How Singapore became a hub for tech start-ups

That was the predominant sentiment I heard a little more than five years ago when I told US-based venture capitalists about my plans to move my family out to Singapore to oversee Innosight's nascent investment and incubation arm.

"Why Singapore? You'll never find any interesting deals there."

At the time, Singapore didn't have a sizzling start-up scene. But the conditions seemed to be ripe for one to develop.

Like Silicon Valley, Singapore has strong research institutions and limited enforcement of non-compete clauses, a condition that academics now suggest can be a major driver of innovation.

Like Israel, Singapore is small, with limited natural resources, which means economic growth requires innovative macroeconomic approaches. Both Singapore and Israel have liberal immigration policies for skilled workers. Both also have mandatory military conscription for males (Israel also has mandatory conscription for females), and as Dan Senor and Saul Singer argue in Start-up Nation, the Israeli military has been a breeding ground of innovation.

"Yes, but Israelis and Americans are innovative by nature. Singaporeans are not," critics would respond.

With the cautionary notes in mind, I arrived in Singapore in March 2010. It was indeed challenging in those early days to find good investment propositions. We made a couple, but they were proverbial needles in a haystack of business plans and pitches we sat through that were amateur at best, and outright naive at worst.

Start-up surge
FAST forward to 2015, and you see an island transformed. There are dozens, if not hundreds, of interesting start-ups, many clustered in "Block 71", a building close to Insead, the National University of Singapore, and government-sponsored innovation hubs carrying Star Trek-like names of Fusionoplis and Biopolis. The Economist dubbed Block 71 "the world's most tightly packed entrepreneurial ecosystem".

In my first year in Singapore, we might hear news about a company landing venture funding every few months, and an exit - cashing out either through an IPO or by selling itself to a larger company - every year. Today, there's an investment seemingly every week; venture-capital investment in the tech sector increased from less than US$30 million in 2011 to more than US$1 billion in 2013. And we counted 10 local exits last year. Some of those so-called liquidity events are small by global standards, like the US$30 million that customer service chat provider Zopim fetched. But others have been larger, such as the US$200 million price Japanese e-commerce company Rakuten put on Viki, a video-streaming provider.

The Singapore surge seems particularly surprising, given the city-state's staid reputation and stagnant start-up scene just a few years ago. As governments around the world try to spur entrepreneurialism to drive job creation and economic vibrancy, it's worth stepping back to consider the three components that in my view have combined together to power the Singapore story.

- **A hospitable environment**

Singapore is regularly ranked as one of the easiest countries in the world in which to do business. There are rules, for sure, but they are clearly laid out and easy to follow. New companies can be set up in hours, if not minutes. Intellectual property is respected, and the rule of law is transparent.

Immigration is no less a hot topic in Singapore than in other countries, but Singapore makes it easy to get highly educated workers into the country, and has a specific employment pass targeting would-be entrepreneurs. The clean, efficient city has some liveability advantages over Shanghai, Manila, Jakarta or Bangkok.

Mindful of its international reputation among the creative class it's trying to attract, the Government has worked hard to address the old view that there isn't much to do in "Singa-bore", with two casinos, a Universal Studios, Asia's largest aquarium, Gardens by the Bay, a 55,000-seat multipurpose stadium, internationally acclaimed restaurants, and an efficient, modern airport that makes leaving the country a breeze.

- **Serious government skin in the game**

Entrepreneurs have long been able to tap into a range of grants and related programmes to help with early development activities.

In 2008, under the National Framework for Innovation and Enterprise (NFIE), the Government launched the Early Stage Venture Fund (ESVF) programme. The initiative, which drew inspiration from a joint programme between Israel and the United States called the Binational Industrial Research and Development Foundation, allowed five venture-capital companies to receive matching funds from the Government. One year later, we partnered with the Government to prototype a new programme under the NFIE. Ultimately dubbed the Technology Incubation Scheme (TIS), the programme helped bring a flood of diverse investors into the country by offering to put up 85 per cent of the capital in a start-up when investors put in 15 per cent.

This level of support was critical for us. We had long been interested in venture investing. But as first-time investors without a deep track record in a country thousands of miles away from our US headquarters, it was unlikely we (or any similar outside investor group) would have been able to develop the financial backing required to build a robust portfolio without government support.

