



**UNECE**



Sweden

**Sverige**

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

**Training Session 1**

**The why, who, what and how of IHGE policy**

*16 March 2021*

# Agenda for the session

09:30-09:40 Welcome and opening remarks

Anders Jönsson, Chief, Innovative Policies Development Section, UNECE

9:40 – 10:10 Guiding principles for designing, implementing and evaluating IHGE policy, Framing presentation

Alasdair Reid, Policy Director, European Future Innovation System Centre, Belgium

Q&A

10:10-11:00 Case study session

Participants will be divided into two groups for this session and work together on a virtual whiteboard (via MIRO).

11:00- 11:15 Virtual coffee break

11:15- 11:30 Report back from the case studies

11:30- 12:00 Practitioner insight: High growth entrepreneurship policy – key lessons from policy practice,

Jonathan Potter, OECD

Q&A

12:00-12:25 Wrap-up brainstorming - “How, Now, Wow”.

What should be done to develop an IHGE policy framework tailored to the EESC context.


12:25-12:30 Conclusions

Anders Jönsson, Chief, Innovative Policies Development Section, UNECE

# Three sessions that will build up knowledge of key concepts and policy practice on IHGEs

- Session 1 The why, who, what, and how of the IHGE policy - Tuesday, 16 March
- Session 2 The portfolio approach for effective IHGE support - Thursday, 18 March
- Session 3 Financing IHGEs – enabling private sector investments - Monday, 22 March.

# Session 1 : the why, who, what and how of IHGE policy

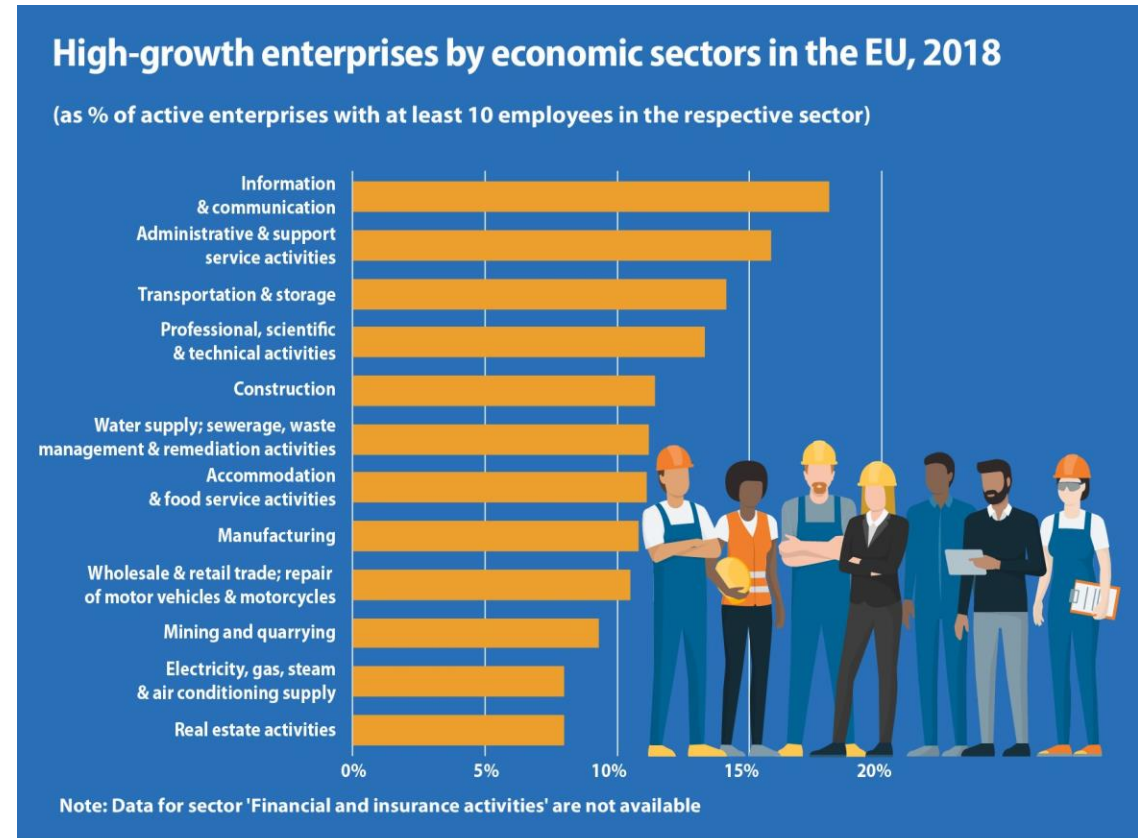
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- Why ? Optimising the economy wide transformative effects of innovative firms with growth potential.
  - Who ? Selectivity by applying objective criteria for targeting innovative firms with growth potential.
  - What ? The mix of support measures tailored to the growth stages and specific needs of targeted firms.
  - How ? The delivery of the policy intervention by one or more organisations.

