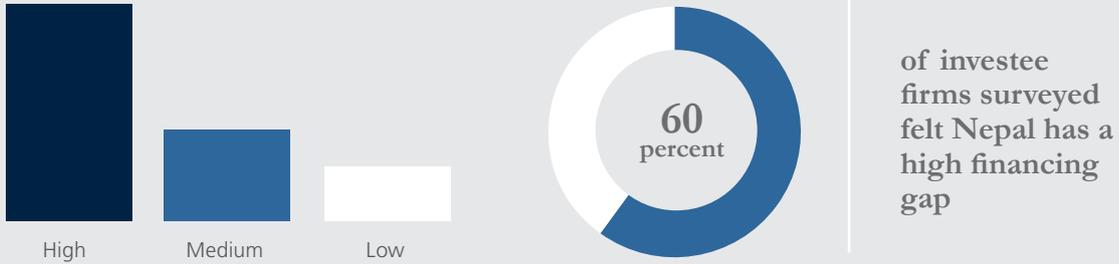
TrendX (now Adscool) was founded in 2012. It was originally a mobile application that emphasized art-of-customization for fashion bloggers but it was later repositioned as an image-driven rewarding app for peer-2-peer advertising. TrendX was the runner-up of Start-up Weekend Cambodia 2012 (and the winner in 2013). TrendX was endorsed by Microsoft as part of the 2012 Start-up Weekend competition; however, it was only a technical endorsement.

TrendX could not secure equity investments on the back of the 2012 competition as it did not have enough traction, and lacked mentors. TrendX's management team feels Cambodia needs an accelerator program, and start-ups need to improve financial literacy (for instance, financial forecasting and valuation) to meet investor expectations.

Investee Firm Survey in Nepal

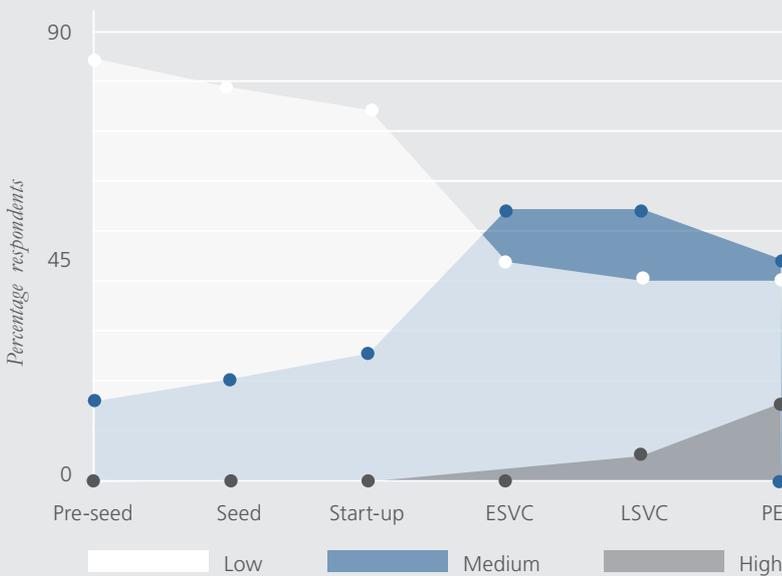


Severity of Financing Gap in Nepal

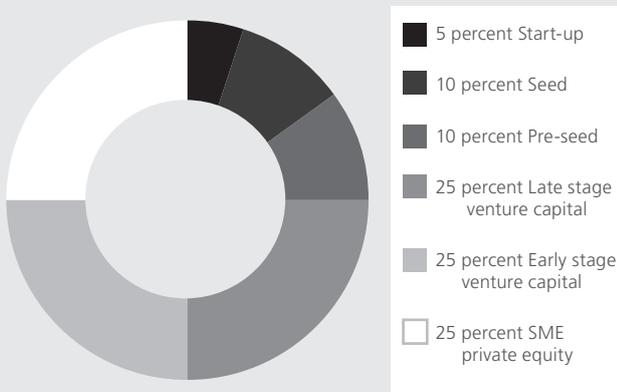


Level of Access to Finance by Financing Stages

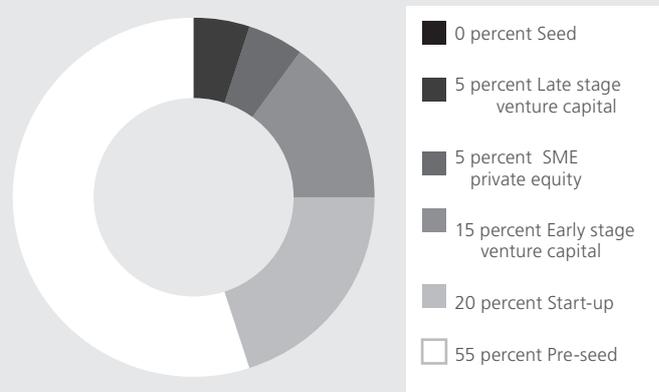
Correlation between Stage of Finance and Level of Access to Finance



Highest Level of Access (percentage)

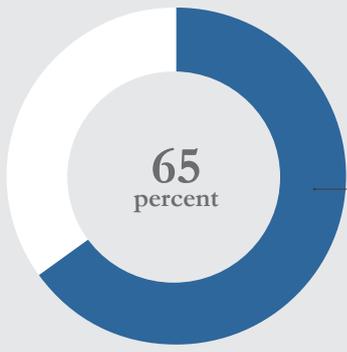


Lowest Level of Access (percentage)

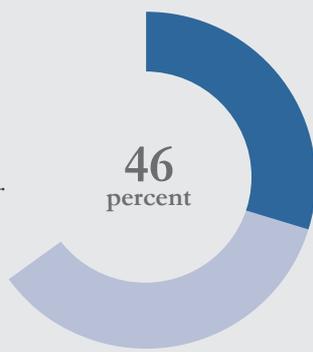


Of all financing stages, respondents found that VC financing, SME private equity financing provided highest access to finance. None of the respondents chose start-ups.

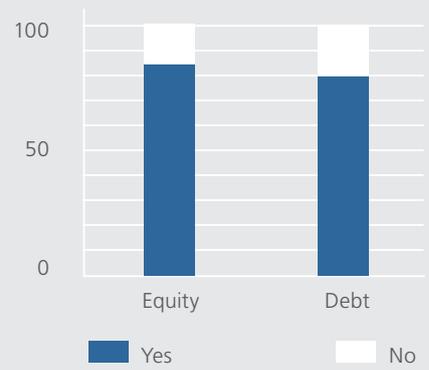
Of all the financing stages, respondents found that pre-seed financing has lowest access to finance.



of investee firms surveyed have sought finance in the past

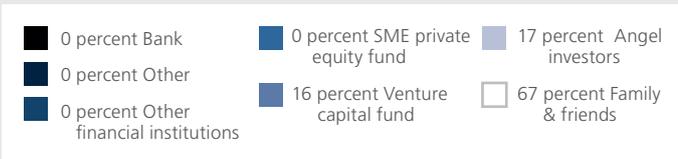


of them were successfully financed



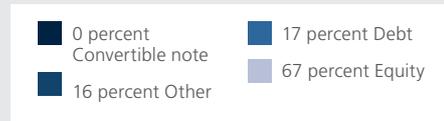
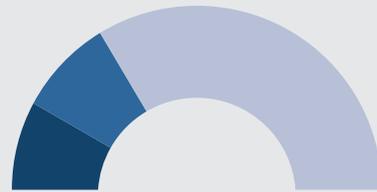
85 percent of investee firms would consider equity issuance for future capital raising; only 80 percent would borrow

Source of Finance (percentage)



Surveyed investee firms have sourced finance from angel investors and from grants

Finance Instruments (percentage)

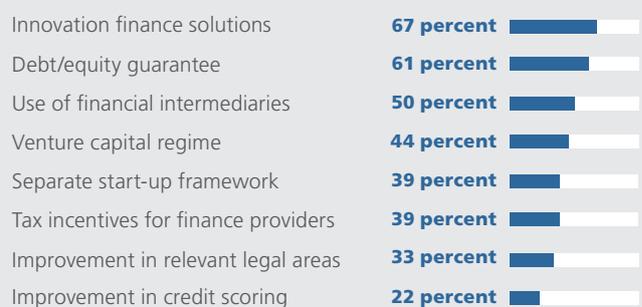


67 percent of finance provided to surveyed investee firms was by equity issuance

Factors Impacting Investment Readiness of Investee Firms (percentage)



Measures to Improve Access to Finance (percentage)



Note: The above information is compiled from inputs obtained during the fieldwork in Nepal and provides a sample representation of the financing landscape for HI start-ups in Nepal.

