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*Promoting support policies for innovative,
high-growth enterprises (IHGEs) in
Eastern Europe and South Caucasus (EESC)*

Webinar series :15, 17 September 2020

Webinar 1

**Designing effective state support
services and regulatory frameworks**

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What do we mean by innovative high-growth enterprises ?

Innovative high-growth enterprises (IHGEs) are defined as firms that meet three criteria:

- have at least 10 employees in the beginning of their growth,
- have average annualized growth in number of employees and/or turnover greater than 10% per annum over a three-year period,
- carry out innovation activities in a broad sense, i.e. introducing new or significantly improved products, services, marketing and organizational methods to the local market or industry.

They are not necessarily start-ups, nor only found in 'high-tech sectors'.

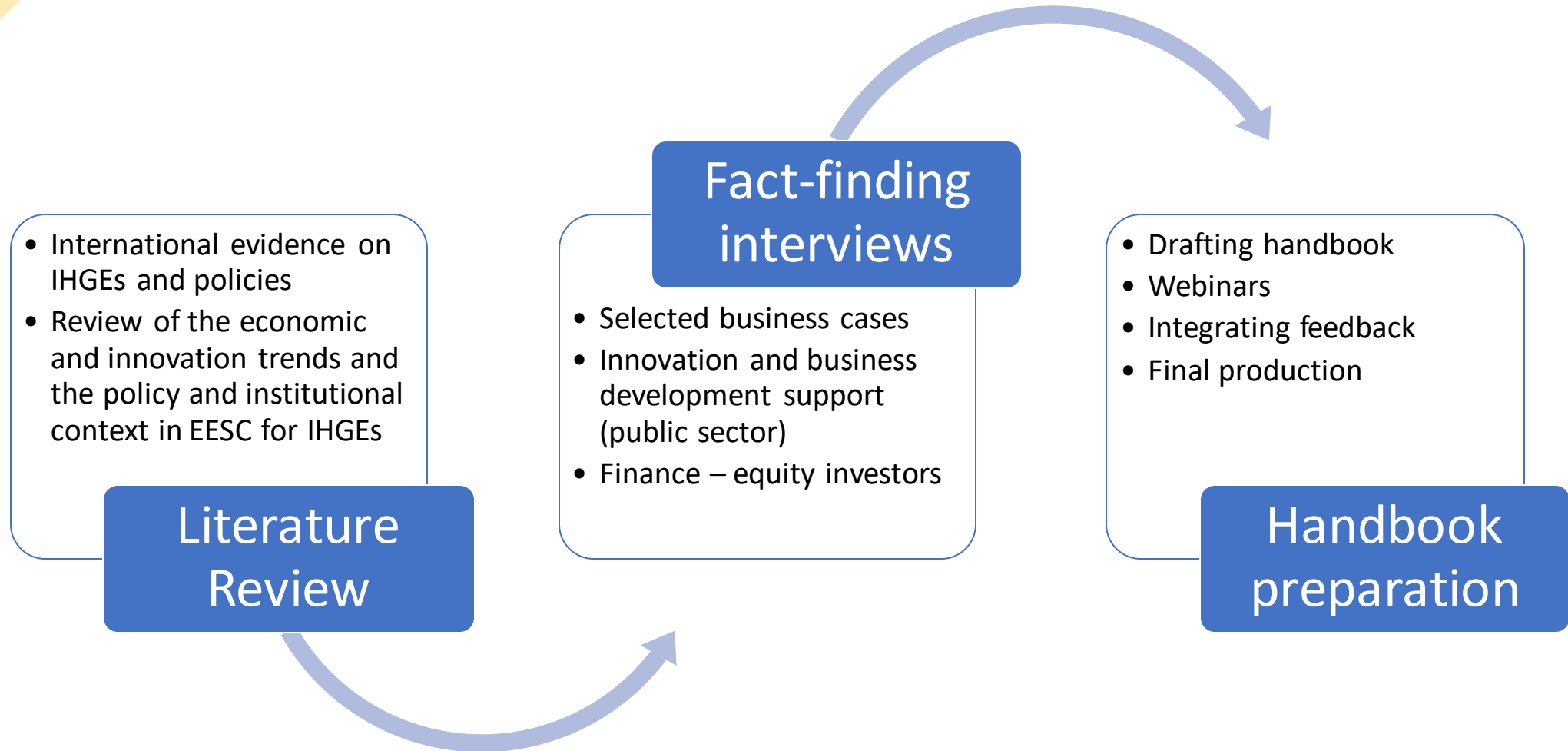
Why are they important for the countries of Eastern Europe and the South Caucasus?

