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International Conference on Policies to Address Financing and Entrepreneurial Challenges in High-
Growth Innovative Firms
Helsinki, 2-4 June 2010

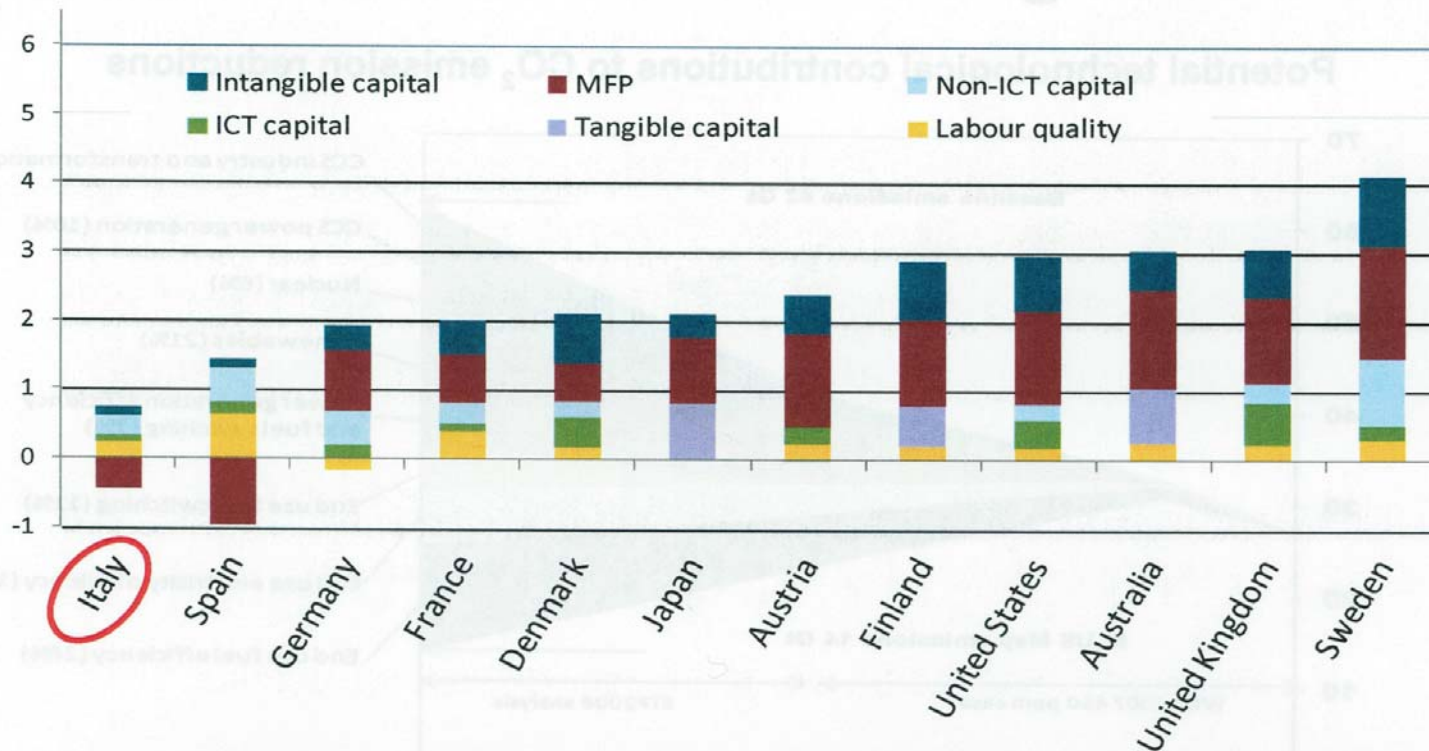
POLICIES FOR HIGH-GROWTH INNOVATIVE FIRMS

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Chair OECD WPSMEE Informal Steering Group on SME and Entrepreneurship Financing