5. Nepal Fieldwork Findings

Classification	Views from investors/investee firms
Finance	<ul style="list-style-type: none"> • Investors are mostly attracted to matured enterprises with solid financial histories, to the detriment of start-ups. • Similar to other early evolving markets, most funding is still handled by the traditional banking sector. This is not a feasible option for start-ups since banks focus on larger established businesses, and almost always lend against collateral. There is a need for alternative debt funding (such as venture debt) to cater to start-ups. • Alternative financing solutions should be explored to determine whether these are suitable in Nepal and can help overcome some of the impediments that restrict start-ups from accessing finance. For instance, a crowdfunding platform can be an option to attract foreign investors. • Another option to explore is equity guarantee; this may potentially increase the investment risk appetite of investors since it will limit possible losses. • The majority view from investee firms is that the financing gap in Nepal is high, especially at the pre-seed to start-up stages. This is in line with the view from the investors who cite high risk and poor quality of deals in the start-up space as impediments. • Pre-seed stage funding is hardest to fund, with the least access to finance. • There is a strong reliance on family and/or friends to finance start-ups at the pre-seed, seed, and start-up funding rounds as there is no real alternative. There is a lack of awareness in the start-up community of venture capital in general, how it can be used to fund start-ups, how deals are structured and on what terms, and what are the investment criteria of venture capital providers. Some entrepreneurs are not even familiar with the existing venture capital providers in Nepal and there are no opportunities for entrepreneurs and the venture capital providers to network and collaborate.
Legal, business or start-up infrastructure	<ul style="list-style-type: none"> • A legal and regulatory regime for investments should be implemented with the intent to develop the venture capital industry in Nepal. Measures such as tax incentives for venture capital investment and flow-through investment vehicle(s) could be considered. Separately, a legal framework dedicated to the start-up industry should also be considered. • Legal uncertainty poses a major hindrance to attracting offshore investors in the venture capital sector (this also to the unstable political climate).
Investment readiness	<ul style="list-style-type: none"> • Entrepreneurs need appropriate training to make them investment ready and ensure that the business case they present to investors is investment friendly and of adequate standard. They also need to understand their markets better and how their products fit into that market.
Entrepreneurial skills	<ul style="list-style-type: none"> • Nepal lacks quality and quantity of investment deal flows. This is partly due to a lack of vision in entrepreneurs, lack of business experience, and their inflexibility to learn and adapt. • Start-ups need technical assistance, such as legal and business support. This is as important as access to finance.
Mentoring	<ul style="list-style-type: none"> • Nepal lacks the 'grey hair' factor; there is not enough mentoring available for young entrepreneurs to assist them in their ventures. Mentoring programs need to be developed to help young entrepreneurs.

Table 2.4: Views from Investors and Investee Firms in Nepal

Investment Readiness Checklist

This investment readiness checklist contains practical and non-exhaustive steps that entrepreneurs of HI start-ups in Vietnam, Cambodia, and Nepal can follow when seeking equity financing from professional investors such as angel investors and venture capital funds. This checklist takes into account feedback received from investors during the fieldwork. Being investment-ready is a gradual process and incorporates several important aspects of the business (for instance, revenue model and market assessment). Addressing the criteria in the checklist will help entrepreneurs with their capital raising campaign and help them identify gaps in their business.

Build the team

Investors have a strong preference for a venture with numerous founders (2-4 founders) with complementary skill-sets.

Understand the venture and the environment it operates in

- What is the level of innovation attached to the product, process, or concept?
- Is there a clear competitive advantage?
- Has a market assessment been done to see how the product, process, or concept fits into the target market(s)? What is the market opportunity?
- Has a customer analysis been done?
- Who are your competitors and how does your venture compare to them?
- What is your pathway to commercialization, market, and/or growth?

Monetization

- What is the revenue model (or revenue streams)? How do you intend to monetize your product, process, or concept?
- Is the revenue model sustainable?

Financing

- What is the financing required now? You should also contemplate the financing you will require over the next 1-2 year(s).
- How realistic is the amount required?
- For what will the funds be used?
- What is the current burn rate? What is the expected burn rate?
- What is your preference for capital injection? Debt, equity, or both.
- What are your preferred investment terms (how much are you willing to dilute)?

Know your (prospective) investors

- What kind of investors are you looking for? Active, passive, purely financial, strategic or a combination of these?
- What are their investment criteria? Is your venture a fit for them?
- What is their investment timeframe; when do they want to exit?
- On what terms do they invest?

Business plan

- Do you have a business plan? Depending on your business model and the type of investor you are approaching, this can be an extensive or 'lean' business plan.

Financial forecast (cash flow, profit and loss and balance sheet)

- Have you undertaken financial projections for the venture? Financial projections should be done for at least three years. This is important to show revenue traction, demonstrate use of funds, substantiate your growth story, and, to a certain extent, for valuation.
- Have you stress-tested the financial forecast? This should be done on a 'what if' basis, taking identified risks into account.

Valuation

- What is the pre-money valuation?
- Is the valuation realistic? Have you stress-tested the valuation?

Risk

- What are the risks attached to the venture, the market the venture operates in, and the broader economy?
- What are the risks for the investor? How will you mitigate these risks?
- What is the risk for the venture and the founders in relation to obtaining external capital?

Pitch

- Do you have your investment documents ready (investment overview, pitch deck, offer document/business plan)?
- Are you able to get 'warm' introductions to prospective investors?
- Have you worked out your pitch strategy (including elevator pitch)?
- Are you flexible and will you take constructive feedback from prospective investors? This could help with your fund-raising campaign and benefit your venture overall.

Due diligence ready

- Do you have all necessary legal and business documentations if an investor wants to assess your venture? This will include incorporation documents (if any), capitalization table, any licenses required, detailed background on the team, financial model, any existing material contracts (including key operating agreements), background on intellectual property (if any), business processes, set of accounts (if already operating), tax returns (if already operating) and bank statements.
- Do you have an advisory team that can assist with due diligence and closing the investment round?

Exit

- Have you developed an exit strategy for the venture?
- Does the exit strategy match with the investment timeframe of the investors?
- If not, how are you going to achieve liquidity for your investors?

III. Recommendations



These recommendations are aimed at improving access to finance for HI start-ups in Vietnam, Cambodia, and Nepal. While this project aims to address the financing gap for HI start-ups, the recommendations also include non-financing related matters that can impact on access finance.

The recommendations are classified into three broad groups and are summarized in stock-take worksheets:

Financing instruments

- Revenue financing – This innovative instrument can assist HI start-ups tap into quasi-equity investments
- Venture debt as an alternative to bank funding
- Asset-based lending products, which can better fit HI start-ups.

Financing mechanisms or structures

- Revolving loan funds – to act as a lender to HI start-ups
- Capital raising platform (such as crowdfunding platforms)
- Sidecar funds.

Financing-catalysts (for instance enabling startup infrastructure and up-skilling)

- Develop separate start-up and venture capital regimes
- Develop a start-up toolkit. This would include:
 - Investment overview template
 - Investment offer document
 - Investment pitch deck
 - Term sheet
 - Loan or subscription agreement
 - Shareholders' agreement
 - Confidentiality agreement
 - Financial (including cash flow) model
 - Pre and post-money valuation calculator.

1. Recommendation Stock-take Worksheets

Item	Type	Description	Deficiency
Financing instruments			
Venture debt (akin to bank debt)	Debt	Venture debt is a form of venture capital generally used by HI start-ups that are cash flow poor and/or asset poor. Venture debt does not lead to equity dilution but is more costly than traditional debt funding.	Access to finance
Revenue financing	Debt/equity (depending on terms)	Providing capital in exchange for a share of the future revenue of the start-up. This alternative form of financing is generally collateral-light and may not result in equity dilution.	Access to finance
Profit participating loan	Debt/equity (depending on terms)	Similar to revenue financing but repayment is based on profits generated.	Access to finance
Asset-based lending products:	Debt		Access to finance
(i) IP-based lending		The (material) assets of HI start-ups are generally limited to intangibles (predominantly intellectual property). There is opportunity for HI start-ups to monetize their IP.	
(ii) Cash flow-based lending		Lending against cash flow of an asset, including cash flow generated by intellectual property.	
Bonds	Debt	Feasibility of using bonds for HI start-ups can be determined by: (1) Issuing mini-bonds at individual company level (2) Issuing a thematic bond (for instance climate change-related) at an aggregated level (for instance through the Vietnam Climate Innovation Center (VCIC)).	Access to finance
Risk-sharing instrument	Debt/equity	Credit/equity investment guarantee can enhance borrowing/investment capacity of a start-up.	Access to finance
Financing mechanisms or structures			
Sidecar fund	Equity	The pooling of angel funds under a common investment vehicle. The other alternative is for a sidecar fund, not necessarily backed by angel investors, to co-invest alongside incubators/accelerators	Access to finance/ vetting impediment
Seed capital fund	Equity	Providing seed funding via incubators/accelerators	Access to finance
Revolving loan fund	Debt	A revolving loan fund (RLF) is similar to a venture capital fund except that it makes investments via debt instruments rather than equity.	Access to finance
Two-step loan (TSL) including startup TSL and green TSL for VCIC purposes	Debt	Providing a credit line to financial institutions, which in turn lend to HI start-ups. Note: an RLF can be part of a two-step loan program where the financial institution is the manager of the RLF.	Access to finance

