



- NEWSLETTER N° 6, JUNE 2007 -

FinNetSME – Network for Regional SME Finance

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The developed models and the electronic version of the project guide 'FinNetSME - Experiences and Practices' now available at
www.finnetsme.org



Since the last publication of the FinNetSME newsletter in December 2006, the following events were organised by the network:

- a validation seminar on the theme “Clusters and Policy for Entrepreneurial Innovation” was organised in Rome by Filas on 25 January 2007. More than 150 participants from all over Europe took part in the event in order to learn more about regional innovation policies, the Pro-Inno initiative launched by the DG Enterprise and Industry and the availability of venture capital in the different European regions.
- the Final Conference of the FinNetSME project titled “Financing enterprise growth in the regions of the EU – models and recommendations”, jointly organised by the European Association and Public Banks (EAPB) and the European Association of Development Agencies (EURADA), was held in Brussels on 6 June 2007. Participants had the chance to hear the interventions of high-level speakers such as Mr Dirk Ahner, General Director of DG Regional Policy and Mr Matthias Kollatz-Ahnen, Vice President of the European Investment Bank.

In this edition of the FinNetSME newsletter readers are provided with a presentation of ADE Financiación, a new financial institution created in Castilla y León (Spain), as well as with an overview of the Aosta Valley Region and the initiatives launched by regional authorities in order to improve SMEs’ access to finance.

Readers are presented with the results achieved by INVEGA in increasing the growth and competitiveness of SMEs in Lithuania and in particular the success of its guarantee scheme.

The final evaluation of the FinNetSME project is also made available. We are proud to state that the project has proved to be a success! Most of the objectives were attained and partners expressed a high level of satisfaction with the results achieved (more details at page 12).

Enjoy your reading!

About the FinNetSME Project

The Network for Regional SME Finance, FinNetSME, is a project designed to encourage an intensive exchange between regional public financiers on how to improve access to finance for Small and Medium Size Enterprises (SMEs).

20 development banks and development agencies from 9 EU Member States have jointly created the network in order to discuss current problems of SME finance, to compare the situation in their respective regions and to suggest practical ways how to bridge the market gap in SME finance, with or without public funding. In addition, the network strongly welcomes the participation of other actors as 'Associated Partners', in order to create the broadest possible basis for discussion.

The project, supported by the European Union, will contribute to a greater awareness of the value of regional access to finance in the partners' regions. Through the establishment of enhanced co-operation among partners and other stakeholders, the project will make it easier for regional governments to gain expertise in facilitating access to finance through their specialised institutions.

Starting Point

SMEs play a key role in regional development. They ensure economic and social cohesion as well as sustainable development. However, they depend on adequate access to finance. Currently, the market does not respond sufficiently to the finance needs of SMEs, particularly in the economically less dynamic regions. These market gaps will become even greater with the effects of the Basel II Agreement, especially the increased capital requirements for banks that will be felt keenly by SMEs, especially in the new Member States.

The issue of insufficient access to finance for SMEs is of particular relevance to the regional funding institutions, owned and run by their respective governments and specialised in SME finance, as they hold key responsibilities in creating favourable conditions for the regional economy. There

is a strong need for an inventory of existing good practices in SME finance to help improve the situation by exploiting the given financial sources in an innovative way. Policy makers and financiers need this reliable source of regional know-how to find the best solutions for the development of their region.

Typically though, regional actors are compartmentalised, and information of value for public financiers, entrepreneurs and potential investors is not shared. Despite the efforts to establish European and national networks for interaction on the issue of regional SME finance over the past years, the exchange of know-how between regional financiers on successful ways of employing public support structures for SMEs is still weak, and transparency is lacking.

FinNetSME was created in 2004 to overcome these weaknesses. As a result of an extension of the project, activities will run until December 2007.

