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Promoting Innovation for Start-ups
Summary Report

Ha Noi, Viet Nam, 2-3 October 2017

APEC Small and Medium Enterprises Working Group

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APEC WORKSHOP ON PROMOTING INNOVATION FOR START-UPS

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Summary Report

I. Introduction

On 2 and 3 October 2017, the **APEC Workshop on Promoting Innovation for Start-ups**, initiated by Viet Nam and co-sponsored by Indonesia; Malaysia; Mexico; and the Philippines was held in Ha Noi, Viet Nam. Speakers and participants came from representatives from private sector, business associations; international organizations and research institutions and APEC member economies' relevant ministries and governments' agencies.

APEC Workshop on Promoting Innovation for Start-ups was aimed at the following objectives**: (i)** gaining an understanding of the innovation of start-ups in the region, opportunities, challenges, potentials; (ii) identifying challenges facing start-ups while pursuing innovation; (iii) sharing experiences and best practices in facilitating innovation for start-ups from the perspectives of both the public and private sectors, and international organizations as well as research institutions, etc.; and (iv) making recommendations to APEC to support innovation for start-ups.

II. Background

Nowadays, innovation is increasingly recognized as one of the crucial factors to enhance the business's competitiveness and gain success in the global market – driven economy. According to some credible surveys, it is indicated that firms that know how to manage innovation can seize new business opportunities, become key players in growth industries and turn themselves into highly profitable companies.

It is true not only for big enterprises but also remains the case for small ones as it might serve as a key to differentiate themselves from the rivals.

Most of SMEs, especially start-ups are increasingly recognizing the importance and opportunities of innovation in enhancing their competitiveness and accessing to regional and global markets in the context that they enter the markets at later stage and with less advantages and resources. However, the fact is that not many start-ups are capable of utilizing innovation as an efficient tool to gain the advantages against bigger rivals due to their inexperience and/or incapability in innovation management approaches/processes/tools; or lack of finance, technology, human resources or incentives to implement innovation; or all.

In 2015, the APEC Leaders clearly declared their priority to foster micro, small and medium enterprises' participation in regional and global markets that "We will promote competition, entrepreneurship, and innovation through effective and comprehensive measures, including balanced intellectual property (IP) systems and capacity-building." Also, in the APEC 2015 Small and Medium Enterprises Ministerial Meeting, it is clearly stated that "In order to address the myriad challenges facing MSMEs, we broadened our work on many fronts, giving intensified attention to innovation, entrepreneurial development, business ethics, business resiliency, women's economic development, finance and our intensified efforts on providing capacity building programs; and "We recognize the vital role of MSMEs in bringing new ideas to the market and in fostering innovation. APEC needs to build an ecosystem that supports enterprise creation and improves the environment for innovation, as well as facilitates financial inclusion for start-ups"; and "We therefore instruct officials to work towards the creation of an ecosystem of entrepreneurship in the APEC region to encourage the development and growth of globally competitive innovation-driven MSMEs". Apparently, this project directly responds to the APEC Leaders' and Ministers' priority and commitment to foster innovation for SMEs in general, start-up SMEs in particular.

In the SME Working Group Strategic Plan 2017 – 2020, it stated their mission as "The SMEWG will further *promote the development of an enabling environment*, foster *capacity building* for SMEs and enhance the *synergy with other APEC fora, the private sector and other stakeholders* to promote the development and growth of SMEs, and to maximize the benefits of policy dialogue and best practices sharing in the Asia-Pacific region" and reach consensus on "fostering innovation in SMEs to strengthen business competitiveness".

This project is expected to bring together governments' officials, representatives from both SMEs, start-ups as well as bigger enterprises, multinational corporations, international financial organizations, research institutions, etc., that are involved in either start-ups and/or innovation to share experiences and best practices in how to facilitate innovation for start-ups with the views of improving their competitiveness and access to markets.

