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International Conference on Policies to Address Financing and Entrepreneurial Challenges in High-growth Innovative Firms

Helsinki, Finland, 2-4 June 2010

Report on the International Conference on Policies to Address Financing and Entrepreneurial Challenges in High- growth Innovative Firms

I. Format and attendance

1. The International Conference on Policies to Address Financing and Entrepreneurial Challenges in High-growth Innovative Firms was held in Helsinki from 2 to 4 June 2010, in response to a proposal by the Government of Finland. This activity was in line with the Programme of Work for 2009-2010 of the Committee on Economic Cooperation and Integration (CECI) of the United Nations Economic Commission for Europe (UNECE) adopted at the third session of CECI held on 3-5 December 2008, which envisaged the organization in 2010 of a policy-oriented event focusing on high-growth innovative firms. It was organized in cooperation with the Ministry of Employment and the Economy and the Ministry for Foreign Affairs of Finland.

2. The main objective of the International Conference was to provide a platform for a broad exchange of practical experiences and lessons learned among policymakers, representatives of business and academia, and other experts and practitioners on good practices and policies for promoting the development of high-growth innovative firms, in particular, taking into account the new conditions that have emerged after the global economic and financial crisis.

3. In order to reinforce the learning component of the programme, the Conference also included site visits to selected public and business institutions in Finland dealing with the issues considered at the Conference, where the visitors had the possibility to learn how these questions are dealt with in practice.

4. The Conference brought together around 70 participants – high-level policymakers, government experts, representatives from academia and the business sector – from 22 UNECE member States, including participants from 11 countries with economies in

transition. Representatives from the European Commission and the World Intellectual Property Organization also attended the Conference.

5. Conference participants were welcomed by the UNECE Executive Secretary Mr. Ján Kubiš and Mr. Erkki Virtanen, Permanent Secretary of the Ministry of Employment and the Economy of Finland.

6. A keynote presentation in the opening session served as an introduction to the Conference, highlighting and discussing a number of central issues that were considered subsequently in more detail in different sessions.

7. The discussions at the Conference were organized in three thematic sessions covering different policy areas concerning the promotion of high-growth innovative firms:

(a) “Promoting innovative entrepreneurship: policy challenges”;

(b) “Joining forces in facilitating ‘creative destruction’: public-private cooperation in innovation support institutions”; and

(c) “How future market leaders can develop their growth potential? The challenge of early-stage financing”.

8. Leading experts in these areas from government, international organizations, business and academia made presentations covering different related topics (available on <http://www.unece.org/ceci/>). Individual presentations were followed by an interactive discussion with other participants in the Conference, which provided the opportunity for a broad exchange of views.

II. Summary of discussions

A. Promoting innovative entrepreneurship: policy challenges

9 The global crisis has created new challenges for policies targeting innovation and entrepreneurship. However, these policies can play a role in promoting faster post-crisis recovery and, as a result, some countries have adopted new initiatives in innovation-related areas. The main issues concerning the promotion of innovative entrepreneurship which were addressed and discussed during the session included:

(a) The emergence of a more difficult environment for high-growth small and medium-sized enterprises (SMEs) as a result of the economic crisis, leading to tighter financial constraints, shortage of public funds, a demand shortfall for innovative products, interruption of research and development (R&D) projects and breakdown of knowledge networks;

(b) The need to avoid an excessively restrictive view of innovative entrepreneurship, which should encompass not only high-tech and knowledge-intensive companies but also other instances of radical innovation that challenge existing firms and create new economic opportunities;

(c) The critical role of innovative entrepreneurship in ensuring efficiency and rapid economic growth, through a complex process of competition, selection and imitation. This would support the generation of new knowledge but also its diffusion across the economy;

(d) The drivers of innovative entrepreneurship are multiple and include the emergence of new knowledge, changes in the institutional framework or new market opportunities;

(e) The barriers to innovative entrepreneurship, which result from inappropriate competition policies, high start-up costs, lack of skill or low levels of R&D. The size of the public sector has an impact on incentives and therefore may have an influence on entrepreneurship. The global financial crisis has created new problems in the functioning of the capital markets, thus increasing the traditional difficulties of innovative firms in raising finance;

