

Creation of Support Ecosystem for Innovative Fast Growing Companies

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ABSTRACT

Creation of support network for SMEs, including start - ups and scale - ups »SUPPORT NETWORK FOR 3S« with partner institutions can be a useful model and tool to facilitate innovative entrepreneurial spirit in different economic environments.

The initiative stems from the European Commission's needs and guidelines to strengthen partnerships between "policymakers" and other national financial promotional institutions to support entrepreneurship, as countries from individual geographically and strategically linked European regions need to connect in finding synergy effects in supporting SMEs, start up ecosystems and support innovation systems for fast-growing companies.

Slovene Enterprise Fund (SEF) is a public financial fund and a national promotional financial intermediary, which offers favourable financial incentives for small and medium sized enterprises (SMEs), start-up and scale ups - high tech fast growing innovative companies (3S) in Slovenia to help them develop and grow. SEF offers a wide range of financial incentives for each development phase in the life cycle of the company, such as grants for startups, seed capital, venture capital, microcredits and guarantees for bank loans.

SEF also presents a strong element in **Support network for 3S in Slovenia** and has created a successful partnerships with other partners such as policy makers, financial partners, support organisations and services and research and education organizations.

But for the future success of different EU regions it is crucial to create a support network not only on the national level but also a support network on the inter - regional level. This kind of network should represent the cooperation and partnership among the partner support institutions and this partnership should also influence the cooperation among companies (3S - SMEs, startups and scaleups) from the connected region.

Keywords: support network for SMEs, start - ups, scale - ups, Slovene Enterprise Fund, public funding, financial incentives.

1. STARTING POINTS AND ASSUMPTIONS ON THE SUPPORT OF FAST-GROWING COMPANIES

SMEs are key contributors to economic growth, employment and innovation. They also play a key role in the transition towards more sustainable and inclusive growth pathways. However, contributions vary widely across the population of SMEs, sector and countries. Also, the global financial crisis marked a widening gap in productivity trends relative to large firms, with implications for wage and income gaps.

In the background of fast-evolving technological environment, ageing societies and climate change, SMEs hold the response to many pressing socio-economic challenges. At the same time, these mega-trends generate new challenges for SMEs and entrepreneurs, including changing skills requirements and forms of work, shifting relationships within value chains and increasing global competition, and a next production revolution.

Through their contribution to innovation, new and small firms are key to enhance aggregate productivity (OECD, 2017).

Business dynamics is an important driver of productivity growth. Start-ups are a key source of productivity gains due to their high levels of innovativeness and increased competitive pressure they put on incumbent firms. However, a large share of new enterprises either fails in the first years of activity, or remains very small (Calvino et al., 2016).

SMEs and young firms that experience rapid growth can have a considerable impact on aggregate productivity growth, including through innovation, heavy investments in human capital, new demand for advanced products and services, knowledge spillovers that other enterprises can harness, and impact on local entrepreneurial ecosystems.

SMEs are key contributors to technological and non-technological innovation. While not all SMEs are innovative, new and small firms are often behind innovations that are important for economic growth, especially in sectors such as software, nanotechnology, biotechnology and clean technologies. SMEs can exploit technological or commercial opportunities that have been neglected by larger companies, or enable the commercialisation of knowledge that would otherwise remain un-commercialised in universities and research organisation.

The changing nature of innovation and new technologies, in particular information and communication technologies (ICT), have empowered SMEs as they contributed to reduce the structural size-related disadvantages smaller firms face in terms of resource access, market access and ability to reap economies of scale (OECD, 2017).

The ongoing digital transition offers start-ups and SMEs opportunities of reaching scale without mass and enhancing their competitiveness through various forms of innovation. New digital technologies facilitate the emergence of "born global" small businesses and "lean start-ups" that leverage the Internet to lower fixed costs and outsource activities (OECD, 2017).

Data analytics improve market intelligence and encourage the adoption of new business models. Block chain technology and digital-enabled fintech services are likely to radically transform financial markets, especially the ways of addressing information asymmetries and collateral shortages which SMEs tend to suffer the most.

Other emerging technologies, such as robotics, industrial biotechnology, 3D printing, nanotechnology, are also announcing the "next production revolution" and far-reaching changes in markets and distribution and production processes wherein SMEs are closely involved.