# What do we mean when we talk about innovative high-growth enterprises (IHGEs)?

IHGEs are 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.

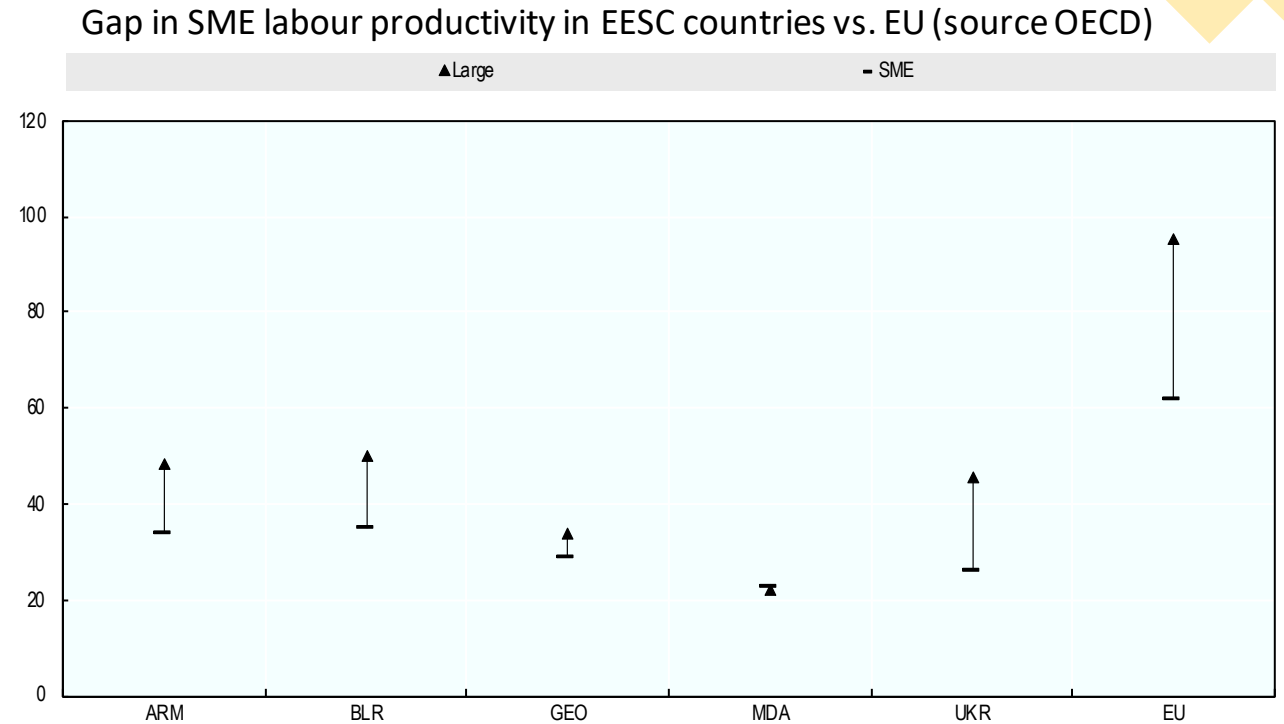
They are not necessarily start-ups, nor only found in 'high-tech sectors'.



[ec.europa.eu/eurostat](https://ec.europa.eu/eurostat)

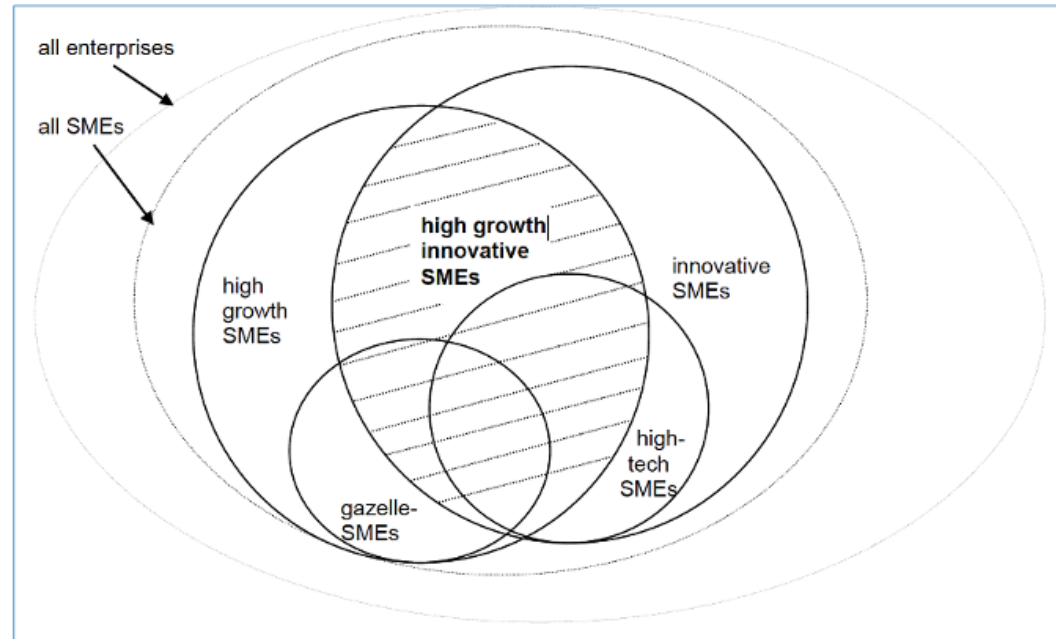
# IHGEs as a driver of economic transformation

