Training Session on Innovation Finance – Summary of the training session in Kozani (Western Macedonia) on 20th October 2008

1 Introduction to Innovation Finance

Improving access to finance for European SMEs is crucial for entrepreneurship, competitiveness, innovation and growth. In order to innovate a company requires money. Raising the right kind of finance can be a major difficulty for Europe's small and medium-sized enterprises (SMEs). In fact, the world of finance is often less accessible for SMEs, as risk aversion makes investors wary, and European entrepreneurs sometimes have limited understanding of investors' or banks' concerns, making it even harder for them to find the financial backing they need [European Commission DG Enterprise & Industry 2008]. Furthermore, venture capitalists and banks often avoid investments in companies situated outside the most expansive European regions. In fact, venture capitalist companies and credit institutes are often managed by executives from outside the region itself. Thus, they are guided by central directives and only have knowledge of metropolitan regions.

In ERIK Network the theme of Innovation Finance was defined as identifying and analysing innovative ways to finance innovation. This type of financing covers the direct financing of firms or financial aids with the purpose of carrying out innovative activities. Financial support covers non-repayable subsidies/grants, credits with market conform interest loans or with interest loans below market price providing of equity capital and providing of assumptions of liability [IMPACTSCAN 2007]. In a broader sense research and development tax credits also belong to financial instruments.

2 Conclusions of the training session

The key-note presentation for the training session was given by Theologos Prokopiou (i4G S.A. – incubation for growth), the first private incubator in Greece. Afterwards two parallel workshops were held on the themes of Management and Administration of Funding Schemes and Impact of Financial Tools, with introduction lectures by Irma Priedl (Government of Lower Austria) and Hans-Christian Jäger (IDEUM).

A crucial issue of regional innovation policy seems to concern having the right combination of financial instruments (such as loans, grants, guarantees, interest subsidies, tax reduction) and the selection of possible resources (regional, national, ERDF, public private partnerships PPP, private financiers) depending on the stage of the supported innovation activities. The earlier the stage, the higher the risk and the less the private is willing to finance innovation activities. Due to this market failure early innovation stages are in fact a matter of public funding. The more concrete the output of the innovation process is, and thus the more predictable the added value, the more private financiers can be involved in regional innovation support.

Thus, effective and efficient innovation finance is characterised by a portfolio of different types of tools and resources. Different surveys in ERIK Action partner regions show that the exclusive focus on already above-average innovative firms limits the exploitation of innovation potentials in other regional firms. Therefore, financial tools should be open to a broader group of innovating firms. Instead of limiting the target group through the exclusive application of indicators like the rate of R&D, financial tools and target groups should be based on identified firms' needs (direct surveys by regional government or through intermediaries, studies, best practices from outside the region, etc), identified gaps in innovation support (direct or through intermediaries, studies, etc) and results from previous calls for tenders / proposals.

In addition, a comprehensive monitoring and evaluation system should be established to learn about the real impact of financial tools and to improve them. This is valid for all kind of regional innovation support measures, but is particularly relevant for financial support as financial instruments usually cover a larger amount of money and last for several months or even years. This facilitates a long term impact assessment for an individual funding case. A number of different tools are available for monitoring and evaluation. The chosen tool depends on the type of financial tool and on the evaluation stage. Partners have different experiences, for example:

- In Lower Austria there are different types of evaluation: ex-ante approval of application after verification and evaluation; in process monitoring (traffic lights system – projects on time, matching objectives, current costs, co financing assured, collaboration with external partners, overall project progress) and ex-post evaluation. Lower Austria has developed a complete process for developing appropriate public financial instruments which follows the following stages: pilot – feedback loops – adoption – standard instrument. Levels of evaluation depend on project size.

- In Sweden: the continuous dialogue with researchers of collaborative R&D projects following the whole process helps to ensure high quality of subsidised innovation projects.

- In Tuscany there are some examples of dialogue with the territory and stakeholders, organising specific workshops in each province. Those activities improved the quality of projects presented subsequently.

- In Emilia Romagna, there is focus on creating a stable network of certified research institutes to guarantee a certain level of quality of research projects.

The formal reporting procedure for financial support should be simplified as much as possible in order to facilitate beneficiaries' work load. This could include the use of web tools (as used successfully on national level in Sweden) with random checks to ensure that beneficiaries are completing forms honestly. To assure that simplified reporting does lead to arbitrary feedback, strong consequences for funded firms in case of abusing freedom must be installed. Visualisation of monitoring and evaluation activities should be used where feasible, as used successfully by Lean Management and KAIZEN to document results.

The decision on whether the funds should be managed by the public administration itself or by an intermediary depends on the specific characteristics of each region, but a strong control by the regional authority is necessary anyway.

The management of public innovation finance instruments should follow some golden rules:

- Clear division of roles among all regional providers of public innovation financing instruments:

  Public funding of firms' innovation activities is not subject to competition among actors for attracting customers in order to avoid waste of time and public money. Therefore, a strong coordination of regional funding schemes and an intensive communication among all actors at regional level, and at national and international level, is required.

- Choosing the right financing instruments from the right sources at the right time:

  Financial support has to be mass tailored according the stage of the funded innovation activities and the firms' needs. It is not only a question of identification of the right tool (loans, grants, guarantees, interest subsidies, etc.), but also of the funding amount. The selection of the appropriate financial instruments also requires looking beyond the regional nose and taking national and even European level offers into consideration.

- Clarification of objectives of the beneficiary:

  Providers of public funding schemes have to cope with a balancing act between te responsible management of tax payers' money and the latent high risk of R&D/innovation activities, in particular due to the considerable size of firms' R&D/innovation activities and the corresponding high amount of funding requested. The better the funding provider knows the objectives of the planned R&D/innovation project and the whole company (like business strategy, innovation culture) the better the provider can judge the added value of the funding. It is not necessarily the finance provider who needs to have this knowledge: in a well coordinated innovation support system it is also possible that other service providers (like innovation coaches, cluster manager, etc) have already this knowledge due to other joint initiatives and are willing to share their knowledge with the finance provider.

An intensive discussion about the differences between financial support for mature companies and financial support for start-ups has led to the conclusion that in both cases the process is following the same stages of innovation. [ERIK Network 2007]

Therefore, the financial instruments for mature companies and start-ups are in principle the same. Nevertheless mature companies, in particular larger one, have the required accompanying knowledge and human resources already in the own company (at least to some extent). Meanwhile, the young entrepreneur needs more support from external sources or in acquisition of the right staff.

3 Highlights

Effective innovation finance is characterised by:

- Public funding in particular for early innovation stages. The later the stage of the innovation process, the more private financing
- No exclusive focus on already above-average innovative firms
- Coordination instead of competition among providers of public financial instruments
- Comprehensive monitoring and evaluation system with simple formal reporting procedures

4 References

[ERIK Network 2007], ERIK Network: Knowledge and Innovation for Regional Growth – Policy Recommendations based on European Good Practices, April 2007, http://www.eriknetwork.net/documents.html

[European Commission DG Enterprise & Industry 2005], European Commission DG Enterprise & Industry: How to Deal with the New Rating Culture: A Practical Guide to Loan Financing for Small and Medium Sized Enterprises, May 2005, http://www.microfinancegateway.org/content/article/detail/30272

[IMPACTSCAN 2007], partner of the IMPACTSCAN project: A policy intelligence tool for regional innovation policy, USERS GUIDE, December 2007, www.Impactscan.net