

# WESTERN BALKANS REGIONAL R&D STRATEGY FOR INNOVATION

## EARLY-STAGE START-UP PROGRAM

### *Bridging the “valley of death”*

**Motivation** Early-stage funding is likely to be scarcely available due to a number of market failures. These barriers make it difficult for early stage investors to profitably invest in innovative start-ups, and raise funds from outside funders. Early-stage financing is almost nonexistent in the Western Balkans region. Angel investors and venture capitalists are a source of not only funding for potentially dynamic companies but also business skills that are often missing in the region and a powerful mechanism for selecting projects with high growth potential (figure on reverse).

A number of initiatives undertaken by the Western Balkans Enterprise Development and Innovation Facility (EDIF) will help improve access to finance by SMEs in the region, including a guarantee facility and a private equity fund dedicated to financing SME growth. Among these initiatives, the Western Balkans Enterprise Innovation Fund (a venture capital fund) will help improve the innovation financing in the region. Yet, a financial gap between research and the Enterprise Innovation Fund is noticeable, particularly in financing **proofs of concept** and **prototypes** (pre-seed and seed capital). This is often called the **valley of death**.

**Objective** The Early-Stage Start-Up Program will provide business development services along with a select group of financial instruments (pre-seed and seed financing) to nurture growth in technology-based start-ups in coordination with national initiatives and serve as a pipeline to the Western Balkans, other EDIF initiatives, and regional investors interested in later-stage financing.

- ▶ In particular, the program will seek to attract and develop a network of investors in the Western Balkan countries and strengthen connectivity by establishing a network platform between local companies and local and international investors.
- ▶ It will also support the consolidation of the deal flow across the region and the development of a potentially attractive pipeline of companies by providing business development services.

**Description** The program will use both nonfinancial and financial instruments to support a viable long-term market for innovation finance. Existing activities will be leveraged through a series of instruments that promote funding for more companies alongside a syndicate of local, regional, and international investors and entities. The facility will deploy programs to train local investors as well as managers and help start-ups develop stronger business plans.

- ▶ **Matching grants for proofs of concept and prototypes.** This activity will involve the provision of matching grants to finance proofs of concept from SMEs and public research organizations. It is envisaged that the program will provide up to 80 percent of the funds needed for the project, in line with international best practices. The remaining 20 percent will come from the private sector. The support provided by the program will be a maximum of €200,000 for a period of two years.
- ▶ **Mentoring and business development services.** Business development services and mentoring (such as business plans and network platforms) will enhance the investment readiness of companies across the region in coordination with national entities.

The Joint Statement of the Ministerial Conference — held in Sarajevo 2009 — expressed the interest of the region in developing a joint strategy on research and innovation.

The World Bank and the European Commission in September 2011 signed an agreement to support the development of the strategy. The technical assistance is financed with EUR 1,5 million through a Multi-Beneficiary Instrument of Pre-Accession Assistance (IPA).

The “**valley of death**” is a common term in the start-up world, referring to the difficulty of covering the negative cash flow in the early stages of a start-up, before their new product or service is bringing in revenue from real customers.

### Early-stage start-up program should

- ▶ Complement local efforts and secure connectivity of the investment space.
- ▶ Further discuss and coordinate the actual financial instruments with relevant stakeholders in the Western Balkan countries as well as the European Investment Fund, EBRD, and EDIF.

### International best practices in matching grants for PoC and Prototypes

- ▶ Israel: 85 percent funded by government programs
- ▶ Finland: government programs fund 75 percent

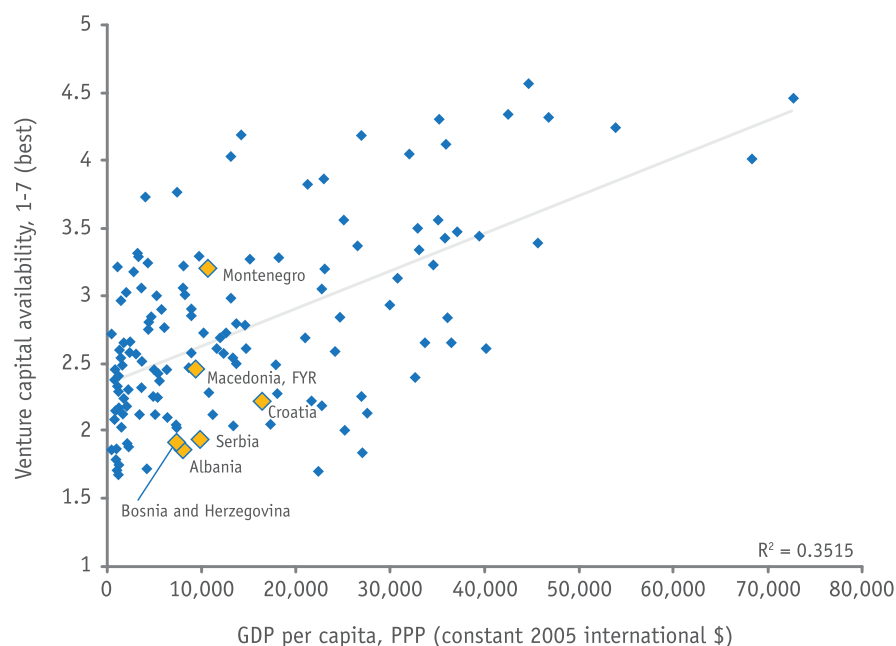
- ▶ **Advisory services to investors.** This activity will include developing a one-stop shop for local and foreign investors who are looking to invest in companies and start-ups, supporting capacity building on the investment side by establishing a knowledge base, and providing training for local investors and companies.

The program will differentiate between proof of concept and prototype development projects. Companies and public research organizations may be taken into consideration and different levels of support may be assigned to each type.

Based on experience with the initiatives described above, the program will consider the need to deploy other risk-mitigation instruments to attract potential investors, such as first-loss mechanisms.

**Governance** The Supervisory Board of the WISE Facility will be responsible for supervising and guiding the operations of the program. The WISE Facility will prepare a detailed operational manual and guidelines, design the calls for proposals, and monitor and evaluate the program. The WISE Supervisory Board will appoint an Approval Committee composed of members of the regional and international scientific community and the private sector, with a maximum of five persons; individuals will serve for a limited period of time (for example, two years). The Approval Committee will have final responsibility for project selection.

**Operational procedures** Implementation and supervision of projects will be handled at the country level through a National Partner Organization (NPO) or Project Implementation Unit (PIU) to be appointed by the corresponding government. In collaboration with the NPOs/PIUs, the WISE Facility will issue a regional call for proposals. The AC will select the project proposals through a public, transparent, and cost-effective process based on the recommendations of an international peer review panel appointed for the specific call for proposals and following standard international best practices for the selection of scientific research projects, in line with the general and program-specific funding objectives.



#### EXPECTED OUTPUTS

- ▶ 300 proof of concepts and prototypes tested
- ▶ 100 business plans or bankable projects prepared
- ▶ 20 consultations with foreign and local investors

#### EXPECTED OUTCOMES

- ▶ Promote business investments in research and innovation and start-up creation
- ▶ More knowledge-based start-ups created
- ▶ Investments in start-up companies increased
- ▶ Investments in R&D by the business sector increased
- ▶ Number of "innovative" SMEs increased (as described by the Community Innovation Surveys)

#### ESTIMATED COST

- ▶ Matching Grants for Proof of Concept and Prototype Development — € 30 million
- ▶ Mentoring and Business Development Services — € 5 million
- ▶ Advisory Services — € 5 million

**Total Cost — € 40 million**



THE WORLD BANK



Regional Cooperation Council