



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

*Alasdair Reid (UNECE Consultant)*

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# Topics of the presentation

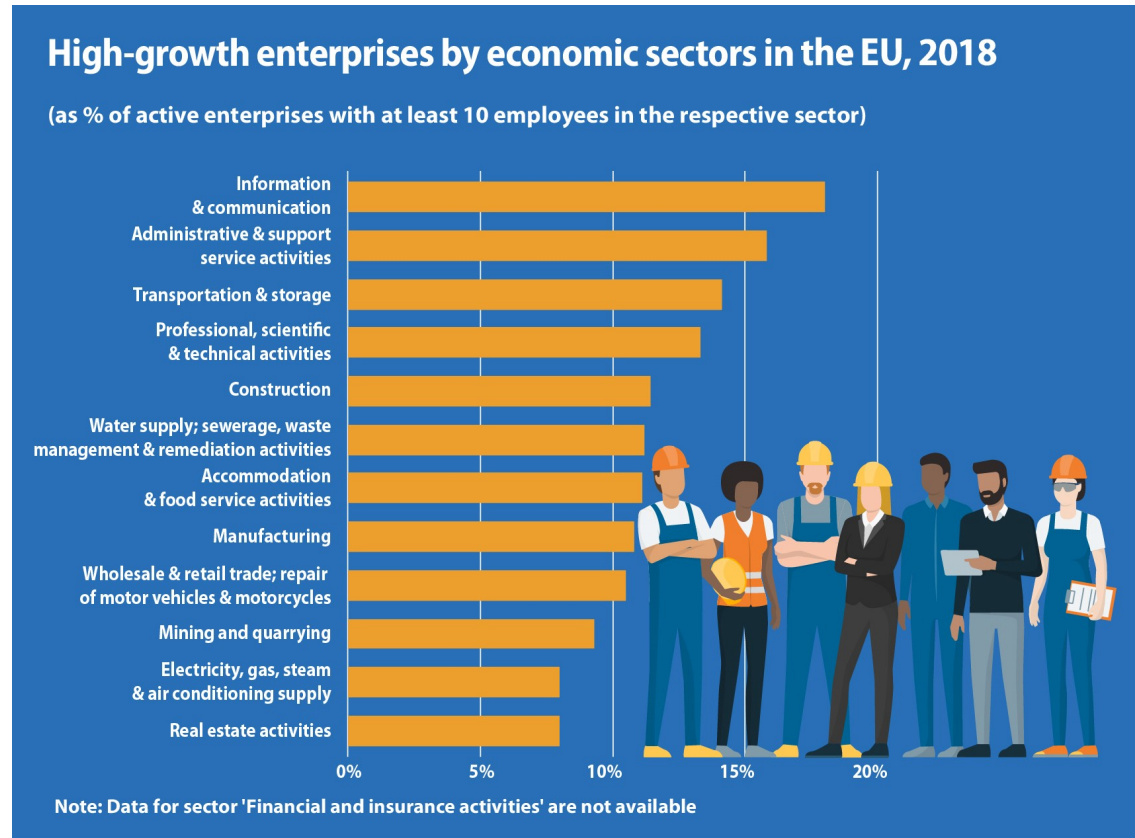
- What do we mean by innovative high-growth enterprises (IHGEs) and why are they important for economic development ?
- What sort of policies can help boost the potential for IHGEs ?
- What is the potential and challenges for promoting IHGEs in the countries of Central Asia ?

