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Applied Policy Seminar “Early-Stage
Financing and “Investment Readiness” of
Innovative Enterprises”

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REPORT OF THE SEMINAR

I. ATTENDANCE

1. The Applied Policy Seminar brought together 50 representatives of Governments, private companies, business associations and international organizations from 11 UNECE member States. Representatives of the European Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development and the World Intellectual Property Organization also attended the Seminar.

II. OPENING OF THE SEMINAR

2. Representatives of the Federal Service for Intellectual Property, Patents and Trademarks, Ministry of Economic Development and Trade and All-Russian Organization of Small and Medium Business “Opora Russia” welcomed the Seminar and highlighted the major challenges faced by innovative enterprises in the Russian Federation. They encouraged the Seminar to actively exchange country experiences and good practices in the area of early-stage financing to facilitate the Government decision-making and the establishment of an enabling environment for innovative enterprises.

III. SUMMARY OF DISCUSSION

3. The Applied Policy Seminar discussed major issues of early stage financing of innovative enterprises with particular focus on the transition economies of the region. It considered the crucial role of informal investors in the initial stages of company life, as well as skills required

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from business angels and venture capitalists to satisfy the needs of start-ups in financial, managerial and technical expertise. The discussion also addressed various aspects of “investment readiness” of enterprises, which includes adequate investment plans and business models, good understanding of various financing options available and programmes promoting the ability of enterprises to attract external investment. The Seminar discussed policy measures by central and local Governments to promote the formation of new innovative companies on the one hand, and a viable venture capital industry, on the other. The concluding session of the Seminar took the form of a general discussion focused on identifying the existing bottlenecks to early-stage financing and the corrective actions required from Governments.

4. It was noted at the Seminar that the impeded access to finance was a major problem for innovative SMEs, in particular in economies in transition. In these countries, companies in high technology sectors represent a tiny minority of the total number of new enterprises. According to surveys, in the Russian Federation, for example, as much as eighty-five percent of new companies are not “investment ready”. New entrepreneurs often lack understanding regarding the available financial sources, objectives of external investors and implications of various modes of funding. As a rule, they overvalue the available assets and extend unrealistic claims on external investors. In the same way, the lack of clarity regarding the ownership of research and development results - inventors and developers versus the related institutions - impedes their adequate valuation. Entrepreneurs often don’t have funding for testing of technologies and their benchmarking to the technologies available from competitors.

5. The participants noted that contrary to the general view, the number of potentially profitable high-technology projects to be developed by technology parks was relatively limited and the biggest issue for these institutions was the “deal flow” – sufficient number of start-ups with good commercial prospects. The heart of technology parks’ activities should be the mentoring and coaching of entrepreneurs which would strengthen their investment readiness.

6. Recently the financial markets in some of transition economies have witnessed the emergence of local business angels seeking viable and potentially profitable projects for investment. At the same time, business angels, who are often successful entrepreneurs, are not always skilful investors. They do not necessarily exercise due diligence and sufficiently diversify their portfolio exposing themselves to unnecessary risks. Several speakers noted that business angels needed to be trained in portfolio management and in understanding the expectations of entrepreneurs.

7. Special effort should be made to strengthen the business angels and venture capitalist activities in the regions of transition economies where the impeded access to finance is coupled with underdeveloped transport and other business infrastructure. It was emphasized at the Seminar that regional and local governments should take initiatives in offering financial and advisory services to nascent enterprises to combat the “natural trend” of would-be entrepreneurs to locate their business close to major urban centers.

8. Governments of transition countries have established funds aimed at supporting the innovative start-ups. At the same time, representatives from transition countries noted that a more coherent policy in this area should combine financial support to start-ups with advisory

assistance to entrepreneurs aimed at promoting their investment readiness. On the enterprise side, several participants thought that Governments should financially support the filing of patents internationally, which may be too costly for enterprises.

9. At the same time, it was noted that the lack of trust to Governments in transition countries is a major impediment to the development of innovative enterprises. Good practices are not easy to replicate when successful entrepreneurs prefer to remain in the shadow and not publicize their achievements.

10. To improve conditions for the venture financing, transition countries need to remove barriers to foreign investors enabling new types of alliances between business angels and venture capitalists. These links would facilitate the access of innovative enterprises to larger pools of finance and the internationalization of their activities. Business angels could also benefit from tax incentives on the return of their risky investments. Opening of financial markets is particularly important to ensure the “international exit” of venture capitalists, when their investment in innovative start-ups terminates through a buy-out by international companies or initial public offering.

11. The outcome of the Applied Policy Seminar will be reported to the UNECE Committee on Economic Cooperation and Integration at its third session in December 2008.