Project Objectives

- Improvement of access to finance for SMEs
- Closure of the equity gap
- Promotion of entrepreneurship
- Reduction of unemployment
- Contribution to regional economic development

The sub-objectives are:

- Collection of data on regional finance
- Assessment of existing regional practices
- Development of models for regional finance
- Raise of awareness for value of public SME support

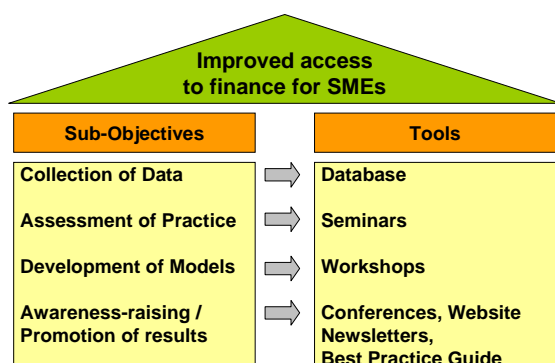
Project Tools

A database comprising publicly supported regional financing instruments has been set up and fed with good practice examples by the partners and associated

partners during the whole project time. The project website www.finnetsme.org is open to all interested parties and provides online information on public regional finance and contact details. Throughout the project, electronic newsletters inform about the latest developments in regional finance.

In addition, a project handbook titled 'FinNetSME – Experiences and Practices' providing information on the project history, the activities of FinNetSME and the partners has been produced. This handbook also gives detailed explanation of FinNetSME models of the regional value chain, on early stage finance, equity financing and micro-credits.

These tools are to serve for future guidance of developers of financial schemes and regional supply chains. Thus, a Centre of Competence of regional finance centralising existing regional knowledge and contacts is emerging.



Five seminars, hosted by the network partners in locations across Europe, were held during the course of the project in order to provide a platform for discussion of core issues with regards to regional SME financing: "The Role of Regional Financiers in the EU", held in Vilnius (Lithuania); "The Regional Supply Chain", which took place in Halkidiki (Greece); "Challenges for Regional Finance", held in Turin (Italy); "Financial Engineering", organised in Vuokatti (Finland) and followed by a "Validation" seminar titled

"Entrepreneurial innovation, policies and clusters" and held in Rome (I).

The range of network events also includes three conferences open to all interested parties, reaching national and regional financial players, incubators, regional development agencies, business associations, public authorities and EU institutions. While the first conference in Brussels in November 2004 marked the official project kick-off, the second conference "Regional SME finance to re-start the Lisbon Agenda" in Kiel on 23 March 2006 was the occasion for a mid-term review. The last conference, again in Brussels in June 2007, gave the opportunity to take stock of the results achieved. The event was a great success and attracted more than 150 participants (see also page 10).

Long-Term Impacts

In the long run, FinNetSME will contribute to regional development in the EU by improving regional access to finance for SMEs and the quality of new financial instruments, therefore fostering enterprise creation and stimulating a culture of entrepreneurship that will reduce unemployment. Linking regional specialised funding institutions to develop common approaches towards EU institutions and the EIF, FinNetSME will shape future EU regional policies and instruments.

- Sustainable dialogue between regional financiers
- Greater awareness of the value of SME support
- Increased transparency of financial instruments
- Facilitation of gaining expertise on SME finance
- Improved quality of new financial instruments
- Contribution to regional development

The FinNetSME Partnership

Organisation	Country
Sächsische Aufbaubank - Förderbank - (SAB)	Germany
Finanziaria Laziale di Sviluppo (FILAS)	Italy
ADE Financiación	Spain
Investitionsbank Schleswig-Holstein	Germany
Thermokitida Neon Epichiriseon Chanion	Greece
NRW.Bank	Germany
Gepafin Spa	Italy
Fundación Comunidad Valenciana – Región Europea	Spain
UAB "Investiciju ir verslo garantijos" (INVEGA)	Lithuania
Investitionsbank Berlin (IBB)	Germany
Latvijas Hipotēku un zemes banka	Latvia
Investitionsbank Sachsen-Anhalt	Germany
Kainuun Etu Oy	Finland
The Autonomous Region Aosta Valley	Italy
European Association of Development Agencies - EURADA	EU
Società consortile Langhe Monferrato Roero a.r.l. (LAMORO)	Italy
Anaptixiaki Anonimi Eteria Anatolikis Thessalonikis "ANATOLIKI A.E."	Greece
Finpiemonte S.p.A. (Istituto Finanziario Regionale Piemontese)	Italy
European Association of Public Banks - EAPB	EU
Banca San Francesco (Associated Partner)	Italy
Encouragement Bank Bulgaria (Associated Partner)	Bulgaria
UAB "Žemės ūkio paskolų garantijų fondas" (Associated Partner)	Lithuania
Ministerium für Wirtschaft des Landes Brandenburg (Associated Partner)	Germany
Finance Wales plc (Associated Partner)	UK

Seminar: "Clusters and Policy for Entrepreneurial Innovation", January 25, 2007

The Meeting on Clusters and Policy for Entrepreneurial Innovation, organised by Filas on 25 January 2007, attracted over 150 representatives from all over Europe and was followed by the FinNetSME project meeting on 26 January.