- The EESC countries are faced by a productivity challenge and by a limited shift towards exporting more complex products and service in global markets.
- Even in fields like information technologies, EESC firms tend on average to be in relatively low-value added outsourcing activities.
- IHGEs can help generate higher rates of value added across the economy than other firms and support diversification of product and services.



# Why are innovative high-growth enterprises important for the EESC countries ?

- IHGEs are a sub-group of firms (from two to six per cent of the business sector), they generate a disproportionate share of net jobs and value added in the economy.
- However, growth is often transitory
- IHGEs drive innovation in sectors that are often perceived as not particularly innovative, such as child/elderly care, construction, retail and catering, etc.
- For example Lithuania's first 'Unicorn'.



Note: Circle sizes do not reflect the actually existing number of companies. In particular, high-growth enterprises and innovative enterprises are in reality just a small share of all enterprises. Not shown: There are gazelles that are not SMEs.

*Vinted*

# Potential sources of IHGEs in the EESC

Country	Business ecosystems with possible high growth potential
<b>Armenia</b>	Software applications and digital services (e-commerce, management systems, financial, etc.). Biotech, medtech, cleantech and seismic engineering. Precision engineering cluster with export growth potential.
<b>Azerbaijan</b>	200+ start-up firms (early stage to mature) from a variety of sectors - digital solutions tend to dominate. Priority areas include renewable energy, Fintech and biotech applications in medtech and agri-tech (e.g. bioplastics)
<b>Belarus</b>	Focus on IT with over 100,000 people employed nationally in the sector. Potential in sectors such as mechanical engineering (agricultural and transport related production), pharmaceuticals, retail, textiles and food sector
<b>Georgia</b>	ICT cluster combined with Fintech viewed as potential source of IHGEs (application of skills in mathematics and in AI). Agri-food tech presents a potential (e.g. health and nutrition products) building on existing strong food sector and/or application of digital solutions to develop travel tech applications (e.g. for adventure tourism).
<b>Moldova</b>	Key sectors with growth potential include: electronics and IT (software) – start-ups in e-commerce, IoT and AI; Food-tech, textiles and design
<b>Ukraine</b>	ICT/software cluster based on talent pool fostered by education sector, but largely dominated by IT services and outsourcing. Other sectors with potential growth through technology upgrading include natural resource-based sectors, machinery and equipment (World Bank, 2019), but also energy and agri-food.