# 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.

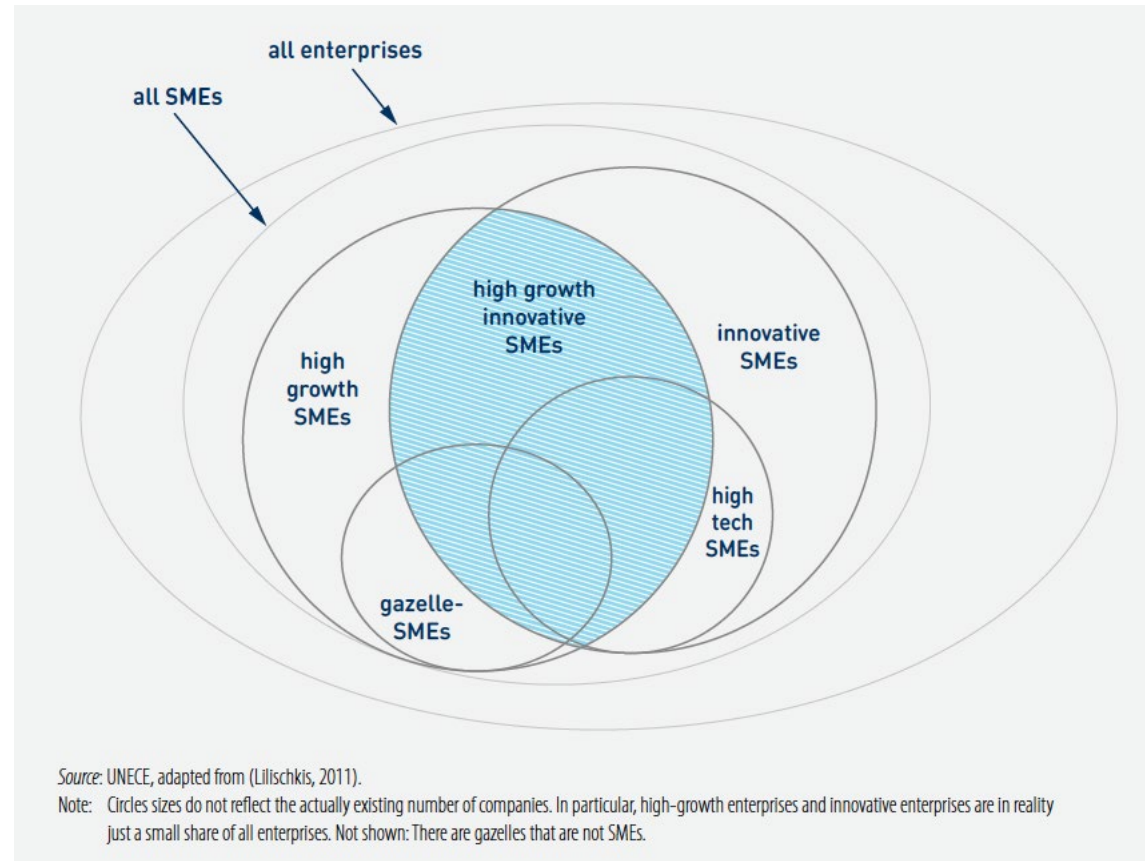
They are not necessarily start-ups, nor only found in 'high-tech sectors'.



