The Power of 3

How governments, entrepreneurs and corporations collaborate to expedite growth

Entrepreneurs have a vital role to play in any healthy and vibrant economy. With many G20 countries facing challenging economic conditions, their contribution is now more important than ever. Governments are increasingly looking to entrepreneurs to kick start their economies, and provide the jobs that stimulate growth - but entrepreneurs need to be given the tools and environment that will enable them to succeed. The Power of 3 - governments, entrepreneurs and corporations - need to work together to foster sustainable growth.

Leveraging insights from EY’s G20 Entrepreneurship Barometer, we recently discussed this topic with a group of business and government leaders at the EY Strategic Growth Forum™ in Rome, Italy.

Coordinated support

The economic downturn is forcing governments in the Mediterranean area to consult and cooperate widely in order to drive growth. The Italian government, for instance, has come to promote continuous dialogue as a standard working method. The planning of actions to be financed under the EU’s Juncker Investment Plan is a case of a strong public commitment as a lever for access to finance mainly by private sector players. The government, the corporations and other stakeholders (unions and business associations, Universities, NGOs) were brought together to work out how to make the most of this opportunity to boost economic activity within and across national boundaries, as trans-national projects were to be agreed with other Union Member States. A new approach is being introduced in the management of other EU funding as well. Negotiations on Italy’s Digital Agenda package involved small and large companies, with a view to gaining a broad agreement on the actions and rules for the development of technology, innovation and the digital economy.

The experience of northern European countries with the joint funding of innovation can also work as a stimulus. The Netherlands decided to use gas revenues to finance R&D in small and medium-sized enterprises, which have a considerable innovation potential but limited resources for research. Projects are part-financed by the corporate sector and have the two-folded aim to pursue social innovation (75% of resources) and technical innovation (25%). A “Triple Helix” model of interaction among government, business and knowledge centres was sought via the establishment of “Innovation Platforms” at the national and local level. These network-style structures bring together government experts, researchers and entrepreneurs with the aim to discuss and coordinate innovation policy strategies and funding. This has served to build new links between large companies and start-ups.

Access to funding

Access to funding is the most important area where improvement is needed to help entrepreneurs to succeed. There is a consensus that public funding is necessary in the pre-competitive phase. From the corporate point of view, however, the availability of start-up finance is not the key concern. The real gap in the Med area has to do with funding to scale-up: access to series-A and B funding is severely restricted, as recourse to equity financing is much less common than, for instance, in the US. This constrains entrepreneurs’ ability to plan, which in turn acts as a serious hurdle to growth.

Banks, on the other hand, need to develop innovative financing models. Italian banks, for instance, are equipping themselves to meet the needs of small, innovative businesses. They are reorganizing to provide mentoring as well as finance, notably in the form of advice to set up business plans and financial plans. Banks, moreover, are becoming pro-active in putting in touch entrepreneurs and investors, large and small alike. Italy’s Financial Services Authority (Consob) recently adopted a ground-breaking regulation allowing authorized providers to publish equity crowdfunding platforms. These platforms may present public offers for capital increases in favour of innovative start-ups and small businesses.
As for public funding, it is worth stressing that there is an array of EU funding options for investment projects across the Med area, via the EIB, the EIF, the EBRD, and the Neighbouring Investment Facility (NIF). The above-mentioned Juncker Plan itself allows for the possibility to invest part of the available funds - raised on the basis of a € 21 billion guarantee from the EU budget and the EIB - for investment across the Union’s neighborhood (including in the South and East of the Mediterranean sea). The Plan is also open to contributions from non-EU investors.

As discussions on the Power of 3 unfolded, however, it was recalled that the Med is a large, very diverse region, and that any perspective on its potential for growth should go from regional to local. There is a “ticking bomb” on the Mediterranean’s southern shore, which can only be disarmed by dialogue. No bank on the south shore would lend money to young entrepreneurs (especially women) and nobody will provide the right advice on how to set up and run successful companies. Dialogue is key to innovation: creating a positive environment for entrepreneurship, especially in less mature economies, entails getting citizens on board, attracting public interest, drawing on corporate social responsibility. Business and governments are only part of the triangle.

The iLab C-level roundtable discussion was facilitated by: Dario Bergamo, EY Partner, Med GPS Leader, Ernst & Young Financial Business Advisors S.p.A, Italy and Dr. Julia Djarova, Executive Director, EU Account, Ernst & Young Nederland LLP and Demet Ozdemir, EY Partner, EMEIA Strategic Growth Markets Leader, Ernst & Young, Turkey.

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