

# Module 2

## **From Ideas to Start-ups: The role of public initiatives**

# Module objectives

- **The challenges of public policy initiatives**
- **The needs of potential entrepreneurs pursuing innovative ideas**
- **The needs of potential investors in innovative enterprises**
- **Options for policy interventions to turn ideas into start-ups**

# The challenge for public policy

- **Probabilistic nature of success**
  - Some enterprises will succeed ...
  - But it is not clear which ones
  - The ones that show promise need to be nurtured
- **Balance between screening and nurturing**
- **Operating challenges**
  - Need for diverse, properly situated agents
  - Coordination and incentives for these agents

# What potential entrepreneurs need?

- **How can I get / polish my idea?**
- **Does my idea have potential?**
- **What to do with my idea?**
- **What expertise do I need?**
- **When and where to find money?**

# What potential investors need?

- **Is this a good, promising idea?**
- **How much money does it need? When?**
- **What is the intended use of the funds?**
- **Will the entrepreneur be committed to the project?**
- **What are the risks associated with the project? Are there contingency plans in place?**

# Relevant public support initiatives

- **Feasibility grants**
- **Relations with public R&D institutions**
- **Business support services**
- **Incentives and support for micro-lending institutions**

# Feasibility grants

- **Effective source of seed financing**
- **Aim to ensure seeding and early germination of innovative ideas**
- **But ... naturally susceptible to political and bureaucratic influences**

# Key issues in programme design

- **Structure of decision making process**
  - **Decentralization and coordination**
  - **Geographical and knowledge proximity to applicants**
- **Decision criteria**
  - **Act like professional investors (focus on team, market potential, strategy)**
  - **Avoid underachieving firms**
  - **Clear guidelines for ineligible projects**
- **Promote positive external perception of award recipients**



# **Key issues in programme administration**

- **Monitoring and support of selected projects**
  - Use VC investment practices
  - Provide funding in stages, tied to key milestones
- **Programme evaluation**
  - Focus on “positive” results may become counter-productive and crowd out private financing
  - Balance errors of omission and commission
- **Ensuring quality deal flow**
  - Information dissemination
  - Education and building awareness

# Example: SBIR

## ● Overview and operation

- Launched in 1982 to promote innovative and high-technology firms
- Awards funded and selected by 11 agencies
- 4% of an agency's budget allocated to small innovative firms

## ● Award structure

- Phase I, \$150k for feasibility study, max 6 months
- Phase II, \$1million for project / prototype development, max 12 months
- Beyond Phase II, award recipients are expected to privately fund their commercialization efforts

## ● Prominent recipients: Apple, Compaq, and Intel.

# Scale and impact of SBIR

- Around \$2.5 billion allocated yearly
- Represents 60% of the US public SME finance programmes in the US.
- Most of the founders came from universities.
- Recipients have higher survival and growth rates
- Without the SBIR award
  - 20% of the founders would not have started their firm.
  - 40% would not have continued it.

# **Relations with R&D institutions**

- **Education of faculty and researchers on possible entrepreneurial opportunities**
- **Educating external constituents on the nature and applications of the scientific knowledge**
- **Provision of technical and financial support for the early exploration of ideas**
- **Provision of technical and financial support for the incubation of promising enterprises**

# Relevant relationship intermediaries

- **Specialized information intermediaries**

- **Technology transfer offices**
- **Networks for cooperation between business, educational, and R&D institutions**

- **Specialized service intermediaries**

- **Professionalization and feasibility analysis**
- **Financial support and external certification**

- **Technology incubators / innovation accelerators**

- **Seed capital**
- **Administrative support and training**

# **Business support services**

- **Platform for “investor readiness”**
  - **Avert discouragement**
  - **Facilitate quality business planning**
- **Wide range of services**
  - **Awareness raising**
  - **Networking**
  - **Matchmaking**
  - **Training**
  - **Coaching**

# Investment Readiness

**‘Capacity’ of an SME or entrepreneur- who is looking for external finance – to understand the specific needs of an investor and to be able to respond to these needs by proving an appropriate structure and relevant information, by being credible and by creating confidence.”**

**European Commission, 2006**

# Shortcomings in proposals (%)

Assumptions unrealistic/information lacks credibility	43
Management team lacks credibility	42
Insufficient information provided	31
Business concept needs further development	24
Growth prospects of business too limited	23
No obvious exit route	20
Lack of originality in product/service	20
Lack of long term vision for business	20



# Five elements of Investment Readiness

**Awareness  
of finance  
options**

**Presentation  
skills**

**Support, advice,  
mentoring**

**Critical evaluation of  
business**

**Link  
business  
with  
potential  
investors**

# Entrepreneurs: who do they listen to?

Entrepreneurs listen to and take advice from:

	Yes	No
Nice people from int. organisations	<input type="checkbox"/>	<input type="checkbox"/>
Senior managers in government agencies	<input type="checkbox"/>	<input type="checkbox"/>
Your local bank manager	<input type="checkbox"/>	<input type="checkbox"/>
Lawyers	<input type="checkbox"/>	<input type="checkbox"/>
Local fellow SME business men & women	<input type="checkbox"/>	<input type="checkbox"/>

# Microcredits

- **Small loans**
- **Unfeasible for traditional banks to provide**
- **Granted by specialized micro-finance institutions (MFI)**
  - **Appraise credit worthiness differently**
  - **Have different collateral requirements**
  - **Provide business advice and support**
  - **But ... often cannot cover their operating expenses and depend on grants**

# Who are the MFI?

- **Specially chartered loan funds (to tackle social issues)**
- **Non-government organizations**
- **Financial institutions with social missions**

# Example: Adie (France)

- Non-profit association (est. 1989)
- Targets unemployed and welfare recipients (95 %), and active poor (5 %)
- 22 regional, 112 local offices
- Has provided 53,600 credits (EUR 145m) and assisted in the creation of 46,000 enterprises and 55,000 jobs.

# How to support microcredits?

- **Grants and technical support to eligible MFI**
- **Direct financing or co-financing of projects**
- **Micro loan guarantees**
- **Tax incentives to MFI or capital providers**

# Programme considerations

- **Clear specification for the types of enterprises to be supported**
- **Operation in close proximity and with sufficient visibility to prospective entrepreneurs**
- **Training and knowledge exchange platform to MFI officers**