Manual for **financing commons for innovation ecosystems**

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Introduction

The purpose of this manual is to provide concise and practical guidance on financing commons for more effective innovation ecosystems, aimed at financiers who intend to fund such development. The manual can also be advantageously read by implementers who seek guidance on the questions to consider when developing a commons.

This manual was developed during a preliminary study about commons in innovation ecosystem, funded by Vinnova, the Swedish innovation agency.

Developing commons for innovation ecosystems requires an entrepreneurial approach (as explained in the policy paper on commons for development of more efficient innovation ecosystems), applying the established logic used in venture development. However, there are crucial differences between developing, for example, a startup and a commons. These differences affect the questions that need to be asked in, for example, a call for proposals aimed at financing the development of commons, as well as the questions to consider when developing a commons, or converting an existing proprietary asset into a commons.

Developing ventures and commons

Similarities

The logic of venture development is applicable both in developing companies and commons, but the commercial solution and product are replaced with commons.

- Problem/Commons-solution Fit.
- Product/Market-Fit (Commons/Community-Fit).
- Scale/Disseminate/Evolve.

In both cases, development requires an experimental approach, where hypotheses are tested and iterated, rather than developing according to a predetermined plan. Tools like NABC are also applicable for the development of commons. A long-term sustainable business model needs to be developed and iterated from the start.

Differences

Developing a company focuses on differentiation, competitiveness, and the proprietary control of assets. In contrast, developing commons centers on

identifying shared problems that can be more effectively addressed through collaboration, leading to the creation of shared development assets.

A fundamental difference is that the development of the governance model becomes more extensive and central in the development of commons. From the start, it is necessary to develop and iterate principles and rules for the use and development of the asset, for example:

- Who has the right to use and contribute to the commons, and under what terms?
- Who establishes the governance rules, and who determines the rule-makers?
- What are the consequences of violating the rules?

See models for describing, organising and analysing commons for more information on governance structures for commons.

Financing companies and commons

Similarities

In both cases, investments are made in assets with exploitation potential, a shift from the traditional project financing logic detailed in policy paper on commons for development of more efficient innovation ecosystems. Financing is advantageously carried out in phases, with smaller investments in the early stages when uncertainty is highest. A portfolio model is beneficial, where investments can gradually be directed towards operations that demonstrate the greatest potential.

Differences

The differences lie in the focus of investment. Investors in companies invest in teams and business opportunities, which differs from investments in commons. The key distinction is that investment in companies is evaluated based on price-as-value[1] whereas investment in commons focuses on use-as-value[2].

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[1] Price-as-value refers to economic valuation models where, for example, profitability and shareholder value are examples of economic valuation.

[2] Use-as-value refers to valuation models where the breadth of application, number of users, diffusion and growth measures of users determine the value.

State aid and financing development of commons for innovation ecosystems

Legal memorandum - commons in innovation ecosystems and state aid contains an analysis of the possibilities for using public funds to finance the development, further development, and management of commons, in accordance with state aid regulations.

Different starting points for developing commons for innovation ecosystems

Commons are closely associated with a community, i.e., the group that jointly uses, contributes to, and manages the commons. The development of commons can either start from an existing community or develop concurrently with the community.

When starting from an existing community, there are two potential approaches:

- The community may identify a need to develop commons to enhance the efficiency of applications they are already managing. This means that the commons are developed in response to concrete needs within the community.

- There may be an existing proprietary asset or an asset under development which, if transformed into a shared resource, could create significant efficiency gains within the community.

When development does not start from an existing community, the approach is similar to when a venture needs to create a new market or customer segment:

- The process begins with someone identifying a societal, economic, or market need where the development of a commons would be beneficial. In these cases, the development work must both establish a community and develop the commons.

Proposal for a financing process

There are two main types of financing for commons—development financing and operational financing. This proposal for a financing process for commons combines an investment logic with adjustments tailored to the conditions of commons.

Similar to investments in early-stage companies with high uncertainties and risks, financing for commons should be staged, reducing the most critical risks and exploiting application opportunities at each stage. This also means that the financier must assess and require the implementer to continuously describe in each stage how they are developing not just the commons but also the community, use-as-value, governance model, and the support environment needed to use and further develop the commons, etc.

Requiring a "discovery-driven planning" logic from those developing the commons is an effective way to address the risks, uncertainties, and challenges involved in implementing commons development.

Deal-killer risks in the development of commons

The following risks are crucial when developing commons, often acting as deal-killer risks if not properly managed:

- In cases where there is no pre-existing community, the first and crucial risk is determining whether it is possible to **attract a community** around the identified need for commons. This involves ensuring that there is a demand for the commons related to the specific need.

- Another critical risk is the failure to **attract sufficient resources**, both in terms of community engagement and financial support, to advance the project to the next development stage.

- An additional risk factor is **the choice of strategic direction** for the development of the commons. If the chosen strategy results in commons that are not perceived as value-creating by the users, this could hinder the project's continued success.

- **The governance model design** is also crucial as it directly influences user behavior towards a commons. Without a suitable governance model, even a potentially valuable asset may not be sustainable in the long term.

Summary of the financing process

Critera for financing commons

1. Is there a developmental need in the ecosystem that the proposed asset addresses? Specifically, can the asset reduce a transaction cost? *("So what?")*

2. Who is requesting or can benefit from the proposed asset? *("Who cares?")*

3. Does a market or community already exist that demands the solution, or are the intended users fragmented, implying that the market or community needs to be created or established?

4. What are the alternatives in terms of other solutions, and why should we invest in this particular proposal and applicant? *("Why you?")*

5. What does the proposed economic operational and management model look like? How will it be developed and validated over time?

