UNECE

Designing effective policies for innovative, high-growth enterprises (IHGEs) in Central Asia

15 February 2022

The overall framework for the trainings

Preparatory work

- Interviews and background research for the policy handbook (November-December 2021)
- Webinar on IHGEs in Central Asia (23 December 2021)
- Drafting of handbook (January-February 2022)

Training 1 - 15/2/22

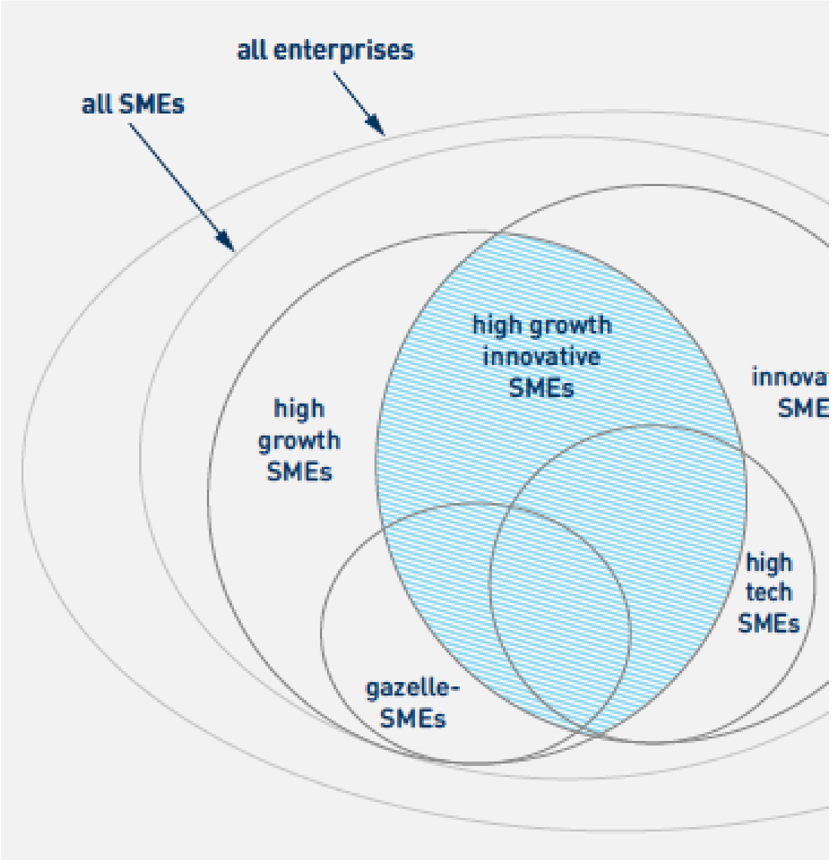
- Topic : Scaling-up: the role of accelerators in supporting growth of innovative enterprises
- Invited speaker : Jerry Tran, Deputy Director, Scale-up, Enterprise Singapore

Training 2 - 17/2/22

- Topic : Financing IHGEs - developing an investor ecosystem
- Invited speaker: tbc

What do we mean by innovative high-growth enterprises?