Since SMEs account for more than 95 per cent of enterprises in the APEC region, this project will definitely draw the attention as well as bring about benefits to many APEC member economies especially the APEC developing ones. Their increasingly competitive participation in the economy will create a firm momentum for economic growth as well as poverty reduction since they help create jobs, increase revenues, and bring about social stability

III. Key Issues

1. Opening remarks

Mr Luong Hoang Thai, Viet Nam Senior Official to APEC, Director General, Multilateral Trade Policy Department, Ministry of Industry and Trade, stresses that in the context of globalization, prominent economic integration, and the recent mentioned Fourth Industrial Revolution, start-ups have become so inevitably trendy and fashionable, which have gained their own footprint in the market, together with other types of businesses. In that trend,

innovation plays important roles since it serves as a fundamental base for start-ups to develop and compete in the markets. At the same time, thanks to the entering into markets of successful new start-ups, innovation has proved to be more breakthrough than ever. In that sense, start-ups and innovation are understood as integral and complement each other in their course of development. This workshop is one among APEC's and Viet Nam's efforts in promoting innovation to enhance MSMEs' competitiveness in general, start-ups in particular.

2. Overview of Innovation and Start-ups in the APEC region

In this session, the speaker from the ADB gave a brief overview of innovation and start-ups in the region, and mentioned that innovation is part of nature and part of human DNA. The human species is nature's most innovative. We are natural born innovators. Innovation takes many forms. Largely, talking about innovation in business these days means talking about technology. In fact, technology is changing the world nowadays and the way people do business in different sectors such as retail, wholesale, travel, tourism, agriculture, finance… Empirical studies have shown there is a link between productivity and economic growth, and innovation and technological change are behind a lot of the productivity gains seen in national economies. Fewer new firms are being started than in the past. The most recent figures, released on September 20th, show that there were 414,000 firms that were less than a year old in 2015 (the latest available year), compared with an average of 511,000 in the decade before the financial crisis. Still, not every new firm is equal—some entrepreneurs want to create the next Tesla, not open another bodega. Of the roughly 4.4m firms created in the last ten years, about 30,000 can be described as gazelles, or young, high-growth companies, according to the Kauffman Foundation, another think-tank that is known for its work on entrepreneurship. These firms have a disproportionate impact on job creation and innovation. Besides, he also addressed that data and knowledge increasingly is important to Gross Domestic Product (GDP). One of the biggest trends is mobile connectivity—it is driving fintech, e-commerce. The cross-border bandwidth has grown 45 times larger over the past decade and may grow another nine times larger by 2021. He expected that Viet Nam will continue to be one of the strongest, and most stable growth performers in Southeast Asia and will become an innovation-led economy by 2030 based on some factual information such as GDP growth has averaged 6.7 per cent over the two decades (highest in the region). In fact, Viet Nam is rapidly developing a start-up ecosystem which is essential for creating an innovation-led economy.

3. Governments' policies and strategies in fueling innovation-based start-ups: Key takeaways

The speaker identified several top barriers that hinder start-ups innovations which are people, skills, finance and funding, complicated Governmental system and procedures and most importantly innovative culture. In order to foster innovation, government should: (i) create incentives and cultures for start-up innovations through the establishment of policies and programs to ensure the availability of risk capital; (ii) establish incentives for small and large businesses to co-innovate together. Create a tax and IP incentive for large businesses to invest, partner and support the innovations created by small businesses; (iii) encourage entrepreneurs to invest in R&D; (iv) build leverage into innovation programs thereby creating an ecosystem of participants which is a community of like-minded business leaders taking advantages of

world-class resources proven to deliver results for individuals, teams and organizations, irrespective of geography, industry or company size; and (v) commit to graduating workers, new immigrants and their circles prepared for the creative/innovation economy. Embed creativity and innovation training into subjects taught. Make creativity/innovation just as important as the other core subjects. He also showcased a case study of New Zealand's government in which has already implemented several initial steps in their strategic planning to promote innovation for start-ups such as doubling business sector investment in R&D, embracing Callaghan innovation and the digital economy, and adopting complementary policy initiatives like new Investment Attraction Strategy to attract more R&D by multinational companies. As the result, the Government of New Zealand positions #21 in the Global Innovation Index 2017.

