

**EARLY STAGE/ EXPANSION FINANCING TO SMALL
INNOVATIVE ENTERPRISES IN RUSSIA**

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TOPICS TO BE CONSIDERED

- The Government's financial and economical policy during transition stage of economy
- Situation with demand for innovation
- Situation with Russian science and scientists
- IPR protection
- What FASIE does

THE GOVERNMENT'S POLICY

- Political level (federal and regional) is in a strong favour of knowledge based economy
- Financial and economical policy claimed to be liberal – no any type of activity, including innovation, should have any preferences
- There are no financial incentives for large corporations to become competitive as a result of their innovation policy
- No special tax regime exists to stimulate export of innovative products
- No tax relief for either gain on venture investments or business-angels investments

DEMAND FOR INNOVATION

- There are still many instruments for money to grow faster and more reliably than to go into innovation
- Large corporations just started to look for 10-15 years old technologies however when it comes to new either machinery or technologies they buy them abroad
- Emerging sector of knowledge based SME is too small to create large demand
- FDI and R&D centres of large international corporations in Russia started to play important role

SCIENCE AND SCIENTISTS

- There is still large scientific reservoir (personnel and results) as potential source for innovation
- Quite a large portion of this reservoir is old (personnel, results, instruments)
- For 15 years science was underfinanced
- Soviet scientist were not used to “sell” their skills and knowledge to industry for joint projects. They were “involved” into them through planned system
- Soviet scientists’ mentality does not fit mentality of venture investors and business-angels
- Educational level is still high
- Science became from one of few attractive professions for young ambitious people just one of many

IPR PROTECTION

- IPR legislation (Patent law, commercial secrets etc.) are harmonised with international standards (mostly)
- Enforcement of IPR legislation is still well behind of it's level
- Scientific community is still mostly IPR-ignorant and even worse – unconcerned and consider as a bad taste to be concerned

Then:

What is going on as a result of what was said before?

STEPS BY THE GOVERNMENT

- Direct intrusion:
 - FASIE was chartered as fond for early stage financing of Small Innovative Enterprises (1994), 45 M€
 - VIF was charted as a venture fond of fonds (2000),
 - Innovative Mega Projects started (2003), 100 M€
 - Federal (25%)-regional (25%)-private (50%) investment fonds for SIE started to be chartered (2005), 500 M€
 - Russian Venture Company chartered as fond of fonds (2006), 440 M€
 - National nanotechnology corporation chartered (2007), 5 B€
 - Support of infrastructure development – 35 ITC, 200 of TT offices,
 - 100 M€ for business incubators and “compensations” schemes

SWOT analysis

- S:
 - Almost all known instruments for early stage/expansion financing are now in use
 - Some surveys show that about 2.5 mln. persons are acting as business angels (with small money)
 - Commercial banks are quite aggressive to attract SME as clients
- W:
 - the scale of use of all instruments is still too small to influence national economy
 - Universities are still considered mostly as places for education not for science and innovation
 - credit rates are still too high for innovative business
 - intangible assets are not used as a mortgage

STEPS BY THE GOVERNMENT

- Fiscal instruments:
 - corporations' R&D funds as 1.5% of their turnover are profit tax-free, (1992)
 - expenses of Federal R&D foundations are profit and VAT tax-free (1994)
 - corporations' R&D expenses are profit tax-free (2007)
 - patenting expenses are tax-free (2007)



Foundation for Assistance to Small Innovative Enterprises

www.fasie.ru

MISSION

to develop and to implement the tools of
The State assistance to commercialization
of new knowledge into products and
services by small companies:
early stage financing

Tools to assist



Spin off	← START ,	3 year project, 30.000 US\$ for Phase I, 150.000 – for Phase II, 50/50 cofinancing
Licensing from Universities	← TEMP ,	3 year project, up to 500.000 US\$, 30/70 cofinancing
Knowledge Transfer Partnership	← PUSC ,	1 - 2 year project, up to 500.000 US\$, 30/70 cofinancing
Self development	← Compensation schemes,	credits, leasing

START financing



1 year - up to 30 US k\$ per one project,
stay in University

2 – 3 years: matching money, business
plan, IPR is protected, move to Enterprise

2 year - up to 60 US k\$

3 year – up to 90 US k\$

START's results (2004-2007)



- ✓ 7400 applications
- ✓ 1750 projects
- ✓ 1500 new SIE, more than 5000 new jobs of high qualification
- ✓ 1300 IPR
- ✓ 149 SIE are on second year, 30 are on third
- ✓ 20 US M\$ are invested
- ✓ 50 SIE started to sale

START'S RESULTS

- Learning “on the march”:
 - different types of IPR
 - how to protect and license IPR
 - how to create company
 - who are they – “Investors”
 - started to feel wellness (still not wealth)