(f) In countries with economies in transition, these barriers can be particularly serious, and may also include the instability of the legal framework and a generally unfavourable business climate. Reforms of more general significance may be required, including in areas related to financial development, tax, public administration and licensing;

(f) The primary focus of policies to promote innovative entrepreneurship, which should emphasise the creation of conditions for the exit and entry of firms and their growth;

(g) There are many factors that influence entrepreneurship, including the regulatory framework, market conditions, access to finance, creation and diffusion of knowledge, entrepreneurship capabilities and culture. Better framework conditions are shown to have a positive effect on entrepreneurship performance. An improved understanding by policymakers and practitioners of the impact of various factors could have a favourable influence on entrepreneurship;

(h) The multiple dimensions involved in the promotion of innovation. In particular, the role of users needs to be adequately understood and harnessed. Customers, suppliers and competitors are the most important external sources of new ideas. While the economic and financial crisis reduced demand, it also increased the importance of customer-focused and open innovation, as a way to reduce costs and react fast to changes;

(i) The conditions under which direct forms of support, such as subsidies, are acceptable, taking into account institutional and development differences. In countries with economies in transition, national development banks and similar institutions may play an important role;

(j) The importance of defining strategies and policies with a time horizon that is long enough to yield results. Budgetary allocations should be appropriate for the targets that are being pursued;

(k) The need to develop appropriate statistical and benchmarking tools to understand and assess the impact of actions in different policy areas;

(l) The role of core public R&D to catalyse related private spending. Public R&D is particularly important in maintaining innovation activity during economic slowdowns, as it has been done in Finland. This creates the basis for future growth;

(m) The changes in R&D policies during the phases of catch-up development towards the technological frontier. In countries with economies in transition, the prevalence of public R&D creates particular challenges to ensure that these efforts respond to market needs;

(n) The importance of designing policies and strategies that are comprehensive and consider both demand and supply factors, while working together with the private sector and exploiting synergies between the activities of different government departments;

(o) The role of innovative entrepreneurship in economic diversification in countries with economies in transition and national policy experiences in this area, including in Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Natural resources wealth creates a policy challenge but also provides resources to finance innovation strategies. For other countries, international assistance may be particularly important to support domestic innovation efforts; and

(p) The gradual shift towards the prevalence of knowledge-based factors in driving future economic performance in countries with economies in transition.

B. Joining forces in facilitating ‘creative destruction’: public-private cooperation in innovation support institutions

9. Cooperation between the public and private sectors is essential to support innovation. This collaboration may take different institutional forms and may specifically target the development of firms with high-growth potential through different mechanisms. A particularly important area of collaboration concerns technology transfer from publicly funded research institutions to industry. The issues considered in connection with this thematic session included:

(a) The development of an innovation infrastructure that serves to generate new knowledge and disseminate it across the economy, in the form of business incubators, science, technology and research parks;

(b) The different types of tax benefits, tariffs privileges and other forms of public support granted to scientific parks and technology incubators. The effectiveness of these mechanisms of support is increased when they are coordinated closely with different programmes for SMEs development;

(c) The role of different forms of public-private partnerships to create close links between the research base and the industry, which will facilitate pooling resources, sharing knowledge, experiences and good practices and increasing mobility of researchers;

(d) The policy experiences in related areas in Armenia, Moldova and Ukraine;

(e) The use of transfer programmes to support the commercialisation of knowledge generated in public research institutions to innovative enterprises. Different modalities of technology transfer include licensing, selling or other commercial use of intellectual property rights and profit distribution schemes;

(f) The key role of public support for R&D, as private business is unlikely to finance basic research. R&D has the characteristics of a public good and therefore will be underprovided by the markets. Policy actions are characterised by uncertainty, as outcomes are unknown;

(g) The growing relevance of open innovation as an effective mode of collaboration among innovation stakeholders, which allows sharing intellectual property. As companies need to collaborate with other companies and with research institutions to develop commercial proposals that integrate different technology products, intellectual property rights are an important dimension of this collaboration. This should be recognised in publicly-sponsored training initiatives;

(h) The role of knowledge management platforms as tools that enable public research institutions to manage their assets and assess the opportunities for generating value from their research;

(i) The contribution of international cooperation to facilitate networking, benchmarking of practices and increasing global reach; and

(j) The way in which policy measures can facilitate the absorption and dissemination of foreign technology, which is critical for the promotion of innovation. External demand in the form of projects with foreign partners may compensate for the lack of sophisticated local demand. Multinationals are a channel for technology and skill

transfer. Imports of knowledge-intensive products are also a channel for the dissemination of innovation.

