



FINAL REPORT ON IDENTIFYING GOOD SUPPORT PRACTICES FOR ECO-INNOVATIVE COMPANIES DURING THE COVID-19 PANDEMIC

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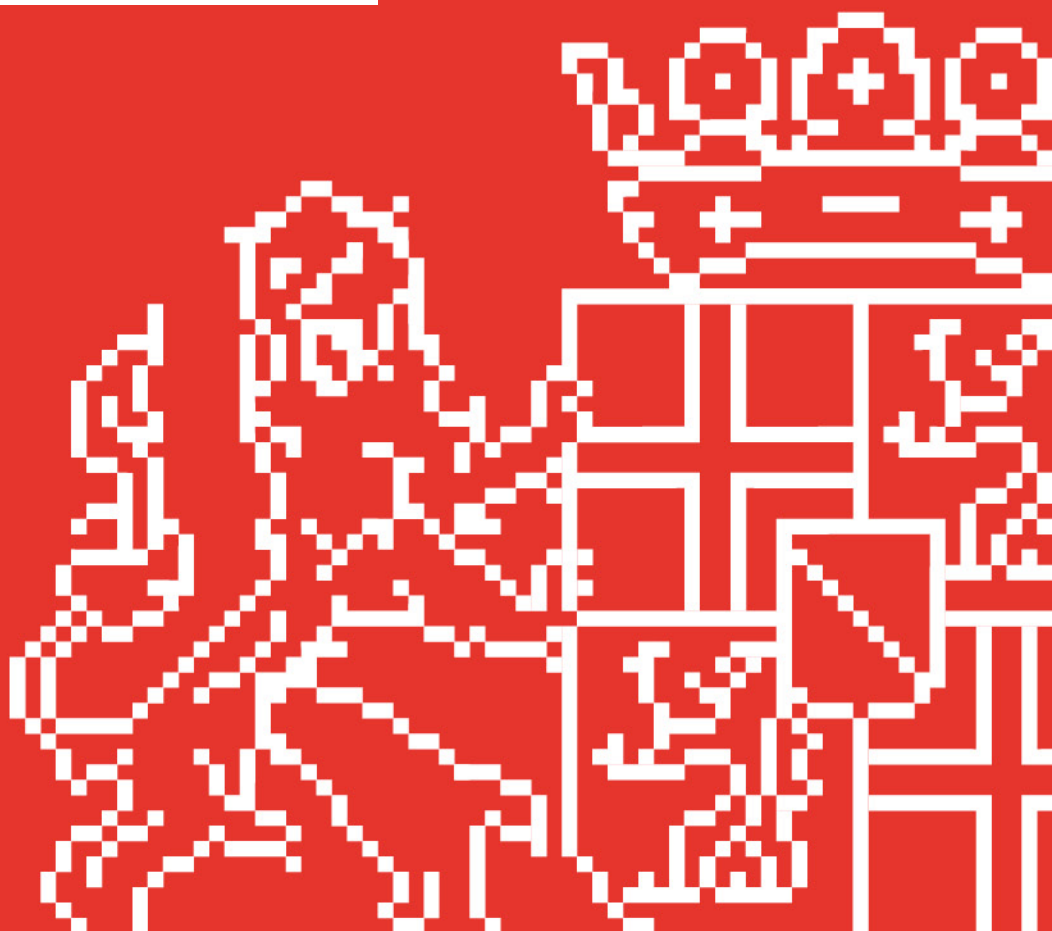


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1 Executive summary

Will be added after incorporating the peer-to-peer feedback

2 Introduction

The province of Utrecht is located in the heart of The Netherlands and has a population of approximately 1.3 million. Part of the western conurbation *Randstad*, its economy is typified by its central location, highly educated workforce and relatively harmonious balance between working, living and recreation. Utrecht's citizenry is both the highest educated and wealthiest of The Netherlands.¹²

