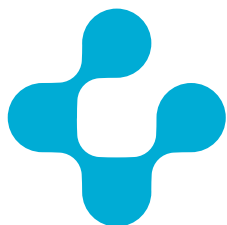


Experiences and Guidelines

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)

Boost up your region with JOSEFIN



Imprint

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January 2012



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



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 handbook provides a detailed documentation of our activities, achievements, and policy recommendations resulting from the project. A specific focus lies on the description of the regional implementation of the new instruments including case studies and guidelines on how to implement a JOSEFIN solution in your region.

As the lead partner of JOSEFIN, we would like to thank all the project partners, stakeholders and policy makers 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,
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Joining Berlin ✦ Brandenburg ✦ Dalarna

Regional Forces for More Innovation Estonia ✦ Greater Poland ✦ Latvia

More Integration Lithuania ✦ Lower Silesia ✦ Lubusz

More Cooperation Mecklenburg-Western Pomerania

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)

A wide-angle photograph of a sandy beach meeting the sea. The sky is a clear, vibrant blue with a few wispy clouds near the horizon. The water is a deep blue-green, and white foam from the waves is washing onto the sand. A large, dark rock is partially submerged in the shallow water. The foreground shows the texture of the sand with many footprints.

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

Alexander Schenk, Swedish Ministry of Finance

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1 Introduction

The Baltic Sea Region is one of the most prosperous and innovative regions in Europe. Small and medium-sized enterprises (SMEs) are drivers of the innovation process and an important engine for growth and prosperity in this region. SMEs' growth is often hampered by local focus and regional markets, thereby often failing to enable SMEs gain advantage from their full business potential. In order to boost the competitiveness of Europe, international business activities of SMEs need support, especially in the stimulation of direct transnational cooperation of SMEs and the provision of improved access to finance for innovative projects, as well as in the exploitation and commercialisation of the project's results.

With Europe 2020, the European Union has formulated a growth strategy for the coming decade that aims at developing the EU into a smart, sustainable, and inclusive economy. For this task, it is important to join regional forces to unlock the full potential of European SMEs for innovation and internationalisation. The JOSEFIN (Joint SME Finance for Innovation) project fostered this development with the development, implementation, and promotion of regional schemes for improved SME finance for innovation throughout the Baltic Sea Region (BSR). The results of the project also connect to the EU's Baltic Sea Region Strategy to further coordinate stakeholders to promote a more balanced development of the Region.

The JOSEFIN partnership encompassed 23 institutions from 7 countries in the Baltic Sea Region (BSR) that co-operated to develop and implement an integrated

support package for the internationalisation of SMEs linking information, contacts, coaching, and finance. The partner institutions include:

- European Enterprise Network (EEN) institutions, incubators, technology transfer centres or similar
- State-owned structural development banks, funds entities or similar
- Regional authorities



2 Potential and needs of innovative SMEs in the Baltic Sea Region

The economies in the Baltic Sea Region (BSR) are, like in most of the European countries, mainly based on activities by micro, small, and medium size enterprises (MSMEs¹), whereas the micro enterprises account for more than 90% and MSMEs for more than 99% of all enterprises in the region. But MSMEs are not only the so called “backbone” of the BSR economies with a high contribution to job employment (67% in 2010).

SMEs	
Number	20,796,192
%	99.8
SME Employment	
Number	87,460,792
%	66.9
SME Gross value added	
EUR Millions	3,492,979
%	58.4

Table 1 Number of enterprises, employment and gross value added in EU-27 with reference to SMEs, 2010 (estimates)²

¹ In the study, we use the definition of MSMEs adopted by the European Commission in 2003. An enterprise is classified as medium-sized if it has less than 250 employees and its turnover does not exceed 50 million EUR and/or its balance sheet total is less than 43 million EUR; as small if it has less than 50 employees and turnover and/or balance sheet total of less than 10 million EUR; as micro if it has less than 10 employees and turnover and/or balance sheet total of less than 2 million EUR.

² Source: Eurostat / National Statistics Offices of Member States / Cambridge Econometrics / Ecorys

In particular, the small and medium enterprises are also important drivers of innovation and sustainable growth in these economies. Many of the most successful innovations in the past have been developed by small companies with new business models which have transformed know-how and innovative ideas into economic growth. The rise of the knowledge based economy has further strengthened the role of innovative SMEs. Compared to big, established companies, SMEs can act faster and are able to take higher risks in developing innovative products and processes for new markets. This is especially true for an innovative and dynamic macro-region with a high level of skilled workforce like the BSR.

The European Commission has made the support of innovative SMEs a cornerstone of its EU 2020 strategy for sustainable growth and continuously urges European policy makers to ensure that SMEs have access to all the resources needed to engage in the development of innovation products and services and to market and sell them throughout Europe.

The economic outlook for the BSR as a macro-region is closely tied to the success in unlocking the full potential of these companies. Only if they are able to fully benefit from the internal market of the EU and deploy the available resources for research and innovation, can economic development in the region’s countries gather enough momentum to turn the BSR into a prospering economic region characterized by sustainable growth.

To boost the production of innovational products and services in their countries, policy makers around Europe have developed regional innovation strategies over the past years. These strategies mainly target the know-how transfer between universities and companies in technology clusters, the development of innovative business ideas and the location of big technology companies. In doing so, they often fail to target the most urgent needs and difficulties of innovative SMEs. The regional market studies that were conducted in the framework of the JOSEFIN project³ showed that lacking access to suitable finance due to high risk exposure and low collateralization is the most pressing challenge for these companies. Although innovation and internationalisation are key success factors for the majority of SMEs in the regions surveyed, and despite the relatively high degree of integration of the markets in the Baltic Sea Region, this is one of the main causes for the fact that internationalisation activity in this region is still dominated by larger enterprises and has only marginally reached down to the small and micro enterprise level. Hence, the level of internationalisation of innovative SMEs is still low. In most regions it is only slightly higher than the average EU-27 level regarding all SMEs.

The strong focus of regional SMEs on national and regional markets and co-operations is visible in the high amount of non-internationalised SMEs that have not even considered going international because they think it is irrelevant to their business. In general, there

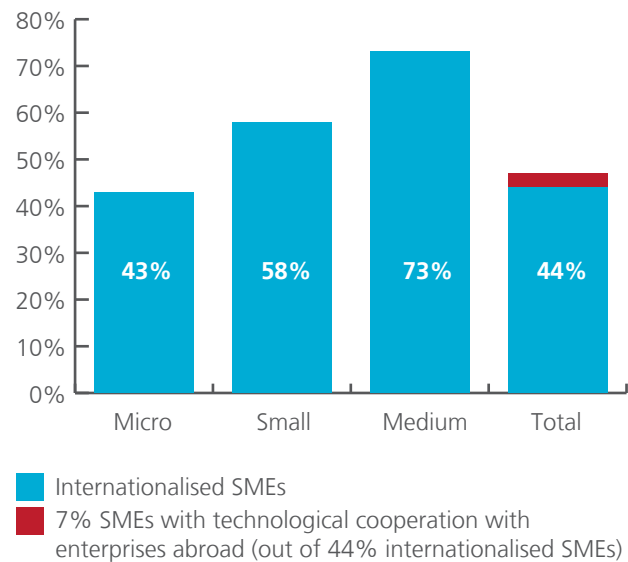


Figure 1 Percentage of internationalised⁴ SMEs in 2006-2008 by size of firm

is a lack of know-how and strategy regarding market entry, internationalisation, and ways to finance themselves externally. Summed up, the main needs of innovative SMEs identified by the market studies were:

- Access to suitable finance (loans and equity)
- Support in building know-how and developing strategies for market entry and internationalisation
- Support in specific issues connected to internationalisation (e.g. law issues in target markets)

³ The JOSEFIN regional market studies were conducted in 11 regions: Berlin (DE), Brandenburg (DE), West Pomerania (PL), Greater Poland (PL), Lower Silesia (PL), Lubusz (PL), Lithuania, Latvia, Estonia, Darlarna (SE) and the Oslo Region (NO).

⁴ Internationalised SMEs are defined as SMEs either exporting, importing, investing abroad, cooperating internationally, or active in international subcontracting. Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480).

The problems accessing external financing derive mainly from the mismatch between the financing needs of innovative SMEs (flexible financing, fast access without complex application procedures) and the unfavourable rating of such SMEs by commercial lending standards (due to high risk and undercollateralisation). It can be argued that much of these problems can also be tracked to information asymmetries between companies and financing institutions. The regional market studies also showed that the existing supply of (public and commercial) financial products and non-financial services that are available to innovative SMEs in the BSR is not fitted to the demands of these companies, resulting in market gaps, which can differ regionally due to specific regional constellation of actors and financing conditions. These gaps can be mainly connected to high collateral requirements (Polish regions and Latvia), to a lack of public guarantee schemes (Oslo region and Dalarna) or public schemes that focus on SME internationalisation (Berlin/Brandenburg) and finally to bureaucratic obstacles in accessing public loan schemes (Baltic states). In addition, the macro-economic context in the BSR countries favours risk-minimising by all commercial actors involved in SME financing, mostly due to the global economic downturn in 2009-2010. Regarding the availability and accessibility of non-financial services (consulting, training) for innovative SMEs, the reports showed that such schemes are in place in all the surveyed regions, but are often not used on a broad scale by innovative SMEs. Most support services are too general in their approach to be able to support innovative SMEs in developing internationalisation projects. There is a need for international coaching performed by coaches in the countries/markets that the SME want to establish cooperation and business with. Support in international networking is

also needed, e.g. to find business partners in target markets.

