



# **ENHANCEMENT OF THE BUSINESS ENVIRONMENT IN THE SOUTHERN MEDITERRANEAN**





# Financing SME Innovation – instruments

Max Bulakovskiy and Raed Rajab

Ramallah, 29 October 2014





# AGENDA



1. Need to Focus
2. The Financing Chain
3. Innovation Support Instruments
4. Examples in the EU
5. Examples in the Mediterranean
6. Conclusions
7. Q & A



# 1. Need to Focus



Finance is crucial for SMEs functioning and especially for their scalability! Even in situations where loan and equity finance are plentiful and legal structures are well established it is widely recognized that SMEs often have limited access to finance.

In many developing economies these obstacles to SME financing may be exacerbated by a range of institutional and legal factors which might include among others (*areas of focus*):

- Uncompetitive banking sector with low willingness to adopt innovative lending policies
- Insufficiently developed legal systems and legal provisions regarding security interests.
- Enforcement difficulties frightening potential investors
- Lack of credible information infrastructure

source: OECD

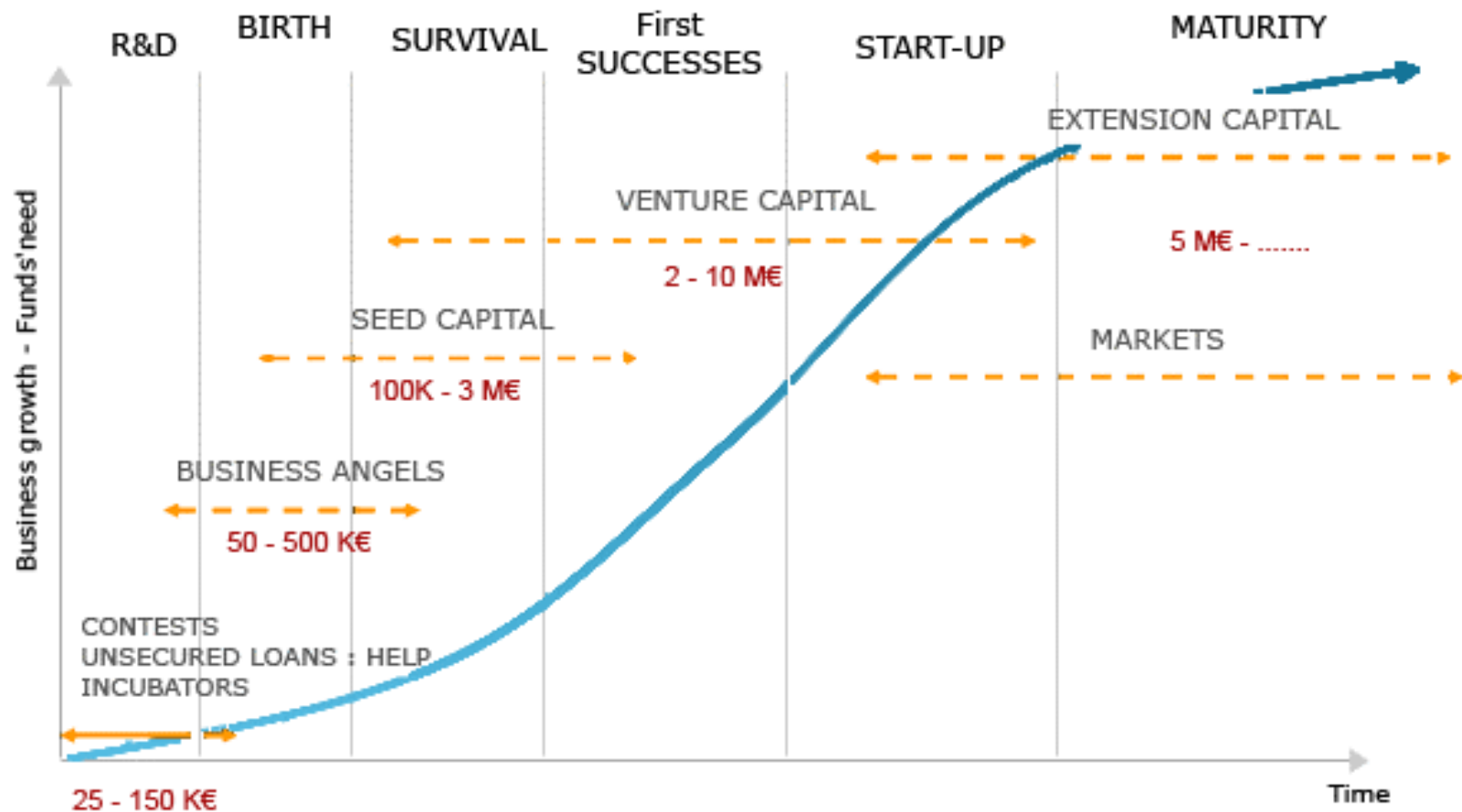




## 2. The Financing 'chain'



The financing "chain",  
throughout the innovative company life cycle



Source: <http://en.franceangels.org/Business-Angels/The-financing-cycle>



# New approaches



## Crowdfunding - Democratisation of investment

Crowdfunding is an emerging alternative form of financing that directly connects those who can give, lend or invest money with those who need financing for a specific project. It usually refers to open calls through the internet to the wider public to finance specific projects. The two main categories to be distinguished are: crowdfunding with non-financial returns (donations, rewards and pre-sales) and crowdfunding with financial returns (crowd-investing and crowd-lending). One of many on-line platforms: <http://www.sponsume.com/>