# 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'.

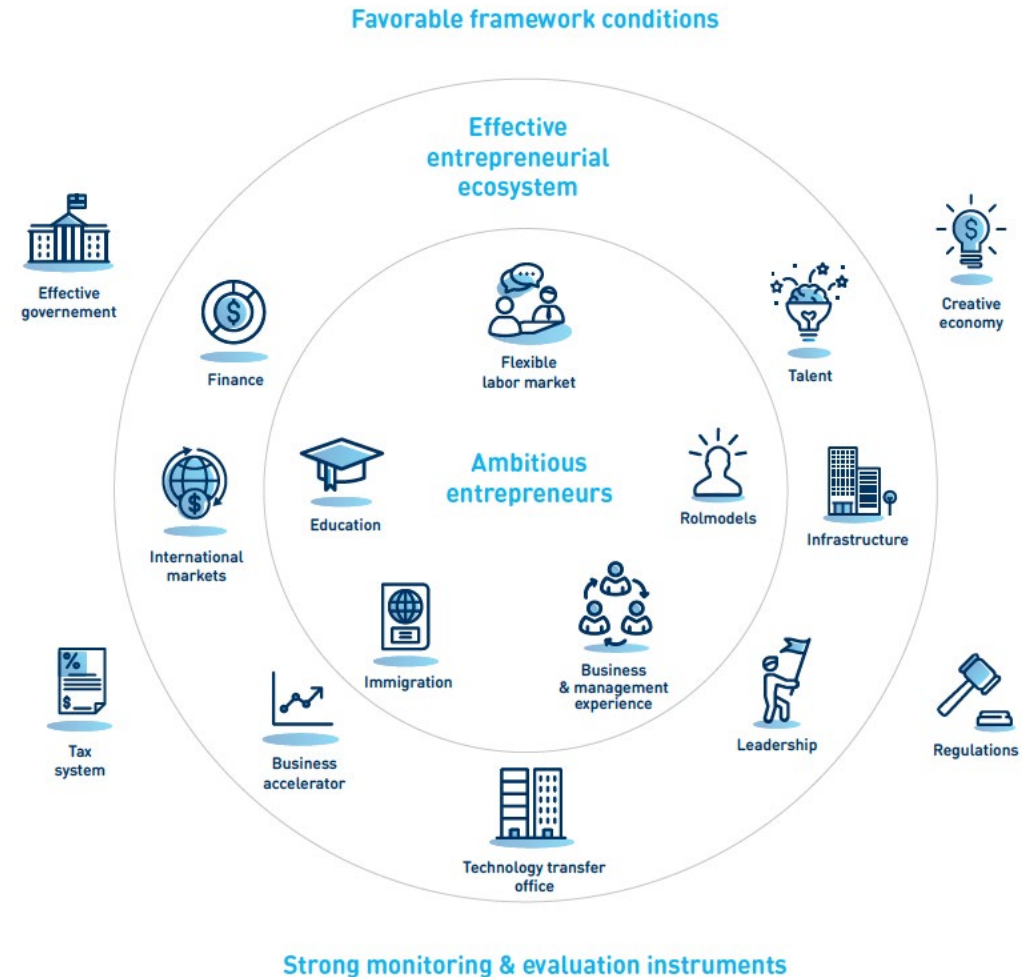
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# IHGEs as a driver of economic transformation

## 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).



# 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 :

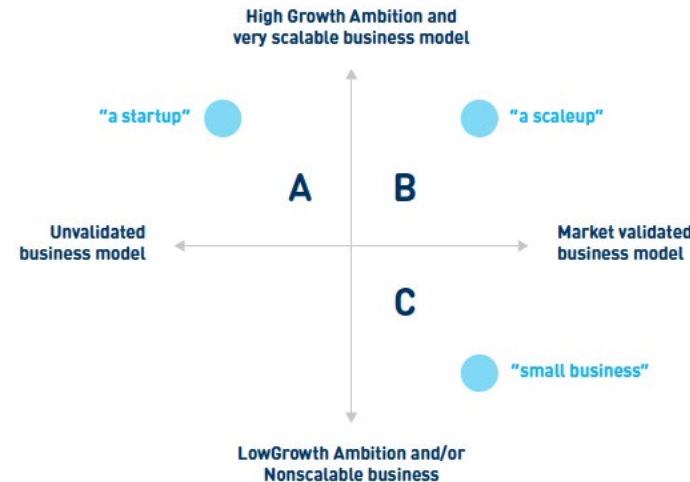
- Higher risk which can be prohibitive to investment even in countries where institutional frameworks and business environment work are more effective.
- Regulatory obstacles, labour market regulations, etc. can limit the potential of disruptive business models to test new product and services and scale 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 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:

