

SETTING UP GREEN DEAL ACCELERATOR AND RELATED IMPACT INVESTMENT FUND IN TARTU

A Policy Learning Platform peer review

Date: 29-30 June 2021

Final Report

1. Brief presentation of the beneficiary and its motivation to host a peer review

This peer review was hosted by the Tartu City Government Business Development Department. Based on earlier smart city initiatives and the existing regional startup ecosystem in Tartu it has become evident that a new acceleration programme and impact investment fund focused on Green Tech would be needed to further strengthen ongoing smart city and startup ecosystem developments in Tartu.

The rationale of idea, currently bearing a working title Green Deal Accelerator, is related to the growing importance of the Green Deal topics in the context of Tartu (as well as nationally and internationally), and the need to fill in the current gap in the regional ecosystem.

The main related challenge to be addressed by the Peer Review concerns ensuring effective set-up and sustainable development of the accelerator and related impact investment fund.

2. Specification of the policy challenge encountered

The aim of Tartu City and other regional partners is that the Green Deal Accelerator provides the necessary support for startups particularly in coming up with new products and services eventually taking Tartu and Estonia to a new level as a zero-carbon innovation hotspot in Europe. In addition, the initiative serves to contribute to the development of the impact investment field that is currently in a very early stage of development in Estonia.

With the help of experts, we wanted to validate our preliminary approach as well as their advice regarding many elements that are still open at the moment and where we lack prior experience (such as setting up an impact investment fund). The key questions to the experts were presented related to the two main interlinked sub-topics in our approach: 1) startup creation through an acceleration programme and 2) development of a related impact investment fund.

Thematic block I – GREEN DEAL ACCELERATOR

Key questions to address:

- How could we improve/ further develop the acceleration approach in order to best meet the needs of the Green Tech companies in Europe?
- What should be the more specific focus of the non-financial support offered to the startups in the context of the accelerator programme?
- What kind of innovative/non-traditional approaches in terms of both the content and format of the acceleration programme could be potentially used (tested)?
- How to ensure a sustainable business and financing model for the accelerator?

Thematic block II - IMPACT INVESTMENT FUND

Key questions to address:

- How to define an appropriate balance point regarding financial returns and expected social and environmental impact?
- What would be the best investment approach for the new impact investment fund: taking equity in accelerated companies, quasi-equity, future revenue sharing, or something else?
- What would be the appropriate (responsible) exit strategy of the fund?
- What would be the recommendations regarding impact assessment and monitoring models regarding the impact investments made?
- How to ensure sustainable business and financing model for the impact investment fund?
- What kind of impact investment support schemes exist in Europe/ various regions that could be used for setting up the new green tech impact investment fund?

3. Participants

City of Tartu

- Raimond Tamm, Deputy Mayor of Tartu
- Kertu Tombak, Department of Business Development

Local stakeholders involved

- Andrus Kurvits, Tartu Science Park
- Aivar Pere, University of Tartu
- Kärt Rääbis, Buildit Accelerator
- Rudolfs Neimaniss, Buildit Accelerator
- Kadri Uus, Baltic Innovation Agency
- Karl-Tanel Paes, Solaride (NGO SolarCar Estonia)

Peers

- Andreas Jonas, Economic Development Agency for Maerkisch-Oderland, Director, Strausberg, Germany
- Jan Sienkiewicz, Regional Development Agency in Bielsko-Biala, Upper Silesia, Director of International Relations and Projects, Bielsko Biala, Poland
- Roberto Algarra Alberto, Valencian Institute of Business Competitiveness, IVACE, Unit Manager of financial advisory and European Projects, Valencia, Spain
- Matiss Neimaniss, Buildit Latvia Accelerator and Pre-Seed and Seed Investment Fund manager, Riga, Latvia
- Andrew Dickson, Zero Waste Scotland, Circular Economy Investment Fund Programme Manager, Stirling, Scotland, UK

Interreg Europe team

- Laurentiu David, Policy Officer
- Thorsten Kohlisch, Project Manager
- Rene Tonnisson, Thematic Expert, SME Competitiveness
- Mart Veliste, Thematic Expert, SME Competitiveness

4. Policy Recommendations

GREEN DEAL ACCELERATOR

- **Focus, objective & definition of the accelerator programme**
 - Defining objectives of the planned accelerator needs to be the first step.
 - Determine the focus - branches, target groups, acceleration process with milestones.
 - Result orientated focus – final results are more important than the process.
 - You risk alienating companies who do not identify as green. Specific calls might work.
 - “Green“ does not need to be the brand. Use different terms with different stakeholders.
 - „Sustainable“ as an alternative or extra term to „green“ (but also broader)
 - Important to have metrics for the green impact (also important for securing additional EU level financing)
 - Keep in mind the deal flow and how narrow you make the focus.
 - Important consideration: Is it a business-driven activity or educational?
 - Potential to launch: Challenge based-open innovation schemes with established companies – challenge from a company with a real need
 - Development challenges of the Country and City / S3 goals – keep an eye on the trends

Many of the choices depend upon where the money is coming from – public and private funding demand different outcomes of the accelerator. Language also needs to be considered – what is the appropriate Estonian translation of the accelerator name?