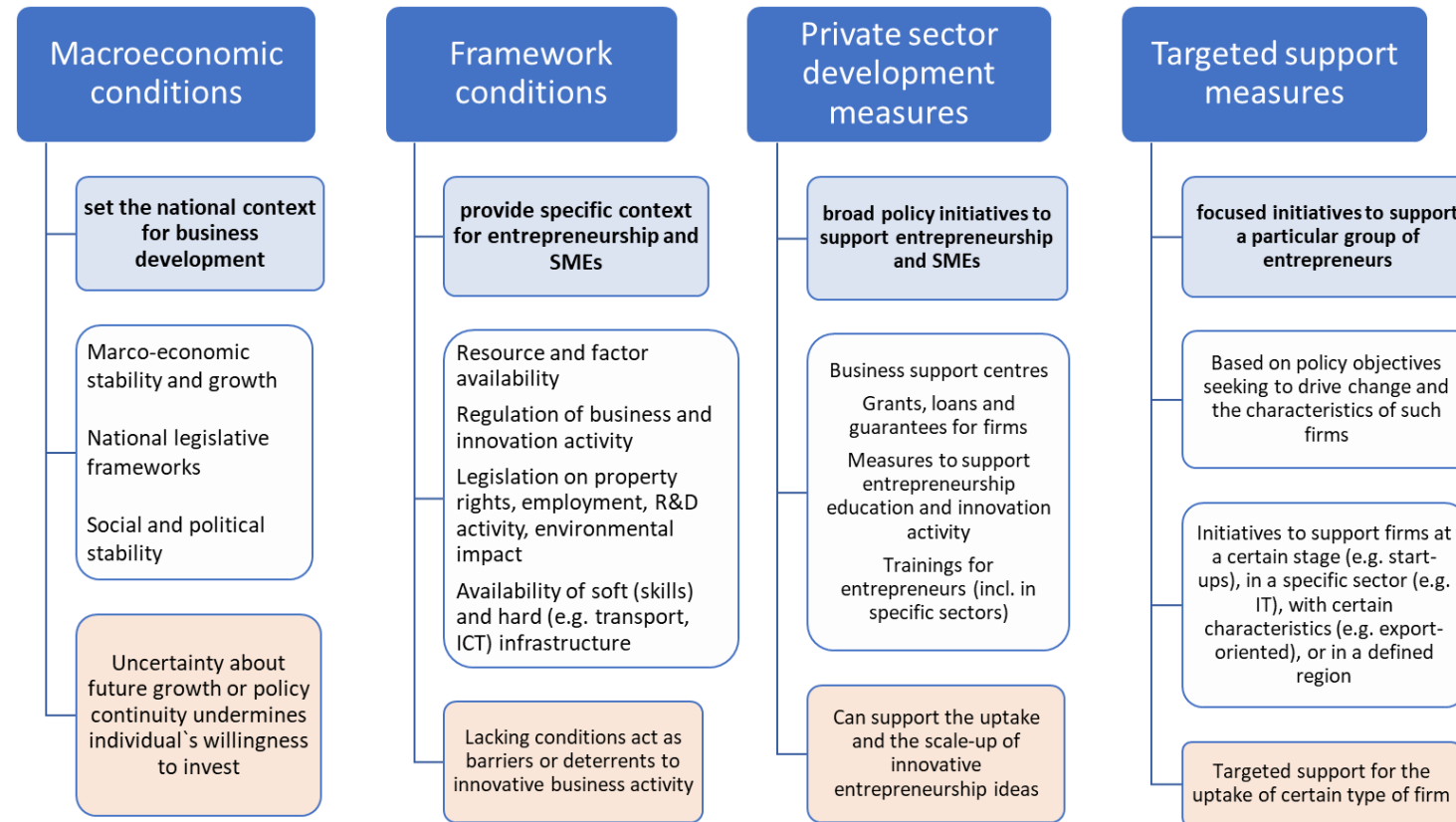
# Why should governments intervene to support innovative high-growth enterprises?

Innovative firms with high growth potential are particularly vulnerable to market failures and this may discourage entrepreneurs from engaging in an innovative venture given the uncertainty about the chances of a profitable outcome. IHGEs need to deal with :

- higher risk which can be prohibitive to investment even in countries where institutional frameworks and business environment work are more effective.
- Regulatory obstacles, labour market regulations, etc. can limit the potential of disruptive business models to test new product and services and scale rapidly
- Scarcity of the right skills – whether at management level or in terms of technical know-how – holds back experimentation with new products, processes and services. Skills gaps even in the EU are a major barrier to IHGEs.
- Inefficient incentives : financial support (e.g. tax credits) that is adapted to SMEs is not suitable for fast growing firms that may not be yet generating a profit and require ‘smart and patient capital’ to further expand their business.

# The need for targeted support measures

*IHGEs are inherently different from SMEs, making many standard, broad SME support measures less effective.*

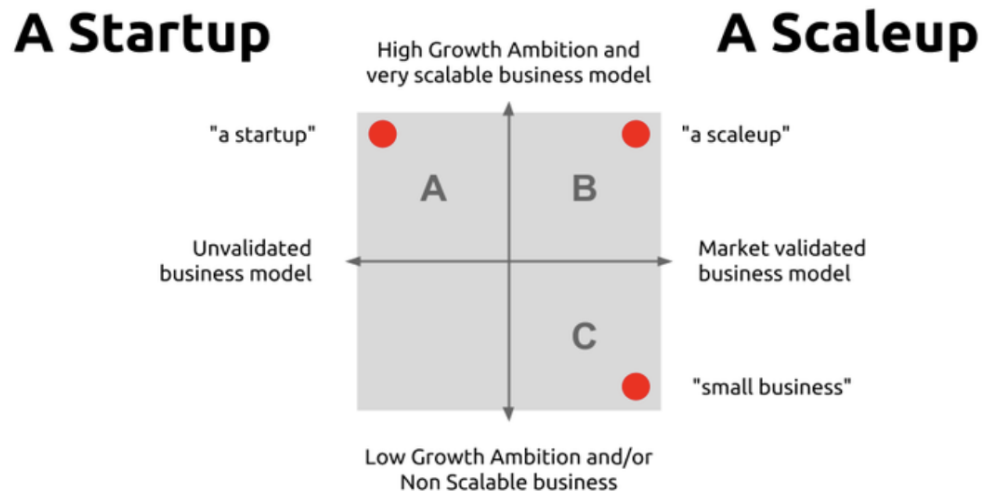


# Who : identifying potential IHGEs

The aim is to target a group of firms that have one or more characteristics to suggest that they may grow rapidly and contribute to economic dynamism and transformation of regional and national economies.

