



**Consultation Document for a Community Support Programme for
Entrepreneurship and Enterprise Competitiveness (2006-2010)
European Commission**

Consultation Response: May 2004

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Background

NESTA – the National Endowment for Science, Technology and the Arts – was established by the 1998 Lottery Act, which laid down our three statutory aims of:

- Helping talented individuals (or groups of such individuals) in the fields of science, technology and the arts to achieve their potential;
- Helping persons to turn inventions or ideas in the fields of science, technology and the arts into products or services.
- Contributing to public knowledge and appreciation of science, technology and the arts.

In order to meet these aims we have invested a total of more than £24 million through our three core programmes – Invention and Innovation, Fellowship and Learning (formally Education). These awards set out to help talented individuals or groups of individuals develop their ideas and turn them into products or services that are commercially or socially profitable.

Through our Invention and Innovation programme we have become one of the UK's largest single sources of early-stage seed funding. Most of the businesses that we fund through this are at a very early stage of development. Our investment ranges from £50,000 to £150,000, with occasional additional funding of up to £250,000. These are businesses that are within the SME's bracket, with a significant growth potential.

Further to this our Learning programme is helping us explore new ways of teaching, and injecting creativity and enterprise into the UK education system. The Fellowship programme is helping us to support the creative and personal development of highly talented individuals at critical moments in their careers.

One of our key objectives is to learn the lessons from our investment in people and projects and use this to inform public policy. We have considerable experience in helping small businesses reach the stage where they can access informal capital, facilitating further investment opportunities and are well placed to assess the barriers facing SME's and promote the role of small enterprising businesses within a European context.

Against this background we welcome the opportunity to respond to this consultation.

Overview of the Report

NESTA welcomes the publication of the consultation document for a Community Support Programme for Entrepreneurship and Enterprise Competitiveness (2006-2010). We endorse the central tenet of the consultation that:

“The encouragement of a dynamic and competitive industrial sector is essential if Europe is to sustain and increase its prosperity, and that competitiveness and economic growth are increasingly being based on innovation.”

In responding to this consultation we will not attempt to discuss all of the issues it raises. Rather, we will restrict our responses to those areas into which our experience provides an insight. Specifically:

- The need to facilitate access to finance for SMEs (especially those at the very small end of the spectrum) and in certain sectors which find it particularly difficult to access this finance;
- The importance of promoting clusters; and
- The need to encourage and promote the importance of entrepreneurship.

Access to finance

We strongly support the encouragement of an environment favourable to entrepreneurship and to the development and growth of enterprises, particularly SMEs.

We were especially glad that the consultation recognises that any entrepreneurship policy should take account of the diverse needs of different groups of entrepreneurs. Different skill-sets are required to invest and support different businesses. Those qualified to invest in family-owned micro-businesses may well be unsuited to invest in hi-tech fast growth firms. Therefore, we believe that any policy changes arising from this consultation should promote the principle of “think small first”, currently promoted by the UK’s Small Business Service.

We also believe that the individual needs of particular sectors should be taken more into account. In particular, we would like to see some emphasis on improving the access to finance available to the Creative Industries¹. For these industries there exist significant barriers in attracting finance beyond the level supplied by “friends and family”. There are particular funding problems faced by early-stage creative firms.² For example, Creative Industries businesses often face difficulties when dealing with the strict investment criteria used by banks and other investors. These criteria were often drawn up with other sectors in mind, and some are unmeetable by certain creative businesses. In addition, the sector can fall foul of negative and inaccurate stereotypes (that, for example, they are primarily “lifestyle” businesses, not interested in encouraging business growth) which again make it difficult for them to attract finance. NESTA has published research examining the barriers faced by the creative industries. A copy of this

¹ These are defined by the UK Department for Culture, Media and Sports as “those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property”. In this amounts to advertising and the media, architecture, the art and antiques market, crafts, design, designer fashion, film and video, music, the performing arts, publishing, software and computer games.