The strength of Utrecht's economy can be illustrated with the following quote from the province's executive coalition agreement: *"Utrecht is one of the most competitive economic regions in Europe. Our profile as a leading and innovative region in terms of healthy urban living is recognized both nationally and internationally. New (international) companies that set up shop here provide opportunities for sustainable growth in the province in the areas of energy transition, sustainable and circular construction, healthcare and the manufacturing industry. More and more business visitors from home and abroad are visiting and creating new jobs in the region."* Indeed, the province of Utrecht has for years been part of the top 3 most economically competitive regions according to the European Commission's Regional Competitiveness Index, most recently sharing the second place with London, UK just behind Stockholm, Sweden.³ Utrecht is one of the few European regions outperforming their respective capital regions in the aforementioned index. The economic mix of Utrecht is varied but typified by strong healthcare and public sectors, transportation, financial and IT services, a large construction sector and a near absolute lack of (heavy) industry. Primarily due to the presence of world-class institutions of teaching and research Utrecht attracts a relatively large share of public R&D spending in comparison to other Dutch provinces. Utrecht has for years outperformed the average growth of The Netherlands in terms of population and economy. The backbone of the economy of Utrecht remain SMEs whose share of total employment amounts to 40% which rises to 66% of employment when only considering the private sector.⁴

In terms of economic policy, the province is determined to capitalize on the aforementioned strengths to deliver a more sustainable system. This perspective is laid out in the province's executive coalition agreement and further underscored in its economic policy 2020-2027: *"Economic development must contribute to the achievement of social goals and thus to the broad prosperity. Specifically with regard to the economy, the Province of Utrecht is working towards a strong, competitive and sustainable economic structure with attractive and future-*

¹ <https://www.cbs.nl/nl-nl/nieuws/2003/28/utrecht-telt-meeste-hoogopgeleiden#:~:text=De%20provincie%20Utrecht%20heeft%20het,hel%20aandeel%20hoogopgeleiden%20relatief%20groot.>

² <https://nltimes.nl/2021/10/14/utrecht-residents-richest-netherlands>

³ <https://www.provincie-utrecht.nl/actueel/nieuws/regio-utrecht-opnieuw-top-van-europas-meest-concurrerende-regios>

⁴ In this case the CBS definition of 'private sector' is used, which consists of: mineral extraction, industry, utilities, construction, trade, transport, hospitality, information and communication, real estate, business and other services. ; provincie Utrecht beleidsplan Economie 2020-2027

proof facilities for businesses and employees and facilitates innovative developments in the area of healthy urban living (HUL) and circular economy.” This also explains the participation of the province of Utrecht in the Interreg SUPER project: how do we effectively support and stimulate the eco-innovative entrepreneurs working on the societal transitions we are faced with? The extension of the Interreg SUPER project allows us to reflect on the hectic and unprecedented times of the past two years. How did the COVID-19 pandemic and its related policy-interventions impact eco-innovative entrepreneurs? Did the myriad of support measures taken by the national, regional and local governments affect the desired results? In the following sections we will briefly expand on our chosen methodology and more importantly delve into our findings.

3 Methods

In line with the agreed upon common methodological framework for the conduction of this research project we have conducted a series of semi-structured qualitative interviews with a series of support system actors and eco-innovative entrepreneurs. For the sake of the interoperability of results we have made sure to collect answers on all agreed upon questions whilst allowing room for the interview to deviate from said questions to gain increased insight in the circumstances and experiences of the participants. Interviews lasted approximately 50 minutes.

All interviews were conducted by a policy officer of the province in the presence of a support officer for the purpose of simultaneous note-taking. To ensure the most reliable answers some entrepreneurs have been promised complete anonymity whilst others will be mentioned without any quotes or experiences being attributable to them.