Estimated implementation timeframe	Comparative		Comments
	Developed	Developing	
Short-medium	Silicon Valley Bank	Malaysia Debt Ventures	This is an alternative to bank loans and can be of interest to private investors. Venture debt yields a higher return than traditional bank debt due to the higher risk, but provides flexibility to start-ups (less stringent assessment criteria).
Medium-long	Revenue entitlement notes™ Lighter Capital (US) Vision Plus (Finland)	Nepal Agribusiness Innovation Center – use of ‘royalty’ payment as form of remuneration for AIC assistance	Revenue financing can be beneficial to address the financing gap for HI start-ups even if they are in pre-revenue stage. This form of financing can be used as a substitute for bank loans by financial institutions. It can also be used by venture funds as financing instruments or to set up a dedicated revenue financing fund. No exit strategy required and investors benefit from periodic distributions. Longer term than traditional debt.
Short-medium			Interest and capital repayments are based on the dividend distribution capacity of the HI start-up; hence it is not a fixed amount. Longer term than traditional debt.
Medium		IFC initiative (for instance in Ghana)	This would not necessarily fit in as a bank product offering. Change in mindset for banks who are used to traditional lending; IP protection regime is not robust; potential lack of valuation expertise in the region; and IP as a collateral is not attractive given there may not be a readily available market. This would be of relevance to .start-ups already generating revenue.
Long	CBD Energy mini-bonds (UK issuance) IFC Women bonds Community bonds		While bond instruments provide issuers with an alternative form of funding, the feasibility of using bonds in the jurisdictions under consideration may, prima facie, be premature at this stage.
Short-medium	EIF	Ho Chi Minh City Credit Guarantee Fund The Deposit and Credit Guarantee Corporation ARIZ – Danone Communities Fund USAID Development Credit Authority	There are various credit guarantee initiatives in operation in the jurisdictions with limited success and low impact on access to loan products.
Medium-long	Sydney Angels Sidecar Fund European Angels Fund		Using a sidecar fund can help develop the angel investment community. The sidecar will invest alongside other investors such as VC funds and/or incubators/accelerators. A co-investment will assist with the vetting process and associated transaction costs.
Medium-long	Early Stage Innovation Financing (ESIF) Facility (proposed)	CIC-related seed funding facility (e.g. Vietnam & Kenya)	Collaborating with incubators/accelerators can provide funds with investment-ready deal flows.
Medium			An RLF can be a substitute for bank funding to HI start-ups. An RLF may offer more flexible terms tailored to HI start-ups compared to traditional lenders (for instance, longer tenure and less collateral). This is because investors in an RLF commit funds on a comparatively longer term basis.
Medium	Korea Eximbank Japan Bank for International Cooperation		Identify capital providers that can participate in a TSL scheme and conduct a feasibility study through a pilot program. Since this program would be dedicated to HI start-ups, the on-lending loan product would be designed specifically with them in mind (for instance, longer loan term and collateral-light).

1. Recommendation Stock-take Worksheets

Item	Type	Description	Deficiency
Financing mechanisms or structures (continued)			
Crowdfunding	Debt/equity	<p>Crowdfunding is a financing mechanism whereby HI start-ups seeking funding are promoted on an online platform, allowing them to find funding from the crowd (people accessing the platform). Crowdfunding is creating a disintermediation in the finance sector in that 'sellers' can directly get access to 'buyers'.</p> <p>For the purpose of this project, only equity and debt crowdfunding are of relevance to the missing middle.</p>	Access to finance
Private exchange platform (at South-East Asia regional level) - variant 1 of the crowdfunding recommendation	Debt/equity	<p>A platform for unlisted HI start-ups to raise funds from a pool of qualified investors. As opposed to a crowdfunding platform, access is limited to investors that meet certain criteria (effectively providing a gateway to connect venture capitalists to start-ups).</p> <p>This is a hybrid model of an SME stock exchange and crowdfunding platform.</p>	Access to finance
Special purpose vehicle (akin to PE club deal) - variant 2 of the crowdfunding recommendation	Debt/equity	<p>Similar to the above recommendations, except here the intermediary platform actually raises the funds and then on-invests/on-lends to the HI start-up. This means that the HI start-up deals with one investor only.</p>	Access to finance
Venture capital matching funding scheme	Equity	Provides matching funding to attract venture capital fund managers to South-East Asia	Access to finance
Financing catalysts			
Venture capital regime	Enabler	Develop a regime that is conducive to venture capital funds and venture capital investments respectively.	Legal/regulatory
Start-up regime	Enabler	Develop a separate start-up legal/regulatory/tax regime with appropriate incentives to encourage innovation and provide a conducive investment regime	Legal/regulatory
Technical assistance fund (TAF)	Enabler	Provide in-specie support to HI start-ups in certain pre-identified areas.	Business skills/ investment readiness/market research
Service voucher scheme	Enabler	Similar to the above recommendations, except here the intermediary platform actually raises the funds and then on-invests/on-lends to the HI start-up. This means that the HI start-up deals with one investor only.	Business skills/ investment readiness/market research

Estimated implementation timeframe	Comparative		Comments
	Developed	Developing	
Medium-long	Crowdcube Seedrs Indiegogo Lending Club (P2P personal lending)	IG9	Legal and regulatory framework should be amended to provide for crowdfunding-friendly regime (investment certificate requirement and investment to be made in local currency could be a hindrance in Vietnam). The alternative is to explore feasibility of using a crowdfunding platform located in a crowdfunding-compliant jurisdiction. However, a longer term view should be taken as an offshore platform will not develop a vibrant investment community in the local market. A local platform could provide a link to local investors (angels) and market review of the investment opportunities will reduce investment costs. In addition, such crowdfunding platforms may not allow offshore 'listing'.
Medium-long	Second Market Sharespost ASSOB	IIX Asia	A full-fledged stock exchange dedicated to start-ups may not work given that existing stock exchanges in the region have not themselves gained much traction and there is poor liquidity in quoted securities. The proposed private exchange platform will provide HI start-ups with a pool of investors interested in investing in the region, and investors with vetted and qualified deals. Its success will rely heavily on the platform operators' diligence in scrutinizing investment deals to ensure that investors get access to good quality deals. Issues: Investment certificate cost and the requirement to invest in local currency in Vietnam.
Medium	Funders Club Solar Mosaic (back-to-back bond structure)	IIX Asia	Vetting and active monitoring are done by the special purpose vehicle 'manager'.
Medium-long	Early Stage Venture Fund – NRF Singapore Innovation Investment Scheme (IIF) – Australia		Compared to grant, a matching funding scheme will allow capital to be recycled back into the ecosystem and provide a more commercial arrangement.
Long	Early Stage Venture Capital Limited Partnership – Australia (all distributions/returns are tax free) Venture Capital Trust – UK (dividend relief/ income tax relief/ disposal relief)	Venture Capital Company - Kenya Venture Capital Company – South Africa (tax deduction for investors' equity investment)	Focus should be on developing legal structure(s), say limited partnership, which can cater to collective investment vehicles (CIVs) and provide associated tax incentives (for instance, CIVs should be flow-through for tax purposes). Need to get government 'buy-in' to develop an onshore VC regime. An analysis of existing PE/VC regimes should be done to determine the best fit for East Asia and takeaway lessons as well.
Long	Generally part of the small and medium enterprise regime		What can be considered: Legal definition of start-up; compliance-light regime for start-ups to facilitate formation and ongoing operations; investment-light regime to overcome investment barriers such as lowering investment certificate requirements and associated costs, and forex control; and tax deduction capital rollover for investors in start-ups.
Medium		VCIC Seed Capital Assistance Facility African Agriculture Fund	Instead of providing cash investments/grants to HI start-ups, in-kind capital can be disbursed to through a technical assistance fund. The TAF can be paired with incubators/accelerators with investment funds.
Medium	Innovation & Capability Voucher – SPRING (Singapore) Innovation Voucher Program (Victoria) NSW TechVouchers		Same as above

1. Recommendation Stock-take Worksheets

Item	Type	Description	Deficiency
Financing catalysts (continued)			
Employee share/ option scheme	Enabler	To attract co-founders with complementary skills set and encourage participation of skilled personnel in HI start-ups ('grey hair'). This can also incentivize participation by foreign parties.	Expertise/mentor/ diversified team
Finance innovation center	Enabler	A think tank that can actively pursue research on financing matters in the region; act as a catalyst for financing initiatives; lobby for financing-related policies in the region; assist in developing the start-up financing infrastructure and tailored products	Inadequate financial infrastructure
Start-up toolkit	Enabler	Tailoring investment resources for HI start-ups that can readily be accessed by the start-ups and investors.	Investment readiness
In-house credit screening up- skilling	Enabler	There is a need to assist lenders to tailor their expertise/processes for the start-up sector. Various initiatives and tools have been developed to assist banks with credit assessments of start-ups sector and ensure it is an effective and efficient process.	Startup expertise
Credit screening - Third party provider	Debt	Pool a panel of lenders (for instance, commercial banks) and outsource the screening and processing to an intermediary organization that specializes and is skilled in the start-up sector.	Startup expertise
Entrepreneurship course	Enabler	There is a requirement for holistic training for entrepreneurs in entrepreneurship through short and tertiary courses.	Skills: develop their expertise in different aspects of starting, building, growing, and consolidating a venture.
Connectivity platform	Enabler	This will allow transfer of knowledge (and talent) from both local and offshore parties to HI start-ups, and be a conduit to improve their investment visibility.	Knowledge/market intelligence/IP development

Estimated implementation timeframe	Comparative		Comments
	Developed	Developing	
Long	Enterprise Management Incentive – UK Qualified & non-qualified option schemes – US Equity Remuneration Incentive Scheme - Singapore		This proposal can form part of a start-up regime recommendation. The necessary ‘buy-in’ should be obtained from the government to design such scheme and to ensure that the scheme can be legislated.
Medium-long	Milken Institute – Asia Center The Asia Foundation Frankfurt School - UNEP Collaborating Centre for Climate & Sustainable Energy Finance	ADB Institute SME Finance Forum	The proposed Finance Innovation Center is expected to be pro-active and will be heavily involved in driving practical financing initiatives in the region, including undertaking feasibility studies on alternative financing instruments and financing mechanisms/structures, and working on finance-related/legal/regulatory reforms to assist HI start-ups.
Short-medium		SME Toolkit – IFC initiative Shujog – investment readiness program	Determine whether it is possible to leverage existing initiatives and extend them to the start-up sector.
Medium-long	Small Business Banking Network Entrepreneurial Finance Lab (credit scoring methodology)	Refer to previous column	
Medium	ENYA		An intermediary will ensure that the start-up sector is serviced properly and resources are devoted to start-ups (banks focus on larger enterprises and do not want to dedicate resources to the missing middle). A dedicated provider (centralized unit) will also streamline costs and avoid human resource duplication at each individual lender level.
Medium-long	Kauffman Fastrac Entrepreneurship Development Institute of India Plug And Play University/Startup Camp	AsiaSEED Hanoi School of Business - Director Of Technology and Entrepreneurship Topica Foundation Yup Institute Udacity – How to build a start-up Industrial Enterprise Development Institute (Nepal)	Based on the feedback received, there is a need to increase programs to improve the skills of entrepreneurs. A more practical approach together with support from the start-up industry (including existing entrepreneurs, service providers, incubators and funders) is required.
Medium-long	EIB Corporate Innovation Platform (more formal)	Starhub.vn ADB LCT-T Platform	

2. Debt

Traditional sources of debt funding (such as banks) cannot cater to the start-up industry from a financing perspective. Due to the nature of their operations (deposit-taking) and regulatory requirements, the terms on which banks can lend and their approval criteria do not make the start-up sector a good fit for banks. These are some of the terms and conditions attached to traditional loan products:

- The lender requires the HI start-up to have positive cash flows
- The lender expects the HI start-up to have material tangible assets that it can offer as security
- The lender requires a personal guarantee from the founder(s) or related parties, given the high level of risk associated with a HI start-up
- The loan to valuation ratio applied to a HI start-up is generally in the lower range, this limits the borrowing capacity of the start-up

- The loan is for a relatively shorter tenure and may not necessarily fit with the start-up's long-term capital management plan. It will need to repay the loan rather than spend financial resources on growing the business.

