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Supporting innovative entrepreneurship in the SPECA sub-region through business incubators and tools to promote the growth of innovative enterprises

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on Innovation and Technology for
Sustainable Development



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Business incubators (BI) as a tool to foster innovation and support sustainable development in the SPECA sub-region



- ✓ Experimentation with new ideas to create value and solve problems more systematically is essential for SD
- ✓ For SPECA, most of the potential for innovation to drive sustainable development lies in absorbing and adapting existing ideas, technologies, and business models
- ✓ For this, systematic experimentation enabled by an effective national innovation system, incl. innovation support infrastructure, is essential
- ✓ BIs as critical part of this infrastructure are a powerful tool to catalyze innovative entrepreneurship
 - provide incentives, support, connections, and an enabling environment for experimentation
 - In transition, where potential for the catch-up is very high, are of increased importance but often limited in effectiveness due to wider structural issues in the economy (establishment of a well-functioning market economy)

SPECA countries have increasingly put efforts in strengthening the innovation support infrastructure



- ✓ Variety of enterprise and innovation support institutions (BIs, FabLabs, accelerators, innovation centres, technology parks, etc.) in place across the SPECA sub-region
- ✓ Introduction of innovation support instruments used in advanced economies such as innovation vouchers, credit guarantees for innovative small and medium-sized enterprises (SMEs) and support for industrial clusters

Available tools to support innovation activity in the SPECA countries

Policy instruments	Afghanistan	Azerbaijan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Grants for innovative start-ups		• ^a	•	•	• ^b	•	•
Innovation vouchers			• ^c				
Coaching programmes for innovative start-ups		•	•	•			
Competitions for innovative start-ups		•	•	•	•	•	•
Incubation and acceleration programmes for innovative start-ups	•	•	•	•	•	•	•
Entrepreneurship support programmes	•	•	•	•	•	•	•
Credit guarantees for innovative SMEs							•
Equity investment in innovative SMEs (venture financing)			•			•	•
Grants for full cycle STI projects (from R&D to market)					•		•
Support to industrial clusters	•	•			•		
STI grants from international donors (World Bank, Asian Development Bank, etc.)	•		•	•	•	•	•

Source: UNECE, *Business Incubators for sustainable development of the SPECA sub-region, 2021*

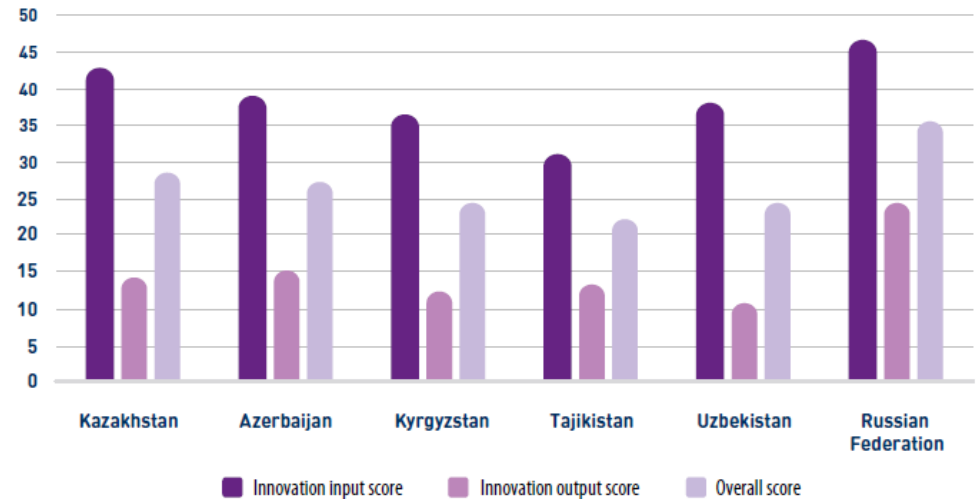
But these efforts are yet to translate into systematic and broad experimentation driving SD across the SPECA subregion