2. Innovation is key to growth...

Contributions to labour productivity growth, 1995-2006, in %



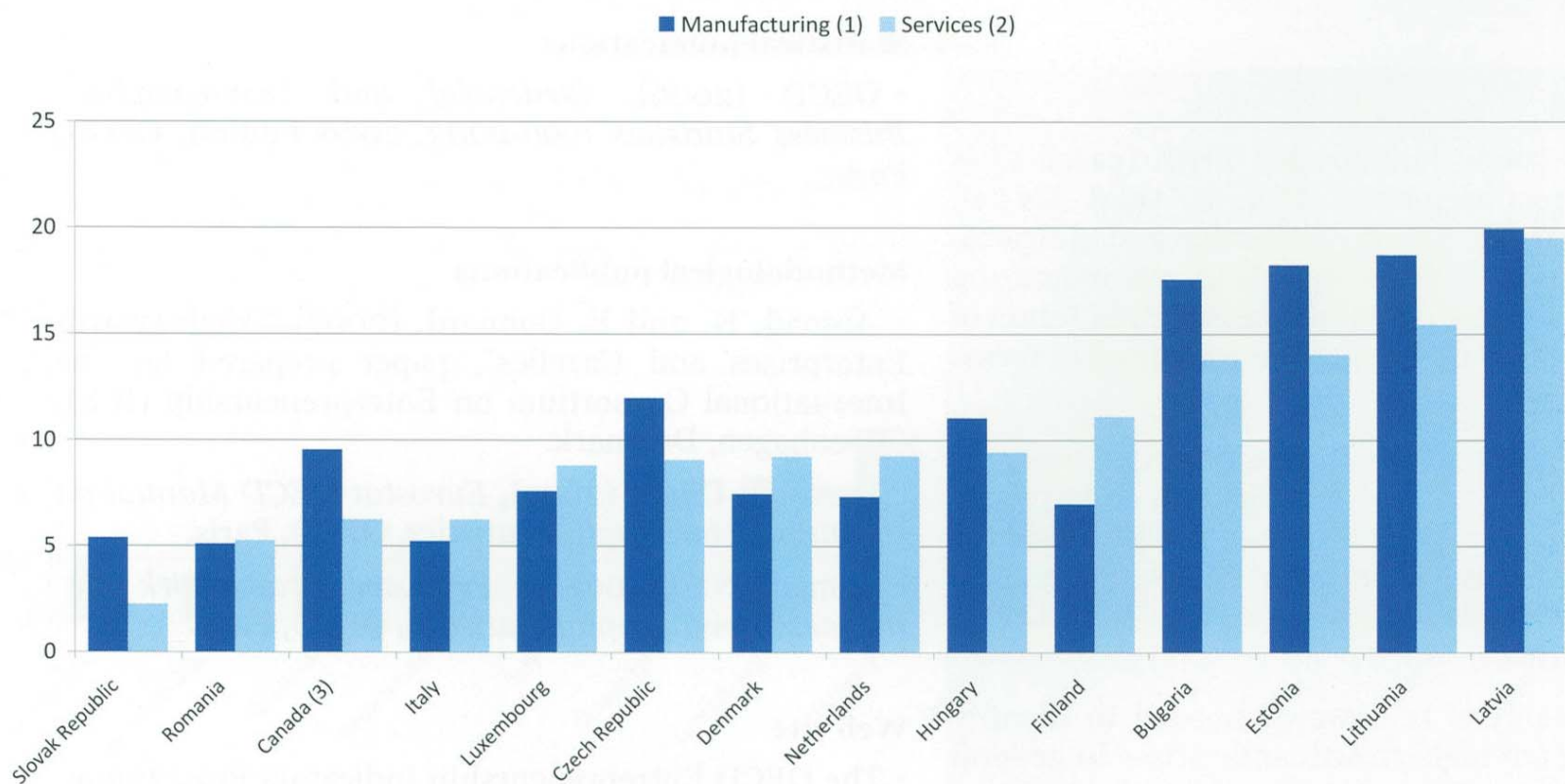
** Investment in intangibles and multi-factor productivity growth account for between two-thirds and three-quarters of labour productivity growth.*

SMEs investing in *in-house* innovation (% of SMEs)

		2002	2003	2004	2005	2006	2007	2008
EU	EU	30,67	30,67	30,67	30,35	30,02	29,70	29,38
BE	Belgium	42,90	42,90	42,90	41,86	40,81	39,80	38,80
BG	Bulgaria	15,14	15,14	15,14	15,14	15,14	15,14	15,14
CZ	Czech Republic	31,73	31,73	31,73	29,85	27,97	26,21	24,56
DK	Denmark	40,81	40,81	40,81	40,81	40,81	40,81	40,81
DE	Germany	46,15	46,15	46,15	46,22	46,29	46,36	46,43
EE	Estonia	40,35	40,35	40,35	38,70	37,05	35,48	33,97
IE	Ireland	47,72	47,72	47,72	43,24	38,76	34,74	31,14
EL	Greece	33,45	33,45	33,45	33,08	32,70	32,34	31,97
ES	Spain	26,47	26,47	26,47	25,52	24,57	23,65	22,77
FR	France	28,27	28,27	28,27	28,27	28,27	28,27	28,27
IT	Italy	28,07	28,07	28,07	28,07	28,07	28,07	28,07
CY	Cyprus	33,75	33,75	33,75	35,65	37,55	39,55	41,66
LV	Latvia	--	--	--	--	--	--	--
LT	Lithuania	21,01	21,01	21,01	19,36	17,70	16,19	14,81
LU	Luxembourg	--	--	--	--	--	--	--
HU	Hungary	13,20	13,20	13,20	13,21	13,23	13,25	13,27
MT	Malta	--	--	--	--	--	--	--
NL	Netherlands	26,16	26,16	26,16	26,71	27,26	27,82	28,39
AT	Austria	42,32	42,32	42,32	41,69	41,05	40,43	39,81
PL	Poland	19,44	19,44	19,44	18,33	17,23	16,19	15,21
PT	Portugal	33,39	33,39	33,39	33,75	34,10	34,46	34,82
RO	Romania	16,16	16,16	16,16	17,04	17,93	18,86	19,83
SI	Slovenia	--	--	--	--	--	--	--
SK	Slovakia	16,03	16,03	16,03	16,98	17,93	18,93	19,99
FI	Finland	33,96	33,96	33,96	37,42	40,89	44,67	48,81
SE	Sweden	41,83	41,83	41,83	41,83	41,83	41,83	41,83
UK	United Kingdom	--	--	--	--	--	--	--
HR	Croatia	24,41	24,41	24,41	24,41	24,41	24,41	24,41
TR	Turkey	28,18	28,18	28,18	28,18	28,18	28,18	28,18
IS	Iceland	--	--	--	--	--	--	--
NO	Norway	28,10	28,10	28,10	27,01	25,92	24,88	23,88
CH	Switzerland	34,40	34,40	34,40	34,40	34,40	34,40	34,40