## Emigrants Remittances (Diaspora money)

- More than 215 million people, or 3 percent of the world population, live outside their countries of birth.
- Worldwide remittance flows estimated at least \$414 billion in 2009 and grows since .
- Recorded remittances are more than twice as large as official aid and nearly two-thirds of foreign direct investment (FDI) flows to developing countries



Source: WB

Focus: Develop systems ensuring integration of these flows into local economies and ideally acting as Angel investors or FFF. Project of ANIMA <http://www.medgeneration.eu/>

**Impact Investment** – an investment focused not only on financial return but also on social or ecological impact. SI2 Fund example. [www.si2fund.com](http://www.si2fund.com)



# 3. Innovation Support Instruments



SME finance can come both from government institutions, but also from private organisations or individuals.

## The governmental- support :

- **Direct support to SMEs**  
(Subsidies/ preferential loans, coaching and advice)
- **Indirect support to SMEs**  
(guarantee schemes to provide funding to SMEs, mezzanine funding, decreased rates for innovation-related activities, capital risk coverage etc)
- **Fiscal support**

## Private actors support:

- Business angels
- Investment funds
- Venture Capital
- Crowdfunding
- etc



## 4. Examples in the EU



EU has recently re-launched a new way of looking at funding the SMEs, which is mainly focused on highly innovative SMEs with a clear commercial ambition and a potential for high growth and internationalisation.