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- ✓ Infrastructure is yet to play a systematic, catalytic role in enabling and supporting broad experimentation and developing the private sector absorptive capacities that underpin it.
- ✓ Broader structural reforms are critical (e.g. protection of property right, regulatory frameworks for investment, entrepreneurship, governance) to support transformation and to enable BIs to effectively perform their role

The SPECA countries' and comparator country performance, Global Innovation Index, 2020



Source: UNECE, *Business Incubators for sustainable development of the SPECA sub-region, 2021*

Note: Data for Afghanistan and Turkmenistan not available

BIs in SPECA countries are often confronted with challenges in business environment and weaknesses in innovation systems, but also

- *A lack of understanding of the nature of innovative ventures, skills and the capacities of BI staff to support these types of ventures*
- *Gaps in human capital and skills development, entrepreneurial mindset and innovation culture*
- *Sustainability issues related to unrealistic financial models of BIs, a lack of market intelligence, unstable or insufficient financial support*

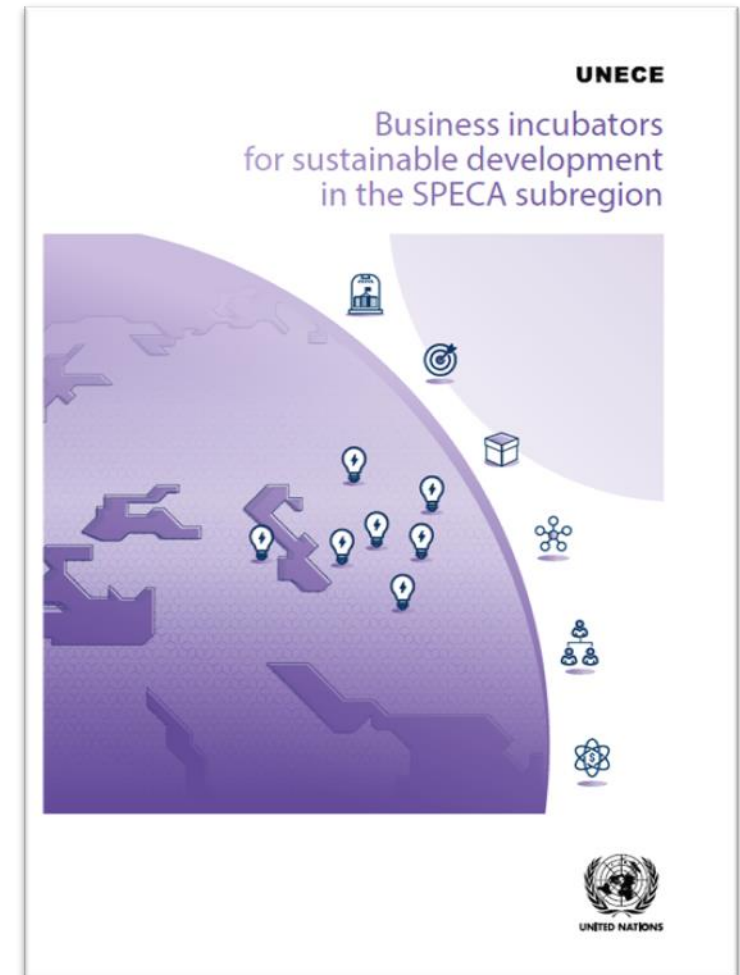
A set of guiding principles on establishing and running a successful business incubator could help fostering innovation for SD in SPECA



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UNECE Handbook “Business Incubators for Sustainable Development in the SPECA sub-region”

- ✓ **provides guidance** on key steps and considerations to set up, run, and evaluate business incubation programmes
- ✓ **reflects upon the lessons learned** from incubator practices with a focus on transition economies and examples from the Russian Federation and Kazakhstan
- ✓ **considers the respective roles** of universities, government, and the private sector.
- ✓ **recommendations and tools target** national and local governments, universities, as well as those developing and running business incubators (BIs) and similar institutions (e.g. pre-incubators, accelerators, entrepreneurship support centres)