A set of trigger points may help identify IHGEs before they start growing:

- Change of ownership
- New investors
- Business model changes
- Product development
- Attitude !

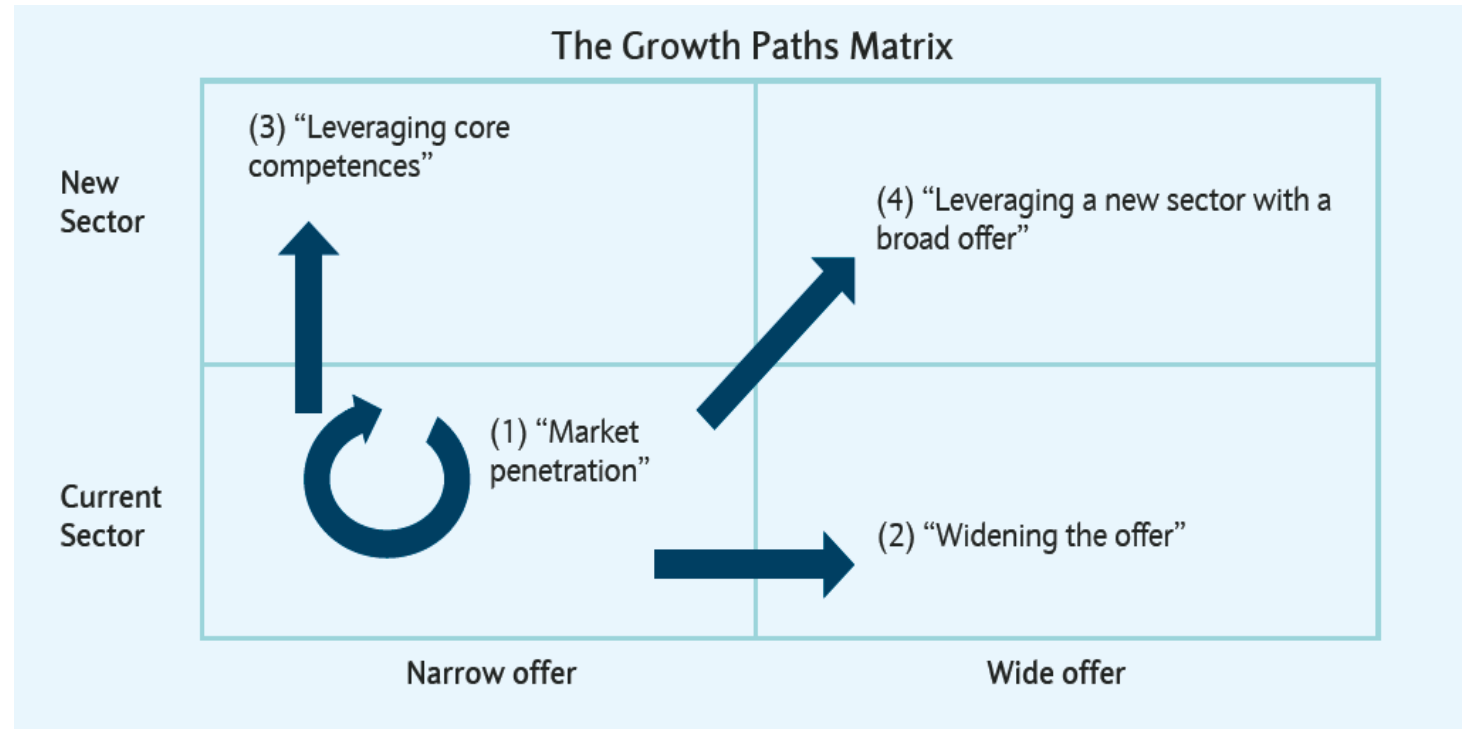


# Possible dimensions of business growth paths

Two dimensions underpin growth :

