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Foreword

As emphasised by the EU Lisbon Strategy and mirrored in the Third Cohesion Report, small and medium-sized enterprises (SMEs) play a key role in the economic development of the European regions and the European economy as a whole. Although the rate of SMEs and new firms as source of growth and new jobs is increasing, the financial needs of SMEs are too often not sufficiently responded to, particularly in regions with a less successful economic development. The limited availability of finance and the lending based financing structure within Europe have especially grave consequences for start-ups and SMEs which cannot fulfil the demands for guarantees. Another challenge SMEs have to handle are the changing requirements of the banking markets, amongst others a consequence of Basel II and the Capital Requirements Directive.

Thus, there is a strong need for a compilation of existing good practices in SME finance. Policy makers and financiers need a reliable source of regional know-how to find the best solutions for the development of their region. The issue of insufficient access to finance for SMEs is of particular relevance to the regional institutions engaging in business support. Run by their respective governments and specialised in regional SME promotion, they hold key responsibilities in creating favourable conditions for the regional economy. However, those regional actors were scattered, and information for public financiers, entrepreneurs and potential investors was not always shared. Over the past few years European and national networks for interaction on the issue of regional SME finance had been established. Despite of these efforts, the exchange of know-how between regional financiers about how to most successfully employ public support structures for SMEs was weak, and transparency was not established.

These are the challenges that the partners of FinNetSME faced and addressed through their co-operation. FinNetSME was created to close the existing informational gaps regional business supporters faced and to produce a comprehensive centre of competence on regional support for SMEs, presented by the network in the form of a publicly accessible database at www.finnetsme.org. What is more, the partners came up with models, i.e. guidelines, for the setting up of new support mechanisms which form the essence of the experience and practices accumulated by FinNetSME and will help to convey the partners' know-how to other European regions.

FinNetSME – The Project

The project started with 20 partners originating from 9 EU Member States. The represented regions cover all parts of Europe: from Spain in the west to Lithuania in the east, from Greece in the far south to Finland in the north. To broaden the regional expertise the network was opened to associated partnerships. Institutions owned, run or mandated by a public authority from the EU regions with expertise in supporting SMEs contributed to the project work, without being a formal FinNetSME partner. During the phase of its implementation the network attracted five associated partners from Italy, Germany, Bulgaria, Lithuania and the UK.

FinNetSME has built a platform for public regional financiers to help them develop common regional tools and strategies promoting SMEs access to finance. FinNetSME sought to establish a sustainable exchange of know-how between public SME financiers and to transfer the best practices gathered from the regional to the European level.

Meeting in working groups the partners assessed the current situation of regional SME finance by collecting best practice. They exchanged know-how on already used financial schemes in the different regions and were jointly elaborating suitable financing models, serving as a basis for a better use of already existing funding in the future. Working on the topics 'Early Stage Finance', 'Micro-Finance', 'Equity Finance' and 'Regional Supply Chain' FinNetSME focused on urgent issues of SME finance.

Very importantly in terms of the exchange of expertise, four thematic seminars were organised to discuss core issues with regards to regional SME financing: 'The Role of Regional Financiers in the EU', 'The Regional Supply Chain', 'Challenges for Regional Finance' and 'Financial Engineering'. Serving as a platform for discussions also with interested parties outside the network, the seminars where hosted by the project partners and took place all over Europe.

These get-togethers were also used to discuss organisational and administrative issues within the Steering Group meetings. The Steering Group was formed by one representative from each formal partner and one representative of its regional political authority.

Three conferences and additional information events in the partner's regions, as regional conferences and exhibitions, ensured the persistent exchange of expertise with the participating institutions contributed to regional stakeholders and authorities. Furthermore the conferences raised awareness of the problems of SMEs and approaches in finding satisfactory solutions.

After the duration of 36 months the FinNetSME project ends on 30 June 2007. The project budget of € 1.4 million was co-financed by the European Union amounting to € 0.9 million from ERDF.

FinNetSME – The Partnership

State Development Bank of Saxony

Saxony, Germany

The State Development Bank of Saxony (SAB) provides funding as well as support for the States' development activities and is thus the primary vehicle for regional, national and EU promotional programmes in Saxony. The products and services include grants, interest rate subsidized loans, guarantees and via Sächsische Beteiligungsgesellschaft (SBG) equity schemes.
Established in 1991 SAB is 100 % owned by the State of Saxony and carries statutory guarantee in addition to institutional liability and maintenance obligation. Due to these special circumstances SAB has no competitors but is not acting on the market as a commercial bank.
SMEs play with 99 % of the businesses an essential role in Saxony's economy. Providing support for these firms is one of the key responsibilities besides housing promotion, the promotion of public clients and agricultural promotion.
The products provided are as diverse as the financing needs in this field. They range from micro-loans for start-up enterprises like 'Saxony Business Start-up and Growth Financing' – a programme bundling federal and state development funds offering low interest rate loans for start-up companies as well as their consolidation phases – to 'Crisis and Re-start' providing aid to SMEs which are endangered to become insolvent but can be recapitalised.
Loans and grants are passed exclusively to the customer's local bank within the so called 'house bank principle'.
Thanks to the research and development friendly environment in Saxony and due to the growing number of start-ups in the field of technology, SAB is extending beyond the mere provision of grants. These start-ups are facing difficulties in obtaining rather traditional financing due to lack of collateral. Via her subsidiary SBG State Development Bank of Saxony is acting more risk taking and provides equity capital to young promising companies in this field. But it's not all about money. Business starters are often ill-prepared for their new role as entrepreneurs and thus doomed to fail. Through its subsidiary 'Businessplan Wettbewerb Sachsen GmBH' SAB provides practical consulting services tailored to the various phases of a business start-up. The annually organised Business Plan Contest 'futureSAX' gives people with an innovative business idea opportunity to develop a professional business plan and encourages them to start their own businesses.

Signalion GmbH

Having started the business in 2003, Signalion is a well established solution provider for wireless communication system design and prototyping, but still with the spirit of a young and dynamic and international team.
With 'Sorbas110' Signalion provides a first-time test solution for next generation cellular standard base stations. 'Sorbas110' is a prototype of a mobile phone that enables base station developers to test their designs against a reference receiver and transmitter already in stage where the standard is not finalized. Among Signalion's customers from all over the world are key players of the wireless market such as Alcatel and Philips, Infineon and NXP as well as leading research organizations.
At the 3GSM World Congress in Barcelona Signalion has demonstrated a live video transmission on a mobile phone based on the new standard. Signalion's test mobile was the only commercially available solution at the 3GSM World. Based on that technical achievement Signalion will raise the enterprise turnover to € 2.5 million this year, which is a more than 100 % growth in 2007.
In 2004 the business plan of Signalion received an award at the Business Plan Contest 'future SAX'.

Finanziaria laziale di Sviluppo

Filas
Finanziaria laziale di sviluppo

Lazio, Italy

FRATELLI SPADA S.p.A.

The operation that Filas has carried out with Fratelli Spada S.p.A may be considered as one of the most significant venture capital operations implemented by Filas.
Fratelli Spada, created in 1957, is a reference point for Italian editorial graphics and publishing. The operation totaled financial resources for nearly € 10.5 million that will be used to construct the new plant in Ciampino (Rome) and shift part of the productive activities.
The company, which has been located in Ciampino since 1965, need to be relocated due its enlargement and the redefinition of logistic flows as well as to optimize costs. Moreover, the new regulator plan for Ciampino has allowed the construction of a new access road that will improve traffic flow and optimize connection with the great ring road around the city of Rome.
The Filas activities included 3.34 % participation in the social capital and the subscription of a convertible obligation. The evaluation committee approved the operation on 26/09/2003 and the funding was transferred on 06/11/2003.
Fratelli Spada has also obtained funding for € 8.5 million from a pool of banks composed by Banca Intesa, Mediocredito Centrale e Monte dei Paschi di Siena.

Founded by the Lazio Region in 1975, Filas is the regional financial development agency. Although its shareholders are public institutions, Filas is a private company limited by shares operating also as a venture capital company and a virtual incubator. Filas' mission is to guide the economy of Lazio and to promote development and innovation, especially through the adoption of new technologies.
Filas manages tools related to innovation, new technologies and the net economy in order to strengthen the competitiveness of regional SMEs both in terms of regional product growth and external investment attraction.
Filas pursues these objectives to promote the development of innovative enterprises and to support the regional government in monitoring the state and needs of enterprises.
The main working fields Filas is active in are assistance in the implementation and management of EU funded programmes, promotion of spin-offs out of research projects conducted by public or private organisations, supporting exchange of knowledge between universities and SMEs as well as the provision of financial and managerial support for R&D start-ups.
With the management of an innovation and a pre-investment fund Filas is providing financial aid by grants to early stage SMEs which is just one contribution to support the technological development and innovation in the Lazio region.

Investitionsbank Schleswig-Holstein

IB
Investitionsbank
Schleswig-Holstein

Schleswig Holstein, Germany

Progress comes in many forms. To become reality ideas need freedom to develop. To this end a solid foundation from private house building to the EU wide expansion of a company is necessary. It is the combination of the innovative projects undertaken by citizens, companies and municipalities that leads the region forward. As the State central development institution established in 1991, Development Bank of Schleswig-Holstein (IB-SH) is active in finance for regional clients in the fields of business, housing and municipal projects.
The products for business promotion to support regional development are wide and cover loans, grants, mezzanine loans and with a focus on the scarce provision of equity capital also equity finance by means of funds. The support of start-up enterprises plays a central role within the wide range of support schemes offered.
To provide access to risk capital and bridge the market gap for equity a risk capital fund called 'VC Fund SH' is offering mezzanine capital to SMEs via the IB-SH subsidiary 'Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH'.
In addition, to the core areas of business, real estate and municipalities, IB-SH also established special contact points for specific requirements, e.g. the Euro Info Centre (EIC) in Kiel and the consultation service for women starting-up business.
The 'Finance Scout' is another non-financial supporting programme provided. To create new businesses and to reduce the unemployment rate IB-SH assists with funding programmes, financial assistance solutions, special service for women and coaching for bank interviews for companies and start-ups.

Incubator of New Enterprises of Chania

Crete, Greece

Situated in Chania, Crete, the Incubator of New Enterprises of Chania (INEC) is a state non-profit organization, which supports and encourages the creation and development of new, innovative companies, with high growth rate and knowledge-intensive activities. Founded in 2000 by the Hellenic Organization of Small and Medium-sized Enterprises and Handicraft (EOMMEX) and located in the Industrial Park of Chania, the shareholders of INEC are EOMMEX, the Prefecture of Chania and the Industrial and Commercial Chamber of Chania. Since the incubator itself owns several production and office premises in the Industrial Park of Souda, it can provide service to new, innovative companies by leasing the premises needed. INEC also offers its customers business support in terms of marketing, finance, management, new technology and staff training.

Although financial instruments to support SMEs in Crete are not managed by INEC, it acts as one of the first contact points for enterprises seeking information on public financial instruments due to its special knowledge in this field. The organization's most important activity is to provide these enterprises with information on financial and non-financial supporting schemes, e.g. on grants like the 'GYNAIKEIA' or 'NEANIKI', two programmes by EOMMEX providing early stage finance to women and young entrepreneurs, or guarantee schemes provided by TEMPME to support micro or small firms.

Terra Creta

Terra Creta, situated in the Industrial Park of Chania, was founded in the beginning of 2001 and produces a wide range of Olive-products under various brand names. The production factory is equipped with a fully integrated production line, environment-controlled storage facilities and stainless steel oil-transport trucks. In 2006, the company traded 600 tons of superior category Extra Virgin Olive Oil and achieved a turnover of € 2.9 million, 80 % of which came from exports. Its products are marketed in Europe, USA & Canada, China, Korea etc. This is also possible due to the support by INEC providing Terra Creta with market information on target markets but also supporting advertising tactics by the preparation of a company presenting CD and accompanying the staff in national and international exhibitions. The company has 12 employees being trained on health and safety at work with a seminar also offered by INEC.

NRW.BANK

North Rhine-Westphalia, Germany

With total assets of approximately € 140 billion NRW.BANK, established in August 2002, forms the largest institution amongst Germany's regional development banks. As a development bank NRW.BANK is allowed to make unrestricted use of its state guarantees, i.e. institutional liability and guarantor liability. In addition the owners of NRW.BANK, the state of North Rhine-Westphalia and the regional Associations of the Rhineland and of Westphalia-Lippe, grant an explicit guarantee of liability. NRW.BANK offers the full range of financial development products in its business segments business start-up and mid-market development, social housing promotion, infrastructure funding, municipal finance and individual promotion.

For business start-ups and SMEs in North Rhine-Westphalia, NRW.BANK makes effective use of public promotion and equity finance products and customises them to specific needs. Innovative small and medium-sized enterprises are of major interest in this context since they are of great importance for the structural change in North Rhine-Westphalia. Because many of these companies lack the necessary financial resources for their future development it is the aim of NRW.BANK to close this funding gap with innovative promotion and funding products (loans, grants and equity). NRW.BANK always acts as a competitively neutral partner of banks and savings banks.

Westfalia Kunststoffe GmbH

Yarns, belts and fabrics – products made from polypropylene – are delivered to customers in half of Europe by Minden-based Westfalia Kunststoffe GmbH. Despite the fierce competition on the textile market Thomas Horstmann in early 2005 took over the company, fulfilling his wish to be independent. His relationship bank and NRW.BANK helped him to make his dream come true. In addition to the loan extended by Dresdner Bank and KfW loans, NRW.BANK granted a development loan from it's Start-up and Growth Finance programme, strengthening the equity ratio of the company. After the take over and with 14 employees staff Horstmann is now focused on modernisation to ensure the quality of his products provided. 'Quality takes top priority for our company'.

Gepafin SpA

Umbria, Italy

Gepafin SpA is the financial Society for SMEs in the region of Umbria. It was founded by the regional authority together with the European Commission and ten national and regional credit institutes. In order to support the development of Umbrian SMEs Gepafin operates in the field of financial engineering since 1992 with specific reference to medium and long term financing. It manages EU Funds for the purpose of promoting SME development and to facilitate their access to the capital market. Since its establishment, Gepafin has contributed to the growth and realisation of plans of numerous small and medium-sized companies using the Structural Funds.
Gepafin intends to carry on and expand this role by guaranteeing a service which is more and more reliable and qualified. By 1992, Gepafin had executed 1,400 operations for about 1,000 SMEs, putting into effect total investments amounting to more than € 504 million and liquid assets worth € 58 million. With 'FIRST', a public-private risk capital fund for innovative companies and potential new enterprises, Gepafin supports entrepreneurial innovative projects with growth potentialities which could also lead to the creation of new ventures. The fund is managed by Ati Prisma. Gepafin, the leading institution, is in charge of the financial assessment while the market due diligence is carried out by Meta Group, a company specialised in supporting fast growing companies as well as in the commercialisation of knowledge based products. But also non-financial aid is provided by training courses in the field of entrepreneurship to encourage the creation of new companies, to support the internationalisation of SMEs and thus to improve regional competitiveness.

Centro Sviluppo SpA

Aosta Valley, Italy

Centro Sviluppo's (CSA) aim was to help and to support the Aosta Valley enterprises' growth and to promote regional development activities. The organisation was established in 1993 by the Regional Government of Aosta Valley in co-operation with Finaosta SpA, the finance company for the region and a number of regional entrepreneurial associations, regional and national banks. Its purpose was to help public administrations and local SMEs to implement and manage projects co-funded by the EU, to supply targeted information on opportunities arising in the EU and to actively seek international partners. CSA was experienced at managing complex projects involving all aspects of local enterprises, providing consultants specialising in entrepreneurial skills and organising conferences, seminars and exhibitions in support of entrepreneurial activity.
CSAs' involvement in innovation finance included being a founding member of IBAN, the Italian Business Angels Network and managing the network in northwest Italy. The organisation maintained links with the Italian Venture Capital Association and other local and national entrepreneurs associations.
As well as working with their main target audience, SMEs, CSA worked together with universities, other types of research institutions and with relevant regional bodies. The regional administration of Italian 'Aosta Valley Region' has undertaken a process of restructuring and reorganising the system of public equivalent bodies that offer financial support and consultancy to SMEs. The board of CSA decided on its liquidation, effective from 1 August 2006 and thus the partner has withdrawn his partnership.

Investment and Business Guarantees Ltd.

Lithuania

INVEGA is the State Guarantee Institution, providing state guarantees on bank loans to SMEs. INVEGA is a private limited liability company, founded by the Government of Lithuania, all shares are owned by the Ministry of Economy of Lithuania. On behalf of the Ministry of Economy, INVEGA administers loan interest subsidies to SMEs and

is also in charge for the administration of the newly established micro-credit programme launched by the Ministry of Economy of Lithuania in August 2006.
For this programme € 8.4 million had been tendered among the all eligible commercial banks. The most favourable terms for the micro-crediting of SMEs, were proposed by Šiaulių bank, Medicinos bank and DnB NORD bank. The public recourses to the participating banks were lent for the term up to 31 December 2012. The mentioned recourses as well as those repaid by enterprises could be used by participating banks for extending micro-credits only. Banks are fully responsible for the credit risk. For the risk mitigation they can also use INVEGA's guarantees.
SMEs are eligible under the micro-credits programme however participating banks took responsibility that not less than 85 % of all micro credits are granted to micro-companies.
The urgent need for micro-lending is clearly to be seen in the performance of the programme. Until the end of 2006 already 66 % of the recourses have already been utilised, micro-credits amounting to € 5.5 million and split to 266 enterprises.