In terms of support system actors we have interviewed the most central (non-)governmental organizations working directly with entrepreneurs during the COVID-19 crisis. We have arrived at these organizations through consultations with civil servants and entrepreneurs. These organizations are:

- Regionale Ontwikkelings Maatschappij (ROM) Utrecht
 - o *Regional Development Agency Utrecht* – stimulating start- and scale ups in the Utrecht region
- Alliantie Cirkelregio Utrecht
 - o *Alliance Circular Region Utrecht* – supporting SMEs in the transition towards a circular economy
- UtrechtInc – an incubator for highly innovative start-ups in the Utrecht region
- URECA – *Utrecht Region Economic Corona Alliance* – set up by local and regional government and the local Economic Board at the outset of the pandemic to support entrepreneurs in the midst of the economic turmoil
- Province of Utrecht – economic policy actors

In terms of selecting the entrepreneurs to be interviewed we strived to achieve a multi-faceted balance in participants. We were looking for a broad variety of experiences in terms of sectors the entrepreneurs operated in, the size of their enterprise and the degree to which their operations were interrupted by the COVID-19 crisis. All entrepreneurs interviewed however can be qualified as eco-innovative. We arrived at the companies in questions through multiple means: referrals by support system actors, consultations with civil servants, independent

research and those awarded for their sustainable, circular or eco-innovative business-practices. We have among others interviewed the CEOs or COOs of the following companies:

- Orbisk – a scale-up utilizing cutting-edge technology to limit food waste in the hospitality industry;
- Solease – a scale-up offering rental options for solar panels and other sustainable home improvements;
- Matras Recycling Europe – a more established market leader in recycling mattresses in The Netherlands and Belgium;
- EcoDynamic – an innovative company that has developed and now builds more environmentally friendly road surfaces and biking paths;
- TOMO – a start-up endeavoring to develop the first fully circular fashion-outlet;
- Energiepartners – a consultancy firm working with governments and companies on the energy-transition.

4 Challenges for eco-innovative companies

The COVID-19 related challenges faced by the eco-innovative companies interviewed were varied and complex. In this section we will provide a general overview of the most commonly heard obstacles. These are: immediate uncertainty, a loss of demand, an inability to secure financing, personnel related challenges and the difficulty of scaling-up in the final phase of the COVID-19 crisis. To preface these findings it should be noted that all of the eco-innovative entrepreneurs we have spoken to firmly rejected the notion that the nature of their operations, being eco-innovative, would somehow set them apart from other companies. In a sign of what is perhaps an evolved understanding these entrepreneurs very much considered themselves ‘regular’ entrepreneurs and thought their experience did not deviate from companies working in ‘regular’ sectors of the economy. In the conduction of the interviews we did however arrive at some tentative conclusions on possible differences that will be outlined in the good practices section at the end.

4.1 Immediate uncertainty

To fight the spread of COVID-19, the national government of The Netherlands launched a wide variety of unprecedented policy interventions starting mid-march of 2020. In a series of weekly press-conferences the government announced increasingly stringent restrictions on the society and economy. It was deemed necessary to shut down entire sections of the economy (i.e. hospitality, travel, some retail), curtail the movement of people and stimulate working from home. This initial phase of the COVID-19 crisis is described by the entrepreneurs as paralyzing in its uncertainty. Whilst fear was spreading monumental shifts in consumer behavior, business-practices and regulations posed tremendous challenges to entrepreneurs. They had to overhaul their practices in nearly every sense of the word and sometimes experienced a “fight for their lives”. The way this uncertainty impacted companies in question varied greatly; whilst some adapted relatively easily others found that their business was no longer viable under current regulations. It should be noted that especially entrepreneurs in the early stage of their entrepreneurial journey struggled greatly. More experienced or ‘serial’ entrepreneurs we have spoken with indicated that their earlier

experiences with (economic) hardship allowed them to be more decisive in making the difficult decisions needed in the moment or had already setup a flexible business, in terms of outsourcing staff, having multiple income streams or various types of clients.