Also, banks may not necessarily have the in-house expertise and/or capacity to properly assess HI start-ups; given that banks tend to concentrate on established medium to large businesses that have a trading history, are asset-rich, and have positive cash flows.

Some or all of these impediments will need to be addressed if HI start-ups are to incorporate debt funding in their capital stack. The fieldwork for this study found that debt funding is not uncommon at the pre-seed to seed stages; it predominantly emanates from FFFs. HI start-ups are also able to tap 'shadow' banking sources in these jurisdictions to fund their ventures.

2.1. Venture Debt

One way of providing debt funding to HI start-ups is to consider venture debt and its applicability to HI start-ups in Vietnam, Cambodia, and Nepal. Venture debt is defined as loans provided to a HI start-up with the latter meeting the following requirements:

- The HI start-up has material intangible asset(s) in the form of intellectual property
- The HI start-up has received an existing round of venture capital. This requirement is critical because:

- It allows the venture debt provider to leverage off the involvement of the venture capital fund where the venture debt provider has the comfort of knowing the HI start-up has undergone rigorous due diligence at the time of receiving the equity injection and is subject to ongoing monitoring by the venture capital fund
- More importantly, the presence of a venture capital fund provides a venture debt provider with recourse to the current (and any future) equity injected by the venture capital fund, in addition to the collateral provided by the HI start-up.

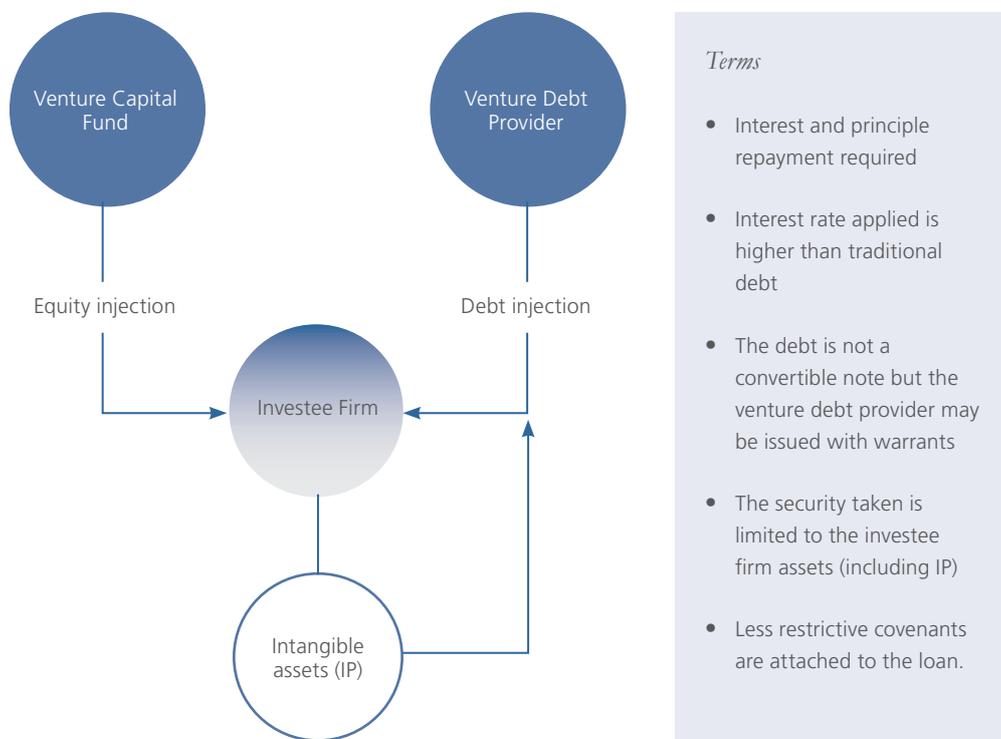


Figure 2.0: Venture Debt

2. Debt

The benefits of venture debt are:

- It allows the HI start-up to supplement their capital stack with debt, bridging any gap it may have in its funding requirements
- It minimizes equity dilution for existing investors, given the HI start-up can raise a combination of debt and equity. This also means that future rounds of equity injection can be done at a higher valuation since the HI start-up benefits from additional time to reach some of its milestones.

An example of a venture debt provider is Malaysia Debt Ventures, an innovative financier outfit put together by the government of Malaysia, which specializes in venture debt for the ICT, biotechnology, green technology, and other emerging technology sectors. Malaysia Debt Ventures offers both conventional and Sharia-compliant products/ programs. Some of them are:

Product/Program	Features
Intellectual property financing	<ul style="list-style-type: none"> • Funding amount: The lower of \$3 million or 80 percent of IP value • 5-year term (including 1 year 'honeymoon' period) • Funding against registered IP only • Rebate in annual interest rate.
Commercialization financing program	<ul style="list-style-type: none"> • Applicable to early stage and/or pre-commercialization companies • Funding amount of up to \$600,000 for Venture Project line, otherwise up to \$1.5 million • Funding up to 85 percent of contract value • 5-year term • Interest rate of between 6 to 8 percent per annum.
Equity-linked product	<ul style="list-style-type: none"> • Convertible loan product • Less pressure on the cash flow of the issuer • Funder can convert into equity when a liquidity event is triggered.

Table 3.0: MDV Products/Programs
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Providing debt financing to HI-Startups on an asset-based lending basis is more suitable given HI-Startups, due to their innovative nature and high growth prospect, would have predominantly intangible assets and the ability to monetize such assets to generate cash flows. Consideration should be given to developing debt products based on intellectual property financing and/or cash flow asset-based financing (that is, contractual agreements). Using these assets as collateral can increase the appeal of HI start-ups to debt investors (including financial institutions). However, there are some immediate impediments with using intangible assets in the jurisdictions that will need to be addressed:

- The strength of the security regime in Vietnam, Cambodia, and Nepal in relation to contract enforcement
- The lack of a readily available market in the region for intangible assets
- The required expertise to service intangible asset financing. This includes the ability to properly value intangibles, further exacerbated by the lack of an available market.

Applicability: Vietnam Cambodia Nepal

The applicability of each recommendation to each of the jurisdictions is based on feedback received during the fieldwork, existing local capacity, estimated implementation timeframe, likelihood of uptake, and best jurisdiction to trial the recommendation.

2.2 Revolving loan fund

A revolving loan fund can act as a non-banking financial vehicle to provide supplementary debt capital to HI start-ups. A revolving loan fund can co-invest with existing venture funds in the region and this can, inter-alia, help HI start-ups raise late series funding (> \$5 million) where the funding may not wholly come from venture capital funds.

The use of a revolving loan fund dedicated to the start-up industry can be beneficial for several reasons:

- The fund is equipped with the necessary expertise to deal with HI start-ups (including screening processes tailored to start-ups)
- Investors in a revolving loan fund are committed to a longer investment time horizon (generally 7-10 years) compared to bank deposits where these are at call or locked in on a short term deposit basis. This means the fund can provide loans to HI-Startups on a longer term basis

- The investment philosophy and strategy of a revolving loan fund is start-up-centric. The fund is not as stringent as banks in relation to types of collateral (that is, requirement of 'hard' assets) and additional guarantees
- A revolving loan fund can recycle capital back into venture debt, making compounding debt investments over the life of the fund.