Regarding the challenges for better support of innovative SMEs in the BSR, the following conclusions can be drawn, based on the results of the regional market studies:

1) There is a need for service offers that fit the demands of innovative SMEs in the BSR and the market gaps in the regional supply structures for financial and non-financial support. For this, a transnational service model for an integrated support solution is needed that combines:

- A loan guarantee/risk sharing scheme to finance innovation and/or internationalisation projects
- Risk minimising support schemes for developing innovation and/or internationalisation projects

2) The regional frameworks for SME finance are quite heterogeneous in the BSR. Therefore the model for the loan guarantee/risk sharing scheme must allow adapted, regional implementations and should address the following market gaps:

- A need for accessible loan products to finance internationalisation projects of smaller enterprises
- A need for guarantee schemes to reduce collateral requirements for innovative SMEs with viable project ideas seeking external financing

3) The model for risk minimizing support schemes should address the following market gaps identified in the surveys:

- A need for services that raise innovative SMEs' awareness of the opportunities for internationalisation

- A need for international coaching performed by coaches in the countries/markets that the SME wants to establish cooperation and business with
- 4) The main challenges to implementing such an integrated service model in the BSR regions are:
- The main actors in SME finance are very risk-averse
 - The target group needs to be activated
 - Coaching services need to be hands-on, providing clearly visible added value for the SMEs
 - Time efficiency of all processes is very important for the target group

3 The JOSEFIN Service Model

Combining financing and coaching for innovative SMEs

The JOSEFIN project identified lack of access to suitable finance as a main barrier to internationalisation for innovative SMEs from the Baltic Sea Region (BSR). Also the lack of tailor-made support regarding the preparation of internationalisation and innovation projects hinders the development of these companies.

To address these challenges, the JOSEFIN project developed an integrated approach for the BSR, combining financing and coaching at the regional and international level: 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. Throughout the JOSEFIN project, the JOSEFIN partners implemented the Service Model in their regions and supported companies with in-

tegrated services to widen their access to suitable finance. The JOSEFIN Service Model is built around regional financing instruments that offer innovative SMEs easier access to finance. These instruments can be structured in different ways, but should feature specific elements (low collateral requirements, guarantees, revolving use of European funds) that allow the intermediaries involved to reduce the risk which is inherent in innovation projects or business internationalisation of innovative SMEs. These elements are outlined in the JOSEFIN Loan Guarantee Model (see *chapter 3.1 for more details*).

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 way to offer small companies such support and at the same time reduce the risk for the financing institution. The JOSEFIN Service Model therefore integrates the access to finance in a structured support process based on coaching services. This process is defined in the JOSEFIN Coaching Model (see *chap-*

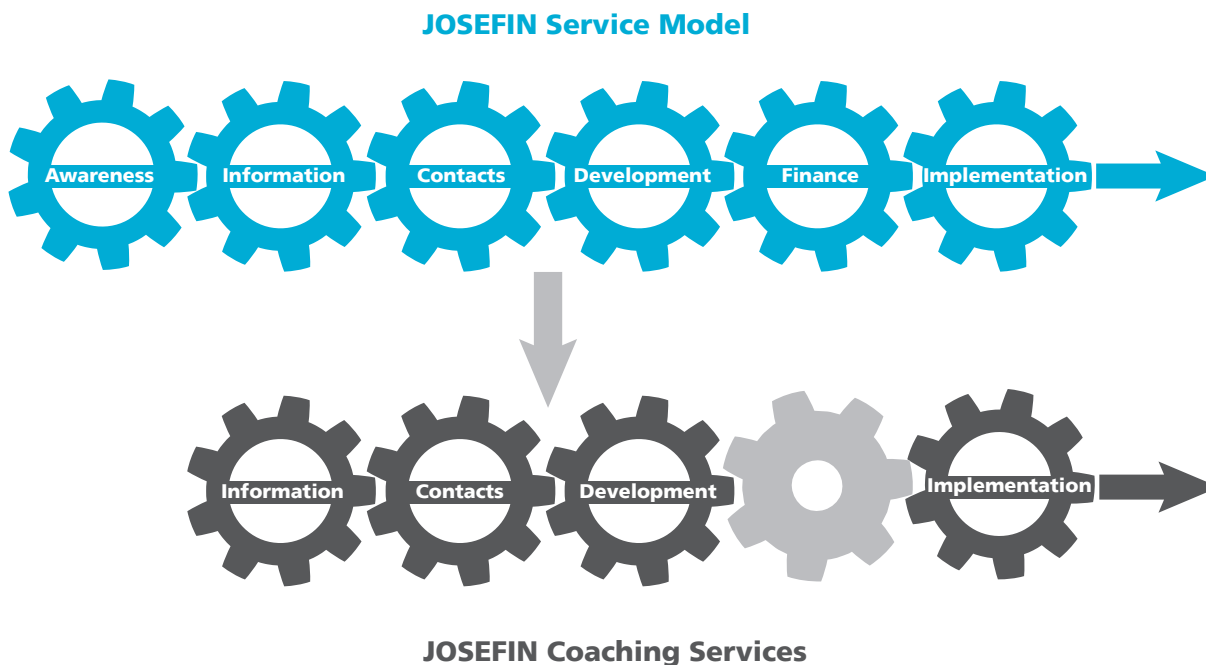


Figure 2 The JOSEFIN Service Model

ter 3.2 for more details). It defines 3 phases of support: information, project development, and project implementation. The Model 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 offers an ideal-typical, innovative regional solution to widen access to finance for innovative companies that both financing institutions and SMEs may benefit from.

3.1 The JOSEFIN Innovation Loan Guarantee Model

The JOSEFIN Service Model is based on the general idea of reducing the risk in financing innovative SMEs for all actors involved. To establish financial instruments that allow such a risk reduction, the JOSEFIN Loan Guarantee Model was developed.

Two lessons learned through the regional market studies were important for the development of the model:

- There is a need for loan guarantee/risk sharing schemes that target innovative SMEs in the JOSEFIN regions

Type	Guarantee to cover default risks of loans given to SMEs by regional loan funds or commercial banks
Eligible Final Beneficiaries	SMEs according to EU Definition (< 250 Employees, max. €50 M turnover p.a.)
Eligible types and purposes of finance	Investment and working capital for innovation activities expanding and developing the SMEs business such as <ul style="list-style-type: none"> • Technological development • Product and process innovations • Internationalisation
Volume	Usually below €1 M, max. €5 M per loan
Maturity	18 month to 10 years
Guarantee rate	Up to 80 % of the loan volume
Collateral	Collateral of 20 % of loan volume or, alternatively an additional 20 % own cash contribution to the investment
Risk premium (total for all risk taking partners)	4-5 % p.a. (to be calculated)
Added Value	The guarantee will be combined with accompanying coaching provided to the SMEs.

Table 2 Key characteristics of the JOSEFIN Innovation Loan Guarantee Model

- A financing/risk sharing model must allow regional implementations that are adapted to the regional frameworks for SME finance

The basic elements of this Model are:

- An outline of the key characteristics that such an instrument must feature to be interesting for innovative SMEs
- Options for intelligent risk-sharing structures in order to allow financial institutions to reduce the risk in financing innovative SMEs

The JOSEFIN Innovation Loan Guarantee Model defines terms and conditions of a loan product that covers the needs of innovative SMEs for better access to suitable finance. The regional market studies showed

that innovative SMEs have problems finding accessible financial instruments that allow enough flexibility to finance their innovation or internationalisation plans. Existing loan instruments are often too bureaucratic and rigid regarding loan volume limits and loan maturities. Furthermore, collateral requirements are in most cases too high for young and small companies with innovative business concepts. The JOSEFIN Innovation Loan Guarantee Model outlines a loan instrument that is fitted to the needs of these companies.

The instrument should feature flexible terms and conditions regarding the volume limit and maturity of the loans to allow short-term loans with lower volume as well as mid- to long-term loans with volumes up to €5M. To reduce the collateral requirements, which

was identified as the main challenge for innovative SMEs, a guarantee should be included to lower the risk for the loan providing institution. A risk premium on the interest rate can be included, as the costs of the financing is less important for the company than the access to it. As an added value for both the company and the financial institutions involved, the closely linked coaching services help to reduce existing information asymmetries and therefore further mitigate the risk of default.

