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Beyond Grants: Innovative Financial Instruments for Innovative SMEs

ERDF-Loan and Risk Capital Funds at Investitionsbank Berlin

JOSEFIN 1st Policy Maker Seminar
Zielona Gora, 22 September 2010
Thomas Hüttich

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(european regional development fund)

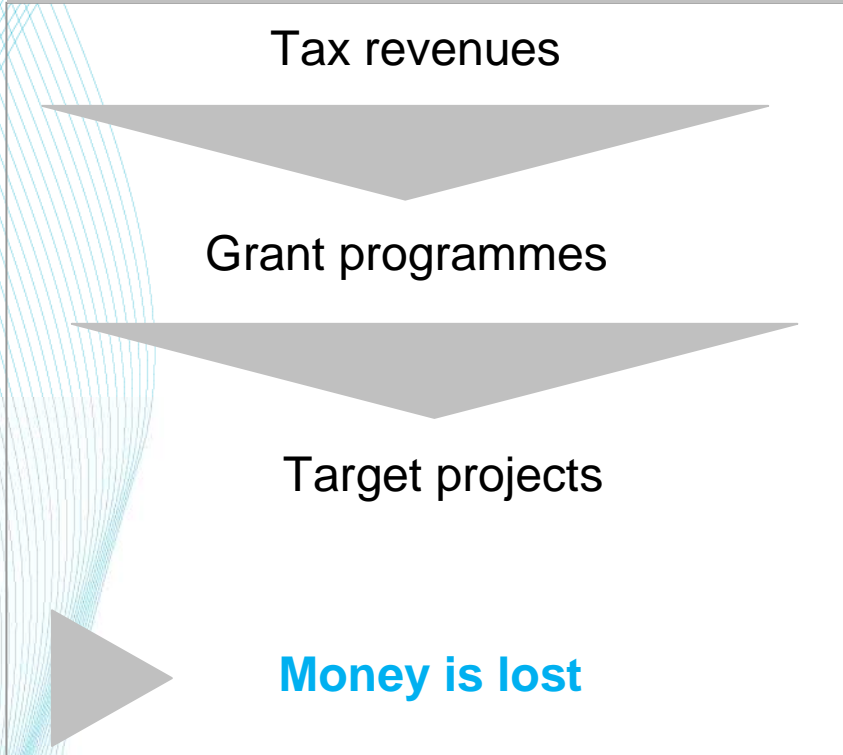


- IBB is the regional development bank of the Land Berlin
- Balance-sheet sum: 20,5 bn EUR
- Equity 584 Mio. EUR
- 671 employees
- IBB offers financial instruments for economic growth, job creation, R&D and housing
- IBB focuses on the support of SMEs in general and specifically enterprises in the so called Berlin fields of competency (innovation and technology)
- IBB is guaranteed by the Land and thus profits from preferential refinancing terms on the capital market