In case of Viet Nam, the speaker shared information of Innovative Start-up in Viet Nam. Recently the Government of Viet Nam has prioritized and implemented several specific policies that foster the development of Innovation considering the economy itself has had approximately 612,000 active enterprises. Some notable policies are the Prime Minister's Decision No. 592/QD-TTg on approving the Program of support to development of scientific and technological enterprises and public scientific and technological organizations under autonomy and self-responsibility mechanism; and the Prime Minister's Decision No. 2075/QD-TTg dated Nov 08, 2013 on approving the program of development science and technology market by 2020. Thus, Viet Nam ranks #47 in the Global Innovation Index and #3 compared to ASEAN economies respectively. However, there is still more work to be done to improve the innovative environment of Viet Nam, and key recommendations emphasized are: (i) to invest in the innovation support centers from the central and regional levels (Japan has 9 regions; Korea has 8 regions); (ii) to support human resources and finance for these centers where develops products sales; (iii) to invest in machines for research and trial production, quality control and inspection; and (iv) to organize domestic and international training course on innovation.

4. Roles of incubators/accelerators in innovation and technology transfer for start-ups

The speaker mentioned there are over 7,500 business incubators around the world however most of them fail due to 3 major problems associated with traditional incubators and accelerators, namely: location, equity/fees and low acceptance rate. For incubators to live up to their full economic potential, they need to overcome two pitfalls; they need to provide real value, not just office space and they need to measure success in more than just outside funding. Therefore, effective incubators should provide business counselling and management assistance to their client firms and help entrepreneurs connect with angel investors and venture capitalists is an important service. For start-up accelerators, they support early-stage, growth-driven companies through education, membership, and financing, and have a positive impact on regional entrepreneurial ecosystems, particularly with regard to the financing environment. Start-ups enter accelerators for a fixed-period of time and as part of a cohort of companies. The accelerator experience is a process of intense, rapid, and immersive education aimed at accelerating the life cycle of young innovative companies, compressing years' worth of learning-by-doing into just a few months. He also shared ways to promote innovation

technology such as getting MSMEs on line for business, advertising and promoting though social media channel, organizing roadshows and business seminars to connect businesses.

A speaker from the World Intellectual Property Organization (WIPO), the global forum for intellectual property services, policy, information and cooperation with 191 member states covering 98 per cent of global economies shared some views. WIPO is a specialized Agency that aims at leading the development of a balanced and effective international intellectual property (IP) system that enables innovation and creativity for the benefit of all. He shared his thought on the actual definition of IP and its important contributions to start-ups. IP has several direct benefits which are: (i) providing a legally enforceable right to help protect creativity and innovation; (ii) making a start-up more attractive and more valuable to entrepreneurs and investors in order to raise capital; (iii) granting a competitive advantages against rivals and imitators; and (iv) helping to establish credentials as a smart and knowledge business owner. There are two types of IP most common to start-ups which are registered IP (ie. Patents, Trademarks, Designs) and non-registered IP (ie. Copyright). For instance, Uber, Airbnb, and WhatsApp are examples of successful start-ups that have strong branding using registered trademark as their tactical tools. They use the trademark system to protect their name and logo in key markets. The registered trademark system operates under the same premise as the patent system. Once the application was filed and examined by IP office, the legal right is granted for that economy. In order to obtain trademark protection around the world there is the Madrid System. In short, IP does matter for start-ups.

The speaker introduced Topica Founder Institute (TFI) which aims at building real start-ups, with real products, real revenues, and real funding.. TFI consists of hundreds of start-ups, investors, mentors promoting a “Pay-It-Forward” culture in building the start-up ecosystem. In 2016, 9 TFI graduates got funded, accounting for close to 30 per cent of all early stage funding deals in Viet Nam. Besides, he also shared that running an incubator and/or accelerator is very challenging business, meanwhile the number of incubators and accelerators in Viet Nam keeps increasing overtime. There are privately-run, public, university-based, and private-public-partnership incubators and accelerators in Viet Nam. Start-ups deals value up at $205 million dollars in 2016 with the number of deals decreased down 25 per cent while acquisitions and fintech soared high at $129 million dollars. In fact, foreign fund outperformed local fund in terms of deal value. Particularly, CyberAgent continued to strengthen its presence as leading early stage investor in ViCare, Jupviec, and Kyna, respectively while Mekong Capital invested into 3 growth-stage companies, F88, Wrap & Roll, & ABA Cool-trans, with a combined investments of $21 million.