However, it is not a free lunch. We and other investors in the ESVF and TIS programmes have had to make real commitments, as the Government doesn't cover the salaries of the team (and since it typically takes years for investments in start-ups to bear fruit, that's important) or other overheads, and, of course, the investors have to pony up the capital to activate the government matching programmes. It is hard to create an ecosystem overnight, but consistent, concerted efforts by the Government have given a serious boost to start-ups in Singapore.

- **Wide use of soft power to address hidden barriers to entrepreneurialism**

There is a misbegotten notion that entrepreneurs take risks because they don't have much to lose. In fact, research shows that the No. 1 factor predicting whether someone will become an entrepreneur is whether the person has received an inheritance or a gift. Singapore's phenomenal development over the past 50 years means many of its citizens are sufficiently well off to take the entrepreneurial plunge without truly risking everything.

But doing something as uncertain as starting a business when you could go to work for a big bank or, even better, the Government, was counter-cultural for the best and brightest a decade ago. So, over the past few years, political leaders have relentlessly talked up the importance of entrepreneurialism; state-sponsored universities have aggressively pushed innovation (the National University of Singapore has a programme to send students overseas to get first-hand experience in other entrepreneurial hubs); and television programmes celebrate entrepreneurialism.

Anafore, a company that we invested in two years ago, shows how times have changed. The company's software-as-a-service offering, called ReferralCandy, helps small businesses organise customer referral campaigns. The company's co-founders, Mr Dinesh Raju and Mr Zach Cheng, are both Singaporeans whose academic track record scored them prestigious government scholarships to study at a top overseas university, Carnegie Mellon.

In a previous generation, both would have likely followed a lucrative career in the Government or perhaps even stayed overseas. Today, their company lives in Block 71 and is growing substantially.

These three ingredients create a reinforcing cycle, as entrepreneurs who enjoy success find they want to do it again.

For example, in 2010, Mr Melvin Yuan co-founded YFind Technologies, which could precisely pinpoint people's location inside a building by tracking their cellphones' interactions with Wi-Fi access points. That capability could be the backbone of very valuable business intelligence services such as retail "heat mapping", showing sophisticated analysis of in-store traffic.

We invested in the company in 2012 through our fund, with the Government contributing 85 per cent, and US-based Wi-Fi service provider Ruckus Wireless snatched it up in 2013. Mr Yuan did well in the transaction, and was bitten by the entrepreneurial bug. He's gone on to found another start-up that's developing a disruptive way to match people seeking original art with the vast trove of untapped artistic talent all over the world.

Some successful Singaporean entrepreneurs are beginning to invest in the next generation of start-ups. For example, Mr Hian Goh, who in 2005 co-founded the Asian Food Channel. After Scripps Networks Interactive acquired the Asian Food Channel in 2013, Mr Goh launched his own venture-capital firm to invest in regional start-ups.

Global investors are increasingly taking notice. Mr Dave McClure's 500 Start-ups recently invested in a local real estate portal. Established global venture firms like Sequoia and DFJ are stepping up local activities.

Last year, the Government announced a new batch of participants in the ESVF programme, including old names like Walden International and new ones like Monk's Hill Ventures. Many of these investors view Singapore as a launching pad to regional emerging markets. More broadly, of the 156 software companies founded since 2003 that are now worth more than US$1 billion (S$1.3 billion), close to a third are based in Asia.

There is beginning to be a critical mass of companies creating a self-sustaining innovation hub in Singapore. No local start-up has broken through as a major international player, but I'm quite convinced that will happen in the next five years.

Maybe it will be RedMart, which could expand from its base of online grocery delivery in Singapore to address the complex challenge of food retailing in markets like Indonesia. Maybe it will be Anchanto (one of our companies), which is working on a "logistics as a service" platform that allows any small business to master the intricacies of e-commerce. Or perhaps it will be Clearbridge Biomedics, which has a disruptive way to detect cancer via a "liquid biopsy"; Garena, whose popular gaming platform has attracted more than 100 million members (and driven its valuation above the magical US$1 billion mark); Reebonz, whose online luxury portal is booming across South-east Asia; or one of dozens of other interesting local start-ups.

No place is perfect. While there is substantial seed capital to get a business started (arguably too much), plenty of investors primed to write huge cheques to drive expansion, and significantly more entrepreneurs in Singapore than there were only a few years ago, building a team to start a new company remains challenging. And the so-called "Valley of Death" where a company has to move from a promising smart to real viability remains very real.

But if the next five years feature anything close to the development of the past five, I expect a lot fewer questions about why Singapore makes sense for entrepreneurs.