

# Needs for Policy Support Among Start-ups and Investors in SEE

## - Highlights of Research Findings by the VIBE Consortium

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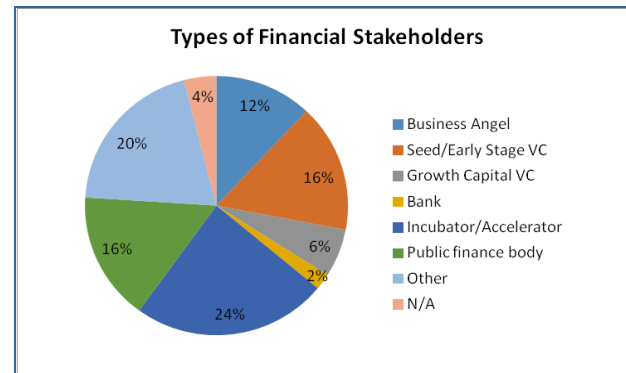
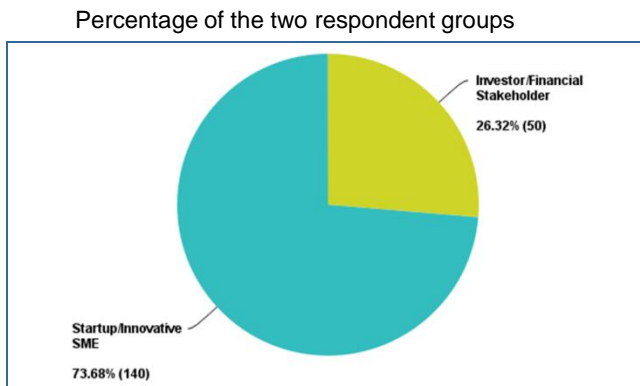
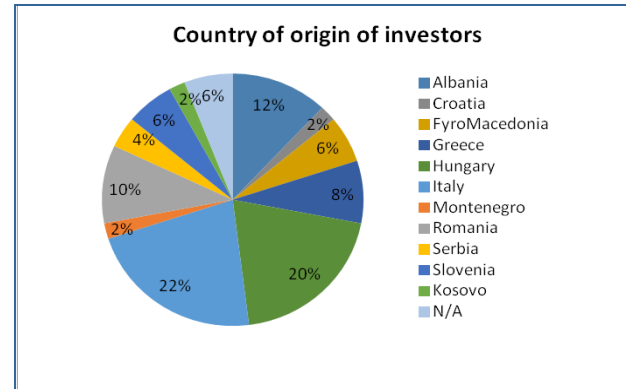
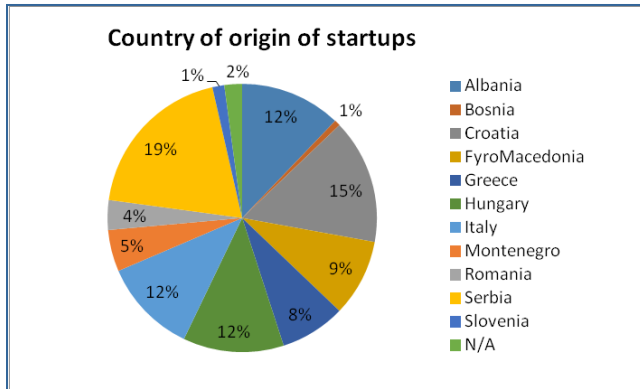
## Background

- VIBE (**V**enture **I**nitiative in the **B**alkan **E**urope)
- EU co-funded project in 'SEE Transnational Cooperation Programme'
- 20 partners from SEE countries
- Main objective: Foster creation and growth of innovative SMEs and start-up companies in SEE
- **[www.vibeproject.eu](http://www.vibeproject.eu)**
- Mapping Track: Map existing stakeholders and needs

## Scope of survey

- Objective: Identify needs of start-ups and investors in the SEE region for policy support regarding investment and growth
- Online questionnaire survey among start-ups and investors in VIBE partner countries
- Mix of open and closed (list, category, scale) questions
- 190 respondents from 11 countries
- Survey was conducted in Sept/Oct 2014