The crucial element of the Model is the construction of a working risk-sharing construction that diffuses the risk of default over different institutions. The market studies show that the perceived risk involved in giving a loan to a small, young company with an innovative project and without much collateral is pretty high among commercial banks. This risk grows even more if the company wants to go international. The most promising way to mitigate this risk, from the perspective of the loan giving institution, is to involve other financing institutions into the securization of the loan. This can be a public guarantee fund, a guarantee bank, or another public or semi-public provider of loan guarantees. The involvement of guarantee providers into SME financing is already common in many EU member states. They cover the risk of default up to 60% of the loan volume. The remaining risk lies with the loan provider, normally a bank, which tries to secure as much risk as possible through collateral of the client, the SME.

A common problem with these constructions is that the risk to an innovative SME in securing a loan may be too high for these guarantee providers, especially when their activities are mainly funded by regional public money. The market studies show that the port-

folio of guarantee institutions in the JOSEFIN regions is often focused on companies that are active in traditional sectors and that can compensate a lack of collateral with easy to calculate revenues in the future. Innovative companies are much more difficult to analyse and are therefore underrepresented.

In this case another risk-sharing partner is needed to mitigate the risk of the guaranteeing institution. The JOSEFIN project identified several options for such a risk-sharing structure (see *Figure 3*).

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.

Summing up, regional implementations based on the JOSEFIN Loan Guarantee Model should feature the following characteristics:

- 1) Reduced collateral requirements for the loan
- 2) Elements of financial engineering that use EU funds in a revolving way

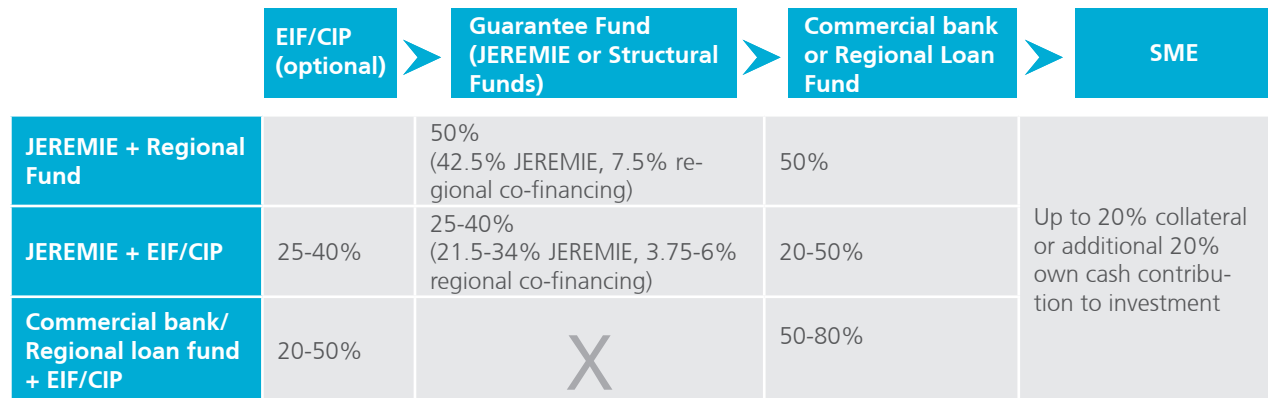


Figure 3 Possible risk sharing structures

3) A cooperation of different financial institutions to build a sustainable risk-sharing structure

It is important that these implementations reflect the regional frameworks for SME finance, making use of existing financial instruments. Such instruments need to be combined with coaching services for the financed company. This integration is another essential risk-reducing element of the JOSEFIN Service Model.

3.2 The JOSEFIN Coaching Model

The JOSEFIN Coaching Model organises the support offered to SMEs in three phases.

In phase 0 (information), JOSEFIN partners provide a range of general information (website, brochures, seminars, etc.), as well as personal advice to innovative SMEs that are interested in finance for their projects. Phase 1 is characterised by a detailed identification of SMEs' needs and challenges. SMEs are provided

with contacts to advice agencies abroad, other SMEs and R&D institutions. The JOSEFIN partners introduce SMEs to appropriate coaches from their coach pool. The SME, financial institution, and coaching partner sign an agreement on how to develop and implement the supported project. The individual coaching is one component of the agreement and begins in phase 1. Phase 0 and 1 together have a time period from 1 to 6 months and end with the imbursement of the financing. The coach's role during phase 1 and especially phase 2 should be based on the classical definition of business coaching (see *box*).

The coach is a constructive partner who aims at boosting the coached entrepreneur's potential and to empower him or her by structuring and ordering, as well as by creating motivation towards better performance, and greater ownership towards change. Coaching is unlocking a person's potential to maximise their own performance. It is helping them to learn rather than teaching them'-Tim Gallwey, The Inner Game of Work.

	Title	Delivered by	Content	Aim/ Final result	Instruments	Financing options
0	Information & promotion	EEN partner or similar	Information <ul style="list-style-type: none"> • Orientation: What does / doesn't JOSEFIN offer? • First identification of support needs of the SME 	Decision on the general feasibility of the project idea and eligibility for JOSEFIN services.	Max. 4 hours advice in 1 – 4 weeks Tool: Basic information on JOSEFIN offer	Financed through internal resources
1	JOSEFIN development coaching	Coach or resources from JOSEFIN partner or EEN partner	Contacts <ul style="list-style-type: none"> • Partner search • Know-How on target markets (legal issues, business culture, etc) • Market research in the target country Development <ul style="list-style-type: none"> • Organisation of the innovation process • General legal advice intellectual properties • Strategy (financial, operational, etc) • Business plan development • Issues of project management (support in establishing PM & monitoring for implementation phase) 	Streamlined support for building investment ready project proposals including: <ul style="list-style-type: none"> • Business plan • Pre-assessment of project implementation with clear milestones • Application for financing 	Max. 32 coaching / support hours per SME in 1 – 6 month Tools: <ul style="list-style-type: none"> • List of contact points • Pre-assessment form for project implementation 	Min. 80% financed through public funds (JOSEFIN funds in pilot phase, internal resources)
2	JOSEFIN implementation coaching	Coach, matched by JOSEFIN partner	Implementation <ul style="list-style-type: none"> • Support in project management • Continuous monitoring of the implementation • Provision of coaching on individual issues needed by the SME • Alarm system in case of difficulties 	Individual coaching for the successful implementation of the project, resulting in bigger economic success for the SME and a reduced probability of default for the financing institution.	Max. 60 coaching hours in 7 – 24 month Tools: <ul style="list-style-type: none"> • Criteria for coaches • Coaching guidelines and tools • Reporting tools 	Min. 50% of costs have to be covered by the SME e.g. as an eligible cost of the financed project

Table 3 The JOSEFIN Coaching Model

For the JOSEFIN context, this core definition needs to be both specified and enlarged, since the main objectives of JOSEFIN coaching are:

- The sound development and growth of the companies financed (coachee)
- The safe-guarding of the investments covered by the financial instrument

Therefore the JOSEFIN coach acts mainly as a representative of the organisation(s) involved in the JOSEFIN offer. Their work is based on clear development targets that have to be set before the coaching process starts. In this early phase the coach builds a common understanding of the integrated tool between the SME and the involved institution(s). He/she also checks the expectations and presents all the benefits of coaching to the SME. When the specific needs of the SME are identified, the coach develops the innovation or internationalisation project thoroughly and encompasses the JOSEFIN Coaching with standardised tools.

The subsequent JOSEFIN Implementation Coaching, which can be made obligatory for SMEs that use a regional JOSEFIN Loan Guarantee scheme, should re-

sult in the successful implementation of the innovation or internationalisation project of the company. The individually assigned amount of coaching hours should be handled flexibly and based on a project pre-assessment. When problems arise, the coach does not intervene directly, but uses an alarm system to signal the problems to the financial intermediary based on clear and transparent regulations regarding confidentiality aspects.

In all this, coaching support offered to SMEs should be as ‘hands-on’ as possible and based on the needs of the companies. To make that happen, the JOSEFIN approach includes a combination of traditional coaching with some aspects of mentoring and consulting. Nevertheless, it is important to note that JOSEFIN Coaching is based on some key principles that distinguish it from these approaches. This is especially important for clarifying the JOSEFIN coaching approach to interested companies. The JOSEFIN coach has to be more of a generalist, monitoring the overall setup of the coached enterprise. He/She develops solutions together with the entrepreneur and aims at establishing behavioural patterns that are self-supporting.

4 Bringing JOSEFIN services to the SMEs – regional implementations

The JOSEFIN partnership encompasses 23 institutions from 7 countries in the Baltic Sea Region (BSR). To start the implementation of the JOSEFIN Service Model in the regions that are covered by the JOSEFIN partnership, a stocktaking was done based on the findings of the regional market studies (see chapter 2). It demonstrated that the JOSEFIN regions differ markedly

regarding the relevant framework for financing and coaching of innovative SMEs, namely, actor constellations, available instruments, and the general economic structures. The specific JOSEFIN solutions that are best suited for implementation needed to be designed accordingly from the different options, which the JOSEFIN Service Model offers (see previous chapter). This

was especially true regarding the realisation of the JOSEFIN Loan Guarantees. But the implementation of coaching services and finally the integration of coaching and financing were also subject to extensive stakeholder processes of adapting the model to the specific regional situations.