4.2 Loss of demand

Whilst this is far from true for all companies interviewed for this research project some experienced a calamitous loss of demand that would have, if not for the support measured outlined later, have meant the end of their company. These companies operated in sectors of the economy that were, for epidemiological reasons, curtailed or shut down entirely by the national government. Entrepreneurs described an almost traumatic series of events and concurring policy interventions leaving them without any demand in a matter of days or weeks whilst their operating costs continued as normal. Due to the nature of the public health measures taken, primarily companies working directly with consumers were effected but others, such as those servicing office spaces, also were impacted.

4.3 An inability to secure financing

Some capital-intensive start- and scale-ups require a steady stream of financing, multiple rounds thereof, to maintain their business model. This is a generally accepted business practice that is routinely utilized by very successful companies to realize the necessary growth. In the early months of the COVID-19 crisis it were these companies that faced tremendous difficulty as private equity and other institutional investors responded to the aforementioned uncertainty by completely or largely shutting down their investment operations. If one of these capital-intensive companies had planned a round of financing in Q2 of 2020 they faced an existential threat due to the financing *pipeline* shutting down entirely in this period.

4.4 Personnel related challenges

The impact of COVID-19 on the personnel of companies interviewed was varied but at times profound. This included the relatively straightforward issue of employees catching the virus and being out of work for a period of time thereby disrupting operations. More pernicious were the unexpected, long-term, impacts of the crisis on the mental well-being of employees and cases of long COVID. One entrepreneur interviewed outlined a serious situation in which they had just prior to the COVID-19 crisis significantly expanded their personnel and were thus staffed by relatively inexperienced and young employees who suddenly had to work from home. This appeared to work acceptably for a time until, around 6 months into the crisis, they experienced an upswing in burn-outs and mental health related difficulties among personnel leading to over 20% of employees being out of rotation. It should be noted that especially start- and scale-ups with relatively young employees and without well-established Human Resources policies faced these unexpected and challenging situations. A final challenge caused by the pandemic is a relative high staff turnover, working from home may lead to staff feeling less connected with the company.

4.5 Difficulty in scaling up

Near the end of the COVID-19 crisis companies faced a whole new set of challenges whilst they were trying to adapt to the changing economic circumstances. Due to decisive support actions taken by all levels of government, The Netherlands experienced the lowest amount of bankruptcies of companies ever during the COVID-19 crisis. This development, coupled with pent-up demand and an unexpectedly strong economic up-swing starting mid 2021 posed entirely new challenges to entrepreneurs wanting to capitalize on the strengthening economic circumstances. Due to the global disruption of supply-chains (caused by COVID-19 crisis) and sudden national shortages of personnel, companies found it difficult to meet the sudden rise in demand for their services and products, leading to very frustrating situations for the entrepreneurs in question.

4.6 Business as usual

In addition to the challenges outlined above it should be noted that not all companies experienced difficulties. Some entrepreneurs we have spoken with indicated only minor and temporary disruptions. These companies were operating in sectors that faced only minimal governmental intervention and experienced few differences and even managed to effectuate significant growth during the pandemic. Even companies that were seriously impacted by the COVID-19 crisis at times were able to point to upsides of the otherwise difficult times. Some eco-innovative companies pointed towards a newfound appreciation for ecologically-conscious spending among consumers and entrepreneurs working on the transition towards a circular economy indicated that the COVID-19 related disruptions of supply-chains made business more amenable to recycling and the local sourcing of their raw materials.

5 Good support practices

In the following section we will expand on the support practices that were used by the companies we have spoken with to minimize the impact of the COVID-19 crisis on their operations as well as their perspective on the effectiveness of these measures. We will first establish some much-needed context before we outline the most important support practices, these being: the COL, peer-to-peer support and helpdesks.