# Respondents' characteristics



# Main sources of funding for start-ups

Most prominent sources of startup funding according to **start-ups**

Answer Choices	Responses	
Family, Friends & Founders	<b>78.91%</b>	101
Microfinance	17.19%	22
Business Angels	<b>14.84%</b>	19
Seed/ Early Stage VC	<b>7.03%</b>	9
Crowdfunding	2.34%	3
Bank loans and guarantees	41.41%	53
Incubator/Accelerator	18.75%	24
Corporate Accelerators	3.91%	5
Government grants	35.16%	45
Government export schemes	2.34%	3
Private equity	<b>10.16%</b>	13
EU funding	30.47%	39
<b>Total Respondents: 128</b>		

Most prominent sources of startup funding according to **investors**

Answer Choices	Responses	
Family, Friends & Founders	<b>65.96%</b>	31
Microfinance	17.02%	8
Business Angels	<b>36.17%</b>	17
Seed/ Early Stage VC	<b>12.77%</b>	6
Crowdfunding	2.13%	1
Bank loans and guarantees	38.30%	18
Incubator/Accelerator	19.15%	9
Corporate VC	2.13%	1
Government grants	34.04%	16
VC growth capital	2.13%	1
Private equity	<b>8.51%</b>	4
EU funding	34.04%	16
<b>Total Respondents: 47</b>		

## General conditions

- Lack of teaching entrepreneurial skills across the public and private educational system (neg:59.56%, pos:13,48%, neut:26,96%)
- Lack of a strong innovation and research culture (neg:55.93%, pos: 16,38%, neut:27,69%)
- Lack of technology transfer between universities /research centers and startups (neg:46.37%, pos: 18.44%, neut:35.19%)
- Lack of state reinforcement of awareness on new investment opportunities (promotional campaigns, entrepreneurial events, etc) (neg:44.95%, pos: 24.72%, neut:30.33%)

## General conditions (II)

- Lack of state support for entrepreneurial ecosystem with public supporting mechanisms (neg:44.13%, pos:30.73%, neut: 25.14%)
- Lack of widely sharing & promoting start-up success stories (neg:39.33%, pos:25.28%, neut:35,39%)
- Not enough positive general attitude towards entrepreneurship and risk-taking (neg:41.24%, pos:28.81%, neut:29.95%)
- Difficult to find affordable startup support (information, coaching) (neg:34.63%, pos: 31.85%, neut:33.52%)

## Start-up perspective (I)

- Know funding opportunities for startups in their own country (pos:60.47%, neg:12,40, neut:27,13%)
- Do not know funding opportunities for startups in other SEE countries (neg:35.38% , pos:24.62%, neut.40%)
- Much bureaucracy involved in establishing and operating a startup in their country (neg:57.81%, pos:21,87%, neut:20,32%)
- No tax incentives/reliefs for startups (neg:53.54%, pos:17,32%,neut:29,14%)



## Start-up perspective (II)

- No adequate policies in place to encourage the learning of entrepreneurial skills throughout all stages of education (neg:53.96%, pos:20,63%, neut:25,41%)
- Legal framework in own country is not favourable for startups (neg:45.24%, pos:25.39%, neut:29.37%)
- No functioning Business Angel network in own country (neg:55.91%, pos:15,75%, neut:28,34%)
- Pre-seed and/or seed stage funding for startups is not easily obtained (neg:53.97%, pos:7,15%, neut:38,88%)

## Start-up perspective (III)

- Existing technological infrastructure in own country does not help the development of startups (neg:39.07%, pos:27.35%, neut:33.59%)
- First year operational costs are too high to be covered by a startup (neg:61.24%, pos:14,73%, neut:24,03%)
- Growth stage funding sources are not adequate in own country (neg:58.73%, pos:8,73%, neut:32,54%)
- Legal framework makes it difficult to close down a failing startup (neg:49.61%, pos:14.18%, neut:36.22%)

## Start-up perspective (IV)

- No adequate policies in place to facilitate access to funding opportunities for startups) (neg:46.88%, pos:21.87%, neut:31.25%)
- Know policy framework regarding entrepreneurial activities in their own country (pos:63.57%, neg:9,30%, neut:27,13%)