Share of high-growth enterprises (turnover definition), 2005

As a percentage of all enterprises with ten employees or more



1. Mining and quarrying; Manufacturing; Electricity, gas and water (ISIC Rev.3 10-41).

2. Wholesale and retail trade; Hotels and restaurants; Transport, storage and communications; Financial intermediation; Real estate, renting and business activities (ISIC Rev.3 50-74).

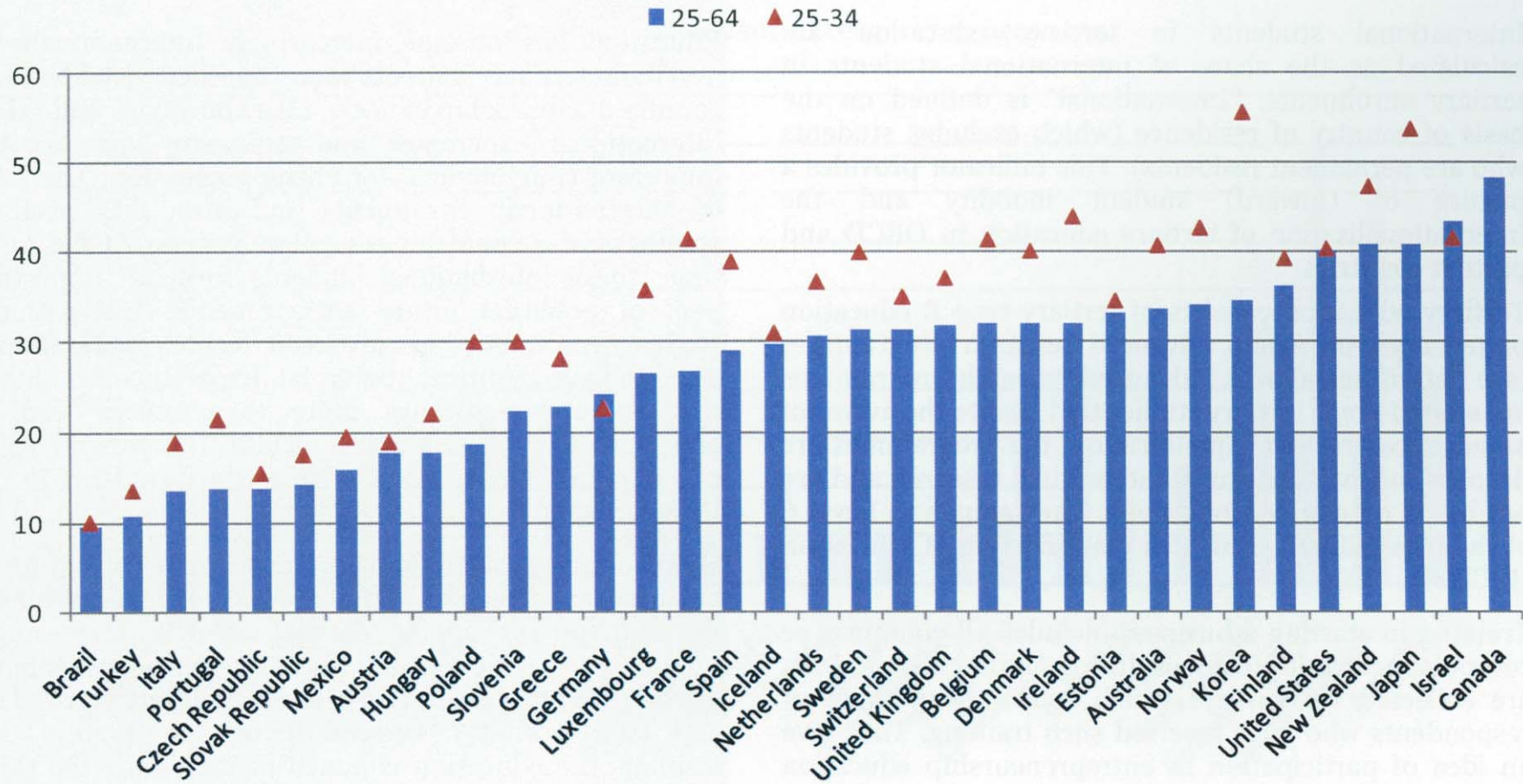
3. Employer enterprises with fewer than 250 employees.