² The barriers facing the creative industries are addressed in our report, *New solutions to old problems: investing in the creative industries* (November 2003)
<http://www.nesta.org.uk/assets/pdf/creativeindustriesresearch.pdf>

research is enclosed. We feel that this research makes a strong case for bespoke support for these sectors as part of an overall push to increase levels of enterprise and entrepreneurship.

Concerning the specific proposal that facilities be offered to guarantee loans to SMEs, we would suggest that the Commission look at the lessons learnt from the UK Small Firm Loan Guarantee (SFLG). This initiative is designed to provide debt finance opportunities to non-traditional businesses, by guaranteeing 75% of the bank loan to businesses that lack assets that can be used for security. Given this one might expect it to remove barriers to debt finance for the Creative Industries or hi-tech fast growth firms. However, it appears that banks offering this service in the UK still feel unable to undertake an appropriate risk assessment with these sectors. As a result, whilst the SFLG will guarantee 75% of all loans, the banks cannot afford 25% of the loan book to go bad, and they are therefore unwilling to offer the service. We would recommend that the Commission look at ways of better targeting these guaranteed loans to SMEs in sectors that find it difficult to access finance. This could be achieved by ensuring that the organisations providing the loans are able to assess the viability and needs of businesses in specialised sectors.

Clusters

We welcome the emphasis that the consultation gives to encouraging the development of clusters, in order both to improve knowledge transfer and to increase productivity and innovation. We endorse all the points made in the consultation – in particular that clusters “can provide enterprises with access to knowledge, know-how, research and education, market intelligence, marketing tools and specialised infrastructure.”

We were pleased to note the particular benefit that clusters can provide in the promotion of non-technological innovation. The Creative Industries, though traditionally small, are playing an increasingly significant role in increasing EU productivity. Our research shows that they are an important growth sector for the UK economy, currently accounting for 7.9% of UK GDP. As a sector, the Creative industries increased by an average of 8% between 1997 and 2001, compared to an average of 2.6% for the whole economy during this time.

Within the Creative Industries there is also an important role for cluster arrangements for the regeneration of communities. Implementation of these policies should therefore bear in mind this added benefit and priority should be given to encouraging clusters within areas in need of regeneration.

Promoting entrepreneurship

We were glad to see that the consultation recognised the need to promote and foster a more entrepreneurial society.

We would like to suggest that specific attention be given to promoting entrepreneurship in areas with traditionally low levels of entrepreneurial activity, often in less economically developed regions, as those recently accepted into the EU. Whilst there are obvious structural issues preventing the establishment of small enterprising businesses within these regions, lack of finance being paramount, there is also a lack of encouragement within economically depressed areas. There is a belief that people in these areas lack the skills required to set up their own businesses; it is our experience that people who are confident of their abilities to start and manage a firm are more likely to be engaged in entrepreneurship than those who do not believe that they have the skills. The

Commission should seek to explore means for developing enterprise capability and encouraging more people within these communities to undertake entrepreneurial activity.

A starting point for the development of entrepreneurial skills has to be education in schools. The lessons from our Learning Programme highlight the value of teaching entrepreneurship from a very early age. The Commission should therefore endeavour to identify and support innovative projects in the area of enterprise capability and entrepreneurship in schools and colleges.

However, attention needs to go beyond just “bolt-on” activities running alongside the curriculum and look towards the integration of enterprise into mainstream teaching and learning. There needs to be a prolonged plan for the development of enterprise capability within the EU. This is a skill that can lead to creative problem-solving not only in an economic context but also in an academic context. Hopefully creating the next generation of entrepreneurs.

Our experience of delivering these activities may help inform the EU on the best means of promoting entrepreneurship across Europe.

Conclusion

As an organisation tasked to assist individuals or groups of individuals setting up businesses, we welcome the overall tone of the consultation and many of the proposals. If you have any comments or questions regarding this, or any other aspect of NESTA’s work, please contact us.