



Startup Acts: an emerging instrument to foster the development of innovative high-growth firms

Thursday 22 April 2021, 2:00 – 3:30 pm CET

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Time	Agenda
02:00-02:05	<p>Welcome speech and introduction</p> <ul style="list-style-type: none"> • Yasmine Galloul, Project coordinator, Expertise France • Mr. Escipi3n Joaqu3n Oliveira G3mez, Under-Secretary General in charge of the Structural Economic Transformation and Trade Department, OACPS • Miguel Campo-Llopis, Policy Officer – Private Sector Development, SME support, Business Development Services, Green Economy, INTPA - European Commission
02:05-02:10	<p>Presentation of the ICR Facility</p> <ul style="list-style-type: none"> • Yasmine Galloul, Project coordinator, Expertise France
02:10-02:25	<p>Start-up Acts: an emerging instrument to foster the development of innovative high-growth firms</p> <ul style="list-style-type: none"> • Eveline Rodrigues, Research Team member at Innovation for Policy Foundation
02:20-03:10	<p>Round Table</p> <ul style="list-style-type: none"> • Ellen Olafsen, Senior Private Sector Specialist, World Bank • Rym Jarou, CEO, Smart Tunisia • Modou Mamoune Ngom, Telecommunications Director at the Ministry of Digital Economy and Telecommunications of Senegal • Oswald Osaretin GUOBADIA, Senior Special Assistant to President Buhari on Digital Transformation, Nigeria
03:10-03:25	<p>Questions and Answers</p>
03:20-03:30	<p>Individual support offered by the ICR Facility</p>

Welcome words

Mr Escipi3n Joaqu3n Oliveira G3mez

Assistant Secretary-General of the Department of Structural Economic Transformation and Trade
ORGANISATION OF AFRICAN, CARIBBEAN AND PACIFIC STATES (OACPS)

Miguel Campo Llopis,

Policy Officer-DG INTPA- Unit E2 Micro-economic Analysis, Investment Climate, Private Sector, Trade and Employment, EU
Commission

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Investment Climate Reform Facility (ICR Facility)

Funding	EU, OACPS in the framework of the 11th EDF, with BMZ and the British Council
Objective	Support African, Caribbean and Pacific countries and regional institutions in their public-private dialogue process to create a more favourable and sustainable investment climate.

Technical assistance of up to 90 days for interventions:

➤ **Reform of the business environment** 

➤ **Business Environment for Sustainability** 

➤ **Public-Private Dialogue (PPD)** 

Applications must :

- aim to improve the business and investment climate in an ACP country
- be part of a broader strategy, reform process or DPP mechanism
- have a PPD component 
- To be submitted by government organisations, business associations, development finance institutions (DFIs) and EU delegations in ACP countries

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Summary

- **Key definitions**
- **Overview of the adoption of startup policy measures and Startup Acts**
- **Why adopt a Startup Act in ACP Countries?**
- **Comparison of the Italian, Senegalese and Tunisian Startup Acts**
- **Recommendations for the design of Startup Acts**

Key definitions

What is a Startup ?

Startups are generally defined as companies in their **first stage of operations** with the **ability to scale and grow rapidly**.



all startups are SMEs, but not all SMEs are startups due to differences in set-up and vision [...] Moreover, the initial capital required to grow the business is commonly much higher (sometimes in the order of millions) for a startup than for SMEs in general

- European Economic and Social Committee (2017)

Key definitions

What is a Startup Act?

Startup Acts are **comprehensive legislative and regulatory frameworks** aimed at fostering **entrepreneurship** and enabling the development of new firms with **high growth** potential generally through the granting of targeted incentives (tax, subsidies, procurement, etc.).

Startup Acts can also be defined as a **collaborative processes** involving the collaboration of different stakeholders (including non-traditional ones) of the entrepreneurship ecosystem from both public and private sectors (entrepreneurs, incubators, innovative hubs etc.).

