

Innovation Finance

A focus paper for the ERIK+ Network Thematic Working Group

Introduction

Difficult access to finance is one of the most common barriers for innovations to reach the market. One reason is loans to new and innovative companies are considered of high risk by both private and public financial institutions but this is also often a situation for existing SME's that are involved in development processes.

Regional policies can play a key role in enhancing information and actual access to innovation funds. TWG Innovation Finance will concentrate on measures aiming at attracting capital in the innovation and business development through new methods e.g. public seed funds, risk sharing between public and private funding, etc.

Innovation Finance has been recognised as priority areas of the regional innovation system and prime targets for innovation policies by all the network partners and associate members in the ERIK Network. They are also highly relevant from the point of view of European regional and innovation policies as well as the Lisbon, Gothenburg and Barcelona objectives. These thematic areas gain even more importance in the context of the next Structural Funds programming period and the prospect of mainstreaming good practices developed and tested in the framework of the ERDF's Innovative Actions.

Background

The European growth is lacking behind both the American and Japanese development figures. The part of Europe that can compete in GDP growth are the new member-states of the Union. However they start on a much lower level and the economic impact on a European scale is not enough to help up the less favoured position Europe has taken.

The globalisation is also one of the strongest threats to the classical European development model. Skilled labour forces and high technological implementation in the manufacturing industries are overruled by the fast development in the BRINC league – Brazil, Russia, India and China.

By far the development model must be based on innovation. However enterprises based on new innovations when leaving the product/service development phase and tries to acquire resources for market establishment, often finds them in an empty gap.

Regional innovation strategies must create platforms to meet this problem. The TWG Innovation Finance in ERIK+ Network is a step to formulate a common regional position based on the experiences from the both Regional Programmes for Innovative Action (RPIA) and the mainstream structural fund programmes as well as local and regional initiatives to foster an innovation culture.

The establishment of businesses clusters, start-up and spin-off support as well as innovation systems structures to increase the benefits from research in the industries within the RPIA's have enabled platforms to refine ideas to become products and services which can be presented to the market. Lack of seed and pre-seed financing in individual innovation projects is a severe obstacle for regional growth and development from these structures. And the present ERDF programmes are extremely limited for such finance. Other form of support structure may be established with ERDF funds but nothing targeting the core financial issues in the innovation process.

Some parts of Europe are characterized by a very strong innovative tradition. Many SME's have started in these regions like IKEA, Boss, Gucci and Ferrari and today they belong to a group of global actors.

Other parts lack this tradition and need new mind sets to increase innovation processes. The ability to handle with new ideas and form them into new business are often limited, e.g. related to historical factors. In some parts seed-money is easier to recruit due to a long tradition of entrepreneurship and new business start-ups. The situation on a European scale is more related to very strict rules governed by the traditional financial institutions.

The ability to adopt new ideas both among public sector actors and in the private sector is not strong enough yet to establish an atmosphere of innovation throughout Europe. Signals from the European Commission aims to change this and increase the importance of innovation and innovation finance in the ERDF programmes. But already now many regions are concerned that no specific European programme targets innovative actions on regional level and no financial means are foreseen to enable innovation finance.

The tasks of the TWG

We want to highlight new combinations of co-operation between actors - private-public, private-private and public-public sector enabling seed money and other forms of financial resources for innovation finance. To reach these objectives we must find good examples from the 240 regions of Europe where RPIA's have been implemented.

An important task is to formulate definition which is clear enough to distinguish the work

of the TWG from the three parallel TWG's. At the seminar in Vienna in May 23rd we could agree that the TWG Innovation Finance could be seen as horizontal base for the other TWG's. The focus lies on the financial side in the innovation process.

Innovation finance is a key element for the whole innovation process. It is not enough just to form the structure for innovation as too often it lacks direct capital. The scope of this TWG is to find good examples of bridging the gaps we find in innovation chain.

The phase between the founding of a company and getting a product out into the market has been more or less neglected by European and national policies. It leads to lower growth rates. Examples in the USA, on the other hand, focus on bringing products to the market and making money.

Innovation is a need for any enterprise to focus on to be able to compete. Financing is an integrated part of a normal development of an enterprise, however as soon as it comes to new innovations the normal institutions like banks are much more reluctant to be a part of an development process which involves any form of venture. Both the regeneration of the European industrial and service sectors and the global competition have large impact on the financing aspects. An important issue is if the present financial institutions are able to recruit development and venture capital for innovations.

Studies, including one performed in Kalmar, have shown that if we put more money into innovation, we get more out. The regional net profit of enabling seed-finance is way far bigger then the money put into the system. However, most often the public profit lies in the direct taxation of the employees and that part of the taxes lands at national level. The link to regional growth is often proven later in the development of the enterprise.

The TWG Innovation Finance want European institutions to reconsider its innovation strategies and realise that more money must be put into the system, which could be combinations between EU Funding, regional resources and private investments.

The innovation process can be described as a chain of interacting actions where both the intellectual capacity, technical or structural knowledge and the capital can enable or promote the realization of the idea. For the ERIK+ Network the aim could be to draw attention to what is lacking in this innovation process chain and to formulate a plausible future policy. This TWG does not just concentrate on start-ups but also on existing enterprises, particularly the SMEs, e.g. regeneration of European enterprises, conversion to high-tech sectors, internationalization.

The TWG Innovation Finance is clear to promote the overall objective to enable more

European money into the regional innovation systems. The TWG will look at how to finance the gaps in relation to them and to develop ideas into further initiatives.

The main focus will therefore lie on: Innovative ways to finance innovation.

Actions

The TWG Innovation Finance will work with following instruments:

1. Call for Good Practises – June/August 2006
2. Study visit – 6-7 November 2006
3. Paper –December 2006 / January 2007
4. Workshop in connection with the Final Conference - May 2007