The speaker gave a brief introduction about Viet Nam Innovative Start-up Accelerator (VIISA), an accelerator program and seed stage fund that will invest $6 million dollars to build in more than100 global ready start-ups from Viet Nam over the next 5 years starting its first batch in 2017. VIISA is powered by FPT, Dragon Capital and Hanwha Groups. It’s considered as one of notable Tech Accelerators among others like Y Combinator (Silicon Valley), Techstars (Multiple Locations), and JFDI Asia (Singapore). Mr. Tan also shared the fact that Viet Nam is on an upward trajectory, and nearly every industry is reaping the benefits. For technology specifically, Viet Nam is lacking in some areas like product, the user experience, and having a regional mindset. But more and more of the workforce are equipped with the education and

experience to make it happen. There is no doubt that some strong international technology companies will roll out in the next two or three years. The challenge right now is convincing traditional investors to put money into venture-backed technology Start-ups and venture investment funds that usually provide a return many years later at larger multiples. There are many impressive Viet Namese technology companies around, like VNG. They have been rated as a unicorn company—a start-up valued at over US $1 billion. Recently, VIISA held a VIISA's investment day in Ho Chi Minh City with an aims to pitch start-ups to over 130 regional investors, corporate partners and mentors.

5. Technology commercialization from Universities/Public Funded Research Institutions: Case Studies

In the case of Canada, the speaker mentioned the fact that Canada has put too little emphasis on commercialization of research projects in the past, however, the University of Waterloo (UW) has been in the frontier with significant numbers of Technology Companies recruitment which is more than any other Institution in Canada. Situated in Waterloo Region, top ranked start-up ecosystems in the world, UW has adapted and fostered a culture of Innovation and Entrepreneurship in its long-term strategic planning processes which helps facilitate the commercialization of ideas and research. Ms McDonald also recognized several characteristics of an entrepreneurial Ecosystem such as: large high-tech firms, universities, entrepreneurial recycling, information rich, deal makers, culture of inclusion, funding sources, and structured entrepreneurship help. Besides, the ultimate goal of UW is to create university spinoff companies, which are key to Canada's economic growth and prosperity through the combination world-class research with a unique "create-own" intellectual property (IP) rights policy, thus developing a creator Friendly IP Policy. This means full IP ownership is granted to the Investor in order to improve quality, business productivity and job creation.

In case of Chinese Taipei, the speaker recapped the definition of Technology Commercialization which is the process of turning innovative ideas from R&D laboratories of research institutions or universities into products through licensing an invention to a spin-off or a start-up, and the products can be value-added and commercially acceptable to the customers. By optimizing the Technology Commercialization, start-ups/entrepreneurs will acquire greater opportunities in expanding new businesses with range of innovative and cutting-edge products, thus positioning their competitive advantages in the market. He also presented the case study of the Industrial Technology Research Institute (ITRI), a non-profit R&D Institution founded by Ministry of Economic Affairs of Chinese Taipei in 1973. Since its inception, ITRI has been operating under an open innovative Platform driven by synergy of internal and external sourcing interactions from 6 major areas which are Information & Communication, Medical Device & Biomedical, Electronic & Optoelectronics, Mechanical & Systems, Material, Chemical & Nanotechnology, and Green Energy & Environment. With the involvement of ITRI, 259 start-ups and spinoffs have been successfully launched. Furthermore, ITRI owns a venture capital company called Industrial Technology Investment Corporation (ITIC) with an aims to facilitate Technology Commercialization for ITRI and related foreign research institutes and to provide venture capital for more than 50 companies, start-ups, and spinoffs. ITRI benefits ITIC in both technical due-diligence and deal sourcing which in return ITIC will be responsible

for creating opportunities of technology commercialization for ITRI's laboratories transforming Chinese Taipei's high technology movement. An exceptional example is the Taiwan Mask Corp. (TMC), an early venture investment of ITIC, recently is the largest provider of mask service in Asia region except Japan. Dr. Wang summed up his presentation by addressing several key takeaways from the case study of ITIC which are: (i) creating and adding value are the most important goal of technology commercialization; (ii) the innovation factor should be incubated across the institutions; and (iii) Technology Commercialization of government-support research institute should be open and fair to the public while corruption and collusion should be prevented.

