

Financial resources and capabilities for start-ups growth

During the *INSMEAcademy* session held on the 27th of November, Jean-Louis Leloir, Special Adviser to the Board of Director of the European Association of Guarantee Institutions - AECM, dealt with the topic of the financial resources and capabilities for start-up growth.

Mr. Leloir underlined that complementary resources are required to start a business, namely: knowledge, capital and networks. Such resources are considered as the essential basis of an enterprise and accessing them is fundamental for new entrepreneurs. Therefore, public authorities have created diverse forms of support dealing with each of these resources.

Since access to finance is the main difficulty for start-ups, this field has been supported in various ways and the loan guarantee schemes have increased over the last decade. Furthermore, dedicated support programmes have been developed to address the main areas of development: export, access to innovation, external growth, productivity increase and digitalization. Since the common weakness of these programmes is related to a lack of skills of the supported population, dedicated policies are now evolving in order to better deal with it.

Mr. Leloir also pointed out the main difficulties start-ups have to face:

- Skills: many entrepreneurs have one dominant skill which somehow hinders the development of other capacities which would be crucial to expand a business;
- The human factor is a further element SMEs have to take into account as many difficulties related to it may raise (i.e. diverging management opinions, competitors, life accidents, age of the CEO, etc.).

Due these difficulties, young educated people may succeed to start a business, but other categories like less educated, unemployed, seniors, women and immigrants - which the OECD identifies as “the missing entrepreneurs” – cannot.

In order to successfully handle these challenges, the public policies developed include better information as a first step, followed by coherent and multilevel approaches to entrepreneurship. Mixing finance resources and advisory support is a success formula. The mix of support can take the form of active cooperation with formation academics and business schools.

Another ground for integration is provided by policies evaluation, since developing performance level of supported entrepreneurs leads to the logic of optimal cooperation in public bodies, agencies, chambers of commerce and in local and regional associations and also with international donors. Nowadays policies combine support instruments concerning skills and access to finance is linked to an offer of provision of capacities, concerning digitalization and project preparation, in particular through management training and financial basic information. Moreover, digitalization makes projects preparation easier and more accurate as it enables i) the development of new tools which are accessible online ii) the offer of e-trainings to a large population of entrepreneurs at a very low cost. Furthermore, a linear and streamlined workflow of files with digitalized processes limits the asymmetry of information between SMEs and institutions and improves confidence factor.

With today’s fast changing economy, new opportunities arise and new solutions appear; the “e-economy” has opened a potential larger market: successful ventures create attractive examples for entrepreneurs and stir up motivation. Also, financial resources are changing and financial markets can now raise unprecedented huge equity amounts, with outstanding value of ventures compared to persisting operating losses. The fast

development of venture capital is due to more actors, more specific categories, and more resources. Furthermore, alternative sources of finance such as crowdfunding, peer to peer funding and asset funding are growing fast.

In spite of such innovations, some market imperfections still persist. As highlighted by the speaker innovative enterprises are still a minority in some countries; traditional activities are still the only way for entrepreneurship in some cases; slow global growth increases competition between existing companies and reduces opportunities to new undertakings; the wave of innovation will impact most enterprises on the aspect of assets modernization; the proper modernization process remains for a minority; the concentration of equity support to SMEs in relatively few operations. The same applies to financial markets, since for example loans continue to be the main source of financing for smaller entrepreneurs; crowdfunding works better on thematic projects.

To sum up, Mr. Leloir listed the pros and cons of Fintech and digitalization for entrepreneurs; among the pros we have the fact that:

- Fintech brings remarkable changes in transmission of information
- Development of service providers networks helps optimizing resources collection and business matchmaking and opportunities
- Concerning SMEs financing, decisions on small operations are accelerated.

While among the cons it has been argued that:

- More modelized processes and rating systems of Artificial Intelligence should be developed
- Fintech progresses address more consumers needs and small loans on micro finance than SMEs financial problems
- Digital processed lead to binary attitude (yes/no), reducing human intervention.

Skills remain a structural weakness factor for SMEs and this is inevitably a cause of lower productivity, therefore small companies struggle to compete with large enterprises. Moreover, high technological needs lead to new forms of weaknesses, since unexpected skills shortages may appear (in some categories of the labor market) and many projects need to be inserted in block chain structures, increasing technical demands beyond the capacities of SMEs.

In conclusion, new challenges appear for development institutions and support providers:

- More support targeted directly at entrepreneurs
- Means to face the growing consequences of environmental protection policies (which impose more adaptation costs, red tape, organizational changes, all prone to reduce productivity and competitiveness)
- A deeper coordination for continuity
- Education and training on entrepreneurship in the initial education system
- Lifelong training and re-training in specific SME programs
- More development of coaching and mentoring by experienced professionals.

Mr. Leloir concluded his presentation by sharing possible paths support policies could follow:

- To concentrate on “productive entrepreneurship”, where “productive” means projects with a social concern, generating activities that contribute to growth
- To increase the use of “big data” to help setting a fine tuning for forms of support
- Finally, policy makers should offer tailor made policies for specific target groups.