Mr. Fabrizio Sacerdoti, Filas Sole Administrator, welcomed the delegates and outlined the objectives achieved by Filas on behalf of the Lazio Region in support of regional innovation policy and clusters stressing the aerospace and biosciences districts pioneered, in Italy, by the Lazio Region.

Mr. Alex Talacchi, DG Enterprise and Industry Officer, illustrated the salient issues addressed in the Seventh Framework Programme (2007-2013) by the European Commission and in particular the Pro-Inno initiative that aims to become the focal point for innovation policy analysis, learning and development in Europe. In particular, the project Inno-deal is part of the INNO-Nets area that focuses on cluster policy cooperation, support to knowledge-based SMEs and start-ups, transnational knowledge valorisation, links between industry and research and innovation in services.

Peter Flath, FinNetSME Project Manager, concluded the first part of the meeting illustrating the fruitful database of knowledge collected by FinNetSME, a project aiming to collect and analyse all the available tools for financing SME at regional level that are being used to develop new models.



Other speakers included Simona Marzetti, from IPI who explained the efforts implemented in Italy to promote technology transfer and introduced INSME, and Pierluigi Paracchi, CEO of Quantica, who analysed the difficulties presented by the Italian venture capital market. A very fruitful and interesting panel moderated by Klaus Kofler, EU Representative SAB, closed the meeting.

Stefano Turi, General Manager of Filas, launched a very interesting discussion by pointing out the apparent contradiction



between the importance that the European Commission assigns to venture capital initiatives and the practical difficulties in allotting venture capital to SMEs that lack the organisational potential and know-how of larger enterprises necessary to face the bureaucratic application process.

The final panel, moderated by Klaus Kofler, representative of SAB, also addressed the varying regional and national availability of venture capital and the attractiveness of different European regions in this respect.

ADE Financiación: a new financial organisation in Europe

ADE Financiación was created with the purpose of facilitating access to finance and started its activities at the end of 2006. ADE Financiación has already created a Risk Capital Fund, a R&D Fund and a Second Guarantee Fund with 4 million €.

We are proud of anticipating that our Second Guarantee Fund is the first fund in Spain with such characteristics.. It will complement the national second guarantee system in supporting big amount business projects.

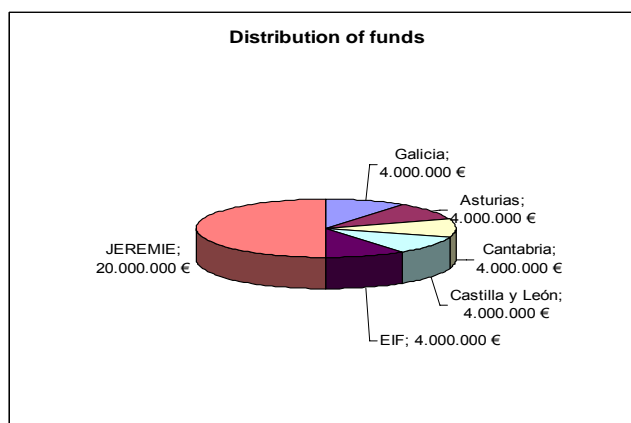
Besides this, we have introduced the first Business Angels Network in Castilla y León, BANCAL, that will help keep and reinvest the money generated in the region.

In the short period following its creation, ADE Financiación found 25 investors and launched two projects.

IBERIA NORTHWEST FUND

Next year ADE Financiación will create a Risk Capital Fund called *Iberia Northwest Fund*. This fund will be created in collaboration with the other three north-western regions - Cantabria, Asturias and Galicia, the EIF and the European Initiative JEREMIE. The amount will reach 40 million € and will promote innovative

business projects settled in the territories integrated in the programme. Some of the advantages of the cooperation among different regions are the reduction of structural and administration costs and a more efficient use of such funds.



The program will provide technical assistance in the drafting of business plans and will finance SMEs through risk capital and guarantees.

It will be the first time that four European regions, the EIF and JEREMIE will cooperate in such an ambitious project. It will be a pioneering experience in Europe that will reinforce the cooperation between different European regions.

