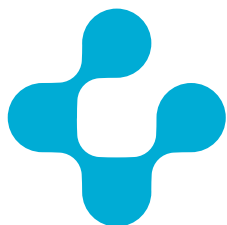


Experiences and Guidelines

JOSEFIN

Integrated support strategies to improve
access to finance for innovative SMEs



JOSEFIN
Joint SME Finance for Innovation



Baltic Sea Region
Programme 2007–2013

PART-FINANCED BY THE EUROPEAN UNION
(European Regional Development Fund)



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Editorial

Dear Reader,

Over the past three years, 23 financial institutions, business development agencies and regional authorities from the Baltic Sea Region have worked together to promote innovation and internationalisation in SMEs by facilitating better access to finance. With the support of the EU's INTERREG IVB (BSR) Programme, the JOSEFIN project (Joint SME Finance for Innovation) has provided us with a framework for trans-national cooperation and experimentation, adding real value to our daily work.

The results are convincing: we have developed common models and approaches, set up new, innovative financial instruments in the regions, and integrated financing with coaching services. Moreover, new agreements have been signed to utilise European Union initiatives such as JEREMIE (Joint European Resources for Micro to Medium Enterprises) and the SME-guarantee facility of the Competitiveness and Innovation Framework Programme (CIP) administered by the European Investment Fund.

This brochure provides a short introduction to our activities, achievements, and policy recommendations resulting from the project. A more detailed handbook of all the instruments, guidelines and case studies is available at our project web site (www.josefin-org.eu).

As the lead partner of JOSEFIN, we would like to thank all the project partners, stakeholders and policy mak-

ers for their enduring dedication and support. We are optimistic that our efforts will have a long-lasting effect on the competitiveness, growth, and innovation capacity of our regions and thereby contribute to the Europe 2020 goals. We have committed ourselves to inspire more innovation, cooperation, and integration. For this, we will continue the partnership beyond the end of the official project.

Yours faithfully,



Irene Schucht



Thomas Hüttich



Irene Schucht,
JOSEFIN Project Director

Head of Division for
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1 Introduction

Small and medium-sized businesses are the economic backbone of the Baltic Sea Region and the arrowheads of its wealth, prosperity and competitiveness. Yet, they have to contend with economic financial, strategic and political challenges and often fail to tap their full potential. As a result, innovation and expansion beyond national borders – both crucial mainstays of business success – fade from the spotlight of entrepreneurial thinking.

In order to boost competitiveness and international business activities, innovative SMEs need the stimulation of direct transnational cooperation and improved access to finance.

With Europe 2020, the European Commission has formulated a growth strategy for the coming decade that aims to develop the European Union into a smart, sustainable, and inclusive economy. To do this, it is indispensable to join regional forces. Within the frame of the INTERREG IVB Programme, public administrations, financial institutions and business development agencies from Germany, Poland, Sweden, Lithuania, Latvia, Estonia and Norway came up with the commendable initiative JOSEFIN (Joint SME Finance for Innovation). During its lifetime, the project has been fostering Europe 2020 by means of vital financial and non-financial instruments encouraging the willingness of banks to finance both innovation and internationalisation projects of SMEs.

In its context, JOSEFIN congruently reflects one of the four cornerstones of the EU Strategy for the Baltic Sea Region – creating a more prosperous region by promoting innovation in small and medium-sized businesses.

***“JOSEFIN is a part of the EU strategy
for the Baltic Sea Region”***

Alexander Schenk, Swedish Ministry of Finance



Joining *Berlin ✦ Brandenburg ✦ Dalarna*

Regional Forces for *Estonia ✦ Greater Poland ✦ Latvia*

More Innovation *Lithuania ✦ Lower Silesia ✦ Lubusz*

More Integration *Mecklenburg-Western Pomerania*

More Cooperation *Oslo ✦ West Pomerania*

"The most attractive feature of JOSEFIN is the integration of components such as guarantee and coaching facilities in one product. That is what is innovative. We need brave pioneers who join forces to find new financial paths, and prove the superiority of the integrated approach over simple subsidies for the sake of the real effective support of the economic development."