5.1 Context

It is vital that local and regional support practices are evaluated in the context of nationally devised support schemes. It does not matter for an entrepreneur in crisis which level of government is offering the support they need, rather whether said support is effective. The local and regional governments of The Netherlands were privileged in that the national government was able and willing to, with unprecedented speed, devise a series of wide-ranging support schemes. The Netherlands, due to its strong economy and limited national debt, was able to cheaply raise massive amounts of capital on the market to finance these schemes. It is absolutely clear that the regionally and locally devised support schemes played second fiddle to these huge, nationally administered, support schemes. In line with the unitary nature of the Dutch state and its perspective on governmental subsidiarity, decentralized governments were utilized to offer tailor-made additions to the aforementioned schemes. To

appreciate these local and regional policy interventions and support schemes one thus has to first understand the national support schemes, for it is in the interplay between these different governmental levels' support schemes that their effectiveness can be found.

By far and wide the most utilized and universally appreciated, among entrepreneurs at least, support scheme developed by the national government was the NOW (temporary emergency measure to bridge the gap in employment) program. This program provided relatively attractive funds to all entrepreneurs experiencing a drop in revenue during the COVID-19 crisis to continue paying their employees as long as they did not let go of their employees (there were exceptions). Vital to the effectiveness of this scheme was the ability of entrepreneurs to apply for support based on expected drops in revenue rather than already realized losses. Only later, support would be adjusted based on realized losses. The scheme was developed in unparalleled speed and launched end of march 2020, a mere 2 weeks after the first significant public health measures were taken by the government. It was administered fully by the national government. Every singly entrepreneur we have interviewed that experienced a drop in revenue has made use of this scheme and it was lauded for its speed, effectiveness and relative ease of use. Throughout the COVID-19 crisis €20,761,381,061 was spend through the NOW-program, supporting 427,051 companies for an average of €128,735.

In addition to the NOW-program, the national government devised other schemes addressing specific challenges faced by entrepreneurs. These included the TVL (support to cover fixed costs of companies shut down by governmental interventions), TOZO (support for freelancers), tax deferrals, support for banks to help SMEs facing liquidity problems, specific support measures for the cultural and agricultural sectors and others. Thus a wide-ranging landscape of support schemes was developed in a short amount of time.

Therefore, local and regional governments could focus their support actions on those issues that could not be addressed through large-scale generic measures as deployed by the national government. The most important of these were the Corona-OverbruggingsLening (*Corona-bridge loan; COL*), individualized advice and peer-to-peer support.

5.2 COL

The COL was devised for start- and scale-ups and other innovative SMEs that found themselves in dire need of bridging financing in the early stage of the COVID-19 crisis. As established previously, traditional investors and lenders were, due to the immediate economic uncertainty, very hesitant. This posed particular problems for early-phase enterprises. Through the COL entrepreneurs could receive loans ranging from €50,000 to €2,000,000. Whilst the capital was provided by the national governments, the administration of the COL was left to the ROMs (*Regional Development Agencies*). These agencies would receive applications from SMEs and, based on their business plan and additional documentation and interviews, determine whether they could: *“be confident that after the bridging period through the COL there is a prospect of a funding round, break-even situation or some other way of continuing the business in a healthy way without additional support and being able to repay the COL within the given period.”* If this was the case the loan was provided to the entrepreneur. The entrepreneurs that we have spoken with were relatively positive about this scheme and lauded the insight of the government to provide a specialized funding-scheme for innovative SMEs. There was however some criticism as loans under €500,000 had to be paid back starting one

year after having received the funding. This requirement was devised in the early stages of the COVID-crisis, during which most were mistakenly under the impression that this would be a short-term issue. Whilst this might seem like an understandable mistake the Regional Development Agencies point out: *“The COL is not regular financing. It is expressly intended as a bridge to a next financing round or a break-even situation.”*

If, after submitting their application, the Regional Development Agency was not convinced of the ability of the SME to pay back the loan in the specified timeframe and/or continue afterwards the company was referred to URECA.

5.3 URECA and peer-to-peer support

URECA, the Utrecht Region Economic Corona Alliance, was a network founded by entrepreneurs at the onset of the COVID-19 crisis to offer support and advice to other entrepreneurs. It was the initiative of some very experienced entrepreneurs and included consultants and advisors from a variety of sectors, all experienced in matters of business administration. In close cooperation with the Regional Development Agency of Utrecht it would help companies that were initially rejected for the aforementioned COL support.