These processes brought forth many lessons learned and finally also good practices in developing and implementing regional support packages for the internationalisation of innovative SMEs linking information, contacts, coaching, and finance.

The following parts of the handbook offer a summary of the different regional implementations regarding the JOSEFIN Loan Guarantee (*chapter 4.1*) and the JOSEFIN Coaching Model (*chapter 4.2*), identifying common approaches and good practice examples. *Chapter 4.3* finally covers how the combination of these instruments into integrated support packages offered added value to the companies that were supported throughout the project.

4.1 Adaptations of the JOSEFIN Innovation Loan Guarantee Model

The adaption and implementation of the JOSEFIN Innovation Loan Guarantee Model unfolded within different regional frameworks. The partner structures in the JOSEFIN regions involved in developing and adapting the model were also diverse. Each region has participated with a dedicated financial partner that ranged from state-owned structural development banks to regional loan or guarantee fund entities. As a result of this, there was a variation of favoured approaches

to implement new financial engineering instruments in the regions.

With this in mind the JOSEFIN Innovation Loan Guarantee Model was developed as a common blueprint, including different options for the realisation of the regional financial instruments. Some deviation from the model was possible as long as the instruments offered improved risk sharing and risk management for the involved actors and, as a result, easier access to finance for innovative companies. The final financing offers that were realised in the regions can be divided into three main groups:

1. Loans provided by commercial banks, guaranteed by a public guarantee institution with a counter guarantee from European Investment Fund EIF/CIP SME facility.
2. Loans provided by commercial banks or a public loan fund with a guarantee from public guarantee institution and with counter guarantee from a JEREMIE fund.
3. Loans provided by commercial banks or public loan fund with a guarantee from a public guarantee institution.

Grouped like this, the focus is on the common features of the individual regional offers and the transferable lessons learned by the JOSEFIN partners during the different implementation processes. For each of the three groups, some specific added value which the offers bear for the involved actors and the SMEs they are targeting can be identified.

Loans provided by commercial banks, guaranteed by a public institution fund with counter guarantee from European Investment Fund EIF/CIP SME facility

Regional offers that fall into this group of risk-sharing solutions involve three different financing actors, combining private and public institutions. They manage to integrate European funds in a revolving way. As an innovative example for financial engineering in SME finance, this construction allows the public guarantee institution to share its risk with the EIF and therefore to lower the requirements for the guarantee, which, as a result, incentivises the commercial banks to finance more innovative projects and/or companies with insufficient or no collateral.

The European Investment Fund EIF provides guarantees to financial intermediaries partially covering portfolios of financing to SMEs. These are known as EU Guarantees, provided under the SME Guarantee Facility, which is funded by the European Union under the Competitiveness and Innovation Framework Programme CIP. The overall objective of CIP is to improve access to finance for the start-up and growth of SMEs and promote investments in innovation. Through the EIF, the EU partly guarantees loans or other debt finance granted by financial institutions to SMEs. The risk-sharing arrangements established between EIF and its local partners aim to stimulate the provision of debt finance to SMEs at local level. EIF may also issue Counter-guarantees to Intermediaries that issue guarantees for the benefit of lending institutions.

In Berlin and Latvia, the implementation of such an instrument was successful, thanks to the thorough

preparation of the application process for the SME Guarantee Facility by the involved partner institutions. The most challenging aspect of this process was to calculate the final volume of the guaranteed portfolio, since the demand from the target group can only be estimated when the application for the SME Guarantee Facility is handed in. The existing guarantee arrangement in both regions may be enlarged (in terms of total loan volume secured) in the future. For all institutions involved at regional level the cooperation with the EIF is seen as an important step in anticipating the future developments of the EU's support for financial instruments.

Example:

A new innovation loan was set up by Investitionsbank Berlin in the framework of a virtual trans-regional guarantee fund, jointly managed with the German promotional banks NRW.Bank and LfA Bayern. A successful application to EIF for a CIP guarantee was made during the project period. For IBB the 60% exemptions from liability they can now offer to the banks is a promising new way to attract banks into serving more innovative SMEs and their internationalisation efforts with loans.

Part of the decision on the loan approval lies with the commercial banks, because they still have to bear a share of the risk involved. For a better outreach of the loan offer, the banks have to be activated to use these loans regularly for innovative companies that are rated too risky for the normal loans the bank offers. Therefore, it is important to inform the banks of the additional risk reduction facilitated by the additional JOSEFIN coaching services.

Financial instruments that fall into this group of offers realise the following added value:

- For the SME: Improved access to finance at favourable terms (lower collateral requirements, lower interest rate)
- For the commercial bank: Ability to lend money to innovative SMEs with reduced risk
- For the public guarantee institution/promotional bank: Risk sharing with EIF/CIP with no extra fee, as well as being able to forward an interest advantage to the end beneficiary
- For EIF: Additional intermediary increases the overall guarantee value and extends the outreach to several banks.

Loans provided by commercial banks or public loan fund with guarantee from public guarantee fund, with counter guarantee from JEREMIE fund

In three of the Polish JOSEFIN regions the use of EIF instruments for risk sharing was not feasible because of the ongoing implementation of the JEREMIE initiative in Western Poland.

The JOSEFIN partners were involved in realising financial instruments that were making use of the new regional JEREMIE funds that are managed by the national promotional bank (BGK) and the regional authorities.

On the other hand this ongoing process offered interesting opportunities to establish risk-sharing schemes that were based on the principles established in the JOSEFIN Innovation Loan Guarantee Model. In Lithuania, an already existing guarantee instrument that is based on JEREMIE funds was used to create an integrated offer for more risky and innovative SMEs.

The JEREMIE initiative developed by the European Commission and European Investment Fund EIF, offers EU Member States, through their national or regional Managing Authorities, the opportunity to use part of their EU Structural Funds to finance SMEs by means of equity, loans, or guarantees, through a revolving Holding Fund acting as an umbrella fund. A JEREMIE Holding Fund can provide, to selected financial intermediaries, SME-focused individual funds for financial instruments including guarantees, co-guarantees and counter-guarantees, equity guarantees, (micro) loans, export credit insurance, securitisation, venture capital, Business Angel Matching Funds, and investments in Technology Transfer funds. The Holding Fund is of a revolving nature, receiving repayments from the financial intermediaries for further investments in the SME sector. This makes SME support via EU Structural Funds sustainable, compared to the pure grant approach. The JEREMIE initiative has not been implemented in all JOSEFIN regions and countries.

The realisation of these instruments involved extensive stakeholder discussions, especially regarding the involvement of the regional authorities in Western Poland. The main challenge was to lower the collateral requirements that were set for JEREMIE instruments by the managing authorities of the regional funds. The partners were successful in communicating the JOSEFIN Loan Guarantee Model as an opportunity to create financial instruments that allow the use of EU structural fund resources for mitigating the risk involved in financing innovative SMEs. With collateral requirements up to 200% of the loan volume the Polish financial sector is especially prone to financial engineering in regional SME finance. As holding fund manager, the BGK was involved in the talks and showed interest in designing future JEREMIE instruments in a way that

would allow regional institutions to realise loan offers with more risk sharing options.

Example:

In Greater Poland (Wielkopolska) the JEREMIE loan products offered by WARP and the counter-guarantee product offered by FRiPWW are used in the JOSEFIN model. In West Pomerania (Zachodnpomorskie) four public funds are offering JEREMIE based financing and are now combining them with a coaching offer. The exchange of experience with other JOSEFIN regions has been of great value to the institutions and to the employees.

In the regions that realised a JOSEFIN loan offer based on JEREMIE funds, the added value for the involved actors was:

- For the SME: Improved access to finance through lower collateral requirements
- For the public loan fund/public guarantee institution: Cooperation with non-financial institutions. Reaching more innovative companies with financial offers. Reduced refinancing and risk costs due to additional JEREMIE resources.
- For the regional authorities: Fostering financial engineering with JEREMIE funds.
- For the JEREMIE Holding Fund Manager: Higher sustainability of the funds due to reduced defaults.

Loans provided by public loan funds or commercial banks and guarantee from public guarantee fund.

In some regions the analysis of the framework for SME finance resulted in the finding that financial engineer-

ing with EU funds was not a feasible option for the financial institutions involved. This could be due to the insufficient size of the expected loan volume to back an application for the EIF guarantee instruments or the missing co-financing possibilities of public institutions. In these cases, the JOSEFIN partners decided to use existing instruments of regional SME finance like public loan funds and/or guarantee schemes to create risk-sharing instruments for their the regional JOSEFIN solutions. The main focus of these developments and cooperation was to extend the benefits of such existing instruments in SME finance to the group of innovative SMEs with internationalising projects. Significant additional value was created through activities in JOSEFIN project, mainly by combining existing financing opportunities with coaching.

Example:

In Lubusz, the existing loan and loan guarantee products for SME financed by European Regional Development Fund have been combined with coaching in a JOSEFIN offer. This solution has resulted in greater interest in the financial product from the SMEs and a better understanding of SME needs in the financial institution ARR. In general this has increased the access to finance for under collateralized young innovative SMEs.

