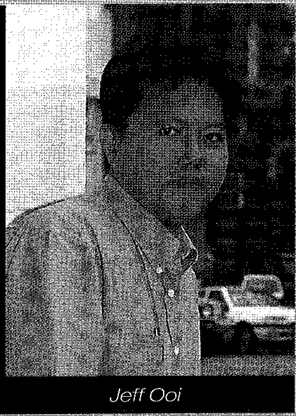
Government-sourced VC money

Ensure there's multiplier effect to accelerate new economy



Now that Foreign Direct Investments have shifted to lower-cost production centres like China, Malaysia has to accelerate local efforts in encouraging domestic investments, particularly in knowledge-based domains. This is to ensure that the country's engine of economic growth will be sustained to achieve the goal of becoming a developed nation by 2020.

Like it or not, we are poised for a multitude of globalised and borderless economy.

Faced with these two opposing perimeters, one that depicts the grim reality in investment climate and the other the dire need for Malaysia to modernise and "metamorphosie" into a compatible economy against the first world, the government has to outline its fiscal policy accordingly.

Budget 2004 gave a focus on many areas, such as finding new sources of growth, lowering the cost of doing business, spurring SMIs/SMEs to greater heights, and modernising the country's manufacturing, agriculture and services sectors, so that our per capital income and quality of life could be further enhanced.

Here comes the question: Apart from tax revenue, how do we fund the new economy initiatives?

If domestic investments were taken as a plausible option for the reengineering of Malaysia's economic orientation, which it largely is, then the role of venture capital industry becomes ever important.

Venture capital can be seen as an effective tool for economic intervention as investee companies lynch-pinned into the Venture Capitalist (VC) funding networks are expected to return values that justify their investments within stipulated timeframe. Theoretically, the business models of the investees, and the exit strategies for the investors, would have been carefully thought through, so that they are congruent with market needs and stakeholders' expectation.

It is for these reasons that the VC industry is factored strategically in the Financial Sector and Capital Market masterplans.

How big is the VC industry in Malaysia? According to the 2002 Bank Negara Annual Report, VC funds stood at RM2.54 billion as at end 2002, out of which about RM1.11 billion have been invested. There are currently about 20 VC companies managing 46 VC funds.

Which sectors of the Malaysian economy did VC money go to? The central bank's annual report indicates that of the total of RM1.11 billion VC funding mobilised, the bulk went into ICT, utilities (electricity, power generation, gas and water supply), and electrical and electronics sectors. Besides that, the medical, health and biotechnology sector, together with advanced technologies, also showed sizeable, though smaller, VC investments.

This testifies that VC companies, especially those run by the private sector, while taking risks, put the money where the mouth is. They have specific performance targets, and they seize opportunities ahead of the curve.

How about VC funds from the government? According to recent press reports, some RM3.5 billion has been injected, or is in the midst of being injected, into the system from 1999 through 2003. This includes RM300 million ICT funds disbursed to two commercial banks, RM120 million for MSC Venture One, RM 500 million for Malaysia Venture Capital Management (Mavcap), RM1.6 billion to Malaysian Debt Venture (MDV) in the form of Japanese soft loans, and RM1 billion for non-ICT projects.

Over and above that, Mavcap could receive an additional RM300 million under Budget 2004, and a further RM100 million from the Ministry of Finance to run Cradle Investment Programmes (CIP).

The amount of money being mobilised is huge. If the funds are managed efficiently, we should expect some form of multiplier effects to power Malaysia into a competitive economy thriving on homebred innovation and indigenous intellectual properties that can be marketed globally. But is that normally the case?

If it takes 24 months for a VC to exit, whether at the growth stage or advanced stage ready for IPO, then it's about time we got to see some fruition out of the investee companies funded via government venture capital in 1999 through 2001. Unfortunately, we are still hoping for a story.

Because of that, I feel jittery over the RM100 million Mavcap is entrusted to run under Cradle. Positioned as a pre-seed outing, it proposed to award RM50,000 per raw idea to qualified applicants who showed potential of taking it to the 'next stage'.

It's good to remind us that in 2001, private-run VCs had used only RM118.7 million that benefited 47 investee companies which have already showed value. I wish Mavcap/CIP were right in their assumption of the multiplier effect of VC funding.

Because, it's tax-payers' money they are managing. mb

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