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

21 October
2nd Session of the SPECA Working Group on Innovation and Technology for Sustainable Development
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

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

- 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

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

Source: UNECE, Business Incubators for sustainable development of the SPECA sub-region, 2021
Note: Data for Afghanistan and Turkmenistan not available
A set of guiding principles on establishing and running a successful business incubator could help fostering innovation for SD in SPECA

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.

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<tr>
<th>Table 2.5 Incubator business models</th>
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<tbody>
<tr>
<td><strong>Business model</strong></td>
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<td>Rent model</td>
</tr>
<tr>
<td>Equity model</td>
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<tr>
<td>Royalty model</td>
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<td>Deferred debt model</td>
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Source: UNECE, adapted from (InfoDec, 2010)
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)?

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

✓ 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

Source: UNECE, Supporting Innovative High-Growth Enterprises in Easter Europe and the Caucasus, 2021
UNECE will support SPECA countries in leveraging the potential of IHGEs for inclusive SD and post-pandemic recovery

✓ **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

UNECE Handbook “Supporting Innovative High-Growth Enterprises in Easter Europe and the Caucasus”, 2021
Thank you!

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