6. Panel on innovative financing for start-ups

The speaker who is from ADB bank shared information in accessing to financing and on-going supportive initiatives for innovation based start-ups to develop their business. Over 90 per cent of successful tech companies are financed in the same pattern which falls under the start-up Financing Cycle. The funding and development stages of a start-up vary significantly dependent on the source of information used. However each company is different, and various parts of these companies may be at different start-up funding rounds. The funding life cycle consists several levels, are Concept, Seed, Early, Growth, Mezzanine, and Exit stage. According to 2016 Mekong Business Initiative report, the total reported funding for Southeast Asian start-ups rose significantly from $133 million dollars in 2012 to a whopping $2.6 billion dollars in 2016 while the percentage of unreported deals are likely to be very high as well. The study also suggests that more and more funding are available for tech start-ups compared to other fields. Particularly, Singapore topped the chart and accounted for over half of all Tech funding in Southeast Asia in 2016, while Indonesia followed after as more funding has been deployed to Indonesia-based tech companies over the same period. Currently, 60 per cent of Southeast Asia tech deals in 2017 are at Seed stage highlighting how nascent Southeast Asia's tech ecosystem still is today. Mr Moyes also addressed six key issues in start-up funding such as professionalization of angel investors, Improving the financial knowledge and awareness of start-ups, crowdfunding, other potential fintech models, government support and the importance of building the innovation and start-up ecosystem.

7. Viet Nam Start-ups

The start-up representatives from Viet Nam introduced her new established start-up, called Rudicaf. This company provide online dating service for Viet Nam market putting users through a strict vetting process before matching them with potential suitors. Established in November 2016, the company has already drawn a membership of 200 Vietnamese people, 42 per cent of whom are graduate students from developed economies, 27 per cent are graduates from top universities in Viet Nam, and 18 per cent are people who have taken up important posts in companies and groups. Customers must first submit their CV and show proof of income. They are invited for a face-to-face interview to make sure that their profiles are genuine, and they are well-mannered. Further, if the customers are qualified, they can pay the fee package they choose, before being given accounts on a mobile app and passwords to be able to book a date with the members they are interested in. The packages are ranged from US$500 to 1,000 per year. The company offers many other services to connect people to help them broaden their social relationships at work, consultancy to resolve problems in relationships, besides consultancy and help to present gifts on anniversaries, and organising events for couples. The

company was ranked fourth among the most favourite 20 starts up in the economy, while Ms. Anh won a prize in the Female Start-Up category in the same contest, entitled Khat Vong Tien Phong (Desire to be Pioneers), hosted by the Viet Nam Television and the Ministry of Science and Technology in 2016.

Another young local start-up is College Scout (CS), a Viet Nam-based ed-tech start-up whose services include but also transcend preparing young people for overseas higher education admission. Unlike traditional education agents and related companies that provide ancillary services related to overseas study, College Scout provides fun and effective prep activities that increase their chances for success not only in the application and admission process, but in the areas of academic, cultural, and social adjustment. College Scout also provides students with practical learning tips and strategies, enable them to learn from people of diverse backgrounds and expertise to better preparing students for top liberal arts education in North America.