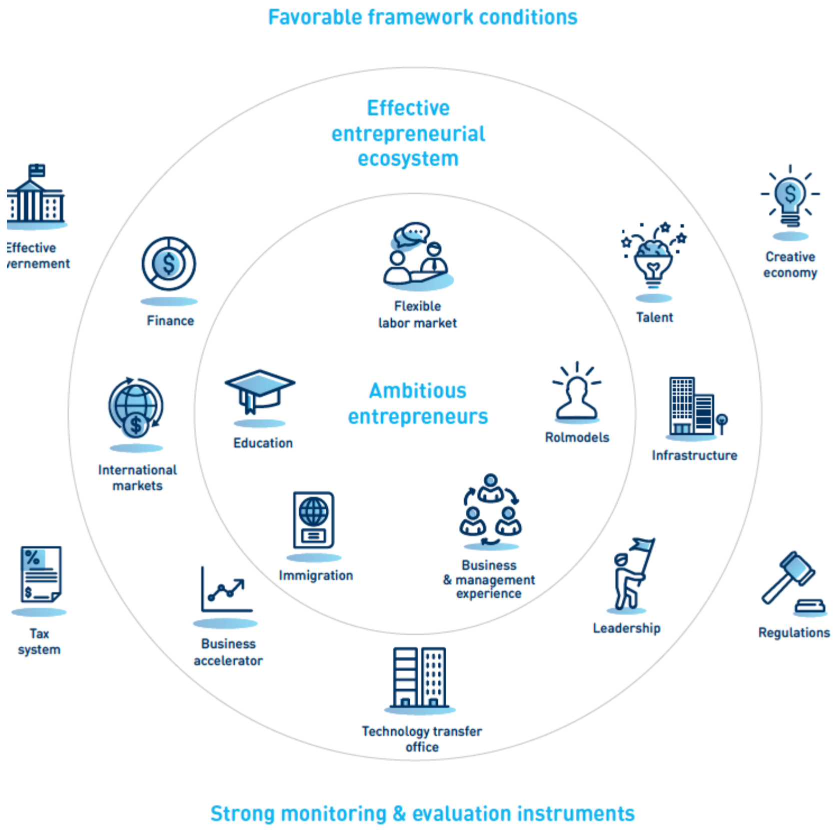
- IHGEs are a sub-group of firms (from two to six per cent of the business sector).
- They generate a disproportionate share of net jobs and value added but their growth is often transitory
- They are not necessarily start-ups, no are they only found in 'high-tech sectors'.
- IHGEs help drive innovation in sectors that are often perceived as not particularly innovative, such as health and personal care, construction, retail and catering, etc.



IHGEs can be a driver of economic transformation

The Central Asian (SPECA) countries

- Undergoing a reform process (at varying speeds) with major exporting sectors often natural resource based, weak linkages to global value chains and limited R&D and innovation capacity.
- IHGEs can help generate higher rates of value added across the economy and support diversification of product and services.
- However, many of the framework conditions for ensuring a vibrant start-up and above all high-growth ecosystem need further development/reform (e.g. boosting business R&D and innovation, digital skills, company law and equity investment frameworks).



A policy tool-kit for innovation high growth enterprises

Pro-growth business environment	• Regulatory framework for innovation and growth • Taxation - incentivising 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 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
Internationalisation & business networks that support scaling	• Advice on market trends and entry • International networks - structuring diaspora links.