In many cases their application for COL was rejected due to the inadequacy of their business plan, based on which the Regional Development Agency had to make a judgement concerning the ability of the company to pay back the loan. These were often relatively inexperienced entrepreneurs that did not necessarily have experience writing business plans. With help of the URECA network they were often capable of improving their business plan so as to then qualify for the COL. Besides this the URECA network advised on a variety of matters relating to operating a business in the midst of a crisis. We have spoken with both the founder of URECA and several entrepreneurs helped by the network and experiences were very positive over the board. Entrepreneurs lauded the immediacy of advice, depth of expertise and the simple fact of being able to brainstorm and discuss with other, more experienced, entrepreneurs. Many described how starting a business can be exciting and rewarding but also lonely and unsure at times. Especially young entrepreneurs, having experienced only the ‘good times’ derived tremendous value from speaking with veteran colleagues who could offer them insights in crisis-management and pivoting operations so as to survive difficult times.

Besides URECA there were more regional and local networks of entrepreneurs, often established outside of governmental interference, that proved invaluable to entrepreneurs in times of crisis. Each entrepreneur that we have spoken to underscored the usefulness of engaging with others in similar situations to improve their own operation, whether they made use of it during the COVID-19 crisis or not. The founder of a scale-up described the jarring difference they experienced when their company outgrew the start-up phase. The start-up ecosystem is typified by strong networks and mutual support, often structured around the incubators with whom the start-ups work. The scale-up founder lamented the disappearance of many of these peer-to-peer support networks in the transition from start-up to scale-up and wished for the scale-up ecosystem to develop more fully.

5.4 Helpdesks & advice

Especially in the early months of the COVID-19 crisis things were changing in a rapid pace. Increasingly stringent public health measures were being imposed whilst consumer behavior was shifting and government was devising a myriad of support measures. To guide

entrepreneurs through this changing landscape a couple of helpdesks were established that could offer advice. The most prominent of these helpdesks was the one established by the national chamber of commerce which at the height of the crisis employed 70 experienced advisors pulled from a variety of departments of the organization.

These helpdesks proved useful in guiding entrepreneurs through the various national support schemes and explaining the regulatory constraints they were facing but did not address local or regional problems and support schemes. This whilst the entrepreneurs described often being faced with issues better addressed at a local level, such as cumbersome office costs for empty buildings, the adherence to local regulations and accessing local support schemes such as the aforementioned COL. Multiple entrepreneurs expressed that they would have appreciated a central contact point or helpdesk on a municipal or provincial level that could offer them tailor-made advice in regards to regulations and support.

6 Conclusions

We have structured our findings along 4 conclusions that offer both specific policy recommendations and general suggestions to be taken into account prior to and during any future periods of sudden-onset economic insecurity.

6.1 Complementarity and subsidiarity of governmental support schemes

As outlined in 5.1 local and regional support schemes in times of crisis only make sense when viewed in the light of existing national measures. National governments generally have the financial and administrative means to implement the necessary large-scale support measures in the appropriate timeframe. Local and regional governments on the other hand have the in-depth knowledge on local circumstances and capacity for tailor-made policy interventions. In designing support schemes, local and regional governments should prioritize those areas in which the aforementioned qualities play a significant role. This interplay can be seen in The Netherlands through a comparison between the discussed NOW and COL measures. Whereas the NOW had to be devised quickly and offer indiscriminate support to any and all businesses that expected losses, the COL required careful study of business plans and the operations of individual companies to determine their capacity to pay back the facility. Thus the NOW could be devised and implemented by the national government whilst the administration of the COL was left up to the regional development agencies.