Arkadiusz Lewicki, Director of the National Contact Point for the Competitiveness and Innovation Framework Programme (CIP Poland)

2 Guidelines for strengthening innovative SMEs in the Baltic Sea Region

To realise their full potential for growth and internationalisation, innovative SMEs need to overcome multiple challenges. The lack of access to suitable finance due to high risk exposure and low collateralisation is the most pressing one. Moreover, lack of strategic thinking towards market entry and international expansion further hampers the small and medium sized business dynamics. A survey carried out within JOSEFIN further revealed needs for support services which accommodate demands for risk sharing and risk minimizing imposed by financial institutions.

Therefore, the JOSEFIN project focussed on three central guidelines to enhance strategies for supporting and financing innovative SMEs in the Baltic Sea Region.

More Innovation

To achieve this, policy makers and promotional institutions supporting this target group need to be innovative themselves. The results of the JOSEFIN project underline that innovative and well designed financial engineering instruments help to support innovative companies that are lacking access to suitable finance in a much more efficient way than one-off grants.

More Integration

The integration of financial and non-financial support schemes is an important step towards service offers that really fit the diverse needs of innovative SMEs. The JOSEFIN project showed that such integrated solutions can be much more effective than standalone instruments, especially in situations when financial institutions tend to be risk-averse and lack the specific knowledge to evaluate the innovative investments of SMEs as collateral.



“Too many good project ideas fail and are not implemented because the development of an appropriate financing package takes too much time. With „Berlin Kredit Innovativ“, the IBB service offered a financing that can be used very quickly. With a guarantee of 60 per cent provided by IBB we were able to convince our house bank of the benefits of this project.”

Dr. Toralf Kahlert
CEO Pumacy Technologies AG, Germany



“The most important impact of the JOSEFIN project is that we as entrepreneurs have developed a good sense of business goals and development, whereas before the project started we were mainly focused on material research and not so much on developing a sellable product.”

Katarina Fredriksson, MSc, PhD
CEO Superior Metals Sweden AB



The JOSEFIN Loan Guarantee Model accommodates the needs of innovative SMEs:

- ❖ *Flexible terms and conditions in terms of volume limit and maturity of the loans*
- ❖ *Reducing collateral requirements*
- ❖ *The coaching services help to reduce existing information asymmetries and to further mitigate the risk of default*

Characteristics of the regional Loan Guarantee Model implementations

- ❖ *Reduced collateral requirements*
- ❖ *Elements of financial engineering that use EU funds in a revolving way*
- ❖ *A cooperation of different financial institutions to build a sustainable risk-sharing structure*

More Cooperation

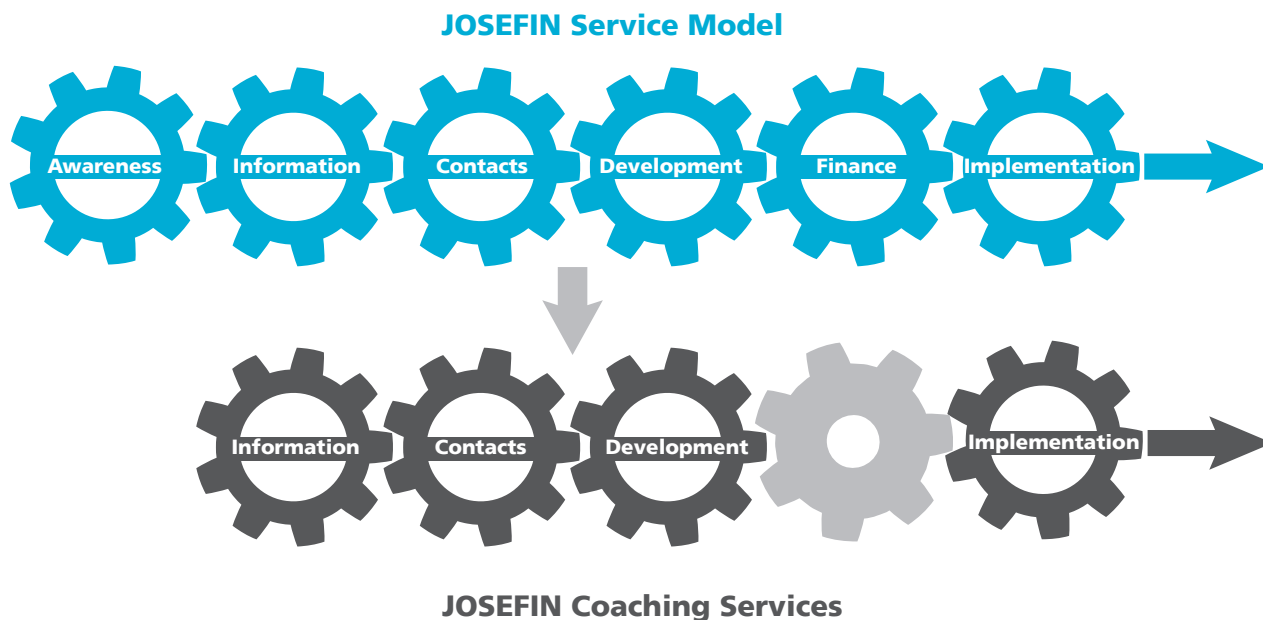
Cross-border cooperation between regional support providers is essential to empower innovative SMEs to make use of the common markets and the potentials of globalisation. The JOSEFIN network is a first step to offer transnational support in access to finance. Intelligent cooperation between EU, national and regional levels is another key element to come up with coherent and transparent support strategies for innovation and internationalisation of SMEs. The regional solutions of the JOSEFIN project demonstrated that a combination of a CIP counter guarantee with a national promotional loan scheme and regional coaching services can be a powerful tool to support innovative SMEs.

