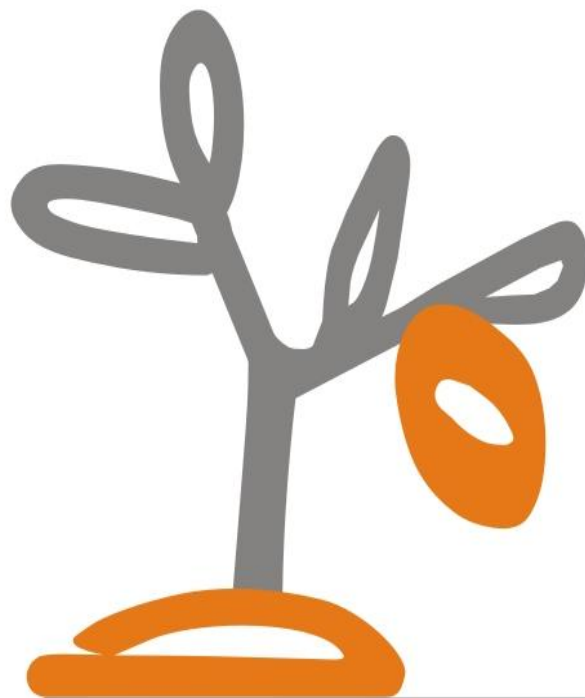


*HANDBOOK FOR KNOWLEDGE-BASED
START-UP COMPANIES ON ACCESS
TO FINANCE*



*META GROUP D.O.O.
OCTOBER 2010*



META Group/si

HANDBOOK FOR KNOWLEDGE-BASED START-UP COMPANIES ON ACCESS TO FINANCE

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FOREWORD

The present document is aimed at Knowledge-based start-up companies looking for an insight into the funding source that is best suited to their needs based on their investment readiness, i.e. how ready they are to accommodate or meet with representatives of the SME finance industry.

It is intended as an upgrade of the VALOR initiative, launched by Technology agency of Slovenia (TIA). Moreover, knowledge-intensive start-ups in Slovenia can benefit from useful information and insights.

Handbook is designed as a guideline to allow knowledge-based start-ups to understand different types of financial sources, to identify their needs and to better understand the logic of operating of venture capital (Chapters 1, 2 and 3).

It also offers additional sources of information on Venture capital Europe wide and more, providing relevant links and contacts (Chapter 4).

In appendix best practices on public or public-private programs are presented for the tools and measures aimed at fostering knowledge-based entrepreneurship and innovation. As well you can find additional detailed explanations on different types of funding sources (Appendix 1 and 2).

We would like to highlight special attention to EURADA, as much useful information was summarized by their sources.



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CHAPTER 1: SOURCES OF FUNDING

1.1 Definitions of funding sources

- **Business angels (informal venture capital):** private individuals who invest part of their estate in start-ups in the form of venture capital and also contribute their personal managerial expertise.
- **Business Angels Networks (BANs):** standing regional platforms that promote the matching of business angels with potential investees.
- **Buyouts:** existing investors' shares in a business are bought by the latter's own management team (MBO – Management Buy Out) or by another management team supported by a venture capital fund.
- **Corporate venturing:** venture capital invested by existing firms for the purpose of funding innovative businesses set up by their own staff or active in industries considered of strategic importance.
- **Development or expansion capital:** financing provided for the growth and expansion of a company, which may or may not break even or trade profitably. Capital may be used to: finance increased production capacity; market or product development; provide additional working capital.
- **Early stage (or start-up) finance:** equity invested in businesses that are past research and development but need additional funding to market their products and services.
- **Equity:** ownership interest in a company, represented by the shares issued to investors.
- **Expansion:** growth, bridging or restructuring capital.
- **Factoring:** a technique whereby SMEs sell invoices to specialised firms.
- **Financial package:** a combination of different funding sources.
- **Grants:** subsidies paid—without an obligation to refund—by public authorities to companies investing in a region for the purpose of facilitating their establishment or expansion.
- **Leasing:** hire-purchase of capital goods.
- **Loans and debt:** the main sources of funding for SMEs.
- **Mezzanine:** combination of equity and loans. Applicable interest rates are often comparatively high.
- **Proof of concept:** finance provided to a researcher's team to support the validation of their business ideas. Often, the financial instrument takes the form of a grants and subordinated loans.
- **Quasi-equity investment instruments:** instruments whose return for the holder (investor/lender) is predominantly based on the profits or losses of the underlying target company, are unsecured in the event of default and/or can be convertible into ordinary equity.



- **Replacement capital** (also called **secondary purchase**): Purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders - an investor buys another's stake.
- **Risk capital**: Equity and quasi-equity financing to companies during their early-growth stages (seed, start-up and expansion phases) in the hope of a return on investment (ROI) that is both large and speedy, on a par with the level of risk taken.. It includes: (1) informal investment by business angels; (2) venture capital; (3) alternative stock markets specialised in SMEs and high-growth companies.
- **Seed capital**: Financing provided to study, assess and develop an initial concept. It precedes the start-up phase. Seed capital is required to fund a business project before the product or service is marketed. Seed capital is often pivotal in high-tech projects to allow businesspersons to conduct surveys as well as research and development on prototypes that will become companies' core business.
- **Start-up capital**: Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may already exist, but have not sold their product or service commercially and are not yet generating a profit.
- **Venture capital**: Investment in unquoted companies by investment funds (venture capital funds) that, acting as principals, manage individual, institutional or in-house money. It includes early-stage and expansion financing, but does not include replacement finance and buy-outs.
- **Venture (or risk) capital**: equity invested temporarily in the form of shares of a company by a specialised firm in the hope of a return on investment (ROI) that is both large and speedy, on a par with the level of risk taken. Venture capital firms invest both in start-ups and growing businesses.



1.2 SME finance players

The market of enterprise financing includes many different types of players¹ who fit roughly into three main categories:

I. VENTURE CAPITAL PLAYERS, INCLUDING:

- business angels and their networks and syndicates;
- venture capital and private equity firms;
- regional venture capital funds;
- corporate venturing firms;
- match funds (as set up by DTI's Small Business Service);
- incubators;
- clusters;
- stock exchanges;
- open-end innovation investment funds (the French FCPI, or Fonds Communs de Placement à l'Innovation).

II. LOANS AND DEBT WITH:

- banks and other financial organisations;
- suppliers—the cheapest source of finance are the easy terms of payment they may grant!

III. OTHER SOURCES, INCLUDING:

- government grants;
- business competition prizes;
- factoring;
- leasing;
- refundable advances;
- commercial credit;

¹ Source (among others): *Investors – A simple Guide to raising finance up to £1m*, www.envestors.co.uk



1.3 SME finance market segmentation

Market segmentation due to different stages of companies development:

I. ENTREPRENEURS' OWN ASSETS AS WELL AS THEIR FAMILIES' AND FRIENDS'

II. START-UP

- seed capital fund;
- loan on trust (i.e. without interest and/or guarantee);
- university and research centre spin-off funds;
- micro-credits;
- (semi-)public start-up and innovation funds;
- public subsidies;
- repayable short-term loans;
- proof of concept.

III. FIRST FINANCIAL ROUNDS

- business Angels;
- seed capital funds;
- bank loans/debt;
- guarantee schemes;
- (semi-)public investment funds;
- regional public venture capital;
- public subsidies;
- corporate venturing.

IV. SECOND FINANCIAL ROUNDS

- private venture capital;
- bank loans;
- stock purchase warrants;
- mezzanine.

V. OTHER FINANCIAL ROUNDS

- initial Public Offer (IPO)—listing;
- bond issues;
- convertible bonds;
- leasing;
- factoring.



1.4 Which type of funding is best suited to the SME lifecycle?

We can split the life cycle of a SME in 3 major phases²:

Phase 1: PLANS WHICH COMPRISE 2 STEPS:

- formulation of the ideas;
- from the idea to the finance of the business plan including the prototype or the proof of the concept phase.

Phase 2: start-up

Phase 3: development and growth with 2 critical steps:

- from 1st customer to initial profit;
- from initial profit to gazelle in 5 years.

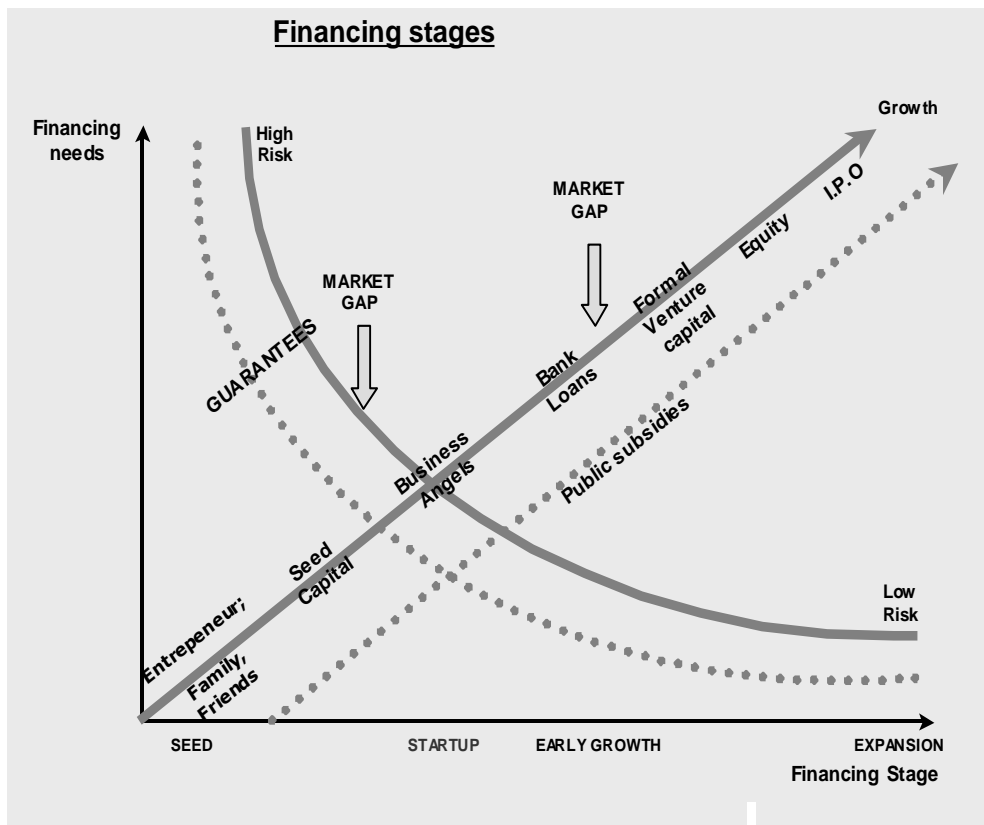
This can be illustrated by the graph on the following page in which the main current bottlenecks are also identified i.e.:

- entrepreneurial spirit (lack of entrepreneurial scientists);
- entrepreneurship (lack of management and executives);
- financial capital (pre-seed, seed, equity, risk capital gaps);
- patent rights (underdeveloped tech-transfer offices, especially at university level).

² Frits van der Have's speech given on 14 October 2005 at the *Risk Capital Summit*, London

Many experts have tried to link the sources of capital needed by SMEs according to their stage of development. The following figure illustrates that:

- the different funding sources available on the market are often tailored to a specific stage in the business lifecycle;
- individual funding sources are often adjusted to the development cycle of businesses, which needs to be based on individual SMEs optimum turnover potential.



1.5 Typical amounts invested by individual funding sources

As evident from the table below, the respective amounts that entrepreneurs can expect from the different categories vary according to the type of financial product and player involved:

Products	Venture capital investment range (in €)
Loans without guarantee or interest	5.000 – 15.000
Micro-credits	3.000 – 30.000
Business angels	25.000 – 250.000
Seed capital	300.000 – 1.500.000
Early-stage finance—Start up	500.000 – 2.000.000
Private mezzanine	20.000.000 – 50.000.000
Replacement	5.000.000 – 15.000.000
Management buy-out	10.000.000 – 50.000.000
IPO	35.000.000 - 329.000.000 ³
Bond issues	500.000.000 – 1.500.000.000
Bonds with redeemable share subscription warrants	10.000.000 – 50.000.000 ⁴

³ World Federation of Exchanges. Average amount of equity raised by newly-listed companies

⁴ Source: *Les Echos*, 17 October 2003



1.6 The equity paradox

We often hear and read that on the one hand, investors have money but don't find enough good projects, and, on the other hand, that entrepreneurs don't find enough funding sources to finance their project (which by essence are good ones).

Who is right?

It seems that the offer of risk capital is there but that not enough equity is dedicated to seed or early stage.

EVCA annual reports show that in general funds leverage more financial means than they invest. In Germany, a study launched among 40 business angels in the first quarter of 2004 showed that only one quarter of those angels had invested more than 25% of the money they intended to invest.

If the supply of capital is not considered as the main obstacle of that market, the problem may come from the quality of the demand.

The demand problem can be classified in 3 fields:

- asymmetric information between the entrepreneurs' and investors' worlds. Entrepreneurs may confuse risk capital and credits;
- inefficient preparation of entrepreneurs willing to meet or meeting investors;
- a different perception of the innovativeness of entrepreneurs project.



1.7 Tailoring business plans to investor requirements

Once it is accepted that not all funding sources are equivalent in nature, it must also be recognised that it is essential for entrepreneurs to fully grasp the criteria whereby investors decide to invest or not. The table below seeks to list major criteria used by different types of investors as part of due diligence, i.e. the process of evaluating prospective deals.

The table below provides a succinct introduction to different types of capital suppliers and their criteria.

Suppliers of capital	Criteria for accessing funding sources
Family, Friends and Fools	<ul style="list-style-type: none"> • Personal relationship based on trust
Business angels or informal investors and Spin-off corporate venturing	<ul style="list-style-type: none"> • Meeting or matching of individual entrepreneurs with business angels • Atmosphere of trust between individuals • Credible business plan in the eyes of the Business Angel • Good management team • Fiscal incentives • Market knowledge of the entrepreneur • Availability of exit route • Return on investment (capital gain)
Banks	<ul style="list-style-type: none"> • Availability of guarantees or collateral • Perceived ability to repay the loan • Company track record • Rating • Good management
Repayable short-term loans	<ul style="list-style-type: none"> • Innovative nature of business projects • Business plan quality • Management team
Venture capital and Financial corporate venturing	<ul style="list-style-type: none"> • Business plan credibility • Business plan with patent technology • Track record (over previous years) • Ability to grow fast and deliver quick ROI • Management team quality
Public funding	<ul style="list-style-type: none"> • New jobs • Investment in productive tools
Guarantees	<ul style="list-style-type: none"> • Stamina as well as technical and financial skills/abilities
Unsecured free of interest loans	<ul style="list-style-type: none"> • Business plan credibility • Readiness to cooperate with a tutor
Seed capital funds	<ul style="list-style-type: none"> • Business plan quality • Perception of the innovative nature of the project



	<ul style="list-style-type: none"> • Intellectual property • High growth potential • Government tax policies
Corporate venturing	<ul style="list-style-type: none"> • Innovative nature of the project in relation to the company's core business • Industry-specific usefulness of the project, in particular from a technological standpoint • Business plan quality • Good management • Tax incentives
Institutional investors	<ul style="list-style-type: none"> • Business plan • Intellectual Property (IP) • High growth • Good management • Tax incentives from government
New capital markets	<ul style="list-style-type: none"> • Viability and consolidation • At least three years in existence • Positive results at least once within twelve months prior to application • More than €1.5 million in shareholder's equity • Ability to publish quarterly results • Public recommendation by analyst • Positive media attention • Government tax policies • Capable and experienced management team • Prominent Board • Experienced team of financial, legal and underwriter advisers • New business concept • Large market share • Record of high growth or high growth potential
Proof of concept	<ul style="list-style-type: none"> • Innovation • Management team • Entrepreneurship • Commercialisation of intellectual property