SME may have a competitive advantage relative to larger firms in global markets, as their flexibility and capacity to customise

and differentiate products allow them to respond rapidly to changing market conditions and shorter product life cycles. This responsiveness is determinant for the competitiveness of entire supply chains and innovative small enterprises are often key partners of larger multinationals in developing new products or serving new markets.

SME participation in global markets creates opportunities of scaling up, accessing cheaper and higher quality inputs and capital goods (i.e. foreign technologies, products and knowhow), accelerating knowledge and know-how spillovers, and broadening SME skills set.

There are market failures that have heightened implications for SMEs due to their intrinsic characteristics, such as small size or age. In particular, diffused market inefficiencies create obstacles for SMEs to access markets and strategic resources, including finance, management capacity and skills, and knowledge networks and on public investments in areas such as education and training, innovation and infrastructure, placing them at a competitive disadvantage in the global and digitalised economy. Due to internal constraints, SMEs are disproportionately affected by market failures, barriers and inefficiencies in the business environment and policy sphere.

Innovation by SMEs is largely influenced by knowledge spillovers, access to networks and opportunities to partner with other players, including larger enterprises.

Boosting SME performance in a rapidly changing environment raises major policy challenges. The SME policy space is complex, comprising framework conditions, broad policies that impact SMEs, and specific targeted policies.

These areas often cut across the boundaries of ministries and government agencies, as well as across levels of government. SMEs are often embedded in local eco-systems, which represent their primary source of knowledge, skills, finance, business opportunities and networks.

2. WHY THE CREATION OF RIGHT SUPPORT ECO-SYSTEM CAN FOSTER INNOVATIVE FAST GROWING COMPANIES?

Based on the presented starting points and assumptions on the support of fast-growing companies it is important to consider factors affecting framework conditions at the local level, and how policies developed at national level are tailored to local conditions, as well as how they link with policies that are shaped at the regional or territorial level (OECD, 2017).

Many governments increasingly recognise the need for a cross-cutting perspective when developing policies and have taken steps in this direction. However, the synergies, trade-offs and complementarities within and across policy areas, as well as the implications for different types of SMEs, are often not well considered. This is often due to limited evidence and insufficient understanding of the interdependency of policies.

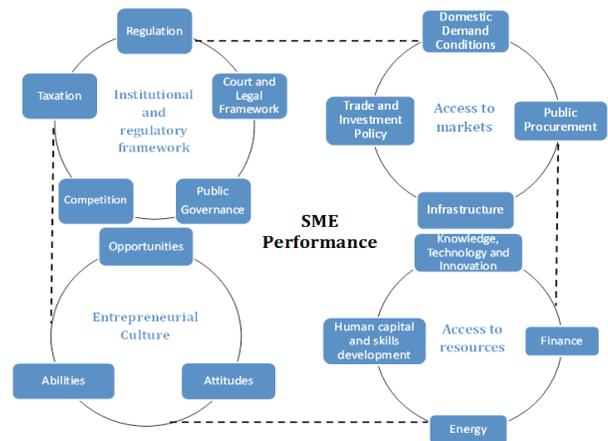
A major effort is needed to better understand the combined effects of structural reforms on the SME business environment, as well as on the role and impact of policies targeted to SMEs. Such an effort should consider the potential synergies and trade-offs taking place across diverse areas of interaction in the policy

mix, including distortionary effects that may be introduced by some policy actions.

The structure, performance and evolution of the SME population are impacted by complex policy settings, which cut across policy areas and government levels, and comprise general framework conditions (e.g. competition policy, trade policy, judicial efficiency, intellectual property rights regime); policy measures and regulatory standards which target the business sector but are not explicitly differentiated by firm size and targeted policy settings for which SMEs (or a sub-population of SMEs) are explicitly treated in a differentiated manner relative to other firms.

Globalisation has increased the importance of cross-border collaboration in innovation. However, across countries, a key challenge for many SMEs is to identify and connect to appropriate knowledge partners and networks at the local, national and global levels, as well as to develop appropriate skills and management practices for co-ordinating and integrating knowledge created by external partners with in-house practices and innovation processes (OECD, 2017).