*Implemented under the UNDA project
“Strengthening Innovation Policies for the
SPECA countries in support of the 2030
Agenda for Sustainable Development”*

Zoom in on financial sustainability of an incubator (a snapshot from the Handbook)



- ✓ an important element to consider at the conception stage and early years of operation
- ✓ involves the ability to maintain or generate a positive cash flow in the future without the need for substantial external funding
- ✓ BIs can be broadly categorized into
 - ✓ self-sustainable, i.e. their operations are not discontinued and maintain similar levels of activity without state funding or subsidies;
 - ✓ partially self-sustainable, i.e. they combine self-generated revenue with public funding (subsidies) to remain operational (this is the case for the majority of BIs worldwide);
 - ✓ self-unsustainable, i.e. relying heavily on long-term state support (often in the form of subsidies) for ongoing operations.

Table 2.5 Incubator business models

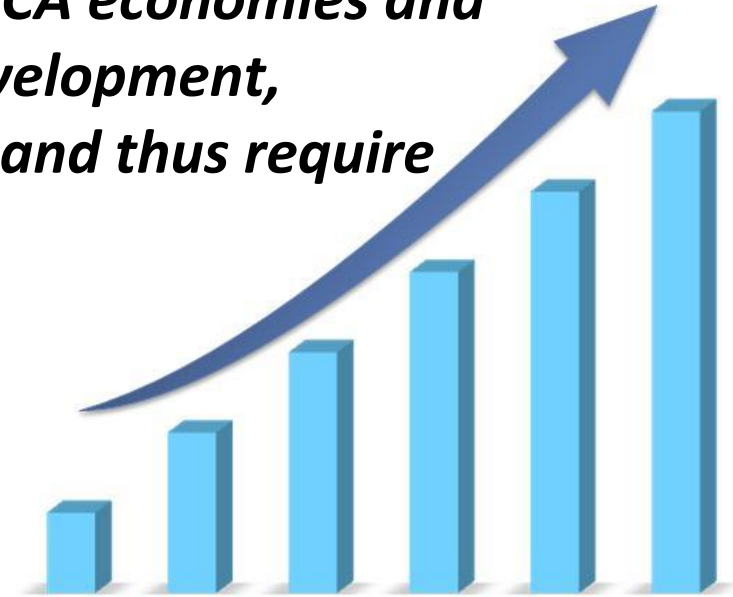
Business model	Description
Rent model	Rental charges to clients can be a source of funds but incubators need to be of significant size before this becomes a major income source. Rent in many incubators in the USA, China, Brazil and other countries is their main income source (up to 40%) and can make incubators self-sustainable if large enough.
Equity model	Incubators can take minority stakes (2-6%) in incubated businesses, often in return for free and low rent periods, providing future income from dividend payments. An additional equity stake (e.g. 1-2%) may be further added for additional periods spent in the incubator. The relatively low share of the incubator's shareholding means there are many opportunities for it to liquidate its position. To work, the equity model requires both scale and portfolio quality.
Royalty model	This model involves a portion of the revenues earned by clients being paid as a royalty payment to the incubator. Usually, the royalty is at around 5% of the client revenue and is limited in time (5 years on average).
Deferred debt model	Under this model, services provided to the client are valued in conjunction with incubator overheads and then included in the incubation fee. The incubatee has up to 10 years to pay back the debt to the incubator. Once the incubatee has left the incubator and/or when it has reached an agreed financial target, the total debt due to the incubator is fixed and repayment starts (lump sum or payment in instalments).



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To catalyze structural transformation of SPECA economies and accelerate progress towards sustainable development, innovative firms have to reach certain scale and thus require support when growing.