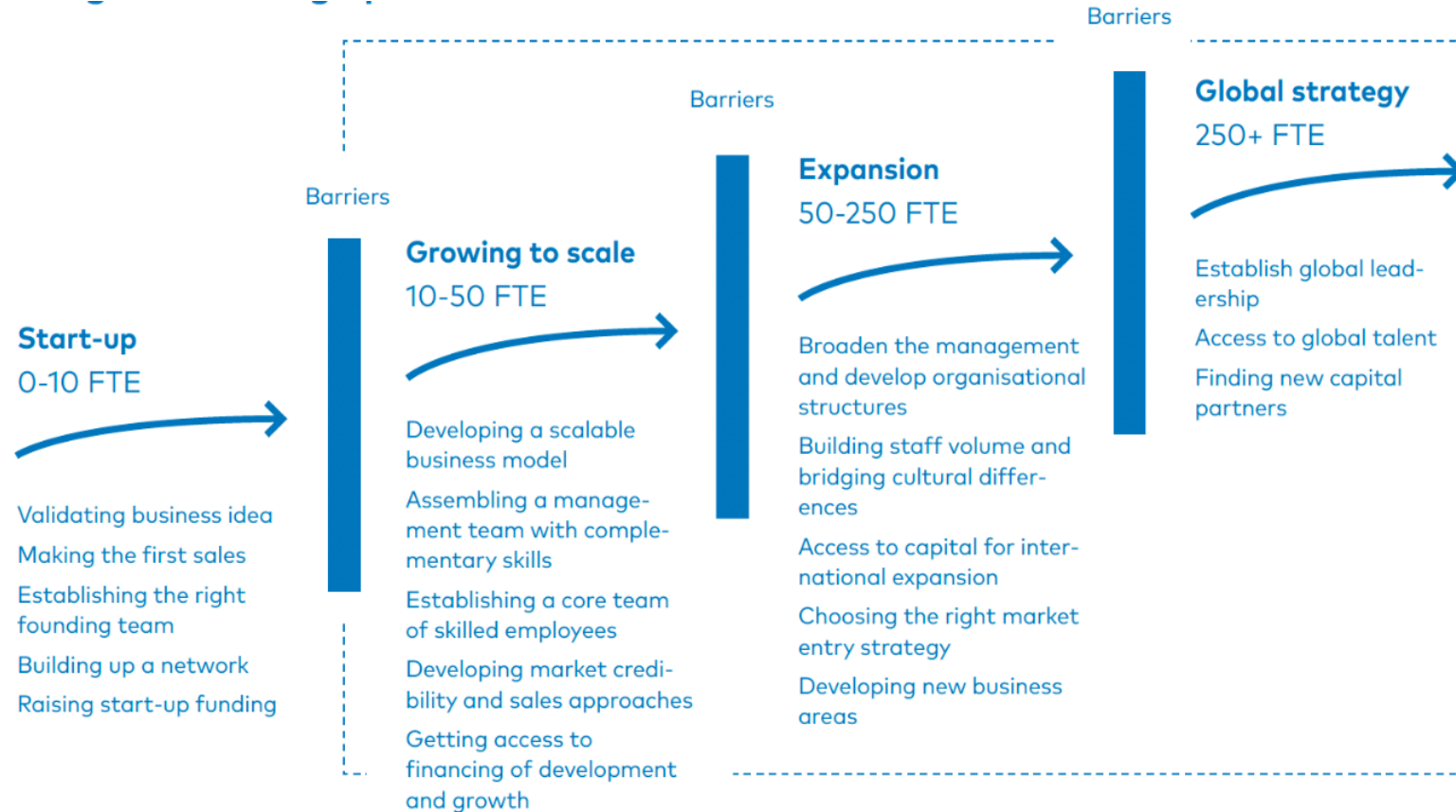
- first, whether a company seeks growth through an existing set of products and/or services, or whether it expands/renews the offering;
- second, whether the company seeks growth within the same market sector, or whether it ventures into a new one.

The two dimensions indicate possible growth paths that may take a company from a current sector and offering to multiple sectors with a diverse set of offerings



# Policy needs to be adapted to growth stage

Addressing barriers to growth at each step of development is crucial to effective policy design



Source: IRIS Group, 2019

# Five sources of potential IHGEs – which ones are most relevant for your country ?

## 1. Scaling/acceleration of start-ups

- Helping start-ups scale is critical to developing serial entrepreneurs –via new technology driven ventures or testing of new business models;

## 2. Growth of established manufacturing or service firms

- Firms with ambitious growth plans through product upgrading, export diversification; changing business models.

## 3. Support for spin-offs from large firms

- Larger firms may decide to diversify or spin-off non-core units creating new scalable firms (e.g. a carbon based energy firm may decide to launch a venture on renewables)

## 4. Attract ambitious foreign entrepreneurs (scalable companies) from abroad;

- Access to skilled workers, location close to key markets, ‘start-up visas’ or other factors may encourage entrepreneurs to locate to grow their business idea.

## 5. Research-based spin-offs emerging from the public or higher education sector.

- Publicly funded research may lead to prototypes and novel business models with potential to scale.

# A policy tool-kit for innovation high growth enterprises

## Pro-growth business environment

- Regulatory framework for innovation and growth
- Taxation - incentivising R&D and innovation and investors
- Demand side measures - Government as a first mover.

## Tailored services for IHGEs

- High growth programmes - client management approach
- Developing ecosystems and peer-to-peer networks
- Access to innovation services and infrastructure

## Finance adapted to each growth stage

- Grant and loan instruments
- Crowdfunding, business angel investors & accelerators
- Venture capital : co-investment and fund of funds models.