Investitionsbank Berlin

Investitionsbank Berlin

Berlin, Germany

Investitionsbank Berlin (IBB) is the central business and real estate development bank of the Federal State of Berlin. It focuses with its offers on innovative, small and medium-sized enterprises in Berlin in order to support them in boosting performance and opening up new markets. In the field of real estate property support programmes, IBB is the right contact partner for all financing matters.
Investitionsbank Berlin is a reliable, strong partner for Berlin and its business community. For us, 'Working for Berlin' means providing optimum support for Berlin-based businesses with demand-orientated business promotion and subsidy instruments whilst taking local resources into consideration. This includes creating new, future-enabled jobs and developing Berlin's attractiveness as a location for business and technology.
In the field of real estate property support programmes, IBB is the right contact partner for all financing matters.
IBB focuses on promoting and supporting small and medium-sized enterprises in their business. With its finance based supporting programmes, primarily innovative and technology-orientated small and medium-sized SMEs in Berlin are supported with loans and other revolving instruments based on commercial criteria, subsidies and finance consultancy.
Through 'Berlin Start', a micro-finance scheme, IBB provides access to micro-finance for start-ups and young enterprises and is thus in co-operation with commercial banks closing the market gap in loans below € 100,000 through cheaper refinancing conditions and guarantees.
Besides IBB offers a wide range of business support programmes specifically tailored to the needs of the businesses of SMEs in Berlin's strong branches: biotechnology, medical technology, ICT, optical technology as well as transport, traffic and mobility.

Sulfurcell Solartechnik GmbH

Sulfurcell Solartechnik GmbH is an innovative manufacturer of photovoltaic solar modules in Berlin. Former scientists at the Hahn-Meitner-Institute (HMI) started the company in 2001 with the aim of using the new, thin film technology for solar modules developed at the HMI in industry. The technology, based on the semi-conductor copper indium sulphide (CIS), combines effective usage of materials with highly productive technology allows up to 50 % less costs in large-scale mass production than the current technology based on crystalline silicon. In 2001, the business plan of Sulfurcell Solartechnik received an award at the Business-Plan-Contest Berlin-Brandenburg, organised by Investitionsbank Berlin (IBB). Following the start-up financing in 2003 – in which the VC-Fund Berlin managed by IBB Beteiligungsgesellschaft, a subsidiary of IBB, was a major investor – the existing shareholders including the VC-Fund are also investing in the new growth financing to be used for the further development of solar modules and the dynamic build-up of production. After two years of product development the team succeeded in setting up a pilot production in 2006. So far, solar modules with a total power of 200 kilowatts have been produced and sold.

Mortgage and Land Bank of Latvia

Hipotēku banka

Latvia

SIA 'Staneks'

In the beginning of 2003 two farmer companies, located in the assisted territory of Latvia-Līksnas county (eastern part of country, near border with Belarus) joined their efforts in creating a new business in service area. As the result, LLC 'Staneks' was established, and after one year – a modern car service started its activities in full conformity with all the EU standards. This service is situated in a favourable location by highway: Riga – Daugavpils, 15 km from Daugavpils (the second largest city in Latvia). The service was built thanks to a loan provided by MBL. Afterwards also a grant from the EU Funds was received. In order to expand the business, a cafeteria was opened in July 2005. Again financial support was received from MBL. Thanks to the promotional Programmes Office 'ALTUM' (a unit within MBL) LLC 'Staneks' received a high-risk loan to build a conference hall. In this new premise both social and corporative events can take place. Ambitions of the owners of LLC 'Staneks' do not end here. The owners of the enterprise are planning to build a hotel in the future. Presently LLC 'Staneks' employs 11 persons. All of them are locals.

Established in 1993 as a joint stock company, Mortgage and Land Bank of Latvia (MBL) is 100 % owned by the Government of Latvia and the only state-owned bank in Latvia. The mission of the bank is to promote Latvia's economic development through the provision of financial mediation and related services. Following this mission MBL operates twofold as a promotional and commercial bank. The three pillars of MBLs activities are lending to SMEs, the provision of retail banking services all over Latvia on a commercial basis and issuing of mortgage bonds. Approving the concept on development, the Government of Latvia stated in November 2006 that MBL shall become a full spectrum promotional bank until 2013.

MBL maintains strong links to other financial institutions in the EU and is jointly financing most of the lending programmes with EIB, EIF, NIB, CEB and KfW for instance.

Up to now the main promotional programme implemented by MBL is the SME Lending Programme, which provides investment loans on favourable conditions to start-ups and growth companies lacking collateral and track record. Since 2000, more than two thousand loans have been granted amounting to € 120 million.

For the coordination and administration of promotional programmes co-financed by the state and EU, a new unit – the Promotional Programmes Office 'ALTUM' – was created in 2005. In March 2006, ALTUM launched its start-up loan programme (including micro-loans) co-financed by ERDF, financing high risk loans for SMEs and start-ups having prospective and competitive investment projects but cannot fulfil collateral requirements of commercial banks. Covering the wide range of support especially business starters need a ESF co-financed programme provided by MBL which intends to stimulate small business start-up activity by encouraging people – especially first-time entrepreneurs – to start their own business. Also financial needs are covered by the provision of financial support via micro-loan, business start-up grants and the partial coverage of mentoring costs. It is planned that until mid of year 2008 about one thousand start-ups will be trained together in all five planning regions of Latvia. Most likely, this kind of promotional product will have a continuation also by means of the new programming period (2007 – 2013).

Investitionsbank Sachsen-Anhalt

Investitionsbank
Sachsen-Anhalt

Saxony-Anhalt, Germany

Established in March 2004 out of the former regional development institution Development Bank of Saxony-Anhalt (IB-LSA) offers a wide range of promotional programmes and related services. The products and services provided include grants, favourable loans and guarantees. Main fields of activities comprise business support, innovation and technology, infrastructure, agriculture and housing.

The backbone of economic development in Saxony-Anhalt is the growth and sustainability of the regions' companies. IB-LSA provides tailor-made support with a special focus on start-ups and SMEs. Information, advice and promotion out of one hand is what makes IB-LSA an esteemed partner in the business community. Out of the range of

promotional offers IB Advisory Center recommends the programmes most suitable for the enterprise and guides through the application procedure.
Start-ups and early stage companies for example may benefit from grants for specialised advisory services, the IB-Entrepreneur Loan scheme or the KfW-Microloan programme. Additionally they profit from IB-LSA's co-operation with other partners offering support to SMEs and start-ups like the Business Plan Competition.
SMEs investing in their further growth strengthen their exploitable basis of liability with IB-LSA Mezzanine Loan. Apart from providing liquidity, the Mezzanine Loan opens the door for easier access to finance from commercial banks for the company.
Also in terms of often lacking venture capital Saxony-Anhalt is breaking new ground. The Business Angels Network Saxony-Anhalt (BAN), founded in 2005 and closely connected with IB-LSA, works towards the active engagement of business angels in local and regional companies. BAN's success-story during the past two years gave rise to the establishment of the Business Angels Fund Saxony-Anhalt Ltd. in early 2007, which holds in the first phase an investment capital of € 200,000.

Magdeburger Fenster- und Türenwerk GmbH

Entrepreneurship and persistence drove Michael Stegemann when he decided to set up his own windows and doors manufacturing company in 2003. The former factory was about to be closed. Being unemployed or to dare a leap were the alternatives he had to decide on. He accepted the challenge and bought the property, business premises, technical equipment, tools and machines from his former employer.
Supported by Development Bank of Saxony-Anhalt through loans of the Entrepreneur Loan and Mezzanine Loan Programmes, Michael Stegemann was able to reemploy all 30 staff members and to continue the high-quality production seamlessly. In its second business year the enterprise turnover was already amounting to € 2.85 million.
Advertisement is of high importance to the young entrepreneur: 'We have to call attention if we want to reach our clients.'

Kainuu Regional Development and Business Promotion Company

Itä-Suomi, Finland

The furthest in the north situated partner of the participating regions is Kainuun Etu Oy (KEO). With a population of 85,000 inhabitants the region was facing big changes in terms of population and structure of industries in the past. Population density was declining as well as the wood and paper industry, once a big issue all over Finland. Kainuu met the challenge by focusing on innovation. In terms of innovation the region now holds number one in Finland.
KEO, the Kainuu Regional Development Company is a business development corporation jointly owned by the municipalities of the Kainuu region. The role of the company is to contribute to regional growth and to assist key sector companies to develop their business operations, competitiveness, growth and co-operative activities.
Due to the continuously growing number of enterprises in the field of technology in the region, enterprises active in this sector take a dominate part of the clients of KEO. Planning, implementing and the administration of projects promoted by the EU Structural Funds build the main part of the services provided to SMEs. The ICT and metal industry department of KEO is committed to establishing long-term strategic relationships with effective, trustworthy project partners and organisations that can contribute tools, networks or resources necessary to enable new SME projects in the future.

European Association of Regional Development Agencies

Belgium

EURADA, the Association of Regional Development Agencies is a non-profit organisation aiming to promote regional economic development through dialogue with the European Commission services, interchange of good practice among members, transnational co-operation among members and regional development agencies.
EURADA gathers around 150 development agencies from 25 countries of both the European Union and Central and Eastern Europe.
Though development agencies in the Member States of the European Union have developed at different times and under different legal forms, the common concerns identified are sufficiently strong and convergent to justify a federative association.
In spite of their diversity, the development agencies have developed original forms of economic intervention amongst which are principally those of

- Assisting in company creation
- Counselling companies and training their staff
- Promotion of enterprise zones or attraction of local or foreign investors
- Stimulation of technology transfer and inter company partnership
- Creation and management of company incubators
- Provision of risk capital in certain countries
- Conducting studies and territorial planning initiatives
- Regeneration of areas made derelict by industrial blight

Since 1996 EURADA has supported the European Business Angel Network (EBAN) in view of raising awareness of the role of business angels in the funding of young innovative enterprises. The concept is now better known as more than 250 BANs are operating in many EU countries. BANs are currently offering more than a matchmaking platform for entrepreneurs and angels as they have introduced services and concepts such as investment readiness schemes, business angels syndication or co-investment funds. They also offer training to potential business angels. EBAN has also produced a set of papers aiming at making the BAN and BA concepts easier to understand by policy makers and regional stakeholders. Those papers are entitled 'Directory of Networks', 'Toolkit Introduction to Business Angels and Business Angel Network Activities', 'Add-on Services Offered by Networks', 'Tax Incentives Available to Angel Investors in Europe'.

European Association of Public Banks

Belgium

The European Association of Public Banks (EAPB) represents the interests of 27 financial institutions, funding agencies, public banks, associations of public banks and banks with similar interests from various European countries vis-à-vis European decision makers. In total, the EAPB represents some 100 financial institutions with a total European market share of 15 %, a balance sheet total of € 3.500 billion and 190.000 employees, of which promotional banks form an important part. The EAPB is active in all policy fields of concern to financial institutions and financial services, such as banking and banking supervision law, capital markets and securities law, payment systems, money laundering and financial crime, taxation, accounting, company law, consumer affairs, but also EU regional policy and Structural Funds, State aid and competition law and enterprise policy.

LaMoRo, Local Development Agency

Piedmont, Italy

Founded in 1995, 'Langhe, Monferrato e Roero' (LaMoRo) Consortium represents the union of seventy public and private bodies, spread across South Piedmont and joining together to ensure territorial wealth and growth. As LaMoRo operates in rural areas where territorial identity is a resource, all development strategies are carried out combining tradition and innovation, focusing on cultural and historical heritage and on innovative strategies enabling local actors to overcome isolation.
LaMoRo informs citizens, institutions, enterprises and socio-economic operators about the initiatives and financing instruments at regional, national and international level through a monthly newsletter cared by Europe Direct.
The overall objective of LaMoRo's work is the qualification and development of territorial human resources. Vocational guidance and training is based on training seminars with specific themes, in order to support the professional growth of young people searching for a job or employed people, who want to improve their career.
Specific counselling and training services are offered for women careers. The objective is to help women in their job and professional training research, providing them with useful instruments for their professional development and achieving in this way the carrying out of equal opportunities policies.
Support is also provided in terms of planning, managing and monitoring of regional, national and European actions. The specific services provided by LaMoRo in this field are: audit/researches, feasibility studies and surveys realisation, assistance and technical consulting to accede to regional, national and European calls for proposals (in particular application forms and specifications filling in involving financial, economic and socioeconomic aspects), business creation activities consultancy (and self-employment initiatives). Particular attention is given to the implementation of employment of women and young people.

Development Agency of Eastern Thessaloniki 'Anatoliki' s.a.

Central Macedonia, Greece

The need for establishing Development Agency of Eastern Thessaloniki (ANATOLIKI s.a) rose from the special features and growth rate in Eastern Thessaloniki. Eastern Thessaloniki is characterised by a dynamic co-existence of all economic sectors, by an increased housing demand and by the concentration of service activities of the greater area of Thessaloniki also by a fast change in land use and land prices.
The local Authorities of the Prefecture elaborated an integrated sustainable development plan. The participation of all involved stakeholders, agencies, productive forces as well as residents was necessary for the success of the regional plan. The creation of ANATOLIKI s.a. as a development agency, in May 1995, according to the Greek institutional framework for Local Authorities, was deemed an essential tool for the realisation of this goal.
The core emphasis of the company's daily activities is placed on promoting sustainable management of natural resources by means of a balanced development in all economic fields, promoting intrinsic development forces, especially the local human capital/resources, safeguarding the quality of life by promoting projects concerning the construction of the infrastructure, especially for environmental protection, the change of consumption patterns, dissemination of information and cultural development, exchanging know-how and introducing innovative techniques, mainly in production process, administrative systems and public services.
For the achievement of the above goals, ANATOLIKI s.a. participates in trans-national networks and develops international respectively interregional co-operation schemes in order to exchange know-how, develop pilot projects and support international relations.

Finpiemonte S.p.A.

Piedmont, Italy

Microntel S.p.A.

Microntel S.p.A. was founded in 1986 in Turin, providing companies with time and attendance data collection systems.
The company offers innovative tools necessary to manage all information that is fundamental for decision making, namely the collection and visualization of access control, time and attendance and shop floor data.
Following the evolution of the market sector, Microntel has meanwhile directed its strategies towards the provision of advanced hardware and software technologies. Products and services are provided to more than 2500 national clients most of them are among the best national companies.
The company co-operates with technological-strategical partners to guarantee proficient technical and commercial support all over Italy. Nowadays the firm has a strong distribution network all over Italy, with more than 20 branches.
The meaningful growth of the company has also been possible thanks to the financial support of Finpiemonte, which in the last years provided Microntel with grants and loans for productive investments, internationalization plans, quality certification (UNI EN ISO 9001 – 2000) and for its projects in R&D.

Founded in 1977, Finpiemonte S.p.A. is a mixed capital company with a majority share controlled by the Piedmont Region. Its other partners are banks, among which major banks of Piedmont, entrepreneurial organizations, Piedmontese Chambers of Commerce, the Province of Turin, the City of Turin, the Province of Asti, the City of Asti and the Province of Cuneo.
Since its establishment, Finpiemonte has fulfilled the institutional role of operating, with profitability criteria, to implement regional programmes for economic and social development.
The Finpiemonte group today is made up of 55 companies, which it partly owns. They operate in diverse sectors, from credit to innovation, from infrastructure to ecology.
The growing development and commitment of the company's activities have reinforced the role of Finpiemonte as 'development agency' over the years. It functions as a propulsive centre where public and private resources and needs are coordinated to carry out large-scale projects in Piedmont. Planning and organizational capacity, operative flexibility, an agile and highly professional structure, the integration of the public and private sectors, autonomy in the choice of intervention instruments and methods – these are strong points of Finpiemonte, an exemplary company with a public majority, managed according to private-sector criteria and with positive profit and loss results

Foundation of the Valencian Region – European Region

Valencia, Spain

The Fundación Comunidad Valenciana – Región Europea (FCVRE) was established with the aim of bridging partnerships, both public and private, in order to effectively co-operate for the success of European projects. It became a platform for searching partners thanks to its database, with regional or local offices, companies, research and technological institutes.
It has a commitment with co-operation between industrial clusters, chambers of commerce, financial institutions, local development agencies, education and training institutions, research and development institutions and other relevant social players.
In addition FCVRE participates in European projects as a dissemination partner and thus mainly organises seminars and 'Info Days' in Brussels, writes and disseminates press releases and spreads publicity material and brochures about the projects. The results of the projects are presented on various forums: on special conferences related to the topic, in the Committee of the Regions and to journalists.

Dissemination activities have been implemented in various INTERREG IIIC projects, such as: tourisSME, RUISNET, Centurio, FinNetSME, NEAC, Prespective 2007-2013 and TranSEA, an INTERACT project.
The FCVRE collaborates through raising partnerships and spreads project results at a European level. The technical staff and the fully equipped premises are a great asset to organize meetings, seminars, project workshops and presentations to reach the European Institutions. Thus FCVRE is the ideal minor partner for policy relationships. Being a foundation under the dependency of a regional governmental institution a strong basis for relationships with other European regions can be provided which gives a new dimension to the dissemination concept.
In order to accomplish these purposes, the FCVRE offers assistance on EU legislation as well as information on EU call for proposals, grants, funding and business opportunities to both public and private Valencian institutions.

