



The C2C Barcamp

September 7 & 8, 2013 at Fachhochschule Brandenburg

Documentation

Topic: New finance instruments for incubators

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The creative capital conference (C2C) is funded by the Ministry of Labour, social affairs, women and family with funds from the European social fund and the state of Brandenburg)

Session: New finance instruments for incubators

Host: Corrado Bottoli, Finance officer, Milan Chamber of Commerce, Italy

Introduction and description of topic:

Session Host Corrado Bottoli introduces the work of the Milan Chamber of Commerce that helps to promote new businesses and support high potential growth companies. Bottoli points out the relationship between the public and private sector for new companies (like startups). Background is that in Milan 25% of new companies die after one year. Bottoli's goal for the session is to show different ways to support startups and find new instruments with the help of the participants.

The chamber gives support on three levels:

1. Equity capital market with equity funds in terms of creating equity funds with a direct investment and setting up a co-investment with the private sector (on going project)
2. Debt capital market in terms of guarantee funds for startups and grants to reduce the cost of bank loans
3. Setting up new incubators in terms of low price for facilities and training/tutoring to reduce risk of investment

Theses and major points for discussion:

- With regards to equity capital market, the participants criticise the focus on only high potential startups like in the technology sector that gets enough support anyways. The creative sector, e.g. fashion design seems to be underrepresented. One Participant points out that high tech sector is not necessarily supported anyways because there are long production process, too, e.g. for computer game developers. The creative sector has the advantage of being able to form working groups that share space and capacities.
The participants express their doubts that startups in the creative sector want to have equity money because banks wouldn't finance their projects anyways and that debt instruments might be more suitable.
- With regards to debt capital market, the participants note, that clients usually prefer grants while there is no proof that grants have a growth effect. The guarantee system via microfinancing agencies (in Brandenburg) on the other hand doesn't seem to have any effect. In Estonia grants sometimes work but very often it is a black whole. One suggestion for cultural support is to demand more professionalism from their clients/startups. The participants agree that grants are not the solution or at least should be designed in a better way. One suggestion is to follow the investors and how much money they want to invest.

Further points of discussion and other contributions:

- The role of the public sector is also discussed, but the situations in the participants' respective home countries are very different.

- Crowdfunding as a potential alternative which also allows for early market research.
- The idea of paying back some of the money or providing new jobs after success was brought up. The problem is to give the right incentives. If the condition is to employ new people companies would employ anybody to keep the money. It is always a distortion of the market. Another option is to pay pack if you are not successful in order keep the motivation to succeed alive.

Examples:

- A debt system of revolving funds from Germany (North Rhine-Westphalia): once a project is successful the cash flow will go back into the funds and no banks are involved:
 - https://recht.nrw.de/lmi/owa/br_vbl_detail_text?anw_nr=7&vd_id=13682&ver=8&val=13682&sg=0&menu=1&vd_back=N
 - http://tu-dresden.de/die_tu_dresden/fakultaeten/fakultaet_wirtschaftswissenschaften/cepe/dateien/publications/thum/ifo%20Dresden%20Studie%2044.pdf
- Milano Speed Mi Up: incubator run by Milan Chamber of Commerce and Bocconi University. The idea is to combine startups with young freelancers to work together by providing services (training, innovation, internationalization), working spaces, tutoring and IT services. The goals are to set up about 10 startup/year (startup hub) and support 20 professionals/year (professional hub).
<http://www.speedmiup.it>
- Tallin Creative Business Incubator, an incubator working with public money only:
<http://inkubaator.tallinn.ee>
- „Gründung innovativ“, program in Brandenburg which works with grants:
http://www.ilb.de/de/wirtschaft/zuschuesse/gruendung_innovativ/index.html
- KredEx from Estonia, which manages the credit risks for starting companies:
<http://www.kredex.ee/en/>
- Exist Gründerstipendium: provides a basic salary for the company members, money for the company and coaching. The project members have to reach milestones but if they are not successful they don't have to pay back anything. The advantage is they can concentrate on their project.
<http://www.exist.de/exist-gruenderstipendium/>
- High-tech Gründerfond: <http://www.en.high-tech-gruenderfonds.de>

Summary/Conclusion:

There is no ideal model for public support due to the differences of the countries. All three introduced models could be helpful. There seems to be an agreement that debt instruments and creating new incubators might be more suitable for the creative sector. New instruments could be crowdfunding and networking, they should be added to the three models.

Links:

Milan Chamber of Commerce: <http://www.mi.camcom.it>