Usual challenges to high-growth SMEs

- Human capital
- Framework conditions
 - Finance

Population with tertiary education, 2007

As a percentage of the total population

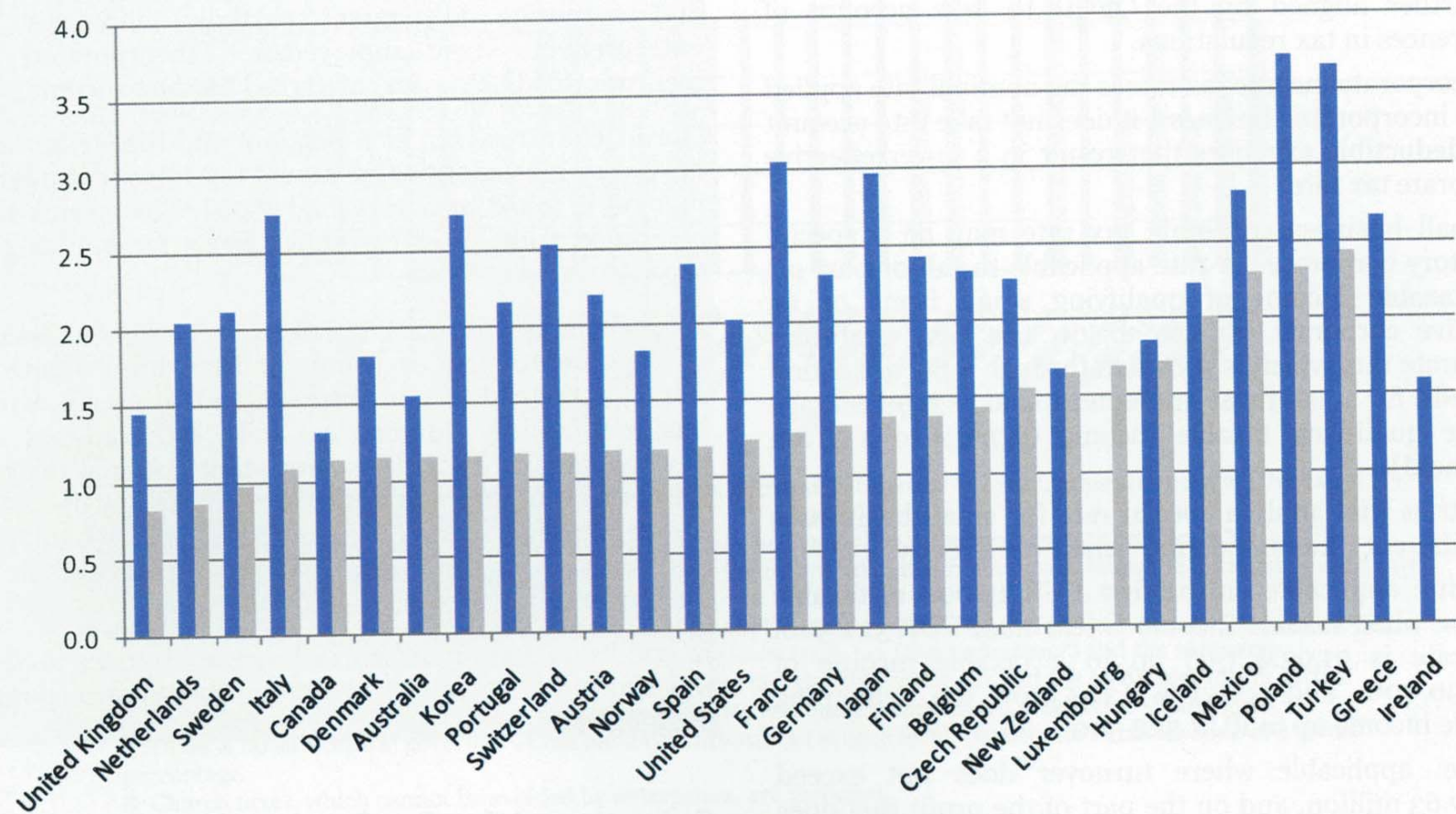


Source: OECD, *Education at a Glance*, 2009.