Applicability: Vietnam Cambodia Nepal

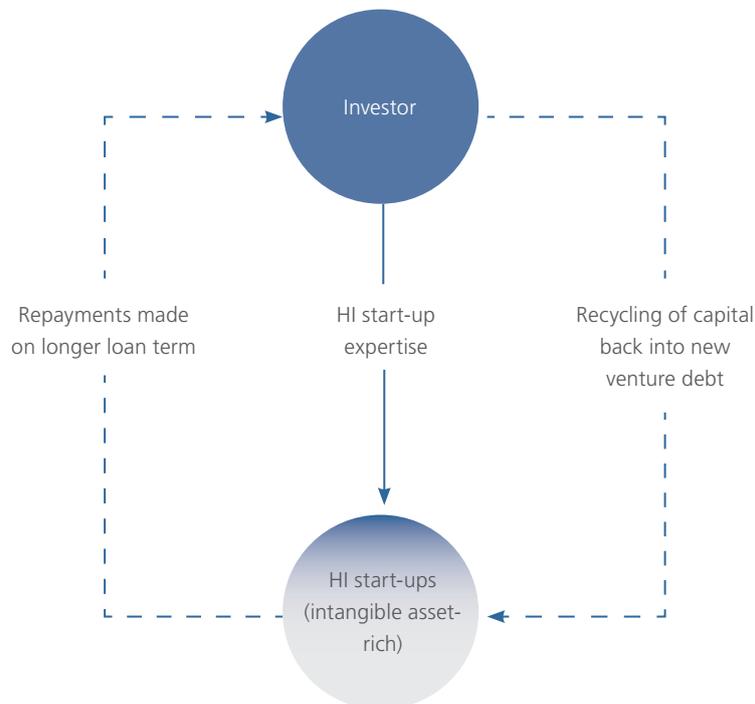


Figure 2.1: Revolving Loan Fund

2.3. Two-step Loan Program

The other option is to leverage banks to roll out a two-step loan program. Two-step loan programs can launch with encouragement from and participation of donors and development agencies working in the jurisdictions under consideration. While banking institutions may not have the necessary expertise to service the start-up industry, a two-step loan program will provide them with an opportunity to develop in-house start-up expertise. Banks already have the necessary licensing and lending infrastructure in place, which will accelerate the roll-out of venture debt in the region. Since the banks will not have to finance from their funds, they will not be constrained by stringent terms and approval criteria but provide loans on terms and conditions agreed with the originating funder.

Applicability: Vietnam Cambodia Nepal

Box 3.0

Two-Step Loan Project for Small and Medium Enterprises Development and Environmental Protection in Mongolia

This is a program by Japan International Cooperation Agency to provide long-term financing through commercial banks in Mongolia to small and medium enterprises (SMEs). These SMEs comprise the majority of private businesses in Mongolia and are the main actors in the country's economic development. The other objective of this project is to promote environmental conservation measures; capital investment is targeted to counteract air pollution in urban regions, a problem growing in severity. The funds for the project is allocated to long-term financing of SMEs, including environmental businesses, as well as for expenses for consulting services, such as training for capacity improvement of SMEs and banks.

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2.4. Miscellaneous

If banking institutions in the jurisdictions are considering entering the venture debt market and/or improving their expertise in servicing the start-up industry, they should look at best practice initiatives by organizations worldwide and how they can collaborate with them to augment in-house expertise. Two of these organizations are:

- The Small Business Banking Network (SBBN), launched by CapitalPlus Exchange in 2010: SBBN is a global industry-building initiative and community platform across emerging economies. SBBN works to accelerate the success of financial institutions that target underserved entrepreneurs by providing high-quality operational and strategic services, peer learning opportunities, and access to best practices and industry initiatives.
- Entrepreneurial Finance Lab (EFL): EFL partners with banks in emerging markets for the use of its proprietary credit-scoring tool. The tool is a digital application that measures psychometric variables and gathers other non-traditional data about applicants. Statistical models are then used to generate credit scores that score applicants from least to most likely to default. This allows partnering banks to split risk more effectively, increasing capital availability for SMEs in developing countries. In Asia, EFL is active in India, Indonesia, and Pakistan.

Lack of expertise and resources to service start-ups in the banking sector can be overcome by using a screening intermediary (an example of this is the Enterprise Network for Young Australians – ENYA, based in Australia). If banks are looking at lending or ramping up their lending to HI start-ups, they can outsource the screening process to a centralized intermediary, set up to solely service the start-up industry. The intermediary will be staffed by personnel with relevant and appropriate credit processing expertise.

The intermediary can expand its scope and act as a vetting intermediary for equity investors, where the latter do not have resources to undertake due diligence when investing in a HI start-up.

Applicability: Vietnam Cambodia Nepal

3. Revenue Financing

Revenue financing¹⁸ is a non-dilutive flexible financing instrument that provides financing solutions to firms without the need for traditional governance controls or forced exit, typical of venture capital or private equity transactions. Investee firms are provided with a capital injection in exchange for a percentage of their future revenue over the term of the financing arrangement or once a pre-agreed return is reached – generally on a cash-on-cash return basis. The financing instrument is self-amortizing in that repayments will have an embedded capital return component.

Traditionally, this financing instrument has been used in the music, pharmaceutical, and oil and gas industries. These industries produce significant upside in revenue, hence the ability to leverage off their topline to fund their activities. This alternative financing instrument is now being used in various forms by both investors and investee firms (including traditional businesses, intellectual property firms, and charities) that have recognized its merits.

If a HI start-up has existing revenue streams or can demonstrate future revenue certainty, then revenue financing as a funding option is worth considering. By selling future revenue to raise capital, HI start-ups can successfully fill the capital gap between angel investors and sourcing from traditional capital markets. Revenue financing compares favorably with conventional debt and equity investment for start-ups where, under normal circumstances, it is a challenge for investors to achieve liquidity, fair valuation, and exit.

In the funding landscape, revenue financing ranks between debt and equity, and has characteristics of both depending on the type of transaction and associated financing terms. Generally, a revenue financing instrument has the following features:

- Little or no equity dilution: Investment made via revenue financing does not require the issuance of equity to investors except where warrants are provided as part of the investment

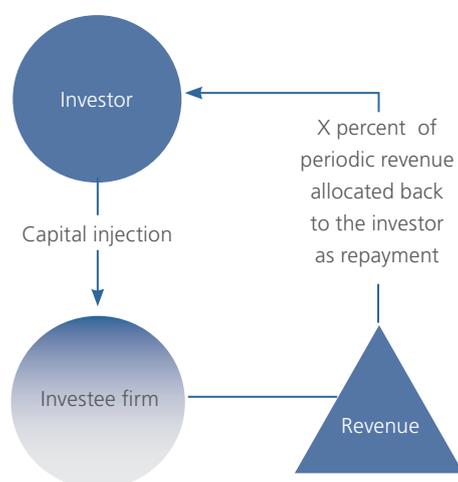


Figure 2.2: Revenue Financing

- No reliance on valuation: Since there is no issue of equity, valuation of the HI start-up is not required at the time of injecting capital. This means the funding process is not subject to a valuation gap and the process becomes less time consuming
- No personal guarantee: Collateral required for a revenue financing arrangement is limited to the assets of the HI start-up and does not necessitate additional guarantee by the founder(s)
- Flexible repayments: Repayments will vary depending on the level of revenue generated by the HI start-up. This provides flexibility since the revenue financing arrangement is tied to the company's cash inflows (when compared to a bank loan)
- No liquidity event required: A revenue financing instrument is self-amortizing and the investor does not have to rely on an exit strategy to recoup investment
- Recycling of capital: A revenue financing investor gets periodic repayments from the start of the arrangement and can re-invest repayments into other opportunities over time. In contrast, an equity investment is locked in till a liquidity event is triggered
- Returns: Investors benefit from quasi-equity returns and can ascertain the returns at the start of the arrangement since the returns are pre-agreed by both investor and start-up.

¹⁸ Revenue financing is also referred to as royalty-based financing, revenue-based financing and revenue loan.

	Debt	Revenue Financing	Equity
Equity dilution	No	No	Yes
Control (loss of)	No	No	Possible
Valuation	No	No	Yes
Additional collateral	Yes	No	No
Fixed repayment	Yes	No	No
Liquidity event	No	No	Yes

Table 3.1: Comparative Features

HI start-ups should consider the merits of revenue financing and the suitability of revenue financing to their own circumstances. Using revenue financing for HI start-ups will largely depend on availability of cash flow to make repayments. Unlike equity financing, revenue financing repayments are not discretionary in nature and may place added pressure on an investee firm if they experience low cash flow cycle(s). Such added pressure is mitigated by the fact that the revenue financing repayments will vary according to the revenue the investee firm is generating. However, if the investee firm experiences a revenue decline, revenue financing repayments will take this into account and self-adjust downwards. Another factor to consider is the cost of capital attached to revenue financing, and whether the start-up is prepared to pay and can pay quasi-equity returns. The cost of capital for revenue financing is higher than traditional debt funding due to its riskier nature, but should be lower than equity.

These are examples of revenue financing initiatives:

- Lighter Capital, a capital as a service firm, offers revenue loans ranging from \$25,000 to \$500,000 to software, technology, and knowledge-based companies located in the U.S. and Canada. Their product is a substitute for venture capital funding and is suitable for HI start-ups that have started to generate revenue.
- Vision+ is a €50 million product investment fund that invests in digital products such as applications, games and services on all digital platforms. Vision+ invests between €50,000 to €500,000 into HI start-ups using a revenue share-based investment model.
- Pennam Partners has put together a revenue financing instrument - revenue entitlement note™ (RENts®). The RENts® series can be used by HI start-ups (including energy-related ventures), impact ventures, and other companies to raise funding through revenue financing.
- The Agribusiness Innovation Center in Nepal is contemplating using a revenue sharing model as a way to generate revenue. In lieu of receiving upfront payment or equity for providing services to incubatees, the AIC has the option of earning royalty fees on the increase in gross sales for incubation support/training provided.

The example on the next page demonstrates how revenue financing works. The terms of a revenue financing arrangement will differ on a case by case basis, and will impact the repayments required to service the revenue financing instrument.

Applicability: Vietnam Cambodia Nepal

3. Revenue Financing

Start-up Co., a labor crowdsourcing platform, requires \$200,000 to increase its online footprint and expand in three offshore jurisdictions. Start-up Co. has been able to secure an investor to provide a capital injection by way of revenue financing on the following terms:

- The arrangement has a maximum term of 5 years
- As part of the issue, Start-up Co. will provide the investor with 2.5x cash on cash return
- Based on the financial forecasts, Start-up-Co. will make repayments equal to 10 percent per annum of its revenue up till the cash on cash return is met.

