

Designing effective policies for innovative, high-growth enterprises (IHGEs) in Central Asia

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Topics of the presentation

 What do we mean by innovative high-growth enterprises (IHGEs) and why are they important for economic development?

What sort of policies can help boost the potential for IHGEs?

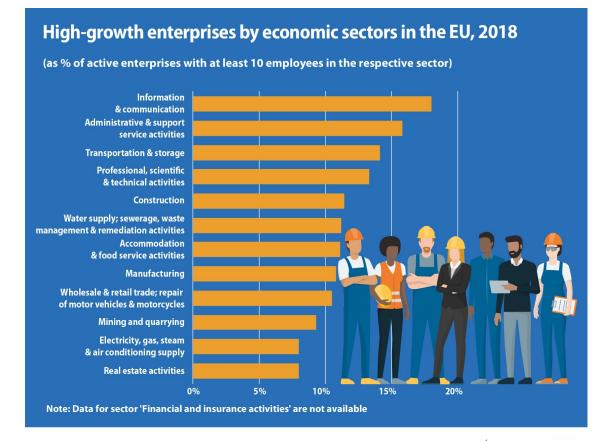
 What is the potential and challenges for promoting IHGEs in the countries of Central Asia?

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 annualised 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'.

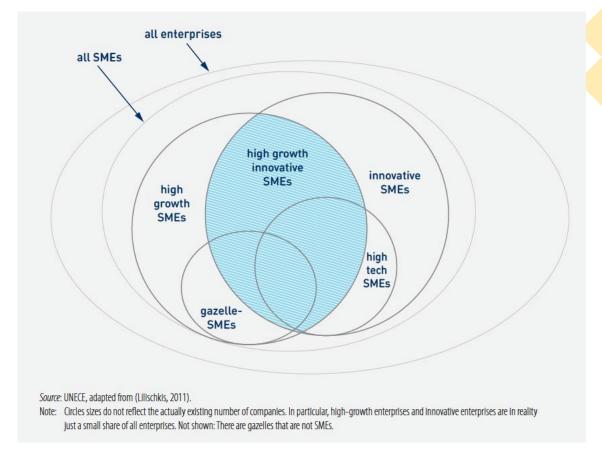


ec.europa.eu/eurostat

Why are innovative high-growth enterprises important?

- 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 health and personal care, education, retail and catering, etc.
- For example Lithuania's first 'Unicorn'.





IHGEs as a driver of economic transformation

The Central Asian (SPECA) countries

- Are undergoing a reform process (at varying speeds) with major exporting sectors still natural resource based and weak linkages to global value chains, limited R&D and stagnating innovation capacity, etc. (Radosevic, 2021)
- IHGEs can help generate higher rates of value added across the economy and support diversification of product and services.
- However, many of the framework conditions for ensuring a vibrant start-up and above all high-growth ecosystem need further development/reform (e.g. boosting business R&D and innovation, digital skills, company law and equity investment frameworks).

Favorable framework conditions



Strong monitoring & evaluation instruments

The why, who, what and how of IHGE policy

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.



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

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.
- Access to 'patient capital' incentives: fast growing firms that may not yet generate a
 profit require 'smart and patient capital' to further expand their business.

Who: identifying potential IHGEs

The aim is to target a group of firms that have one or more characteristics to suggest that they <u>may</u> 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!



What: the need for targeted support measures

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

Macroeconomic conditions

set the national context for business development

Macro-economic stability and growth

National legislative framworks

Social and political stability

Uncertainty about future growth or policy continuity undermines individual's willingness to invest

Framework conditions

provide specific context for entrepreneurship and SMEs

Resource and factor availability

Regulation of business and innovation activity

Legislation on property rights, employment, R&D activity, environmental impact

Availability of soft (skills) and hard (e.g. transport, ICT) infrastructure

Lacking conditions act as barriers or deterrents to innovative business activity

Private sector development measures

broad policy initiatives to support entrepreneurship and SMEs

Business support centres

Grants, loans and guarantees for firms

Measures to support entrepreneurship education and innovation activity

Trainings for entrepreneurs (incl. in specific sectors)

Can support the uptake and the scale-up of innovative entrepreneurship ideas

Targeted support measures

focused initiatives to support a particular group of entrepreneurs

Based on policy objectives seeking to drive change and the characteristics of such firms

Initiatives to support firms at a certain stage (e.g. start-ups), in a specific sector (e.g. IT), with certain characteristics (e.g. exportoriented), or in a defined region

Targeted support for the uptake of certain type of firm

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Source: UNECE, based on (OECD, 2013).

