

FINANCIAL INSTRUMENTS TO ENCOURAGE INNOVATIVE VENTURES

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Research and innovation are two of the most challenging activities for enterprises

- Large companies can leverage their access to resources to invest in R&I.
- Small firms have instead to overcome two main barriers:
 - 1) Lack of financial resources;
 - 2) Difficulties in hiring skilled labour.

Young innovative firms as drivers of job creation

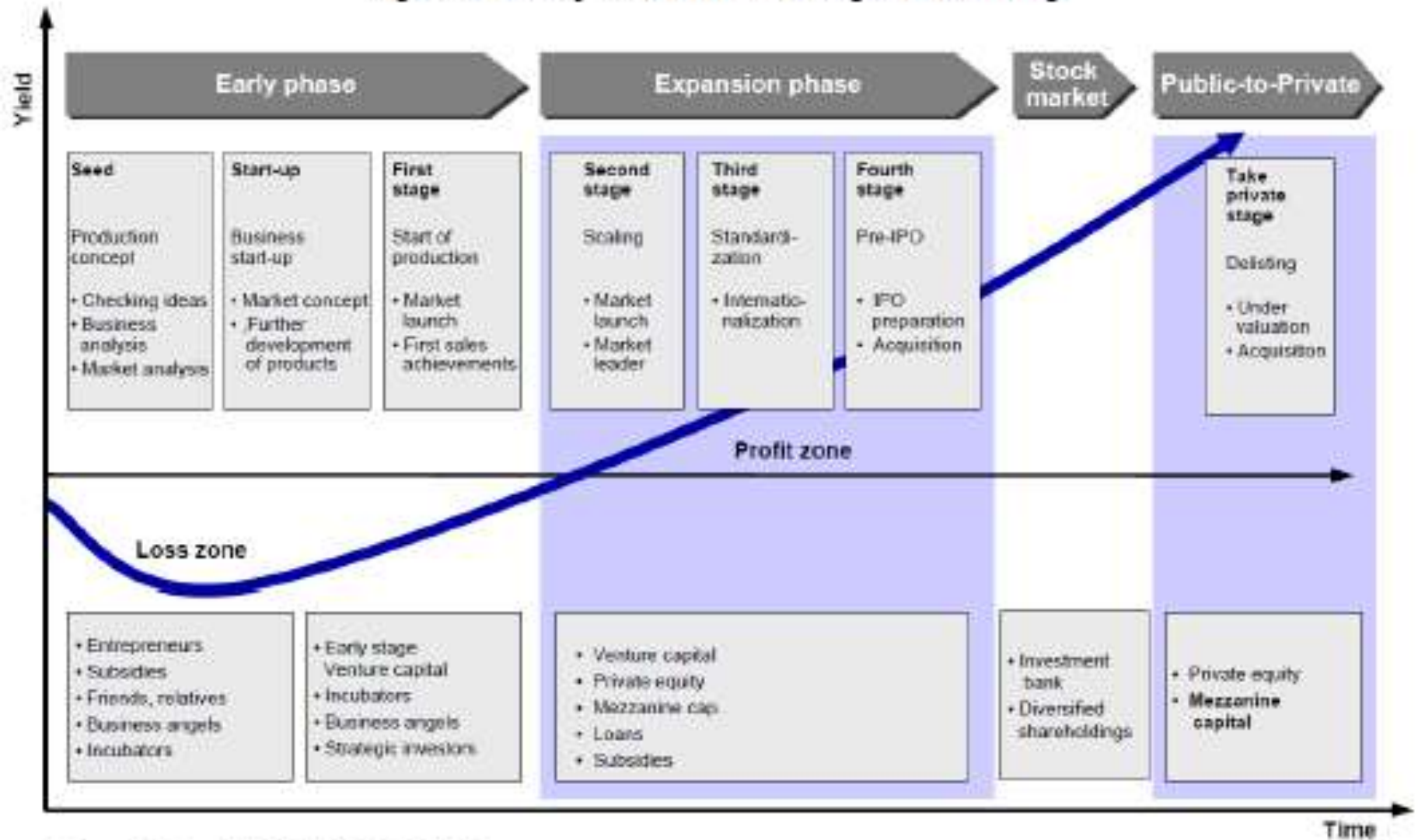
- Any government is well advised to support innovative SMEs and their ventures.
- Questions:
 - 1) is government the sole supporter?
 - 2) what kind of support?