## Reinforcing firms' internal capabilities to grow

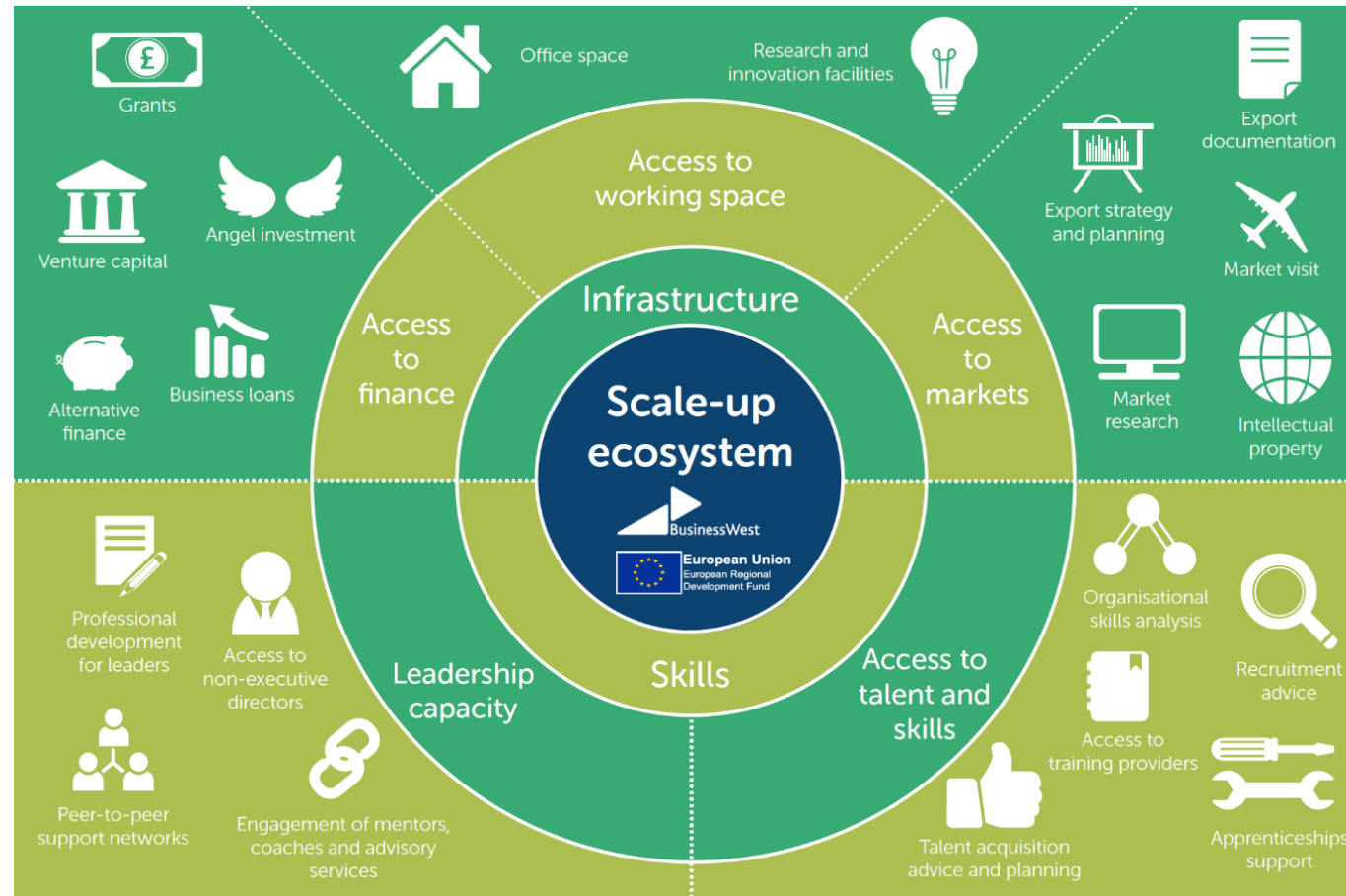
- Leadership skills
- Availability of employees with technical and creative skills
- Talent attraction and retention

## Internationalisation & business networks that support scaling

- Advice on market trends and entry
- International networks - structuring diaspora links.