## Major concerns of **start-ups** (I)

- **Culture: Entrepreneurship-averse environment:** distrust, social opinion, no respect, lack of entrepreneurial culture, weak knowledge patent obstacles
- **Financial support access and sources:** Difficult to access **funding channels** (business angels, corporate investments , international investments), difficult to find funds for Seed stage and initial capital, little Private capital, few VCs
- **Entrepreneur's deficiencies:** Local focus, lack of feasible ideas, of practical knowledge – marketing experience, education is not business oriented, lack of smart specialization, low self-initiative, not reaching full potential, poor material available for investors

## Major concerns of **start-ups** (II)

- **Infrastructure and state resources:** Incompetent stakeholders, not informed staff, not transparent procurements, not enough support mechanisms of quality
- **Investors' risk sensitivity:** Risk-averse investments
- **Distrust towards investors:** Suspiciousness, protection of own interest
- **Conflict of interest between investors and startups:** No common vision

## Major concerns of **start-ups** (III)

- Taxation: High taxes, high VAT, high fees, penalties, health insurance
- Bureaucracy: High level, complexity, difficulties in opening and closing a company, corruption
- Legal environment: Insufficient laws, injustice, instability, rigid labour laws
- Lack of state and regional funds: State is dry of funds, call for proposal 2014-2020 has not opened yet
- Tax Policies: Always changing, no tax relief

## Major concerns of **start-ups** (IV)

- Government issues: Instability, no national development strategy
- Bank policy: No risks, high interest rates, no loans
- Business and knowledge centers: Low connection, low levels of R&D and applied research
- Strict monitoring system, reporting: For state-originated investments
- Other: Low trust levels to intermediary services, market instability, grey economy, strict criteria for funding

## Investor perspective (I)

### Investment policies

- **High levels of bureaucracy** for a foreign investor to enter a startup in their country (neg:54.35%, pos:28,26%, neut:17,39%)
- **No adequate policies to support syndicated investments/co-investments** in startups (neg:51.06%, pos:12,77%, neut:36,17%)
- **No adequate policies for the support of cross-border investments** in startups (neg:50%, pos:8,69%, neut:41,30%)



## Investor perspective (II)

- No adequate policies to support investment readiness of startups and innovative SMEs (neg:48.89%, pos:24.44%, neut:26.67%)
- Investment and growth readiness of startups in own country is not adequate (neg:45.66%, pos:19.57%, neut:34.78%)
- Investment and growth readiness of startups in SEE is not adequate (neg:39.13%, pos: 21.74%, neut:39.13%)

## Investor perspective (III)

### Tax system in SEE:

- **No adequate tax reliefs/incentives for Business Angel investments** (neg:60.87%, pos:4,35%, neut:34,78%)
- **No adequate public-private startup funding schemes** (neg:57.77%, pos:20,00%, neut:22,23%)
- **Existing tax laws** for startup investments are not adequately simple and stable (neg:56.53%, pos:28,26%, neut:15,21%)
- **No adequate ways to exit a startup investment** (neg:48.88%, pos:13.33%, neut:37,79%)

## Major concerns of investors (I)

- **Bureaucracy**: High levels, complex procedures, expensive, machine bureaucracy, corruption
- **Lack of Capital and Sources**: Lack of funds, of investors, of trained personnel, of **Business Angels Network**, of VCs, of friendly guarantee funds, of liquidity, IP protection, low bank involvement
- **Weak Entrepreneurship Culture**: Mentality of entrepreneurs, suspiciousness & secretiveness of idea holders, lack of interest from domestic idea holders, poor investment readiness, weak teams, educational system not entrepreneurship-oriented, enterprise averse culture, below-average entrepreneurship knowledge, idea owners are not strong influencers of policy makers

## Major concerns of investors (II)

- **Investors' sensitivity to risk:** Not sharing experiences, lack of interest of domestic investors, lack of a role model
- **Dissemination and promotion of opportunities & information:** Low levels of efficiency, lack of efforts
- **Legislation:** Making exits difficult, rigid labour laws
- **Taxation:** ever-changing, limits growth
- **Low R&D:** lacking support for R&D, few activities