Barriers to entrepreneurship, 2008 and 1998

Scale from 1 to 6

■ 1998 ■ 2008

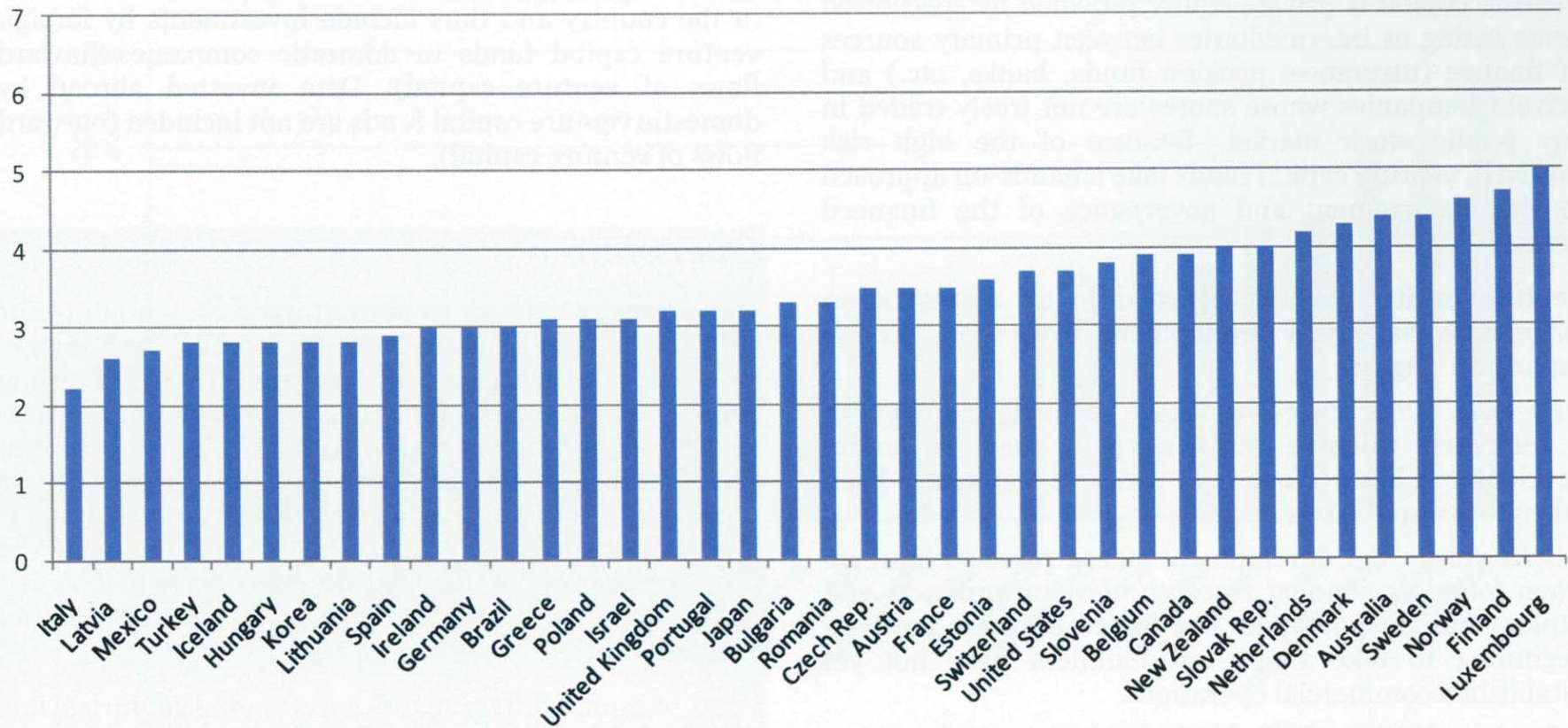


Notes: The indicator values for Greece, Ireland and the Slovak Republic are preliminary.
The 2008 data refer to beginning of 2008.

Source: OECD, *Indicators of Product Market Reform*, 2008

Ease of access to loans, 2009

1 = impossible, 7 = easy



Source: World Economic Forum, *Global Competitiveness Report 2009*.