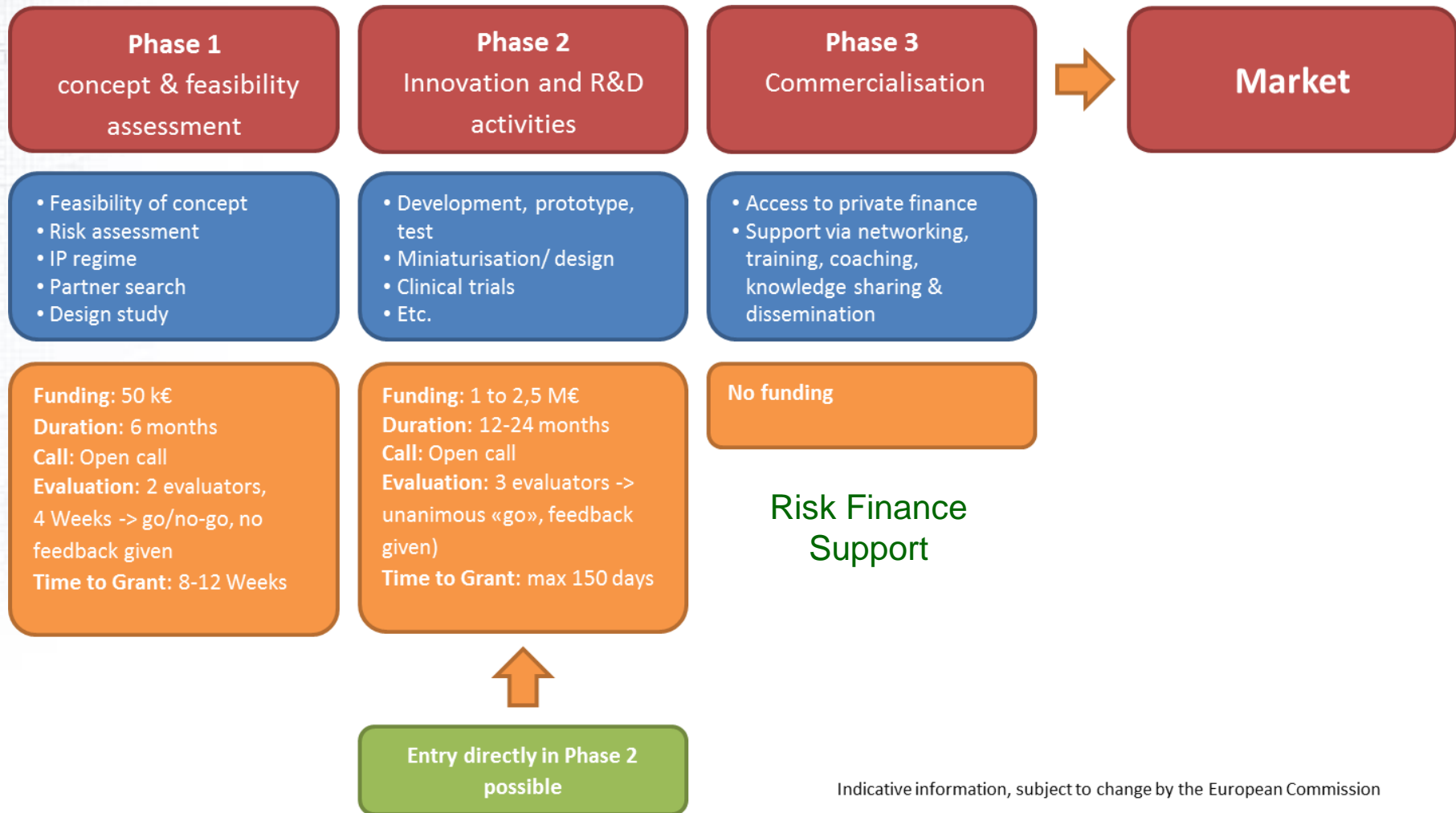
This approach is based on three different types of financial support available with different focus:







# SME Instrument Scheme



Indicative information, subject to change by the European Commission



# Other experience



## Access to risk finance

Access to a wide range of innovation support services and facilitated access to risk finance, to facilitate the commercial exploitation of the innovation.