Figure 1: SME Performance



OECD work and policy dialogue point to some particular priority policy areas in developing contexts, including:

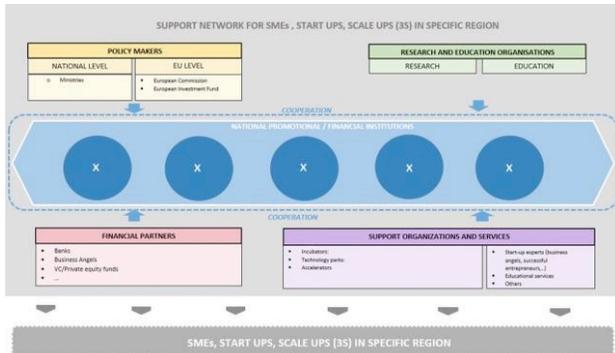
- **Closing the funding gap.** A large proportion of SMEs have no access to formal credit at all and the conditions for accessing long-term credit are even more difficult (OECD, 2017).
- **Closing the digital gap.** The digital transition opens up new opportunities for SMEs to access regional and global markets, such as through e-commerce. It also favours regional integration.

Therefore the creation of support network for SMEs, including start – ups (innovative new companies) and scale – ups (high-tech fast growing companies) – together we call these companies 3S – so the creation of »SUPPORT NETWORK FOR 3S« with different partners in entrepreneurial eco-system can be a useful model and tool to facilitate innovative entrepreneurial spirit in different economic environments.

The initiative stems from the European Commission's needs and guidelines to strengthen partnerships between "policymakers"

and other national promotional institutions to support entrepreneurship. Creation of support ecosystem for innovative fast growing companies presents successful partnerships among different partners policy makers, national promotional/financial institutions, financial partners, support organisations and services and research and education organizations.

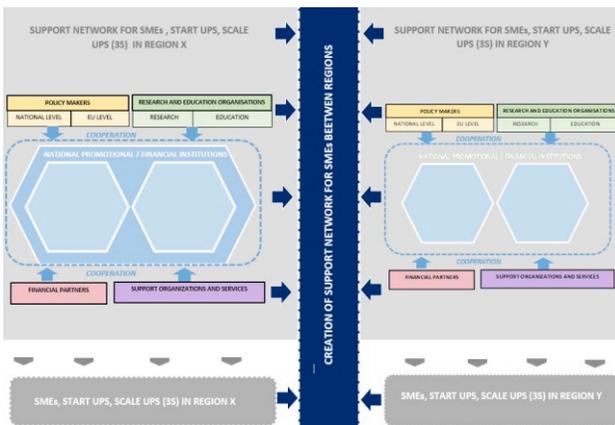
Figure 2: Support network for SMEs, Startups, Scaleups (3S)



Close cooperation and exchange of information and experience between public authorities, financial intermediaries and other public and private bodies is crucial to ensure financial products that were suitable to the needs of final recipients, to contribute to the success of small and medium-sized enterprises, start-up companies and fast-growing globally oriented companies from the region.

It is also useful that countries from individual geographically and strategically linked regions need to connect in finding synergy effects in supporting SMEs, start up ecosystems and support innovation systems for fast-growing companies.

Figure 3: Creation of support network for SMEs between regions



Yet, for the future success of different regions it is crucial to create a support network not only on the national level but also a support network on the inter - regional level. This kind of network should represent the cooperation and partnership among the partner support institutions and this partnership should also influence the cooperation among 3S companies from the connected region.

3. GOOD PRACTICE ON THE CASE OF SLOVENE ENTERPRISE FUND

3.1. The role of Slovene Enterprise Fund

Slovene Enterprise Fund (SEF) is a public financial fund and a national promotional financial intermediary in Slovenia, which offers favourable financial incentives for 3S companies (small and medium sized enterprises (SMEs), start-ups and scale ups (high-tech fast growing innovative companies) in Slovenia to help them develop and grow.

We support Slovene SMEs including startups and scaleups by improving their access to finance through a wide range of favorable financial products for their development and growth. To this end, we design, promote and implement equity and debt financial instruments that specifically target individual development phase of 3S.

SEF is:

- The leading provider of guarantees for bank loans and thus the promotion of lending activities of SMEs in Slovenia,
- Main provider or microcredits for micro and small enterprises and self-employed,
- Co-creator of the START-UP ECOSYSTEM in Slovenia to achieve a global success of start-up enterprises,
- Key co-investor of seed and venture capital in Slovenia as equity financing for fast-growing enterprises,
- Co-creator of a supportive environment for the entrepreneurial sector in Slovenia,
- Facilitator of entrepreneurial networks in the international environment.

In this role, we foster EU objectives in support of entrepreneurship, growth, innovation, research, development and employment.