C. How future market leaders can develop their growth potential? The challenge of early-stage financing

10. Innovative companies face particular difficulties in raising finance, as their future cashflows are difficult to predict and they have little collateral to pledge as a guarantee. High-growth companies offer great promise but they are not easy to identify by investors, so this is an area where risk is high. Given these challenges, public financing and other programmes of public support play an important role in facilitating access to finance by this type of firms. The issues reviewed within this area included:

(a) The negative implications of the crisis for financing, as it has created new cashflow problems, reduced profit prospects and made fundraising by specialised financial intermediaries more challenging;

(b) The need for policy and regulatory regimes to understand the special difficulties faced by early-stage, research-intensive firms and to recognise these challenges by granting a special status for this type of companies;

(c) The European failure to transform excellence in research into commercially successful applications and the possible role that the underdevelopment of the venture capital industry may play in this;

(d) Different public initiatives to support early-stage companies and to foster the development of specialized financial intermediaries, such as venture capital. Venture capital is often the only source of long-term capital for high-growth but risky companies. Public policies can reduce the level of risk, thus increasing investors' interest;

(e) Tax policies that reward long-term investment and entrepreneurial-risk taking can have positive effects on the development of the venture capital industry. Policy can also create better conditions for the operation of venture capital by facilitating fundraising, encouraging pension funds and other investors to take stakes in venture capital firms;

(f) As the venture capital industry is global in scale, it is important that countries try to develop tax and regulatory policies that can offer the same competitive advantages that are available in the best environments;

(g) Financing constraints are not the only barriers to the successful expansion of companies with high potential. The performance of early-stage funds in Europe is rather poor in comparison with the United States, which suggests the existence of other problems;

(h) The complementary role of supply-side policies, which seek to increase the amount and quality of investable projects. This may include educational programmes that foster entrepreneurship, developing competences that go beyond the emphasis on technology development to stress the creation of successful business models and applications;

(i) The need to develop growth markets that provide an effective exit mechanism for investors. In Europe, where there are too many small illiquid markets, this would require initiatives to overcome the existing fragmentation along national boundaries;

(j) The importance of platforms for networking, such as venture fairs, that facilitate the interaction between investors and companies;

(k) The contribution that supporting services can make to the performance of high-growth companies and the emergence of specialised financial intermediaries and the role that policies can play in facilitating the development of these services;

(l) The evolving policy initiatives to support financing of innovative companies in the Russian Federation and future European Union plans to raise additional capital for funding innovative and growing business; and

(m) The role of appropriate intellectual property rights management for innovative companies seeking external financing. Intellectual property rights serve to protect from competition but also to raise funding and facilitate exits by investors who can sell their stakes to other investors. For investors, intellectual property rights need to be well integrated in their due diligence processes.

III. Site visits

11. Delegates at the Conference had the opportunity to participate in a programme of site visits to a number of public and business institutions in Finland, which provided an occasion to discuss with practitioners questions related to the topics considered at the Conference. The institutions in this programme were:

(a) TEKES, the Finnish Funding Agency for Technology and Innovation, which supports innovative R&D and businesses through the provision of grants and the facilitation of networking;

(b) Finnvera, a financing company owned by the State of Finland, which provides loans and credit and export guarantees and makes venture capital investments to complement private financial providers and support the competitiveness of Finnish enterprises;

(c) The Aalto Design Factory, which is located in the Otaniemi technology hub, is a concrete example of open innovation and close collaboration between education institutions and industry. The emphasis is placed on the rapid development of prototypes with a commercial orientation; and

(d) VTT Technical Research Centre of Finland, the largest contract research organization in Northern Europe, which provides high-end technology solutions and innovation services and represents a good example of collaboration between the public and private sectors in this area.