The Autonomous Region Aosta Valley (Italy)



Aosta Valley is an alpin region strategically located in the North-West of Italy and shares borders with France and Switzerland.

The most important sectors of its economy are tourism, thanks to

its high mountains, and trade: these two sectors account for about 80% of the regional gross product.

Nevertheless, the industrial and handicraft sectors play a crucial role in the region, as they guarantee a significant employment rate and are less affected by seasonal conditions than tourism.

The most important industrial clusters in Aosta Valley are in iron and steel metallurgy, automotive, ICT, microelectronics, hydroelectric energy, food and beverage.

SMEs play an essential role and represent 99 % of the total number of enterprises.

The Direction of Productive Activities and Cooperation of the Autonomous Region Aosta Valley, which is a regional public authority, manages, monitors and controls



regional laws that provide industrial and handicraft firms located in the region with financial aids and consultancy services.

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 internationalisation programmes (participation to international trade fairs and marketing researches).

In order to improve and strengthen the regional entrepreneurial culture and managerial skills in evaluating businesses, the regional administration provides SMEs with advisory support and grants through the activities of development agencies active in the region.

As Aosta Valley is an objective 3 region and has several objective 2 areas, the Direction of Productive Activities and Cooperation is also managing a significant number of regional projects co-financed by the EU Structural Funds.

The Direction of Productive Activities and Cooperation became a partner in the FinNetSME project on 1 January 2007. Before, Aosta Valley was already actively taking part in the project work through the regional authority Centro Sviluppo, which, due to restructuring activities of the development agencies in the region, was liquidated and consequently left the project.



Guarantees issued by INVEGA in 2006 enabled small and medium-sized enterprises to take EUR 55.8 million more loans

Small and medium-sized enterprises in Lithuania account for 99% of all national enterprises and create the largest share of the gross domestic product (GDP); therefore it is obvious that the growth of the Lithuanian economy depends upon small and medium business.

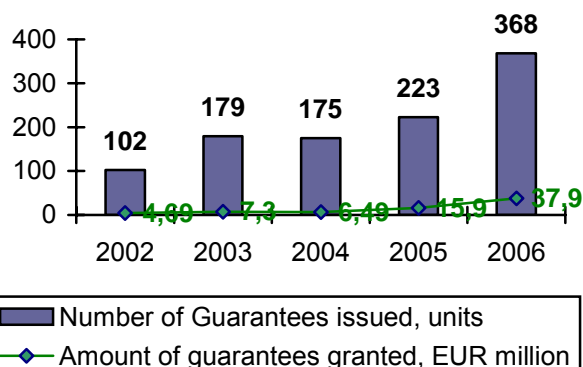
INVEGA (Investiciju ir verslo garantijos, Ltd.) is successfully realising its mission, formulated five years ago, to increase the growth and competitiveness of small and medium-sized businesses in Lithuania by facilitating their access to finance and to promote the creation of new jobs. This is reflected by its performance: the amount of guarantees INVEGA issued in 2006 is almost equal to the amount of guarantees issued during the first three years of INVEGA activities.

In 2006, INVEGA provided SMEs with 368 guarantees, of which 296 were included in the European Investment Fund's (EIF) Counter-Guarantee portfolio, i.e. by 1.7 times more than in 2005. Issued guarantees reached a total of 37.9 million € (of which 35.1 million € is Counter-Guarantee by the EIF) or by 2.4 times more than in 2005. Guarantees issued last year enabled small and medium-sized enterprises to receive loans for a total of 55.8 million €. This amount is twice as large as the one reached in 2005.

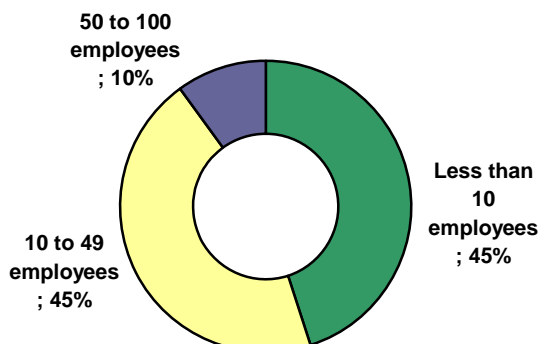
The total amount of loan guarantees issued by INVEGA during its five years of activity is 111.1 million €. The creation of more than 5.300 new jobs is envisaged after the implementation of the guarantee projects.