6.2 Peer-to-peer support and advice

As outlined in regards to the URECA network and its demonstrated value to SME's the ability to share experiences and receive advice from more experienced entrepreneurs can be vital in times of crisis. Especially those early in their 'entrepreneurial journey' can benefit tremendously from the insights of those that have experienced previous crises and the hard decisions that come with them. Whether it concerns shifting operations, taking on bridging financing or having to let go personnel; engaging with others with similar experiences strengthens the decision-making and offers support to the entrepreneurs in question. The peer-to-peer network can be structured in a mentor-mentee fashion, matching less and more experienced entrepreneurs, or in a more open framework in which no distinction is made on seniority. Whilst entrepreneurs can at times fall back on private sector networks it would be advisable for local and regional governments to step in when those private sector networks prove insufficient. In cooperation with regional development agencies or the chamber of

commerce governments can facilitate these peer-to-peer network. This can be done by offering physical spaces to meet, aiding the communication efforts of the network or promoting their existence through official governmental communication channels.

6.3 The necessity of networks and importance of communication

During times of crisis or economic insecurity a government, be it local, regional or national, may want to deploy a variety of measures to support and/or guide entrepreneurs in adjusting to the changing circumstances. Whether these support actions are financial, regulatory or of other nature it is vital the implementing government gets in touch with the entrepreneurs fast. If a government starts their outreach only when the crisis have started they are already too late. To ensure fast and effective communication it is vital the government in question has established their networks prior to any such upheaval. This can be done through mediators such as the chamber of commerce, private sector business groups or regional development agencies or through networks deployed by the government itself.

Regardless of these already existing networks special attention should be paid towards the nature of the communications itself. Clear and concise communication that is coherent with messages coming from other levels of government and, in the case of COVID-19, public health authorities, is of utmost importance to prevent confusion and frustration. Ideally this central messaging is complemented by the establishment of a specific helpdesk by local or regional government that can clarify existing support schemes and regulations and work with the SME to make the most efficient and effective use thereof.

6.4 Fighting the previous crisis

In discussing the broad variety of (financial) support measures implemented by the national government with support system actors their rationale was often traced back to the experiences of the financial crisis of 2007-2008 and the European debt crisis of 2012. In those days the government of The Netherlands chose to rein in spending and cut deficits, offering only minimal (financial) support to struggling companies. Whilst this approach seemingly worked in improving the creditworthiness of the Dutch state many companies had to shrink their operations and let employees go. Afterwards these policies were harshly criticized and a majority of policymakers and economists seemed to converge around the notion that the government should taken a more Keynesian approach to the crisis and be more lenient with its support for companies and citizens. This insight, many support actors thought, underpinned the unprecedented willingness of the government to spend enormous sums in support during the COVID-19 crisis. Simultaneously one can increasingly hear demurring in regards to the support measures employed by government during this most recent crisis. The Netherlands experienced a historic low in company bankruptcies due to the generous financial support. Combine this with the rising inflation and the difficult economic upswing and personnel shortages and some are already questioning whether the government should've been more restrained in financially supporting companies. During our interviews we have come across worries pertaining to the existence of 'zombie companies' that should have gone bankrupt due to their inability to adjust to changing economic circumstances or other shortcomings of their business but instead are kept alive artificially.

The aforementioned correlation between the experiences of previous crises and the willingness of the national government of The Netherlands to be generous in its financial support schemes combined with the critical conversations on the most recent support

measures pose some difficult questions. To what extent are governments stuck fighting the previous crisis? Will our most recent experiences give rise to a once again hesitant government? Can this phenomenon be explained due to the nature of crisis-management? For the government is expected to take quick and decisive actions under market pressure based on a very limited amount of information and thus falls back on the lessons learned in earlier situations that are seemingly similar. Those similarities may however be deceiving, as history teaches us (economic) crises are seldomly similar in their trajectory. We do not offer a solution for this difficult dynamic but advice that this tendency should be closely studied and taken into account when devising future support schemes. Governments should, to the best of their ability, judge a crisis on its own merits and implement support measures accordingly. Past experiences may guide the analysis and subsequent measures but should not force the hand of government.