ADE Finance

Castilla y León, Spain

ADE Financiación S.A. (ADEF) was created on 30 May of 2006 as a public company and was succeeding the former partner Agencia de Inversiones y Servicios de Castilla y León. Its capital belongs completely to 'ADE Investments and Services', the regional organization for economical promotion of the region. To facilitate the access to finance and coordinating the public offer of financial products ADEF is aiming at. To this end ADEF has set up a wide range of activities in the region of Castilla y León.
It varies from the promotion to create networks of potential investors and entrepreneurs to finance innovating projects to activities aiming at the stimulation of tailored risk capital, complementing already existing schemes in this field. These activities are joined by the provision of guarantees, subordinated loans or second guarantee systems.
During this short life, ADEF already created a Risk Capital Fund, a R&D Fund and a Second Guarantee Fund with € 4.0 million that will complement the national second guarantee system to support big amount business projects. Besides, ADEF also created the first Business Angels Network in Castilla y León, called BANCAL with actually 25 investors.
For the year 2007 ADEF has planned several different programmes: a guarantee loan programme, with special attention for young entrepreneurs, and businesswomen, actions to develop knowledge based activities as well as R&D loans to promote the less developed areas of the region. ADEF is going to sign a global loan with the EIB of € 30 million.
Another innovation for this year will be a risk capital fund called 'Iberia Noroeste Fund' that will be created in collaboration with the other three regions in the northwest of Spain: Cantabria, Asturias and Galicia, the EIF and JEREMIE to invest in projects in these four regions. Every region and the EIF will invest € 4.0 million. Another € 20 million finance will be provided via the Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative. It will be the first time that four regions of Europe and the EIF sign a fund with this level of mutual collaboration, a pioneering experience in Europe.

Autonomous Region Aosta Valley

Aosta Valley, Italy

GPS Standard S.p.A.

GPS Standard S.p.A. was established in 1985 and is based in Arnad, near to Aosta. The company operates in the security sector – in particular in the creation of perimeter protection systems integrated with the most advanced remote surveillance applications. During 30 years GPS Standard S.p.A. has grown and gained a strong market position thanks to continuous investment in the design and application of the most sophisticated digital and information technology to its products. The GPS Standard engineers experience the complete production cycle, from the design to the production of the different product lines. This process guarantees an ideal customer service in terms of consultancy, training and technical support. Additionally a network of subsidiaries, agents and distributors complements this service by on-site presence at both national and international level.
This was also possible thanks to the financial support of Region Aosta Valley, which provided GPS Standard with grants and loans for its R&D projects, for productive investments and for internationalisation programmes.

The Direction of productive activities and co-operation of the Autonomous Region Aosta Valley is a regional public authority. The authority manages, monitors and controls regional laws that provide industrial and handicraft firms located in the region with financial aids and consultancy services are the fields of activities of this partner.
As far as financial instruments are concerned, the Region provides industrial and handicraft SMEs with loans, grants and guarantees in order to co-finance investment projects and internationalization programmes (participation to international fairs and marketing researches).
Concerning consultancy services, the regional administration, also through its controlled development agencies, provides SMEs with advisory support and grants in order to improve and strengthen the entrepreneurial culture and the managerial skills in evaluating business opportunities.
As Aosta Valley is an Objective 3 region and has also several Objective 2 areas, the Direction of productive activities and co-operation is also managing a significant number of regional projects co-financed by EU Structural Funds and aimed at SMEs such as incubators, revolving funds to finance SMEs investment projects, researches on innovative financial instruments for enterprises, aid to consultancy, tutoring and mentoring services.
The Direction of productive activities and co-operation became legal project member on 1 January 2007. Before this legal partnership Aosta Valley was already actively taking part in the project work as regional authority of Centro Sviluppo which, due to restructuring activities of the development agencies in the region, was liquidated and consequently left the project.

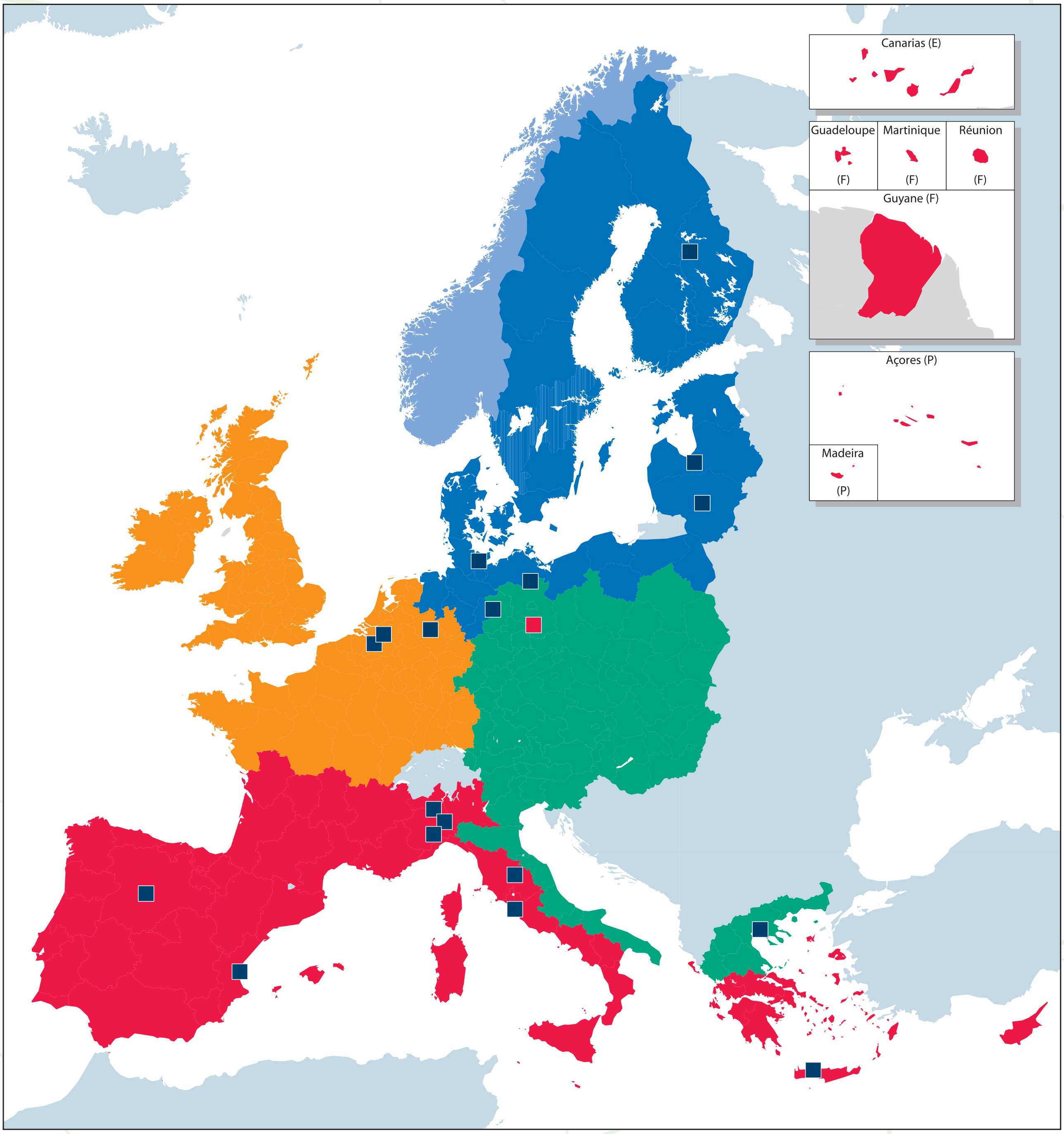


Table 1 – Map of participating partners

FinNetSME – The Associated Partners

Banca San Francesco

Italy

Banca San Francesco Credito Cooperativo (BSF) is a co-operative society established in 1901, by a group of craftsmen, farmers and entrepreneurs. The bank operates in Sicily with 15 branches. In addition to the problems of underdevelopment, the region faces difficulties in dealing with public financial authorities due to problems with the 'out of pocket expenses' of enterprises. BSF is a member of the Italian federation of co-operative credits bank and of the banking group ICCREA holding S.p.A. in Rome. Since 2002, the bank has been involved in the national observatory of the agency for local development managed by Formez to float the project 'Valore impresa' launched by the board of directors of the bank in June 2002. This project seeks to promote the economic development of the Sicilian territory and to offer assistance and management consulting to SMEs with the support of the public authorities. The bank is also partner in many projects to valorise the potential resources of the local territory. It has been involved in international territorial marketing to encourage local enterprises to participate in international promotional events. This activity has been undertaken together with Simest S.p.A. (Italian Society for abroad enterprises) and Institute for the Promotion of Foreign Trade (I.C.E.).

Encouragement Bank of Bulgaria

Bulgaria

The Encouragement Bank has established contacts with EU institutions which provide access to best financing practices for SMEs and successful ways of employing public support structures for SMEs. Established in 1999 as fully state owned institution, the Encouragement Bank of Bulgaria operates on the SME lending market. The bank is the institution of the Bulgarian State, providing financing on market niches, and considered being too risky and/or non-profitable by traditional commercial banks. The bank is called upon to support also the export capacity of the country and to provide the necessary private co-financing under projects, approved for financing under the EU pre-accession programmes (former PHARE and SAPARD). The pursuit of the objectives of Encouragement Bank was made possible with the valuable support of our international partners: the European Investment Bank (EIB; € 10 million credit line), the Council of Europe Development Bank (€ 15 million credit line), Nordic Investment Bank (€ 10 million credit line), KfW (trust management of € 3.7 million), EIF (€ 21 million guarantee facility).
Encouragement Bank is the first selected intermediary under the SME Finance facility of the EIB and European Commission and the SME guarantee facility of the Commission for Bulgaria. In line with its objective to act under the principle of 'additionality' to the other banking market players Encouragement Bank and the Bulgarian State have undertaken a project for the restructuring of the Bank into a Development Bank Group (including Development Bank, EXIM Company, guarantee fund, venture capital fund and other specialized funds). Such a financial institution does not exist in present in Bulgaria. Its establishment is justified by the importance of improving access to finance for the development of SMEs, in particular for start-ups and micro-enterprises, through technical assistance, grants, as well as non-grant instruments such as loans, equity, venture capital and guarantees. The future financial group will follow the best EU practices with proven efficiency, transparency, public operation, market compatibility and State aid compliance.

Finance Wales plc

United Kingdom

Finance Wales plc was created by the Welsh Assembly Government to address the market gap in the availability of growth and development funding for SMEs in Wales. The organisation works by encouraging private sector partners to match public sector support, thereby establishing public/private investment funds. Finance Wales then invests these funds and uses returns to encourage ongoing provision of finance for SMEs through securing additional private sector partnerships to establish further term funding rounds. Finance Wales works in a number of ways to ensure that SMEs have greater opportunities to attract funding in a manner that reflects the requirements faced throughout a typical SME lifecycle. These range from loans to spinout companies from Higher Education Institutions (HEIs) through to equity investments of up to £ 1 million, and include micro-loans of less than £ 10,000 and larger loans of up to £ 150,000. Specifically, Finance Wales focuses on the following areas: start-up and early stage investments, expansion and growth finance, succession-based packages management buy-out or buy-in, syndicating investment opportunities, encouraging private sector investment (Business Angels).

Rural Credit Guarantee Fund

Lithuania

Lithuanian Rural Credit Guarantee Fund (RCGF) is established by the State in 1997 with a share capital of € 1.8 million. RCGF promotes the economic development of the agricultural and rural sectors in Lithuania with the help of targeted financial instruments. RCGF uses the network of banks (banks having the direct contact with the client), and it has signed agreements with all banks in Lithuania. The main activities of the Fund are: credit guarantee issuing and administration of state supporting aid. RCGF issues guarantees for long-term and short-term credits. The Fund offers its clients credit guarantees, thus providing an opportunity for business entities lacking collateral to finance investment projects or supplement current assets. The beneficiaries will be classified according to rating scales, which enables a systematic monitoring. RCGF beneficiaries of the scheme are farmers and individual entrepreneurs (self-employed), agricultural SMEs, processing companies and SMEs acting in alternative to traditional business areas. The Fund is additionally involved in complementary activities to the credit guarantees: administration of some state-supported aid to guarantee beneficiaries – interest subsidies on the bank loan, compensation of the guarantee fee, subsidy of the insurance premium for the property mortgaged to the bank. Conclusion: The instrument proves to be an effective way of using public money to improve macro-economic effects on the agricultural sector. It addresses the problem of security, whereas commercial banks now have the opportunity to work with agricultural and rural business projects as well as start-ups normally associated with higher risks.

Ministry of Economy Brandenburg

Germany

SMEs are the backbone of Brandenburg's economy, and the driving force for the economic development. They play an important role in the process of economic restructuring. The Brandenburg Government therefore attaches great importance to supporting SMEs. In October 2004, the Minister of Economy, following the Governments policy address, established a SME project group. This group helps the SMEs cope with economic developments. Its task is to advise the Minister on issues affecting the development of SMEs and to suggest measures to support and facilitate their development and growth. The project group notes that, apart from public funding, SMEs should first of all understand how to approach banks to obtain finance for their business activities. Classic financing instruments continue to play an essential role across all company sizes and industries. Internal financing and bank loans are by far the most important forms of financing. Not least due to growing difficulty in accessing credit, many companies are aiming to apply non-traditional instruments more often in the future, in order to gain diversity in their funding sources. Most of the companies have realised how important internal bank ratings are becoming for corporate finance. Yet, many companies are unaware of their own rating especially small companies are ill-informed in this regard. In conclusion, the group believes that the knowledge gap is the most important reason for the difficulty in borrowing. As to the fact that the broad-scale use of internal bank rating tools is now being applied for small companies as well, they have to understand the banks' transparency requirements, which are needed for meaningful risk analysis and for calculating risk-based financing conditions. In order to narrow the gap in the existing loan market and to facilitate SMEs to widen their knowledge on various financing means, the group elaborated a set of recommendations to the Ministry.

FinNetSME – The Website

The project website www.finnetsme.org is FinNetSME's pivotal information tool. It provides information on the FinNetSME itself, the project partners, on the regions participating in FinNetSME, the network events, including all presentations, and makes FinNetSME's newsletters available as well as this practice guide. The state of the art of the work undertaken in FinNetSME was visible at www.finnetsme.org during the entire project duration. What is more, the project website gives access to the FinNetSME database for registered users.

FinNetSME – The Database

The FinNetSME database, the network's main working tool, contains the complete range of data and information relevant to FinNetSME's work comprising the financial and non-financial support measures accumulated and analysed by the network and the models it developed. 73 financial and 23 non-financial instruments for SME promotion of which 29 are related to the European Structural Funds are contained in the database. It thus grants access to information about financial and non-financial SME promotion activities offered – co-financed by ERDF, ESF, EAGGF and FIFG – provided in the different EU partner regions.
As this information on promotional instruments should be considered in the relevant context, all entries on support measures are linked to information on the institution providing the support, including the contact details of the experts in charge – resulting in a list of more than 80 contacts in the EU – on the region in which the instrument in question is offered and, if applicable, on complementary financial or non-financial support measures. Finally, 107 links to supporting institutions, banks, development agencies, incubators, science and technology parks, as well as business laboratories and consultancies are provided in the link area. A filtering mechanism provides easy access to the information required.
The database is accessible via the project website www.finnetsme.org upon a short previous registration. An account is easily created, and after filling out an online registration form the user gets his personal identification (login and password) via email.
After the project closure the database will remain operative and continue to be managed by the European Association of Public Banks (EAPB).

Regional Value Chain

Easy accesses to finance as well as other SME supporting schemes are the key factors in either setting up or developing a business. Unfortunately this access is hampered by a number of market failures. The FinNetSME partners have recognised the interest of value chain analysis as it helps them identify missing links between the different components of the value chain and afterwards to stress the need of a good 'product mix' support scheme combining financial and no- financial tools.

The reference to a value chain to analyse and assess public policy delivery mechanisms is a useful tool since it is an easy way to identify the weaknesses or the missing links of the policy set up. It has to be stressed that the value chain described below is an ideal model which may not exist in a region, but regional authorities can benchmark themselves to this concept in order to improve their current practices.
When addressing the issue of access to finance for SMEs, regional stakeholders should think and invest in a regional financial and equity value chain to assess and overcome the problems faced by SMEs both from the demand and the supply side point of view.

On top of the difficulties in the regional value chain having effects to both, the supply and the demand side the partners found an asymmetry of expectations between investors or lenders and entrepreneurs. In addition financing providers are facing difficulties to convince the management team of the SME looking for funding to enhance their management quality.
On the demand side, to formulate their business ideas and present a proper business plan are the problems entrepreneurs are facing when they want to set up a business. Having successfully overcome these initial challenges they still have to identify the most suitable service providers and to persuade them that his or her business idea is innovative and will match the expected market acceptance. Also entrepreneurs in SMEs – which are mostly family owned – are very reluctant to share his/her management power, making it more difficult to obtain VC.

The supply side shows a high fragmentation of the finance providers that do not co-operate as well as conflicting interests among the different types of investors.
Other problems from the supply side are:

- gap in the size of amounts available
- lack of critical mass of money
- weakness of investment readiness schemes
- absence of added value support services or sophisticated financial tools
- lack of exit opportunities for certain types of investors
- weakness of the perception of the business model of the different players (need of intermediation schemes)

Regional Value Chain

Any regional financial and equity value chain is composed of the following four elements (see Table 2):

1. A set of public financial instruments such as grants, loans, guarantees, loans on trust, proof of concept of repayable advances

2. A set of private financial instruments such as loans, micro-credits, leasing, factoring, export credit

3. An equity funding pat with sophisticated investors such as friends and family investors, business angels, seed and venture capital funds, corporate venturing, spinout/spin off funds, mezzanine funds, initial public offering (IPO) players
   It is useful to try to point out that very few enterprises are able to attract venture capital funding (± 7,000 enterprises per year in the EU27) or to be introduced at any type of stock market (a few hundreds a year in the EU27). This means that private and public finance remains the major source of funding for most of the regional SME

4. Prerequisites
   The efficiency and effectiveness of the value chain will depend on four types of prerequisites:
   - Attitude and involvement of risk taking investors: Both the private and the public sectors have to create or invest in equity tools.
   - Infrastructure: Enterprises have to benefit from business angel networks as well as of incubation facilities.
   - Intermediaries: Organisations such as Regional Development Agencies and consultants can play an important role in helping SMEs access funding sources. They can indeed provide non-financial support which improves the quality of the demand for funding. Investment readiness schemes start to demonstrate good efficiency.
   - Human capital: Professional fund managers and State aid Regulations need to be available in order to sustain the different equity instruments and to create new public instruments complying with the EU legislation.

