How governments can help entrepreneurs and angels scale startups

World Business Angel Forum awards dinner, Istanbul on 19th February 2017

Baybars, I am honoured to be asked to speak at this great event, my fifth visit to Turkey. The first visit, I was on a beach near Bodrum in 1989, with my children aged 1, 3 and 5 and Prince Charles landed with Camilla and walked past us into the village.

Dear:

- Mr and Mrs President of the Republic of Macedonia
- Mr Development Minister of the Republic of Turkey
- Mr Innovation Minister of Kosovo
- Mr Former Inhouse Minister of the Kingdom of Bahrain
- Ms Parliament Member of Turkey and Ms Parliament Member of Kosovo
- Guests

I don't normally read out my talks and speeches, but I am very passionate about my subject, and speak very fast. English is the global language for entrepreneurs, and as you heard earlier from the Macedonian President, this week celebrates speaking in one's mother tongue.

Baybars has asked me to spend a few minutes sharing my experiences from visiting early stage startup ecosystems in Silicon Valley, the east coast of the USA, Singapore, New York, Bangalore and all over Europe, particularly the UK, to describe what I have seen that helps and also that hinders scale startups.

For that is what we all want. Not failures, nor zombies nor lifestyle businesses, but scaling companies and exits.

As you may know, statistically over half of all startups will fail within a few years, another 30% will not scale, and only 1 or 2 in every 10 will scale enough to produce wealth for the founders and investors and with the very positive side effect of:

- increased employment
- Intellectual Property, brands and patents
- Exports, and
- taxation

for an economy and hence a nation.

The OECD definition of a scale up, is a company with at least 10 employees and grows by 20% per year for at least 3 years, but that in itself, is not very exciting.

That growth equates to a growth from 10 to only 17 employees within that 3 years. We want to build businesses that scale faster and larger than that.

Choosing which startups will scale has been likened to kissing frogs until a prince appears – the Grimm brothers' fairy tale.

In Turkish: kurbağa prens

This of course also means choosing the best frog to kiss, and that is where the analogy breaks down, because, in my many years' of experience, entrepreneurs have much better success in teams of 2 or 3, so let's call it a frog-pair.

The chance of that frog-pair turning into a prince can be improved in various ways:

- Sufficient money for the journey, but at valuation increases which means the frogs are still motivated by their share of the business.
- Smart money, from what I am calling **Invested Investors** – that is investors who invest time and positive emotions into the startup and:
    - help mentor and coach the frogs,
    - ensure the frogs spend the investment money wisely and prudently,
    - ensure they adhere to rules and regulations,
    - connect with later stage money and potential customers and suppliers
- Access to university research
- Access to markets, especially export
- And, of course, access to great staff

So, how can governments help?

1. Encourage angels to invest, by providing:
    a. Tax reliefs to reduce the risk of investment, providing these are not too generous
    b. Encouragement to form groups, networks and syndicates. Both to educate novice angels and to reduce risk. The management of these groups is often funded by governments to prevent the angels or entrepreneurs from having to pay membership or transaction fees. Voluntarily run groups struggle to be effective and sustainable
    c. Provide training for angels and angel group leaders, particularly to lead investment deals and sit on startup boards
2. Provide investment capital, but, please, **not to** dominate a round
3. Provide a well-run research and development grant scheme
4. Provide tax reliefs for startups that take research and development risk
5. Encourage sufficient later stage capital from VCs, preferably patient capital, as journeys particularly in life sciences can take more than 10 years
6. Provide centres of excellence – Frauenhofer in Germany, Catapults in the UK, eg satellites, future cities, energy, medicines etc
7. Provide grants to universities for research that may be transferable to provide commercial success
8. Fund coaching and mentoring programmes
9. Fund bodies that provide inward investment and export assistance for early stage companies (eg the UK Department for International Trade)
10. Entrepreneurial visas

And, what can governments get wrong?

1. Provide tax reliefs where the risk is low (eg asset-backed, such as property), because tax payers will gravitate towards those, to the detriment of riskier investments
2. Provide more than 50% of the startup capital, as that alters entrepreneurs' and investors' behaviour
3. Getting the compromise wrong between governmental control, and a free market
4. Assume that money alone, is sufficient. Smart money from Invested Investors is crucial
5. **And of course, worst of all: do nothing!**

Thank you for listening