ADDITIONAL SUBSTANTIVE SUPPORT - »SEF TWIN«

In addition to financial incentives SEF offers additional activities in the form of substantive support - »SEF TWIN« (education, training, various workshops, coaching, accelerator programmes, start-up schools, demo days...).

Our aim is to ensure proper and updated solutions for existing and future market needs by designing innovative financial products, addressed to SMEs directly or through our financial partners (banks, business angels, private seed and venture capital funds etc.).

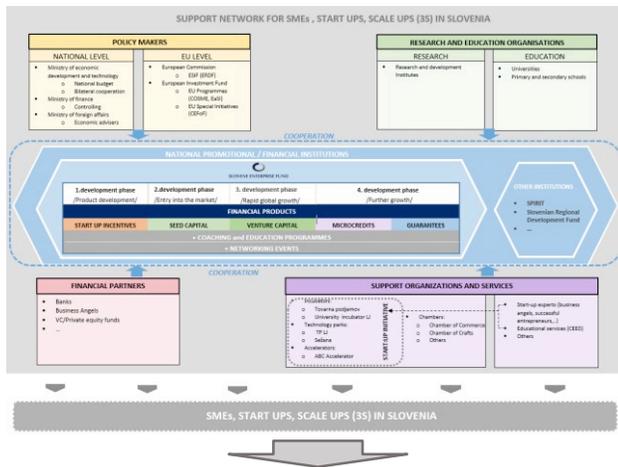
Also SEF has decided to create the support network together with government and similar support institutions in specific regions for 3S, while at the same time facilitating cooperation and networking between businesses and related regions.

3.2. Creation of support network for 3S in Slovenia

SEF presents a strong element in Support network for 3S in Slovenia and has created a successful partnerships with other partners such as policy makers, financial partners, support organisations and services and research and education organizations.

According to successful partnership with other partners such as policy makers, financial partners, support organizations /services and research/education organizations in last 10 years, SEF has reached a lot of good results, experiences and expertise.

Figure 4: Support network for SMEs, Startups, Scaleups in Slovenia



3.2.1. Partnership with policy makers on national and EU level

The Slovene Enterprise Fund is very active in the entrepreneurial sector and has a number of experiences especially regarding the cooperation with key policy makers on the national and EU level. The cooperation is mostly based on providing the **financial resources for the implementation of financial instruments and creating a supportive environment for international cooperation in the region.**

SEF is on national level mostly cooperating with the Ministry of Economic Development and Technology which is SEF’s line ministry, Ministry of Finance and Ministry of Foreign Affairs. On the EU level most of the cooperation is with the European Commission and financial institutions EIB and EIF.

In the last financial period SEF was the main financial intermediary for financial instruments co-financed through EU Structural Funds (European Regional Development Fund, European Social Fund), and other EU financial Instruments (MAP, CIP, COSME, EaSI) and is one of the key players in addressing economic and social challenges in Slovenia. Recent project that SEF approached and is participating in as an Investor is the **CEFOF Initiative (multi-country Central Europe Fund of Funds)** which offers new opportunities for venture capital and private equity funds (existent or emerging) who have their investment strategies focused on fast growing young small and medium-sized enterprises and small mid-caps.

The cooperation is mostly based on providing the financial resources for the implementation of financial instruments.

3.2.2. Cooperation with financial partners

3.2.2.1. Cooperation with banks

SEF is leading provider of bank guarantees to catalyse SME lending in Slovenia. We cooperate with all banks in Slovenia as

the provider of guarantees for bank loans for SMEs. Bank loans can be used for investment projects or to finance working capital.

Guarantees enable faster, easier and cheaper bank loans for SMEs (lower interest rates, lower collateral requirements, longer loan maturity etc.).

3.2.2.2. Cooperation with European Investment Fund (EIF)

EIF offers to SEF **counter guarantee** on issued guarantee to SMEs for bank loan (under the COSME programme - EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)). SEF also cooperate with EIF **in the microcredit scheme** (under the EaSI programme - EU Programme for Employment and Social Innovation), in which EIF cooperate as SEF’s guarantor.

With microcredits SEF wants to make finance available to micro entrepreneurs and self-employed. Microfinance consists mainly of micro-loans (less than EUR 25,000) tailored to micro-enterprises (91% of all European businesses) and self-employed entrepreneurs, who are facing difficulties in accessing the traditional banking services.