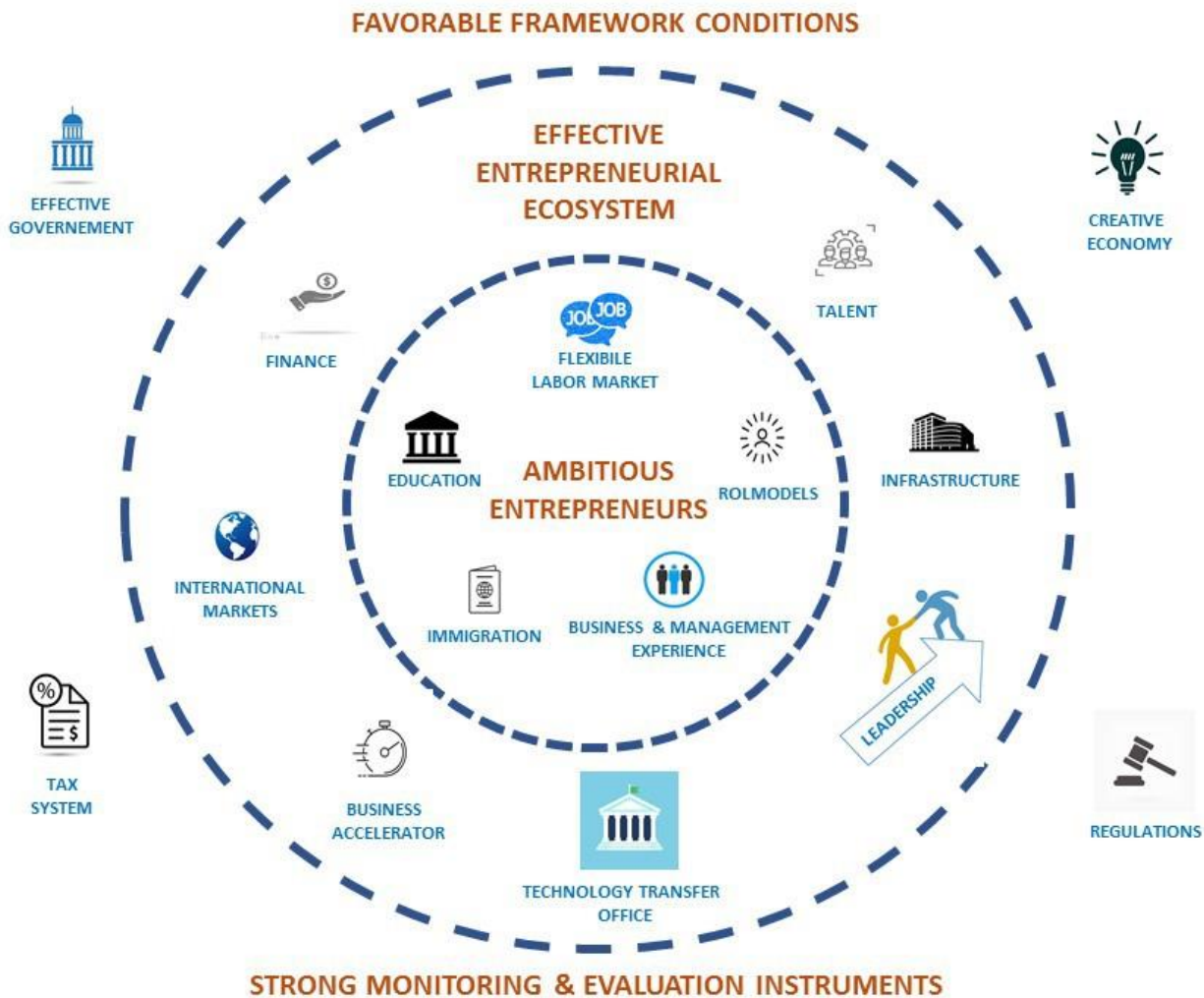
- Across the industrialised world, a sub-group of firms (representing from two to six per cent of the business sector) generate a disproportionately large share of net jobs and value added compared to the rest of the business sector.
- These 'innovative high-growth enterprises' (IHGEs) experiment with new ideas, introduce new products, processes, business and organisational models and hence generate higher rates of value added than other firms.
- By fostering such IHGEs, the Eastern Europe and South Caucasus countries can help accelerate the structural transformation of their economies and help shift the middle-income economies towards more sustainable environmental, social and economic development.