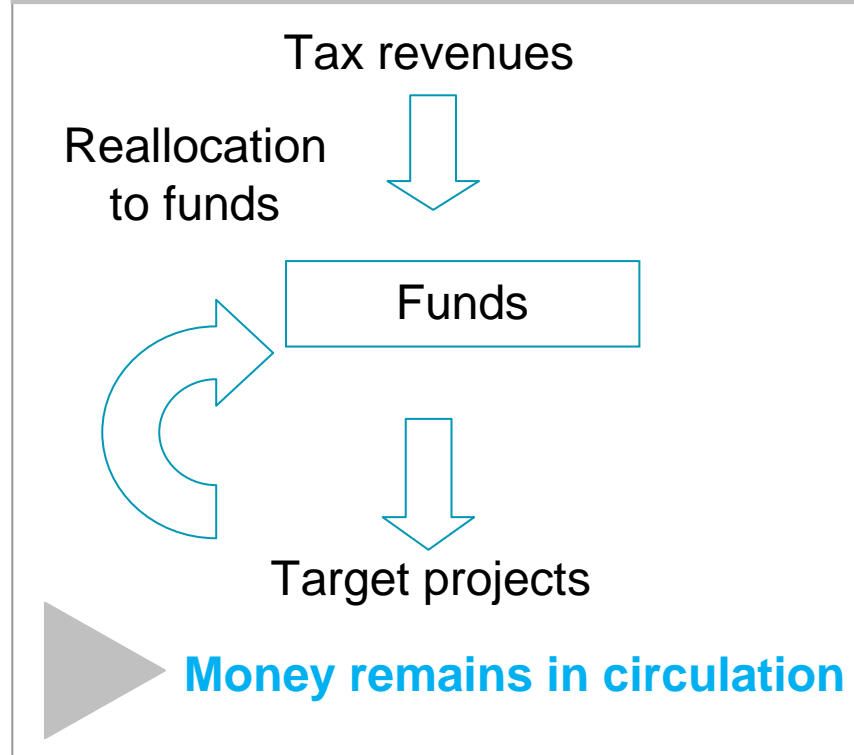
Investitionsbank Berlin



Support based on Grants



Revolving Instruments



Revolving instruments increase the efficiency and effectiveness of public resources

Innovative Use of EU-Structural Funds

- EU has promoted revolving financial instruments with ERDF support since the last programming period and is further advancing the approach in the current period with JEREMY and JESSICA
- Specific rules were set up under Article 44 of the General Regulation and Articles 43 -46 of the Implementing Regulation
- Typical non-grant financing instruments through which investments have been supported are:
 - Loan funds providing SME loans, loans for R&D / innovation and microcredits
 - Risk capital funds for seed and venture capital, equity and mezzanine finance to SMEs
 - Guarantee funds, including guarantees and counter-guarantees for SME loans
 - New: loan funds for urban development and energy efficiency