FINANCIAL LEVERAGE

(BY ENTERPRISE SIZE – End 2009)

Country	Small	Medium	Large	Average
Italy	3.19	2.68	1.91	2.59
Germany	3.65	2.14	1.75	2.51
France	2,31	2.21	2.36	2.29
Spain	1.41	1.97	2.42	1.93
Norway	2.18	1.48	1.7	1.79
Holland	3.16	1.65	2.19	2.33
Austria	2.44	2.5	1.34	2.09
Ireland	1.85	2.19	0.86	1.63
UK	1.76	1.89	1.45	1.70
Finland	1.45	1.37	1.31	1.38
USA	1.65	1.52	1.23	1.46
Source: EU Commission				

Finance for innovative companies
Numbers/percentages for companies which have introduced any
innovative activity

	Total nr	Non-innovative company%	Innovative company%
FINANCIAL SITUATION			
Improved	821	39.4	60.6
Stayed the same	1655	55.3	44.7
Deteriorated	2754	46.6	53.4
Not classified	520	42.5	57.5
FINANCING STRUCTURE			
Used only internal funds	903	48.4	51.6
Used internal and external financing	1956	42.7	57.3
Used only external financing	1697	45.2	54.8
Did not use any source of financing	1194	59	41

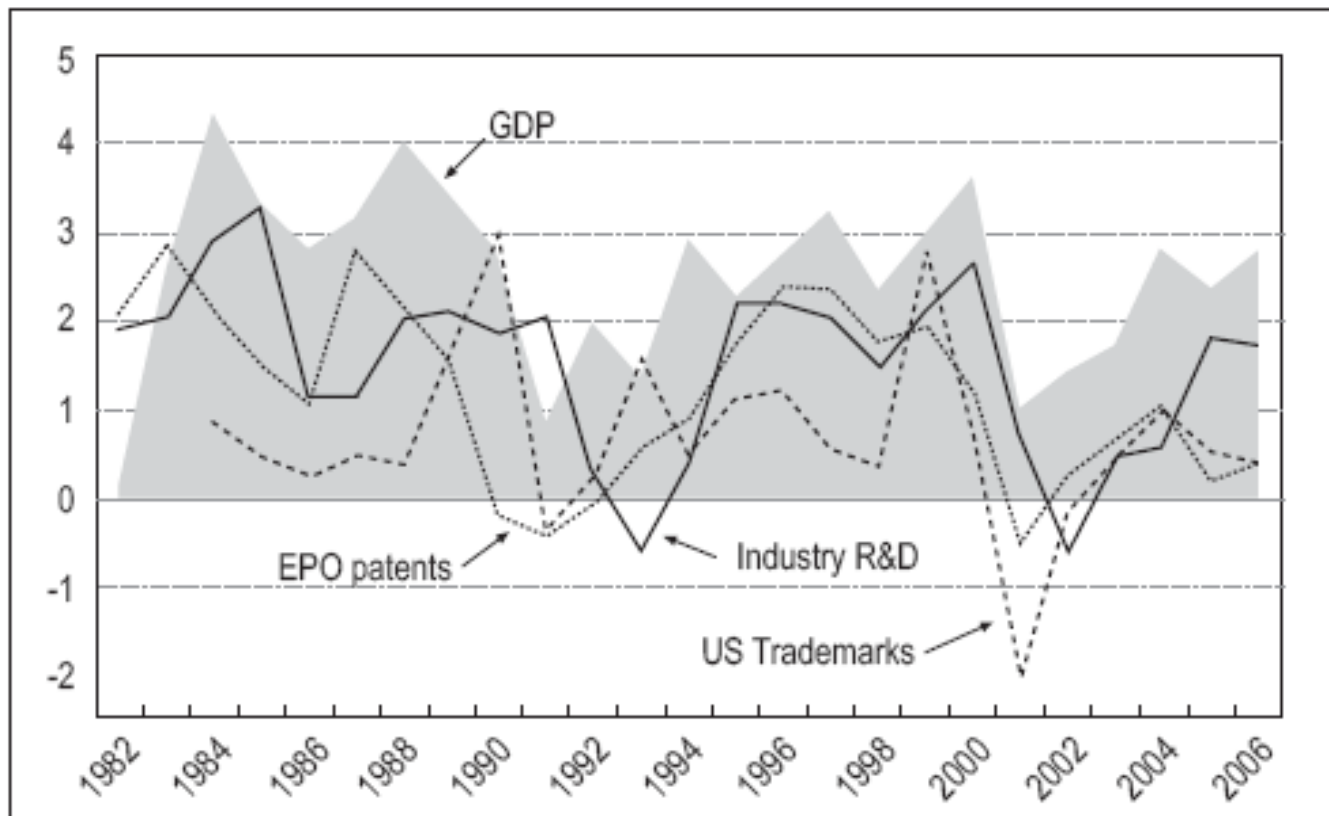
→ **Confirmation of importance of support instruments to ease external finance for innovative companies (see “EU-Financial Instruments”)**

Source: EU Commission

	Public incentives to enterprise financial sources: (N=No incentive; X=Little inc.; XX= standard inc.; XXX=strong inc.)		
Country	Self-financing	Financial debt	Equity financing
Italy	X	XX	X
Germany	N	XX	N
France	N	X	N
Spain	N	X	N
Norway	XXX	N	XX
Holland	N	XXX	N
Austria	N	XXX	N
Ireland	XXX	N	N
UK	XXX	N (but leasing)	XX
Finland	XXX	N	N
USA	XX	XX	XXX
----- Source: Caselli, Univ. Bocconi with revisions by Zecchini.			