8. How to facilitate innovation for start-ups

The speaker shared various essential lessons learnt from start-up innovation in industrialized economies such as finding a vertical market-gain from low entry barriers and low entry costs in order to build on comparative advantages; focusing on strengths to reduce external dependency; facilitating entrepreneurship density as start-up hub culture has a positive spill-over effect; aiming at focused sectoral approaches such as Cleantech; promoting partnership initiative for affordable infrastructure support; and focusing on mentoring, networking & sharing global best practices. In order to promote innovation among start-ups effectively, several contributions from different parties should be considered such as Government, University and Private sector. Governments should show their support to start-up innovators for assisting in patent filing and prosecution through IP facilitation cell, grant for R&D incentivized on the lab-to-market model (orient towards patent-based R&D), and lower fees for start-ups to file IPRs and tax incentives. Role of University in innovation also plays an important gap-bridging factor by exploring joint R&D with global universities leading to patentable inventions and establishing Technology Licensing Offices in Universities for institutional mechanisms for tech-transfer. Besides, private sector's role in start-up innovation are: Venture Capital Investments – Inventions, innovation applications to know technologies – value patents and designs right acquired; Industry Leaders should sponsor R&D at university and institutional levels and do talent headhunting; and Industry Chambers should provide training for entrepreneurs and educate consumers.

The speaker from Mekong Business Initiative (MBI) of Asian Development Bank (ADB) shared her support for the establishment of a partnership of women business associations that gather support for women-owned businesses. Part of MBI's mission is the loosening of regulations to serve as a catalyst for accelerated growth and opportunities in Viet Nam and the Greater Mekong Subregion. She also pointed out that new innovations in technology are paving the way for this growth, especially when dealing with access to financial assistance. MBI, sponsored by the Australia's Government, has developed programs specifically aimed at women-led start-ups in Viet Nam, called Women's Initiative for Start-Up Entrepreneurship to foster innovation for women-led start-ups (WISE). WISE aims to become the best connected network of women-owned and led start-ups in Viet Nam, and later throughout the Mekong region. It will work as an open virtual platform where members can update and exchange information about their businesses, their needs, their searches, their offers, etc. At the same

time, WISE will connect members through in-person meet-ups, events, workshops, incubation and acceleration programs, mentoring, study tours, business matching and other opportunities. To some extent, women are still limited by traditional ways of thinking. They have a lot of potential, initiative and a good mindset, and if they are encouraged and effectively used, they could develop many business models and create high-quality products and services for society. Women-led enterprises comprise 25 per cent of the total number of businesses in Viet Nam. According to the Viet Nam Chamber of Commerce and Industry (VCCI), the rate of women-owned businesses in Viet Nam is the highest in Asia-Pacific, at approximately 25 per cent. This rate is even higher according to the Mastercard Index of Women Entrepreneurs 2017 which was released in April at 31.4 per cent, putting Viet Nam seventh among the 54 markets surveyed in terms of female business ownership. Many of them have been successful, grown strongly and stretched their reach globally, such as Vietjet Air, TH True Milk and Vinamilk. These firms are all run by very talented women and have gained successes at the international scale, not only in Viet Nam.

IV. Recommendations and Conclusions

Through the sharing of information and experiences among APEC member economies at the Workshop, speakers and participants have shared views on how APEC and governments can facilitate SMEs' market-oriented innovation management. Recommendations are as follows:

- APEC economies especially developing ones should improve and strengthen existing policies and regulations in various areas such as cross-border investment, funding allocation for businesses, innovation promotion, government procurement and economy of origin…
- APEC should adopt specific regulatory tools to support long-term strategic plan for start-up and innovation development.
- APEC should organize more capacity building and training programs related to innovation, international intellectual property right (IPR) and market regulations for officials and entrepreneurs to enrich their knowledge through best practices, training, mentorship and international experience sharing.
- APEC governments should promote digital economy through the enhancement of ICT infrastructure due to significantly upsurge in data usage as people increasingly use mobile/high speed internet for multipurpose like daily messaging, transport, video streaming and so on.
- APEC governments should encourage multilateral joint collaboration among universities and research institutes to promote innovation sharing programs on R&D and so on.
- APEC should implement an International Co-incubator/Co-accelerator program to help young start-ups realize their business opportunities to penetrate new market segments.
- APEC should consider providing an enabling start-up community/ecosystem to further boost innovation growth through networking and partnership with large enterprises.
- APEC should strengthen cooperation across APEC sub-fora and relevant international and regional organizations to support and to connect innovative start-ups in the Asia-Pacific region.

These are some recommendations for further thoughts and discussion at the SMEWG Meetings.