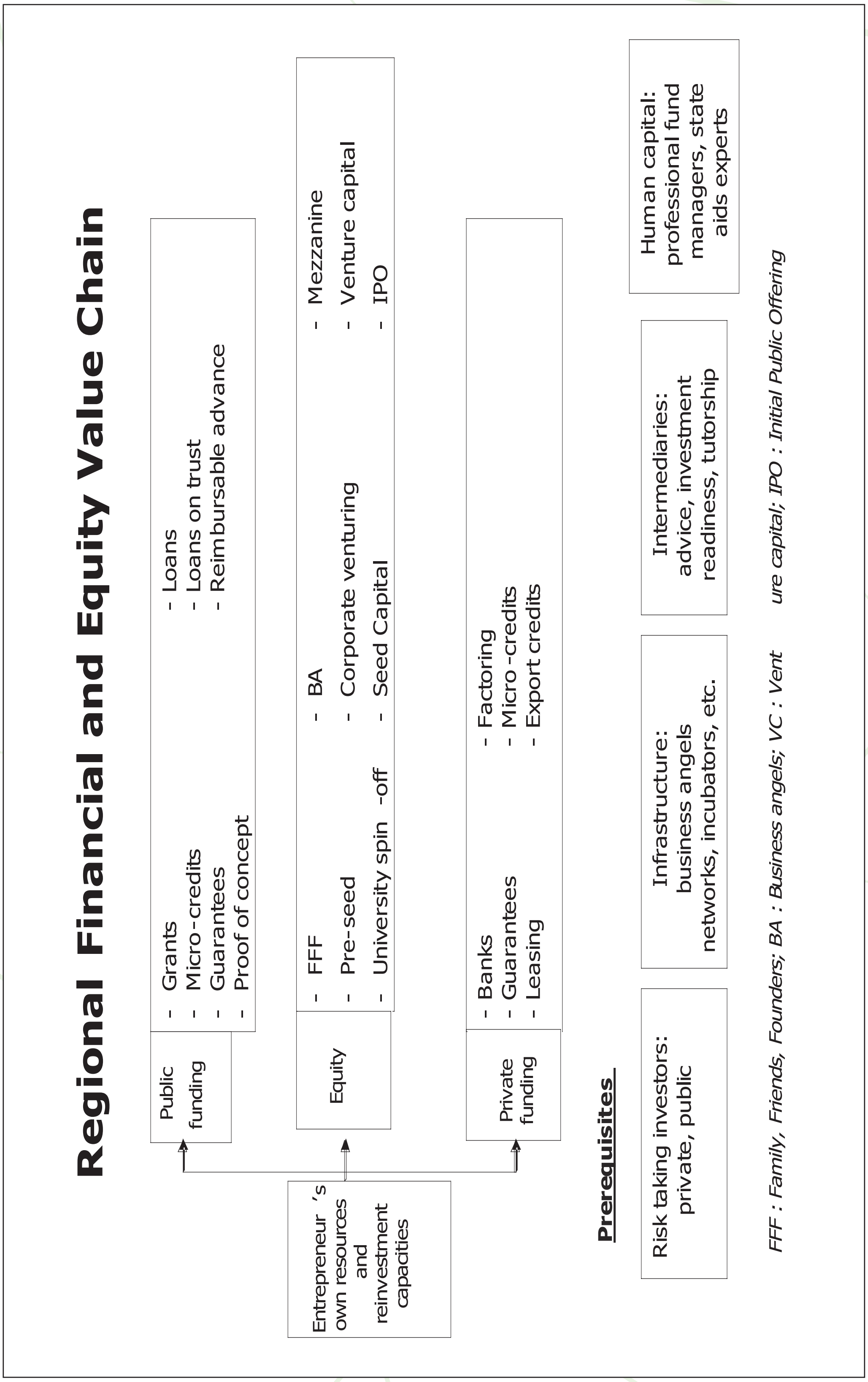


Table 2 – The Regional Value Chain

Regional Value Chain

From the overview of the 'portfolio of activities' of the FinNetSME partners, it appears that there is a high concentration on just a few components of the value chain, like grants, loans and guarantees. Just a few partners have already developed experiences in equity finance (like IB-SH, providing 'VC Fund SH' – a mezzanine product with 75 % guarantees by the regional government for the national co-finance – in the region of Schleswig-Holstein), investment readiness (like IBB, providing a business plan contest including venture capital track for 'investment readiness' in the States of Berlin and Brandenburg) and business angel supports (like Finpiemonte, IB-LSA and ADEF working strongly together with Business Angels Networks).

Even if the value chain concept is an ideal representation of a strong regional support system, it is possible to identify regions where the offer of funding to SMEs is very close to that model as the following examples show:

In London, for instance, the Greater London Enterprise Development Agency has developed a complex set of instruments named:

- Small Business Loan
- One London Business Angels
- Seraphin Fund
- GLE Development Capital
- Factoring Finance

as well as a mentoring and investment readiness programme.
The region of Wales (UK) re-organised all its financial services around a single organisation called Finance Wales to provide community loans amounting to £ 5,000 – 50,000 for the social economy, unsecured loans without interest of up to £ 25,000 for university spinouts, VC, mezzanine, micro-credit and – with Xenos – its own business angels network.

In other Member States, identified examples are diversely integrated, as illustrated by the example of Rhône-Alpes (see Table 3). 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 Creation's organisational chart 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 and advice services tailored to individual funding sources.

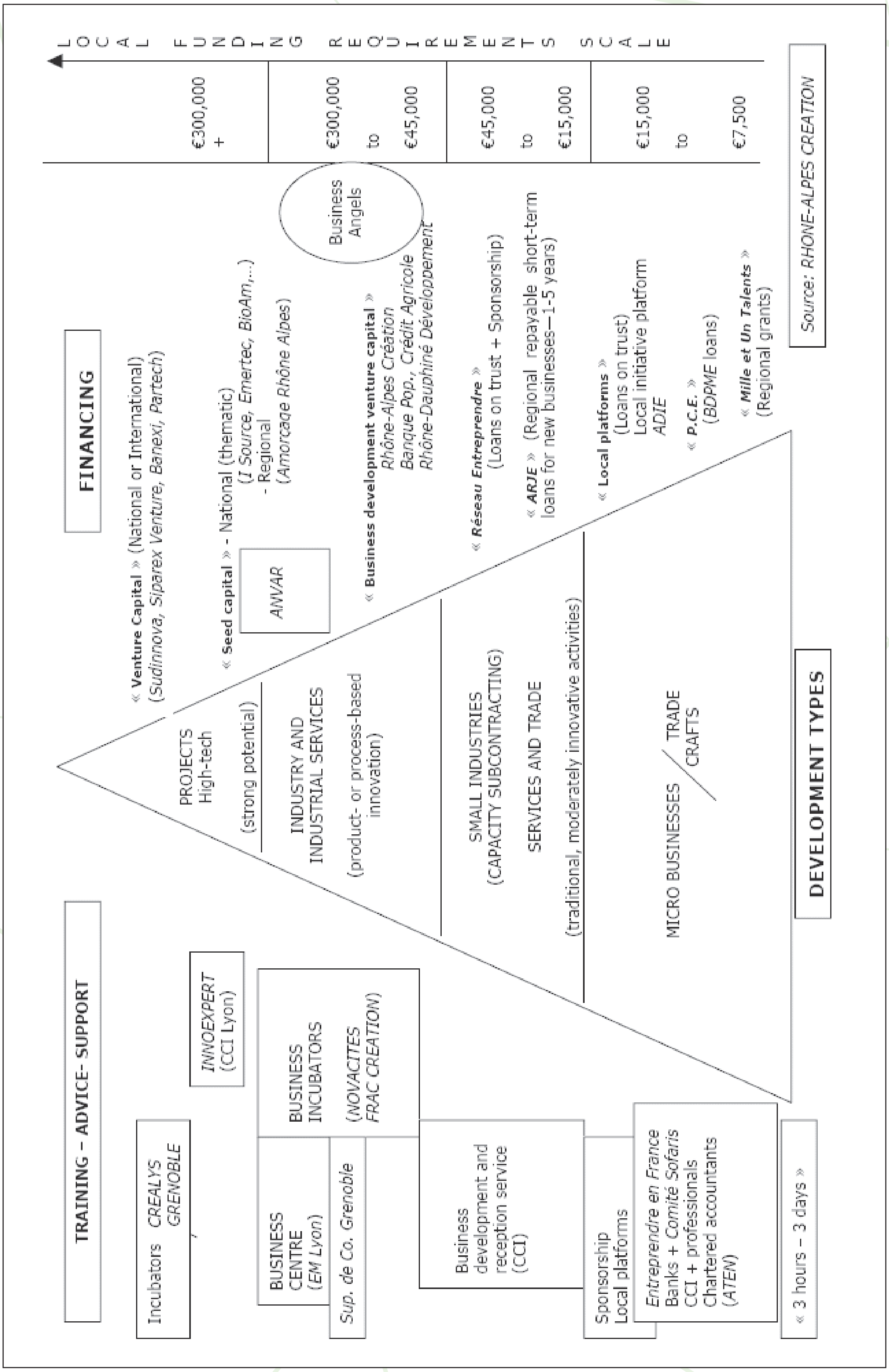


Table 3 – Business Development Provision in Rhône-Alpes

Early Stage Finance

The issue of financing an SME in its early stages of development is considered as critical for the promotion of entrepreneurship and development in the EU. Therefore, the FinNetSME partners set up the 'Early Stage Finance' working group, which focused on the collection of experiences and best practices on early stage finance, as well as on the creation of innovative models to fulfil the financial requirements of start-ups.

Starting from the comparison of experiences of all partners involved in the working group, a first brainstorming lead to the identification of different crucial problems that SMEs have to face in the critical phase of early stage finance. The problems were collected and divided into three main categories: demand side, supply side and business environment.

As far as the first category is concerned, SMEs are often incapable of accessing finance due to their lack of sufficient collateral, their weak capital base, the fact that their entrepreneurial skills are not yet fully developed and their access to new markets is limited.
Regarding the second category, financiers are often reluctant to finance young SMEs due to their increased credit risk, their low equity capital, their inability to make plans on long-term development, the lack of exit routes for investors etc.

Last but not least, relating to the third category, the environment SMEs operate in, whether it is the market or the public support system, often discourages young entrepreneurs to realize their entrepreneurial ideas. The high degree of bureaucracy, the difficulty in finding business angels and the fact that services offered by public support agencies often do not correspond to SMEs needs, can be de-motivating for start-ups.

The group decided to adopt an integrated methodology to face and solve the identified problems through the following approach: the combination of the best existing instruments designed for SMEs in the early stage finance. The work was focused on three specific categories of SMEs, innovative, traditional and special SMEs target group (youth, women, people with disabilities etc.) in order to 'create' a model for each one of them: every model was thought to be the most suitable, clear and simple to satisfy the SMEs major needs. One of the the three models developed, namely the 'Innovative SMEs Model', will serve to describe the process and the outcomes in this guide.

The design of new financial instruments was not attempted, as due to the mass of instruments already in existence the potential for the invention of genuinely new instruments was rather limited. On the contrary, the problem was spotted on the fact that SMEs see a large share of early stage financial instruments as unclear and complicated, and they have difficulty in selecting the ones who will optimally fulfil their needs. Therefore, the task of the 'Early Stage Finance' working group was primarily the search for the best ways to combine instruments to suit specific needs.

Another prime objective of this group was the exchange of knowledge and experience of regional financiers. By pooling their different aspects and know-how during the working group meetings, regional financiers were able to benefit from the expertise of their colleagues in other regions and enhance/update the financial instrument they offer to their clients – the SMEs located in their own region.
A further activity carried out by the working group was the identification of regional Best Practices that were collected and made available in the FinNetSME database. These findings were gathered in the following 'Early Stage Finance Table' (see Table 4).

EARLY STAGE FINANCE MODEL					
	ISSUE	INSTRUMENTS	SOLUTION	FUNDING	PRACTICAL IMPLEMENTATION
DEMAND SIDE	**Lack of collateral** (Start-ups do not fulfill the loan collateral requirements)	**a. Guarantees**	Availability of various different and easy-to-understand guarantee schemes for different SMEs needs.	EU Funds (ERDF) National Funds	**<u>Best Practice:The case of the Credit Guarantee Fund of Greece (TEMPME),</u> www.tempme.gr** TEMPME is a Societe Anonyme with a share capital of € 240 million (67 % ERDF, 33 % Greek State). It offers guarantees and counter-guarantees to the Greek Financial System on behalf of small enterprises employing up to 30 people. The guarantee rate is between 40-70 % of the loan and the guarantee fee is approximately 1 % of the outstanding loan amount annually (De minimis rule applies).TEMPME cooperates with 3080 branches of Commercial Banks all over Greece. The procedure to apply for a guarantee is as follows: a. The SME visits the bank b. If the bank considers the business plan as financially viable, both the bank and the SME fill in the application form for TEMPME. c. In case of positive response by TEMPME, the guarantee contract is signed by all partners (SME, TEMPME, bank). Five different guarantee schemes are offered, depending on the SME's turnover number of employees, loan amount etc. Regarding TEMPME's benefits to SMEs apart from easier access to finance, many banks offer decreased interest rates for loans combined with TEMPME guarantees.Banks manage to reduce the undertaking credit risk, achieve higher capita
		b. Grants	Tailor made grants for start-ups, which will partly cover the initial SME investment	a. National public funds b. EU Structural funds	**<u>1. Best practice: 'Youth' & 'Women Entrepreneurship', GREECE,</u> www.eommex.gr** This grant is designed to support the creation of new SMEs owned by young people or women, in the areas of industry- processing, trade, services or tourism. The grant covers 50 % of the investment. At least 20 % of the capital has to come from own funds, which leaves a 30 % for bank loans. The total investment should not be higher than € 150.000 for SMEs with processing activities and not higher than € 100.000 for all other activities. To apply, all candidate SMEs have to submit a business plan to the Hellenic Organization for SMEs and Handicraft. (The form of the business plan is provided, in order to facilitate SMEs and for comparability reasons). The assessment process lasts approximately 3 months, during which SMEs can commence their investment. For those SMEs whose business plans have been approved, the grant has the form of reimbursement and will be paid in two phases: half of the amount will be reimbursed half-way through the investment, and the remaining half with the completion of the investment. Before the reimbursement, public auditors verify that the investment realized is consistent with the approved business plan and t
				Regional funds	**<u>2. Best practice: Investment subsidy under the joint task 'Improving regional economic structures' (GA), GERMANY</u>** The subsidy is granted to particularly worthy investment projects of supraregional relevance in manufactoring. It is intended as an incentive to create and protect permanent and qualified jobs. Investments in the following projects are eligible for support: establishment of a permanent establishment, extension of a permanent establishment, reorganization or fundamental rationalization/modernization of a permanent establishment, purchase of a permanent establishment that has been or is threatened to be shut down. Conditions: non-refundable subsidy (proportionate funding); amount up to 25 per cent of the costs eligible for support; for establishment projects up to 35 per cent. The value of the subsidy can be increased by 15 per cent for small and medium-sized enterprises (SME). This increase is limited to an eligible investment amount of up to € 2 million. The maximum value of the subsidy differs from region to region and depends on the priority rating (1-3) of the respective region. For more detail see appendix 1 and http://www.sab.sachsen.de/servlet/PB/menu/1024772_l1/index.html
	Lack of collateral and Weak capital base (No guarantees)	**c. Loans on trust**	**Provision of funding without interest for the entrepreneur**	• Public national budget • Regional funding • Banks Sponsors	**<u>Best practice: Loans on trust through the France Initiative Ré seau (www.fir.asso.fr)</u>** 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 has been granted to 49 100 individuals which become 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 (European Social Fund) 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. The rate of reimbursement of the loans is very high. (For more details, see Appendix 2. FIR)