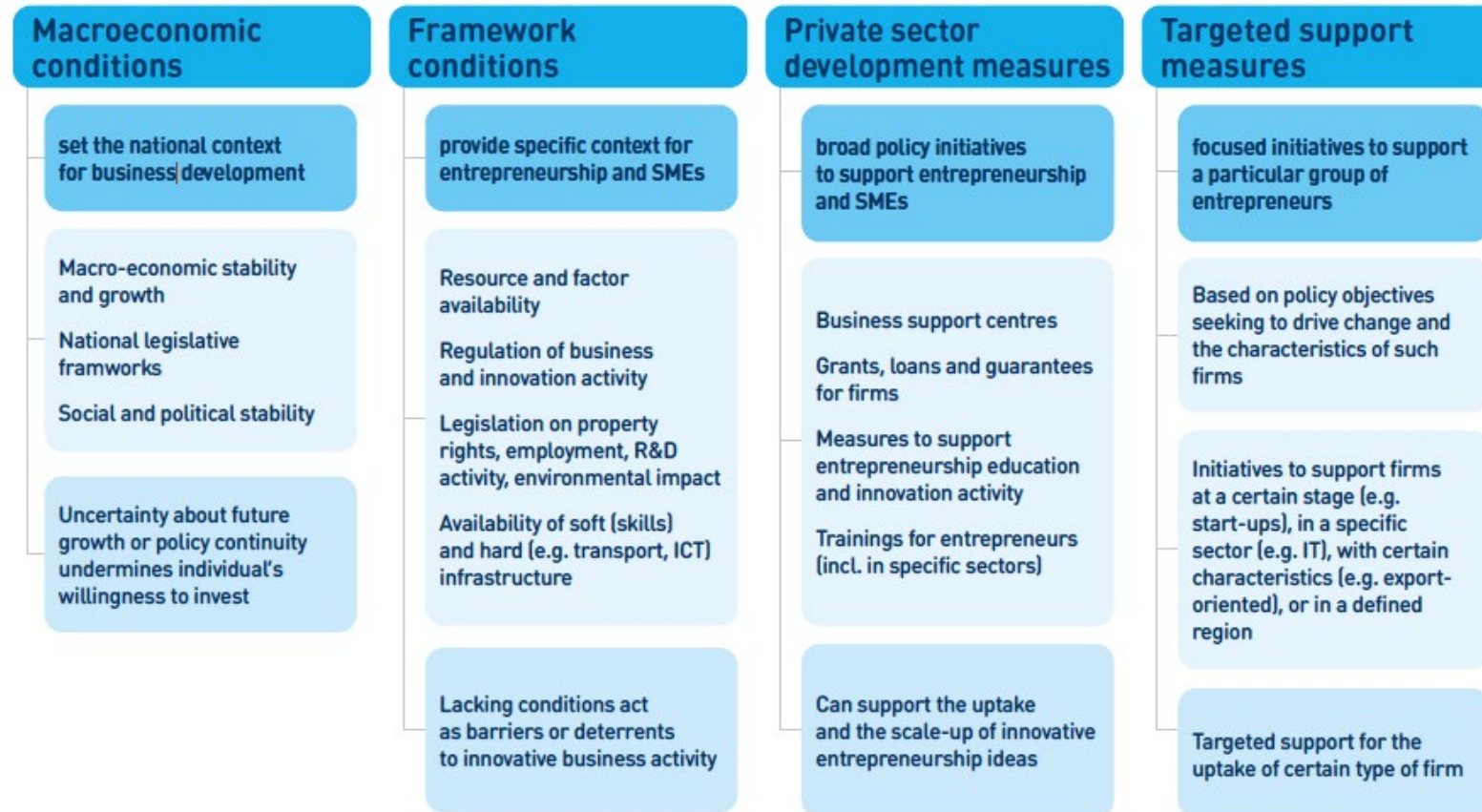
- Change of ownership
- New investors
- Business model changes
- Product development
- Attitude !