CHAPTER 2: SMES PATHWAYS TO FUNDING AND FINANCE VALUE CHAIN

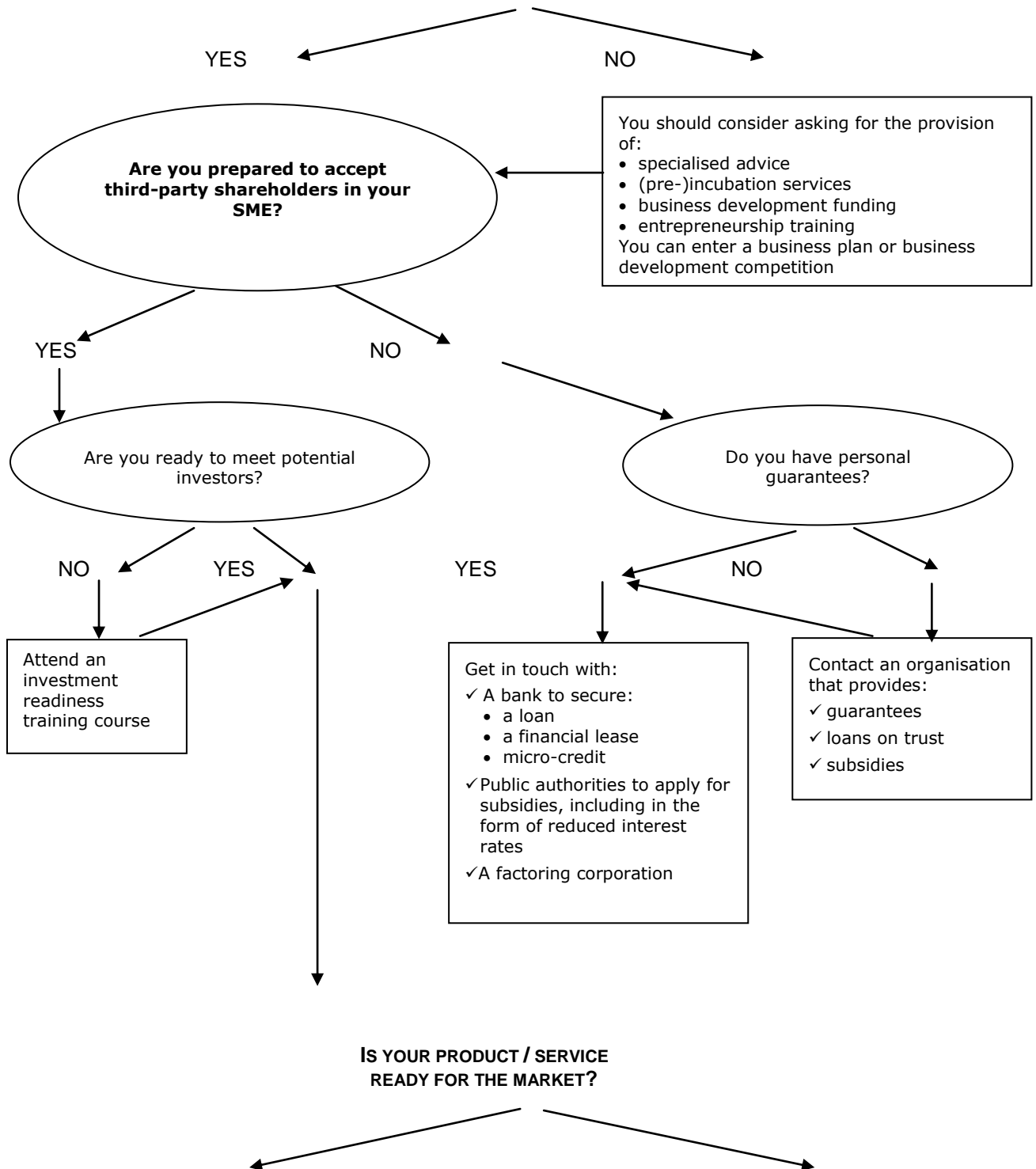
The following pages illustrate the decision path that businesspersons looking for the most appropriate funding sources should follow. It includes five key parameters in the quest for third-party finance:

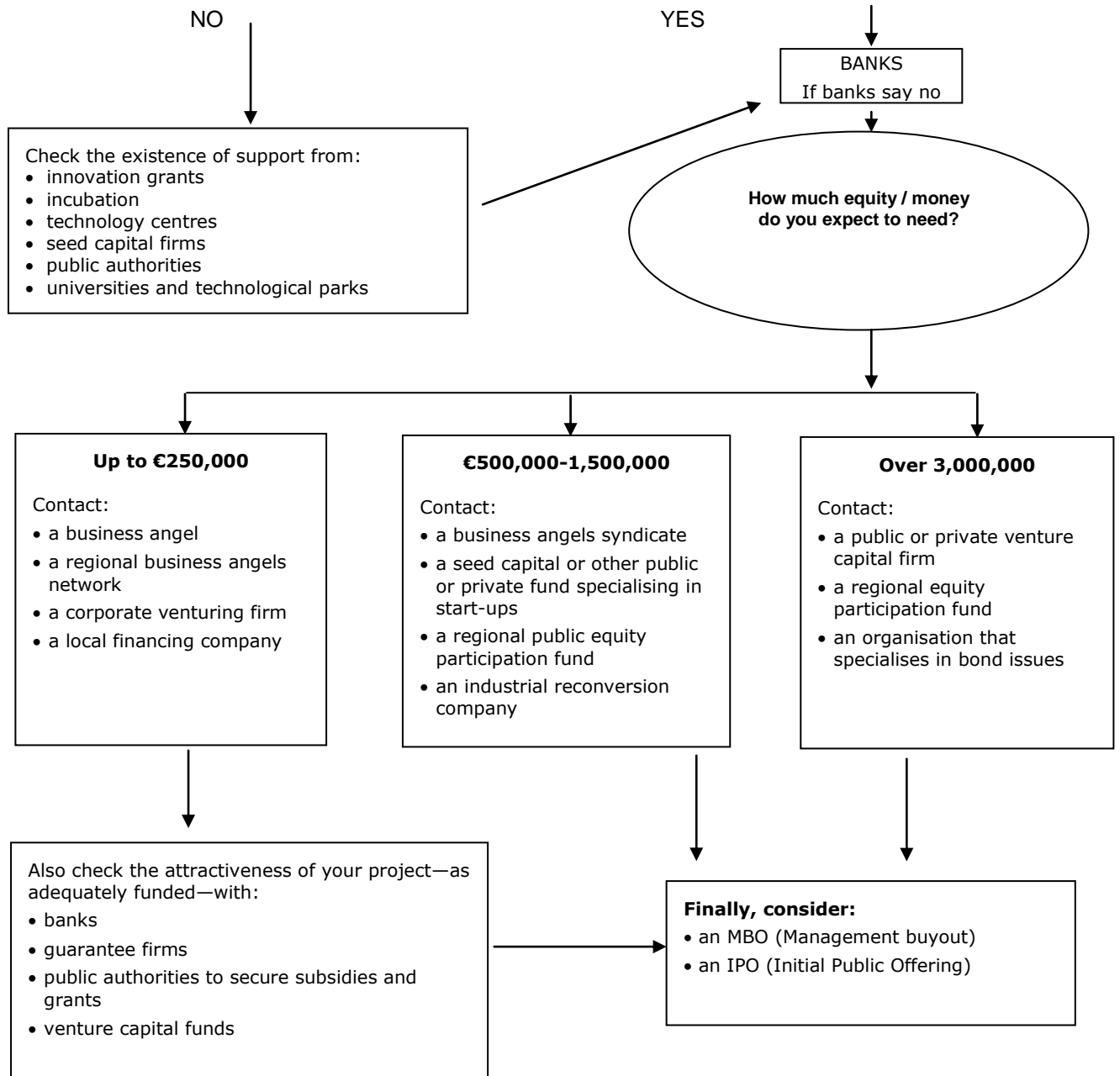
- business plan robustness;
- accepting or rejecting new shareholders;
- availability of personal guarantees;
- product/service market penetration potential;
- expected amount of financial sourcing.



SME FUNDING PATHWAYS

HAS YOUR BUSINESS PLAN BEEN ASSESSED AS ROBUST BY A SPECIALISED ORGANISATION?







CHAPTER 3: RISK AND VENTURE CAPITAL

3.1 What is a Business Angel?

Business angels (BA) are private individuals who invest part of their personal assets in one or more start-up (becoming shareholders of the company) and also share their personal business management expertise and network of contacts with the entrepreneur. Business angels do not have any prior relationship with the entrepreneur. Angel intervention is long-term (so called patient capital) and may take a variety of forms.

Intervention by one or more business angels in a company generally takes the form of active involvement:

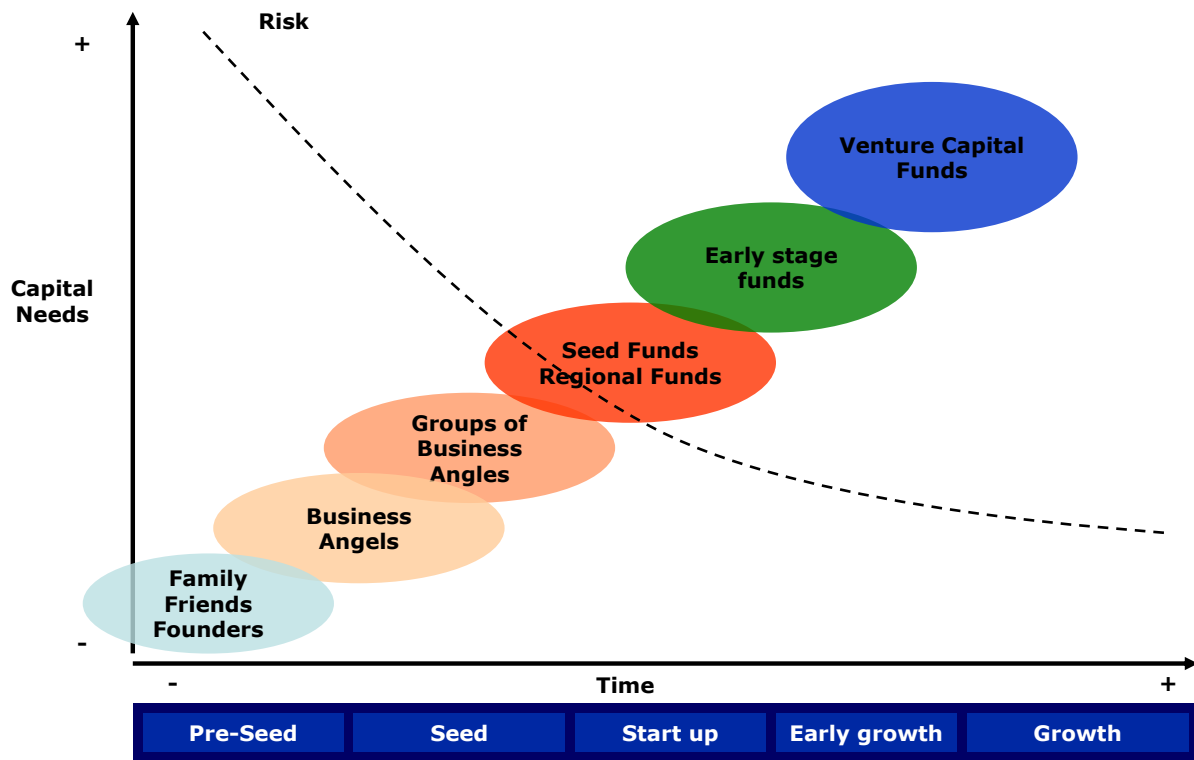
- As advisor
- On the Board of Directors
- As part of the management team

Business angels invest €25,000 to €250,000 in individual businesses – up to €400,000 in the United Kingdom. On average in Europe, business angel investment per deal averages €200,000 (by 2 to 3 angels per investment round). In some countries, business angels may invest up to €2.5 million when operating as part of syndicates or by leveraging their involvement through co-investment funds.

By doing so, they fill the so-called “equity gap”, period in which entrepreneurs have the hardest time to find funding for their young innovative company, lacking collateral needed for debt funding and not attractive enough to venture capital funds typically investing over 3 million€ per deal at the moment.



The graph is showing different stages of the capital needs for companies at different time scale of their growth.



Business angels are typically 35 to 65 year-old men and women (only 5% of the investor community) with considerable experience of the business world and the ability to invest time and money in companies. This activity is becoming more widely practiced and new business angel profiles are emerging.

3.1.1 What do business angels look for in a proposition?

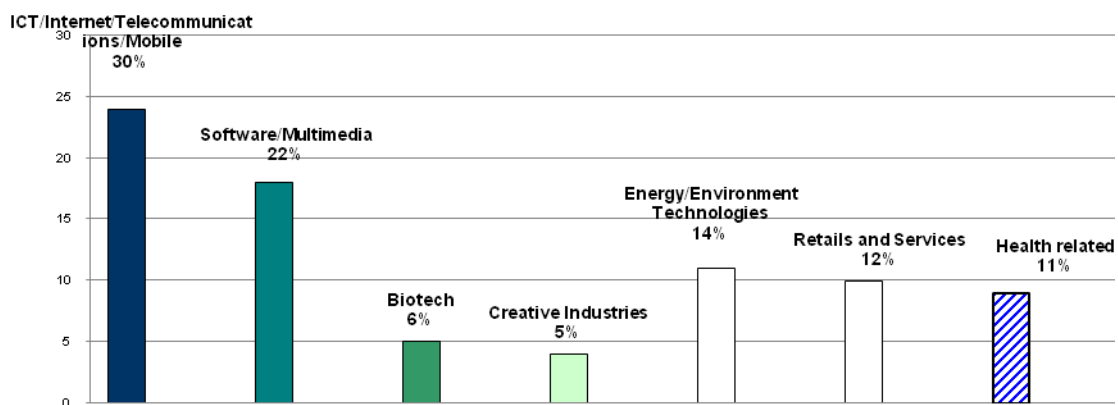
- Current & comprehensive Business Plan
- Strong & committed Management Team
- Proven environment and market
- High growth / scalable / strong business forecast (5m€/3yrs)
- Intellectual property protection
- Realistic pre-money valuation
- Exit strategy

However because business angels invest early, the quality of the entrepreneurial team is the most important decision making factor.

3.1.2 Sectors of investments

Business angels invest in a wide variety of industries. The graphic below shows findings of the EBAN annual statistics survey conducted near business angel networks in Europe concerning the distribution of the deals closed in 2008 per sector of investment (Weighted average of answers).

Sectors of Investments



ICT and its sub-sectors remain the predominant sector of investment for business angels Europe-wide. However business angels continue to invest in a variety of sectors, including in recent times in health related and medtech companies.

3.1.3 Summary of EU/US Angel market statistics

Europe still lags behind the United States regarding the level of activity of business angels and therefore their share of contribution to economic growth. The below data illustrates the 25% level difference between estimated activity in the US compared to Europe.

2008	Europe	United States
Number of networks	334	300
Estimate n of angels	75.000	260.000
Investment per round	207.226€	\$276.918
Total estimate invested in 2008	3-5 billion€	19,2 billion €
Total invested by VC annually in seed in 2008 (EVCA/NVCA data)	3 billion €	1.5 billion €



3.1.3 The Role of Business Angels

Business angels play an important role as **providers of venture capital** and **competence** at the seed and/or development stages of the business lifecycle. This role is especially important in view of both the dwindling levels of venture capital industry investment at these stages and the growing average amount of individual deals.

This realisation is rooted in the following facts:

- Due diligence costs for investors are the same regardless of individual ticket amounts and estimated return on investment;
- Formal venture capital operators invest a minimum of €3 million in companies, which leaves a market gap or failure in smaller amounts of equity. Individual business angels invest between €20,000 and €250,000.