Four key building blocks of a high-growth policy

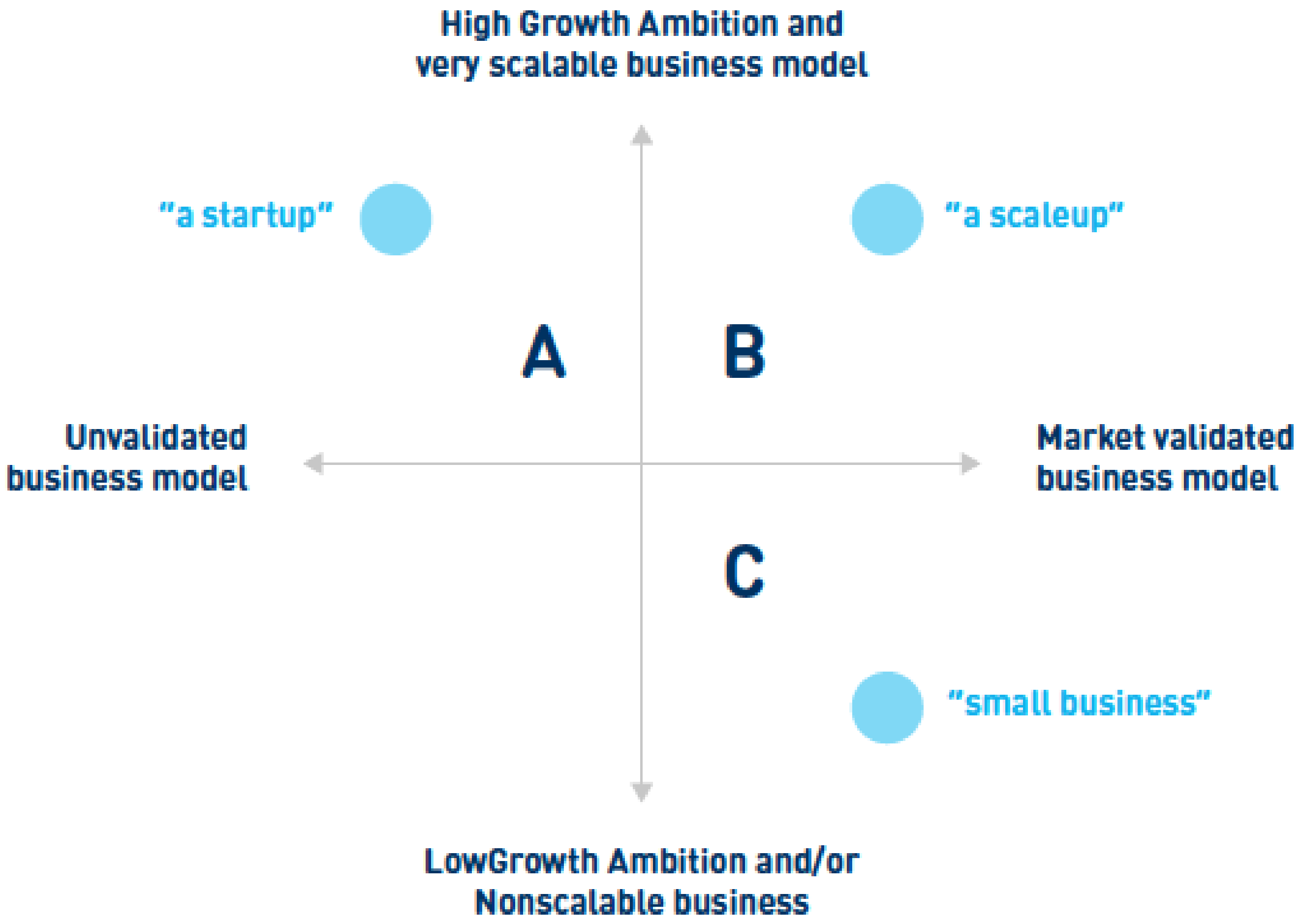
Building block	Description
Dedicated high-growth units or teams	Depending on the baseline situation in each country, the support unit (the high-growth team) can be based in an existing SME agency or within a dedicated stand-alone organization. The people acting as account managers should ideally have prior business experience (e.g. as an SME manager or start-up founder) to ensure their credibility.
Selection/segmentation criteria	Based on a mix of objective criteria, "trigger points" (e.g. management change, product/service offering) and outreach to determine the level of growth ambition of companies. Typically, this will not be based on the sectoral or technological fields in which companies operate but the companies will usually be selected based on an introductory diagnostic step (that will include collecting data on company performance, analysing business strategy, product portfolio, etc.) which can be conducted either by qualified agency staff or experienced business consultants accredited by the agency to carry out the diagnostic.
Support adjusted to each stage of growth and the type of company	The type of advice and support required by a manufacturing firm growing after a change of management or new product development will be different from that of a technology start-up that needs to secure investment and scale rapidly on international markets. A support programme where potential IHGEs work together over a period of time accompanied (mentored) by a cohort of their peers and guided by highly experienced entrepreneurs can help foster network-based forms of support and experiential learning (see Singaporean case below).
Inter-agency co-operation and partnership with private sector expertise	The delivery of advice and services to potential high-growth firms is best done via a network of accredited experts (finance, management, etc.) rather than a single agency or organization. Business owners will often place more faith in advice by mentors who are successful entrepreneurs, investors or specialists (legal, intellectual property, branding, etc.) in their field. The account manager's role is to help steer the growth process and make sure the right advice is proffered at the right time.