Funding	\$200,000					
Revenue percent	10 percent					
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenue	\$400,000	\$650,000	\$920,000	\$1,750,000	\$1,950,000	\$5,670,000
Repayments	\$40,000	\$65,000	\$92,000	\$175,000	\$128,000	\$500,000
				Cash on cash return	2.5x	

Table 3.2: Revenue Financing

4. Capital Raising Platform

The fieldwork for this study resulted in the following observations:

- There is a good angel investor community base in all jurisdictions. However, angel investment is not necessarily flowing into start-ups for various reasons. First, investors still show a strong preference for traditional assets such as real estate and businesses in traditional industries. Angel investors do not want to commit to long investment timeframe, as would be the case with start-ups. Also, some angel investors are unfamiliar with the business models of start-ups, which in turn negatively impact their investment decision. Lastly, the ability to attract angel investment sometimes depends on the personal networks of founders. If founders are not directly or indirectly known to angel investors, the probability of obtaining angel investment is low.
- There is interest among foreign investors to invest in some of the jurisdictions. However, such interest either does not crystallize itself into an initial investment or crystallizes itself into a one-off investment. Foreign investors face various hurdles in cross-border investments in Vietnam, Cambodia, and Nepal. These include legal and regulatory impediments associated with foreign investments (for instance, the investment certificate requirement in Vietnam), high investment costs, lack of local knowledge, and cultural barriers.

A capital raising platform can help with capacity building of the start-up investment community in the region. The objectives of a capital raising platform should be:

- To provide the necessary infrastructure to connect investors and HI start-ups, and facilitate investment
- To ensure HI start-ups are investment ready before using the platform to raise capital
- To provide investors with vetted investment opportunities. Due diligence can be undertaken by the platform operator, a third party, or by the market (generally the case with crowdfunding platforms where prospective investors can benefit from each other's due diligence)

- To provide an overall cost-effective process for start-ups and investors.

A capital raising platform can take different forms, including a crowdfunding platform, a private exchange limited to qualified investors, or as an aggregator with each investment made via a special purpose vehicle. The proposal for a public offer exchange dedicated to HI start-ups or using existing stock exchanges in the jurisdictions is not feasible given the high costs associated with a public offer and the compliances needed. The stock exchanges in Vietnam, Cambodia, and Nepal do not generate enough liquidity in existing listed stocks, which further supports the view that a public offer exchange is not a feasible avenue to explore.

4.1. Crowdfunding

Crowdfunding has garnered global momentum and is used in community-developed projects. Broadly, crowdfunding involves an invitation to the crowd via an internet platform to participate in an investment opportunity. Depending on investment opportunity, crowdfunding models can vary:

1. Donation – providing capital with no future participation in the investee firm and no expected monetary return. This model can also be reward-based where crowdfunders receive products or services in return.

IG9 is the first crowdfunding platform to operate in Vietnam. It uses a donation model to offer projects to the crowd, and an avenue to raise funding for the business community.

2. Investment – providing capital with expectations of a return on that investment. This form of crowdfunding can be equity or debt funding.

Crowdcube is a successful equity crowdfunding platform. Crowdcube was started in 2010 in the United Kingdom and has since helped entrepreneurs to raise over £16.5 million. Crowdcube is now going international by building a presence in new markets, including Sweden, Brazil, Poland, and Dubai and recently adding Italy, New Zealand, and Spain (see to Crowdcube infographic on p.69).

4. Capital Raising Platform

Crowdfunding model	Business Model	Features	Pros	Cons
Donation	Donation-based	Philanthropic: funders donate without expecting monetary compensation	No risk	Donors do not acquire security interest. Entrepreneurs have difficulty raising substantial capital.
	Reward-based	Funders receive a token gift of appreciation or pre-purchase of a service or product. This model is evolving into a marketplace of its own with firms raising considerable sums through pre-sales	Low risk (primarily fulfilment and fraud risk). No real potential for financial return.	Potential return is small. No security is acquired, and there is no accountability mechanism. Most entrepreneurs may have difficulty raising substantial capital without a product with mass appeal to sell.
Investing	Equity-based	Funders receive equity instruments or profit sharing arrangements.	Potential to share in the profitability of the venture. Unlimited potential for financial gain. May attract relatively large numbers of investors.	Potential loss of investment. Equity holders are subordinate to creditors in the event of bankruptcy. Securities laws related to crowdfund investing may be complex.
	Lending-based	Funders receive a debt instrument that pays a fixed rate of interest and returns principal on a specified schedule.	Pre-determined rate of return agreed upon between lender and borrower. Debt holders are senior to equity holders in case of bankruptcy. Secured status may make it easier for entrepreneurs to raise capital.	May be subordinate to senior creditors. Startups' high failure rate presents similar risk of loss as an equity investment, but with capped potential returns. Requires a business already generating cash flow. Existing/established cash flow positive businesses may consider this option because they can offer a more structured exit opportunity than typical equity offerings.
	Royalty-based	Less common than the other models. Funders receive a share in a unit trust, which acquires a royalty interest in the intellectual property of the fundraising company. A percentage of revenue is paid out over a period of time. The payout varies depending on the periodic revenue.	Potential gain is unlimited but the rate of gain is predetermined by the interest rate. Investment presents less risk or return than an equity investment but more than a debt instrument.	Potential loss of investment. Risk of loss comparable to that of an equity investment but investment offers lower potential returns than equity. The business could cease paying royalties if it chose to operate without the intellectual property in question. These instruments generally attract smaller pools of investors than other crowdfunding models, so entrepreneurs may find it more difficult to raise capital with this model.

Table 3.3: Characteristics of Different Crowdfunding Models
Reprinted from: Crowdfunding's Potential for the Developing World, 2013

The suitability of crowdfunding models for the developing world was considered in Crowdfunding's Potential for the Developing World, 2013. The report says that crowdfunding could significantly support innovation, growth, and jobs in the developing world. It also mentions that the developing world should look at early adopters of crowdfunding to

learn how to do it successfully. The table below depicts different crowdfunding models and whether it is worthwhile exploring for replication in the developing world (including in Vietnam, Cambodia, and Nepal).

Total amount successfully funded

£16,622,800

Overview

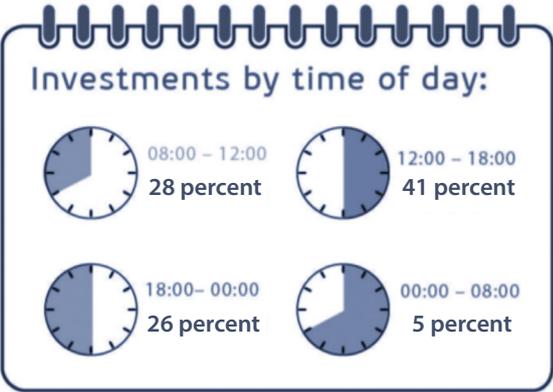
<p>Number of members: 55,796</p>	<p>Number of businesses funded: 86</p>	<p>Average amount invested: £2,500</p>	<p>Total amount invested in all pitches: £28,546,390</p>
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Successfully Funded Businesses

Stage of Growth:

	Funded pitches:	Average valuation	Average equity offered
Startup	24 percent	£500,000	20 percent
Early Stage	50 percent	£1,170,000	16 percent
Growth	26 percent	£3,190,000	13 percent

By Category:	Creating New Jobs:
Retail 32	Number of employees before successful funding: 508
Food & Drink 23	Estimated employees 3 years after successful funding: 1,906
Internet 23	Average funded pitch amount: £191,000
Professional & Business Services 19	Largest amount funded: £1,900,000
Technology 18	Smallest amount funded: £12,000
Manufacturing 7	Fastest funded: 2.5 days
Environmental & Ethical 7	Smallest number of investors: 1
Health & Fitness 6	Average number of investors: 80
IT & Telecommunications 4	
Media & Creative Services 3	
Sport & Leisure 3	
Leisure & Tourism 2	
Oil & Gas 2	
Education 2	
Film, TV & Theatre 2	



4. Capital Raising Platform

	Most suitable project type	Average funding sought (\$)	Suitable for exploration in developing world?	Suitable for high-growth innovative start-ups?
Donations-based crowdfunding	Arts	<\$10,000	Yes	No, if capital requirements are >\$10,000
Reward/Pre-sale crowdfunding	Project, product	<\$100,000	Yes	Yes, as a testing ground for proof of concepts
Microfinance	Micro development	<\$1,000	Yes	No, if capital requirements are >\$1,000
Social lending	Micro development	<\$50,000	Yes	Only if capital requirements are <\$50,000
Crowdfund investing/equity	Technology innovation	<\$250,000	Yes with the right infrastructure	Yes

Table 3.4: Suitability of Crowdfunding Models for the Developing World
Reprinted from: Crowdfunding's Potential for the Developing World, 2013

For an investment crowdfunding platform to be truly effective, it needs a separate tailored regime that allows a HI start-up to raise capital cost-effectively. This means a HI start-up using crowdfunding should not be subject to the same rules and regulations as a company looking at a public listing on a stock exchange. The offer, disclosure, and promotion regime should be 'light' for crowdfunding offers, while ensuring investor protection.

To test the viability of crowdfunding platforms in the jurisdictions, for example in Vietnam, it would be best to use a model that is compliant with rules in that jurisdiction. The best way is to team up with an existing crowdfunding platform, carry out test cases to gather intelligence and determine whether it can generate traction in the investment community.

The crowdfunding model can be designed to limit participation to sophisticated/accredited investors, effectively a **private exchange**. This will generally benefit from various legal and regulatory exemptions/exceptions since sophisticated/accredited investors do

not necessarily need investor protection as would 'mum and dad' investors. A private exchange could connect qualified investors with vetted opportunities. Successful models that have been implemented overseas are Sharespost and Second Market.