PUSC program

- Partnership of Universities and Small Companies
- Joint program with Rosnauka
- To assist rather matured Enterprises when they need “package” - new technology and highly trained personnel for it’s commercialization
- Rosnauka finances University for training
- FASIE assists technology commercialization by SIE

Some PUSC's results

- 10 first projects in 2006
- 50 high level R&D personnel moved to SIE
- Intangible assets of SIE increased two fold
- Increased growth of SIE's sales
- Professors are happy with commercialization

TEMP program

- TEchnology to Small Enterprise
- To assist licensing of IPR from Universities and research Institutes of RAS
- Controlled by royalty paid to scientists
- FASIE assists R&D by SIE
- SIE invests heavily into machinery, marketing etc.

Some TEMP's results

- 50 projects are financed
- New high tech products are on the market (some are exported)
- IP is on balance sheet of both – Universities and SIE
- Some scientists' royalties are within dozens of US k\$ range

UMNIK (SMART) program



- ✓ nominee should be up to 28 years old
- ✓ idea should be his (her) own
- ✓ good science behind idea is important criteria
- ✓ “entrepreneurships” of nominee is important
- ✓ Commercialization is within 5 – 7 years
- ✓ No need to organize enterprise for first two years

UMNIK's financing



Participants: 1000 per year (from about 10 000 nominee)

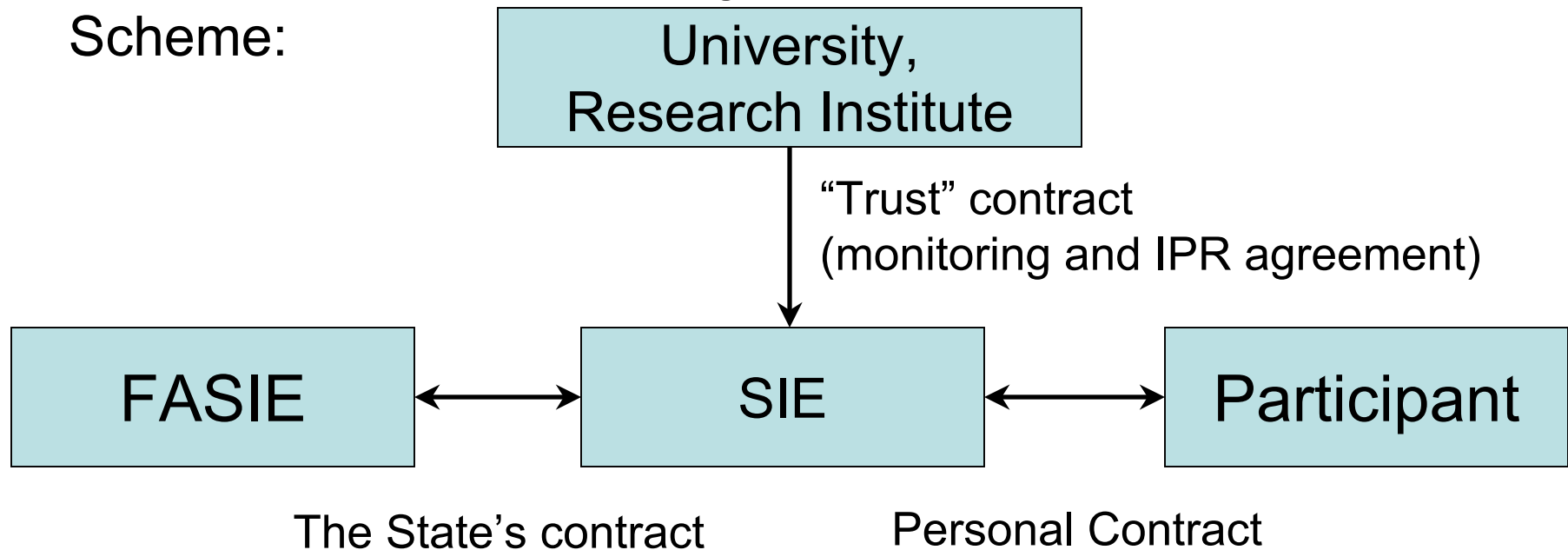
Duration: 2 years

Объемы: 8 US k\$ per year

Psychology testing: Rosobrasovanie

“Entrepreneurships” training: Rosnauka

Scheme:



Some FASIE's results (13 years)

Applications	- more than 15000
Contracts	- more than 4000
Average turnover per SIE	- US\$ 500 thousands
Average growth	- 20% per year
Number of commercialized patents	- more than 1500
Number of issued patents	- more than 1000
Companies with turnover	
more than US\$ 1mln	- about 100
more than US\$ 5 mln	- dozens
more than US\$ 30 mln	- 3