The regional implementation processes in this group were characterized by the search for matching options to realise the JOSEFIN Loan Guarantee Model within the given framework of the region. When the decision was taken to use existing instruments instead of developing new ones, the partners involved focused on combining the available offers into integrated solutions that make the best use of the different elements of the JOSEFIN Service Model (combining financial

instruments with coaching and information services, international network) to widen the access for innovative SMEs to these loan offers.

The added value that these offers realise for the actors involved is:

- For the SME: Improved access to finance through lower collateral requirements
- For the commercial bank/public loan fund: Increased attractiveness of financial offer, outreach to new target group, combination with additional coaching for risk reduction
- For the public guarantee institution: Outreach to new target group, easier risk assessment thanks to development coaching

Additional to the regional offers that can be fitted into these three groups of implementations, the JOSEFIN projects also brought forth a financial solution that was not foreseen while developing the JOSEFIN Loan Guarantee Model. In Lower Silesia, the regional JOSEFIN partners successfully initiated cooperation with Bank Pekao SA, a commercial bank that offers investment loans for SMEs leveraged by a credit line of the European Investment Bank. Loans with EIB refinancing may be also secured by a free of charge guarantee of the EIF. It enables the addition of benefits of EIB loans (lower margin) with the benefits of EIF (free of charge collateral, better loan terms) under a single investment loan agreement. The agreement with EIF covers investment loan products as well as working capital loans for start-ups. The cooperation within the regional JOSEFIN partnership helps to direct the bank towards the target group of innovative SMEs and to integrate their loan offer with the support from a provider of coaching services to mitigate risk and enhance the exchange of information on the innovation and/or internationalisa-

tion projects. In comparison to the other JOSEFIN offers that are all based to some extent on the resources of public finance institutions, the direct involvement of a commercial bank that is backed up by EIF/EIB allows for a higher leverage effect through private investment. It will be interesting to see how this regional cooperation will develop in the future.

4.2 Adaptations of the JOSEFIN Coaching Model

The regional implementation processes of coaching services proved to be more straightforward than that of the financial instruments. The main challenge in this regard was to install coaching services in institutions with no experience in that kind of support to SMEs. On the other hand, in regions with institutions that had already been offering coaching services for innovative SMEs, it was necessary to revise the services offered to cover the issues of internationalisation and access to finance.

In all regions the coaching offers were set-up or revised to cover the three phases of the JOSEFIN Coaching Model: Information – Development Coaching - Implementation Coaching. The support is granted to SMEs by means of systematic and recurring coaching meetings between coach and SMEs, which allows the exploration of opportunities and possibilities for the development of SMEs and the reduction of risks, both for financial institutions and SMEs. The regional coaching services implemented were therefore designed to cover the following support issues:

- Preparing strategic decisions, including: market diversification and introduction of new, innovative products and services, acquisition of reliable, prov-

en, and relevant international partners, defining a clear strategy (business plan) to enter international markets.

- Improving business skills, including: improving SMEs skills to analyse the demand side and generate customers, developing SMEs' financial analysis skills to improve financial activities (using own and external resources), acquisition of funding for innovative projects, facilitating cooperation between SMEs and funding sources to support innovative approaches and actions.
- Gaining development perspectives, including: Optimising the future use of existing potential/competence/resources (such as technology, management and organisation structures, distribution channels and sales promotion, marketing, PR), achieve international experience through sharing knowledge and participating in development research, develop a clear vision of innovative development.

JOSEFIN partners without an already existent coaching offer for SMEs experienced different challenges along the way to realise such coaching services during the project duration. Most of these hurdles were overcome thanks to the exchange with project partner organisations that were already experienced in this kind of activity. It also proved very helpful that the JOSEFIN partner institutions were able to test their regional coaching services during a pilot phase to gather experience with their offers and to match them to the needs of the companies they supported. The following aspects were most important to help realise working coaching offers in all the JOSEFIN regions.

Selection and contracting of coaches

In order to find coaches that are able to cover the support issues in their work with the companies, most of

the JOSEFIN partners used lists of criteria to make sure that the coaches that were selected and contracted fit the profile they needed. Unexperienced partners learned that the criteria used should be as hands-on as possible and focus on the experience and entrepreneurial mindset of the coaches.

Best practice from JOSEFIN regions:

In Lower Silesia/Poland, the Wroclaw Centre for technology transfer (WCTT) developed a list of requirements which is used for the selection of potential coaches. They use a pool of internal WCTT coaches as well as external coaches to provide a good mixture of highest quality services. Candidates need to apply for the JOSEFIN coaching offers and fill in a specific application form.

In Darlarna/Sweden, Teknikdalen Foundation works with coaches who have a lot of practical experience in working in management. The selection criteria are based on recurring needs of the companies. The coaches need to have a lot of experience in business development, a broad network and be well informed about the business area the companies work within. Candidates are only roughly screened on their academic background.

Demand analysis

To better understand the needs of their target group regarding coaching services, the JOSEFIN partner institutions introduced questionnaires and other instruments. Based on these it was possible to fine-tune the offers over the implementation phase.

Best practice from JOSEFIN regions:

In Darlarna/Sweden, the regional coaching partner Teknikdalen Foundation supports SMEs in setting

up business plans by using a specific questionnaire/ model for building up a business plan. Combined with complementary interviews, this method identifies the SME's individual needs for coaching.

In Berlin/Germany, Berlin Partner set up an online survey for SMEs that are interested in internationalisation opportunities. The survey consists of 32 questions and provides a detailed evaluation of the answers given. The evaluation includes many contact addresses and links for further consultation, funding, and the regional JOSEFIN offers. This is a pre-coaching instrument or service in order to inform SMEs of, and interest them in, internationalisation opportunities

Pools of coaches

Taken together, around 50 companies were supported by JOSEFIN coaching services during the project. To be able to offer this kind of service, the JOSEFIN partner institutions in almost all regions were successful in building up pools of coaches with up to 140 coaches. Since some of the partner institutions are also partners of the Europe Enterprise Network, they were able to combine their services.

Best practice from JOSEFIN regions:

In Greater Poland (Poland), the Promotion and Development Fund of the Voivodship (FRIPWW) held two interview rounds for coaches and advertised in the local press and on a job website. Candidates were asked to send a letter of enquiry to FRIPWW and fill in a recruitment form with questions regarding their coaching approach to SMEs.

Qualified coaches sign an agreement including conditions and payments with FRIPWW.

Matching

An important step during the implementation processes in the regions was the design of transparent procedures to match the SME with a suitable coach. The partner institutions exchanged their experiences on this and came up with tailor-made processes that are fitted to the needs of the SME and the institution that is offering the coaching.

Best practice from JOSEFIN regions:

In Latvia, the Investment and Development Agency of Latvia (LIAA) deploys a three-step procedure to match an SME with a coach. The SME describes its expectations, and coaches offer their proposal. The one which fits the description best is selected. The initial meeting is between LIAA, SME and coach.

In Berlin/Germany, the Technology Coaching Center (TCC) deploys a four-step procedure to match a SME with a coach.

The SME applies for a coaching and the TCC proposes a coach/coaches from their coaching pool. The SME has two days of coaching with the chosen coach, free of charge. After that, the SME and TCC decide about the continuation of coaching, which is then partially funded.

Monitoring

To be able to control the quality of the coaching services offered, the partner institutions in most regions developed instruments for monitoring and documenting the coaching process. These were based on tools that were already used by other JOSEFIN partners and include regular reports, planning instruments, and interviews with coaches and SMEs.

Best practice from JOSEFIN regions:

In Lower Silesia/Poland, the Wrocław Centre for Technology Transfer (WCTT) coaches report on the implementation of services and prepare a coaching plan in cooperation with the company. Therefore the WCTT developed an interim report form and a coaching plan form.

In some of the regions additional seminars and workshops were organised to further develop the offer for innovative SMEs. The topics covered information about JOSEFIN as a transnational project that offers added value for innovative SMEs in the Baltic Sea Region. SMEs were informed that services encompass individual coaching for developing cooperative, transnational, and innovative projects and the participants could learn more about target markets and opportunities to foster transnational cooperation and develop their internationalisation plans.

For the SMEs the added value of the newly created and revised regional coaching services is:

- Support in becoming “finance ready” (business plans, financial planning and documenting)
- Speeding up the application process for the financial instrument
- Better awareness about how to realise their innovative ideas (step by step)
- Better preparation of internationalisation projects thanks to know-how, networking opportunities, and continuous support by the coach

For the regional support organisations the added value of the regional coaching can be summarised in the following way:

- Integrating existing activities (e.g. EEN activities) with the issue of internationalisation and access to finance
- Flexible new instrument to foster innovations in the region
- Building up sustainable support structures for innovative SMEs
- Effective use of EU funds

4.3 Integrated regional solutions as an added value for innovative SME

The JOSEFIN Service Model was developed as a blueprint for integrating accessible financing instruments and coaching services to support innovative SMEs in developing, financing, and implementing innovation and internationalisation projects. It describes the different elements of such a solution (Innovation Loan Guarantee Model and Coaching Model) and how they should interact on a general level (coaching services for developing and preparing the application for finance, financing with implementation coaching for realising the project). Based on this model the specific way of integrating coaching services and financial instruments that was implemented by the partner institutions varied from region to region. However, the general process can be modeled as outlined in *Figure 4*.