Why a handbook ?

- The development of small and medium-sized enterprises (SMEs) has become a clear priority in all six EESC countries: notably a focus on improving 'SME friendly' regulations and start-up 'ecosystems'.
- However, there remain a series of important impediments to the development (e.g. adoption of new business models, new product development, entry to new export markets) of firms with the potential to achieve high growth rates.
- The handbook seeks to provide a clear step-by-step guide to establishing policy framework and public-private partnerships that can help EESC countries maximise their potential IHGEs.

The handbook process





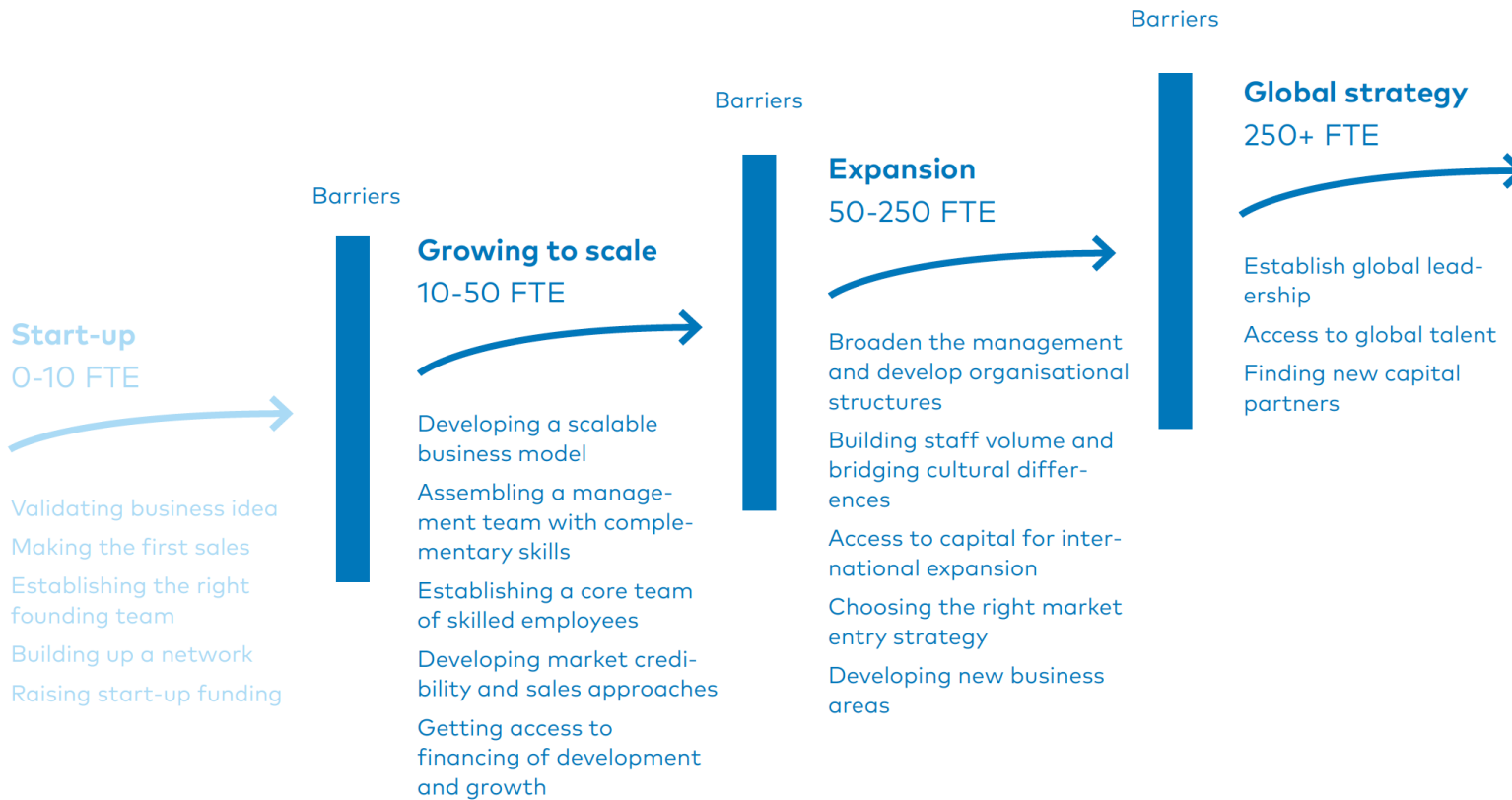
A holistic view of the framework conditions for IHGEs