Table 4 – Early Stage Finance Table

EARLY STAGE FINANCE MODEL					
	ISSUE	INSTRUMENTS	SOLUTION	FUNDING	PRACTICAL IMPLEMENTATION
DEMAND SIDE	**Weak capital base** (SMEs do not have enough capital at their disposal and are often reluctant towards equity financing)	**Combination of financial & non-financial support**	**The existence of bodies wich provide funding as well as technological infrastructure & non-financial support**	Regional funds	**Best practice: The Filas Business Lab, Lazio Region, ITALY, www.filas.it/eng/generale.asp?id_menu=13** The Business Lab represents an innovative model for technology transfer to create start-ups. Through the identification of the key technological areas and needs of SMEs, the Business Lab increases the creation of start-ups and the success of innovative new technology enterprises in Lazio providing financial and legal assistance, transfer of technology and business training for researchers. The Business Lab stimulates and sustains SME competitiveness; creates a network between researchers (universities, research centres, CNR, etc.), enterprises and the financial system; stimulates enterprise spin-off; generates highly qualified employment opportunities at the regional level. The maximum financial support amounts to € 122,000 per project. Business Lab projects have a maximum duration of 12 months. Business Lab support mainly involves providing an enterprise, university or research centre with the opportunity to transform an innovative idea into a new enterprise through a mixture of technical and financial tools, including: a. Reimbursement of analyses, reports and business plan expenditures b. Scientific tutoring and business assistance c. Support in locating venture capital for new enterprise creation d. Dissemination of results through international workshops, events and meeting with key operators e. Scholarships for € 24,000 per year f. Reimbursement of travel, bibliography and research material expenditure g. Legal and organizational consultancy
	Lack of entrepreneurial skills (Poor managerial skills, lack of understanding of the different sources of finance, inability to produce consistent and convincing business plans and present themselves effectively to banks and potential investors)	**Non-financial instruments** a. Business Plan Competition	Businessplan Contest	In an industrialized region with about 5 million inhabitants every year about 250-500 T € will be needed for financing the prizes, the organization	**Best Practice: 'futureSAX', GERMANY (http://www.futuresax.de)** Businessplan Contest for ambitious start-ups and young SMEs. The businessplan should deliver information about the calculation and the financing (size: about 30 pages). For every phase there should be prizes to be awarded (example: 1st phase 10 x€ 1000, 2nd phase 10 x € 1500, 3rd phase 1 x € 15000, 1 x € 10000, 1 x € 5000). The supply also includes educational classes all over the year, a feedback from qualified judges and and individual coaching and advising is needed. The businessplan contest year is divided in three (or two) phases; in the first phase a basic concept is to be drawn up; the concept must include the idea and the customer´s benefit (size: about 7 pages); in the second phase a draft of a business plan that contains the strategy for tapping the market potential is needed (size: about 20 pages). In the third phase a detailled business plan is asked for. The prizes should be awarded in a public event with the presence of high-level speakers and the presenation of the winning ideas which is a good opportunity for the prize-winners for publicity.
		b. Investment Readiness Programmes	Education and awareness raising programmes	European, national or regional funding	**Best practice: Investment Readiness Programmes** Start-up service providers (such as BAN, RDA, science park or incubator) make a pre-selection of good projects and good business models. The entrepreneur is confronted with a panel composed of local financial stakeholders (BA, VC, bank, institutional investor) all of which explain how they make their investment decision, based on which criteria. The entrepreneur goes back to his business plan and modifies according to the new knowledge. The third phase rests on the presentation by the entrepreneur of his idea to the panel, who will then make the final recommendations as to the type of financing needed by the company and the way in which the business plan should be presented to be attractive to that particular type of investor. Implementation at regional level in order to be in tune with the needs of the local entrepreneurial pool. www.exemplas.com Fit4Finance Programme
		c. Mentor networks	Networks of people who have 'been there, done that' and answer questions entrepreneurs have when setting up a business.	European, national or regional funding	**Best practice: The Alchemists Programme at Finance South East http://www.financesoutheast.co.uk/desktopdefault.aspx?tabId=394** The Alchemists are a select group of individuals invited to participate in a club that seeks to stimulate the growth of early stage enterprises. In partnership with Universities and Enterprise Hubs in the region, the Alchemists gain access to exclusive opportunities to mentor and/or invest in enterprises with leading edge technology. The Universities and Enterprise Hub network form a unique collaboration in support of the Alchemists network and they are integral to identifying and putting forward technology and knowledge based businesses with funding and mentoring requirements. Member involvement is largely governed by attendance to the The Alchemists quarterly events that run from 5pm at partner locations. A typical event would include: • High profile guest speaker chosen from successful entrepreneurs, politics or academia • A business plan fair showcasing 4 - 6 presentations from some carefully sceened enterprises • A drinks reception providing the forum for members to meet fellow members and their guests There is also a Member's Only annual dinner, invitations to the full programme of Enterprise Hub events and 'tours' to university departments.

EARLY STAGE FINANCE MODEL					
	ISSUE	INSTRUMENTS	SOLUTION	FUNDING	PRACTICAL IMPLEMENTATION
SUPPLY SIDE	**Lack of collateral** (Increased credit risk for banks when they provide loans to young SMEs with weak collateral position)	**Debt instruments** **a.** Guarantees Institutions & Schemes	Well-functioning guarantee institutions offering guarantees to SMEs	a. National public funds b. EU Structural funds	**2. Best Practice:The case of Investments & Business Guarantees of Lithuania (INVEGA), www.invega.lt** Investment & Business Guarantees (referred as INVEGA) is an institution, established in Lithuania in 2001. INVEGA offers guarantees on bank loans to SMEs, covering up to 80% of the agreed loan amount. The guarantees shall be provided to credit institutions that have concluded the cooperation agreement with INVEGA. The guarantee is provided on condition that the business plan or investment project, for the implementation of which the loan is required, has been accepted by INVEGA as financially feasible (ensuring payback) and worth crediting. INVEGA provides guarantees on loans that meet the following conditions: • The maximum loan amount – LTL 2 million (~EUR 579,2 thous.) equivalent; • The loan currencies – LTL, EUR and USD; • The loan must be utilized for investments or working capital for the development of SMEs (under EU definition but with less then 100 employees) Apart from offering guarantees on SMEs' bank loans, INVEGA also administers partial payment of loan interest to SMEs . The institution's funds consist of income from the abovementioned activities (mainly from the guarantee fee and incomes from the invested share capital of LTL 20 mio (~EUR 5,79 mi
		b.Micro-credit	Debt instruments	National or regional funding.	**Best practice: the case of FINNVERA, FINLAND, http://www.finnvera.fi/index.cfm?id=3** A number of semi-public organisations have specialised in micro-credit provision. This is namely the case of FINNVERA (FIN). Finnvera plc grants loans to enterprises and to entrepreneurs, and guarantees and export credit guarantees to enterprises and to financiers. Finnvera grants approximately 3800 - 5500 micro-loans annually. The loan portfolio of micro-credits today exceeds 12,500 loans. The clientele of Finnvera today extends nearly to 26,000, of which over 80% are micro-enterprises.
	Weak capital base (Increased credit risk for banks when they lend new SMEs with low equity capital)	**Equity Instruments -Private Equity Funds**	Equity Instruments	National funding, private investors.	**Best practice 1: Fonds Communs de Placement dans l'Innovation, FRANCE** 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. Minimum 60% of the assets of such funds have to be invested in innovative enterprises. As of 31 December 2003, the managers 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" (http://www.agfprivateequity.com/connaitr/produits/index.htm) • OTC Asset Management's "OTC Innovation 3" (http://www.otcam.com/fonds_geres.htm).
		Equity instruments - Venture Capital	Regional Venture Capital	Regional funds	**Best practice: Filas Venture Capital, Lazio Region, ITALY, www.filas.it** Already established SMEs or start-ups (as by EC regulation) that want to undertake activities with a high technological and innovative content and that need to initiate large scale processes for the renewal and/or improvement of their processes and/or products can go for this VC. Minority shareholdings and convertible loans (max. amount does not exceed 49% of the equity increased by reserves and/or re-evaluations; max. duration 5 years) in venture capital, for the creation of new companies or the increase in equity of an existing company. Contribute to the creation and consolidation of SMEs in Lazio that are characterised by a strongly innovative approach. Maximum financing can not exceed 50% of the investment. The beneficiary may request a 50% advance on the allocated sum if backed by a bank or insurance guarantee.
			b.Guarantees for business angels	National funding	One way to encourage business angel investing is by providing guarantees on informal investors investmentss. Where these types of guarantees do not exist, a reduction of the income/revenue taxation on capital loss is the most efficient instrument. **Best practice: Partial guarantee scheme for business angels: tool to facilitate investments in Walloon SMEs, BELGIUM** The cover of Sowalfin will relate to 50% of the investment carried out during the first three years, to go down to 40% the fourth year and 30% the fifth year. The eligible investment (acquisition of a holding in capital or subordinated loan) with this public guarantee will be at least of 25.000 EUR and to a maximum of 300.000 EUR per enterprise. (For more information, see Appendix 4, Sowalfin)
		Equity Instruments c. Co-investment Funds			Angel investment can be encouraged by helping BANs and similar market places to carry out educational programmes for investors or entrepreneurs. Moreover, by providing the appropriate framework and guidelines for co-investment funds and syndication opportunities policy makers will increase the flow of finance reaching start-up enterprises. **Best practice: London Seed Capital linked to London Business Angels, UK, www.londonseedcapital.com** London Seed Capital Limited ('LSC') is a single purpose, ten year fund. £4,650,000 has been invested in it by the Small Business Service as part of the Government's Early Growth Funding initiative and a further £150,000 is pledged for co-investment by the fund management team and Investment Committee. LSC is only able to invest where its investment is at least matched by business angels. It can invest up to £465,000 in any one company with a maximum of £100,000 in the first round. LSC operates in conjunction with the London Business Angel network ('LBA') through which the majority of the required matched business angel investment is likely to be sourced. It is an essential ingredient of LSC's investment model that as part of the business angel syndicate with which it is investing there is a lead business angel investor with some interest in LSC anticipates selling its shares in any given investment within a three to five year time frame, either through a trade purchase of the investee company, a share buy-back, or througł (For more information, see Appendix 5, LSC)

EARLY STAGE FINANCE MODEL					
	ISSUE	INSTRUMENTS	SOLUTION	FUNDING	PRACTICAL IMPLEMENTATION
SUPPLY SIDE	**Risk aversion from banks** (Low creditworthiness of SMEs directs banks towards a more strict risk policy)	**a. Debt Instruments** - Loans	Loan in Cooperation with commercial bank with additional incentive for commercial bank to get engaged	a 2) Loan of development bank: Capital market or any other source of finance (some promotional funding sources may not allow debt rescheduling as a purpose of the loan); in the case of Schleswig-Holstein: Capital Market or KfW	**Best practise: Kooperationsdarlehen, region of Schleswig-Holstein, GERMANY, www.ib-sh.de/103/** - The total amount of financing requirement of the company is split up in two equal loan amounts (one loan awarded by the commercial bank, the other by the development bank – each of them takes over the risk for their part), - Loan can be awarded for initial financing and/or debt rescheduling - Market interest rate (the same for both loans), - Product available only for credit rating grades 1-7 (out of 15) Development bank sets minimum margin in accordance to credit rating grade. The difference between the interest rate agreed with the SME and the minimum margin of the development bank is divided by two and one part of it is passed on to the commercial bank as a handling fee. The handling fee for the commercial bank can be regarded as a waiving of margin of the development bank. Agreements with commercial banks should be made on practical issues (i.e. administration of colleteral) in order to reduce time and effort for the development bank. Regarding collateral the commercial banks loan and the development banks loan are on equal terms.
	Risk aversion from banks (Low creditworthiness of SMEs directs banks towards a more strict risk policy)	b. **Grants**	**Grants for investment projects**	Regional Funds	**Best practice: Investment subsidy under the joint task 'Improving regional economic structures' (GA), (http://www.sab.sachsen.de/servlet/PB/menu/1024772_l1/index.htmll), GERMANY** b) Grants for investment projects could be an adequate instrument for fostering the willingness of the banks for participating themselves in financing the SMEs. The level of the grants should be dependant on the size of the applying enterprises, on the regional needs and the job effect of the projects. As grants should only be an incentive for further investments just that part of the investments should be supported that exceeds the amount of the normal amortisations. Eligible Investment projects could be the establishment of a permanent business plant, the extension of a permanent establishment, the reorganization or fundamental rationalization/modernization of a permanent establishment or the purchase of a permanent establishment that has been or is threatened to be shut down.
	Lack of exit routes (Investors are reluctant to invest on new SMEs, as often there is no clear exit path)	**More fluent capital market Financial Supply Chain**	Better exit mechanisms outside trade sale and MBO		**Best practice: the Alternative Investment Market, UK** The Alternative Investment Market in the UK is one illustration of successful exit routes for performaing start-ups and their investors. AIM gives companies from all countries and sectors access to the market at an earlier stage of their development, allowing them to experience life as a public company. Since AIM opened in 1995, more than 2,200 companies have been admitted and more than £ 24 billion has been raised collectively. http://www.londonstockexchange.com/en-gb/products/companyservices/ourmarkets/aim/ (See Appendix 8, AIM) The London Stock Exchange announced in October 2005 during the UK-EU Risk Capital Summit (www.riskcap2005.com) that the AIM initiative was going to be extended to european companies. http://www.londonstockexchange.com/NR/exeres/BBD76C05-9749-458D-B25C-000619A7A1A6.htm
	Difficulty in finding business angels	Better visibility of Business Angel Networks	Awareness campaigns	National and local authorities	Awareness raising near all actors concerned with enterprise creation of economic role of business angels and role of matching platform of business angel networks. **Best practice: Technopartner, NETHERLANDS, (http://www.technopartner.nl/technopartner/menu/technopartner/foreignvisitors/technopartner)** Technopartner in the Netherlands is helping the Ministry of Economy and Industry to promote the concept of angel investing and investment readiness across the country, with the help of the main BAN in the country, NEBIB (www.nebib.nl) TechnoPartner encourages and helps people who want to start their own business in Holland, based on a technical invention.
	Public support agencies	**Non-financial Instruments** - More efficient public support	The existence of bodies wich provide technological infrastructure, information, entrepreneur support to research, high technology,	· National Funding · ERDF funding	**Best practice: The Aosta Valley Incubators, Italy** Following best practices all over the Europe the Incubators (with small and flexible rooms) have to be focused on specified sectors: in fact in Aosta Valley there are two incubators that host innovative SMEs operating in the ICT industry. The incubators provide the enterprises not only with physical spaces, but also advisory and financial services; logistic and tutorial services are co-financed at 50 % by the ERDF.

EARLY STAGE FINANCE MODEL					
	ISSUE	INSTRUMENTS	SOLUTION	FUNDING	PRACTICAL IMPLEMENTATION
		agencies	business plans, submission and negotiation for funding, mentors etc	Self-financed	**Best Practice: Development agencies, Region of Central Macedonia, GREECE** Regional Development agencies aim to the promotion of economic, social and cultural development of the region. In the Region of Central Macedonia there are 9 development agencies. The website links are: www.aneth.gr, www.anhma.gr, anki@kil.forthnet.gr, pieriki@otenet.gr, www.anatoliki.gr, www.aneser.gr, www.anetha.gr, www.anpe@pel.orthnet.gr, www.anae.gr. Their subject is the provision of information, the support to entrepreneurs to make a business plan, the support for submission and negotiation for funding, mentoring etc. Beneficiaries are all regional SME's.
ENVIRONMENT	**Public support agencies**	**Non-financial Instruments** - More efficient public support agencies	The existence of bodies wich provide technological infrastructure, information, entrepreneur support to research, high technology, business plans, submission and negotiation for funding, mentors etc	EU (ERDF) and national funding	**Best practice: Center for Entrepreneurial and Technological Development (K.E.T.A.-KE.MAK.), GREECE, www.keta-kemak.gr** Centre for Entrepreneurial and Technological Development (K.E.T.A.-KE.MAK.) - is a state non-profit organization, which has been established to aid business activity in the region of Central Macedonia. The KETA-KEMAK has been selected by the Ministry of Development for the materialization of the action 1.4.1. Business Programme 'Competitiveness' (Growth of structural supportive network for Small and Medium Enterprises). The Centre is financed by the European Union (ERDF) and the Greek State. The provided services are: a. Briefing, information and cultivation of the entrepreneurial spirit within the companies and the population of the region of Central Macedonia. b. Observation of the Small and Medium Enterprises' Competitiveness. c. Individualised support for the business world from business consultants on issues of organisation, modernisation, exploitation of resources and export orientation. d. Organisation of the provision of consultancy services. e. Mediation and exploitation of financial instruments offered by the financial market. f. Support the export orientation of business.
				Self-financed	**Best practice: Thessaloniki Technology Park (TTP), GREECE, www.techpath.gr** Thessaloniki Technology Park (TTP) was established in 1990, by the Chemical Process Engineering Research Institute (CPERI), one of the Institutes of Foundation of Research and Technology Hellas (FORTH) to meet the need for a greater exchange of ideas, people and facilities between universities and industry. Its activities include the following: 1. Dissemination and exploitation of research results. 2. Acting as industry-research liaison. 3. Assistance for technology transfer agreements and partner searches. 4. Organisation of seminars and workshops promoting new technologies as well as EU & national programmes. 5. Participation in research projects related to technology transfer.

After completing the collection of financial products designed for providing funding for start-ups all around Europe, group members worked on innovative ways to combine selected financial and non-financial instruments, in order to address the needs of start-ups.

Regarding innovative SMEs, a flow chart describing the step-by-step financing of an innovative SME was designed. This ideal typical, integrated support chain commenced with financial & managerial support provided by a business lab, after which the SME would be ready to compete in a business plan contest. Once the business plan is concrete, the SME can benefit from the support of a one-stop shop for information on how to get the business running, while it could also be hosted by an incubator, profit from the know-how of mentor networks or participate in an investment readiness programme. As the SME develops and strengthens its position in the market, it can apply for financial support from regional funds, or even attract the interest of business angels. At a later stage, when its turnover and profits rise, the innovative SME can access new funds through venture capital investors or even go public by entering the alternative investment market.

The legal framework which applies to the above mentioned instruments is mainly represented by Regulation (EC) No 69/2001 and Regulation (EC) No 70/2001. Regulation (EC) No 69/2001 concerns de minimis rule and expired on 31.12.2006: the new de minimis is regulated by the Regulation (EC) No 1998/2006, that became effective on 1st January 2007.

Regulation (EC) No 70/2001 ,Application of articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises' concerns State aids to SMEs (aid intensity, conditions of application, etc.): this Regulation has been extended until 30.06.2008. Regarding alternative re-financing sources (i.e. other than European, national or regional funds) only sponsorship was identified to be applicable in this model. As for the management of these financial instruments, the optimal case would be the joint management from both the private and the public side.

Finally, as far as the general assessment of the model is concerned, the most important evaluation parameters were considered as follows: number of applications, number of successful cases, number of deals made (qualitative and quantitative data), and of course the success of the innovative SME and business idea. A visual scheme and the single components of this model are demonstrated in the table below (see Table 5).