The bulk of INVEGA's customers is composed of small enterprises with 10-49 employees; in 2006 the share of micro

Dynamic of INVEGA's guarantees issued



Structure of guarantees issued in 2006 by number of SME's employees, %



enterprises (companies with less than 10 employees) increased of 45% and now corresponds to the share of small enterprises. This was considerably influenced by the implementation of a microcredit programme financed by funds of completed PHARE programmes (non-repayable assistance to Lithuania) undertaken by INVEGA in the second half of 2006.

FinNetSME Final Conference: "Financing enterprise growth in the regions of the EU – models and recommendations", Brussels, June 6, 2007

On 6 June 2006 the Final Conference of the FinNetSME project titled 'Financing enterprise growth in the regions of the EU – models and recommendations' took place in Brussels. About 150 persons attended the event in order to learn more about the final results of the three-year project and to discuss about financing issues with high-level representatives from the European Commission and the EIB such as Mr **Dirk Ahner**, General Director of DG Regional Policy and Mr **Matthias Kollatz-Ahnen**, Vice President of the EIB.

Mr **Henning Schoppmann**, CEO of the European Association of Public Banks (EAPB), organizer of the event together with the European Association of Development Agencies (EURADA), welcomed the participants and gave a short presentation of the FinNetSME project.



The importance of SMEs for regional development was emphasized by Mr **Dirk Ahner**. 95% of all businesses in the European Union is composed of SMEs. They are therefore the key for job creation. The European Commission has developed some tools in order to improve SMEs access to finance:

- the JEREMIE initiative, which has been created through a cooperation agreement with the EIF
- the Competitiveness and Innovation Programme
- the European Social Fund.

For the future the EU Commission will focus on special tools for micro-enterprises.

Mr. Ahner thanked the partners for their work and highlighted the essential role of the FinNetSME network in improving access to finance by SMEs. He also encouraged continuing these efforts for supporting SMEs. The final conference should not be considered as the end of an INTERREG project but an opportunity to plant seeds for future activities.

Mr. **Rainer Irmen**, from the State Development Bank of Saxony – the Lead Partner of FinNetSME described the network and underlined the importance of micro-enterprises for the European economy as they represent the majority of the 23 million SMEs in Europe. SMEs nowadays have to face several challenges, among which their limited access to new technologies and their difficulty in implementing knowledge, as well as their scarce equity base and their struggle with regulations.

Mr **Gerhard Huemer** from the European Association of Craft, Small and Medium-Sized Enterprises (UEAPME) who highlighted that finance is not sufficient for SMEs.

Credits and loans are available, but there is still no sufficient availability of equity finance. This is also the cause of disadvantageous tax regulations.

In addition, the economic change that started in the beginning of the '90s characterised by a dynamic change due to globalisation and to the opening of the Eastern European market and the restructuring of the banking sector (Basel II agreement) is not helping SMEs to access more sourced of finance.

He concluded by stressing that SMEs have to change their mentality and will have to adapt to this new situation. They have never seen credit institutions as business partners, but they will need to.



Mr Huemer's speech was followed by a presentation of the results of the FinNetSME project held by the project partners. The achievements of the project work and their accessibility were demonstrated by Mr. **Christian Müller** from NRW.BANK, Mr. **Christian Saublens** from EURADA, Mr. **Martin Dastig** from Investitionsbank Berlin, Mr. **Thomas Hüttich** from Investitionsbank Berlin as well as Ms. **Cornelia Gerster** from EAPB. As access to finance is one of the most severe bottlenecks among the challenges faced by SMEs, the FinNetSME project met the existing market gaps by developing innovative financing models and strategies.

During the implementation of the project the partners gathered and analyzed information on existing practices. Good practices have been identified and collected in the FinNetSME database.

The network focused on urgent issues of SME finance, the regional value chain, early stage finance, micro-finance schemes and equity finance.

On the occasion of the Final Conference the partners proudly presented the developed models, among which the model of an ideal value chain. 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 in the policy structure. The value

chain presented 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 (incl. graph of Value Chain).

The presentation of models developed for early stage finance as well as micro-finance arouse the interest of the audience.