# What: the need for targeted support measures

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



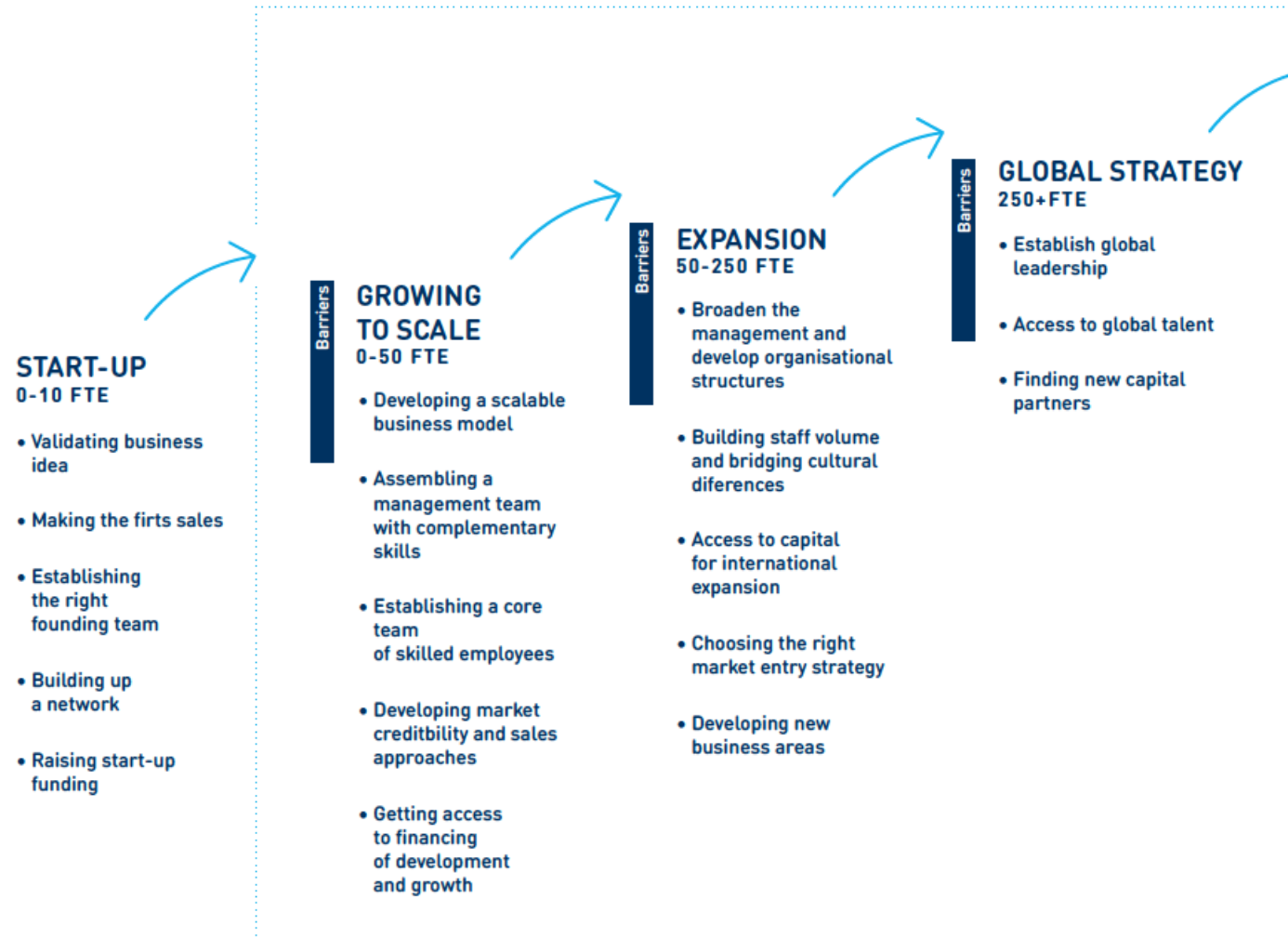
Source: UNECE, based on (OECD, 2013).