3.2.2.3. Cooperation with Business angels and Venture capital funds

SEF is a cornerstone investor in Seed and Venture Capital in Slovenia. We play an important role in creation and development of Slovenian Seed and Venture Capital market. Through our seed and venture capital interventions, we support high-growth and innovative scale ups by facilitating access to equity for these companies across the entire life cycle of corporate innovation. By investing in venture and growth capital directly or in cooperation with Business Angels, Seed or Venture Capital Funds, we support perspective SMEs from the earliest stages of intellectual property development into technology transfer, to more scale up phases of fast and global growth.

SEF is actively cooperating with Business Angels of Slovenia and other private investors, that invest into the SEF’s supported start-ups. Since 2014, when SEF launched the seed capital product, business angels and other private investors invested approx. 3,2 m EUR into the enterprises supported with seed capital.

SEF launched first venture capital line in 2010 which enabled a start of public-private partnerships with venture capital companies. Through the five year investment period 29 investments were concluded in the amount of 29,04m EUR. New venture capital line will be established through the CEFOF, which is mentioned above. CEFOF Initiative (a multi-country Central Europe Fund of Funds for venture capital) is the second line of SEF cooperation with VC funds, EIF and IIB and it offers new opportunities for venture capital and private equity funds (existent or emerging) that have their investment strategies focused on fast growing young small and medium-sized enterprises and small mid-caps.

The launch of CEFOF and the start of the investment process was in **December 2017.**

3.2.3. Partnership with support organisations and services

SEF has a lot of useful relationship with other support organizations and services in Slovenia such as technological parks, incubators, regional entrepreneurship centers, accelerators, chambers of craft and chambers of commerce,... Together with them the synergy effects can be reached. The most important results of this partnership is "substantive support program" for SMEs, offered as additional program of SEF.

3.2.3.1. Partnership with Start:up Initiative of Slovenia

SEF represents a very important element in the Slovenian startup ecosystem with the main partner "Start:up Initiative", which consists of representatives of incubators, technology parks, startup experts and private investors.

Together with main partners (incubators, technology parks, private investors, start up experts from entrepreneurship sector etc.), we have created a strong and active start up ecosystem, which offers not only favorable financial support for innovative start-ups and scale ups, but also coaching and management support for companies. With coaching and management support the financial incentives reach better results.

SEF all the time tries to advance START UPS AND SCALE UPS to global success and wants to create strong START UP ECOSYSTEM in SLOVENIA. Within this ecosystem there is:

First cooperation: Start up incentives (grants) scheme, which get startup money from SEF: For start up companies SEF offers special incentives in the form of grants, that enable easier start up of a young enterprise. The SEF grants START-UP INCENTIVES to young enterprises (start-ups younger than 14 months) in the first development phase, when enterprises are at the start of their operation and have a positive economic significance, and are according to the analysis of market gaps assessed as extremely vulnerable group in the market with an endangered existence.

In addition to the financial incentives, the start-up enterprises are also entitled to substantive support from the best domestic and foreign start-up mentors - "SEF TWIN", implemented by partners from start up initiative together with science incubator of University of Maribor – Faculty of Economics and Business, Technological park of Ljubljana, ...

Second cooperation: Networking activities: international start up conference - the largest and most influential conference on entrepreneurship, startups, investments, and innovation in the European Adriatic & Balkan region; startup schools, start ups weekend, start up workshops, ...

In December 2017, the report "STARTUP INVESTMENT & INNOVATION AND EMERGING EUROPE"¹ was published, prepared on the basis of the first-ever comprehensive startup research on 24 countries of Central and Eastern Europe, which provides an excellent starting point for the possibilities of

cooperation between the Slovenia and countries in Balkan region in the field of exchange information and experience on the establishment and development of startup ecosystems.

3.3. Creation of support network for 3S across the EU and other regions

The Slovene Enterprise Fund (SEF) represents also a very important element in the Slovenian Startup eco system, which functions not only at the national level, but is becoming the meeting (bridge) point for young innovative growth companies for the entire territory of the former Yugoslavia and the Balkans. Through the establishment of a strong network of partners and intensive cooperation between them, an even better breakthrough of young fast-moving and innovative companies from this region can be achieved on global markets. Partnership is emerging among investors (public financial funds, venture capital funds, business angels ...), technology parks, incubators, other support institutions for entrepreneurship. Slovene Startup Ecosystem can be a gateway (first entry point) for startups from least developed startup ecosystems to Western Europe and also to USA.

Therefore we have created the model of support network for 3S between SEF and partner institutions among different countries in the similar region. A lot of common activities can be done also among START UP ECOSYSTEMS in cooperation countries. The same model can be used also for the creation of support ecosystem among different continents, not only similar regions.