The impact of the business cycle on innovation

Business-funded R&D, patents (applications to the European Patent Office), trademarks (filed at the US Patent and Trademark Office) and GDP (Annual growth rate for the total of OECD countries; divided by standard deviation)



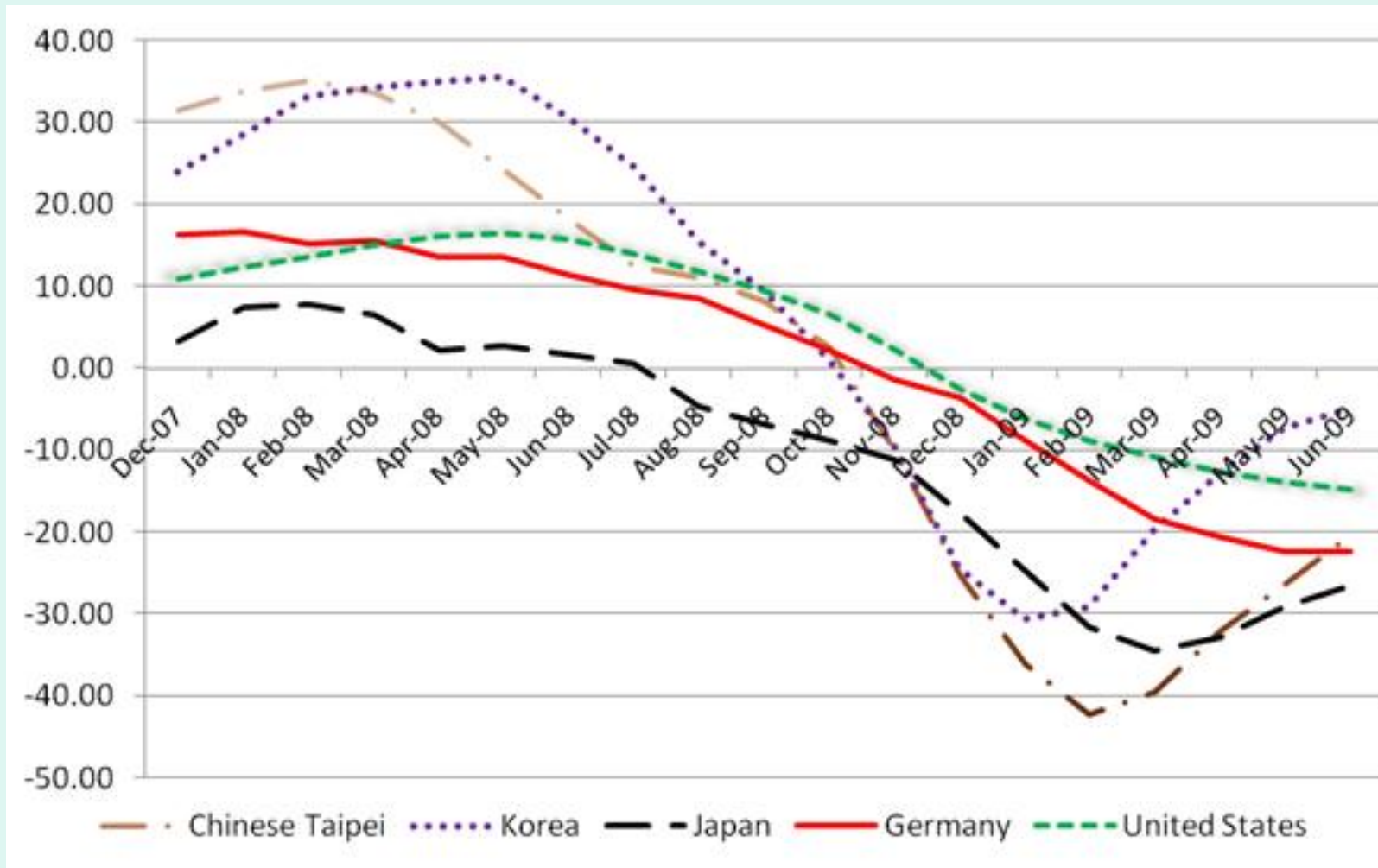
Source: OECD, MSTI and Patent database.