The other permutation is to facilitate investment in a particular HI start-up via a **special purpose vehicle**. While a platform of sorts will be used to provide investment alerts to investors, the investment itself will be made through a special purpose vehicle to collect all incoming investors. These back to back arrangements are commonly used to raise capital; some examples are Solar Mosaic and the Impact Investment Exchange. Investors can rely on an independent 'manager' to assess the investment and monitor the investment on an ongoing basis. The investee firm will effectively deal with one investor as opposed to multiple investors.

Applicability: Vietnam Cambodia Nepal

5. Funding Facilities

Other funding facilities for start-ups are sidecar funds and seed capital facilities. These are structurally designed to leverage existing resources (for instance, venture capital funds and incubators) to facilitate operations and minimize duplication.

5.1. Sidecar Fund

The objective of a sidecar fund is to encourage angel investment while ensuring investors are not disincentivized to make investments in start-ups due to their lack of knowledge of the industry, the due diligence process and associated transaction costs, and lack of quality deal flow.

Sidecar funds generally invest alongside existing angel investor networks, but a different approach will need to be taken in the countries in the study. Given the lack of structured angel communities, sidecar fund could align with other investors in the market, such as venture capital funds or incubators with investment funding capabilities. This will ensure investors in the sidecar fund get exposure to qualified investment opportunities and share investment risks with business incubators/venture capital funds by being co-investors.

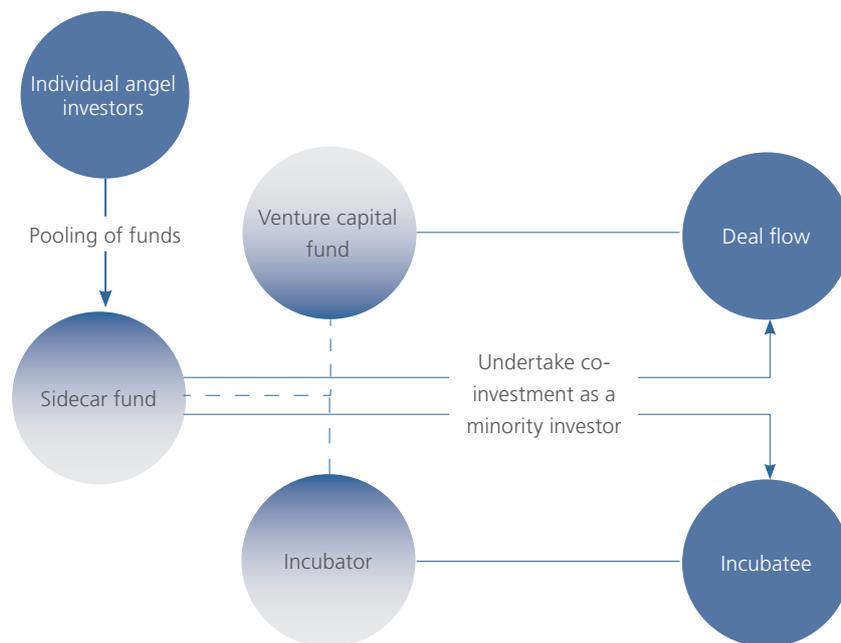


Figure 2.3: Sidecar Fund

Applicability: Vietnam Cambodia Nepal

5.2. Seed Capital Facility

A seed capital facility is similar to a sidecar fund, except that it is not aimed at encouraging angel investment. Investors in the seed capital facility are not necessarily angel investors. Rather than aligning itself with and relying on co-investors, a seed capital facility works with incubators, and acts as a source of financing for incubatees. This ensures investee firms have a readily available financing source once they need capital and are investment ready. A seed capital facility can align itself with one incubator or several incubators; its management can be separate from the incubator team or internally managed by the incubator; and it can require incubator(s) to participate as investors in the facility to ensure there is an alignment of interest between them.

As part of its Climate Innovation Center initiative in Vietnam, *infoDev* is developing a seed capital facility mechanism to provide finance to CIC incubatees. The proposal is for the seed capital facility to be aligned with the VCIC. The seed capital facility will not limit itself to investee firms that come through the VCIC, but can also invest in non-VCIC related investee firms as long as firms address climate change challenges and meet its investment criteria. The VCIC is expected to be an investor in the seed capital facility, which will invest via equity or debt instruments, including but not limited to self-liquidating preferred equity and convertible notes.

Applicability: Vietnam Cambodia Nepal

6. Venture Capital Regime

A venture capital regime can play a crucial role in attracting local and foreign investors. It can also develop the overall local venture capital industry by attracting new venture capital fund managers and developing local talent. Venture capital regimes operate in several countries, including Singapore, Malaysia, Kenya, South Africa, Australia, and the United Kingdom.

A venture capital regime should provide a legal and regulatory framework to govern venture capital funds, venture capital fund managers, and venture capital investments. The framework should provide for a legal structure that is conducive to venture capital investments. The legal structure should generally be on a flow-through basis, provide investors with protection and limited liability, and recognize participation of a fund manager. It must also provide for qualifying criteria, which could include minimum and maximum size for venture capital funds, eligible investments that can be made (for example, by the revenue and/or asset size of the investee firm, and eligible sectors), maximum investment a venture capital fund can make in an investee firm, and any mandatory divestment requirement.

A legal and regulatory framework by itself is not enough; the framework should provide appropriate tax incentives. The tax incentives can be by way of lower tax rates, tax holidays, or tax exemptions at the fund level and/or underlying investor level. Common practice is for venture capital funds to have flow-through status, and the divestment gains and income distributions are taxed at the underlying investor level. This means the investors are not worse off compared to if they made the investment directly in the investee firm. If a flow-through treatment is not embedded in the venture capital regime, venture capital funds should be subjected to lower tax rate(s). Similarly, consideration should be given to whether tax incentives should be extended to underlying investors. For instance, in Australia investors in early stage venture capital limited partnerships are not subject to tax on any income derived from their investments. Also, a venture capital regime should provide certainty to the tax treatment of the venture capital fund managers' remuneration, including free carry.

7. Start-up Regime

A matching funding scheme can also help develop the local venture capital industry in Vietnam, Cambodia, and Nepal. Here, the government acts as a co-investor in venture capital funds on the condition that fund managers can raise funding from external investors. Generally, there is a preference for thematic venture capital funds (for instance biotechnology, ICT, or climate change). Matching funding schemes need not be limited to governments, development finance institutions can certainly play an important role in this. Matching funding schemes can be used in tandem with other funding facilities such as sidecar funds and seed capital facilities.

Applicability: Vietnam Cambodia Nepal

Fieldwork respondents strongly preferred to see a start-up regime developed in Vietnam. Given the nature of HI start-ups, the view is that concessional treatment should be given to them and that they should not be subject to the same legal and regulatory regime as matured SMEs. According to respondents, the lack of a separate start-up regime is stifling development of HI start-ups with red tape and hindering access to finance. Rather than being sector-driven (which is generally the case for SME concessional treatment), a start-up regime can be based on the level of innovation of the start-up and be sector agnostic. With a separate start-up regime, numerous measures could be implemented to assist HI start-ups in their development and increase their attractiveness as investment. These are some of the measures:

- More simplified administrative, tax, and legal compliance requirements tailored to the start-up sector; for instance, in relation to investment certificate requirements. Investors say that the investment certificate requirements, in its current form, is a major hindrance to the capital raising process, and changes are needed to improve capital flows into HI start-ups in Vietnam.
- An employee share/option scheme to allow HI start-ups attract appropriate expertise and mentors. HI start-ups have limited financial resources and cannot afford to employ people on a commercial basis. Offering equity remuneration allows start-ups to attract local and foreign participation in the venture (and aligns their interest on a longer term basis), ensures there is a diversified team, and provides for a transfer of knowledge between team members.
- Tax incentives to HI start-ups and/or their investors. For instance, angel investors can be incentivized to make direct investments in HI start-ups by getting tax reliefs on their investments. This can be by way of partial deduction on the capital contributed (similar to the enterprise investment scheme in the United Kingdom). An alternative is tax rollover relief for divestment gains as long as gains are re-invested in other start-ups. This will ensure capital is recycled back into the sector to benefit start-ups.

Applicability: Vietnam Cambodia Nepal

8. In-kind Support

While providing finance is critical, start-ups are equally in need of in-kind support to develop and grow their businesses. In-kind support can improve **business skills**, enhance **investment readiness** levels, reduce **transaction costs of raising** capital, and provide technical assistance they lack in-house. These will have a cascading positive impact on access to finance, since they address some of the impediments that exacerbate the financing gap for the missing middle. In-kind support can be provided directly and indirectly through various means, including by the following:



Figure 2.4: Provision of In-kind Support

A **technical assistance fund (TAF)** is similar to an investment fund, except that it does not provide direct capital injection into investee firms. Instead, it assists in funding essential support services needed by HI start-ups (for instance legal, financial, market assessment, and business development services). A TAF can be stapled to a venture capital fund, can work with incubators, or act as a stand-alone initiative. As part of its holistic approach to developing innovation centers, *infoDev* has included a technical assistance facility component in both Climate Innovation Center and Agribusiness Innovation Center initiatives. A Technical Assistance Fund can also be used to provide assistance to investors. It can fund or subsidize activities such as investment assessments and due diligence. This should minimize transaction costs incurred by investors and can be an incentive for building capacity among angel investors.

The alternative to a technical assistance fund is a **service voucher scheme**. This operates similarly to a TAF, except that it provides a direct bridge between HI start-ups and advisors. Start-ups can redeem vouchers with registered

advisors, approved to operate under the service voucher scheme. These schemes can help attract more advisors to the start-up sector. An example of a service voucher scheme is the Innovation and Capability Voucher scheme offered by SPRING Singapore. The scheme allows HI start-ups to seek assistance on financial management, human resources, innovation, and productivity.