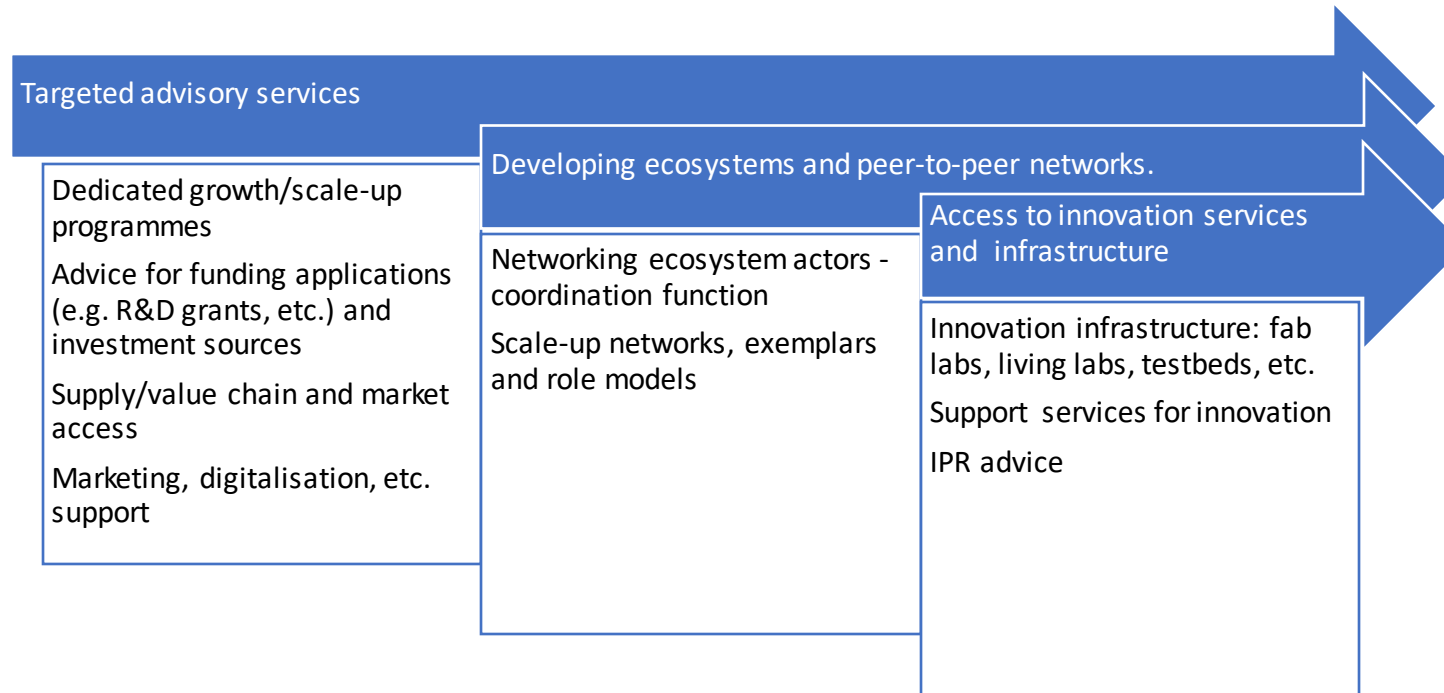
# Fostering a 'scale-up ecosystem : building on what exists

What are the strong points and where are the gaps in your national 'scale-up ecosystem' ?





# Ensuring IHGEs have access to a portfolio of specialised services



*“What matters is that more and more companies grow more and more rapidly; not all companies, that would be impossible, but a hard core, a critical mass. Nor do they necessarily all need to become big: what is important is that more and more companies are moving dynamically upward”.*

*Daniel Isenberg*

# Five key principles for IHGE policy design

1. Support only business initiatives that are innovative;
2. Support only initiatives that have strong potential for positive spill-overs, demonstration effects on the economy;
3. Ensure support is catalytic – that is, it is likely to enable experimentation that would not take place otherwise;
4. Tie support to clear performance criteria – ambitious plans;
5. Ensure neutrality by use of objective characteristics/criteria for selecting potential IHGEs and investors (e.g. for co-investment funds).

# Case study session – designing policy for IHGEs

Objective: work with the concepts introduced in presentation and apply them to develop a tailored policy for IHGE in the EESC context. **Which of the types of IHGEs are most relevant for the EESC and how can policy be adapted to respond to their needs.**

The groups will work in two steps (40 minutes + 10 minutes), supported by a moderator:

1. First describe one or more possible types of IHGEs that you consider to be most relevant for your country EESC. For the 'ideal' type of IHGE, the participants will then work to sketch out:
  - How to identify their growth potential.
  - Define their potential contribution to economic transformation.
  - Consider the main barriers to growth for potential IHGEs in the EESC (your country)
  - Examine how well existing services or organisations available to IHGEs respond
  - Identify the necessary policy intervention required to release their potential.
2. In a second step, the group will work summarise the discussions and define and prioritise three main policy actions to take for IHGEs in the EESC countries.

# Brainstorming session – How, Now, Wow

What should be done to develop an IHGE policy framework tailored to the EESC context. This session will prioritise the steps to take in the short term and over the coming years (e.g. 2030 horizon).

- **Now** – what are the short-term actions that could be taken (at low cost/effort) to develop a policy framework for IHGEs in my country.
- **Wow** – ideas sparked by the training that would add a novel element to policy-making design, delivery or monitoring processes in your country.
- **How** – actions that require more time and investment to prepare but that you need to do in your country in a medium-term perspective to ensure the transformative potential of IHGEs is optimised.