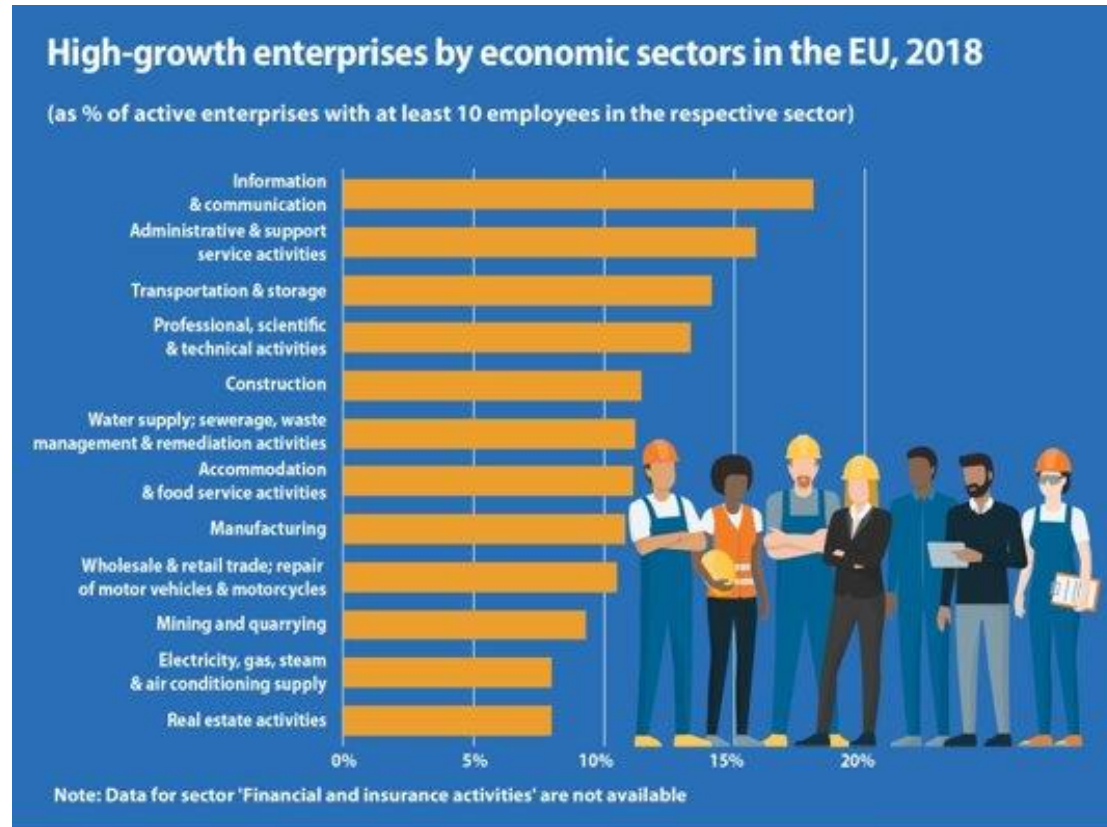
A small group of **innovative, high-growth enterprises (IHGEs)**, representing 2 to 6 per cent of the business population, plays a disproportionately large role in innovation, structural change, and sustainable development more broadly.

What are the innovative high-growth enterprises (IHGEs)?



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- ✓ IHGEs are firms that meet three criteria:
 - ✓ have at least **10 employees** in the beginning of their growth,
 - ✓ have average annualized 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 present only in high-tech sector, as often are in child/elderly care, construction, retail and catering, etc. (e.g. Lithuania's first 'Unicorn' – Vinted).



IHGEs could play crucial role in post-pandemic recovery and achieving SD in SPECA sub-region



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- ✓ called *transformational entrepreneurs*, contribute significantly in terms of jobs creation and value generation
- ✓ could be instrumental in trying out and scaling up ideas to accelerate the post-COVID recovery and progress towards reaching the Sustainable Development Goals (SDGs)
- ✓ different from the rest of the SMEs, many standard, broad SME support measures are less effective, hence **need targeted support**

Pro-growth business environment

- Regulatory framework for innovation and growth
- Taxation - incentivizing R&D and innovation and investors
- Demand side measures - government as a first mover.