FinNetSME - Model Structure

Name of Model	Early stage finance for innovative SMEs
Type of Model	Integrated support to innovative SMEs
Working Group/Class	Early stage finance

General description of financial model

Target Group/specific needs
Innovative SMEs
Description of Model
This scheme aims at providing integrated support throughout the life cycle of innovative SMEs
Visual Scheme

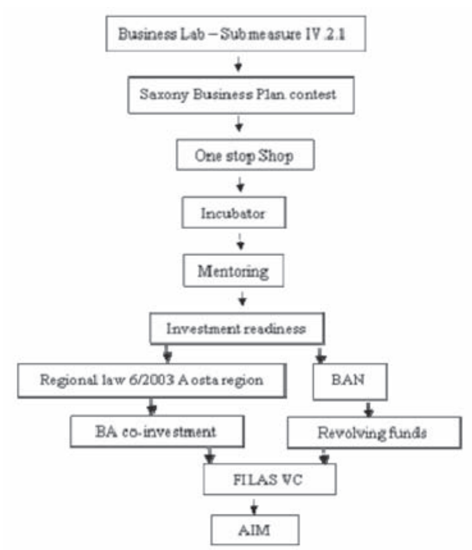


Table 5 – Early Stage Finance Model

FinNetSME - Model Structure

Financial Components of model		**Legal Base / Competition Rules**		
	Idealtypical tool	De-minimis rule Art 69/70 of State Aid		
	complementary / alternative tools (if applicable)			
		Refinancing source / funding		
	Idealtypical tool	National / Regional funds / ERDF		
	complementary / alternative tools (if applicable)	Sponsorship		
		Administration / Fund management		
	Idealtypical tool	Private management or Private equivalent body		
	complementary / alternative tools (if applicable)	Public administration		
		Risk handling		
	Idealtypical tool	Mostly by financial instruments involved in the scheme and or shared by the enterpreneur		
	complementary / alternative tools (if applicable)			
		Terms for beneficiary (interest, duration, collateral, repayment)		
	Idealtypical tool	First phase: 1 year Second phase: support continues until the SME is self succificient or successfull		
	complementary / alternative tools (if applicable)			

FinNetSME - Model Structure

Non-financial components of model		**Non-financial support measures / integration into regional supply chain**		
	Idealtypical tool	Business Lab - Business Plan Contest - One stop shop - Incubator - Mentoring - Investiment readiness		
	complementary / alternative tools (if applicable)	**Environment** Technology Parks Development Agencies Info Centres	**Fiscal incentives** EIS Guarantee on a BA investment	
		Sources of Funding for non-financial support measures		
	Idealtypical tool	National / Regional authorities		
	complementary / alternative tools (if applicable)	Sponsorship		
Application and granting process		**Application procedure / delivery of model**		
	Idealtypical tool	Standardised proceduree when applicable or specific procedures in other cases. Delivery of model specific to each tool.		
	complementary / alternative tools (if applicable)			
		Decision making		
	Idealtypical tool	Selection (technical) and investment committments		
	complementary / alternative tools (if applicable)			
		Default procedure		
	Idealtypical tool	Application of relevant (bankrupt, liquidation) administrative and legal procedures		
	complementary / alternative tools (if applicable)			

FinNetSME - Model Structure

Evaluation of the model		**...from the perspecitve of the provider**		
	Idealtypical tool	Number of applications / number of successfull cases - qualitative and quantitative data - number of deals made		
	complementary / alternative tools (if applicable)			
		.....from the perspective of the beneficary		
	Idealtypical tool	Success of the innovative SMEand of the business idea or product		
	complementary / alternative tools (if applicable)			

Equity Finance

Equity finance as risk capital plays an important role in financing innovative start-up and growth companies. Companies that grow fast are important for the economic development of the EU. Therefore, the network set up the equity finance working group, which focused on the collection of experiences and best practices on equity finance, as well as on the creation of innovative models to fully correspond to the financial requirements of growth companies.

Starting from the comparison of experiences of all involved partners, the equity finance working group identified different problems that are faced by both parties, growth companies on the one hand and investors and promotional institutions on the other hand. The collected problems were divided into three main clusters: SME, value chain and public sector.

Thus within the SME cluster was identified that growth companies are often confronted with problems mentioned below.
There is lack of knowledge and experience about equity finance and access to it. Because entrepreneurs often have only technological background, their managerial skills are not well developed. Support tools like mentoring service, promotion of equity products, public supported information centres (including business consulting), technology parks, incubators and business angels help to overcome these obstacles.
Furthermore entrepreneurs often have lack of trust in third party investors and fear to lose power of their own enterprise. Consequently companies have a low initial equity/weak equity capital base. A sound liability basis can be created with equity and mezzanine financing, soft loans and money from the three 'F' (family, friends and fools).
In addition entrepreneur and financier usually speak 'different' languages.
Mentoring services, public supported information centres (including business consulting), technology parks and incubators can help entrepreneur to understand the language of investors.
Entrepreneurs often have a low level of 'investment readiness', which can be increased through special promotional investment readiness programs.

Within the value chain cluster the following challenges were identified.
There are certain difficulties to attract VC in rural, small and less developed regions. Private investors are often risk avers. They fear lack of a critical mass for obtaining a portfolio effect to buffer the individual risks. Compared to classical finance the costs become higher, because of the risks and insufficient managerial experiences. This problem could be overcome through subsidies for administration of VC funds.
Asymmetrical information between VC provider and SMEs is generally tackled by Due Dilligences and sound business plans. The same instruments are used to cope with difficulties to determine the success of SMEs in advance.
Low expected revenues of most of the ventures limit the profitability of the VC providers portfolio. With tax incentives and public money that has no minimum demand and can be used as first hit buffer, as well as with subsidies for VC administration costs, investments could become more attractive for private investors. High fixed costs (e. g. for staff) require continual returns that can only be achieved, when the single investments have a minimum volume and exceed a critical number of portfolio companies.
To implement a reporting system towards the VC provider is often required. Therefore often hands-on management is used and the VC provider will become member of the board of directors.
For attracting capital to set up a fund, syndication with business angels networks can help, as well as tax incentives, pooling for securitization, providing services to create the knowledge of pooling, attracting public money and using the public money as first hit buffer. Taxation issues are different in the EU member states, as for example the taxation of dividends and profits make it necessary to adapt the fund structures to the national (tax) laws.
Since there is no developed market for company stakes VC providers are facing challenges when it comes to the exit phase. With specific minority rights, both for the VC and SME's as for example the right to buy back at a specific rate, can be helpful, but can not resolve the problem.

Lacking synergies between the regional financial institutions can be overcome by the creation of partnerships and the installation of 'One stop shops'.

In the public sector cluster the below mentioned requirements and difficulties have been identified.
There is a high level of formalization, reporting requirements and restrictions according to the EU law. It often leads to perceived bureaucracy. The regulations of the EU Commission are sometimes complicated and thus not easy to understand. In particular cases they even seem to be contradictory for the regions. There is notably the wish to close the finance gaps in equity financing through instruments of the public sector. Simultaneously the framework in which the public sphere can supply equity is limited because of the fear to cannibalise initiatives of the private investors.
The situation of being a public equivalent body and a market oriented VC provider as well creates a potential conflict of interest. Restrictions for using public money (European and/or National) make it difficult to structure simple and attractive fund structures and offers.
Sometimes there is ineffective communication between fund management, the local authorities and the EU Commission. But a clear understanding, particularly of state aid issues, is crucial in the process of setting up funds.
Last but not least there is a difficulty to attract private investors money.

The group identified two main approaches to tackle the unsatisfying situation concerning equity financing seeking to:

- closing the gap on the supply side through the offer of VC by the public sector
- strengthening the acceptance of equity and venture capital by the entrepreneurs through information and sensibilisation

A further activity carried out by the working group was the identification of regional best practices. It was documented and made available on the FinNetSME project website. The outcome is summarised in the following tables (see Table 6), the best practice examples can be found on the FinNetSME web side.

Equity Finance

Issue (Financing Problem / Market Failure)	Alternative or complementary Tools	Best practice examples	Alternative or complementary Tools	Best practice examples	Alternative or complementary Tools
Cluster 1: Sphere of SME					
1.1. Lack of knowledge about EF and how to get EF money	Mentoring services		Promotion of EF products	a) IB-SH: Finance Scout b) IB-LSA: FBZ IB-LSA	Public supported Busines consuting and information centres
1.2. Lack of managerial skils	Mentoring services	Filas: Business Laboratory	Public supported Busines consuting and information centres	a) IB-SH: Finance Scout b) IB-LSA: FBZ IB-LSA c) INEC: BS INEC d) CSA: Pé piniè res d'Entreprises e) Finpiemonte: Tecnocrete f) Anatoliki: Thermi S.A.	Technology parks
1.3. Lack of trust in 3rd part investors					
1.4. Lack of initial equity/ Weak equity capital base	Mezzanine financing	a) IB-SH: VC Fund SH b) FW: FW c) NRW.BANK: GuW NRW - Nachrang d) IB-LSA: '- Mezzanine Financing '- MuT-Darlehen e) Finance Wales plc: FW f) INEC: Pancreta VC Fund g) Filas: Law 2/85 h) Cebanor: CRBN	Soft loans	a) IB-SH: VC Fund SH b) IB-LSA: Mezzanine Financing c) IBB: VC Fonds d) IBG Saxony-Anhalt: ERDF-Venture Capital Fund	3F (friends, family, 'fools')
1.5. 'Different languages' between entrepreneur and financiers	Mentoring services	a) IB-LSA: Advisory Services Programme for SME's b) SAB: Intensive Advice/ Coaching c) Filas: Business Laboratory	Public supported Busines consuting and information centres		Technology parks
1.6. No 'bargening power'	Incubators				
1.7. Low level of 'investment readiness'	Investment readiness programmes	a) IB-LSA: Entrepreneur Coaching b) SAB: Environmental Management c) SAB: Intensive Advice/ Coaching	Promotional compains		
Cluster 2: Sphere of supply chain					
2.1. EF Regionality problems					
2.2. Portfolio risk of private invstors					
2.3. Higher costs in comparison to classical financing	Subsidies for VC administration cost				
2.4. Assymetrical information between VC and SME	Due diligence	Novaumbria: First	Business plan	Filas: Business Laboratory	Hands on the management
2.5. Difficulties to determine the success of SMEs	Due diligence	Novaumbria: First	Business plan	a) Filas: Business Laboratory b) Business Support from the Centre of Entrepreneurial & Technological Development of Crete c) Business lab contest Saxony d) Novaumbria	Hands on the management
2.6. Low expected revenues	Tax incentives for potential investors (banks, pention funds, insurance comp.)		Attrackting public money		Using public money as a 'first-hit-buffer'
2.7. High fixed costs requires high returns/high amounts of investments	Tax incentives for potential investors (banks, pention funds, insurance comp.)		Subsidies for VC administration cost		
2.8. Problems to control the company	Hands on the management		Board of directors		
2.9. Problem to attract the capital/ rise fund for VC	Sindication of Business angels network (or similar networks)		Tax incentives for potential investors (banks, pention funds, insurance comp.)		Pooling for securitization
2.10. Taxation issues (dividends, …)	Tax incentives for potential investors (banks, pention funds, insurance comp.)				
2.11. Exit problems for EF/VC	Special minority rights (both for VC and SMEs)				
2.12. Lack of synergy	To build-up partnerships between financial institutions	a) IB-LSA: FBZ IB-LSA	One stop shop' centres	a) IB-LSA: FBZ IB-LSA b) FILAS: BusinessLab c) INEC: B.S CCI d) INEC: B.S. KETA e) IB-SH: EIC Kiel f) INEC: EIC Crete g) IB-SH: Finance Scout h) ANATOLIKI: Thermi S.A. i) INEC: BS INEC	
Cluster 3: Sphere of public hand					
3.1.Too much bureaucracy , formalization, reporting requirements, restrictions according to EU laws	To get direct access to the EU Commission		Creating workgroups (like FinNetSME)		Lobbying to make EU Commission change impractical regulations and rules
3.2. Unclear framework from the EU Commission	To get direct access to the EU Commission		Creating workgroups (like FinNetSME)		Lobbying to make EU Commission change impractical regulations and rules
3.3. Conflict of interests: being a public equivalent body and acting as VC	Clear conditions for exit to be able to follow the market rules				
3.4. Attracting private equity	Attract private equity: first-hint-buffer	LGA, IB-SH/VC Fund SH, Finance Wales plc/FW, INEC/Pancreta VC Fund, IBB/VC Fonds	Public procurements		PPP private public patnership
3.5. Lack of effective communication between fund management and the EU Commission	To get direct access to the EU Commission		Creating workgroups (like FinNetSME)		Lobbying to make EU Commission change impractical regulations and rules
3.6. Restrictions for using European/National funds	To get direct access to the EU Commission		Lobbying to make EU Commission change impractical regulations and rules		
3.7. State Aid issues	To get direct access to the EU Commission		Lobbying to make EU Commission change impractical regulations and rules		

= Main obstacles

Table 6 – Equity Finance Table

Equity Finance

Best practice examples	Alternative or complementary Tools	Best practice examples	Alternative or complementary Tools	Best practice examples	Alternative or complementary Tools	Best practice examples
a) IB-SH: Finance Scout b) IB-LSA: FBZ IB-LSA c) Filas: Sub-measure IV.2.1 of the Lazio Single Programming Document (2000-2006)	Technology parks		Incubators	a) INEC: BS INEC b) CSA: Pé piniè res d'Entreprises c) Finpiemonte: Tecnocrete d) Anatoliki: Thermi S.A.	Business angels	
	Incubators	a) INEC: BS INEC b) CSA: Pé piniè res d'Entreprises c) Finpiemonte: Tecnocrete d) Anatoliki: Thermi S.A.	Business angels			
	Incubators					
a) Filas: Business Laboratory b) Novaumbria: First	Board of directors	Novaumbria: First				
a) Advisory services programme b) Pre-investment fund c) Business Angels network Saxony						
	Subsidies for VC administration cost					
	Providing services to create the knowledge of pooling		Attracting public money		Using public money as a 'first-hit-buffer'	
a) LGA b) IB-SH: VC Fund SH c) Finance Wales plc: FW d) INEC: Pancreta VC Fund e) IBB: VC Fonds						

Model ideas how to close the gap on the supply side have been developed. The group decided to publish in 'FinNetSME – Experiences and Practices' a generic and simplified 'Equity-financing' model. It includes partly the ERDF money regarding the regulations for ERDF of the European Commission. Aim of the model is to satisfy the major needs of the growth companies and at the same time to get a suitable risk sharing of European money (from the regional authorities or development banks and the private sector).
There was no need to design brand new financial instruments, since the identified are working well in those regions that already have implemented such an instrument. For high growth companies it is the internationally recognised instrument. The attempt should therefore be to roll out the instrument EU-wide. As the market, the legal systems, the available staff etc. differs from country to country and even from region to region, the generic model should be adapted to the specific needs of the individual regions.
The supply of too many instruments should be avoided so that the entrepreneurs have difficulties in selecting the ones who will the best to fulfil their needs. The offer of the public sector should also be easy to understand by the finance community of the regions.
Target group of the 'VC Fund Scheme' (see Table 7) are the high growth companies, start ups and established companies that want to develop a new business or speed up their development. Usually these are technology based companies. The specific needs of these companies are additional equity to improve their balance sheet ratios (to strengthen the equity ratio) and money for product and business development, especially marketing. These companies do regularly not have collateral and need strategic advice.

The model consists of a revolving regional fund, co-financed by the ERDF money. The process to set up and run the fund consists of the following steps:
1. ERDF-Fund Company is created by Regional Development Agency or Development Bank
2. ERDF-Fund Company is funded by ERDF-Funds through Regional Authority
3. National Cofinancing is funded either by the Regional Authority, Regional Development Bank or Private Investor
   a) Private Investor invests in ERDF-Fund Company
   b) Private Investor invests on a deal by deal basis as co-investor
4. Investments are made in Portfolio Companies
5. Portfolio Companies are developed
6. Portfolio Companies are sold

The financial (yellow) and non financial (green) components of the model can be seen on the table.
The application procedure consists of six steps
1. Businessplan is sent to VC
2. VC provider makes quick scan
3. VC provider interviews entrepreneur or team
4. VC provider evaluates businessplan, market, entrepreneur or team
5. VC provider makes an offer
6. contract includes: shares (%); silent partnership (amount, interest, possibly equity kicker, duration), consulting contract (hours, price, scale i.e. strategy and strategic controlling)

The decision making is done by an individual deal by deal basis (due diligence). The main criteria is the growth potential of the company at a reasonable risk (considered risk taking). Therefore the focus is set on the following points:
- check of entrepreneur (management capacities etc.)
- market check (is there a need for the product?)
- technology check (intellectual property [IP])

In the case of default, the entrepreneur is not pursued personally as the risk is shared between VC provider and entrepreneur without a personal liability of the entrepreneur.
The evaluation criteria can be seen from the table evaluation of the model (violet).