These guidelines informed the development of the JOSEFIN Service Model, a blueprint for regional support solutions, integrating innovative financial instruments with coaching and signposting services.

3 The JOSEFIN Service Model

The JOSEFIN Service Model combines a range of coaching and financing services for SMEs through all phases of their innovation or internationalisation projects. It is designed as a blueprint for regional implementation and is built around regional financing instruments that offer innovative SMEs easier access to finance. These instruments should feature specific elements (low collateral requirements, guarantees, revolving use of European funds).

Existing loan instruments are often too bureaucratic and rigid in terms of loan volume limits and loan maturities. Furthermore collateral requirements are in most cases too high for young or small companies with



innovative business concepts. The crucial element of the Model is a working risk-sharing construction that diffuses the risk of default over different institutions. From the perspective of the loan giving institution, the most promising way to mitigate this risk is to involve other financing institutions in the securitization of the loan ([JOSEFIN Loan Guarantee Model](#)). This can be a public guarantee fund, a guarantee bank, or another public or semi-public provider of loan guarantees.

Option 1: A public regional guarantee fund is co-financed by the EU's Structural Funds or JEREMIE initiative (Joint European Resources for Micro to Medium Enterprises) and shares the risk with a commercial bank or regional loan fund. The maximum share of own cash contribution or the collateral contributed by the financed SME should be 20%. This maximal percentage applies to all three options.

Option 2: In this option, the regional guarantee fund shares the risk with a counter-guarantee of the European Investment Fund (EIF) from the EU's CIP-programme in order to minimise the risk share of both the commercial bank and the regional loan fund involved.

Option 3: A commercial bank (or a regional loan fund) benefits directly from a counter-guarantee of the EIF without a(nother) public intermediary.

To support companies in the process of preparing and implementing investment projects for innovation and/or internationalisation, additional non-financial services are needed. Well-focused coaching services are a suitable instrument to offer small companies such support, while at the same time reducing the risk for the financing institution. [The JOSEFIN Service Model](#) therefore integrates the access to finance in a struc-



The JOSEFIN Coaching Model...

...covers 3 phases of support: information, project development and project implementation.

...can be used to create a completely new service or to bundle existing support offers (e.g. information and coaching services by technology agencies and business incubators) into effective one-stop solutions.

Combining financial engineering and individual coaching services into an integrated approach, the JOSEFIN Service Model is a model for support that offers a pioneering regional solution to widen the access to finance for innovative companies that both financing institutions and SMEs may benefit from.

tured support process based on coaching services. This process is defined in [the JOSEFIN Coaching Model](#).

It includes a mechanism to match SMEs with dedicated coaches that support the company through the development and implementation of innovation and/or internationalisation projects. The JOSEFIN coach helps to develop these projects thoroughly using standardised tools and preparing the application for finance. After the financing is received, the coach supports the company to implement the investment and to manage the risks involved in this. When risks intend to turn into problems, the coach does not intervene directly but uses an alarm system to signal this development to the financial intermediary based on clear and transparent regulations regarding confidentiality aspects. Throughout the whole process, the support offered by the coach to SMEs should be as "hands-on" as possible and based on the specific needs of the companies. For this, the coaches need to be generalists which are able to monitor the overall setup of the coached enterprise. The aim is to develop solutions together with the entrepreneur and to establish behavioural patterns that are self-supporting.