Tailored services for IHGEs

- High-growth programmes - client management approach
- Developing business ecosystems and peer-to-peer networks
- Access to innovation services and infrastructure

Finance adapted to each growth stage

- Grant and loan instruments
- Crowdfunding, business angel investors & accelerators
- Venture capital: co-investment and fund of funds models.

Reinforcing firms' internal capabilities to grow

- Leadership skills
- Availability of employees with technical and creative skills
- Talent attraction and retention

Internationalization & business networks that support scaling

- Advice on market trends and entry
- International networks - structuring diaspora links.

UNECE will support SPECA countries in leveraging the potential of IHGEs for inclusive SD and post-pandemic recovery



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- ✓ **Project:** “Enhancing the capacity of the SPECA countries to design, implement and monitor effective policies to support innovative high-growth enterprises to drive post-COVID 19 recovery and progress towards the circular economy”.
- ✓ **Implementation:** November 2021 – January 2022
- ✓ **Activities :**
 - ✓ Development of a policy handbook to guide policies to support IHGEs in the SPECA subregion (drawing on a similar handbook for EESC countries).
 - ✓ The handbook will contain practical tools and recommendations, supplemented by case studies from the SPECA subregion and beyond, to enable policymakers of the subregion to effectively support innovative firms with high growth potential.
 - ✓ Online training series of three half-a-day sessions based on the Handbook for SPECA officials and policy makers to understand and put into practice recommendations to systematically support IHGEs in the SPECA countries.
 - ✓ Delivered through three interactive sessions covering the most important aspects of IHGE policy as outlined in the handbook, namely:
 - The why, who, what, and how of IHGE policy
 - The portfolio approach for effective IHGE support
 - Financing IHGEs –enabling private sector investments

Available for download



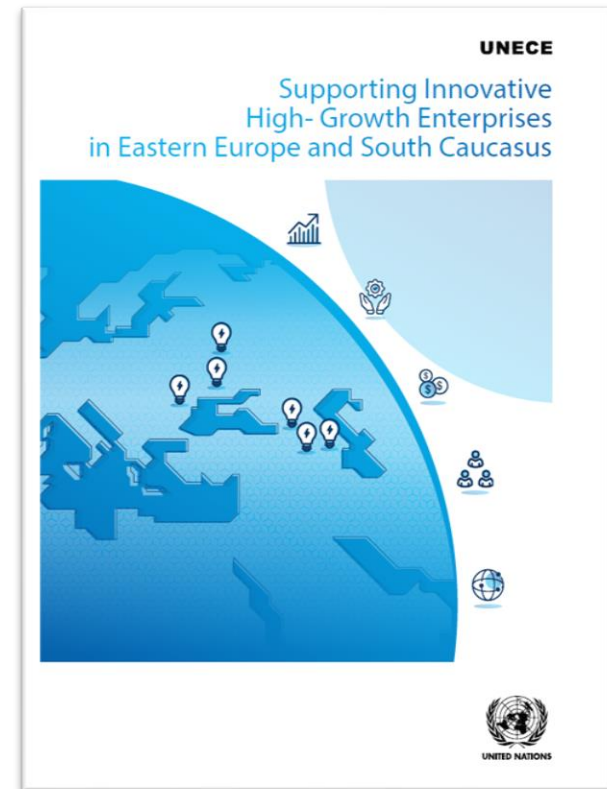
UNECE Handbook “Business Incubators for Sustainable Development in the SPECA sub-region” , 2021



[English](#)

[Russian](#)

UNECE Handbook “Supporting Innovative High-Growth Enterprises in Eastern Europe and the Caucasus”, 2021



[English](#)

Thank you!

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