FinNetSME - Model Structure

Name of Model	VC-Fund-Scheme
Type of Model	Equity (Venture Capital)
Working Group/Class	Equity

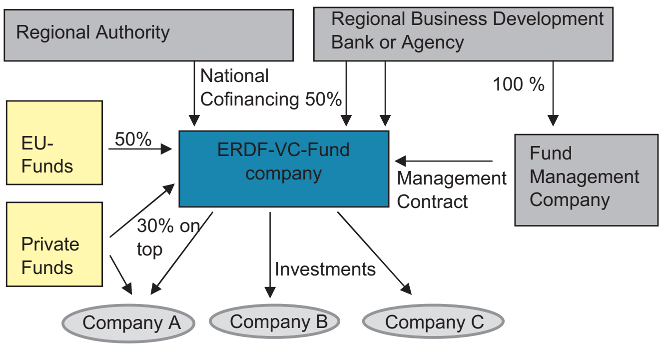
<table>
<tr><td rowspan="6">General description of financial model</td><td>Target Group/specific needs</td></tr>
<tr><td><u>Target Group</u>
High Growth Companies
Start Ups and Established Companies that want to develop a new business or speed up their development
usually Technology Based Companies
<u>specific needs</u>
Companies that need additional equity to improve their balance sheet ratios (to strenghten equity ratio)
the companies need money for product and business development, especially marketing
the companies do not have collateral
the companies need strategic advice</td></tr>
<tr><td>Description of Model</td></tr>
<tr><td>Revolving Regional Fund Cofinanced by ERDF
1. ERDF-Fund Company is created by Regional Business Development Bank or Agency
2. ERDF-Fund Company is funded by ERDF-Funds through Regional Authority
3. National Cofinancing is funded either by Regional Authority, Regional Business Development Bank or Private Investor
4. a) Private Investor invests in ERDF-Fund Company
4. b) Private Investor invests on a deal by deal basis as Coinvestor
5. Investments are made in Portfolio Companies
6. Portfolio Companies are developed
7. Portfolio Companies are sold</td></tr>
<tr><td>Visual Scheme</td></tr>
<tr><td>
</td></tr>
</table>

Table 7 – Equity Finance Model

FinNetSME - Model Structure

Financial Components of model		**Legal Base / Competition Rules**		
	Idealtypical tool	ERDF-Rules Article 43 Financial Engineering Actions (until now: ERDF Rule No. 8)		
	complementary / alternative tools (if applicable)			
		Refinancing source / funding		
	Idealtypical tool	Regional Public funds cofinanced by ERDF Private Funds on a Deal by Deal Basis		
	complementary / alternative tools (if applicable)	National Cofinancing provided by Public Bank	National Cofinancing provided by Private Investor	
		Administration / Fund management		
	Idealtypical tool	Venture Capital Company owned by Public Body (i.e. Regional Development Bank)		
	complementary / alternative tools (if applicable)	Venture Capital Company owned by private sector as Public Private Partnership (PPP)	Public administration Body that runs the fund itself	Bank that runs the fund itself
		Risk handling		
	Idealtypical tool	Portfolio Effect due to Fund Construction Pari Passu and Pro Rata Basis ERDF and National Cofinancing few High Flyer with high returns shall overcompensate or at least compensate the failure companies		
	complementary / alternative tools (if applicable)	EIF-counterguarantee (CIP)	Guarantee of National or Regional Government	First Hit Buffer for Private Investor
		Terms for beneficiary (interst, duration, collateral, repayment)		
	Idealtypical tool	shares (by definition unlimited duration) silent partnership (up to 10 years duration) typically a combination of both, shares and a silent partnership Exit is espected after 3 to 7 years No collateral needed		
	complementary / alternative tools (if applicable)			

FinNetSME - Model Structure

Non-financial components of model		Non-financial support measures / integration into regional supply chain		
	Idealtypical tool	Strategic Support by Venture Capitalist		
	complementary / alternative tools (if applicable)	Business-plan-support	coaching/mentoring	Business Angels
		Sources of Funding for non-financial support measures		
	Idealtypical tool	Regional authority		
	complementary / alternative tools (if applicable)	ESF	Private	Foundations
Application and granting process		Application procedure / delivery of model		
	Idealtypical tool	Step 1: Businessplan is sent to VC Step 2: VC makes quick scan Step 3: VC interviews entrepreneur or team Step 4: VC evaluates businessplan, market, entrepreneur or team Step 5: VC makes an offer Step 6: contract includes: shares (%); silent partnership (amount, interest, possibly equity kicker, duration), consulting contract (hours, price, scale i.e. strategy and strategic controlling)		
	complementary / alternative tools (if applicable)			
		Decision making		
	Idealtypical tool	on an individual deal by deal basis (due diligence) - technology check (intellectual Property [IP]) - market check (is there a need for the product?) - check of entrepreneur (management capacities) Main criteria is, if the company has growth potential ad an reasonable risk (considered risk taking)		
	complementary / alternative tools (if applicable)			
		Default procedure		
	Idealtypical tool	entrepreneur is not pursued personally as risk is shared between VC and entrepreneur without a personal liability of the entrepreneur		
	complementary / alternative tools (if applicable)			

FinNetSME - Model Structure

Evaluation of the model		…from the perspecitve of the provider		
	Idealtypical tool	Number of Companies Funded Success Rate Deal Flow Exit Track Reckord (number of Secondary Purchase, Trade Sale, IPO)		
	complementary / alternative tools (if applicable)			
		…..from the perspective of the beneficary		
	Idealtypical tool	Company-Growth Market Success of the company Scale of Support from VC (i.e. number of meetings, number of contacts arranged etc.)		
	complementary / alternative tools (if applicable)			

Micro-Finance

Business start-ups, the self-employed, micro-enterprises and their access to finance has recently become a major focus for regional economic and social policy in the European Union. Until a few years ago, micro-credit was mainly associated with developing countries. In the EU, however, more than 90 % of SMEs are micro-enterprises (up to 10 employees) and thus form an important source for jobs, growth, innovation and local development.
Micro-credits facilitate access to small amount of finance (typically below € 25 thousand) that are in insufficient supply by the usual banking distribution network, in particular where business creators are unemployed persons, women or form part of ethnic minorities.
Comparisons of experiences and best practices within the partner regions demonstrated clearly that the barriers for the involvement of banks in micro-credit – including public promotional banks – are common in all regions. The main problems are the high administration and credit assessment costs due to the small size of loans and thus the unresolved question of how to make a micro-credit scheme profitable. Just as important a role plays the high risk associated with the start-up phase of an enterprise. Moreover, often non-existent collateral combined with a lack of credit history of micro-entrepreneurs clashes fundamentally with the general risk aversion of banks. High interest rates – if costs shall be covered – would be additional burdens to businesses that often only just cover the living costs of the entrepreneur. Finally, crucial obstacles originate from the demand side with a high percentage of unsuitable business proposals and a higher default rate of micro-businesses through a lack of sound business and management experience of many first-time entrepreneurs.
In order to bridge this market gap, at least partially, public support is available in the majority of European Member States. However, micro-credit is particularly dependent on the specific circumstances of the local environment and the scope and intensity of subsidies differ considerably between countries. Public support can be offered either through an enabling environment and tax incentives for investors supplying funds to micro-credit retailers or by providing funds to specialised lenders, by sharing part of the risk with guarantee societies and/or by promoting business support services. At regional level – the focus of the INTERREG partnership – public promotional banks are playing an active role. In addition, private non-profit micro-credit institutions have been emerging, primarily serving social inclusion purposes by aiming at making the 'unbankable' bankable.

The methodological approach of the working group was to focus first on specific issues, instruments and tools in order to combine them to models, or in other words to develop a model in which different tools can be combined to a tailor-made financing product.
The result of the first stage was the creation of an 'Open Tool Box' (see Table 8) providing alternative or complementary tools and instruments for different and specific issues/problems of micro-credit schemes and filled with best practices linked to examples in the FinNetSME database during the course of the project.

The analysis of the tool box shows, that the FinNetSME partnership offers already some successfully established micro-credit schemes in Europe. It also proofs, that some sort of public subsidies – regional, national or European – is crucial and that providing accompanying business support measures can reduce risks and lower costs of the financier. Significantly, the different regional strategies of the FinNetSME partners converge around two general approaches:

A Facilitating micro-credit supply by commercial banks by forwarding refinancing advantages and risk sharing with public guarantee scheme ('house bank principle')

B Revolving regional micro-credit fund co-financed by EU Structural Funds (ERDF/ESF) with independent fund management by regional finance institution ('Financial Engineering')

Issue (Financing Problem / Market Failure)	Alternative or complementary Tools			Best practice examples
Cluster 1: Sphere of SME	A	B	C	
High risk	EIF guarantee scheme	Regional public guarantee scheme	Micro-loan funds with ERDF/ESF or other public subsidy taking over part of the risks and their costs	A: KfW, Finnvera, MLB, INVEGA B: FON@DE, TEMPME, MLB, IBB, Finpiemonte, INVEGA, NRW.BANK C: Finnvera, IBB, MLB
Lack of collateral	Guarantee schemes as alternative collateral	Granting of subordinated loans	Step by step approach, Group loans	A: as under high risk B: IB S-A, FON@DE, NRW.BANK (not micro) C: outside partnership (ADIE)
Lack of managerial skills or investor readiness	Business plan development programme	Obligatory pre-loan coaching and advisory in combination with the granting of loans	Accompanying business support measures, (voluntary) mentoring / business angels, marketing support	A: BPW at IBB, SAB, business plan processing Finnvera B: Finnvera C: Kainuu
Borrower not belonging to commercial bank's target group / low profit margin for no growth sectors	Coaching, advisory and loan proposals by cooperating agencies	Granting of loans directly by development institution / micro loan fund for specific target groups / sectors	Interest subsidies for specific target groups	A: KfW B: IBB, SAB, Finnvera C: Finnvera, ARP (IBB), FON@DE
Cluster 2: Sphere of supply chain				
Risk-aversion	Sharing risk with guarantee scheme or micro loan fund	Lean, computerised risk assessment system, risk management system	Risk reducing through linking of loan with additional advisory/ coaching services (obligatory) for the borrower, site visits / crisis prevention	A: see high risk A+B B: KfW, Finnvera C: outside partnership (ADIE)
Low profitability	Increased interest-margins	Additional fees for commercial banks	Commercially run fund of sub-funds with cross-subsidies (e.g. micro-loan, SME-loan, mezzanine and venture capital)	A: KfW, MLB adjusted, outside partnership (UK) B: KfW, EIF, IBB C: outside partnership (UK)

Table 8 – Micro-Finance Table

Issue (Financing Problem / Market Failure)	Alternative or complementary Tools			Best practice examples
High administration costs / high proportion of unsuitable business proposals	Streamlining of processes (risk assessment system, electronic application)	Granting of loans directly by development institution / micro loan fund	Cooperation between bank and "filtering" local, associated partner, increasing good referrals	A: KfW, Finnvera B: IBB, Finnvera, MLB, SAB C: Finpiemonte, Kainuu
Terms of loan	Length of repayment period (short term vs. long term)	Cash-flow adjusted repayments, exemption periods, default procedures	Investment vs. working capital	
Cluster 3: Sphere of public hand				
High bureaucracy	Streamlining of processes (one-stop-shops)	Minimizing administrative, fiscal, social security requirements	Minimizing (EU) reporting requirements (rule No. 8 funds)	A: B: outside partnership (UK) C: IBB, Finnvera, MLB
Lack of financial resources	Use of capital markets / public refinancing systems via a development bank (also for co-financing)	Setting up of a micro-loan fund partly financed by EU-means, financial engineering (public, private, ERDF, ESF)	Leverage of private capital by preferential allocation of returns	A: Finnvera, IBB B: Finnvera, IBB, MLB, SAB C: outside partnership (UK)
Regulation / policy issues	Changing banking regulations to make intermediation conditions more flexible for associations	Incentives/ sanctions for commercial banks	Market distortion impact	A: outside partnership (UK) B: outside partnership (Community Reinvestment Act, USA) C:
Respect of EU state aid rules	De-minimis rule	Block exemption for SME	Notification	A: IBB, SAB B: IBB C: Finnvera

In the second stage of the project, the working group formed the two approaches into two generalized models (see templates below) based on varying tools. The models shall promote access to finance by providing public authorities and financiers with a starting point for setting up new schemes.

Model 'public-private risk sharing' (see Table 9)

A commitment for micro-credit engagement by commercial banks is facilitated through a risk sharing scheme with regional guarantee agencies. A combination with national or EIF counter-guarantee schemes is possible. The guarantee substitutes the collateral requested from the entrepreneur, the banks' risk exposure is reduced and its capital requirement mitigated. Often, a public guarantee of up to 80 % of the loan is combined with lending credit lines on favourable conditions to the local banks. Based on the 'house bank principle', the banks act as delivery channel (credit administration and risk assessment) of public funds or refinancing advantages of state guaranteed development banks to the entrepreneurs.

Best practices of this approach among the FinNetSME partners can be found at Finpiemonte Turin (IT), Fon@de Castilla y León (E), INVEGA (LT), Investitionsbank Berlin (D), Latvian Guarantee Agency in co-operation with MBL, NRW.BANK (D) and TEMPME S.A. (GR) and are described in the FinNetSME database.

FinNetSME - Model Structure

Name of Model	Micro-credit and guarantee scheme
Type of Model	Loan scheme
Working Group/Class	Micro finance

<table>
<tr><td rowspan="6">General description of financial model</td><td>Target Group/specific needs</td></tr>
<tr><td>General:
Business start-ups and small enterprises requesting finance below € 100.000
with lack of collateral

Specific:
Women, young people, ethnic minorities, less developed areas, reconversion areas</td></tr>
<tr><td>Description of Model</td></tr>
<tr><td>The basic approach of the model is the risk sharing between commercial banks and a public guarantee scheme. For most banks, the high risk and administration costs involved prevents them from providing small loans, e.g. below € 100.000.

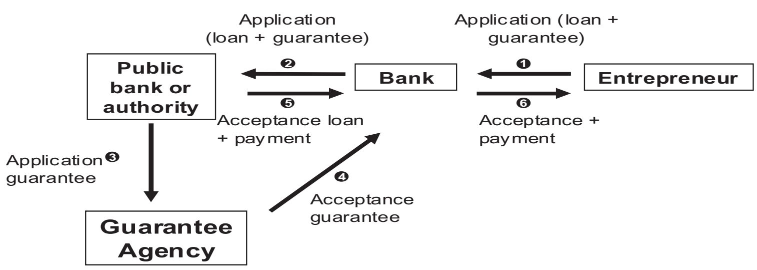
A public guaranteed finance institution forwards its refinancing advantages on the capital market through a loan with an attractive margin to commercial banks which in turn make the loan contracts with the end beneficiary. Through an obligatory combination with an up to 80 % guarantee by a regional or national guarantee agency there is no collateral necessary. The commercial banks take the remaining 20 % of the liability. An integrated application procedure for loan and guarantee ensures only one partner for the end beneficiary and one for the bank regarding refinancing and guarantee decision.</td></tr>
<tr><td>Visual Scheme</td></tr>
<tr><td>
</td></tr>
</table>

Table 9 – Micro-Finance Model 'public-private risk sharing'

FinNetSME - Model Structure

Financial Components of model				
		Legal Base / Competition Rules		
	Idealtypical tool	Market conformity for loans De-minimis for public guarantee		
	complementary / alternative tools (if applicable)	SME-block exemption	Verstädigung II' for refinancing by public banks	Risk capital guidelines for mezzanine instruments
		Refinancing source / funding		
	Idealtypical tool	Preferential refinancing by public banks on the capital market forwarded to commercial banks with specified margin		
	complementary / alternative tools (if applicable)	Commercial banks	EIB global loan	
		Administration / Fund management		
	Idealtypical tool	Commercial bank for loan in cooperation with guarantee agency		
	complementary / alternative tools (if applicable)	Refinancing public bank supervises integrated application process and eligibility		
		Risk handling		
	Idealtypical tool	At least 20 % by commercial banks Up to 80 % by guarantee agency (national, regional counter guarantee) or public guarantee fund		
	complementary / alternative tools (if applicable)	EIF counter guarantee	ERDF guarantee fund	
		Terms for beneficiary (interest, duration, collateral, repayment)		
	Idealtypical tool	Interest rate: market or below market conditions Additional charge for guarantee Duration 6 to 10 years No collateral needed 2 year repayment exemption possible		
	complementary / alternative tools (if applicable)	Interest subsidy with public or ERDF funds	Step-by-step loan	Mezzanine instruments

FinNetSME - Model Structure

Non-financial components of model		Non-financial support measures / integration into regional supply chain		
	Idealtypical tool	Obligatory pre-loan advisory / coaching		
	complementary / alternative tools (if applicable)	Business plan development support (e.g. Business plan competition)	Accompanying, tailored business support measures (post-loan coaching/ mentoring)	Chambers of commerce Guilds Confederation of Businessmen Business Angels
		Sources of Funding for non-financial support measures		
	Idealtypical tool	Regional authority		
	complementary / alternative tools (if applicable)	ESF/ERDF-cofinancing	Private / foundations Voluntary mentoring	
Application and granting process		Application procedure / delivery of model		
	Idealtypical tool	One-stop-shop principle Delivery of loan by commerical bank Integrated application form for loan and guarantee		
	complementary / alternative tools (if applicable)	Use of local support agencies as screening / filtering agents		
		Decision making		
	Idealtypical tool	Computerised, lean and tailor-made credit rating system based on loss given default experience		
	complementary / alternative tools (if applicable)	Enterprise evaluation mixing both qualitative and quantitative aspects into classifications		
		Default procedure		
	Idealtypical tool	All rights and collateral are transfered to guarantee agency, than legal procedures		
	complementary / alternative tools (if applicable)	Second guarantee companies for failures		

FinNetSME - Model Structure

Evaluation of the model		…from the perspecitve of the provider		
	Idealtypical tool	Cost-income ratio Administration costs Default rate		
	complementary / alternative tools (if applicable)	Number of loans Number of companies created Number of jobs created / saved Level of new investment	Bureaucracy and speed of application and decision procedure of guarantee provider	Number of women, young people, people from ethnic minorities, people formerly unemployed that received loans
		…..from the perspective of the beneficary		
	Idealtypical tool	Interest rates and other financial and term conditions Bureaucracy Speed of application and decision procedure		
	complementary / alternative tools (if applicable)	Availability and efficiency of accompnying non-financial support measures		

Model 'revolving regional funds' (see Table 10)

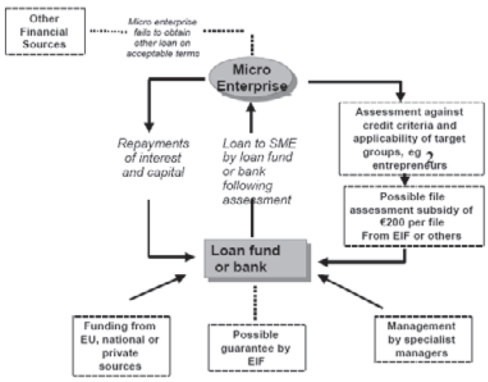
If micro-credit provided by banks is not sufficient to match the demand despite a public risk sharing, a complementary or alternative approach is the creation of revolving regional or national micro-credit funds financed from a combination of national or private sources (e.g. credit lines refinanced at favourable conditions on the capital market) and EU Structural Funds (ERDF/ESF) that can be recycled beyond the current programming periods. This is often referred to as financial engineering. Contrary to the former approach, an independent fund management by a regional finance institution is in charge of the direct contact with the entrepreneurs. A combination with guarantees offered by the EIF or credit lines of the EIB is possible. In regions that lack promotional banks or similar financiers, the new JEREMIE initiative by the European Commission and the EIB/EIF provides an alternative for the revolving use of Structural Funds money, including for micro-credit.