Key principle 1 : target support to 'potential' IHGEs

Target a group of firms that have one or more of the characteristics to suggest that they <u>may</u> grow rapidly and contribute to the transformation of national economies.

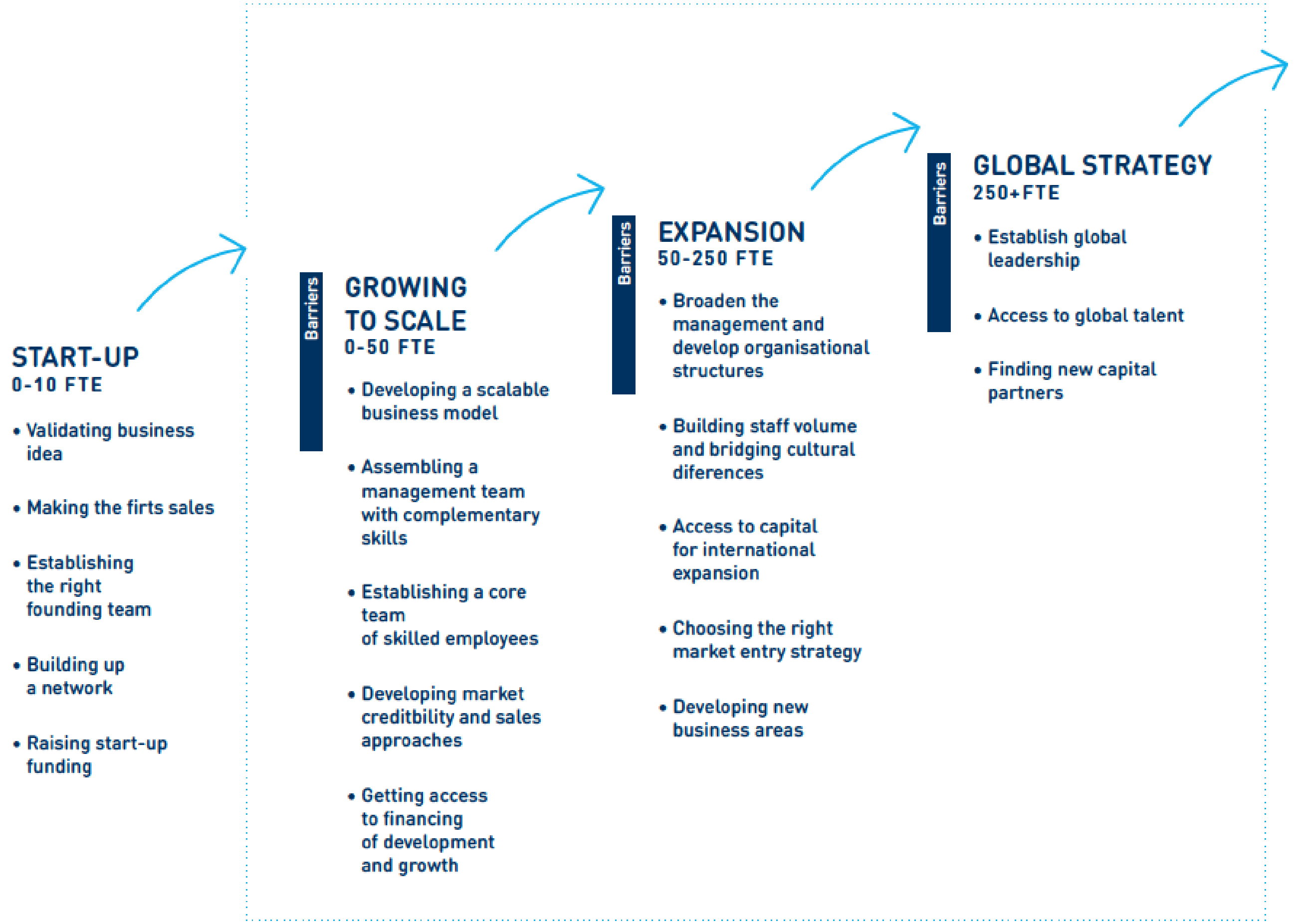
A set of **trigger points** may help identify IHGEs before they start growing:

- Change of ownership
- New investors
- Business model change
- Product development
- Attitude !