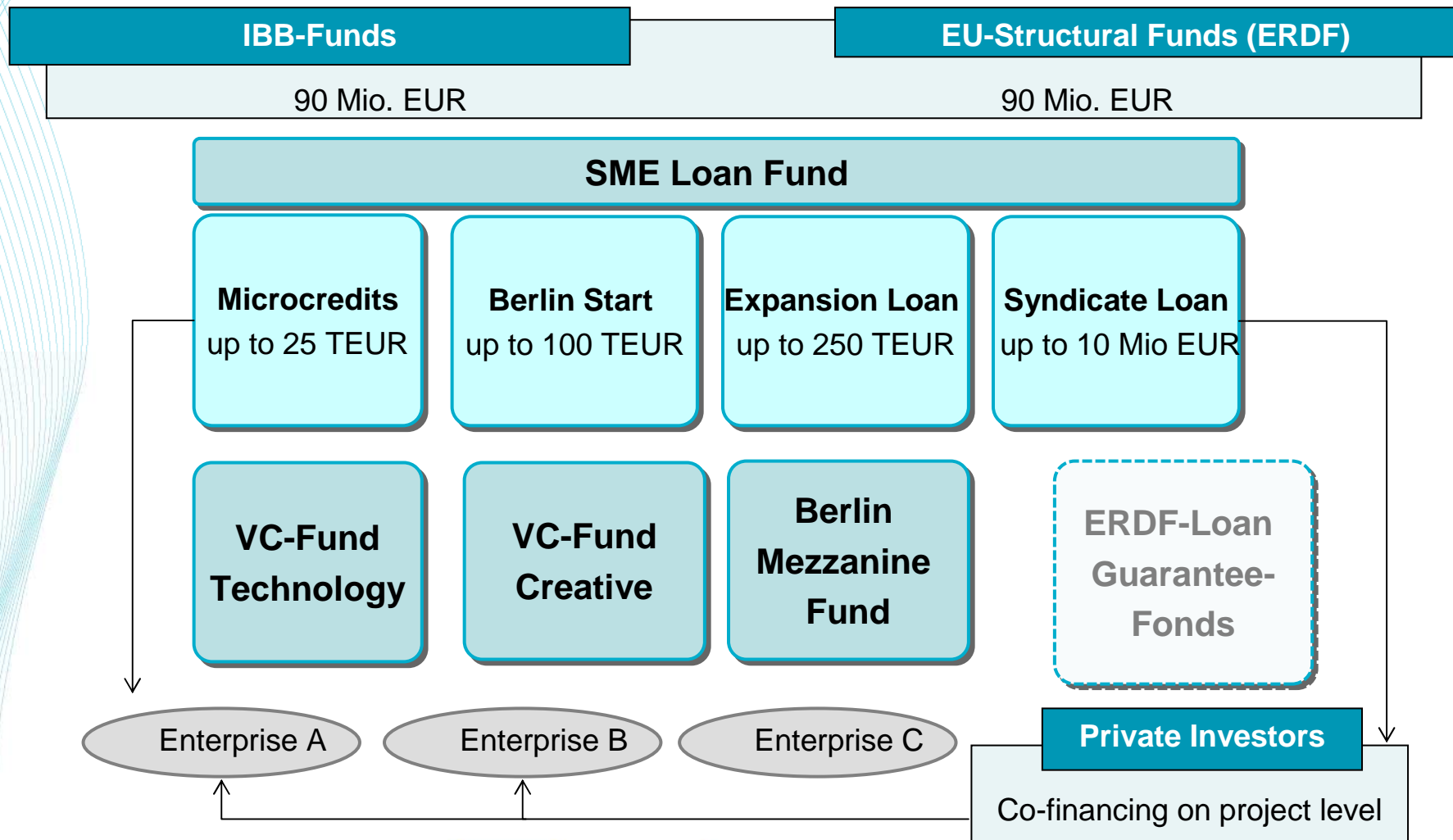
Added value of Financial Engineering

- ERDF Implementation advantages over grants:
 - Revolving and sustainable beyond the end of the programming period
 - Leveraging private capital by primary liability
 - No automatic de-commitment rule (N+2) for money paid into fund
 - Reduced reporting and auditing requirements (fund-level only)
 - Interest earnings on ERDF capital in the fund
 - Independent, professional and profit-oriented fund management
- Additionality for beneficiary
 - Access to finance where there are market gaps
 - Risk sharing allows for higher risk taking (e.g. SMEs with low levels of collateral and equity)
 - Transfer of refinancing advantage and risk sharing to the SMEs in form of preferential loan terms

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Revolving ERDF-Funds at IBB



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Baltic Sea Region
 Programme 2007-2013

Investitionsbank
 Berlin

SME loan fund and micro-credits

- Loans up to 250 TEUR directly from IBB, over 250 TEUR only in cooperation with a commercial bank
 - Investments and related working capital
 - Pre-financing of firm or expectable purchase orders
 - Financing of product development and new projects
 - Pure working capital for business start-ups and young enterprises up to 3 years
- Simplified and quick access to micro-credits up to 25 TEUR
 - Lean, un-bureaucratic application process (no business plan or liquidity planning necessary)
 - Fast financing decisions based on quick-check-tool, focus: personal interview, entrepreneurship
 - No collateral needed (up to 25 TEUR)

Venture Capital Funds at IBB Beteiligungsgesellschaft

- Up to 1,5 Mio. EUR per round of financing
- Minority stake: usually 15-20% (max. 49%) of nominal capital
- Matching co-financing by private investors (pari passu, pro rata at least 50%)
- Duration of investment: usually 5-7 years
- Accompanying consultancy support on operational and strategic matters
- Investment focus:

VC Fund Technology

- ❖ ICT
- ❖ Life Science
- ❖ Factory Automation

VC-Fund Creative Industries

- ❖ Film, radio, TV, publishing
- ❖ Music, entertainment
- ❖ Advertising
- ❖ Fashion, Design, Architecture
- ❖ Multimedia, Games, Software
- ❖ Art and Culture

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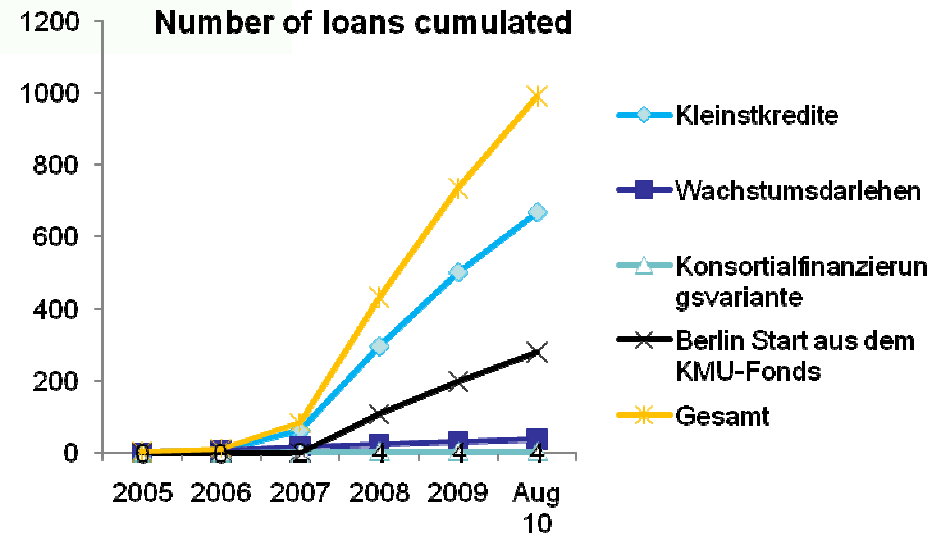
Results