There is ample evidence in literature of the essential role played by business angels in supplying equity for EGCs, including in publications of DG Enterprise and Industry of the EU Commission. Business angels have been a constant reference in policy documents related to innovation and entrepreneurship in the last years thanks to EBAN's work, among which lately:

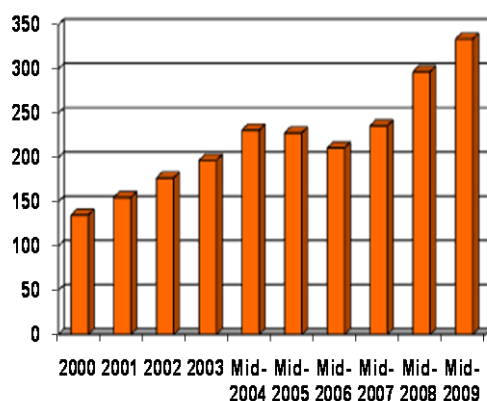
- EC Communication Financing SMEs-Adding European value (2007)
- EC Expert group report on removing obstacles to cross-border investments by venture capital funds (2007)
- Small Business Act (2008)
- EC Report: Seed finance for high-growth SMEs active in eco-innovation (2008)
- Cross border venture capital in the EU (2009)
- EC Removing tax obstacles to cross-border VC investments (2009)
- Public consultation on EU2020 strategy (2010)
- Conclusions of the SME Finance Forum (2010)



3.2 Business Angels Networks

Business angels networks (BANs) play a prominent role in **matching the demand (entrepreneurs) and supply (business angels) sides of equity.**

Illustration of the increase in the number of business angel networks in recent years



Networks are providing a growing number of complementary, strong value-added services for both business angels and entrepreneurs, including:

- **Business angel schools/academies** (or investor readiness programmes) that aim to boost the confidence of potential angels in the venture capital market segment and attract new angels to the market
- **Investment readiness programmes** to improve the quality of demand for equity (support for drafting or improving business plans, submission of business propositions to different kinds of investors, etc.)
- **Co-investment fund development and management**, whereby public partners invest in funds under the same conditions as business angels;
- Improving the conditions of **syndication of deals** (investor groupings) including increasingly cross border to build up the volume of investment and consequently finance larger business projects as well as concentrate on and capitalise upon available expertise in management and market knowledge

In several countries in Europe, so-called National **federations of networks/Trade associations** bring together national or regional networks operating in their country (www.franceangels.org, www.iban.it, www.bbaa.org.uk, www.esban.com, www.business-angels.de, www.svca.se, etc.).

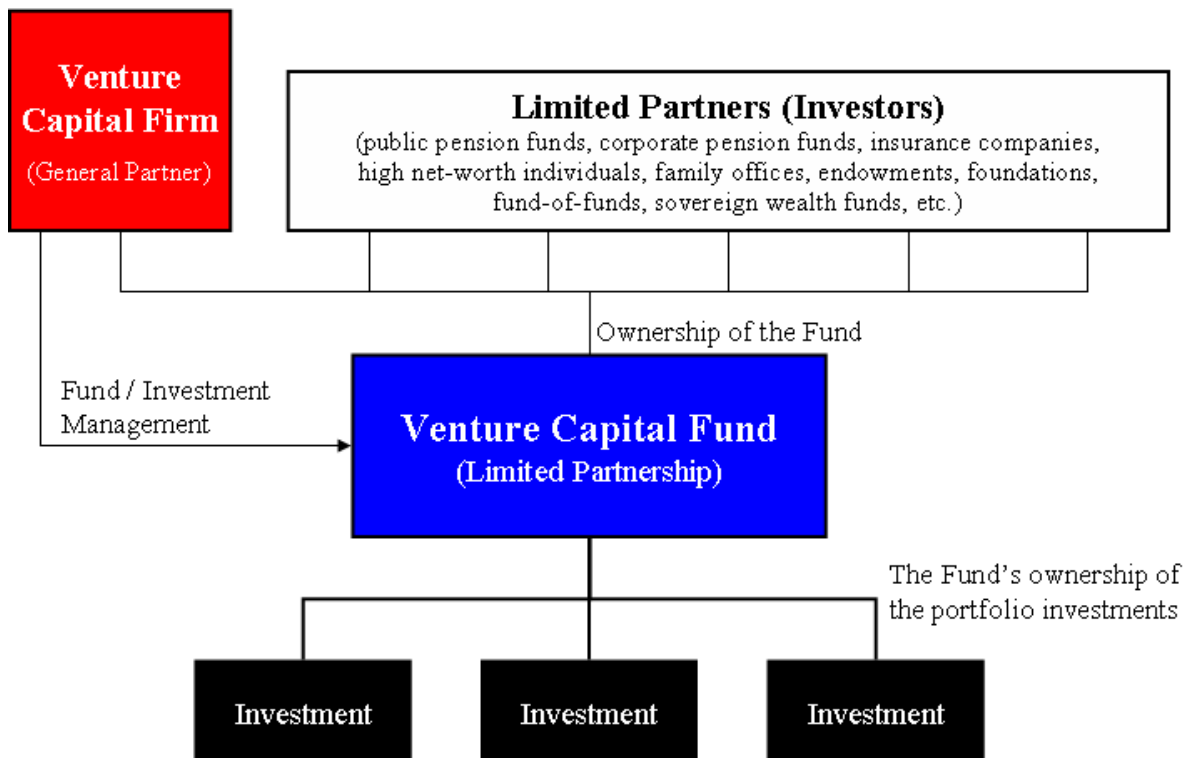


3.3 Venture capital fund

Venture capital is the term used when investors buy part of a company. A venture capitalist places money in a company that is high risk and has a high growth. The investment is usually for a period of five to seven years. The investor will expect a return on his money either by the sale of the company or by offering to sell shares in the company to the public.

When investing venture capital, the investor may want receive a percentage of the company's equity, and may also wish to have a position on the director's board. Always remember that an investor who agrees to place venture capital in a company is looking to make a healthy return. She can demand repayment by the sale of the company, asking for her funds back or renegotiating the original deal.

VENTURE CAPITAL FUND DIAGRAM





3.3.1 Structure of Venture Capital Firms

Venture capital firms are typically structured as partnerships, the general partners of which serve as the managers of the firm and will serve as investment advisors to the venture capital funds raised. Venture capital firms in the United States may also be structured as limited liability companies, in which case the firm's managers are known as managing members. Investors in venture capital funds are known as limited partners. This constituency comprises both high net worth individuals and institutions with large amounts of available capital, such as state and private pension funds, university financial endowments, foundations, insurance companies, and pooled investment vehicles, called fund of funds or mutual funds.

3.3.2 Types of Venture Capital Firms

Depending on your business type, the venture capital firm you approach will differ. For instance, if you're a startup internet company, funding requests from a more manufacturing-focused firm will not be effective. Doing some initial research on which firms to approach will save time and effort. When approaching a VC firm, consider their portfolio:

- Business Cycle: Do they invest in budding or established businesses?
- Industry: What is their industry focus?
- Investment: Is their typical investment sufficient for your needs?
- Location: Are they regional, national or international?
- Return: What is their expected return on investment?
- Involvement: What is their involvement level?

There are three different types of venture capital investment. *Early stage financing* includes seed financing, start-up financing and first stage financing. *Seed financing* refers to a small amount of venture capital given to an entrepreneur or inventor who wishes to start a business. It may be used to build a management team, for market research or to develop a business plan.

Start up financing refers to venture capital that is given when a business has been operating for less than a year. Their product will not have been sold commercially yet, and they will just be ready to start doing so. *First stage financing* is used when companies wish to expand their capital and to proceed full scale and enter the public business arena.

Another type of venture capital investment is *expansion financing*. This covers second and third stage financing and bridge financing. *Second stage financing* is an investment used to expand a company that is already on its feet. The company is trading and has growing accounts and inventories, although it may not yet be showing a profit.

Third stage financing is an investment to companies that are breaking even or becoming profitable. The venture capital is used to expand the business. It may be used in the acquisition of real estate or for further in-depth product development.

Bridge financing covers a variety of different meanings. It is a short term, interest only investment. It is used when company restructuring is taking place. The money can also be used if an initial investor



wants to liquidate his position and sell his stock.

Another common form of venture capital is *acquisition financing*, in which the investment is used to acquire a percentage or the whole of another company. Venture capital can also be used by a management group to buy out another a line of products or business, regardless of their stage of development. The company they buy out can either be a private or a public company.



3.3 What is a Seed Fund?

Seed Funds are particular investment funds focused on investing in business ideas, projects or start up companies for proof of concept, market search, or initial product development.

Seed Funds are the result of the evolution of the international risk capital market and they represent an attempt of bridging the equity gap that is enlarging over time between angel investments and venture capital investments.

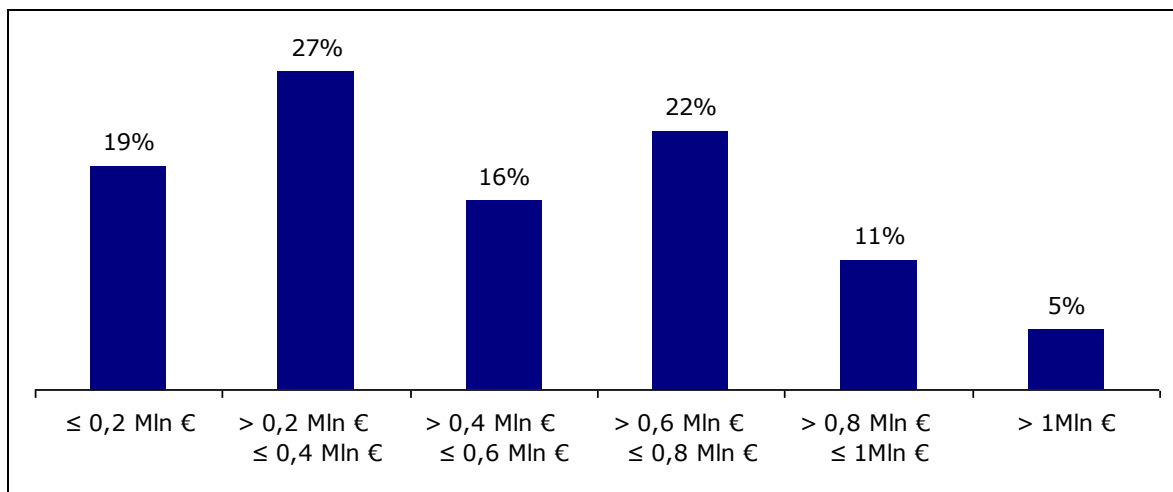
The two main drivers that sustained this process of growth can be synthesized in:

- The willingness of business angels and private investors to share risks and improve their investments capacities on risky activities through the rise of small private funds;
- Recent European policies on innovation that stimulated directly or indirectly the setting up of a number of seed investment funds, mainly in the form of public-private partnerships.

Seed funds therefore are trying to respond to a market gap in the financial chain of players active in the development of new companies characterizing themselves as a separate asset class.

The average amount invested by Seed Funds perfectly bridge the equity gap between business angles that generally do not invest more than 200,000 Euro, and traditional venture capital funds that invest on average more than 1,000,000 Euro. In fact, the average amount invested per deal by Seed Funds is aligned to the capital need of start up companies in their first stages, with the 65% of the investments around 200,000 Euro and 800,000 Euro.

Average amount invested per deal

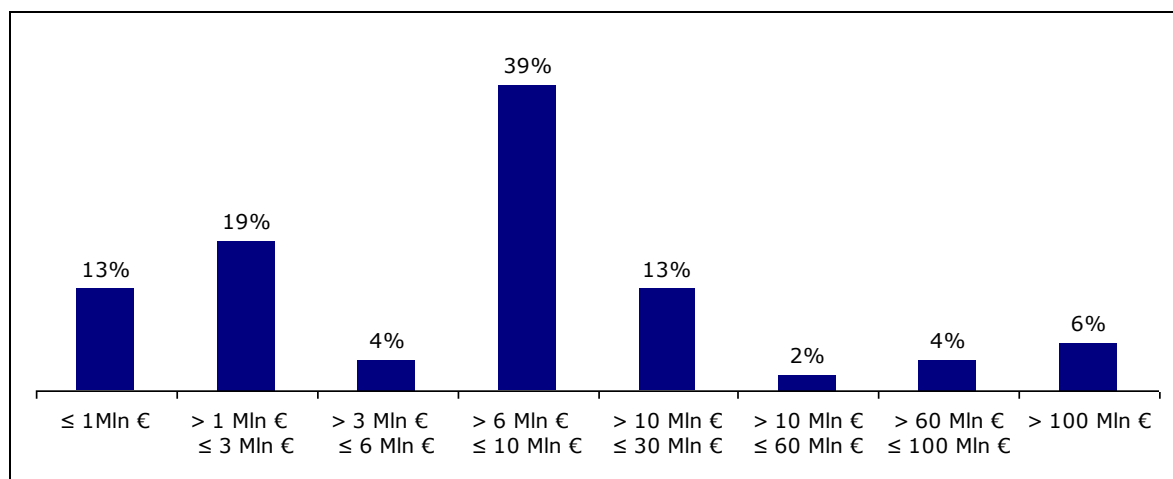


Source: EBAN, 2009

According to the relatively small amount invested per deal, also resources managed differ from traditional venture capital funds. The average amount of resourced raised by a Seed Funds is around 20-25 million Euro. Notwithstanding, the majority of funds have a size of around 10 million Euro. Funds of a similar dimension are obviously managed by small and flexible structures run by a couple of specialized players with specific know how on early stage investment evaluation.



Distribution of European Seed Funds by size of the fund



Source: EBAN

Another important element of Seed Funds that they usually have a regional dimension in the scouting of seed initiatives. A physical presence is not only necessary for “finding” the best ideas but also for supporting the entrepreneurs in setting up the strategy of the company and manage the business, similarly to what business angels do.

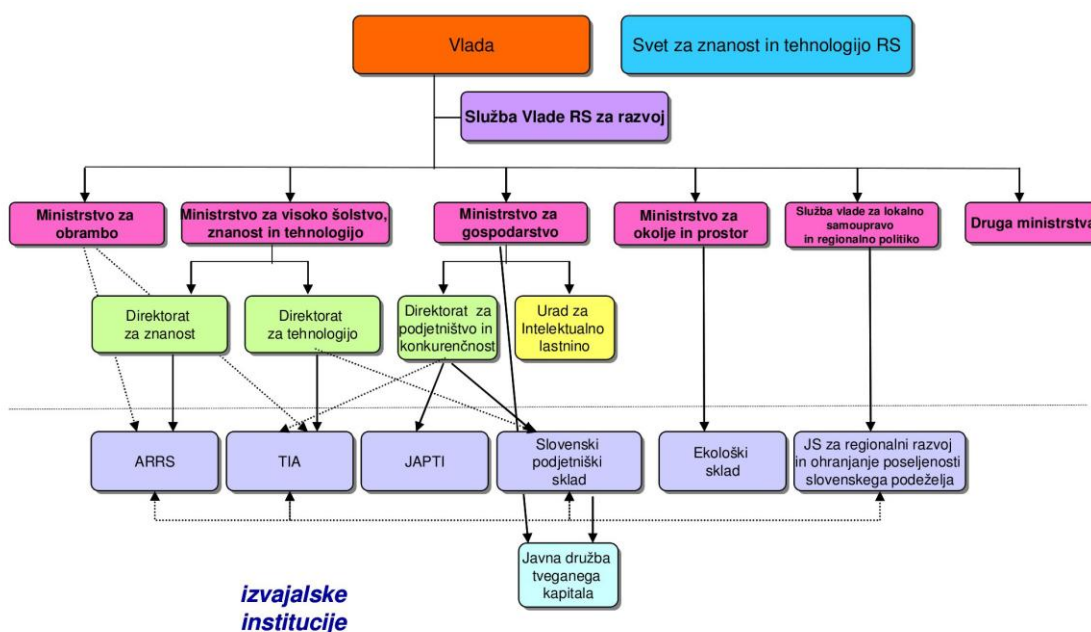
Moreover, Seed Funds are generally sector agnostic. To be more precise, while traditional venture capital funds are focusing more and more only on ICT, Biotech and Renewable Energies sectors, Seed Funds, thanks to their regional dimension and to the close collaboration with business angels that are typically ex-managers or professionals coming from various industries, are able to ignite fast growing start up also in more traditional industries, still guaranteeing adequate returns for investors. A strong network is important not only for the development of a solid deal flow of initiatives but also to find other private resources that could be used for investing in start up companies. According to that, in some markets such as France and UK, in order to promote entrepreneurship and stimulate risk capital investments, the public sector created special co-investment funds that invest pari passu directly in the target company in conjunction with selected private investors, either institutional or informal, if certain conditions are satisfied. This kind of structure, commissioning the scouting and due diligence phase to private investors, are becoming an effective instrument to stimulate private investors in entering into new businesses.