Source: Flemish Government, 2019

Routes to high-growth

- The acceleration/scaling of start-ups (what everyone thinks of first..)
- Research spin-offs – but heavily dependent on the sophistication of the national research and technology transfer system
- Changing the business model/new product development of an existing (manufacturing or traded service) SME to help them grow (internationally)
- Corporate spin-outs/offers (e.g. by attracting foreign direct investment or from large national firms, e.g. energy sector).

The importance of **role models** (or the absence of thereof) of IHGEs in the EESC region has been a common theme in the interviews.

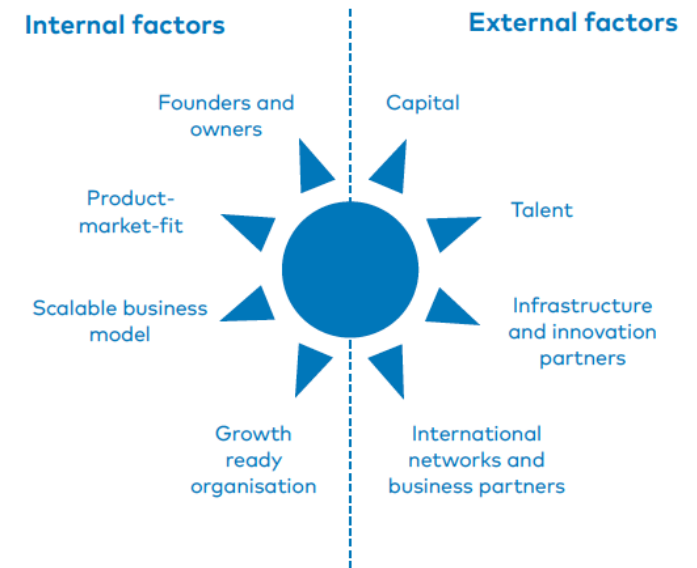


Scaling companies – at each growth stage they face specific barriers

Source: Nordic Scalers report 2019

Key take-aways from the interviews

- **Scalable business models:** main emphasis is on digital (e-commerce, software applications) but other niche also seen as offering potential – agri-tech, fintech, energy, precision engineering/electronics, medtech, etc.
- **Start-up ecosystems:** largely focused on digital/IT entrepreneurs (with accompanying tax, etc. advantages in several countries).
- **Talent :** technical skills are viewed as good in most countries but soft skills required for developing and growing internationally are more problematic.
- **Regulatory framework for growth ready businesses:** the fundamentals are not yet in place in most countries => incorporation in US, Estonia, etc.
- **Innovation partners:** university/research sectors poorly connected to and equipped to work with business; technoparks, fab/innovation labs, etc. exist in some countries and offer potential for ideation and proof of concept support;
- **Access to finance:** equity financing in infancy due to regulatory frameworks that are not yet aligned with international standards + scale of markets (deal flow).
- **International networks and partners:** case by case due to lack of structured networks and insufficient access to expertise & support for internationalisation.



Policy options for discussion

- **Improve understanding of IHGEs in each country:** action to tackle data limitations (official statistics, etc.) and to promote and develop a network of successful IHGE founders (role models)
- **Enhance access to scale-up expertise**
 - Matchmaking (board members, mentors) – e.g. drawn from diaspora, accelerator initiatives, etc.
 - An EESC regional scale-up programme with shared pool of expertise, etc.
- **Align company law, tax and equity finance frameworks to international standard**
 - E.g. Belarus Hi-Tech Park (HTP) is viewed as a successful model of a tax and legal regime – but ideally should be stepping stone to broader alignment.
- **Enhancing linkages with private and public innovation partners:**
 - Multinationals – attracting innovation intensive foreign investment (e.g. Armenia) to help ,
 - Government role as a lead user/innovative procurement (e.g. energy, transport/logistics, hospitals, etc.).
 - Improve access to laboratories, test facilities and affordable, flexible production facilities
- **Internationalisation** : access to international sales/marketing expertise including networking with potential clients/investors – supporting first steps in to broader EESC market ?
- **Reinforce the financial pipeline at each stage:** key role of government grants in early stage, equity finance (e.g. possibly a regional scale initiative).