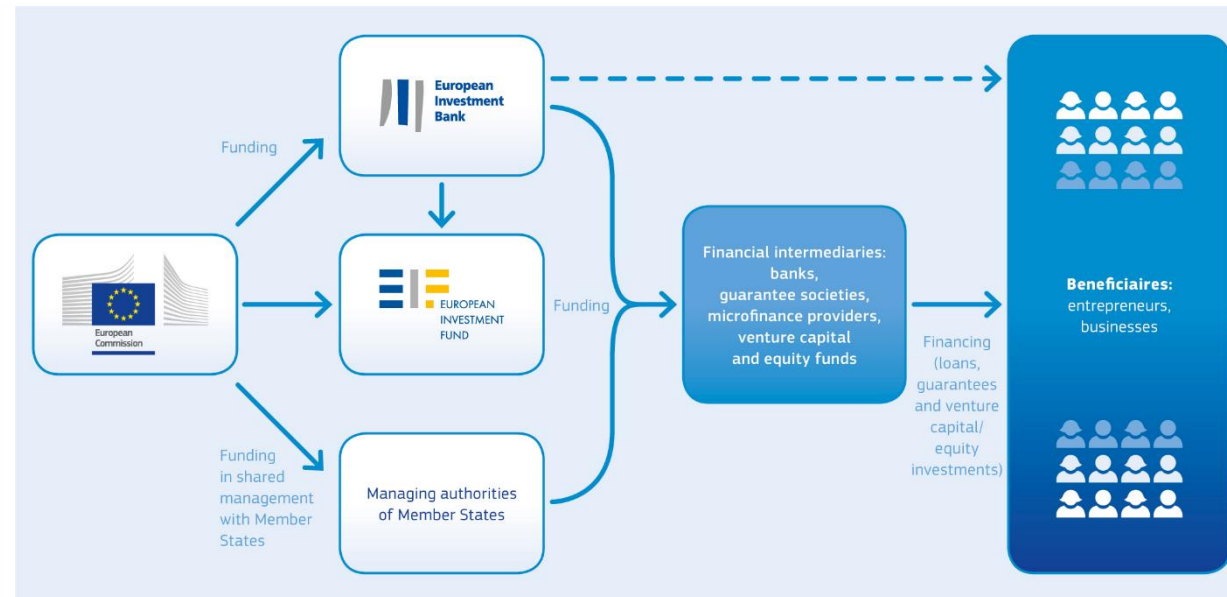
- **The High Growth and Innovative SME Facility (GIF) (till 2013)** contributes to the establishment and financing of SMEs and reduces the lack of equity capital in the markets. Provides risk capital for Innovative SMEs in their early and expansion stages stages (investment of 10-15% of the amount raised by the VC).
- **The SME Guarantee Facility (SMEG)** provides guarantees to encourage financial institutions to make more debt finance available to SMEs by reducing their exposure to risk. (Direct guarantees to financial intermediaries providing loans, mezzanine finance and microfinance to SMEs.)



# Debt Instruments



"InnovFin" – EU Finance for Innovators" is a joint initiative launched by the **European Investment Bank Group (EIB and EIF)** in cooperation with the **European Commission** under **Horizon2020**.



- **InnovFin MidCap Growth Finance** (new focus on mid-sized firms)
  - loans from €7.5 mn to €25 mn; delivered directly by EIB
- **InnovFin MidCap Guarantee** (ditto)
  - guarantees to financial intermediaries (banks, etc)
  - loans from €7.5 mn to €50 mn; implemented by EIB
- **InnovFin SME Guarantee** (ex-RSI pilot)
  - guarantees / counter-guarantees to financial intermediaries
  - loans from €25 000 to €7.5 mn; implemented by EIF



# Differentiated approaches



## How to fund & finance your project



- Deployed by eligible local banks, leasing companies, guarantee institutions, etc
- Allows the provision of more debt financing to innovative SMEs and Small Mid-caps (up to 499 employees).