The joint efforts of the partners involved were needed to realise such integrated solutions that were fitted to the framework conditions in the regions. To guide these implementation processes, a letter of intent was signed in each region, in which the partners (financing + coaching) declared their will to cooperate in an in-

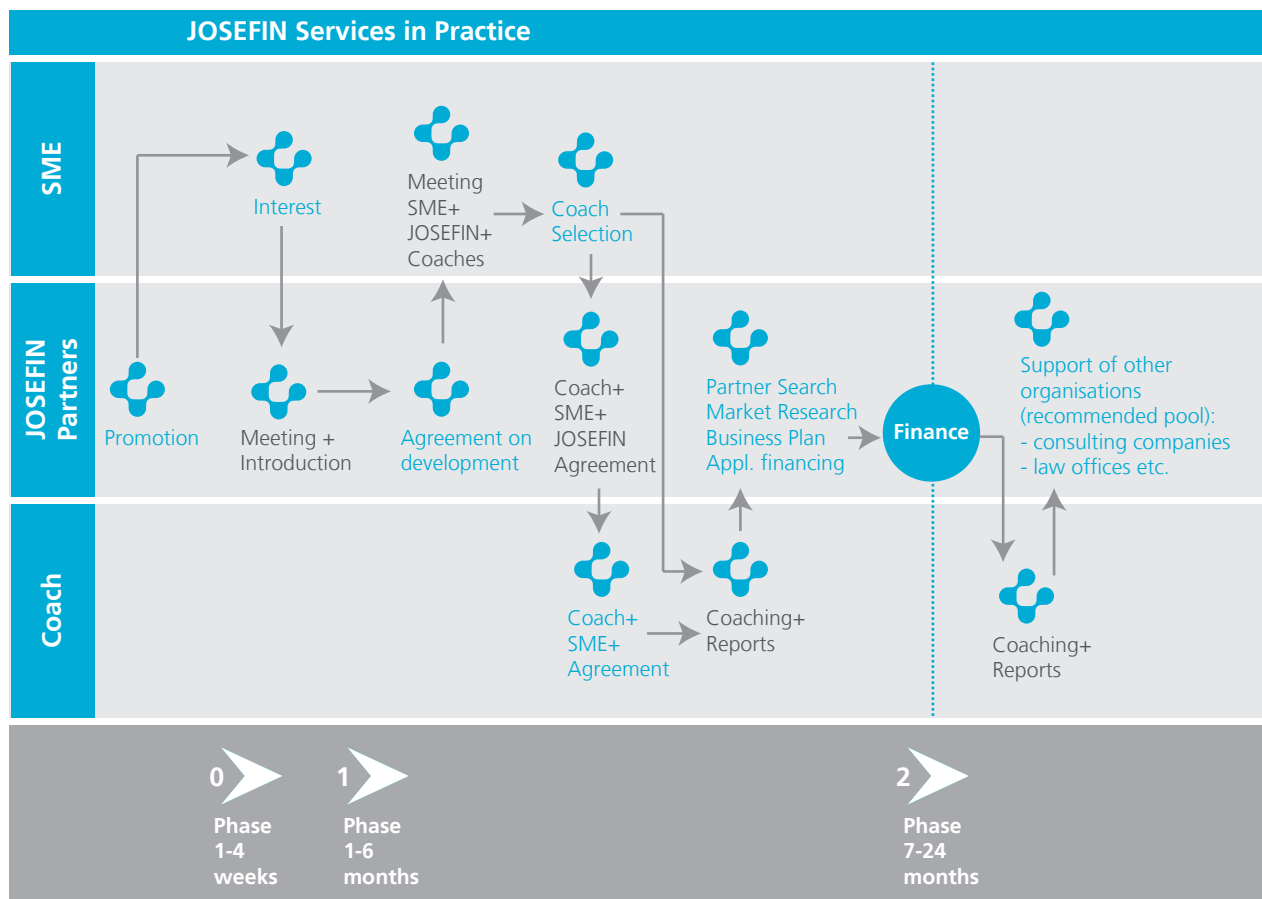


Figure 4 JOSEFIN services in practice

tegrated offer. The financial instruments that were implemented by the JOSEFIN partners during the project have already been described in *chapter 4.1*. They include a range of approaches, all focused on realising the main trends of the common JOSEFIN guarantee model with the given regional specifics. 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. The combination of these instruments was the most crucial part of the regional implementation

processes. In most regions the setting up of the financial instruments was more cumbersome and time intensive than that of the coaching services. Therefore, the implementation of the integrated solutions had to deal with different time frames regarding stakeholder discussions and issues of uncertainty in the process.

At the end of the project, the partners in the regions managed to set up specific regional cooperation structures that allowed them to offer SMEs an integrated support package for access to finance and coaching for innovation and internationalisation. For each region a case study of a company that was supported throughout the JOSEFIN project is documented (see *annex of this handbook*). The positive feedback from the companies underlines the added value that such solutions can offer for SMEs.

“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 specific arrangements in the regions differ to some extent, but also show remarkable similarities, most of them due to the common starting and reference point of the JOSEFIN service model and the ongoing exchange of the partners throughout the JOSEFIN project. There are four groups of regional JOSEFIN offers that are available at the end of the project:

1) Combination of a new financial instrument and a newly developed coaching offer

- Description: The JOSEFIN offer is a completely new support solution for innovative SMEs in those regions. The financial instrument is from its start a part of an integrated support solution offering coaching and international advice. It targets SMEs that have not yet received any support from one of the JOSEFIN partner organisations.
- Regions: Greater Poland, West Pomerania
- Added value for SMEs: New instrument allows better access to finance for undercollateralised SMEs; additional coaching is a new tool to develop innovation projects; JOSEFIN as fully-fledged support package.

“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

2) Combination of a new financial instrument and an existing coaching offer that was revised to include internationalisation and access to finance

- Description: The JOSEFIN offer introduces a new financial instrument that targets innovative SMEs that have problems in getting financed. The coaching services are already known to companies in those regions and can now be used for further support in getting the loan and developing the planned innovation/ internationalisation project.

- Regions: Berlin, Lower Silesia
- Added value for SMEs: New instrument allows better access to finance for undercollateralised SMEs; coaching support for specific issues is attractive for innovative SMEs that have not yet used this offer.

“Good way to get coaching that would improve your business plan, which will make you more reliable for financial institutions.”

Tauri Tuubel, CPO Defendec, Estonia

3) Combination of an existing financial instrument and a new coaching offer

- Description: The JOSEFIN offers introduces for the first time an integrated offer of finance and coaching for innovative SMEs. The loan instrument (together with other instruments) is made available for riskier projects and the financial institution and the support organisation are working together to enable companies to access finance for their projects.
- Regions: Lithuania, Latvia, Brandenburg, Mecklenburg-Western Pomerania, Lubusz
- Added value for SMEs: Additional coaching is a new tool to develop innovation projects; loan application to existing instrument can be prepared together with coach.

“The coaching allowed us to develop the primary business model with emphasis on the target market and our selling methods. Additionally, it helped to achieve better understanding of financing mechanisms and expectations of financial institutions.”

Dr Grażyna Cetys-Ratajska, Director of EU.CARE CONSULTING Sp. z o.o., Poland

4) Combination of an existing financial instrument and an existing coaching offer that has been revised to include internationalisation and access to finance

- Description: The provider of coaching services offers information on financing options and supports companies to use the financial instruments of the financial institution. There is an emphasis on coaching and finance for internationalisation that makes use of the JOSEFIN network.
- Regions: Estonia, Dalarna
- Added value for SMEs: Coaching support for specific issues is attractive for innovative SMEs that have not yet used this offer; combination of coaching with access to finance helps to plan investments and gain better insight into available funding options.

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 the JOSEFIN offers will be evaluated and used for further developments in this regard. The aim is to build up sustainable support structures that can be connected to similar offers in other regions beyond the coverage of the existing JOSEFIN partnership. This would help to further develop the internationalisation coaching that was piloted during the JOSEFIN project. To foster the transfer of the JOSEFIN approach to other regions, the following chapter sums up the lessons learned by the JOSEFIN partners in implementing the JOSEFIN service model in their region.

5 How to implement a JOSEFIN solution in your region

5.1 Preparing your region for JOSEFIN

A pre-condition for the implementation of a new policy instrument like the JOSEFIN Service Model in a given region is a dedicated actor (person or institution) who is convinced that the JOSEFIN approach of combining finance and coaching is a valuable instrument to enhance the regional support structure for innovative SMEs. This person or institution has to act as a policy entrepreneur to prepare a given region for the successful implementation of a new policy instrument like the JOSEFIN Service Model.