4 Regional implementations and lessons learned

With joint efforts, the JOSEFIN consortium implemented solutions in compliance with the regional framework conditions.

The financial instruments include a range of combinations of loan and guarantee providers including commercial banks, public loan funds and public guarantee institutions either with their own facilities or using counter guarantees from the European Investment Fund or JEREMIE (Joint European Resources for Micro to Medium Enterprises).

The non-financial coaching services that were installed at regional level also had to be adjusted to regional environments. The most important aspects here proved to be the experience of the partners and SMEs with the coaching instrument, as well as the search for funding sources for ongoing services beyond the duration of the JOSEFIN project.

In most regions, the JOSEFIN offers are seen as a first step in developing broader support solutions for innovative SMEs that integrate finance and coaching by the institutions involved.

The experiences with JOSEFIN will be evaluated and used for further developments. The aim is to build up sustainable support structures that can be connected to similar offers in other regions beyond the existing JOSEFIN partnership. This would help to further develop the internationalisation coaching that was piloted during the JOSEFIN project.



Regional JOSEFIN offers:

- ✦ *New financial instrument + newly developed coaching offer in Greater Poland and West Pomerania*
- ✦ *New financial instrument + existing coaching offer that has been revised to include internationalisation and access to finance in Berlin and Lower Silesia*
- ✦ *Existing financial instrument + new coaching offer in Lithuania, Latvia, Brandenburg, Mecklenburg-Western Pomerania and Lubusz*
- ✦ *Existing financial instrument + existing coaching offer that has been revised to include internationalisation and access to finance in Estonia and Dalarna*



Steps to emulate JOSEFIN

Example

In Berlin, JOSEFIN succeeded thanks to

- ❖ *Ongoing lobbying of JOSEFIN project partners resulting in active support from all relevant stakeholders including regional authorities (Berlin Senate)*
- ❖ *Step-by-step implementation of a new financial instrument by Investitionsbank Berlin. This included the preparation of an application for a CIP counter-guarantee and the integration of the new loan product (Berlin Innovativ Kredit) in IBB's product portfolio*
- ❖ *Stocktaking of existing coaching offers in Berlin by Berlin Partner resulting in an enhancement of the TCC (Coaching Center for Technology) to include issues of access to finance and internationalisation*

5 How to implement a JOSEFIN solution in your region

6 Steps to emulate JOSEFIN:

- ❖ Identify main regional benefits of JOSEFIN
- ❖ Secure support of key stakeholders
- ❖ Secure regional political and administrative support
- ❖ Define a process with clearly defined milestones
- ❖ Initialise and facilitate a SWOT analysis
- ❖ Choose regionally suited JOSEFIN instruments

4 Steps to set up JOSEFIN Loan Guarantee:

- ❖ Define the target group and specific needs
- ❖ Find financing partners with loan portfolio to SMEs
- ❖ Access additional EU-funding (financial engineering)
- ❖ Define terms and conditions for financial instrument and risk sharing, technical implementation and communication

5 Steps to set up JOSEFIN coaching offer

- ❖ Define the target group and specific needs
- ❖ Build up a set of criteria/requirements for coaches
- ❖ Build up a pool of coaches
- ❖ Define a matching process between SME and coach
- ❖ Install quality assurance measures

6 Benefiting from international cooperation and networks

The experience of JOSEFIN reveals that cooperation between SME support institutions in the Baltic Sea Region significantly increases the ability to support regional companies towards international markets. SMEs benefit from this in a twofold manner. On the one hand, the transnational cooperation has led to an

extensive and ongoing exchange on the needs of SMEs with regard to access to finance and coaching support. On the other hand, companies can gain access to important networks in their internationalisation process.

To be able to continue this cooperation on a permanent basis, the JOSEFIN regions have developed a cooperation agreement on further collaboration beyond the end of the project. The agreement was signed by 14 organisations and covers support services for SMEs looking for finance for their innovation projects or internationalisation activities. The partners will act as Regional JOSEFIN Contact Points which will support the search for foreign business partners, and provide coaching for finance, as well as the respective signposting services. For institutions and organisations that are engaged in supporting innovative SMEs with JOSEFIN services, it is important to maintain an ongoing exchange and collaboration with other innovation-focussed institutions, projects, and networks in the Baltic Sea Region. Such cooperation is not only helpful for directly supporting internationalising SMEs but also for linking different support initiatives.