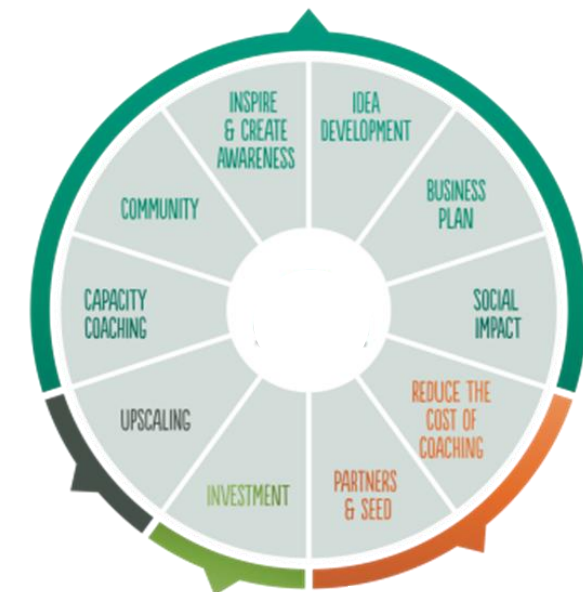


# Social Innovation Factory



- The Flemish government has allocated the Social Innovation Factory a budget of €2.56 million/year, spread over four years.
- Aim: catalyzing social entrepreneurship projects. Supporting the creation of a strong set of “social innovators”, well equipped to drive their enterprise or project to full success.
- To stimulate the area of social enterprise, SIF launched an open call for projects in need of funding early this year. Associations, businesses and knowledge institutions submitted no less than 137 proposals, which clearly demonstrates that the factory is filling a need. An independent group of experts selected 20 projects, which will each receive an investment of a maximum of €50,000 for the duration of one year.
- Through the social innovation factory, entrepreneurs can request a feasibility study and (co-)financing by the IWT. The network also assists innovators in their search for other partners or investors.

**SOCIALE  
INNOVATIE  
FABRIEK**





## 5.Examples in the Mediterranean Kafalat(Lebanon)



- Key player in SME development in Lebanon and acts as a hub beyond access to finance.
- In 2012, the Lebanese Ministry of Finance signed a USD 30MM loan with the World Bank to establish a fund aimed at providing concept development grants and early stage equity financing for innovation start-ups and SMEs.
- Financing scheme combining a credit line with a credit guarantee facility for innovative companies, the scheme is funded by its own equity, with some products co-funded by the European Commission. Almost 30 banks in Lebanon, both public and private, signed an agreement with *Kafalat* and are active in accepting loan guarantees.

### General Conditions

- **Purpose of the loan:** supporting innovating start-ups covering:
  - new product or service development,
  - development of a new production line or a business process,
  - development of new uses for existing products,
  - development of new types or modes of distribution or sales channels.
- **New or underway projects,**
- **Financing up to 90% of the innovative project cost,**
- **Acquisition of machinery except for rolling stock,**
- **Guarantee: Kafalat guarantees 90% of the loan amount.**



# EU-Egypt Innovation Fund



- €6.5 MM for supporting research, development and innovation initiatives in Egypt . Covering Energy, Water, ICT, Environment, Materials and Nano-technology, Biotechnology, Health, Space, Manufacturing Industries, Food, Agriculture and Education.
- Composed of two grant schemes with different objectives, eligibility criteria and types of actions:

## Grant Scheme 1: (€100,000 – €500,000)

Support initiatives and projects that contribute to the achievement of sustainable development in Egypt with emphasis on increasing capital investment, enhancing technological innovation and improving competitiveness of the different economic sectors in Egypt .

## Grant Scheme 2: (€10,000 – €25,000)

Enhance collaboration between the research community and the industry to embark on fruitful cooperation aiming at technological innovation, raising awareness on importance of R&D and innovation, and enabling SMEs and entrepreneurs to solve technical problems and develop certain ideas that do not need mega financing. implement best practices.



## 6. Conclusions



- There is a real need to support mechanisms by the government through investment, but also through development of a coherent enabling environment with clear targets and clearly defined policy documents and framework to enable investments.
- Private sector should be a solid partner when financing in innovative SMEs and collaboration approach with relevant private sector stakeholders should be encouraged.
- Everyone can play a role in financing innovation, government, private sector but even individuals.





**Thank you for your attention**

**Contact:**

**Name: Max Bulakovskiy**

**Phone: +32 (0)4 73 75 05 76**

**Email: [boulakovski@yahoo.com](mailto:boulakovski@yahoo.com)**