The following six steps are key in this process:

- a) Identifying main regional benefits of a JOSEFIN solution
- b) Secure support of key stakeholders
- c) Secure political and administrative support in the region
- d) Define a process with clearly defined milestones
- e) Initialise and facilitate a SWOT analysis
- f) Choose the JOSEFIN instruments suited to the needs of the region

STEP 1: Identify the main regional benefits of a JOSEFIN solution

As a first step, it is important to identify and clarify the benefits that a region can realise by implementing a JOSEFIN solution. These benefits should be

- Easy to communicate
- Based on facts (e.g. share of SMEs that report a lack of financing options)

- Connected to ongoing policy developments in the region

The JOSEFIN project has already identified general benefits of the JOSEFIN approach (easier access to finance for innovative SMEs, better support of internationalisation and innovation projects, integrating existing support schemes) which can be used as a starting point, but need to be put into the specific regional context.

STEP 2: Secure support of key stakeholders

A stakeholder analysis needs to be performed, to find out what kind of stakeholders (persons and institutions, regional and national) generally have a stake in the support and financing structures for SMEs in the region and would be interested in improving the system. It is important to identify those key stakeholders and allies in the private and public sector who have an interest in making change. Ask several possible allies who are the most important persons in this field. Identify one or a few stakeholders with high respect and standing in the business community in the region, and carefully choose one or some of them who might be willing to play a leading role in the implementation process of a JOSEFIN solution. These persons – key stakeholders - should then be allowed some freedom to choose a smaller group of stakeholders among their existing and trusted network. These are persons who can have formal position, personal interests, and the resources to invest some time as well as the initial resources to invest into starting a lobbying and implementation process. Get them involved in the further

planning and implementation process and fine-tune the case for the implementation of the JOSEFIN solution in your region (benefits, need for further analysis, process design) in a series of meetings with this group of stakeholders.

STEP 3: Secure political and administrative support

Secure political and administrative support in the region for the idea – if possible, bring both politicians, those in power and in opposition, and high administrative bureaucrats as observers to the meetings with the stakeholders. These should then agree on the main aim of the process, purpose, and modes of working together. It is possible for the bureaucratic level to suggest the steps – and it is almost always useful to start with a SWOT analysis (see step 5). Use media actively, by writing articles, stimulating debate about the need, create the interest for the initiative, put pressure on the key stakeholders to stick to their ambitions, and their “guns”.

STEP 4: Define a process with milestones

Define a process with milestones that can be measured along the way, and they should be celebrated when they are reached. Carefully prepare the stakeholders mentally for the fact that the process might take longer – with perhaps the SWOT analysis being the first activity - before it results in real change of the system (in this case, a possible implementation of one or several JOSEFIN instruments). It is important to define possible milestones that show that the process is moving forward towards the defined targets.

Once this is defined, taking possibly 3- 5 meetings in the initial phase, there should be a kickoff meet-

ing for the initiative, announcing that there is a need and a group of stakeholders who want change. In the meeting the purpose of the SWOT analysis, and the team/researchers who will perform it, will preferably be presented with media coverage. Media coverage will put pressure on the stakeholders to go forward and produce results, and it will inform a larger group of possible supporters of the idea that change might come. It will also inform those who do not want change that the process has started, and it will either trigger them to start organizing a counter attack for later, when the results of the SWOT are published, or they will go public at an early stage. This is good, because then one sees who they are and what kind of arguments against the initiative they have. These arguments can then be dealt with in the following steps (or possibly even in the SWOT).

STEP 5: Initialise and facilitate a SWOT analysis

It is helpful to conduct a SWOT-analysis of the existing situation. There are always certain pre-conditions that are connected to the characteristics of the macro-economic structure in a region (urban, regional, mixed, service economy, manufacturing, various degrees of SMEs, etc.); the existing financial support systems (private banks, public funds, venture and business angels); and the availability of national and regional support instruments and schemes. Quite often there will be combinations of private and public actors/institutions. Preferably a SWOT analysis of both the underlying macro-economic structure and the financial support systems functioning on top of them should be performed.

Transforming economies in the former Eastern Europe countries will nevertheless have quite different chal-

lenges then regions with long experience in market economies. In the former case, it may even be easier to introduce JOSEFIN instruments – because there are fewer, or weaker, interests connected to the existing structures. In the latter case, it can be more difficult because there are normally strong and professional interests tied to the existing systems – which might already be working well in some areas of the economy and may have been fine-tuned over many years to fit a dynamic market economy.

When the SWOT analysis is designed, make sure that it is as truly open and as objective a one as possible. If the process is predefined as “JOSEFIN instruments are the answers, what was the question?” the results will not be respected. If the SWOT analysis shows that many of the existing instruments in the region are already working well, and/or that the JOSEFIN instruments in question are not likely to be better or improve the situation significantly, then this should be respected. In other words – make sure that there are also possible exits (ending points) defined as a natural part of the process.

STEP 6: Choose the JOSEFIN instruments suited to the needs of the region

Based on the results of the SWOT analysis, the instruments for implementation need to be chosen and agreed upon by the stakeholders involved. The JOSEFIN Service Model allows different ways of realising a regional JOSEFIN solution. The most promising path is to start with elements that have the full support of all actors involved to enlarge this offer in future steps. The following guidelines describe the most important steps in realising a fitting financial instrument and coaching services in a given region.

5.2. Setting up JOSEFIN services in your region

The lessons learned by the JOSEFIN partners during the implementation of regional JOSEFIN solutions are the basis of the following step-by-step guidelines for implementation processes in other regions. There is a guideline for implementing a financial instrument based the JOSEFIN Loan Guarantee Model and a guideline for implementing coaching services based on the JOSEFIN Coaching Model.

Implementing the financial instrument

The process of setting up a regional JOSEFIN Loan Guarantee consists of four main implementation steps:

- STEP 1: Define the target group and specific needs
- STEP 2: Find financing partners with loan portfolio to SMEs
- STEP 3: Access additional EU-funding (financial engineering)
- STEP 4: Define terms and conditions for financial instrument and risk sharing, technical implementation and communication

Loan guarantees are an efficient instrument to ease access to finance. They are flexible, un-bureaucratic, save public funds, and comply with competition issues. In particular SMEs, whose innovative investments are often not acknowledged as collateral, can compensate their financing disadvantages with the help of guarantees.

STEP 1: Define the target group and specific needs

The target group of repayable financial instruments needs to be enterprises that the managers of the in-

strument judge potentially economically viable. Their financing needs should be associated with the establishment or expansion phase (financing of investments, product developments or innovations), or with the strengthening of the establishment or expansion (financing of working capital). Financing of existing enterprises in difficulties should be avoided. For projects that are more risky and in very early stages, specific risk capital instruments might be more suited than debt finance.

In order to avoid market distortion, public financing schemes should only target market gaps in the financial sector which have been established on the basis of regional market studies. The JOSEFIN regional market studies have clearly shown a lack of access to finance among innovative SMEs, despite growth potential, mainly because of low collateral and equity.

The risk aversion is furthered by existing information deficits between enterprises and banks, regarding innovation and foreign markets.

There are still many remaining prejudices among policy makers in Europe regarding the use of public funds in financial instruments other than grants. Thus, financing schemes for innovative SMEs should be embedded in regional innovation or internationalisation strategies. Moreover, criteria for what counts as innovative SME should be established on the basis of regional priorities. It is important to decide if the supported SMEs should mainly be focused on technological innovation or if a broader understanding of innovation is used, e.g. a sectoral approach. Criteria for selection can be:

- Direct investment in R&D and/or innovation linked with technology or application risks

- SMEs with significant R&D and/or innovation potential (catalogue with diverse criteria)
- Fast growing SMEs in general (e.g. > 20% p.a. turnover or jobs in 3 years)
- SMEs from innovation sectors or regional clusters (e.g. ICT, Life Science, Creative Industries, etc.)

STEP 2: Find financing partners with loan portfolio to SMEs

Public financial instruments should typically be delivered through financial intermediaries such as commercial banks or regional funds. The private banking sector usually has the best knowledge of the individual SMEs, sophisticated risk assessment instruments, and a sufficient branch network to reach the target group. The JOSEFIN loan guarantee model therefore intends to increase the readiness of banks and existing funds to finance innovative SMEs and internationalisation activities with a perceived higher risk.

The second step for setting up a public guarantee scheme, therefore, is to find existing banks or funds with a loan portfolio that generally targets SMEs and establish how a risk-partnership could increase their readiness to finance SMEs with lower collateral and riskier business models. The success of risk-sharing very much depends on lean, fast processes and the reliability of the guarantee in the case of default. If possible, an integrated application procedure should be developed, so that the SME has only contact to one institution.

A risk-sharing agreement can be developed as a pilot with a specific partner or loan programme, but ideally should be open to all interested intermediaries to avoid competition issues.

