

## GROUPWORK

### FINANCIAL INSTRUMENT FOR INNOVATIVE SMEs AND START-UPS

#### ECONOMIC CONTEXT

**Scenario.** The region is economically advanced and witnessed economic growth in the 1990s and 2000s before the crisis. Industry has a relatively stronger weight in the Region's economy compared to the EU as a whole, and there is a traditionally strong business sector based on SMEs, especially in the sectors of textiles&fashion, consumer electronics, and furniture.

However, the formerly high employment rate is steadily decreasing since 2009, and key labour market challenges include the seasonal and precarious nature of many jobs along with a strong dependence on the construction sector, as well as competitive pressures from emerging economies.

**Research and innovation.** Expenditure on R&D and innovation in the Region is relatively low compared to the EU average, although it has a relatively strong private sector share. The number of patents applied for in the Region continuously decreased in the last few years, and the entrepreneurial activity of innovative companies and high technology start-ups lags behind the performance of most advanced EU countries.

**Knowledge-based economy.** National economy is moving from labour intensive industries to knowledge-based industries. However, continued emigration of qualified young people could cause shortage of labour in knowledge-based sectors.

**Youth unemployment and self-employment.** There is a high unemployment rate among young people (18-34 years). In a recent survey over 40% of all young people would like to be self-employed, which is relatively high in the EU context: however, there seem to be insufficient knowledge to start a business.

#### SUPPORT TO INNOVATIVE ENTERPRISES

**Access to finance.** There is a limited access to finance for innovative SMEs at their early stage (including start-ups), and lack of collateral and credit history is a major barrier. Banks are increasingly reluctant to provide credit and microcredit for new entrepreneurial activities and start-ups. More in general, bank loans to enterprises have decreased steadily since 2012. New lending often requires collateral and is only short term, reflecting the increasing risk aversion. In the past few years, commercial banks had a huge increase in delayed payments, especially for over 90 days, mostly from micro and small enterprises

The venture capital market is still underdeveloped and mostly financed by public funds. However, business angel financing initiatives have been started in the Region in recent years.

**Public support.** Three region-financed innovation environments (incubators/accelerators) support innovative start-ups founded by researchers and knowledge-based entrepreneurs. A State investment fund provides capital and expertise to SMEs across the country, including our Region. Established in 1999, it has co-invested more than EUR 1.5 billion in over 4000 companies operating in many sectors, including agriculture. However, this fund mainly supports mature companies.

## YOUR ERDF OPERATIONAL PROGRAMME

The ERDF OP of the Region includes **Priority 1**, linked to the 2021-27 EU policy objective “**A smarter Europe** - innovative and smart economic transformation”. The selected **Specific Objectives** in this priority are:

- (i) enhancing research and innovation capacities and the uptake of advanced technologies;
- (iii) enhancing growth and competitiveness of SMEs;
- (iv) developing skills for smart specialisation, industrial transition and entrepreneurship;

In the ESF OP of the Region, soft support for entrepreneurship (such as training) is offered

## LESSONS LEARNED FROM THE PAST

The ERDF OP in the region in 2014-2020 supported hi-tech investments in 100 SMEs and start-ups, through grants. There were 600+ applications and there were difficulties in selecting the projects, especially in understanding their financial feasibility.

A survey revealed that financed start-ups and spin-offs had a low survival rate after 3 years (20%). As result of the intervention: 10 new jobs were created.

In other EU Regions with a comparable size and/or degree of development, different financial instruments (loans, guarantee and equity) were used in the two past programming periods, with positive outcomes:

Catalonia -> [https://www.fi-compass.eu/sites/default/files/publications/case\\_study\\_financial\\_instruments\\_for\\_innovative\\_firms\\_spain.pdf](https://www.fi-compass.eu/sites/default/files/publications/case_study_financial_instruments_for_innovative_firms_spain.pdf)

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