The network's main tool, the database available on the project website www.finnetsme.org, contains the complete range of data and information collected during the course of the project and comprises financial and non-financial support measures analysed by the network, as well as the developed models. All interested persons can access the database and easily create their own account; after filling in an online registration form the user gets his personal identification (login and password) via email.

The implementation of the FinNetSME project has already had some impacts on the participating regions. Mr **Juris Cebulis** from the Mortgage and Land Bank of Latvia (MBL) gave an overview of a new programme implemented in Latvia. In December 2006, MBL launched a new programme co-financed by the ESF: "Training, consultancy and financial support to business start-ups". The programme is based on FinNetSME principles and aims at stimulating small business activities by encouraging people, especially first-time entrepreneurs, starting their own business by providing them with a package of support measures combining financial and non financial instruments.

The future perspectives of this programme can be summarised as follows:

- until mid-2008 1.000 start-ups will be trained
- 300 will be financially supported

The programme will continue during the new programming period.

The afternoon session started with a presentation by Mr **Matthias Kollatz-Ahnen** from the EIB, who gave an overview of the role of the EIB in supporting regional SME finance. His colleague Mr **Laurent de Mautort** from

EIB added detailed information about EIB's offer for SMEs.

During the panel discussion that closed the conference, numerous participants took the opportunity to question Mr **Michel-Eric Dufeil** from DG Regio, Mr **Jean-Noel Durvy** from DG Enterprise and Industry, Mr **Jürgen Föcking** from DG Competition, Mr **Marc Schublin** from EIF as well as project partners. The main discussed topics were the De minimis and block exemption regulations of the EU as well as the EU programme JEREMIE.



The high interest in this event shows that there are still open questions in the field of SME support.

The FinNetSME partners intend to proceed with their activities with the aim of matching the supply and the demand perspectives 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 cooperation, the outcomes of the FinNetSME project will 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.

The presentations of the Final Conference and the project guide 'FinNetSME-Experiences and Practices' are available at: www.finnetsme.org.

Final Evaluation of the FinNetSME project - Results/Outputs

In March 2007 Investitionsbank Sachsen-Anhalt completed the final evaluation of the FinNetSME project, which presents the results of the second of the two internal evaluations. The intention of both these evaluation was to assess the achievements of the network objectives as well as the satisfaction of the project partners.

The evaluation process mainly focused on the achievements of the network objectives, the partners' objectives and the quality of the organisation. A number of methods and tools were used, combining top down with bottom up approaches. Altogether, 16 of 19 network partners returned a standardized questionnaire (84.21 %).

Network objectives:

In the questionnaire the participants were asked to indicate the top three (sub-) objectives mentioned in the application form. The results were the following:

- Creation of the basis for policies improving access to finance for SMEs by promoting the exchange of know-how (10 votes)
- Development of models as a basis for the implementation of finance policies, e.g. model supply chain (9 votes)
- Building a platform for public regional financiers (6 votes)

In comparison with the figures of the mid-term evaluation, the differences are very little (only rank 2 and 3 have swapped place).

Partners' objectives:

The most important expectations about results and outcomes of the project are to "exchange experiences and learn from existing regional good practices" (12 votes) and to "enhance and improve own knowledge in the area of access to regional finance for SMEs" (9 votes). Other important issues for the FinNetSME partners were to "develop models for regional financial instruments for SMEs" (8 votes) and to "gain practical information about technical, legal and management questions related to new financial tools,

e.g. compliance with EU rules on state aid" (also 8 votes).

Network organisation and outputs:

The answers regarding the most important outputs of the network were similar to the mid-term evaluation and were grouped in 4 groups:

- 1) The opportunity of getting in close contact with specialists of different kinds of public regional SME financing institutions (5 partners).
- 2) The possibility of having direct access to a very open and trusting exchange of experiences and know-how (11 partners).
- 3) The tools of FinNetSME – the database as a central tool for a formalised exchange of knowledge (5 partners) and the first results of the model development process within the working groups (9 partners).
- 4) The dissemination activities – esp. the newsletter.

Recommendations:

The recommendations for improving FinNetSME suggested less bureaucracy (e.g. faster managerial procedures in general, minimizing reporting requirements) as well as more publicity/promotion of the project's results.

Conclusions:

The network results correspond to the expectations of the majority of partners. More than two-thirds are using the exchanged knowledge to improve SME finance/ support in their regions. Twelve partners pointed out different long-term results with a high sustainable effect. The answers proved the overall great success of FinNetSME project.

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