VC-Funds

SME-Fund

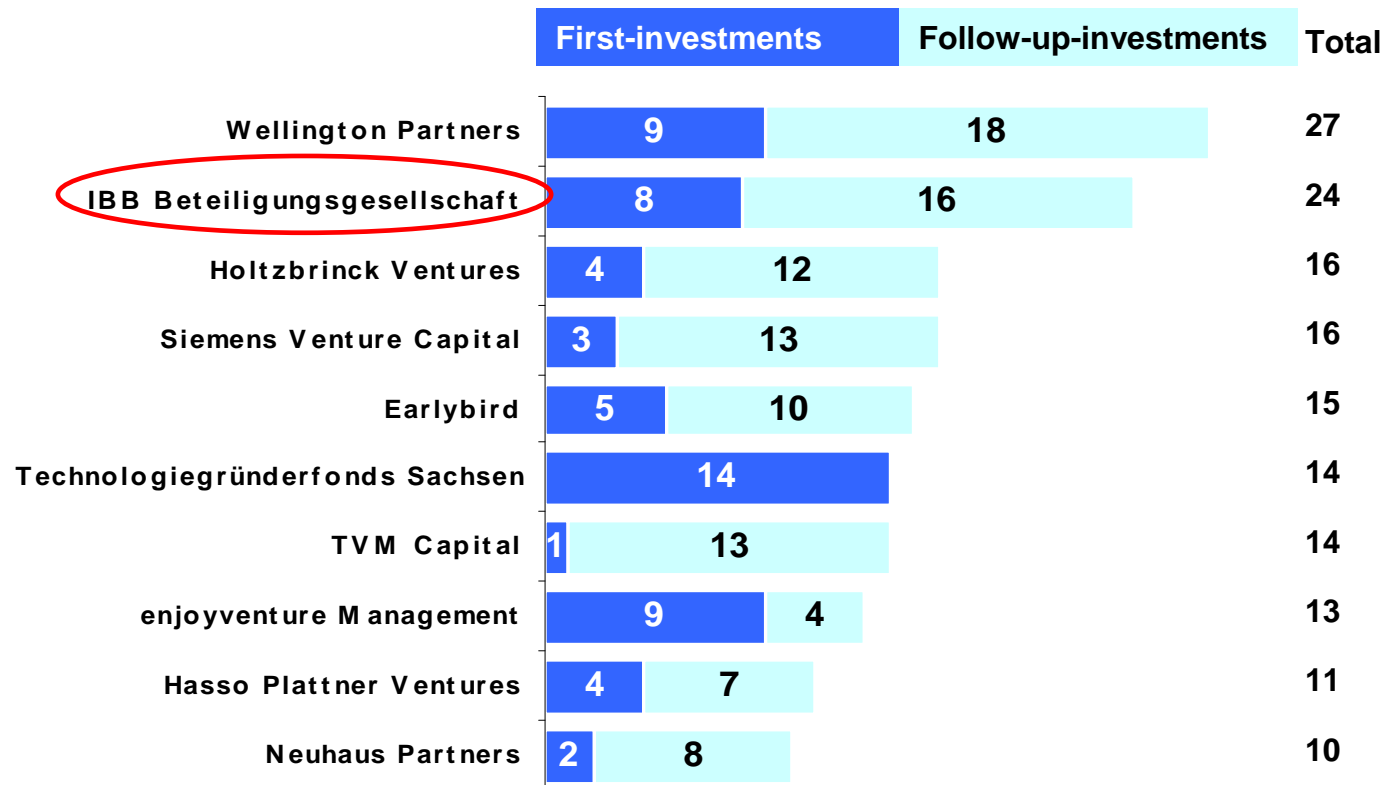
Number of loans cumulated



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TOP 10 Venture Capital Panel 2009