Overview of the adoption of startup policy measures and Startup Acts

Startup policy measures

Historically, the first growth entrepreneurship policies appeared in the early 1990s in countries such as Finland, the Netherlands and Scotland. Since then, **many countries have adopted policy measures specifically targeting Startups**. In Europe, most countries have some measures specifically aimed at startups. For example France has introduced in 2004 a tax break for young innovative companies (Jeunes Entreprises Innovantes). In Asia, India and Israel stand out for having a broad policy strategy targeting startups with a combination of policies, programs and legislative amendments to the classic entrepreneurship regulatory framework.

However, these policies cannot qualify as Startup Act because they are often limited or isolated instruments, or are not part of broader legislative framework.

Overview of the adoption of startup policy measures and Startup Acts

Startup Acts

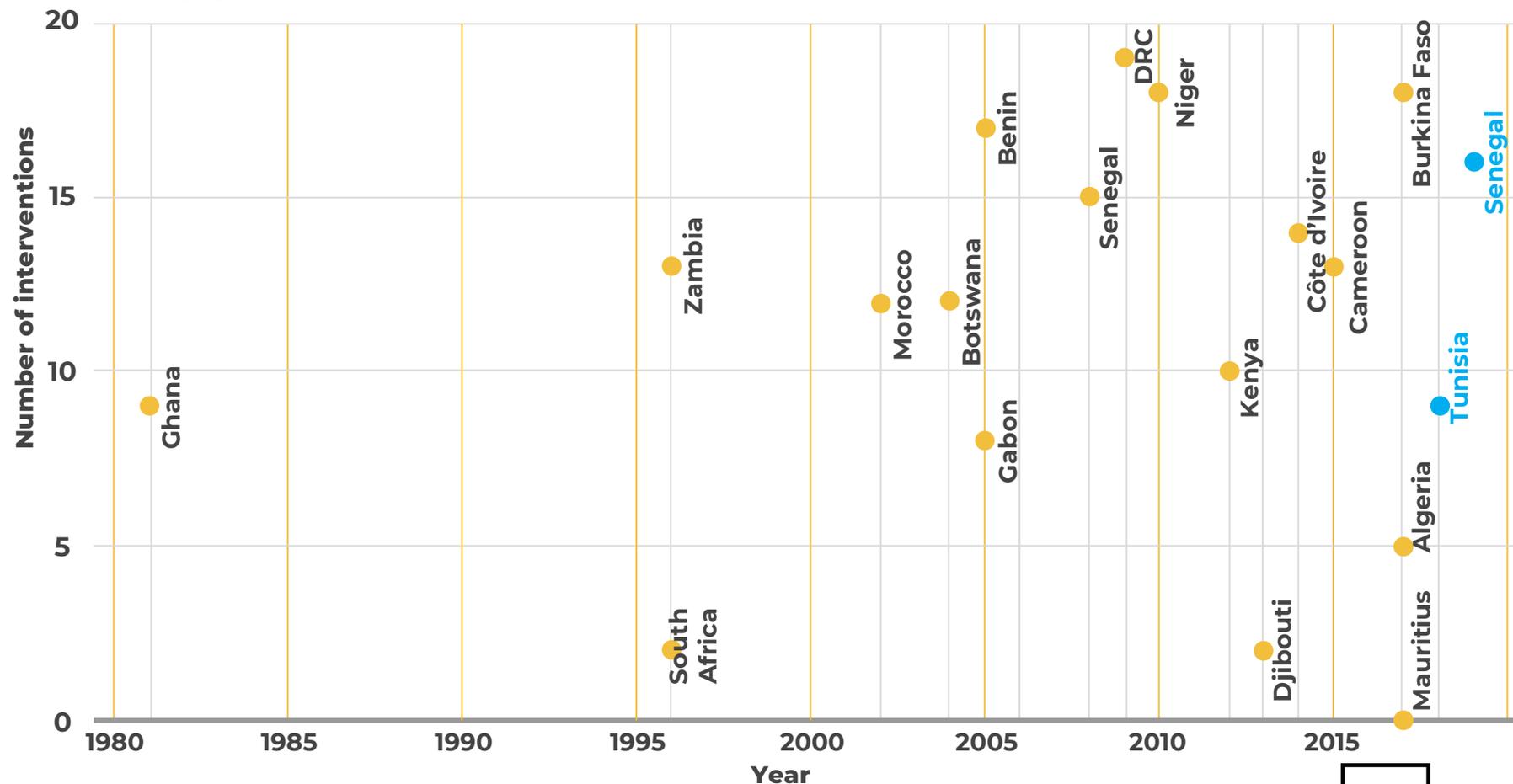
According to the above-mentioned definition, there are very few countries that have adopted Startup Act such as **Argentina, the Philippines, Italy.**