## **Suggested policy changes– Start-up perspective (I)**

- **Tax reliefs, changes in VAT:** Lower or no taxation for 1-3 years of startups lifecycle, lower corporate and private tax, lower tax on experts' salaries, lower contributions, tax incentives
- **Simpler state procedures, less bureaucracy:** Organize the administrative system, simplify operations for establishing and ending a company
- **More funding mechanisms:** combination of non-refundable and refundable sources and investments, government grants and subsidies, co-financing, private and public seed funding, more EU funding, multi-annual funding program creation, subsidized loans by the state

## **Suggested policy changes– Start-up perspective (II)**

- **Make access to funding easier:** Easier and earlier access, find alternative types of financing, create monetary policies, help identification of private, national, regional and international sources, **more active VC and B. angels**, stronger government mechanisms
- **Enhance online and offline infrastructure:** Creation of mechanisms to reinforce **cooperation between startups**, **platforms for partner searching, matchmaking platforms and events**, virtual portals, B2B meetings, database of demand side, quality incubators, accelerators, tech parks, public spaces for networking and co-working

## **Suggested policy changes– Start-up perspective (III)**

- **Care for Education:** Changes in education system, strengthen entrepreneurial knowledge, coaching and training financed by the state, free training in writing business plans
- **Legal changes:** New legal framework for startups, less penalties, promotion of second chance, speed-up bankruptcy procedures, more prevention, quicker response system
- **Enhance knowledge exchange and sharing:** Enhance cooperation between academic institutions and startups, of research and industry, transfer R&D in the business environment, sharing and cooperation with startups abroad

## **Suggested policy changes– Start-up perspective (IV)**

- **Support dissemination and promotion:** More active dissemination, sharing of good practices, of innovations that need capital, of initiatives, promotion of internationalization opportunities
- **Transparency:** Elimination of corruption, government data made public, early sharing of information
- **Tax reliefs for investors:** For early stage investors (as with EIS and SEIS in UK), for Business Angels, for private investments



## **Suggested policy changes– Start-up perspective (V)**

- Create more non-refundable funds instruments: For risky startups, for innovation oriented initiatives, for experimental development activities
- More eager decision makers: Listen closely to entrepreneurs
- Enforce support of experimental development actions
- Simpler funding procedures: Simpler and clear conditions for capital grants, for Structural Funds, easier monitoring system, implementation procedures

## **Suggested policy changes– Investor perspective (I)**

- **More, easier and stronger financing mechanisms:** Support non refundable sources for business, combine refundable funds with non refundable grants, reinforcement of funds of funds, more guarantee funds, cross-border syndication fund, equity financing (private & public), leverage private funding, funds by banks
- **Simpler institutional framework:** Simplification, reduce bureaucracy, creation and management operations should be easier, decrease regulations, make it easier for international companies to acquire and operate in a country, anti-corruption, anti-monopoly

## **Suggested policy changes– Investor perspective (II)**

- **Assist Startups – Investors Relations:** Proactive matchmaking between investors and startups, marketing activities, online databases
- **Educate:** Support the education system, follow market needs, improve skills of managers, strengthen motivation, increase investment & growth readiness
- **Raise awareness:** Dissemination of good practices, visibility of investment services, information about benefits, obligations, procedures

## **Suggested policy changes– Investor perspective (III)**

- Liberalise labour market
- Enhance knowledge transfer: Universities – innovation – enterprise connection, networking between R&D knowledge owners and startups
- Single government vision: Single political will, one vision for the investment strategy

## **Suggested policy changes– Investor perspective (IV)**

Taxation issues:

- **Simple, clear and stable tax policies**
- **Tax reliefs, tax incentives, tax breaks:** For business angel investments, for VC investments, for corporations that buyout startups, for investments in innovative activities, for research and experimental development activities, for new investors, for 1 year startups, for re-invested profit, flat taxes, tax breaks for investments in R&D , for VC funds investments
- Apply the **UK EIS and SEIS scheme**

## **Suggested policy changes– Investor perspective (V)**

- Lower contributions to be paid by employers and employees
- Social security relief
- Reduce public debt of startups: Moderation, automatic reduction

## Survey results in further details:

- VIBE website: [www.vibeproject.eu](http://www.vibeproject.eu)
- Contact: SEERC – South East European Research Centre, Thessaloniki, [www.seerc.org](http://www.seerc.org), [abofinger@seerc.org](mailto:abofinger@seerc.org)

**THANK YOU  
FOR YOUR KIND INTEREST !**