6. What coordination and collaboration does the applicant need to realize and manage the proposed asset?

7. How will the applicant work to attract the necessary resources for the development and management of the asset?

The above questions can then be applied in the following stages:

1. Problem/Commons-solution Fit.
2. Product/Market-Fit (Commons/Community-Fit).
3. Scale/Disseminate/Evolve.

Proposed financing stages

Problem/Solution Fit

The aim is to achieve the following milestones:

1. Identify the community and the developmental challenges it faces.
2. Draft the initial design of the commons to be developed.
3. Identify and validate initial use-as-value hypotheses with a small segment of the community.
4. Draft a preliminary governance model, including an economic operational model.

Product/Market fit

The aim is to achieve the following milestones:

1. An early version/MVP is used by parts of the community.
2. The fundamental assumptions of the hypothesis for a sustainable business/operational model are validated.
3. Basic rules are established regarding who can use and contribute to the asset.
4. A basic governance model is designed—determining who controls the asset and who decides on the decision-makers.

Operational financing

If the management model requires a central organization that needs state support for its establishment, only Article 27 regarding innovation clusters is applicable. The community associated with the commons can be described as an innovation cluster, which enables state support for its establishment.

The costs that can be financed for operating an innovation cluster according to the article include:

- Operations (personnel costs).
- Activation (attracting members).
- Dissemination and application growth.
- Knowledge or skill exchange (peer learning).
- Governance.

Governance of commons for innovation ecosystems can under certain conditions be considered non-economic activity and thus be exempt from state aid (see legal memorandum - commons in innovation ecosystems and state aid). However, the logic in which costs are involved in running an innovation cluster can also be applied to non-economic activities.

Appendix - Suggested questions in a call

The Problem/Solution fit phase primarily involves creating hypotheses, which are validated in subsequent phases. The three different types of scenarios require different questions, therefore, three distinct sets of questions are formulated below for needs and approaches during this phase. For Product/Market fit, similar questions are asked, but instead of early hypotheses, descriptions of how the hypotheses have been validated and what the next steps are, are required.

Commons and community developed in parallel

- Problem/Solution Fit

    * Describe the need:

        ◆ Why is the commons you want to develop needed?

        ◆ Is there a demand for the commons? If so, by whom?

        ◆ Who are the community's early adopters, and how do you plan to attract them? Do you already have a relationship with them?

        ◆ Who will be the primary/secondary target groups?

        ◆ How will your early adopters be involved in the development of the commons?

    * Describe the approach:

        ◆ What will the commons consist of?

        ◆ How will it be made available?

        ◆ How will the content be further developed and quality assured?

        ◆ What type of support environment needs to be designed for the use and further development of the commons? For example, training, potential development tools, manuals (guidelines, codes of practice) that themselves can become commons.

Existing community developing new commons

- Problem/Solution Fit:

  * Describe the need:

    ◆ Why is there need for the commons you want to develop?

    ◆ Is there a demand for the commons? If so, by whom?

    ◆ Who currently comprises the community? Who will initially engage in designing the asset? How have you validated the need within the community?

    ◆ Who are the primary/secondary target groups?

    ◆ Will the commons be used by actors not currently part of the community? How will they be attracted?

    ◆ How will the community engage in the development of the commons?

  * Describe the approach:

    ◆ What will the commons consist of?

    ◆ How will it be made available?

    ◆ How will the content be further developed and quality assured?

    ◆ What type of support environment needs to be designed for the use and further development of the commons? Examples include training, potential development tools, manuals (guidelines, codes of practice) that themselves can become commons.

Existing community converting an asset (private/public/club asset), or an asset under development into a commons

- Problem-solution Fit:

  * Describe the need:

    - What need does the asset currently fulfill?
    - Is there a demand for the asset if it is converted into commons? If so, by whom?
    - Who currently comprises the community? Who uses the asset today, and who will engage in its conversion?
    - Who are the primary/secondary target groups today?
    - Will the conversion of the asset result in its use by actors not currently part of the community? How will they be attracted?
    - How will the community engage in the conversion of the asset?

  * Describe the approach:

    - What does the asset consist of today?
    - Will the entire asset or parts of it be converted?
    - How is the asset made available today?
    - Who owns the asset today, how is it managed, and how is it developed/further developed?
    - What type of support environment exists, or needs to be designed for the use and further development of commons? Examples include training, potential development tools, manuals (guidelines, codes of practice) that themselves can become commons.

Common questions for all starting points

- Describe the operational/business model:

    * What does the long-term operational/business model look like? What resources (time/money/commitment) will be required and where will they come from?

    * What resources need to be attracted during the formation phase to enable the next development phase?

    * How will resource attraction be managed in the long term?

    * What competing alternatives exist for the commons?

    * What role will public financing play in the long term?

    * Establishment grants – over what period?

    * Ongoing operational funding?

    * Seed funding to attract co-financiers?

- Describe the governance model:

    * Who will be able to use and further develop the commons, and under what conditions?

    * What roles will exist?

    * How will content quality be assured?

    * How will management be organized, i.e., who decides and who decides who decides? A member of the community? A steering group with representatives from several actors?

    * How will the actors who use/develop/further develop be coordinated? By whom?

Benefit/outcome

- What outcome does the commons aim to achieve?
    - * Which global goals does the commons aim to facilitate progress towards?
    - * How can the outcome be monitored and evaluated?
    - * Direct and indirect benefits?
    - * Benefits in the short and long term?

Implementation

- What activities will be carried out during the phase, when, and by whom?
- Results per activity?

Team and organization

- Which individuals will be financed and from which organizations?
- What is their role in the community?
- Why do they have the capability to drive the development of the commons and/or attract the necessary resources? (including community, if not already in place).

State aid support basis or non-economic activity

- What support basis is appropriate for the work and why? Alternatively, justification for why the activity constitutes non-economic activity.