Best practices of financial engineering among the FinNetSME partners can be found at Finance Wales (UK), Finnvera (FI), Investitionsbank Berlin (D), MLB – Mortgage and Land Bank (LV), NRW.BANK (D) and Development Bank of Saxony (D) and are described in the FinNetSME database.

FinNetSME - Model Structure

Name of Model	ERDF micro-credit fund
Type of Model	Loan scheme
Working Group/Class	Micro finance

<table>
<tr><td rowspan="6">General description of financial model</td><td>Target Group/specific needs</td></tr>
<tr><td>General:
Business start-ups and small enterprises requesting finance below € 100.000
with lack of collateral

Specific:
Women, young people, ethnic minorities, unemployed with lack of credit history
Micro-loans below € 25.000</td></tr>
<tr><td>Description of Model</td></tr>
<tr><td>A regional (micro-) loan fund will be set up for a fixed period, financed with a combination of national and EU funding supplemented by private financing. Private funding may be obtained from bank borrowings or from other sources. The fund or scheme may be co-financed by Structural Funds and guaranteed by the EIB or EIF. The fund or scheme will have clear investment objectives which will include identifying borrowers that can contribute to regional development targets and have an adequate credit profile, but who are not able to get funds from commercial sources. The interest rate charged by the fund will either be on a commercial basis, typically at a rate equivalent to cost of funds plus 4 % to 6 %, or at a slightly lower rate made possible by the investment of public capital in the fund. At the end of the life of a loan fund, borrowings will be repaid and any remaining funding will be held for reinvestment in accordance with the original objectives.</td></tr>
<tr><td>Visual Scheme</td></tr>
<tr><td>

by Centre for Strategy & Evaluation Service</td></tr>
</table>

Table 10 – Micro-Finance Model ‘revolving regional funds’

FinNetSME - Model Structure

Financial Components of model				
		Legal Base / Competition Rules		
	Idealtypical tool	Market conformity for loans or application of De-minimis regulation		
	complementary / alternative tools (if applicable)	SME-block exemption	Verständigung II' for refinancing by public banks	Risk capital guidelines for mezzanine instruments
		Refinancing source / funding		
	Idealtypical tool	Loan Funds established with capital from ERDF, national co-financing and private sources.		
	complementary / alternative tools (if applicable)	Co-financing of ERDF by private sources only (not possible in all countries)	Co-financing of ERDF by national or regional sources only (acceptable for micro-credits) or combination with private loans on individual project level	Co-financing of ERDF by public finance institution profiting from preferential refinancing on the capital market
		Administration / Fund management		
	Idealtypical tool	Rule 8 of the Structural Funds eligibility rules for 2000-06 applies also to the management of micro credit schemes. Loan funds are required to be managed by independent professional fund managers and must be set up as an independent legal entity governed by agreements between shareholders or as a separate block of finance within an existing financial institution. Before a loan fund can be approved, a business plan must be submitted by the co-financiers or sponsors of the micro credit scheme specifying the fund's target market, eligibility criteria, terms and conditions offinancing, operational budget, ownership and co-financing partners. The justification for the use of Structural Funds and how the Structural Fund component will be utilised must also be specified.		
	complementary / alternative tools (if applicable)	Cooperation between fund management and commercial banks, the latter either as consortium partners or as sales agents.	The management, administration and disbursement of micro loans can delegated by financial institutions providing the loan finance to organisations which do not have legal status as financial institutions.	
		Risk handling		
	Idealtypical tool	Risk sharing is pari passu between private and public funds		
	complementary / alternative tools (if applicable)	EIF counter guarantee	Private funds receive a degree of preference with the subordination of the public funds	
		Terms for beneficiary (interest, duration, collateral, repayment)		
	Idealtypical tool	Interest rate: market conditions Additional charge for guarantee Duration 6 to 10 years No collateral needed 2 year repayment exemption possible		
	complementary / alternative tools (if applicable)	Interest subsidy	Step-by-step loan	Mezzanine instruments or repayment exemptions

FinNetSME - Model Structure

Non-financial components of model		**Non-financial support measures / integration into regional supply chain**		
	Idealtypical tool	Obligatory pre-loan advisory / coaching		
	complementary / alternative tools (if applicable)	Business plan development support (e.g. business plan competition)	Accompanying, tailored business support measures (post-loan coaching/ mentoring)	Business Angels
		Sources of Funding for non-financial support measures		
	Idealtypical tool	Regional authority		
	complementary / alternative tools (if applicable)	ESF-cofinancing	Private / foundations Voluntary mentoring	
Application and granting process		**Application procedure / delivery of model**		
	Idealtypical tool	One-stop-shop principle Delivery of loan by commerical bank Integrated application form for loan and guarantee		
	complementary / alternative tools (if applicable)	Use of local support agencies as screening / filtering agents		
		Decision making		
	Idealtypical tool	Computerised, lean and tailor-made credit rating system based on loss given default experience		
	complementary / alternative tools (if applicable)	Enterprise evaluation mixing both qualitative and quantitative aspects into classifications (including business idea and on-the-spot analysis).	Assesment and selection by cooperating institutions or regional committees	Fast, uncomplicated but higher risk for both provider and entrepreneur
		Default procedure		
	Idealtypical tool	Contact with entrepreneur, if no results legal procedures		
	complementary / alternative tools (if applicable)	Agreement with entrepreneur for alternative or delayed repayment procedures	Partial repayment exemption	

FinNetSME - Model Structure

Evaluation of the model				
		…from the perspecitve of the provider		
	Idealtypical tool	Cost-income ratio Administration costs Default rate Number of loans Number of companies created Number of jobs created / saved Level of new investment		
	complementary / alternative tools (if applicable)	Bureaucracy and speed of application and decision procedure due to restrictions of fund investors	Restrictions and extra costs due to ERDF and competition rules	Number of women, young people, people from ethnic minorities, people formerly unemployed that received loans
		…..from the perspective of the beneficary		
	Idealtypical tool	Interest rates and other financial and term conditions Bureaucracy Speed of application and decision procedure		
	complementary / alternative tools (if applicable)	Availability and efficiency of accompnying non-financial support measures		

Conclusions and Outlook

FinNetSME was created to pursue the overall objective of building a platform to exchange know-how gathered by regional public SME-financiers on how best to support the business development of small and medium-sized enterprises. This goal was fully achieved, be it in the framework of the daily cooperation between the network partners or on the occasion of the network's workshops and seminars. The latter gave opportunity to analyse existing financial instruments and to assess successful or less successful approaches in persona. Conferences, the newsletter and participating in interregional events and fairs were the channels chosen to transport FinNetSME findings and achievements to the public. Regional authorities were involved in the project work throughout the entire project duration ensuring the visibility of new approaches to policy makers.

The informational gaps between regional business supporters which had been perceived at the outset of the network cooperation were hence narrowed down or even closed. FinNetSME's publicly accessible database at www.finnetsme.org contributed essentially to this outcome and, as a keystone of carrying forward FinNetSME's results beyond the formal end of the project duration, forms the nucleus of a centre of competence on regional SME support. The FinNetSME partners highly appreciate the exchange they had in the project and the better understanding of the different variations of the regional value chain in Europe which they arrived at.

A major lesson learnt was to acknowledge the flexibility that is needed in the regions and across regional borders in finding solutions to similar problems. Europe's regions are diverse in their economic assets, their legal set-ups and their cultural traditions. This fact is mirrored in the different challenges SMEs face in growing and in accessing finance and other business support measures. SME support, whether of financial or non-financial nature, has to correspond to these special circumstances and to respond to the different enterprise needs. This calls for tailor-made solutions – single and simple answers are not to be found. Hence, the FinNetSME partners opted for a varied approach to several individual aspects to the question of how to improve business support measures for SMEs in the European regions. The models developed by FinNetSME integrate the partners' know-how on working solutions and serve to convey the partners' know-how to other European regions as guidance for the development of new business support approaches. On this basis, policy makers and institutions supporting SMEs are enabled to develop innovative and workable solutions to the promotion of SMEs.

Indeed, financial models based on FinNetSME ideas have already been implemented successfully in some regions, as can be seen from the example of the Mortgage and Land Bank of Latvia. Based on the ideas of FinNetSME, they launched the 'Obligatory pre-loan coaching' in December 2006. It is co-financed by the European Social Fund and provides training, micro-loans and grants to promising business start-ups. The 'Obligatory pre-loan coaching' is one of the good examples to be found in the FinNetSME database. Other participating regions in turn have also started to adapt FinNetSME ideas – and this is to be seen as just the first step to implement the achievements of the INTERREG IIIC project.

To sum up, the FinNetSME partners have come to the conclusion that acting in favour of SMEs means setting up a strong and trustful cooperation between all actors – public authorities, financial institutions, service providers and the SMEs. Successful public support measures are stable, visible, simple and efficient and they are designed as a package or a combination of financial and non-financial services. Furthermore, they are well adapted to the requirements of small businesses and they need to be embedded in an integrated policy approach. In future, the FinNetSME partners intend to proceed with their approach with the aim of match-making the supply with the demand perspective of SME support – considering both the financial and non-financial aspects of certain business activities and needs. Based on the financial and non-financial instruments of the first round of the cooperation, the outcomes of FinNetSME would hence be refined on a sectoral basis, but with a holistic view – to the benefit of the economic development of the European regions and the European economy as a whole.

ANNEX 1

List of partners

ADEF – ADE Financiación (ES)
ANATOLIKI – Anaptixiaki Anonimi Eteria Anatolikis Thessalonikis "Anatoliki A.E." (GR)
AOSTA – Regione Autonoma Valle d'Aosta (IT)
CSA – Centro Sviluppo S.p.A. (I)
EAPB – European Association of Public Banks (B/EU)
EURADA – European Association of Development Agencies (B/EU)
FCVRE – Fundación Comunidad Valenciana - Región Europea (E)
FILAS – Finanziaria Laziale di Sviluppo (I)
Finpiemonte S.p.A. – Istituto Finanziario Regionale Piemontese (I)
GEPAFIN – META Group srl respectively GEPAFIN S.p.A. (I)
IBB – Investitionsbank Berlin (D)
IB-LSA – Investitionsbank Sachsen-Anhalt (D)
IB-SH – Investitionsbank Schleswig-Holstein (D)
INEC – Thermokitida Neon Epichiriseon Chanion (GR)
INVEGA – LORD respectively UAB Investiciju ir verslo garantijos (LT)
KEO – Kainuun Etu Oy (FIN)
LAMORO – Società consortile Langhe Monferrato Roero a.r.l. (I)
MBL – Latvijas Hipotēku un zemes banka (LV)
NRW.BANK (D)
SAB – Sächsische Aufbaubank – Förderbank (D)

ANNEX 2

List of tables

ANNEX 3

'Who is Who' in SME support

The contact information provided hereafter refers to the organisations directly involved in the project work. A more extensive list containing contact information about institutions active in the field of SME support can be found on the FinNetSME database at www.finnetsme.org.

ADE Financiación
C/ Duque de la Victoria 23
47001 Valladolid
Spain | www.adefinanciacion.jcyl.es

Anaptixiaki Anonimi Eteria Anatolikis Thessalonikis
3, Gorgopotamou str
57001 Thermi
Greece | www.anatoliki.gr

European Association of Public Banks
Avenue de la Joyeuse Entrée, 1 – 5
1040 Bruxelles
Belgium | www.eapb.eu

Fundación Comunidad Valenciana
Rue de la Loi 227
1040 Bruxelles
Belgium | www.uegva.info

Finanziaria Laziale di Sviluppo
Via Alessandro Farnese 3
00192 Roma
Italy | www.filas.it

Finpiemonte S.p.A
Galleria San Federico 54
10121 Torino
Italy | www.finpiemonte.it

GEPAFIN
Via Campo di Marte 9
06124 Perugia
Italy | www.gepafin.it

Investitionsbank Berlin
Bundesallee 210
10719 Berlin
Germany | www.ibb.de

Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg
Germany | www.ib-sachsen-anhalt.de

Investitionsbank Schleswig-Holstein
Fleethörn 29 – 31
24103 Kiel
Germany | www.ib-sh.de

Kainuun Etu Oy
Lönnrotinkatu 1
87100 Kajaani
Finland | www.kainuunetu.fi

Latvijas Hipotēku un zemes banka
Doma laukums 4
1977 Riga
Latvija | www.hipo.lv

NRW.BANK
Kavalleriestraße 22
40213 Düsseldorf
Germany | www.nrwbank.de

Regione Autonoma Valle d'Aosta
Piazza della Repubblica, 15
11100 Aosta
Italy | www.regione.vda.it

Sächsische Aufbaubank – Förderbank
Pirnaische Straße 9
01069 Dresden
Germany | www.sab.sachsen.de

Società consortile Langhe Monferrato Roero a.r.l.
Via Vivaro 27
12051 Alba
Italy | www.lamoro.it

Thermokitida Neon Epichiriseon Chanion
Viopa Souda
73200 Chania
Greece | www.incubator-chania.gr

ANNEX 4

State aid Regulations during 2007 – 2013, a worksheet

The members of the working group agreed to look at the State aids issues in the field of access to finance according to the following matrix based on the work of the three focus working groups.

[grey box] Not concerned by the Regulation   < If less no obligation to be notified

N.B.: Be aware that there are provisions for cumulative effects

Tools	State aid Regulation			
	De minimis	Equity capital	Regional State aid	RTD Innovation
1. EARLY STAGE FINANCE				
Loans on trust				
Micro-loans/credits				
Loans	< 200.000		Case by case (1)	Case by case (1)
Guarantees	< 1.500.000 (2)		Case by case (1)	
Counter-guarantees	< 1.500.000 (2)		Case by case (1)	
Grants	< 200.000		Case by case (1)(4)	< 1.000.000 (5)
Pre-seed capital		< 1.500.000 (3)		
Seed capital		< 1.500.000 (3)		
Venture capital		< 1.500.000 (3)		
Business angels				
Co-investment funds		< 1.500.000 (3)		
2. MICRO-CREDIT				
Micro-credit				
Guarantees	< 1.500.000 (2)		Case by case (1)	
3. EQUITY FINANCE				
Seed Capital		< 1.500.000 (3)		
Venture Capital		< 1.500.000 (3)		
Mezzanine		Case by case (3)	Case by case (3)	
Loans	< 200.000			Case by case (1)

(1) Transparent regional investment aid schemes means regional investment aid schemes in which it is possible to calculate precisely the gross grant equivalent as a percentage of eligible expenditure ex ante without the need to undertake a risk assessment (for example schemes which use grants, interest rate subsidies, capped fiscal measures). If transparent, the scheme has not to be notified.
For de minimis Regulation (EC) No 1998/2006, transparent aids mean: aid in respect of which it is possible to calculate precisely the gross grant equivalent of the aid ex ante without the need to undertake a risk assessment ('transparent aid').

(2) 80 % commercial loan

(3) All State aid has to be notified. If the scheme meets all the conditions for compatibility described in point 4.3 of the guidelines, no detailed assessment is required. If one of the seven conditions is not met, detailed assessment will be undertaken. The criteria of this assessment are described in point five of the guidelines.

(4) Start-up companies (less than five years of existence) in lagging regions may receive up to € 2.000.000 of support (point 8.6 of the Regulation).

(5) For innovative start-ups only (less than six years of existence). This amount is increased to € 1.500.000 for lagging regions.

The following main elements of the four key EU State aid Regulations or guidelines were highlighted:

- De minimis rules: support up to € 200.000 should not affect micro-loans and micro-guarantee schemes.
- Equity capital: support up to € 1.500.000 per target SME over a period of 12 months. This can be offered through seed and VC schemes.
- Regional State aids Regulation and the block exemptions guidelines (cf. table below):

	Large enterprises	**1.1.1 Medium-sized enterprises**	**Small enterprises**
Convergence region for article 87.3.a			
GDP below 45% of EU average	50%	60%	70%
GDP between 45.01% and 60% of EU average	40%	50%	60%
GDP between 60.01% and 75% GDP	30%	40%	50%
Phasing out – statistical effect as from 2011	20%	30%	40%
Outermost Regions			
GDP below 75% of EU average	60%	70%	80%
GDP above 75% of EU average	40%	50%	60%
Specific regions for article 87.3.c			
Low population density	15%	25%	35%
Low population density – bordering regions	15%	25%	35%
Standard regions	15%	25%	35%
Most prosperous Regions eligible	10%	20%	30%
Non-assisted areas	0%	10%	20%

- RTD and innovation guidelines need to be taken into consideration when financial tools are set up to promote innovative enterprises. In the guidelines special provision is made for innovative start-ups. The support may reach € 1 million. This ceiling can reach € 1.25 million or € 1.5 million in some regions.