In-kind support can also be provided through a **start-up toolkit**. The toolkit provides resources and insights to both investee firms and (angel) investors to increase familiarity with the investment process, and provide them with tools to facilitate the process. While each investment is different, the rationale behind the start-up toolkit is to provide standardized resources, which can help minimize transaction costs and improve investment readiness HI start-ups. This initiative should take inputs from local investors to ensure the toolkit is tailored to the jurisdiction.

Fieldwork reinforced the view that technical and business **training** and skills development is critical for a thriving start-up sector. Both entrepreneurs and investors said that entrepreneurs generally need to up-skill through formal and informal training and mentoring. For instance, in Vietnam this is facilitated through universities offering entrepreneurship units, and incubators and accelerators providing practical training. However, there is a need to review existing local training capacity to determine effectiveness, and identify gaps that need to be filled.

In-kind support can also be provided through a **connectivity platform** to help connect different stakeholders in the start-up ecosystem. Its aim: improve visibility of investee firms with investors and facilitators; assist with transfer of knowledge and flow of expertise among different stakeholders in the ecosystem within a particular jurisdiction and across multiple jurisdictions; and facilitate technology/intellectual property transfer. Some initiatives that currently address these issues are listed here:

- MarketCONNECT (*infoDev*): This relates to climate innovation centers and will link promising companies with global partners and expertise (including suppliers, financing sources, and export markets).
- Low Carbon Technology Transfer Marketplace (ADB): This is an assisted broker model to match buyers and sellers of low carbon technologies, which will help in technology diffusion and accelerate technology commercialization.
- Starthub.vn: This initiative is creating a central resource of technology start-ups operating in Vietnam, thus increasing their visibility in the local and international start-up community. Additional features such as an angel list-like widget for investors and a wiki-like database on entrepreneurship advice is being developed.

Applicability: Vietnam Cambodia Nepal

Box 3.1

Proposed Actions for *infoDev*

Based on the recommendations contained in this study, *infoDev* may consider the following:

- Developing an investment readiness start-up toolkit tailored to each of the three jurisdictions. In Vietnam, and Nepal, investment readiness start-up toolkits could be developed with the Climate Innovation Center and the Agribusiness Innovation Center, respectively.
- Identifying existing capital raising platform(s) operating in South East Asia using test cases to gain valuable insights, and determining applicability to investee firms in the jurisdictions, together with enhancing access to finance.
- Undertaking further analysis on revenue financing and its suitability to fund HI start-ups in developing countries, and raise awareness about the benefits and risks of revenue financing.
- Determining the merits of a centralized finance innovation center and how it can benefit the jurisdictions and *infoDev*'s programs. A centralized finance innovation center will be virtual in nature, initiate/facilitate development of finance-related initiatives for the start-up sector (such as alternative financing instruments), and act as a repository of information for lessons learned from other *infoDev* initiatives (for instance VCIC and AIC) with a view to disseminate those across the *infoDev* network.
- Exploring ways to develop the angel investor network in the jurisdictions by aligning itself to existing initiatives and providing support (including expertise) in furthering these initiatives.

Appendix A: Survey Questionnaire

Reproduced below is the survey questionnaire used to obtain feedback from investee firms. While this particular questionnaire relates to Vietnam, the same contents were replicated for the field study in Cambodia and Nepal. The term SME has been used as a proxy term for HI start-ups throughout the questionnaire.

1) Name of investee firm

Reference to an investee firm means SMEs
(including start-ups)(Optional)

2) Which sector(s) does the investee firm operate in?

- Retail
- Manufacturing
- Food and Beverages
- Media
- Online technology
- Mobile technology
- Climate technology
- Technology (other) _____
- Financial services
- Healthcare & life science
- Energy
- Agribusiness
- Hospitality & tourism
- Telecommunications
- Infrastructure
- Other, please specify... _____
- Other, please specify... _____

3) What is your view on the severity of financing gap in Vietnam?

Financing gap is broadly the lack of access to funding for investee firms, generally in the \$50,000 - \$1,000,000 range.

- Low
- Medium
- High

4) What is your view on the level of access to finance by entrepreneurs for each of the below stages of finance?

For ease of access to finance, this should be denoted with 'high' and limited access to finance should be denoted with 'low'.

	Low	Medium	High
Pre-seed finance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seed finance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Start-up finance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Early stage venture capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Late stage venture capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SME private equity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

5) Out of the list below, which stage of finance has the **highest** level of access to finance?

- Pre-seed finance
- Seed finance
- Start-up finance
- Early stage venture capital
- Late stage venture capital
- SME private equity

6) Out of the list below, which stage of finance has the **lowest** level of access to finance?

- Pre-seed finance
- Seed finance
- Start-up finance
- Early stage venture capital
- Late stage venture capital
- SME private equity

7) Have you sought finance in the past?

- Yes
- No

7.1) Were you successful in securing finance?

- Yes
- No

7.1.1) Please specify the finance source from your last round of funding:

- Family & friends
- Angel investors
- Venture Capital Fund
- SME Private Equity Fund
- Bank
- Other financial institution
- Other, please specify... _____

7.1.2) What financing mechanism was used to inject the capital in your last round of funding?

- Equity
- Debt
- Convertible debt/loan
- Other, please specify... _____

7.1.3) How much finance/capital did the investee firm raise in your last round of funding?

- <\$50,000
- \$50,000 - \$200,000
- \$200,001 - \$500,000
- \$500,001 - \$1,000,000
- \$1,000,001 - \$2,000,000
- \$2,000,001 - \$5,000,000
- > \$5,000,000

7.2) On a scale of 0 to 10, please rate your experience in relation to the overall finance process (i.e. application, presentation and closing):

- | | |
|--------------------------|-------------------------|
| <input type="radio"/> 10 | <input type="radio"/> 4 |
| <input type="radio"/> 9 | <input type="radio"/> 3 |
| <input type="radio"/> 8 | <input type="radio"/> 2 |
| <input type="radio"/> 7 | <input type="radio"/> 1 |
| <input type="radio"/> 6 | <input type="radio"/> 0 |
| <input type="radio"/> 5 | |

7.3) On a scale of 0 to 10, please rate how prepared you were when seeking finance/capital:

This would include supplying all the appropriate information, presenting an adequate business case and being familiar with the investment process.

- | | |
|--------------------------|-------------------------|
| <input type="radio"/> 10 | <input type="radio"/> 4 |
| <input type="radio"/> 9 | <input type="radio"/> 3 |
| <input type="radio"/> 8 | <input type="radio"/> 2 |
| <input type="radio"/> 7 | <input type="radio"/> 1 |
| <input type="radio"/> 6 | <input type="radio"/> 0 |
| <input type="radio"/> 5 | |

8) How familiar are you with the venture capital industry and associated venture funding sources?

The term venture capital in this context means sources of funding other than from private equity firms and/or the capital markets.

- | | |
|--------------------------|-------------------------|
| <input type="radio"/> 10 | <input type="radio"/> 4 |
| <input type="radio"/> 9 | <input type="radio"/> 3 |
| <input type="radio"/> 8 | <input type="radio"/> 2 |
| <input type="radio"/> 7 | <input type="radio"/> 1 |
| <input type="radio"/> 6 | <input type="radio"/> 0 |
| <input type="radio"/> 5 | |

9) Formal funding sources

This question is to ascertain whether an investee firm would consider formal funding sources.

- | | Yes | No |
|------------------------------------|-----------------------|-----------------------|
| Would you consider equity funding? | <input type="radio"/> | <input type="radio"/> |
| Would you consider debt funding? | <input type="radio"/> | <input type="radio"/> |

10) What are some of the factors that impact the investment readiness of an investee firm?

- Entrepreneurs lack credibility
- Flawed business concept
- Assumptions provided are unrealistic
- Insufficient information provided
- Limited growth prospect for investee firm
- Pitch not properly delivered
- Valuation gap (pricing)
- Lack of awareness with finance terms and conditions (for example, board seat, first right of refusal, and claw back clauses)
- Lack of familiarity of financing sources (e.g. VC fund)
- Lack of legal knowledge/familiarity (e.g. legal documentations)
- Other, please specify... _____
- Other, please specify... _____

11) Out of the measures below, which ones can improve access to finance for SMEs (including start-ups)?

- Tax incentives for finance providers
- Innovative finance solutions (for instance to address equity dilution)
- Debt and/or equity guarantee mechanism
- Use of financial intermediaries (this will add a vetting layer and can reduce transaction cost)
- A separate legal SME framework
- A venture capital regime
- Improvement in credit scoring
- Improvement in relevant legal areas (e.g. contractual and insolvency laws)

12) Any additional recommendations you have for improving access to finance for SMEs (including start-ups):

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About *infoDev*

infoDev, a global trust fund program in the World Bank Group, supports growth-oriented entrepreneurs through creative and path-breaking venture enablers. It assists entrepreneurs to secure appropriate early-stage financing; convening entrepreneurs, investors, policymakers, mentors and other stakeholders for dialogue and action. We also produce cutting-edge knowledge products, closely linked to our work on the ground.

For more information visit www.infoDev.org or send an email to infoDev@worldbank.org.

About Pennam Partners

Pennam Partners is an Australian based corporate advisory firm working, inter-alia, with start-ups and SMEs to facilitate their capital raising process and enhance their investment readiness level. Pennam Partners also assists financing providers/intermediaries in developing alternative financing initiatives, and structuring investment funds.

For more information visit www.pennmampartners.com or send an email to info@pennmampartners.com.

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