In **Africa, Tunisia and Senegal are the first countries that have adopted Startup Acts.** Just like in the rest of the world, Startup Acts remain a relatively recent instrument compared to Small Business Acts (SME legislations) that are much older instruments and have started to be adopted by African countries around the 1980s.

Timeline of Small Business & Startup Acts in Africa

Since the first Small Business Act in Africa, passed by Ghana in 1981, Governments across the region have been increasingly legislating to support entrepreneurship.

Increasingly, Startup Acts have become a popular mechanism to package reforms.



Why adopt a Startup Act in ACP Countries?

A solution to tackle development challenges

Governments as a result, have increasingly begun to focus on **entrepreneurship** as a mean of **creating quality jobs, boosting the wider economy's productivity and growth, and delivering market-based innovations** to development challenges. Startup Acts are perceived as **new tools** for addressing the **specific challenges** facing businesses with **high potential of growth and innovation**.

The Italian Startup Acts shows positive results

An OECD report evaluating the Italian Startup Act adopted in 2012 shows encouraging results which may constitute avenues of reflection for ACP countries. The assessment shows that **after six years of implementing** the Startup Act, it had a **sizeable positive effect on both the inputs and the outputs** of the beneficiary firms. In particular, the policy **allows firms to increase their revenues, value added, and assets by about 10- 15%**, relative to similar start-ups that do not benefit from it, or benefit at a later stage. The analysis has also shown that the enrolled firms are more **likely to receive credit from banks and VC funding**.

Comparison of the Italian, Senegalese and Tunisian Startup Acts

Définition of a Startup



AGE

Number of years of existence



SIZE

Numbers of employees and total assets or annual turnover



INDEPENDENCE

Capital held by natural persons or investors



INNOVATION

Discretionary: Strong innovative character



SCALABILITY

Discretionary: Perceived growth potential, product-market fit, proof of concept, team capab etc.

Comparison of the financial incentives of the Italian, Senegalese and Tunisian Startup Acts

Senegal	Tunisia	Italy
<ul style="list-style-type: none"> • The State may subsidize the formalization of the company • Labelled startups benefit from funds, in particular in the form of loans, from public and private sources • Alternative strategies and mechanisms for financing startups will be defined and implemented by an inclusive Commission established under the Startup Act 	<ul style="list-style-type: none"> • Startups are legally entitled to issue convertible bonds, and are authorized to issue multiple convertible bonds, regardless of the option periods for conversion • The right to open a special account in foreign currency with approved intermediaries, without capital controls on funds raised • Any promoter of a startup may benefit from a startup scholarship for a duration of one (01) year • Tax exemption of profit for investors 	<ul style="list-style-type: none"> • Possibility to collect capital through equity crowdfunding authorized online portals • Flexible corporate management: permits to create categories of shares with specific rights, carry out financial operations on their own shares and offer shares to the public • Extension of terms for covering losses • Remuneration through stock options and work for equity schemes • Fast-track, simplified and free-of-charge access for innovative startups and certified incubators to the SME Guarantee Fund • Subsidized financing scheme for innovative Startups based in Italy

Recommendations for the design of Startup Acts

1

Be Participatory

2

Think in Ecosystems

3

Address Framework Conditions

4

Be Clear and Objective about the Target (using “rules-based” approaches)

5

Open Implementation and Monitoring

6

Control the Negatives

Recommendations

1 Be Participatory

- Offers improved beneficiary targeting and service delivery
- Provides a clearer picture of the entrepreneurial ecosystem
- Increases social capital, ownership and accountability
- Deliberation shifts social norms and improves trust
- Leverages dialogue to iterate, adapt and refine the law
- Strengthens existing public-private dialogue forums

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Recommendations

2 Think in Ecosystems

- Ensure that policy measures are aligned to existing programs and reforms, and that implementing agencies are coordinated.
- Have holistic but realistic, long-term goals. The “best” entrepreneurship ecosystems have taken decades to develop and used legislation to sustain the political commitment toward entrepreneurship beyond current trends.