Seed fund manager have a set of skills that are quite different from those required by a larger VC fund; they relate to the skills needed in evaluating and nurturing a company at the seed phase i.e. a small entrepreneurial team an untested product and a business plan that will probably change many times in the first two years. These skills are clearly biased on the capability of evaluating and supporting the team building plus a clear understanding of the market rather than on financials and technology.

Finally it is important to highlight the structural difference between “seed funds” i.e. funds with a size of 5-25 million € that invest mainly in seed phase and seed investment made by large funds of 50-500 million € dedicating a small percentage of their capital to the seed phase. The first type of funds are normally regional, sector agnostic invest between 0,3-2 million € and represent the average type of EBAN associate while the second would be normally sector specific, invest 3-25 million € and more and would normally be EVCA associate

CHAPTER 4: DATABASE OF FINANCIAL SOURCES

4.1 Relevant Slovenian institutions



Above: a demonstration of the governmental organisations in the field of Science, Technological progress, Innovation and Entrepreneurship in Slovenia (Source: *Stres, Trobec and Podobnik, 2009, p. 28*).

Tehnološka agencija Slovenije (TIA)

Technological Agency of Slovenia performs specialist, developmental and executive tasks in the field of technological progress acceleration and innovation according to the national development program and other national programs in the field of technological progress and innovation.

Javna agencija RS za podjetništvo in tuje investicije (JAPTI)

Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments is active in the fields of entrepreneurship, direct foreign investments, internationalisation, development and acceleration of the financial environment, academic – economic partnerships, knowledge and information, as well as financial sources for entrepreneurs. The Slovenian centre for competitiveness and innovation (SCKI) has recently been formed within JAPTI.

Slovenski podjetniški sklad (SPS)

Slovene Enterprise Fund is responsible for tenders, intended to co – finance the start up processes of innovative and incubated businesses within innovative environments.



4.2 Slovenian financial sources

4.2.1 Debt based

Debt based financial sources offer loans, guarantees, etc. They represent a traditional form of financing with a reasonably long - standing presence in Slovenia, however it is always a challenge for an SME to secure funds from such a source due to commonly strict conditions as well as the lack of financial instruments, designed specifically with SME abilities and requirements in mind. The main debt based sources, specifically intended for SME needs, are:

SID Bank

SID Bank was primarily founded for the purpose of supporting export companies, it has developed into a debt – based financial source for several economical actors, dedicating a part of its activities specifically to SMEs as well.

Slovenski podjetniški sklad (SPS)

SPS is in the role of direct financial support, the Enterprise Fund offers the following debt – based financing to SMEs: direct loans, indirect loans through banks, guarantees and subsidised interest.

Regional support

Regional guarantee schemes appear as individual projects within entrepreneurial centres, covering smaller investments of SMEs. Some regional guarantee schemes are also linked to the Slovene Enterprise Fund. At local level, municipalities provide favourable finance for companies primarily in the form of microloans and subsidised interest.

Of course, banks also represent an option, but as stated previously, it is difficult for most SMEs to fulfil the requirements to secure a sufficiently sized sum from a commercial bank.

4.2.2 Equity based

Although the field of venture capital is still relatively new in Slovenia, there are already several sources that can be considered, should one opt to seek this form of financial support. Along with finance, several parties below offer coaching and guidance as well.

Poslovni Angeli Slovenije

Business Angels' Club of Slovenia, like its counterparts across the world, offers several forms of equity finance as well as educative services and guidance. It works individually as well as in collaboration with other actors from the world of venture capital.

Venture capital sources

There are several funds and businesses in the field of venture capital, that are already operational in Slovenia. On the ensuing pages, we are providing a comprehensive registry of said sources.



Source: Meta Ingenium, družba tveganega kapitala, d.o.o.

Investment size: 0,5 – 2 million €

Short description: VC fund, managed by Zernike Meta Ventures spa, Meta Ingenium Fund operates with a sum of 10.200.000,00 €, with the possibility to support cca 10 companies with further round of financing. Not sector focused. It mainly targets early stage companies (in seed and start-up phase) with a 70% investment focus on Slovenia.

How to apply: Application via website or direct contact (n.mazgan@meta-group.com)

Website: <http://www.metaingenium.si/>



Source: Poteza Innovation and Growth Fund

Investment size: 0,5 – 6 million €

Short description: a closed-end investment fund which invests its assets in projects with high development potential. Dedicated to the media, ITC, business services and medical / biotech companies.

How to apply: Arrange a meeting via the contacts provided on the website.

Website: <http://www.poteza.si/en/>



Source: Sivent venture capital fund

Investment size: n/a

Short description: Focused on the whole south-eastern Europe region and the fields of energy sources, ICT, pharmaceuticals, tourism, biotechnology, chemicals, transportation, financial services, personal services, building-constructing etc.

How to apply: Contact information provided on the website.

Website: <http://www.sivent.si/>



Source: Eagle Ventures

Investment size: n/a

Short description: Venture capital company, focusing on central and south European region, financing the sectors of digital media, electronics, software and greentech.

How to apply: Use the website to apply.

Website: <http://www.eaglevc.com/>



Source: Prvi Sklad

Investment size: n/a

Short description: Managed by RSG Kapital d.o.o., this is an early stage SME oriented venture capital fund, covering Slovenia and the central and southern European region.

How to apply: Application form can be found here: <http://www.rsg-capital.si/postopki/prijavni-obrazec>

Website: <http://www.rsg-capital.si/ideja/prvi-sklad>



Source: Skladovnica Kreativne Industrije, družba tveganega kapitala d.o.o.

Investment size: n/a

Short description: Venture capital fund, dedicated to the creative industries including but not limited to marketing, PR, online content, etc.

How to apply: Apply via website.

Website: <http://www.investicijski.si/index.php?akcija=stran&id=2>



Source: NLB Venture Capital Fund

Investment size: up to 1 million €

Short description: Operated by Slovenia's largest commercial bank. Active since 1997. Priority fields of investment are ICT, Bio-technology, electronics, tourism, pharmaceuticals, energetic and environmental technologies, telecommunications.

How to apply: Apply via website.

Website: <http://www.nlbvita.si/sklad-tveganega-kapitala> finance, advertising.

NOTE: There are some other sources of venture capital, most of them currently in the process of setting up their funds. While there is no online content available for most of those companies yet, basic information and contact addresses for each can be found by clicking [here](#) (Slovenian Ministry of Economy – a registry of venture capital management companies).



4.3 Relevant international institutions

The following section presents key institutions, dedicated to seed and venture capital in the international theater. While not dealing in direct investment, they serve as a meeting point for both investors and investees alike, as well as a source of useful information and contacts.

4.3.1 EBAN – European Business Angel Network



EBAN is an organisation that unites business angels, business angel networks, seed funds and other early stage investment professionals across Europe. While dedicated to the investor, EBAN can provide relevant information to the investee as well, such as a list of its members by country.

In Brussels, EBAN represents more than 250 business angel networks in Europe through direct and indirect membership. These networks in turn unite some 20.000 angels and receive about 40.000 business plans a year.

EBAN members are:

- Business angel networks
- Federations of networks
- Seed funds
- Individual angels
- Associate members

The organisation's main activities are:

- Professional standards
- Benchmarking - Research and Networking with peers
- Lobbying
- Awareness and Capacity building
- Cross-border syndication and co-investment support



4.3.2 EVCA - European Private Equity & Venture Capital Association



EVCA is a member-based, non-profit trade association which was established in 1983 and is based in Brussels. EVCA represents, promotes and protects the interests of the European private equity and venture capital industry. EVCA's activities cover the whole range of private equity, from venture capital (seed, start-up and development capital), to buyouts and buyins.

The association has, over the years, become the prime source for information about venture capital and private equity industry. EVCA has been collecting information since its launch, resulting in comprehensive data going back to 1984.

The members of EVCA come from various national and private sectors, as diverse as banks, pension fund operators, software providers, law firms and even private individuals.

EVCA considers the following to be its main activities:

- Representing the European private equity and venture capital industry
- Raising professional standards
- Networking opportunities
- Enhancing professional development
- Conducting and publicising industry research



4.4 European financial sources

The following pages present a comprehensive directory of some of the most attractive equity based financial sources in Europe. While the following cover a variety of fields and regions as well as financial needs, more can, of course, be found – especially with the aid of the aforementioned institutions.



Source: Capital – E (Belgium)

Type: VC

Investment size: a typical venture investment is normally within the range of € 0.250M to € 1M initially and scaling to € 5M per company over multiple rounds

Short description: Early-stage technology VC in Europe with exclusive focus on micro-electronics.

How to apply: Contact directly through website.

Website: <http://www.capital-e.be/>



Source: Big Bang Ventures (Belgium)

Type: seed and early stage VC

Investment size: initially 500,000 € to 1,500,000 € in early-stage capital

Short description: Big Bang Ventures focuses on the ICT sectors of enterprise software, digital media, mobile applications, infrastructure software, and storage.

How to apply: Submit your business plan or executive summary to bizplan@bbv.be

Website: <http://www.bbv.be>



Source: Capricorn Cleantech Fund (Belgium)

Type: early stage VC, occasionally seed

Investment size: typically € 0.5 - 5 million

Short description: Capricorn Cleantech Fund invests in European innovative growth companies in a broad range of [cleantech areas](#).

How to apply: First contact by phone, fax or e-mail (preferably) by the entrepreneur, or by his advisor.

Website: <http://www.capricorn.be/en/portfolio-companies/capricorn-cleantech-fund>

INVENTURE

Source: Inventure Fund (Finland)

Type: VC

Investment size: Typically 1-3 million € per target company. Upon the successful implementation of a well-defined growth strategy, the investment may be increased up to 7 million €.

Short description: A dynamic venture capital partnership fully focusing on early stage technology companies.

How to apply: Apply by contacts on the website.

Website: <http://www.inventure.fi/index.php>



Source: Auriga Ventures (France)

Type: VC

Investment size: n/a

Short description: An independent Venture Capital firm investing in the equity of technology companies.

How to apply: Send your executive summary to this address: entrepreneur@aurigapartners.com

Website: <http://www.auriga-ventures.com/>



Source: Serena Capital (France)

Type: VC; lead investor

Investment size: mounts ranging from €3 million to €8 million

Short description: Serena Capital targets high-growth, technology-driven companies, primarily in information and communications technologies (ICT) and services. Serena Capital finances innovative companies at a development stage where their product or service offering is proven.

How to apply: submit a business plan to businessplan@serenacapital.com

Website: <http://www.serenacapital.com/>



Source: Demeter Partners (France)

Type: VC

Investment size: averaging 4 million € per investment

Short description: Demeter Partners takes capital interests in companies (generally unlisted) in the eco-industries and eco-energies sectors with a view to financing their growth.

How to apply: submit a business plan to deal@demeter-partners.com

Website: <http://www.demeter-partners.com/>



Source: Wellington Partners (Germany)

Type: VC

Investment size: 5 million € and up

Short description: The company's investment sectors are Digital Media & Software, Cleantech & Electronics, Diagnostics & Medtech, Therapeutics. It focuses on growth stage and early stage enterprises, depending on sector. Geographically, Wellington Partners invests in Europe.

How to apply: submit a short form of business plan to businessplan@wellington-partners.com

Website: <http://www.wellington-partners.com/>



Source: Creathor (Germany)

Type: seed, VC

Investment size: up to 10 million €

Short description: Focus on fast growing high-tech companies in global technology markets such as telecommunications and information technology, internet/ media, life science, nanotechnology, new materials, electronics and cleantech. Interested in business models directed at new markets and technologies.

How to apply: send business plan, executive summary or any other documents regarding your project to businessplan@creathor.de

Website: <http://www.creathor.de/>



Source: SHS (Germany)

Type: VC

Investment size: 3 – 5 million € in the first round, co-investing with others if a greater sum is required for a minority shareholding

Short description: SHS is a venture capital firm that provides young high-tech companies with venture capital and actively supports them in establishing and developing their businesses.

How to apply: use contacts on website

Website: <http://www.shsvc.net/>



Source: Pinova Capital (Germany)

Type: VC; shareholder

Investment size: 3 million € - 15 million €

Short description: Focusing on automotive, environmental, industrial and chemical products and services including industrial, business, transport, logistics and healthcare.

How to apply: use contacts provided on website

Website: <http://www.pinovacapital.com/>



Source: Fountain Healthcare Partners (Ireland)

Type: VC

Investment size: 0,5 – 7 million €

Short description: Fountain is exclusively focused on the life science sector. Specific areas of interest to us are: specialty pharma, medical devices, biotechnology and diagnostics.

How to apply: submit information as described on the following web page: <http://www.fh-partners.com/entrepreneurs/submitting-information.aspx>

Website: <http://www.fh-partners.com/>



INNOGEST SGR

Source: Innogest SGR (Italy)

Type: seed, early stage VC

Investment size: initial investment can be as low as 200,000 € and as high as 2 million € according to the stage of the company, its technology and its growth potential.

Short description: Innogest Capital invests in young and entrepreneurial start-ups and Small and Medium Enterprises (SMEs) in the following sectors: advanced mechanics, new materials, ICT, biomedical technology and appliances, clean energy and innovative services.

How to apply: follow the instructions on <http://www.innogest.it/page/14.html>

Website: <http://www.innogest.it/>



Source: 360° Capital Partners (France / Italy / Luxembourg)

Type: seed, VC, public companies

Investment size: Investment size ranging from 100.000 € to max 500.000 € seed, 1 to 5 million € initial investments venture, 2 to 8 million € public

Short description: 360° Capital Partners is a Venture Capital firm, investing in Innovation at full scale in Europe.

How to apply: follow the instructions for the submission of a business plan on this web page:

<http://www.360capitalpartners.com/en/CONTACT/Howtobp/index.html>

Website: <http://www.360capitalpartners.com/>



META Group/si



Source: Gilde Healthcare Partners (The Netherlands)

Type: VC, growth capital

Investment size: n/a

Short description: Gilde Healthcare Partners invests across the healthcare sector in early and late stage companies active in the biopharma, diagnostic and medical sectors as well as companies delivering various healthcare services.

How to apply: submit business plan via online form at <http://www.gildehealthcare.nl/151/entrepreneurs/submit-your-business-plan/>

Website: <http://www.gildehealthcare.nl/>



Source: Aescap Venture (The Netherlands)

Type: VC

Investment size: n/a

Short description: Aescap Venture typically invests in private European medical companies working on the diagnosis or treatment of human diseases. Companies are judged on the following criteria: key personnel, uniqueness/patents, product/market combinations, time-to-market, and envisaged exit opportunity.

How to apply: contact using one of the phone numbers, provided on the website

Website: <http://www.aescap.com/>



Source: Talde Group (Spain)

Type: VC, growth capital, management

Investment size: 6 – 12 million €

Short description: Pioneered VC in Spain, the Talde group has nearly 30 years of experience in value creation for investee small and medium sized companies.

How to apply: Via website, through the »Present us your project« page.

Website: <http://www.talde.com/>



Source: Bullnet Capital (Spain)

Type: VC, early stage

Investment size: averaging at 2 – 4 million € through several rounds

Short description: Bullnet Capital invests in companies that *develop unique technology* (software and/or hardware) in the Information Systems area, which is applicable in several industries: telecommunications, media, healthcare, industrial,...

How to apply: contacts provided on the website

Website: <http://www.grupobullnet.com/>



CREANDUM

ENTREPRENEURS BEHIND ENTREPRENEURS

Source: Creandum (Sweden)

Type: early and growth stage VC

Investment size: n/a

Short description: Creandum is a Nordic venture capital firm investing in early-stage and growth companies with innovative technology and disruptive business models.

How to apply: contacts provided on the website

Website: <http://www.creandum.com/>



Source: IP Group plc (UK)

Type: seed, long term partnership

Investment size: n/a

Short description: Company dedicated to bringing intellectual property onto the market, partnered with several British universities. Also owns Top Technology Ventures (following entry).

How to apply: contacts provided on the website

Website: <http://www.ipgroupplc.com/>



Source: Top Technology Ventures (UK)

Type: VC

Investment size: expects to invest between £400,000 and £1.0 million at the time of a first investment and will follow on where appropriate in subsequent funding rounds.