# A policy tool-kit for innovation high-growth enterprises

<b>Pro-growth business environment</b>	<ul style="list-style-type: none"><li>• Regulatory framework for innovation and growth</li><li>• Taxation - incentivizing R&amp;D and innovation and investors</li><li>• Demand side measures - government as a first mover.</li></ul>
<b>Tailored services for IHGEs</b>	<ul style="list-style-type: none"><li>• High-growth programmes - client management approach</li><li>• Developing business ecosystems and peer-to-peer networks</li><li>• Access to innovation services and infrastructure</li></ul>
<b>Finance adapted to each growth stage</b>	<ul style="list-style-type: none"><li>• Grant and loan instruments</li><li>• Crowdfunding, business angel investors &amp; accelerators</li><li>• Venture capital: co-investment and fund of funds models.</li></ul>
<b>Reinforcing firms' internal capabilities to grow</b>	<ul style="list-style-type: none"><li>• Leadership skills</li><li>• Availability of employees with technical and creative skills</li><li>• Talent attraction and retention</li></ul>
<b>Internationalization &amp; business networks that support scaling</b>	<ul style="list-style-type: none"><li>• Advice on market trends and entry</li><li>• International networks - structuring diaspora links.</li></ul>

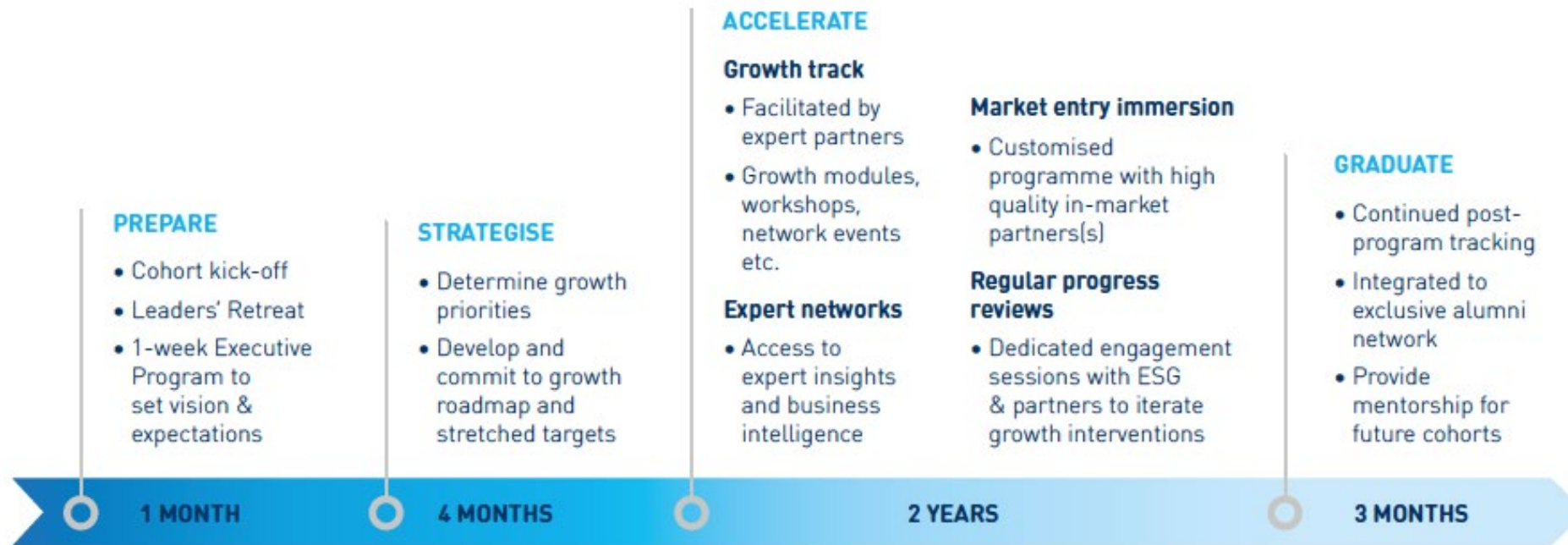
# Policy measures should be adapted to the growth stage

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



Source: UNECE, adapted from (IRIS Group, 2019).  
Note: FTE = full time equivalent employees.