According to successful partnership with other partners such as policy makers, financial partners, support organizations /services and research/education organizations in last 10 years, SEF has reached a lot of good results, experiences and expertise. These could be the part of further cooperation with similar institutions in other EU regions.

SEF has established a lot of efficient contacts and partnerships with other support organizations from other region from EU with the aim to increase the results of financial support.

Therefore we can be involved in a number of initiatives to promote regional business development and to use our expertise and experience to create market impact through local implementation of financial instruments also in other EU region

Going forward, SEF intends to expand its regional development activity capitalising on the experience acquired through its involvement in the management of financial instruments co-financed by Structural Funds and fund-of-funds managers and through strategic partnerships established during the programming period 2007-2013.

SEF will also intensify partnerships with other national promotional institutions in Member states or in other regions to collectively develop effective financing solutions for European SMEs. We would like to create 3S support network in specific regions (Balkan, CEE region...) among similar supporting institutions, but we would like to facilitate the international cooperation and network among 3S in connected regions, too.

¹ <http://www.ewdn.com/2017/12/28/startup-innovation-and-investment-in-emerging-europe-a-groundbreaking-research-released-by-ewdn/>

Also Startup ecosystem functions not only at the national level, but is becoming the meeting (bridge) point for young innovative growth companies for the entire territory of the former Yugoslavia and the Balkans, Central Europe Region, China, USA. Through the establishment of a strong network of partners (business angels, start up experts...) and intensive cooperation between them, an even better breakthrough of young fast-moving innovative companies from this region can be achieved on global markets. Through the establishment of a strong network of partners and intensive cooperation between them, an even better breakthrough of young fast-moving innovative companies from this region can be achieved on global markets.

4. CONCLUSIONS

SMEs are key contributors to economic growth, employment and innovation. Start-ups are a key source of productivity gains due to their high levels of innovativeness and increased competitive pressure they put on incumbent firms. SMEs are key contributors to technological and non technological innovation. New and small firms are often behind innovations that are important for economic growth, especially in sectors such as software, nanotechnology, biotechnology and clean technologies. Block chain technology and digital-enabled fintech services are likely to radically transform financial markets, especially the ways of addressing information asymmetries and collateral shortages which SMEs tend to suffer the most. Other emerging technologies, such as robotics, industrial biotechnology, 3D printing, nanotechnology, are also announcing the “next production revolution” and far-reaching changes in markets and distribution and production processes wherein SMEs are closely involved. Innovation by SMEs is largely influenced by knowledge spillovers, access to networks and opportunities to partner with other players, including larger enterprises. A major effort should consider the potential synergies and trade offs taking place across diverse areas of interaction in the policy mix, including distortionary effects that may be introduced by some policy actions. However, across countries, a key challenge for many SMEs is to identify and connect to appropriate knowledge partners and networks at the local, national and global levels. Therefore the creation of support network for SMEs, including start – ups (innovative new companies) and scale – ups (high-tech fast growing companies) - the creation of »SUPPORT NETWORK FOR 3S« with different partners in enterprenurial eco-system can be a useful model and tool to facilitate inovative enterprenurial spirit in different economic environments. It is also useful that countries from individual geographically and strategically linked regions need to connect in finding synergy effects in supporting SMEs, start up ecosystems and support innovation systems for fast growing companies. Slovene Enterprise Fund presents a strong element in Support network for 3S in Slovenia and has created a successful partnerships with policy makers, financial partners, support organisations and services and research and education organizations. The cooperation is mostly based on providing the **financial resources for the implementation of financial**

instruments and creating a supportive environment for international cooperation in the region. On the EU level most of the cooperation is with the European Commission and financial institutions EIB and EIF. SEF is leading provider of bank guarantees to catalyse SME lending in Slovenia. Therefore the cooperation with banks is important successful element. By investing in venture and growth capital directly or in cooperation with Business Angels, Seed or Venture Capital Funds, SEF supports perspective SMEs from the earliest stages of intellectual property development into technology transfer, to more scale up phases of fast and global growth. Together with main partners (incubators, technology parks, private investors, startup experts etc.), SEF has created a strong and active start up ecosystem. SEF becomes the part of successful cooperation with similar institutions in other EU regions. This partnership starts in Balkan region, CEE region and the partnership can be established also with Silicon Valley region and China.

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