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Recommendations

3

Address Framework Conditions

- Measures should address framework conditions that improve the ecosystem at large e.g. Senegalese tax reforms were part of the Startup Act process.

Recommendations

4

Be Clear and Objective about the Target

- Clearly define beneficiary targets
- Be careful about the creation of market distortions and elite capture
- Avoid discretionary and subjective selection processes

Discretionary Selection for Startups

What is discretionary selection?

- Firms are targeted based on **perceived growth potential** or strategic priority. This process is often modelled on Venture Capital selection to pick outside growth (e.g. Senegal and Tunisian Startup Acts)
- The process is often, as in Tunisia, overseen by a **committee** composed of public and private actors.
- Used in the certification process to ensure **due diligence**, value for money of offered incentives or to establish a startup brand.
- It can perpetuate biases and it is prone to elite capture.

Tunisian Startup Act - Example of Discretionary Labelization



AGE

No more than 8 years of existence



SIZE

No more than 100 employees and \$5.3m in total assets or annual turnover



INDEPENDENCE

More than two-thirds of capital held by natural persons or investors



INNOVATION

Discretionary: Strong innovative character, defined as “providing an interesting and differentiated solution to a given problem”



SCALABILITY

Discretionary: Perceived growth potential, product-market fit, proof of concept, & team capabilities

Entitlement-Based Labelization

What is entitlement-based labelization?

- An **objective, rules-based** selection process (e.g. Rwandan Investment Code, and the Italian Startup Act).
- Firms **qualify subject to submitting proof** of the stated criteria.
- The ability to predict firm success on the basis of any set of measurable firm or entrepreneur characteristics is very low. Therefore entitlement-based measures are heavily preferred to **avoid moral hazard, reduce oversight expenditure, and to mitigate perverse incentives.**

Italian Startup Act - Example of Entitlement-Based Labelization



AGE & LOCATION

No more than 5 years of existence; not the result of a merger, split-up or selling-off of a company or branch; and, HQ is either in Italy, or in EU with key production in Italy



SIZE

Turnover less than €5m; firm does not distribute profits; and, is a limited liability firm not listed on an exchange



PURPOSE

Firm's exclusive purpose is the production, development and commercialization of high tech goods and/or services



INNOVATION

Any of the following three characteristics:
 1) at least 1/3 of the total workforce are PhD students or holders; or, 2/3 of the total workforce are Masters degree holders.
 2) at least 15% of firm's expenses for R&D. Or,
 3) the enterprise is the holder, depositary or licensee of a registered patent, or the owner and author of a registered software

Recommendations

5

Open Implementation and Monitoring

- Prioritize the quality of execution, improving coordination across implementing agencies and building delivery capacity
- Establish clear results chains and feedback loops to support monitoring and evaluation

Recommendations

6 Control the Negatives

- Public policy cannot solve every obstacle to entrepreneurship by itself. Under adverse conditions, entrepreneurship policies can fail to produce positive effects, not by flaws in policy design, but rather due to structural limitations.
- There is limited research and evidence on where entrepreneurship policy must stop, and how to optimize the additionality of publicly-funded interventions undertaken by the private sector.
- Flaws in design may contribute to structural inequalities and other issues.



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Round Table discussion

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Rym JAROU
CEO, Smart Tunisia



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GUOBADIA**
Senior Special Assistant to President
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Ellen OLAFSEN
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Questions and Answers

Please write your question in the Chat.

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Clinics of the ICR Facility

Targeted support: virtual and individual support sessions

- Eligibility: public or private actor based in an ACP country
- Slots will be allocated according to availability.
- Aid will respect a regional balance across all ACP countries.



Exchange directly
with us and get
support for your
organisation

- Express your interest until 6 May 2021 via info@icr-facility.eu.
- Indicate your organisation and the questions you wish to ask.