Key principle 2: support should be adapted to each growth stage

Addressing barriers to growth at each step of development is crucial to effective policy design

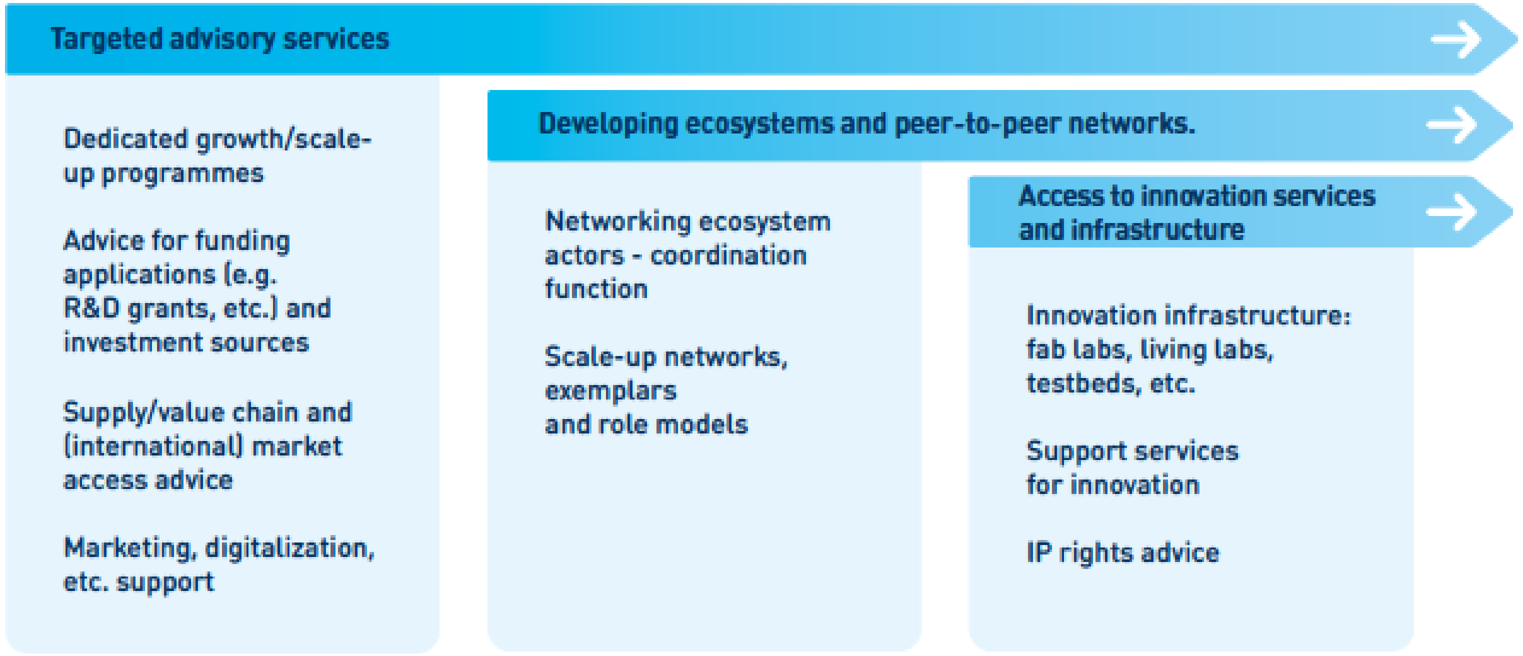


Source: UNECE, adapted from (IRIS Group, 2019).
Note: FTE = full time equivalent employees.

