

Submission from Innovationsbron AB (Sweden)

on the

Public consultation on a possible successor to the Competitiveness and Innovation Framework Programme (CIP)

Innovationsbron AB (Sweden) is active in seed financing of early-stage innovative start-up companies, and in the funding and development of business incubators across Sweden.

Innovationsbron would like to raise three issues of high importance for Europe's early-stage company growth and development:

- a) Innovation-based business incubators
- b) Access to seed capital for innovative and high-tech start-ups
- c) Intellectual property finance

Innovation-based business incubators

Business incubators are a key instrument to enhance the competitiveness of start-ups in the early phases of company development. Incubators offer a series of valuable services, including an in-depth **validation of business and scientific ideas**, carrying out a **market analysis**, developing a **viable business plan**, **building a team** for the company's board and executive function, and providing **seed capital**.

The role played by the incubator is especially important to innovation-based enterprises where risks are high but potential future growth is equally high. According to scientific research and the track record (in Sweden for instance), start-ups coming from an incubator grow faster in terms of revenue and employees, secure more investment capital, are able to penetrate international markets faster, and have better expert networks, than start-up companies who have not benefited from incubator services.

Business incubators are present in several countries around Europe, but their quality differs widely and very few incubators have established collaboration with their peers in other EU countries. In addition, business incubators receive insufficient funding and often have to rely on public contributions from national or regional governments.

We suggest that CIP from 2014 will include a **sub-programme focused on the financing of business incubator development projects**. Its aim will be raising the quality of business incubators in Europe, developing new and better tools for incubation services, develop common benchmarking and assessment criteria, disseminating best practice in quality management systems, and offering the possibility to start-ups to use an incubator in another EU member state as a soft landing site before penetrating a new market. Lessons learned within the EU project Achieve More¹ can provide valuable input to such a sub-programme.

Another incubator development project that may raise considerably the growth potential of start-ups is the formation of **vertical cooperation projects** among business incubators in a particular industry, such as ICT, Life Science and Cleantech. Since the business model varies greatly between, let's say an

¹ Europe Innova, KIS Innovation Platform, Achieve More project

ICT venture and a Life Science venture, each incubator needs to develop qualified expertise in e.g. how to validate ideas more effectively (to weed out proposals that lack strength) and how to commercialize product candidates faster and with better returns. By setting up and funding EU cooperation projects between such specialized incubators in different EU member states, the quality of the incubator services can be substantially raised. In turn, this can raise the survival rate of start-ups, increase revenue growth and create more employment opportunities.

In the 2007-2013 period CIP/EIP did not include any action aimed at raising the quality of innovation-based business incubators. By introducing a new action for the 2014-2021 period, the EU can provide co-financing to development projects with high expected returns, and encourage other actors to increase their co-funding (national, regional and local governments, foundations, as well as private stakeholders).

EU co-funding in the order of €50m should be foreseen for a seven-year period, generating additional co-funding of appr €100m with a 3x leverage. Innovationsbron AB welcomes the possibility to continue the dialogue with the European Commission on the design of such an action.

Access to seed capital for innovative and high-tech start-ups

Innovationsbron AB provides seed financing to early-stage start-up companies based on products with a high innovation potential in all industry sectors.

We note that the EIB Group has made attempts in the last years to improve the conditions for technology transfer and that the current CIP/EIP Financial Instruments for SMEs are useful for improving capital formation in the early stages.

Still, studies have shown that access to finance for early-stage business ventures is still insufficient, especially in areas with high risk such as Life Science and Cleantech. For instance, a Nordic study from 2010² gives evidence of the shortage of very early stage venture capital and confirms the necessity to allow public actors to correct this market failure.

The lack of seed capital is evident in probably all EU member states but can be bridged through a concerted effort. A precondition for increasing seed financing, however, is that the procedures for validating business ideas and creating robust companies from the start are continually improved.

We propose that CIP 2014 will include the following changes to the current Financial Instruments for SMEs:

- an increased amount allocated through the Financial Instruments for SMEs,
- an adaptation of the conditions for risk-taking so as to enable early-stage investments,
- the possibility for government-backed investors to manage EIF seed investments,

By increasing the amount of EU-backed seed capital, it will be possible to build stronger investor syndicates for early-stage companies, through the means of government-backed capital, foundations, and venture capital funds. To benefit from these investments, start-up companies need to prove their worth by delivering viable market analyses and business plans, building better teams and showing their commitment to further growth. In our view, government-backed investors like Innovationsbron AB are required to fill the market gap in the very early stages.

² "Creating Nordic Success Stories - Enhancing cooperation on the nordic seed capital market", Nordic Innovation Center, 2010. For further information please refer to: http://www.nordicinnovation.net/_img/nice_program_nordic_seed_web2.pdf

EU funding at the level of €500m for a seven-year period is estimated to be required for an action aiming to improve the supply of seed financing, generating additional co-funding of appr €1.5bn with a 4x leverage.

Intellectual property finance

New financial instruments to accelerate and facilitate knowledge transfer are an increasingly important area. Fast-growing economies such as China and Korea are becoming more competitive also in knowledge-intensive industries, and their governments are taking steps to facilitate knowledge transfer.

EIF/EIB together with CDC France, CDP Italy, CDTI Spain, KfW Germany, Veraventure Finland and Innovationsbron AB Sweden established a joint working group in June 2010, the aim of which is to propose ways to support the emergence of an infrastructure at European and national level for efficient knowledge transfer in a longer perspective.

We suggest to explore different ways of using CIP to support the development of a functioning market for patent transfer in Europe, based on the recommendations of the working group.

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