Source: Fleischhauer, Hoyer & Partner (FHP)

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Examples of Innovation Finance



Sulfurcell is processing ordinary window glass and transforms it into solar modules generating electric energy. The heart of the solar module is a thin Copper-Indium-Sulfid-layer, which absorbs as much sunlight as Silicon wafers of conventional solar modules although being a hundred times thinner. This allows the production of solar modules at lower costs without the use of Silicon.



HETAN Technologies GmbH develops a new generation of 2-way satellite services. By acquiring parts of the former skyDSL-branch of the Berlin-based company TELES AG, HETAN Technologies GmbH has access to 10 years of know-how in the development of satellite internet services.



ALRISE is a drug delivery company focused on advanced nano- and micro-encapsulation for drug development. ALRISE's core business includes controlled-release formulations (parenteral delivery) and targeting of the gastrointestinal tract (oral delivery).



sofatutor.com is an innovative online education platform. Short video tutorials are helping high school and college students to study for exams and recapitulate lessons.



eagleyard manufactures laser diodes which combine maximum power, highest durability and excellent beam quality. eagleyard is a spin-off of the Ferdinand-Braun-Institute, a worldwide recognized leader in high power laser technologies. Based on this close co-operation eagleyard benefits from the experience, knowledge and know-how of 140 scientists and employees enabling us to offer the components of the next laser generation.



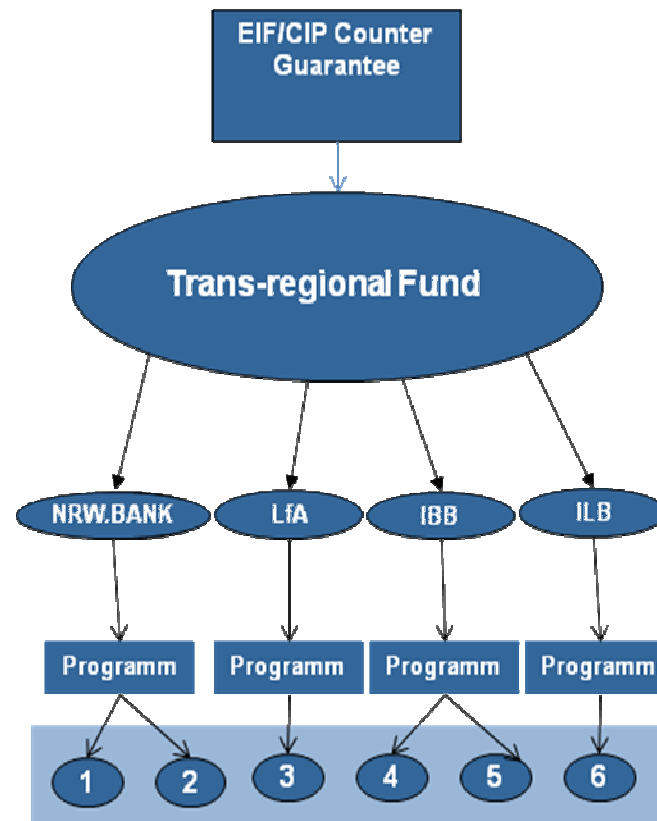
Heliocentris supports education, research and industry partners in establishing fuel cell technology as a part of modern energy system technology. For more than 10 years Heliocentris has been focusing on the commercial use of fuel cell technology. It is a pioneer in the market for education products. Today Heliocentris is considered one of the market leaders in this segment.

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The Future

Level	Risk
EU	25-40 %
Fund	25-40 %
Consortium	↑
Distributor	20-50 %
SME	100 %



- Trans-regional (virtual) guarantee fund
- Partner consortium of regional development banks apply together for CIP counter guarantee from EIF
- Every bank has its own, separate budget (no mutual covering of loss)
- Flexible design of finance instruments
- Lead partner is fund administrator and contractor with EIF
- Rights and duties will be part of subcontracts between lead partner and partners
- Advantage for EIF: guarantees minimum volume and risk diversification

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Thank you for your attention



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