Short description: Top Technology Ventures focuses on computer hardware and software, internet tools and infrastructure, communications, networking and electronics as well as medical equipment, diagnostics and other technology based businesses.

How to apply: contacts provided on the website

Website: <http://www.toptechnology.co.uk/>



Source: Environmental Technologies Fund (UK)

Type: VC, growth

Investment size: more than one investment round, committing €5m-15m overall

Short description: Fund focusing on companies that develop large environmental benefits, working not only with traditional Cleantech (alternative energy sources) but also the developers of technologies that use existing sources more efficiently.

How to apply: contacts provided on the website

Website: <http://www.etf.eu.com/>



Source: Pentech Ventures (UK)

Type: early stage VC, expansion and more

Investment size: depending on the nature of the proposal and the funding requirements

Short description: Pentech invests in traditional software products as well as digital media, web 2.0, mobile and embedded applications, software-as-a-service, virtualization, intelligent user interfaces, search and retrieval and more. Pentech can only invest in companies with a substantial presence in the UK or Eire. However, it is still worth getting in touch as the company have helped companies relocate to the UK. They often use the UK market as a springboard to tackle other markets.

How to apply: All relevant information is located on the following web page:

http://www.pentechvc.com/our_approach_htpyi.html

Website: <http://www.pentechvc.com/>



Source: WHEB Ventures (UK)

Type: VC, expansion

Investment size: n/a

Short description: WHEB Ventures invests in clean-tech companies with high-growth potential, from initial product commercialisation stage through to expansion stage.

How to apply: send an executive summary of your investment proposal and/or your business development plan to: info@whebventures.com

Website: <http://www.whebventures.com/>



APPENDIX 1 – CASE STUDIES IN EUROPE



Case study – France - WHO FINANCES INNOVATIVE START-UPS IN FRANCE?

*Analysis of the special report on start-ups
published in the January 2005 issue of "L'Usine Nouvelle"*

Source and Sample

In its issue n° 2948 of 27 January 2005, the French magazine "L'Usine Nouvelle" published a series of articles on 110 start-ups referred to as "the hope of French industry". These SMEs were all established less than five years ago; they are all innovative and promising. They were selected by the magazine's reporters among 250 businesses identified by public and semi-public business development organisations including OSEO ANVAR, RDAs, incubators and "technopoles" (science and technology parks).

Selected start-ups were grouped into 11 industrial sectors and presented in standardised format. Information about each business included: location, time of establishment, name of founder, turnover (actual or projected), capitalisation and round(s) of finance, employment and product description.

Lessons

It emerges from this sample analysis that:

- the top funding sources of start-ups are their founders and private individuals (the famous "3Fs": Family, Friends and Fools), to which can be added start-up employees in the specific case of spinouts of businesses and research centres;
- business angels only appeared in six cases. However, all six were involved in start-ups operating in one of just four industries, i.e.: i) telecom, multimedia and networks, ii) mechanical industry, iii) medicine and instrumentation, iv) biotech and pharmaceuticals;
- venture capital funds appear in 23 instances;
- regional funds played a role in 11 cases;
- the number of occurrences of the different types of equity suppliers is summarised in the table below.

Investor types and shareholders

	No of occurrences	No of cases where data was available	Shareholders			
			100%	75-99%	50-75%	<50%
Founders	59	51	11	14	15	11
Private investors (3Fs)	57	54	14	6	7	27
Business Angels (BAs)	6	3	-	-	-	3
Venture Capitalists (VCs)	23	18	2	2	3	11
Regional funds	11	8	-	1	-	7
Businesses	9	9	-	1	2	6
Research centres	7	5	-	1	0	4
Others (unspecified)	8	0	-	-	-	-
TOTAL	180	148	27	25	27	69

It emerges from this table that:

- the main funding sources of businesses are their founders and the 3Fs and that in the case of 45 businesses. These concentrate more than 75% of initial stock;
- initial investment ranges between a minimum of €7,630 and a maximum of €5.5 million.
- the table below illustrates the distribution of sample businesses across the range of initial investment amounts.

Importance of the amount invested

Amount invested	<u>No of businesses</u>
< €10,000	4
€10,000-50,000	28
€50,001-100,000	22
€100,001-250,000	20
€250,001-500,001	9
€500,001-1,000,000	4
> €1,000,000	3
TOTAL	90

Total start-up equity supplied to sample businesses amounts to €23,995,000, of which €11 millions were brought by VCs to just two start-ups. This amount does not include €2,920,200 raised by three start-ups during a second round of finance.

The table below presents the amounts invested by the seven main types of investors.

Importance of amount invested by type of investors

	Total	%	Minimum	Maximum	Average
Founders	€4,609,000	19.2%	€8,000	€448,500	€86,967
3Fs	€4,944,000	20.6%	€1,440	€760,000	€95,088
VCs	€12,920,000	53.8%	€5,000	€5,500,000	€680,005
Regional funds	€441,000	1.8%	€4,400	€287,280	€63,049
Businesses	€452,000	1.9%	€5,155	€242,000	€50,236
Research centres	€42,500	0.2%	€2,145	€29,400	€10,563
BAs	€49,800	0.3%	€13,300	€36,000	€24,900
Others	€480,200	2.0%	-	-	-
TOTAL	€23,938,500	100%			



Subtracting from the sample the two businesses that raised €11 million from VCs, the above table changes into the table below:

Importance of amount invested per investors without taking into account
the 2 major VCs investments

Founders	€4,609,000	i.e.	35.5%
3F	€4,944,000	i.e.	38.0%
VCs	€1,920,000	i.e.	14.8%
Regional funds	€441,000	i.e.	3.4%
Other businesses	€452,000	i.e.	3.5%
Research centres	€42,500	i.e.	0.3%
Others	€538,000	i.e.	4.6%
TOTAL	€12,946,500		100%

This last table confirms that newly-developed businesses have little or no access to any type of seed venture capital. Indeed, nearly 75% of equity investment in our sample of French start-ups is contributed either by founders themselves or by the 3Fs.

Worth noting is that out of 32 business projects for which relatively detailed information is available regarding investment by VCs, BAs, regional funds, other businesses and research centres, at least 12 have had access to a minimum of two different funding sources.

Also noteworthy is that in the case of 39 investors where the size of the investment is known, the majority have invested less than €50,000. Furthermore, their investment accounts for less than 25% of the total shareholding in the company.

Both tables below introduce more detailed information about this type of data:

Investment amounts by professional investors

Invested amounts	No of investors
< €10,000	10
€10,001-50,000	16
€50,001-100,000	4
> €100,001	9
TOTAL	39

Relative importance of the stake taken
by the professional investors

Share of capital	No of investors
< 10.00%	11
10.01-25.00%	13
25.01-50.00%	8
> 50.01%	4
2 nd round of finance	3
TOTAL	39



In France, funds specialised in innovative enterprises not quoted on any stock market (FCPI – Fonds Communs de Placement dans l’Innovation) are collecting resources from individuals wanting to take advantage from tax holidays.

As of 31 December 2003, the managers⁵ of these funds had reportedly pooled around €360 million, down from 2002 and 2001 (€480 million and 578 million respectively). Leaders on the French market are:

- *AGF Private Equity*, whose 2003 FCPI is called “AGF innovation 3” (www.agfprivateequity.com);
- *OTC Asset Management’s* “OTC Innovation 3” (www.otcam.com).

⁵ *Les Echos*, 21 January 2004



Case study – ENGLAND

In the field of demand improvement, it is worth noticing that in the UK six investment readiness demonstration projects were financed between 2002 and 2004. The UK administration provided €1.800.000 in direct grants as a contribution to the running costs of the projects⁶.

It is interesting to examine the following examples illustrating the concept of regional value chain of the access to finance by SMEs:

- I Greater London Enterprise (GLE, UK, www.gle.co.uk) developed a complex scheme integrating financial instruments such as:
 - GLE Development Capital;
 - One London Business Angels;
 - Factoring/Invoice Finance;
 - Small Business Loan;
 - Mentoring and Investment Readiness Programmes.

- II The amounts available from these instruments are:
 - €750,000–7,500,000 from GLE Development Capital;
 - €140,000–1,000,000 from One London Business Angels.

- III In West Midlands (UK), Advantage West Midlands Development Agency also deployed a range of financial services for SMEs (see www.westmidlandsfinance.com).

- IV The region of Wales (UK) re-organised all its financial services around a single organisation called Finance Wales (www.financewales.co.uk) to provide the following financial services and products:
 - Community loans amounting to £5,000–50,000 for the social economy;
 - Xenos: its business angels network;
 - Spinout: unsecured loans without interest of up to £25,000 for university spinouts;
 - Venture capital: up to £750,000 per financial pool and £1,500,000 in total;
 - Mezzanine: £10,000–412,500;
 - Loans: from micro-credit of £1,000–10,000 to loans of up to £600,000.

- V. The results of the different initiatives conducted by Finance Wales between April 2002 and december 2003 were as following:
348 enterprises supported amongst them :
 - 181 through loans ;
 - 31 through capital;
 - 19 through mezzanine funding;
 - 29 in the form of spin outs;
 - 13 via business angels;
 - 13 via the pre-investment scheme;
 - 62 through mentoring.

In total, Finance Wales had invested €19 millions of public money that leverage €69 millions of private funding.

⁶ Cf. www.sbs.gov.uk/sbs_gov_files/researchandstats/investreadi_execsum_sep.pdf



Finance Wales track record

	Businesses Assisted	Jobs Created or Safeguarded	FW Investment £000s	Private Sector Leverage £000s	Total Investment £000s
21 months Apr'02 to Dec' 03					
Loans	181	2296	5817	22346	28163
Equity	31	952	4358	11951	16921
Mezzanine	19	395	1881	2992	4873
Spinout	29	107	618	1446	2064
Xenos	13	108		1126	1766
Pre-Investment	13	349		2055	5774
Mentoring	62	322		3705	3705
Total	348	4529	12674	45621	63266

Source: *Finance Wales*



Case study – FINLAND

In Finland, SITRA (www.sitra.fi) provides EGCs (Entrepreneurial Growth Companies) with three complementary growth instruments:

- a network of 200+ business angels;
- a seed capital fund;
- a venture capital fund.



Case study – POLAND

In Poland, the Polish Entrepreneurs Foundation (PEF, www.pfp.com.pl) provides a wide range of funding sources to SMEs from Western Pomeranian Region. These instruments are the following:

- **The Regional and Subregional Loan Funds**, run by the Foundation, offer facilities designed for financing current operations, investments and early stages of a company development. The funds are addressed to micro and small enterprises located in the following regions: Zachodniopomorskie, Wielkopolskie, Kujawsko-Pomorskie, Pomorskie and Lubuskie. Loans can reach a maximum amount of €35.000 and are addressed to entrepreneurs who do not qualify for traditional bank financing. These loans have the following characteristics:
 - they are addressed to entrepreneurs who have been operating for more than 36 months
 - loans are for 3 years
 - the entrepreneur has to guarantee at least 20% of own equity.

- **The PEF Direct Loan Programme** provides SMEs with a loan of €35.000 - €174.000 to finance investments and current activities. The Programme is meant for entrepreneurs from North-Western Poland and covers, in particular, the following regions: Zachodniopomorskie, Pomorskie, Kujawsko-Pomorskie, Wielkopolskie and Lubuskie. The Programme has the following characteristics:
 - it provides training and consultancy for entrepreneurs
 - it is addressed to SMEs that have been operating for more than 3 years
 - Start loan:
 - max €25.000
 - for max 5 years
 - for SMEs that have been operating for more than 3 months
 - Elastic loan:
 - max €135.000
 - form max 5 years
 - for SMEs that have been operating for more than 1 year.

- **The Loan guarantee Programme POLFUND** is addressed to micro, small and medium-sized enterprises that have applied for a bank loan or a soft loan from the PEF Loan Fund, but cannot provide sufficient security. Within the framework of this Programme and on the Foundation's initiative, the POLFUND Loan Guarantee Fund S.A. was established. The key objective of the fund is to grant guarantees and, consequently, enable small and medium-sized enterprises to obtain a bank loan. Moreover, PEF is shareholder of the Zachodniopomorski Regional Loan Guarantee Fund offering loan guarantees to micro and small enterprises. The Programme has the following characteristics:
 - it is based on the cooperation with 2 banks (not regional, but regional-oriented)
 - the guarantee rate is 70%
 - the guarantee range from €2.500 to max €135.000
 - it has a maximum duration of 5 years
 - it is addressed to SMEs that have been operating for more 3 months.



- **POMERANUS II – Innovative and Investment Fund:** early 2007 PEF decided to establish a first seed and venture capital fund in the West Pomeranian Region, the Pomeranus II fund. This fund should reach €2.500.000. Part of the money will come from the ERDF.



Case study – OTHER COUNTRIES

In other Member States, identified examples are diversely integrated, as illustrated by the example of Rhône-Alpes (F) hereafter. While the Anglo-Saxon models presented above are based on the pooling in a single agency of different funding sources available to regional businesses, this particular regional model is organised around a diversity of players. Rhône-Alpes Création's organisational chart (<http://perso.wanadoo.fr/aracrea/rac/index.htm>) is interesting in a number of ways as it introduces and draws a parallel between:

- different funding sources available to SMEs;
- average amounts available from individual funding sources;
- advice services tailored to individual funding sources.



APPENDIX 2 – SOURCES OF FUNDING DEFINITIONS



LOANS

Bank loans

Bankers are undoubtedly the most important link in the business finance chain. How could it possibly be different when the number of companies attracting the attention and interest of other funding sources is known with a fair degree of certainty not to exceed 25,000? However, bankers seem to be the black sheep in the SME finance cycle.

Significant differences exist across⁷ European countries when it comes to the use of bank loans. In some, practically all SMEs have one or more bank credit lines going at any given time, while in others this is true for only 70% of them. According to a survey conducted by the European SME Observatory, 60% of sampled SMEs are up to €100,000 in debt vis-à-vis their bank, 16% are in the red for €100,000–500,000, 1% has more than €1,000,000 in bank debt, and 20% confess not knowing how heavily they are indebted to their bank(s)!

The same survey shows that 60% of European SMEs have applied for a new loan in the last three years. While the vast majority of them obtained the amount they applied for, 13% of SMEs were denied a new loan by their bank because it:

- considered guarantees to be inadequate;
- was not satisfied with the overall businesses performance;
- deemed the information supplied to be insufficient.

In Europe, all specialists agree that the vast majority of SMEs' own funds are inadequate and that undercapitalisation is the main source of failures.

Bank loans are often linked to tangible guarantees, though bankers themselves insist⁸ that: "loans are never granted on the basis of guarantees. Loans are guaranteed from a company's net assets: capital, reserves, reported results and capital subsidies, as well as the entrepreneur's level of commitment through personal guarantees".

Commercial (or trade) credit is one of the main sources of short-term finance for categories of businesses including micro businesses, small enterprises and start-ups. It is an instrument available to SMEs when:

- banks do not wish to finance them;
- they want to avoid direct banking costs;
- they are put off by the complexity of bank credit;
- they lack in-house financial competences.

There are different types of banks (commercial, cooperative, public, etc.), which are diversely available to listen to SMEs and provide adapted solutions.

Among public banks, the following are worth mentioning:

- BDPME (*Banque du Développement des PME*, SME Development Bank), F: (www.bdpme.fr) which, in 2002, supplied:
 - €7.3 billion in short-term loans to SMEs with own funds;
 - €4.7 billion to provide government contractor SMEs with short-term finance;
 - €1.2 billion to finance the transfer of SMEs.

⁷ European SME Observatory, 2003 n°2. SME access to finance:

http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report2_en.pdf.

⁸ See interview of M. J. Thumelaire, manager in charge of SMEs with ING (B), in *l'Echo*, 29 October 2003



In terms of business numbers: 26,300 companies were set up and the transfer of 4,200 more was supported. It is worth noting that on average, 170,000-180,000 new businesses are created annually in France.

In addition to funding activities, BDPME⁹ develops regional guarantee schemes. At the end of 2002, 26 such schemes had been set up. With total funds of €55 million, they are able to leverage guarantees for nearly €550 million in equity (SOFARIS REGIONS: www.sofaris.com).

- KFW (D: www.kfw.de).