Differences in funding sources among innovative SMEs

(Source: OECD Innovation Policy Platform 2014)

Phase	Suppliers of Funds	Preconditions
SEED	<ul style="list-style-type: none"> Personal assets Family & friends "Type ii" individual investors Academic & professional colleagues Government & university grants Endowments and foundations Seed funds 	<ul style="list-style-type: none"> Framework for entrepreneurship Business/government/research links Government & university support for applied research
START UP	<ul style="list-style-type: none"> Family & friends "Type ii" individual investors Academic & professional colleagues Government & university grants Business angels Venture capital Endowments and foundations 	<ul style="list-style-type: none"> Robust legal system Enforceability of contracts Efficient bankruptcy regime Support facilities Science parks/incubators Favourable tax environment Business angel networks
EXPANSION	<ul style="list-style-type: none"> Business angels Venture capital/private equity/mezzanine finance Pension funds Endowments and foundations Corporate venturing Government Foreign venture capital 	<ul style="list-style-type: none"> Institutional savings Sufficient volume Flexible regulation Legal framework Tax transparency
EXIT	<ul style="list-style-type: none"> IPO Institutional investors Retail investors Trade sale Strategic investors (M&A) Private equity 	<ul style="list-style-type: none"> "Growth" exchanges Environment for M&A
PUBLIC LISTING	<ul style="list-style-type: none"> Institutional investors Retail investors 	<ul style="list-style-type: none"> Legal and regulatory framework for investment

Figure 2 Life-cycle of a firm and stages of financing



Source: Natusch (2003); OECD (2013d).

Funding tools for Early-phase innovative SMEs

- Support to firms
 - Market-based instruments
 - Apart from FFF investment in equity and loan,
 - Bank loans
 - Seed money, angel investor, venture capital, crowdfunding,
 - Peer-to-peer lending
 - Public-based support
 - Seed money
 - Grants
 - Direct and indirect lending
 - Subsidized loans
 - Credit guarantees
 - Fund-of-funds
 - Co-investment, co-financing
 - Tutoring, mentoring and labor training
 - Regulatory and administrative barriers easing
 - Intellectual property protection
 - Incubators and accelerators
 - Tax benefits (especially to innovation chains)
- Support to investors
 - Public support
 - Front-end and back-end tax benefits
 - Information and training
 - Regulatory constraints easing for institutional investors (pension funds and insurance companies)

Funding tools for Expansion-phase innovative SMEs

Support to firms or ventures

Market-based instruments

Bank loans

Business angel, venture capital, crowdfunding

Subordinated loans

Mezzanine finance

Profit participation rights

Bonds, convertible bonds, SME network bonds

Loan securitization

Trade sales (M&A), IPO

Public-based support

Grants

Direct and indirect lending

Subsidized loans

Credit guarantees

Fund-of-funds

Co-investment, co-financing (including asymmetric funding)

Tutoring, mentoring and labor training

Regulatory and administrative barriers easing

Intellectual property protection

Tax benefits (especially to innovation chains)

Easing Initial Public Offer rules and stock market listing

Develop ecosystem for innovation

Support to investors

Front-end and back-end tax benefits

Information and training

Regulatory constraints easing for institutional investors (pension funds and insurance companies)

Development of efficient and liquid capital market infrastructures for small cap and tech stocks, including secondary markets 7

Governments' policy response (Source: OECD)

Policy response	Countries
Government loan guarantees	Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Mexico, the Netherlands, Norway, Portugal, Russian Federation, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States,
Special guarantees and loans for start ups	Canada, Denmark, Mexico, the Netherlands, New Zealand, Serbia, United Kingdom
Government export guarantees, trade credit	Austria, Belgium, Canada, Colombia, Czech Republic, Denmark, Finland, Hungary, Korea, the Netherlands, New Zealand, Spain, Sweden
Direct lending to SMEs	Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Finland, France, Greece, Hungary, Ireland, Israel, Korea, Norway, Portugal, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Turkey, United Kingdom
Subsidized interest rates	Hungary, Portugal, Russian Federation, Spain, Turkey, United Kingdom
Venture capital, equity funding, business angel support	Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Turkey, United Kingdom
SME banks	Czech Republic, France, Portugal, Russian Federation, United Kingdom
Business advice, consultancy	Colombia, Denmark, Finland, the Netherlands, New Zealand, Sweden
Tax exemptions, deferments	Belgium, Finland, Italy, New Zealand, Norway, Spain, Sweden, Turkey
Credit mediation/review/code of conduct	Belgium, France, Ireland, New Zealand, Spain
Bank targets for SME lending, negative interest rates for deposits at central bank	Ireland, Denmark
Central Bank funding to banks dependent on net lending rate	United Kingdom

Source: National Scoreboards.