- **Accelerator target group – teams/startups**
 - Involve foreign teams, attract international talent - Startups move to the best ecosystem(s); Non-EU startups – they want to have “made in EU” opportunities
 - Positioning the City; related to deal flow
 - Minimum TRL4, preferably TRL5-6
 - But be aware of ecosystem/market gap between TRL2 to TRL6
 - Focus on strong ones, not trying to keep someone alive
 - This expectation again depends on the funding source (public or private)
 - Incubators seek to keep everyone alive and function as educational programmes
 - Accelerators seek to support self-sustainable ideas. With private money you cannot afford to work with weak companies.

Deciding the TRL level also depends on the positioning of the new Green Deal Accelerator in the existing Tartu ecosystem - where does the accelerator fit in the pipeline of business support services? If the aim is to reach to green impact, as the Impact Investment Fund implies, then this also pushes the focus towards later stage businesses.

- **Programme level considerations**
 - Implementing coaching and mentoring system for the participating start-ups by
 - senior experts (e.g. retired manager / Business Angels)

- consulting experts from established companies, successful entrepreneurs (businesses coaching businesses)
 - experts from financial institutions, lawyers, relocation specialists, tax specialists, etc
- Focused programmes provide better results but are more expensive – trade-off decision
- Keep it simple for the companies
- Considering the small deal flow, it should be a tailored programme that could adjust to each participants' needs
- Maintaining the accelerator - You have to find a way that everybody would be happy to pay for it long run. Determine a strong risk matrix and financing package that attracts investors and SMEs to cohabit.
- Consider MASDE tool developed for sectors
- **Programme level considerations – non-financial support**
 - Faster development of business models/ business plan by coaching support and feedback by experts (this may also include exit options)
 - Access to premises and equipment (offices, fablabs, workshops and studios)
 - Connection to other founders, start ups and companies for collaboration
 - PR-support/marketing to promote the start up prominence
 - Access to potential industrial and financial partners
 - Consulting and support by negotiations with potential investors
 - Hands on mentoring (1:1)
 - Group mentoring and alumni support
 - Product market fit - Identification of the Market need & price point for sales

Importance of group mentoring / peer learning was emphasized in the discussion. Mentors need to be taken care of – cover main costs and provide interesting experiences (networking events in various settings). This is the best way to get good results with limited resources. Public money should be used for operating the programme and private money to invest in the companies.

- **Cooperation & networking**
 - Involve Tartu local community
 - Integrate private and public investors/big companies - sit in the same room with the actors – „observatory“ for green tech
 - Tap into universities ongoing collaboration with the big players in Estonia
 - Involve proactively university research teams which have promising developments ongoing
 - Cooperate with other international accelerator programmes (joint part of the programme)
 - Landscape review of other successful programmes across Europe and globally
 - Job shadowing – study visits are limited; shadowing a fund manager
 - Involve people who know the market

IMPACT INVESTMENT FUND

- **Horizontal recommendations**

- KPIs and motivation for the program managers (put their “own skin” in the game)
- Public and Private sector has different motivations and ability to adopt to the new situation (agreement about principles)
- Do not spend 10 EUR for monitoring in order to save 1 EUR
- Keep in mind the legal structure of the fund manager
- About the Fund
 - Size of the fund: 10-15M EUR
 - Investment period (while investments are being made) - 2-3y
 - Monitoring period – 7-10y
 - Ability to make follow-on investments (20k – ≈300k EUR)
 - Portfolio: approx. 40 – 50 startups
- Determine early on what State Aid issues may arise - are you providing capital and operating costs?
- The fund capital should not be used for the accelerator programme, especially if the fund is small
- Guarantee fund/convertible loans:
 - Consider creating a guarantee fund to attract investors who are not used to such investments. For investors who need to have reduced risk. In the form of a convertible loan. At the end of the investment period the investor has two options: change the loan to shares or have to loan paid back.
- Development of clear guidance to applicants – so they know what is ‘fundable’ and what is not
- Recommended number of investments – 10-15 per year
- Important question to figure out – whether teams are allowed to pay salaries and if so, what is the acceptable level of salaries?
- Providing the next ticket could be conditional to the company finding 50% of investment from outside the Fund.

GOOD EXAMPLES

- Accelerators
 - WISTA Berlin: Example of a general business accelerator with a changing focus. Partly financed by private investors.
 - Business Plan Competition
- Investment Funds:
 - An example from Scotland of private investment in CE & innovation circularitycapital.com
 - Hessen PIUS programme
 - Social Investment Scotland

5. Possible calendar of implementation

This section helps the beneficiary to start working concretely on the implementation of the recommendations, by reflecting on the possible time frame and resources to be dedicated for such actions. A Gantt chart can be proposed, or any other easy to use format to visualise and plan a calendar of activities. The information provided here is never binding.

6. Conclusions

The host organisation found the peer review very useful to give reflections and validating the preliminary approach on the Tartu Green Deal Accelerator programme and receiving advice regarding setting up an impact investment fund. The ideas presented by the experts participating in the peer review will be discussed further with other stakeholders and implemented in the creation in the programme and fund, when found applicable. We would also like to continue cooperation with the peers to receive more information in some of the good practices and recommendations presented.

Tartu, 2021