New challenges to high-growth SMEs

- Tighter financial constraints
- Shortage of public funds
- Demand shortfall for innovative products
- Interruption of R&D projects
- Breakdown of knowledge networks
- Underutilization of skilled human resources

Production in ICT goods

Percentage monthly changes on yearly basis



Source: ICT industry poised to rebound, OECD, 2009

New Sources of financing difficulties:

- Cash-flow problem and profit squeeze
- Credit rationing
- Reduction in fund raising for equity capital, seed and VC investment, private equity.

Some consequences of recession:

- Breakdown of supply chains
- Knowledge network disruption
- Redirection of R&D resources

Selected long-term policies

	Infrastructure	Science, R&D and innovation	Education	Green technology
Australia	AUD 9.7 billion	AUD 2.9 billion	AUD 15.7-17 billion	AUD 5.7 billion
% of GDP	0.82%	0.25%	up to 1.4%	0.48%
Canada	CAD 20.3 billion	CAD 800 million	1.9 billion	CAD 2.8 billion
% of GDP	1.27%	0.05%	0.12%	0.18%
Chile	USD 700 million	USD 8.8 million	USD 147 million	USD 0
% of GDP	0.50%	0.01%	0.10%	0%
Finland	EUR 910 million	EUR 25 million ¹	EUR 30 million	EUR 38 million
% of GDP	0.48%	0.01%	0.02%	0.02%
France	EUR 4.7 billion	EUR 46 million ²	EUR 731 million	EUR 30 million
% of GDP	0.24%	0.00%	0.04%	0.00%
Germany³	EUR 11.5 billion ⁴	EUR 1.4 billion	EUR 14.5 billion ⁵	EUR 5.7 billion
% of GDP	0.5%	0.1%	0.6%	0.2%
Korea	KRW 50 trillion (USD 36 billion) of green investments (5.14% of GDP) – distributed throughout these categories although a detailed break-down is not yet available.			
Norway	NOK 3.8 billion	NOK 170 million ²	NOK 270 million	NOK 1.6 billion
% of GDP	0.16%	0.01%	0.01%	0.06%
Sweden	SEK 8.6 billion	SEK 9 billion	SEK 500 million	SEK 2 billion
% of GDP	0.27%	0.29%	0.016%	0.06%
Poland	PLN 91,3 billion	PLN 16,8 billion	n.a.	PLN 2.5 billion
% of GDP	0.072%	0.013%	n.a.	0.002%
Portugal	EUR 50 million	EUR 224 million	EUR 682 million ⁶	EUR 260 million
% of GDP	0.03%	0,13%	0.41%	0.16%
USA	USD 100 billion	USD 16 billion	USD 83 bill	USD 59 billion
% of GDP	0.70%	0.11%	0.58%	0.41%
ITALY*	EUR 1,54 billion	EUR 983 million	EUR 970 million	EUR 1,35 billion
% of GDP	0,10%	0,06%	0,06%	0,09%

Source: Policy Responses to the Economic crisis: Investing in Innovation for long-term Growth, OECD, June 2009

(*) For Italy: elaboration by IPI

Criteria for Gvt Policies to support High-growth innovative firms

- All encompassing approach (both demand- and supply-side measures, as well as financing)
- Top-down and bottom-up approaches
- Public money cannot replace private capital in funding high-growth firms, but partnership
- Exploit synergies among different Gvt departments and policy measures
- Importance of regulations, standard setting, information dissemination and intellectual property protection

Some Gvt tools

- Loan guarantees
- Direct lending
- Grants for investment
- Public-private partnership in equity funding
- Tax incentive for investment
- Support to leasing and factoring
- Funding of business incubators

Business incubators

- Effective provider of various services to new innovation-oriented entrepreneurs
- Networking instrument
- Management counseling and assistance

Some supply side measures

- Higher reward for R&D and innovation
- Promotion of innovative clusters or supply chains
- Link-ups between firms and research centers or institutions
- Promote counseling services to innovative firms
- Attract more private funding through risk sharing schemes

Some demand side measures

- Lead markets
- Regulation-induced renewal of technologies in industry
- Information networks
- Preferential tax treatment to innovative technologies
- Subsidies for R&D programs (e.g. vouchers)

Other measures to be considered:

Dissemination platforms

Networking

Code of standards

Exit markets for VC

Innovative clusters

Innovative infrastructures

Financial tutoring and management assistance

Infrastructure for dialogue and consultation

Monitoring of financial constraints

Subsidizing highly skilled workers

Addressing social consequences of technical
progress

R & D and innovation depend on an entire system of institutions, infrastructures and critical players.

No Government package of measures can alone substitute for a coherent effort by all the parties in such a system.

What's at stake in innovation is the return to high and sustainable economic growth, as well as to advance social development and living standards.