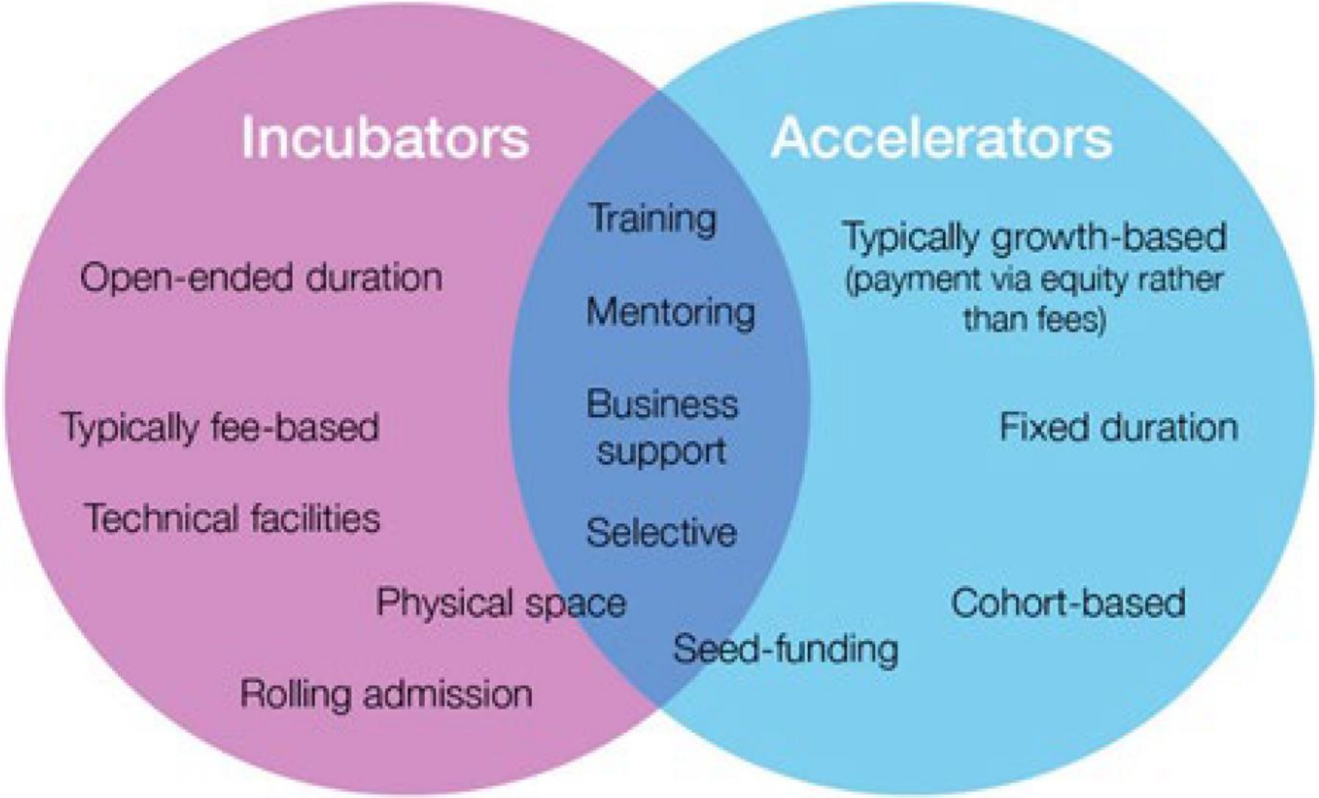
Key principle 3: Ensure IHGEs have access to a portfolio of specialised services

"What matters is that more and more companies grow more and more rapidly; not all companies, that would be impossible, but a hard core, a critical mass. Nor do they necessarily all need to become big: what is important is that more and more companies are moving dynamically upward".

Daniel Isenberg



Incubators versus accelerators



Accelerators “accelerate” growth of an existing company, while incubators “incubate” disruptive ideas with the hope of building out a business model and company.