There is an extremely wide range of banking products available to SMEs, namely:

- soft loans;
- variable and fixed rate loans;
- credit line;
- capital investment loans (long term);
- mezzanine.

Banks can also provide special conditions to support the business transfers. In late 2003, the French group *Banque Populaire* launched EXPRESS SOCAMA, a scheme granting loans without personal security of up to €25,000, repayable over a maximum of three years.

In 2005 this bank launched another scheme for the same purpose in the form of a loan of maximum 100.000 € subject to the fact that the entrepreneur has to provide 25% of the loan with a personal guarantee.

Some banks (namely in the UK) are increasingly interested in ways of providing loans for innovative businesses. This is mainly done through training and appointing “technology banking managers”.

NATWEST (www.natwest.com) and HSBC (www.ukbusiness.hsbc.com) seem most advanced in this kind of provision. BARCLAYS BANK’s Cambridge branch also works very closely with innovative entrepreneurs. HSBC has examined some of the products developed by banks operating in innovative US regions such as the Silicon Valley, North Carolina Triangle, Boston, etc., including “venture leasing” or “intellectual property valuation guarantee” but does not offer them (yet?) to its client businesses in the UK.

Banks generally specialise in the provision of three types of financial business needs:

- cash needs for working capital;
- growth and expansion;
- acquisition of fixed assets.

In order to improve client awareness of available banking products, HSBC has developed “The Raising Finance Decision Tree” (accessible on its website: www.ukbusiness.com).

⁹ See *InterRégions* nr 251, November/December 2003



SMALL Non-banking loans (Risk sharing) – Loan on trust¹⁰

This type of funding is very well developed in France under the name of “fonds de prêts d’honneur” and the network called France Initiative Réseau (www.fir.asso.fr).

This initiative started in 1985 under the business model: “support the creation of enterprises thanks to free interest loans on trust aiming at helping those enterprises to borrow money from banks”. In 20 years, €325,5 millions have been granted to 49 100 individuals which became entrepreneurs and were able to get €1,32 billions of bank loans. They created 110 000 jobs. In 2005, 237 local networks (plates-formes d’initiative locale - PFIL) were in place.

The main sources of funding of those PFIL are:

- local and regional authorities: 48,3 %
- EU and State: 10,0 %
- caisse des Dépôts et Consignation: 17,8 %
- entreprises and banks: 16,1 %
- other private sources: 7,8 %

In average the loan on trust given to an entrepreneur is €5000.

Recently some PFIL have specialised in loans for innovative technology SMEs.

In France, these platforms mobilise regional professionals (territorial authorities, enterprises, institutional operators...) willing to contribute to the development of economic initiatives and of new jobs. The PFILs aim at mobilising funds in the form of free interest loans without guarantees for financing the creation of local enterprises. The loan is completed by a mentoring and coaching scheme for the entrepreneur. The coaching generally lasts for three years. It is implemented through the mobilisation of the managers of local enterprises. Loans range from €5000 and €10.000. 15% of loans of trust are completed by a bank loan at the creation stage. In average, 7.165 € of loans on trust allow to get €34.900 of bank loans.

Some useful URLs:

- FIR - FRANCE INITIATIVE RESEAU, www.fir.asso.fr;
- Réseau Entreprendre, www.reseau-entreprendre.org.

In the UK many CDFIs (Community Development Finance Institutions) operate to provide between €1500 and 75000 to local enterprises. In general, the cost of such finance is higher than the current interest rate of the market, as the fund takes a higher risk than commercial banks. In the West Midlands region (UK) funds such as:

- 3b (www.3b.org.uk)
- Black Country Enterprise Loan Fund (www.bccbl.com/businesslink)
- North Staffordshire Risk Capital Fund (www.nsrcf.co.uk)
- Advantage Community Loan Fund (www.lif.org.uk)

are examples of CDFIs.

In Pembrokeshire (Wales, UK) a lottery has been created in order to collect funds to be invested in the form of loans to local entrepreneurs or enterprises in order to create or maintain jobs: www.pembrokeshirelottery.co.uk.

¹⁰ Les Echos, 27 May 2005



In place since 1993, the lottery was able to support 100 enterprises for a total amount of 1.3 million £ UK (approx. €2.1 million) and so create or save 300 jobs.

The lottery runs as follow:

- each members of the lottery plays 1 £ UK per week. Currently nearly 7000 people are members;
- the winner receives 2000 £UK;
- the surplus is invested in loans for a 2 to 5 year period paid back monthly.

Other regions such as Isle of Wight have developed a similar lottery.

Regional loan fund

Some regions create special loan funds in order to solve specific problems such as the transfer of ownership of enterprises or to soft the consequences of the failure of a major contractor.

Such investments have been put in place by Advantage West Midlands, for instance in 2005 to avoid a “domino effect” bankruptcy among suppliers of the Rover Car company. That RDA has put in place a special loan fund named Advantage Transition Bridge Fund, www.advantagebridgefund.com. The fund provides loans from €75.000 to 750.000 to enterprises affected by the decline of the MG Rover Company. Supported enterprises had more than 15% of their turnover done with MG Rover. They have a viable business plan, but cannot obtain funding from banks.

Spin out loans funds

In the Netherlands, Twente University in Overijssel provides interest-free loans of up to €13,600 for teachers and students who want to start a business (more than 425 new businesses created since 1984). In addition to loans, the scheme also provides access to expert advice and university laboratories. A similar system is also taking place in Maastricht in cooperation with LIOF, www.hoogstarters.nl.

In the West Midlands, the Mercia Spinner tool – www.spinner.org.uk – provides grants up to €75.000 towards patenting, market research, business plans, prototyping and interim management for university spin outs. This instrument is managed by a private investment company: Worwich Ventures.

In Andalusia (E) through the Campus project, universities are able to provide up to €100.000 of free interest loans without guarantees and not refundable in case of total losses for technology based enterprises created by researchers. As part of the partnership between the regional development agency of Andalucia (A.I.D.A.) and the universities, A.I.D.A. gives a grant of €5000 per project to the university that has promoted the project in order to ensure a follow up of the project and coaching system of the entrepreneur (www.agenciaidea.es).

The support can take the form of a participative loan or can be converted into equity finance. There should be an exit after 7 years. The entrepreneurial project must be self-funded in at least 30%. 11 projects have been funded after 18 months (mid-2005).

Loans for innovative companies

OSEO Anvar (www.oseo.fr) provides specific loans for enterprises facing problems to finance intangible investments such as: training, marketing and negotiation of a first order, internationalisation costs, commercialisation of an innovation, etc.



The scheme known as “contrat de développement innovation” allows an enterprise to get a loan ranging from €40.000 to 400.000 for a period up to 6 years. The loan is provided with one year payback holiday and doesn't need to be guaranteed. The interest rate of such loans comprises a fix part of 1.6% and a complementary remuneration based on the Euribor at 3 months. In all cases, a private bank must match at least 20% of the total loan needed by the enterprise.

Micro-loans

Micro-loans are aimed at small businesses that are unable to raise sufficient (or any) finance from traditional commercial sources. Such loans are available for commercial enterprises as well as for enterprises operating in the so-called social economy sector.

In the UK the South Investment Fund (www.syif.co.uk) is offering loans of €1,600 to €20,000 for existing businesses and up to €16,000 for start ups.

A number of semi-public organisations have specialised in micro-credit provision. This is namely the case of ALMI (S) and FINNVERA (FIN). ALMI offers loans of up to €27,000. The EIF (European Investment Fund: www.eif.org) set up a financial scheme to guarantee operators' micro-credit portfolio. At end 2003, the following organisations had benefited from this type of intervention:

- Association pour le Droit à l'Initiative Economique (Association for the Right of Economic Initiative, ADIE, F: www.adie.org);
- Fonds de participation (Shareholding fund, B: www.fonds.org);
- European Microfinance Network (EMN, www.european-microfinance.org).

Loans for industrial reconversion

Some big enterprises, when facing industrial re-conversion, provide sometimes loans in order to create jobs in the region. For instance, Michelin Group (F) has created an ad hoc organisation named Micheli Development (www.michelindevelopment.co.uk) to offer loans at reduced rates. The amount of the loan is between 3.000 and 8.000 € per job created, according to the type of activity (industry or services), the quality of the project and the invested amount. However, the maximum amount of the loan cannot exceed 175.000 €.

In 2005, Michelin Development has provided 7 millions € of loans. Those loans are without guarantees and have a five-year-life time and they contribute to the running costs of SMEs.



Venture capital

Business Angels (informal venture capital)

The term 'business angel' was used in the theatre when financial backers invested in a theatrical production and contributed their skills and contacts to enhance the success of the show. The same term was used centuries ago by traders searching the world for merchants.

Business Angels began investing in a wide range of commercial ventures. They are often retired and invest their business skills as well as their capital into new and developing enterprises.

Over the last fifteen years that we have offered this matching service we have seen new forms of business angel investment emerge.

- Younger individuals, rather than buy a business outright and run it alone, invest in someone else's good idea and work with them to develop the business. This is like a management buy-in. A younger Business Angel can be a succession solution.
- Consultants who want looking for a greater reward from the results of their work, not just fees for service. Consultants then know that their advice will directly affect their own financial position.
- Companies who have generated surplus cash through their own diligence seek to invest their systems, contacts, time and money to help another company achieve growth.

The right combination of people, business venture, capital and skill gives a greater chance to, not only succeed, but exceed expectations.



Venture Capital

The venture capital market includes different market segments and venture capital provision streams for businesses with a strong potential for growth. These techniques therefore mainly address businesses already operating for a few years. According to EVCA (European Private Equity and Venture Capital Association: www.evca.com), the European venture capital market comprises:

Seed	Seed capital: capital investment serves to allow businesses to proceed with their RTD effort.
Start-up	Start-up funds: investment capital serves product development and early marketing.
Expansion	Growth, bridging or restructuring capital.
Replacement	An investor buys another's stake.
Buyouts	Existing investors' shares in a business are bought by the latter's own management team (MBO—Management Buy Out) or by another management team supported by a venture capital fund.

Source: EVCA

The European venture capital industry remains very fragmented, as each country has its own investment culture or tradition. This is how:

- the UK panorama, being the largest market in Europe (37.5% of total), is dominated by buyouts (75%);
- being the second largest market (21.1%), France invests five times more in seed capital than the UK, while 20% of all investment in Germany focuses on start-ups;
- German public investors alone represent more than 50% of total public investment spending in Europe.
- the vast majority of start-up investment deals are conducted in a limited number of countries including the UK, Sweden, Switzerland, Germany, the Netherlands, Belgium and France. Indeed, the venture capital market segment clears the €100 million mark in every single one of them.

It should also be noted that 35% of US venture capital investments are made in California. In Europe, 37,5% of all the investments are made in the UK.

In recent years, the European Commission has become aware of the need to promote the emergence of a genuinely pan-European venture capital market. Between 1998 and 2003, it supported the implementation of a programme called RCAP aimed at removing existing barriers to the creation of such a European market (see: www.europa.eu/scadplus/leg/en/lvb/l24195.htm).

In parallel, DG Regio recommends that ERDF-eligible regions invest in regional venture capital funds and other instruments falling under the generic heading of “financial engineering” as supported in an October 2002 document entitled “Guide to risk capital financing in regional policy” (http://ec.europa.eu/regional_policy/sources/docgener/guides/guide_en.htm).

While this document is a practical guidebook for managers of regional development programmes subsidised by the European Union, it can also prove useful to other regional stakeholders with an interest in leveraging regional financial engineering tools including venture capital, business angels, loan funds, micro-credits and guarantee schemes.



For further information on European venture capital industry operators, contact the national venture capital associations of your country, such as:

B: BVA (Belgian Venturing Association: www.bvassociation.org);

F: AFIC (*Association Française des Investisseurs en Capital*, French Capital Investors' Association: www.afic.asso.fr);

UK: BVCA (British Venture Capital Association: www.bvca.co.uk).

The biggest European players are:

- 3i (www.3i.com);
- Apax Partners (www.apax.com).

There are two useful URLs for information on the US context:

- NVCA (National Venture Capital Association: www.nvca.org);
- MoneyTree™ Survey (www.pwcmoneytree.com/moneytree/index.jsp).

Seed capital funds



This segment of the venture capital industry focuses on the provision of funding to businesses during the process of incorporation. Capital made available in this form is used to fund research and development and possibly field trials of prototypes, i.e. all activities that relate to pre-market stages of the product or service.

Total equity available in Europe for this purpose is somewhat limited (around €150 million in 2004). On average, seed capital funds currently invest around of €400.000 per deal while tickets exceeded €1 million in 2000, i.e. when overenthusiastic investment in NTIC (New Information and Communication Technologies) and internet start-ups was at its strongest.

The activities of seed capital funds vary considerably across the EU. In recent years, funds operating in France, Germany, Denmark, Italy, Finland, Norway and Spain have arguably ranked among the most active. In France, CDC (*Caisse des Dépôts et Consignations*: www.cdcpme.fr), manages 15 funds, six of which are industry-specific while the rest are regional. At end 2002, this organisation's portfolio of €191 millions invested in 113 companies. Notable among dedicated (industry-specific) funds are BIDAM (life sciences), EMERTEC (ICT/industry) as well as I-Source, C-Source and T-Source (all three specialising in ICT). CDC PME's assets under management total €191 million in 113 different businesses.

The data on the following page presents the 2004 seed and start up market in Europe, as well as the trends in those two markets between 2000 and 2005. The data show that less and less money is invested in Europe in the seed market.

Data concerning the European seed and early stage market in 2004¹¹

¹¹ By « early stage » we mean the seed and start up phase of a SME



	<i>Volume in €1000</i>		<i>N° of companies</i>	
	SEED	START UP	SEED	START UP
EU	147.771	2.230.233	355	2.160
A	1.876	15.519	3	33
B	3.935	43.228	14	97
CZ	0	173	0	1
DK	15.821	149.866	43	192
FIN	9.063	31.183	31	87
F	36.532	373.752	55	430
D	21.940	351.590	26	330
GR	2976	0	5	0
H	0	0	0	0
IRL	250	27.587	2	41
I	4.378	18.377	6	30
NL	1305	37.551	4	67
N	4.699	26.422	6	47
PL	0	0	0	0
P	23	36.104	2	29
SK	1.056	1056	6	6
E	5.738	63.374	15	71
S	25.342	206.826	67	164
CH	768	60.010	3	46
UK	12.069	807.615	67	495

Source: EVCA

The early stage and start up market segments in Europe seem rather small both in the volume venture capital funds invested and in the number of companies in which venture capital funds were invested. The trends between 2000 and 2005 for those two markets are shown hereafter:

SEED CAPITAL				
Year	Amount in €1000	% of total venture capital market	N° of enterprises	Deals average in €
2000	819.680	2.3	833	984.000
2001	530.839	2.2	551	963.500
2002	305.135	1.1	535	570.500
2003	150.107	0.5	334	449.500
2004	147.771	0.4	355	416.250
2005	96.847	0.2	362	267.500
START UP				
2000	5.843.723	16.7	3.843	1.520.500
2001	3.652.960	15.0	2.755	1.326.000
2002	2.614.436	9.5	2.738	955.000
2003	1.974.248	6.8	2.372	832.500
2004	2.230.233	6.0	2.160	1.032.500
2005	2.334.050	6.0	2.127	1.097.300

Source: EVCA

The US seed capital market differs from the European one in size. The table below shows the differences in terms of number of deals and the average amount invested:

	USA - \$ MILLION			EU - € MILLION		
	n° of deals	total	average	n° of deals	total	average
2000	679	3133	4.6	833	820	0.984
2001	262	722	2.8	551	534	0.964
2002	159	297	1.9	535	305	0.570
2003	191	338	1.8	334	150	0.449
2004	196	412	2.1	355	147	0.414
2005	214	807	3.8	362	96	0.265
2006	322	1123	3.5	-	-	-

Source: EVCA and MoneyTree

Mezzanine capital

Mezzanine funding is a hybrid product combining equity and loans. The product is used both by the private sector in LBO deals and by regional public funds.