7 Policy conclusions and recommendations

During the process of developing and implementing regional support solutions to widen the access to finance for innovative SMEs, the JOSEFIN Partners gathered valuable experiences on the role of regional and national policies to create enabling frameworks for such services. Based on these experiences, the following policy recommendations offer a starting point for more SME friendly innovation policies to help foster the internationalisation of such companies.

JOSEFIN network of affiliated projects



Baltic Sea InnoNet Centres



EUNOP – a German-Polish network for SME support



CREATIVE
METROPOLES

Public Policies and Instruments in Support of Creative Industries



Knowledge Network Management in Technology Parks



“In the context of EU-Strategy 2020, the joint innovation region Berlin-Brandenburg aims to become a pacesetter for the European Innovation Union. In this way, we see JOSEFIN as a milestone to implement our regional innovation strategy and animate the issue of internationalisation.”

Dr. Jürgen Varnhorn
Berlin Senate Department of Economics,
Technology and Research



“There is a big demand for integrating finance and coaching and JOSEFIN is the supplying instrument”

Maciej Grupinski
Bank Gospodarstwa Krajowego

1. Make direct support of innovative SMEs a clear priority in regional innovation strategies.

Regional innovation strategies need to provide solutions to realistically empower SMEs on a long-term basis towards successful innovation ventures. This cannot be achieved if direct support of innovative SMEs is a sideline business. Innovation strategies need to make direct support of innovative SMEs a clear priority.

Regional stakeholders should use the instruments for territorial cohesion within regional operational programmes (ROP) to foster interregional and/or cross border cooperation in order to implement or improve regional innovation strategies.

2. Strengthen approaches to integrate existing support instruments for SME internationalisation.

In many regions, SMEs with internationalisation projects face a confusingly high quantity of support instruments with no obvious links. Thus, integrated support strategies or one-stop-solutions need to be implemented. Integrated solutions should involve support for better access to finance as well as consulting and coaching services.

3. Use EU structural funds to pioneer revolving financial instruments in your region that allow a higher outreach to under-collateralized SMEs.

Revolving instruments are the future of financial innovation and economic development. Loans and guarantees will become more important and will displace grants. EU structural funds are an ideal funding source for counter back guarantees that allow a higher outreach to undercollateralised SMEs.

Stakeholders should use a public-private risk-sharing approach rather than interest subsidies or direct finance in order to facilitate easier access to finance for innovative enterprises (with typically low collateral and equity or higher perceived risk (internationalisation)). EU-financial instruments such as CIP and JEREMIE are particularly well suited to supporting public-private financial engineering.

4. Include the issue of financing innovative SMEs into the strategic objectives for regional or national operational programmes from 2014 onward.

Current regional funding programmes will run until 2013. The future EU cohesion policy will start in 2014. There is currently an optimal time corridor to prepare regional or national operational programmes that include the strategic objective of financing innovative SMEs.

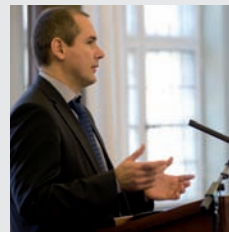
5. Better linkage of European, especially INTERREG projects and regional innovation strategies.

European, especially INTERREG innovation projects often create concrete results for innovative SMEs. But these projects usually operate in a completely isolated way from regional innovation strategies and their stakeholders. The commitment of all stakeholders (regional authorities, promotional, EU/INTERREG project manager and cluster manager) to acknowledge the potential of European cooperation as added value for their activities is essential to establishing European Territorial Cooperation as an institutionalised “development lab” for regional policies of innovation promotion and European networking. To achieve this “development lab”, a coordinated and transparent process initialised by regional policy makers is needed. There must be incentives for involved stakeholders and clear definitions of roles and responsibilities.



“JOSEFIN is addressing a very key issue – the internationalisation of SMEs. The project has the potential to become an important political and administrative tool”

Karin Hallerby
Swedish Agency for economic
and regional growth



“JOSEFIN is a very good example for the cooperation of regions from various countries of the same macro region and certainly it can be used as an inspiration for other European macro regions as well”

Josef Stahl
European Commission, Directorate General
for Regional Policy

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