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Regional Initiatives

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France critiques its incubators before refinancing

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The country aims to boost its high-tech sectors, but a more proactive role in project detection and seed funding is still needed for successful incubation.

The French minister for research and new technologies, Claudie Haigneré, announced on November 5 her intention to allocate €25 ($29.9) million over the next three years to support the country's 31 public incubators, following an audit on their performance. The initiative is part of a wider scheme, called 'Plan Innovation,' that includes tax incentives designed to support innovative companies and that will come into force on January 1, 2004. But critics say this initiative will be successful only if the government finances a mechanism to actively track down creative research with commercial potential, and if more money is made available to spin out companies.

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Earlier this year, the research ministry commissioned consultancy firm Ernst & Young (Paris) to audit France's business incubators, which provide a supportive environment for startups until they reach a certain size or stage of development. The results of the audit, which show discrepancies in success rates of commercializing research among the 29 public incubators surveyed, will help Haigneré determine the level of refinancing for each incubator depending on their past performances. By contrast, a first round of financing in 2000–2003 distributed €25 ($29.9) million equally among all incubators. Most incubators get half of their financing from the state and half from regional authorities.

To assess the incubators' performance, Ernst & Young looked at various criteria indicative of successful incubation, such as number of startups and jobs created, management strength and use of financial resources. The report concludes that 14 incubators are fit to be refinanced over the next three years, nine need to take action and meet some criteria to justify refinancing, and six must tackle critical weaknesses to be refinanced at all. Each incubator will make proposals over the coming months on how to best solve its problems, and the ministry will allocate funds based on the ensuing negotiations.

Should any incubator not be refinanced, there is a risk that promising projects in these regions will be lost. A weakness of the technology transfer as it is currently done in France is that "Nothing has been put in place [to rescue good projects]," says Gilbert Blanchard, head of regional development consultancy CBB development (Rennes, France). This is an issue that affects most countries in Europe—there are no national programs to systematically track down research with commercial potential.

"What is missing most, and that is not going to be solved by the innovation plan, is the funding for the detection [of interesting projects]," says Blanchard. He says more business savvy personnel are needed to determine which academic research projects have commercial potential and deserve government funds at the incubation stage.

In addition, public incubators often have trouble getting initial financing (or 'seed money') that is necessary to advance research to the point where the company might attract the interest of venture capitalists—this means that sometimes companies are spun out too early. "It would be no use to finance incubators without tackling the issue of [a lack of available] seed money," says Etienne Vervaecke, managing director of incubator and health technology park Eurasanté (Lille, France).

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Some regions have already attempted to bridge this seed-fund gap, which typically requires €0.5–1.5 ($0.6–1.8) million per company. For example, regions like Aquitaine (Bordeaux), Alsace (Strasbourg) and North of France (Lille) each have local seed funds. And the area that encompasses Brittany, Poitou Charentes and the Loire Valley launched in September 2003 a €20 ($24) million regional seed fund called Ouest Ventures (Rennes, France). But seed funds tend to cover all technologies and fund managers do not always have experience in the life sciences—as is the case at Ouest Ventures—a trend that prevents quality biotech projects from being identified and funded.

This dearth of experienced seed funds is exacerbated by a lack of business angels, who tend to finance proof-of-concept studies before the seed stage, according to Vervaecke. Yet, the new 'Plan Innovation,' which is supported by both the Research and the Industry Ministries, has granted a new legal status to business angels that should encourage more of that type of investment. Beginning in 2004, an angel can establish him- or herself as a Société Unipersonnelle d'Investissement Providentiel (One-person Providential Investment Company), and will be eligible for tax rebates that have yet to be defined by the Finance Law, which is to be voted before the end of 2003.

The new plan also includes €30 ($36) million to refinance existing venture capital funds, which finance companies that have matured past the seed stage. Some of this money will be allocated to BioAm (Paris), the government fund dedicated to life sciences investment. But without at least €775 ($930) million in seed money—enough to finance 25 projects in each of 31 incubators—French companies may never reach the stage of maturity necessary to receive such venture capital funds.