According to a report from Crédit Suisse¹², the advantages and disadvantages of mezzanine funding for companies are the following:

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> ▪ Remedies financial shortfalls and provides capital backing ▪ Improves the balance sheet structure and thus credit-worthiness, which can have a positive effect on the company's rating and can widen the room for manoeuvre as regards financing ▪ Strengthens economic equity capital without the need to dilute equity holdings or surrender ownership rights ▪ Tax-deductible interest payments and flexible remuneration structure ▪ Greater entrepreneurial freedom for the company and limited right of mezzanine investor to be consulted 	<ul style="list-style-type: none"> ▪ More expensive than conventional loan financing ▪ Capital provided for a limited term only, in contrast to pure equity capital ▪ More stringent transparency requirements

The amounts invested through mezzanine funding vary according to the type of operator. In fact, public investments range from €100.000 to €2.500.000, while private investments range from €20 to €50.000.000.

¹² Crédit Suisse Economic Research. Economic briefing n°42



University and research centre Venture capital funds

In a number of EU Member States, universities have set up venture capital firms—generally along the same lines as seed capital funds—for the purpose of supporting business projects originating in the university itself or in research centres.

Among such funds are SECANT (*Société d'Encouragement à la Création d'Activités Nouvelles en Technologies*, Society for the Encouragement of New Technology Activities) set up by the University of Compiègne (F) as early as in 1997 with an initial capital of nearly €700,000 and ESINET (European Space Incubators Network: www.esinet.com) set up by the European Commission in 2002 to facilitate the development of civil applications from aerospace research outcomes. This fund invests between €50,000 and €300,000 per deal.

Since June 2003, London's Brunel University (UK) has £1 million available to support the seeding of businesses set up within its walls. Maximum investment per business project is £50,000. The University has plans to assist in the creation of 8 new businesses each year for the next five years. The fund is supported by the London Development Agency (LDA) and HSBC, as well as by JRA Technology (www.jratech.co.uk).

In Wales (UK), Finance Wales: www.financewales.co.uk manages a programme entitled: "Spinout programme" offering a package for people who have a close ongoing relationship with a Higher Education Institution (HEI) wishing to set up a business.

These people are: graduates, academics and researchers and spin-ins i.e. entrepreneurs having ideas needing a close relationship with HEI.

The Wales Spinout programme offers a package which may include:

- a 25,000 £UK unsecured free interest loans not repayable during the first 3 months;
- a 7,500 £UK grants to access business consultants and/or market research experts;
- free space in a HEI incubator;
- use of HEI expertise;
- equipment;
- on-going assistance.

In the UK, there is systematic support for the marketing of university research outcomes through the so-called University Challenge Funds (www.ost.gov.uk/enterprise/knowledge/unichal.htm) available in 31 universities and 7 research centres.

The scheme has supported more than 60 businesses in less than 4 years of existence (2000 – 2004).

In Belgium 6 universities have their own venture capital fund specialised in the early or seed capital market segment.

The data below provide information regarding their importance:

Baeckeland Fonds II Ghent University:

- www.techtransfer.ugent.be;
- capital: 12,5 mio €;
- max investment: 0.5 mio €.

BI³ Fund Brussels University:

- www.vub.ac.be/downloads/BI+spin-offs_english.pdf;
- capital: 6 mio €;
- investment scale: between 200 and 600 000 €.



Spinventure: Liège University:

- www.interace.ulg.ac.be/Valorisation-recherche-universitaire/spinventure.php;
- capital: 5.3 mio €;
- investment: 100 000 € (equity + loans).

Vives: Louvain-la-Neuve University :

- www.vivesfund.com;
- investment: between 300 000 € and 1 500 000 €;
- sectors: ICT and biotech.

Gemma Frisius Fonds: Leuven University:

- www.leuveninc.com/pooled/articles/BF_NEWSART/view.asp?Q=BF_NEWSART_32792;
- capital: 6 mio €;
- the fund is linked to the IMEC (research centre specialised in the semiconductor sector).

In 1999, the French Ministry for Research, Directorate for Technology issued a call for proposals aiming at co-financing technology incubators as well as seed capital funds. 12 funds were awarded state funding. 6 of them have sectorial objectives and the other 6 have regional based funds. Funds such as BIOAM (www.bioam.fr), C-Source (www.isourcegestion.fr/C-Source.htm), Cap Decisif, active in the region Ile de France (www.capdecisif.com) and Le Lanceur in Avergne and Limousin (www.cr-limousin.fr), are examples of this initiative. Between 1999 and 2003 51 investments were made.

It is worth noting that more than 80% of the deals have been made before 2002. Indeed, funds managers experimented difficulties to exit (9 voluntary exits only) and are often obliged to finance subsequent rounds, even if it was not their initial objective.



Corporate venturing

This is a particular form of venture capital addressing businesses at the seed or start-up stage of their development. Indeed, in this market segment, capital is supplied by large businesses to finance both innovative spinouts and other companies set up in industries considered of strategic importance. A few major US companies including Motorola, Intel, Microsoft, Cisco and Johnson & Johnson have been active in this particular market segment at one time or another in their corporate history. In the US, the exclusive aim of corporate venturing is to generate capital gains.

The amount of money raised by the industry of corporate venture at world level has evolved as follows¹³:

Importance of the World Corporate Venture Industry

YEAR	NUMBER OF FUNDS	MONEY RAISED IN MIO EUROS
1995	16	2789
1996	8	377
1997	19	1700
1998	22	2156
1999	60	7743
2000	126	15548
2001	55	5213
2002	29	1606
2003	18	1662
2004	11	1371

Source: *Les Echos*

It should be noted that the most important corporate venture funds are related to pharmaceutical enterprises. Indeed, enterprises such as Eli Lilly, GlaxoSmithKline, Novartis, Novo Nordisk A/S or Sanofi-Aventis, manage funds having more than 100 millions of euros at their disposal.

In Europe, companies such as Belgacom (B), Thompson (F), Siemens (D) and Innovacom (a subsidiary of France Telecom) are also very active on this market segment. In 2004, Siemens for instance had 19 enterprises in its portfolio. Siemens activities in this field is entitled SMAC (Siemens Mobile Acceleration). The total investment made by SMAC, created in 2001, is worth more than €20 million.

Since 2002, the UK's DTI (Department of Trade and Industry: www.dti.gov.uk) has funded a programme to promote "a formal direct relationship usually between a larger and an independent smaller company in which both contribute to financial management or technical resources sharing risks and rewards equally for mutual growth" through an association called Corporate Venturing UK (www.corporateventuringuk.org).

Sometimes¹⁴ European based companies develop corporate venture in the US. This is the case of Siemens, which provides seed-stage funds and commercial helps to Berkeley (California) through its programme TTB (technology to business). This programme provides companies – 8 at mid October 2005 – with seed stage financing of about €415.000 and helps commercialisation. In return Siemens gets a percentage of each company and access new technologies.

¹³ *Les Echos*, 29 June 2005

¹⁴ *The Wall Street Journal*, 14-16 October 2005



Public venture capital funds

There are market failures in many regions relating to the provision of venture capital for local SMEs. This particular form of market failure has been recognised by European Community institutions. Indeed, in 2001, DG Competition of the European Commission published guidelines in this field, defining the notion of market failure as:

“The communication limits the term « market failure » for case where it is believed that a serious misallocation of resources has occurred. There are two main sources of market failure relevant to risk capital markets which particularly affect access to capital by SMEs and companies at the early stages of their development:

- imperfect or asymmetric information;
- Transaction costs¹⁵”.

This administration allows public authorities to act on the venture capital market provided that:

- the existence of a market failure is clearly established;
- venture capital intervention is limited to €500,000-750,000 depending on the region concerned¹⁶.

The main regional funds are active in the UK, and in particular in England, where the 9 regional development agencies (RDAs) set up since 2000 have now taken over management of these development instruments. Also worth noting is that:

- the EIF (European Investment Fund: www.eif.org) and
- the ERDF (European Regional Development Fund: www.ec.europa.eu/regional_policy/funds/prord/prord_en.htm)

contribute to these regional public venture capital funds.

A number of funds such as Merseyside regional fund (UK) have developed several specialised schemes including:

Micro-credit:	Individual loan amounts =	£3,000-75,000;
Mezzanine:	Individual investment amounts =	£75,000-250,000;
Venture Capital:	Individual investment amounts =	£100,000-500,000;

Those three instruments are grouped under the acronym MSIF (Merseyside Special Investment Fund: www.msif.co.uk).

The UK is not the only country having promoted the emergence of public venture capital funds. It is also worth mentioning that in the *Pôle Européen de Développement* (European Development Pole covering the Belgian province of Luxembourg, the Grand Duchy of Luxembourg and the French region of Lorraine), EUREFI (*Fonds Transfrontalier de Développement*, Cross-border Development Fund: www.eurefi.org) is very active and unique in that it pools the public resources of three regions situated in three different Member States.

In France, UNICER (*Union Nationale des Investisseurs en Capital pour les Entreprises Régionales*, National Union of Capital Investors for Regional Businesses: www.unicer.asso.fr) unites some

¹⁵ Official Journal of the European Communities: State Aid and Risk Capital (2001/C 235/03), VI – Basis for authorising risk capital measures under Article 87(3)(a), (c) and (d) of the Treaty, VI.3

¹⁶ Official Journal (OJEC C, 2001/C 235/03: (http://ec.europa.eu/eur-lex/pri/en/oj/dat/2001/c_235/c_23520010821en00030011.pdf) or the website of DG Competition, accessible through its portal (http://ec.europa.eu/competition/index_en.html)



30 regional funds. Investment amounts range between €50,000 and €500,000. The most remarkable are undoubtedly:

- Rhône-Alpes Création (<http://perso.wanadoo.fr/aracrea/rac/index.htm>);
- Finorpa (www.finorpa.fr).

Some regional funds can have a strong sectorial focus and take the advantages of a good public-private partnership. In mid 2005¹⁷ the French regions Aquitaine and Midi-Pyrénées have both invested €1 million in an equity fund named Aerofund (www.aerofund.com) aiming at supporting SMEs acting in the aerospace sector. The fund is managed by ACE Management (www.ace-management.com) and has already collected money from enterprises such as EADS or SNECMA.

Advantage West Midlands has created in July 2003 a fund to support the creative industry (www.advantagecreativefund.co.uk).

In France¹⁸ Fedarene (a public body promoting a friendly use of energy and environment protection) has set up in 2003 an investment fund named FIDEME specialised in wind energy with several private investors. The fund has 45 mio € under management. This fund has taken a stake in the DEMETER fund (www.demeter-partners.com) active in the expansion phase of the venture capital market. DEMETER has 120 mio € in portfolio and invests in eco-industry.

¹⁷ *Les Echos*, 22 June 2005

¹⁸ *Les Echos*, 30 March 2006



Regional public equity investment firms

These firms had their moment of glory in the sixties. Some of them are still active while others are looking for alternative development channels, and others have disappeared because they failed to innovate or invested too heavily in companies whose death was predictable or inevitable.

They were known under a variety of acronyms in different countries: SDR (*Sociétés de Développement Régional*, Regional Development Firms, in F and B), SODIS (E) and FIN (I).

Some of them have joined forces to set up an EEIG (European Economic Interest Grouping) called "Eurodevelopment". Together, its 36 members weigh more than €600 million in financial assets invested in a portfolio of more than 3,000 client businesses.

The same category can be deemed to include regional development agencies operating in the Netherlands, such as:

- LIOF (Province of Limburg: www.liof.com);

In Belgium, such operators exist in every region:

- GIMV (www.gimv.be) in Flanders. Remarkably, this firm is listed;
- SRIB (*Société Régionale d'Investissement pour la Région de Bruxelles-Capitale*, Brussels-Capital Regional Development Firm: www.srib.be) in the Region of Brussels-Capital;
- SOWALFIN (*Société Wallonne de Financement et de Garantie des Petites et Moyennes Entreprises*, Walloon Small and Medium-Sized Company Funding and Guarantee Firm: www.sowalfin.be) pools all financial instruments available to businesses operating in Wallonia.

In France, Regional Development Firms are operating in 13 metropolitan regions. A number of French regional organisations have set up venture enterprise investment funds (VEIFs)¹⁹. This is how in December 2003, Toulouse-based IRDI (*Institut Régional de Développement Industriel*, Regional Industrial Development Institute, www.toulouse-annuaire.com) of Midi-Pyrénées, France, launched a VEIF called IC501 (*investisseur en capital dans le sud ouest*, Venture Capital Investor in the South West) with €43 million in funding for company transfer and growth capital operations. The fund is fed by public partners (including the EIF, CDC and the Regional Council), insurance companies, bank and private firms (EDF and Total).

In Italy for instance Finpiemonte SpA²⁰ has a capital of 33.774.936 € brought by the following regional actors:

- 62.2% by the Piedmont regional authority;
- 21.2% by financial institutions and banks having their headquarters in the regions;
- 10.6% by industrial associations;
- 2.8% by chambers of commerce;
- 2.7% by the province and city of Turin;
- 0.5% by the province and city of d'Asti;
- 0.1% by the province and city of Cuneo.

Finpiemonte invests in infrastructures (incubators), as well as in financial tools, such as bank guarantees, grants, shares and enterprises (in 2005, 121 millions € were invested in these different tools).

¹⁹ *Les Echos*, 2-3 January 2004

²⁰ Mr Mario Colderini's speech for the FinnetSME workshop held in Turin on 29 May 2006



In Belgium, the Ministry of Finance has issued public bonded loans²¹ in order to raise €65 million from private savings to increase the financial resources available to entrepreneurs who wish to set up their own business. Between 1st September 2004 and 31st August 2005 973 loans have been awarded for a total of €60 million²².

²¹ *Les Echos*, 17-19 January 2004

²² *L'Echos*, 7 October 2005



Industrial reconversion funds

A number of industrial groups facing structural adjustment issues leading either to the closure of production sites or to mass dismissal have set up finance companies that provide venture capital or loans to SMEs against a commitment to create new jobs or hire some of the workforce laid off at or near production sites affected by restructuring. Worth mentioning in this field are the initiatives of *Charbonnages de France* (French Public Coal Company) who set up SOFIREM (www.sofirem.fr) and FINORPA (www.finorpa.fr) to operate in regional coal basins.

In Belgium, regional public authorities have set up a network of “invests”, i.e. specialised financial corporations acting at sub-regional level to acquire stakes in new businesses. At mid-2003, their total investment was reported to amount to nearly €400 million in nearly 1,300 different user SMEs. In 2003, they joined forces under an umbrella agency called SOWALFIN (www.sowalfin.be) controlled by the Walloon region.



Proximity funding

The social economy too, developed alternative ways to provide operators of this sector of economic and social life with an access to funding. While the tools are often similar to those of the capitalistic economy, individual deals are often smaller. Worth mentioning among these tools are:

- in France: Lovemoney (www.love-money.org) operates using a business model that is similar to business angels;
- at European level, INAISE (*Association Internationale des Investisseurs dans l'Économie sociale*, International Association of Investors in the Social economy: www.inaise.org) is a grouping of several operators.

Proximity funding²³ may also focus on regional commercial businesses. In December 2003, financial operators of the French North Ddepartment (*Crédit Mutuel du Nord Europe* - www.creditmutuel.fr - and *SIGEFI Nord Gestion*, FIP - www.pme.gouv.fr/actualites/secret/commu/2003/c19122003.htm) jointly launched a proximity investment fund called *FIP Nord Europe PME* to finance unlisted regional SMEs. Maximum stakes in individual companies reach €3,000.

²³ *Les Echos*, 15 December 2003



Transmission funds

Zernike group (www.zernikegroup.com), in partnership with the ING Bank, has set up a first transmission venture capital funds in the Netherlands. The fund investment strategy is to take over medium size enterprises facing transmission problems in view of bringing new management team and clustering them around their products and services.

Zernike is planning to create a similar fund in Germany. The size of the Dutch fund is 200 mio €.