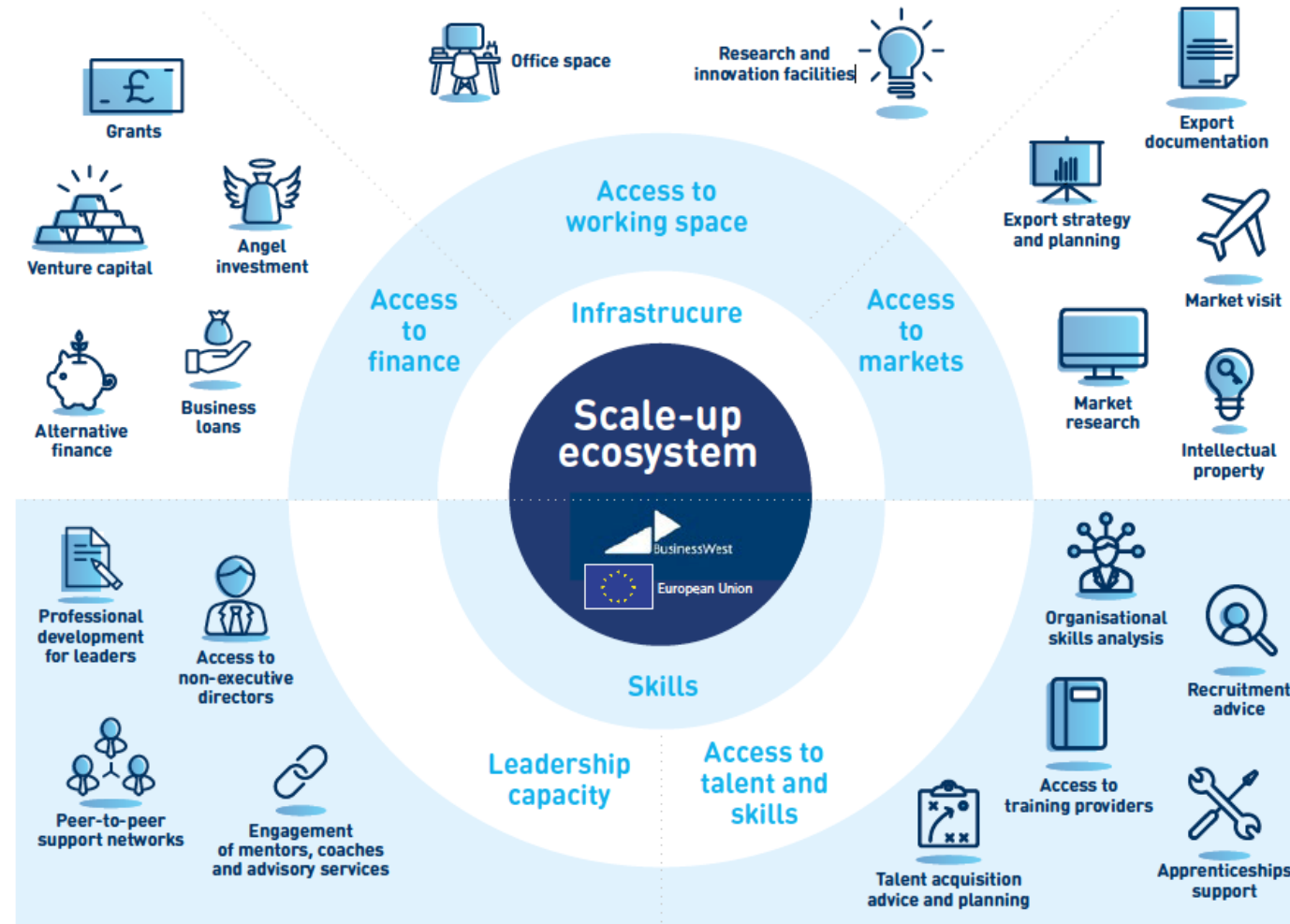
# Singapore Scale-up SG programme method



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

# Building a 'scale-up' ecosystem

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



# 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 oil-gas 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.

# 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).