A policy tool-kit for innovation high-growth enterprises

· Regulatory framework for innovation and growth Pro-growth business environment . Taxation - incentivizing R&D and innovation and investors . Demand side measures - government as a first mover. • High-growth programmes - client management approach Tailored services for IHGEs Developing business ecosystems and peer-to-peer networks · Access to innovation services and infrastructure · Grant and loan instruments Finance adapted to each growth stage . Crowdfunding, business angel investors & accelerators . Venture capital: co-investment and fund of funds models. Leadership skills Reinforcing firms' internal · Availability of employees with technical and creative skills capabilities to grow Talent attraction and retention Internationalization & business · Advice on market trends and entry networks that support scaling International networks - structuring diaspora links.

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Policy measures should be adapted to the growth stage

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

START-UP 0-10 FTE

- Validating business idea
- Making the firts sales
- Establishing the right founding team
- Building up a network
- Raising start-up funding

GROWING TO SCALE 0-50 FTE

- Developing a scalable business model
- Assembling a management team with complementary skills
- Establishing a core team of skilled employees
- Developing market creditbility and sales approaches
- Getting access to financing of development and growth

EXPANSION 50-250 FTE

- Broaden the management and develop organisational structures
- Building staff volume and bridging cultural diferences
- Access to capital for international expansion
- Choosing the right market entry strategy
- Developing new business areas

GLOBAL STRATEGY 250+FTE

- Establish global leadership
- · Access to global talent
- Finding new capital partners

Source: UNECE, adapted from (IRIS Group, 2019).

Note: FTE = full time equivalent employees.

Singapore Scale-up SG programme method

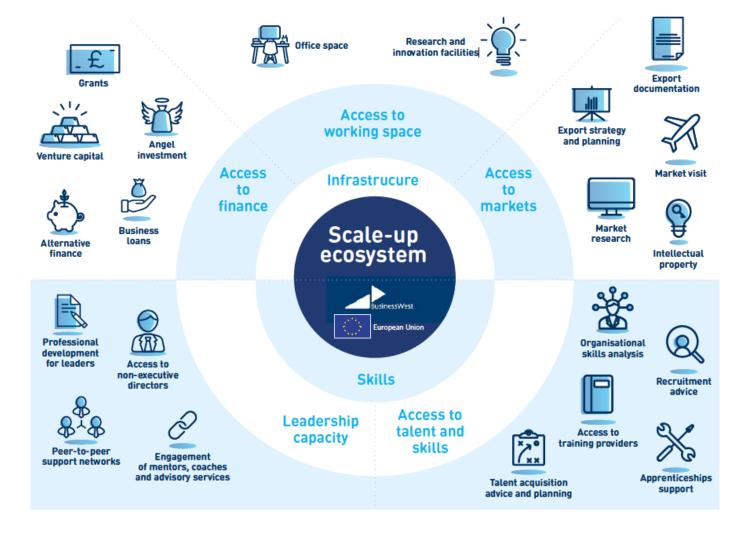


Source: UNECE, adapted from https://www.enterprisesg.gov.sg/non-financial-assistance/for-singapore-companies/growth-partnership-programme/scale-up-sg

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Building a 'scale-up' ecosystem

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



23 December 21 Source: UNECE, adapted from https://www.businesswest.co.uk.

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 (e.g. state-owned) firms
- Larger firms may decide to diversify or spin-off non-core units creating new scalable firms (e.g. an oilgas energy firm may decide to launch a new 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.

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Five key principles and six steps 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).