The stock exchange

Listing

It is arguably businesses' noblest path to venture capital as well as the most prestigious and profitable exit route for shareholders. Whereas few businesses will ever enter CAC 40, DJIA, FTSE and other prestigious stock indexes, a number of SMEs can entertain hopes of listing on secondary markets, new markets or even possibly NASDAQ via an IPO (Initial Public Offering). IPOs' most recent moment of glory happened in the last years of the 20th century at the time of what some observers called the "new economy". Fast-growing SMEs generally aim for an IPO on either the *second marché* (second market), new market or NASDAQ, whose respective distinctive features include:

- **Second marché:** mid-sized companies with a proven track record of profits and offering the prospect of strong growth looking for up to €50 million in equity. The main second marchés are attached to LSE (London Stock exchange, UK), Euronet (F-B-NL) and Frankfurt (D).
- **New market:** companies with a strong potential for growth looking for shareholder's equity. The French new market requires companies applying for an IPO to have own funds amounting to a minimum of €1.3 million prior to listing and to issue at least 100,000 shares for a minimum total value of €1.5 million. Raised equity ranges between €3.2 million and €50 million.
- **NASDAQ** (www.nasdaq.com): an automated current quotes market focusing on technology firms with strong growth potential.

According to the International Federation of Stock Exchanges (www.fese.be), around 300 companies were listed for the first time in 2002, compared to 375 in 2001. London remains the most dynamic financial centre with 201 listings in 2002 (against 245 in 2001).

In addition to share issues, a number of stock exchanges also allow companies to raise equity by issuing bonds. Luxembourg and London are the most active such financial markets with 5.387 and 1.930 issues respectively.

If an IPO might be considered as the "holy grail" for an entrepreneur and early stage investors, the number of enterprises quoted still remains low in Europe.

At the end of the year 2005²⁴ the number of enterprises listed on the London Stock Exchange was 3.013, on Euronext this figure was 1.272 and on the Deutsche Börse this number was 777. In that year, the number of newly listed enterprises in the London Stock Exchange was 547 (among them 131 were non-UK enterprises²⁵), while at Euronext they were 77.

Since it was launched in 1995, the London market for mid caps AIM (Alternative Investment Market) some 1.425 enterprises have successfully been listed. In 2006, 351 enterprises chose AIM to be listed against 294 in 2005 and 193 in 2004.

Alternex²⁶ also accepts the quotation of enterprises which at least five venture capital companies are shareholders of. Between 1st January and 30th May 2006 5 technology enterprises were listed in this market segment. They have been able to secure between €5 and 10 millions. Between mid-2005, year of its creation, and mid-2007 (2 years) 112 enterprises have been introduced in this market.

²⁴ *Les Echos*, 2 November 2005

²⁵ *Les Echos*, 30 March 2006 (in fact 11 months: 1.4.2005 – 28.2.2006)

²⁶ *Les Echos*, 28 June 2006



On Euronext 72 new enterprises were listed in 2006 against 35 in 2005.

The breakdown by sectors of the 1425 listed enterprises on AIM stock exchange shows the following rough picture²⁷:

- Finance:	200	- Travel & leisure:	70
- Informatics:	130	- Real estate:	50
- Services:	125	- Bio & pharmaceuticals:	50
- Media:	110	- Retail & distribution:	30
- Gas and petrol	75		

It is also interesting to notice that the age of enterprises²⁸ listed on Alternext is broken down as follows:

- less than 5 years: 4%
- between 5 and 10 years: 43%
- between 10 and 20 years: 39%
- more than 20 years: 14%.

New Markets

New markets are a specific stock segment that meet the real needs²⁹ of so-called “mid-cap” (innovative mid-sized) companies looking for equity to fund their growth.

After setbacks in the early 2000s, a number of stock exchanges (including EURONEXT, www.euronext.com since 15 September 2003) have introduced new rules to restore investor confidence. This is how businesses applying for listing now need to provide the following assurances:

- three years of existence;
- positive financial results in the twelve months leading to the application;
- own funds amounting to a minimum of €1.5 million;
- implementing a quarterly reporting system;
- providing reliable guarantees of viability and consolidation.

In 2005, AIM and Euronext have developed specific instruments for SMEs named “Alternext”. This new market segment targets SMEs of the Eurozone employing less than 250 people seeking less than 2,5 millions of euros. During the first months of operation, started on 17.5.05, Alternext will introduce 8 enterprises on this market.

As far as the Irish Stock Exchange is concerned, it started early 2005 a new market dedicated to SMEs named “Irish Enterprise Exchange” (IEX). It should be noted that on this market, the SMEs need to have at least a 5-million-euros capitalisation.

²⁷ *Les Echos*, 22 March 2006

²⁸ *Les Echos*, 21 May 2006

²⁹ See: *L'Entreprise* (F), October 2003, nr°216. Interview with Mrs Amy Antola, Ernst & Young



Regional SME stock exchange

Ofex, in UK, is an independent market focused on SMEs. Since its launch, Ofex has served over 500 enterprises (www.ofex.com). End 2005, 157 enterprises are listed.

In autumn 2005, Advantage West Midlands put in place a regional SME share exchange named "INVESTBX", aiming at helping SMEs to raise money through a web based in stock exchange. This new instrument will provide a better liquidity of the regional access to finance market.

At Stuttgart - Berlin - Hamburg – Bremen – Düsseldorf – Munich stock exchanges regional enterprises are traded.

Convertible bonds (Equity Linked)

This financing technique is often the prerogative of large industrial groups such as Alcatel, AXA and St Microelectronics. Indeed, it is used to raise equity ranging between €250 million to €1.5 billion. Mid-sized companies may nevertheless contemplate bonds with redeemable share subscription warrants, a tool that was recently updated³⁰ by Europe Offering (www.europeoffering.com) for technology-based companies with a strong potential for growth. Equity raised by individual French companies between March 2002 and September 2003 ranged between €1.5 million and €40 million.

In Austria, i2/aws (www.awsg.at) offers SMEs a system of micro-corporate bonds with the following characteristics³¹:

- similar process as listing;
- enables companies to fund the business development stage with up to €2 million on average;
- duration: 10 years;
- possibility to insure nominal subscription with a specialised organisation such as AWS (A, www.awsg.at);
- bonds are listed on the secondary market of the Vienna Stock Exchange (A);
- businesses' nominal capital is not diluted across a large body of shareholders;
- cost of issue is affordable for SMEs.

³⁰ *Les Echos*, 27 October 2003

³¹ Speech delivered by Mrs R. GRABHERR at the 4th EBAN Congress in Milan, 13-14 November 2003



Subsidies

Among the vast range³² of public forms of business-oriented intervention, a number provide investment support opportunities.

In general, subsidies are granted in the form of:

- tax relief;
- investment subsidies;
- support for job creations;
- innovation grants;
- subsidized advice;
- business development support.

Pre-competitive grants provided by the Walloon region (B), covering 80-100% of the cost of the business project feasibility and development from the original business concept. Up to €15,500, two and a half years into their existence, these grants have already supported the incorporation of more than 150 businesses (www.4x4entreprendre.be).

Many French regions provide business development grants under a variety of names:

- regional business development grants;
- regional handicraft business development grants;
- regional community services business grants;
- production business development and transfer grants;
- grants for young business developers;
- grants for the unemployed developing or taking over businesses;
- business development project vouchers;
- grants for innovative projects.

In some regions, subsidies may also take the form of repayable short-term loans.

³² Employment subsidies, consulting aids, environmental protection grants, RTD subsidies, etc



Other funding sources

Repayable success-linked short-term loans

Such funding is provided by the French OSEO Anvar (www.oseo.fr). It is targeted at innovative companies and entrepreneurs with a research and development project potentially leading to marketable products or processes. Loans may cover as much as 50% of eligible expenditure incurred as part of project stages including:

- formulation and feasibility;
- development;
- preparation of first production;
- taking out and extension of patents;
- market research;
- search for intermediary partners.

Stock Purchase Warrants

Since 2001, OSEO Anvar offers growing businesses a financial product called BSA (*Bons de Souscription d'Actions*, stock purchase warrants), i.e. securities carrying the right to purchase shares of the issuing body at a fixed price within a specific timeframe.

BSAs have a double advantage for issuing businesses:

- higher equity capital meaning a stronger financial basis;
- improved cash position.

OSEO Anvar receives BSAs in exchange for its financial support, either immediately or by instalments as the business project develops, or at the time of calling its claim in the case of a repayable short-term loan.

Worth highlighting is that business developers have pre-emptive rights to buy back OSEO OSEO Anvar's BSAs if a third party offers to acquire them. As a rule, OSEO ANVAR avoids keeping BSAs of individual businesses for more than ten years.

Proof of concept

Funding provided to members of a research team which has a great potential to become entrepreneurs in order to help them to develop their business idea.

The funding may take the form of grants, loans, quasi-equity or equity. SITRA (www.sitra.fi), in partnership with TEKES (www.tekes.fi), offers a package of grants and equity. The amount provided ranges from 20.000 € to 70.000 €. In this case SITRA invests in subordinated loans and TEKES provides grants.

In Scotland, Scottish Enterprise has put in place a "Proof of concept" scheme which in the first years of implementation (2004-2005) helped the creation of 17 new enterprises. This scheme is based on the following tools:



- 300.000 € per project of maximum 2 years;
- the entrepreneurial project must include representatives of higher education organisations and a marketing team;
- the university keeps the IPR rights.

Factoring

Factoring is a fast and flexible way of alleviating businesses' cash flow problems by both providing short-term liquid assets (24 to 48 hours) and protecting them against payments outstanding.

Companies may obtain up to 90% of the full amount of their invoices³³ as soon as products are delivered or services are provided. Factoring applies to both domestic and export bills. Europe accounts for 65% of the global factoring market, estimated at a total of €670 million. For more information on global factoring: visit Factors Chain International (www.factors-chain.com).

Factoring costs depend upon a number of elements³⁴. Indeed, the fees charged by factors are based on:

- the value of assigned claims;
- possible assorted services (administration, management, financing, credit insurance).

Commissions³⁵ vary between 0.5% and 2% and interest rates are 2-3% above the basic rate charged by banks.

Useful URLs in Belgium include:

- DEXIA Factor (www.dexia-factors.be);
- FORTIS Commercial Finance (www.fortiscomfin.co.uk);
- International Factors (www.ifb.be).

Awards and sponsorship

Public authorities sometimes reward business development either in kind or with small amounts of money. Some other regions co-finance business plan competition. The French ministry for R & D has made available along with the OSEO Anvar (www.oseo.fr) €30 millions in 2004 to reward 182 innovative projects. Rewards are given to three types of projects:

- emerging ideas. Maximum €45.000 of grants. 99 projects supported;
- ideas in development. Maximum €45.000 of grants. 83 projects supported;
- special awards.

The funnel effect of this scheme is as follows:

- 1402 files;
- 333 projects assessed;
- 182 projects awarded.

³³ In Belgium, advances on invoices generally amount to 75-85%

³⁴ *L'Echo*, 29 October 2003

³⁵ European SME Observatory, 2003 n°2. *SME Access to Finance*

http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report2_en.pdf



Leasing

Leases are an instrument whereby a financial organisation (the lessor) awards a company (the lessee) the right to enjoy an asset for a predetermined period of time against regular “rents”.

The leasing market is subdivided into two segments: real estate (18%) and capital goods (82%). In the latter segment, the largest market share is represented by cars (33%), followed by industrial machinery and equipment (25%), lorries (19%), computers and business machines (12%) and heavy transport equipment (ships, planes, rolling stock—4%).

Leasing habits differ across EU Member States, with market penetration as a percentage of total business investment being stronger in France, Italy, Germany and the UK.

Over 1,300 companies are active in this industry in Europe. They invested a total of nearly €2 billion in 2002 (see European Federation of Leasing Company Associations www.leaseurope.org).

Franchising

This concept can be a tool to finance the growth of an enterprise. The data reproduced hereafter shows the importance of the franchising activity for several EU Member States:

Table 21. Importance of EU franchising industry

Country	N° of franchising	N° of franchised
France	765	34.745
Germany	760	41.200
United Kingdom	665	35.600
Italy	654	41.600
Spain	646	29.699
Netherlands	434	18.000

Source: *Franchise magazine* August-September 2004.

The development of a network often needs an important amount of capital both for the brand holder and for the franchised entrepreneurs.

Recently this market has been looked at by venture capitalists. In France, Natexis Private Equity (www.natexis-pe.fr) has created a specialised fund named SPES. Entreprises such as Intersport, Mr. Bricolage or Optic 2000 benefited from that fund.

Sale and lease-back

Sale and lease-back is a financing technique by which the owner of a tangible or intangible asset sells it to an investor and leases it back immediately. In the short term, the sale and lease-back allows an enterprise to get cash to finance its expansion.



Guarantees

Guarantees are an important tool to improve businesses' access to credit. According to AECM (European Association of Mutual Guarantee Societies: www.aecm.be), there are different types of guarantee schemes:

- mutual or joint-guarantee societies;
- public guarantee schemes, often set up by national or regional public authorities;
- guarantee or counter-guarantee schemes.

While banks are to be the principal source of external capital for small and medium-sized enterprises, guarantee schemes have a complementary role to play by making available guarantees to compensate for SMEs' insufficient collateral. The aim of guarantee societies is to improve the access to professional credit for viable small and medium-sized business projects without the personal collateral required by banks in the hope of building a stable long-term relationship.

Guarantee schemes are formed by a mixture of private and/or public initiatives and usually involve entrepreneurs either directly or indirectly in the action, decision-making and management mechanisms. A special characteristic of the European structure is the existence of national counter guarantees, regional in some cases, and supranational counter guarantee platform organized and financed by the European Commission and handled by the EIF.

In 2001, AECM's membership operating in the EU granted guarantees to nearly 1.4 million businesses. The largest operators on this market are FEDERCONFIDI (I, more than 600,000 guarantee deals: www.federcon.it), SOCAMA (F, over 275,000 guarantee deals: www.socama.com), FEDERAS (I), CONFESERCENTI (I, www.confesercenti.it) and CESGAR (E, www.cesgar.es). A number of guarantee societies have implemented special guarantee schemes aimed at market niches including young entrepreneurs, venture capital, innovation, micro-credits and exports. Guaranteed amounts vary across the range of mutual guarantee societies:

	GUARENTEES	OUTSTANDING	NUMBER OF BENEFICIARY SMEs
D:	Burgschaftsbanken:	4952169 €	43754
F:	SOCAMA:	1413685 €	291400
	SIAGI:	713362 €	47000
I:	FEDERCONFIDI:	3249500 €	621887

In Finland, public corporation FINNVERA (www.finnvera.fi) provides both loans and guarantees to SMEs which do not have access to bank loans because they lack adequate guarantees. Finnvera's activities are deployed under six specific schemes:

- investment finance: mid and long-term loans and guarantees for newly-created SMEs;
- working capital supply: short to mid-term loans and guarantees;
- growth capital: low-rate loans and mid-term guarantees for business growth or environmental protection;
- micro-credit: low-rate, short to long-term loans and guarantees for micro-businesses;
- export credit guarantees;
- internationalisation funds.



According to AECM (www.aecm.be) in 2003, the total own funds of European guarantee societies members of AECM totaled by 3.845 million Euros, outstanding guarantee portfolio reached 38.210 million Euros and number of SME beneficiaries – 2 million Euros³⁶.

While the traditional approach is to present the guarantee as a “generic product”, guarantee can also be presented in various packages. According to experts of EC launched the project “Expert Group on BEST Practice in the field of Guarantees”, guarantee products can be grouped as following:

Business start-ups guarantees:

- The **German Bürgschaftsbanken** launched the “Bürgschaft ohne Bank” system. The entrepreneur contacts the Guarantee Society; its credit file is completed and analyzed with the assistance of experts of the Chamber of Craft/Commerce/Industry. A guarantee bond is provided to successful applications. The bank intervenes at a stage when the file is already completed and the partly coverage ensured. Some guarantee banks add an accompanying service, which enables a follow-up of the starting businesses.

Micro-credits guarantee (micro-credit guarantees are usually issued to the business loans up to 25 000 Eur):

- **Finnvera**, Finland. A micro-enterprise guarantee is intended for enterprises being established or employing a maximum of 50 persons. A micro-enterprise guarantee helps SMEs to obtain a loan and facilitates loan and guarantee decisions. A micro-enterprise guarantee is based on a credit and guarantee facility agreement, concluded between Finnvera and banks, to enable small credits to be guaranteed by dividing the risk with a bank (www.finnvera.fi).

³⁶ The survey as concerns data for 2004 is being executed by AECM at the moment