Business incubators & business accelerators

Criteria	BI	BA
Conditions of participation in the programme	• Have a business plan or business idea	• Have a developed business model • Have a working prototype
Activity	• Limited competition at the resident selection stage • Works with projects in various sectors and industries	• Highly competitive selection process • Usually works with start-ups in a specific sector or industry
Incubation time	• Usually around 2 years • Highly flexible programme length	• 3-6 months • Fixed timing: the programme is designed to obtain quick results
Goal	• Create a foundation for the successful development of a new start-up	• Accelerate the growth of existing start-ups
Types of provided support	• Office premises • Administrative and legal support • Business planning • Development and testing of prototypes	• Accelerated sourcing of finance • Mentoring from industry specialists • Networking
Financial sources	• Often funded by universities or the Government	• Private funding • The BA often take shares in resident companies

Source: Authors' analysis for UNECE

An accelerator programme model comprises five main features

- An application process that is open to all yet highly competitive.
- Cohorts of potential IHGEs rather than individual companies.
- Working management teams rather than individuals.
- Provision of or facilitating access to (equity) investment &/or public funding.
- Time-limited support comprising programmed events and intensive mentoring.

Scottish Enterprise Scaling Services

High Growth Spin Outs

Companies formed to commercialise IP owned by a university

2-3 years

High Growth Start Ups

Start up companies with the potential to scale to £5M+ sales and/or likely to require significant external investment to accelerate this journey

1.5 -2 years

Scale Ups

Innovative, ambitious and fast growing companies (20%+ pa) looking to achieve £5M-£10M+ turnover within 7 years

3-7 years

Scaling Companies

Currently achieving £10M+ turnover and/or with over 50 employees, looking to achieve 60%+ turnover growth over the next 3 years with a £50M-£100M+ level of ambition

5-10 years+

Pre seed

**Typically companies will take this time in each stage

Six critical elements (potential barriers) for scale-up growth

- Talent: recruiting sufficient numbers of people with skills and ambition – most cited barrier !
- Appropriate growth finance – ‘patient capital’ – equity investors willing to – a second order barriers ‘money follows talent’
- Developing leaders – executive education and mentoring to help build leadership teams with the ambition and skills to manage growth
- Maximising existing and new customers: many firms start nationally – helping them to grow internationally can boost scaling
- Infrastructure - scale-ups often find it difficult to access required facilities / R&D services / digital networks (broadband)
- Joined up support and networks : scale-ups should be able to access a dedicated support team (avoid fragmented public support) and access trusted networks (e.g. international diaspora networks).

Case study session – supporting IHGEs on their growth journey

During this session, the participants will be split into groups supported by a moderator and will work in two steps.

Each group will be assigned one of two proposed business cases (see opposite).

Discuss together to identify:

- The main barriers to growth at each stage
- The types of service/advice required
- Priority actions to take in Central Asian context to develop required service.

Case 1 – an established (10 years old) food manufacturing firm with its registered HQ and an existing production facility in a Central Asian country.
The company has +/-100 employees and has in-house a small lab for testing and quality control staffed by three qualified food technicians. The company has existing export sales (roughly 50% of turnover) notably to the countries of the SPECA region.
Trigger point: change of management
Ambition : first mover in new plant based proteins products in SPECA
Challenge: to secure investment and expertise for new product development and export markets

Case 2 : a start-up launched by two young (under 35) founders in 2019 developing Internet of Things (IoT) devices for improving water and wastewater management and monitoring.
The +/-10 staff (including software engineers and an R&D manager) are based in one of the Central Asian capital cities. The company has received several rounds of seed-stage investment (up to €1.5m) from a mix of local and international equity investors.
Trigger point: Global growth trends for smart water management market.
Ambition : capture a strategic position in the smart water management market in Asia and potentially the middle-East
Challenge: Raise Series A investment and secure expertise on regulatory issues related to water industries in target markets

Brainstorming session – How, Now, Wow

Identify priority actions that should be taken to enable EESC countries business support ecosystem to provide more targeted advice to IHGEs.

> **Now** – what can be done in the short term in my country, based on existing capacity/organisations, to better serve IHGEs.
>
> **Wow** – ideas sparked by the training that are new or innovative to my country which could be implemented relatively fast.
>
> **How** – actions that require more time and investment to prepare but that we need to do in a medium-term perspective to develop a scale-up ecosystem