STEP 3: Access additional EU-funding (financial engineering)

One of the objectives of JOSEFIN was to access additional funding from EU financial instruments in order to make a guarantee scheme more economically viable (additional risk sharing) and to offer an added value to the SMEs (lower collateral requirements and favourable interest rate). Also, support from the EU often plays an important role in convincing regional policy makers to try new innovative approaches. For supporting loan and guarantee instruments, two main sources are available:

- Co-financing of loan or guarantee funds by the European Regional Development Fund (ERDF) either as a regional solution (e.g. Germany) or in the frame of the JEREMIE initiative (e.g. Poland, Baltic States).
- A guarantee and counter-guarantee facility within the EU programme for competitiveness and innovation (CIP) managed by the European Investment Fund (EIF)

The first solution requires the full support of the regional administration, as EU regulations on using ERDF in revolving instruments are very challenging. A funding agreement between the Member State / the managing authority and the holding fund and the individual financial engineering instrument has to be signed. Such funding agreements must ensure the correct implementation of the investment strategy and also contain a corpus of rules, obligations, and procedures to be observed by the parties concerned, regarding the financial contributions made by the ERDF (see Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006).

Whereas in Germany, the public development banks have already extensive experience, support through the JEREMIE initiative is a preferred path in the newer Member states. However, agreements with the national JEREMIE fund holders (e.g. BGK in Poland) have to be signed.

For a CIP-guarantee agreement, specific applications have to be made to the EIF by the financial intermediary, followed by a guarantee agreement between EIF and the intermediary. However, regional schemes have so far not been the focus of the EIF. Nationwide operating intermediaries were the preferred cooperation partners. Within JOSEFIN, an approach has been developed in which several regions apply together for a guarantee agreement.

Best practice from JOSEFIN regions:

In Berlin/Germany, to counteract the disadvantage of a regional instrument with a small loan portfolio not considered big enough for a single guarantee agreement with the EIF, a trans-regional approach has been pioneered. Three regional development banks (LfA Bayern, NRW.Bank and Investitionsbank Berlin) have formed a partner consortium and successfully applied for a CIP counter guarantee from EIF worth up to €235 M for 2 years. Every bank has a similar design of finance instruments, but has its own, separate budget (no mutual covering of loss). The lead partner (LfA) is fund administrator and sole contractor with EIF. Rights and duties are part of a subcontract between lead partner and partners. The advantage for the EIF is that this "virtual" trans-regional guarantee fund guarantees a minimum volume and a reasonable risk diversification. A trans-national solution was in the early focus of

the JOSEFIN project, but was abandoned because of technical difficulties with the regulations. However, in the next EU-funding period 2014-20 the idea of trans-national funds supported by the EU has been addressed.

STEP 4: Define terms and conditions for financial instrument and risk sharing, technical implementation and communication

Defining the terms and conditions for a public supported financial instrument, the economic sustainability of the fund, the professionalism and independence of the fund management, public regulations, the appeal to the banks involved, and the added value for the targeted SMEs all have to be considered.

The following terms have to be negotiated between the main actors:

- Eligible target group and financing purpose (R&D&I, investments, working capital)
- Size, maturity, and repayment method of loans
- Amount of guarantee and counter-guarantee
- Collateral requirements
- Interest and guarantee rate
- Application, risk assessment, and customer handling procedures
- Procedures in case of default
- Monitoring and reporting requirements

Finally, it is essential for the partner institutions to allow enough time for the technical implementation of the instrument, notifying state-aid issues if applicable, and communicating the advantages of the instrument to the private banking partners. This can take up to a year because of the different actors involved and the technical challenges of risk-sharing schemes.

Implementing the coaching services

The process of setting up a regional JOSEFIN coaching offer consists of five main implementation steps:

- STEP 1: Define the target group and specific needs
- STEP 2: Build up a set of criteria/requirements for coaches
- STEP 3: Build up a pool of coaches
- STEP 4: Define a matching process between SME and coach
- STEP 5: Install quality assurance measures

Depending on the level of experience with coaching, some of the steps are probably less relevant than others. The implementation process should lead to a coaching offer that covers the three phases of the JOSEFIN Coaching Model.

STEP 1: Define the target group and specific needs

To find the right coaches for the target group, it is necessary to define the target market and its detailed characteristics for coaching. Therefore, the three following questions should be answered before setting requirements for a coach's expertise, skills, and experience:

- What are the target groups?
- What are the specific needs of these target groups for coaching?
- What are your own resources and what resources do already have partners which you could make a use from?

Since the JOSEFIN Service Model is focused on supporting innovative SMEs, the target group will be in some way involved in innovative and/or transnational activities. It is important to decide if these companies

are mainly focused on technological innovation or if a broader understanding of innovation is used. You also have to decide if your target group encompasses startups as well as established SMEs.

The specific needs of the chosen target groups can be identified by exploratory interviews with interested SMEs during the pilot phase of the project. Experienced coaches or advisors that are used to working with that target group are an additional option for questioning.

STEP 2: Build up a set of criteria/requirements for coaches

Based on, and adjusted to, each of the identified and defined target groups in their regions and their specific needs, the institution willing to implement JOSEFIN offers should derive a set of criteria/requirements for coaches according to the following main categories:

- Know-how on target markets/economic sectors
- Expertise and skills (coaching related)
- Professional experience

Please keep in mind that these criteria should not be overly specific. This would make the process of finding coaches more costly and time consuming, and would limit the range of people you are able to attract as coaches. Experience shows it is good to have a good mixture of practitioners, people with academic backgrounds, and/or specialized coaches to offer your companies as coaches.

It is also important to get the process on when the set of criteria is applied to potential coaches right. There are two options:

- You can make it the final benchmark for including coaches in your coaching pool

- You can use the set to pre-screen potential candidates before a more personalized application process starts

STEP 3: Build up a pool of coaches

Based on the set criteria and the understanding of coaching, the institution should build a pool of coaches to address the different needs of the innovative and/or internationalising SMEs. Important steps therefore are:

- Select eligible coaches under a common understanding
- Diversify the pool based on to different expertise and experience of coaches and the specific needs of the target market
- Maintain the pool in response to changes in/of the target market or the specific needs of the target group, possibly adapting the composition of the coaches

It is also possible to use existing pools of coaches (e.g. for innovation coaching or start-up coaching) to find suitable coaches for financed SMEs. In this case, the matching process (see below) will be more challenging, as the coaches in the existing pool may not be consistent with the set criteria.

STEP 4: Define a matching process between SME and coach

Finally, it is essential for institutions implementing the coaching process to define a matching process between the coaches and the respective SME, assuring a positive working and personal relationship. Taking this into account, the following steps have to be included to match the coach with the SME and its specific needs:

- Check the industries experiences of the coach against the line of business the SME is conducting
- Compare the specialist and technical knowledge of the coach with the needs of the respective SME
- Balance carefully the personality traits of the coach with the characteristics of the contact persons in the SME, to support a positive personal relationship

Based on these steps, the matching process of the SMEs and coaches should aim for the highest consistency, although it should be obvious that the matching due to personal characteristics is hardly compatible with a check list. Here, personal understanding and empathy for the situation of the SMEs and their contact persons is more essential. Ultimately, the company's representatives should decide.

Please pay due attention to the fact that even the best match on the basis of a check list (or any other tool) is not a 'true' match (a 'kind of chemistry') between the coach and the coached (SME). So it is strongly recommended to present 2-3 persons/coaches for the SME to choose the best suitable one. Coaching is a long-term relationship based on trust and common understanding.

If the SME does not want to work with any of the selected coaches, it should be possible to start the matching process again.

STEP 5: Install quality assurance measures

After the implementation of a pool of coaches, it is also important to introduce and define measures and their features for the quality assurance of the coaching that is being provided by the associated coaches. In general, two essential and approved tools to ensure the quality of the coaching provision are:

- Implement a regular evaluation of the coaches (e.g. preliminary project assessment form, SME questionnaire, final report at the end of the process; regular reports on coaching sessions- minutes from coaching sessions, reports on any important disturbances/difficulties in the process, etc.)
- Oblige the coaches to report on the coaching conducted by them

The installed quality assurance measures should on the one hand be as 'soft handed' and flexible as possible and on the other as accurate and extensive as necessary.

6 Importance of international cooperation

6.1. Supporting internationalisation of SMEs through transnational networks

Globalisation has brought a shift in the economic environment of the SME in the Baltic Sea Region. Progressively disappearing barriers and borders are exposing

all companies to both new markets and international competition. Consequently, SMEs that do not consider internationalisation are unknowingly self-imposing a severe restriction on their potential for long term survival. Even businesses that focus primarily, or even exclusively, on the domestic market have to be com-

petitive internationally in order to secure long-term survival and growth.

Support organisations that target this group of companies need a strong transnational network to offer them added value in terms of networking and finding potential business partners abroad. In JOSEFIN, this was addressed from the start since most of the partners responsible for the development of coaching services are also Enterprise Europe Network institutions. As one of the most relevant support networks in Europe, the European Commission's Enterprise Europe network can play an important role in linking businesses together, in particular in the area of long term SME cooperation.

During the project, the partners have identified the need for cross border support that goes further than the services that can be offered in the framework of the Enterprise Europe Network. Rules for EU and public financing often limits the time organisations can spend giving assistance to SMEs outside their own region. Therefore, a pilot scheme was installed within JOSEFIN to allow partner organisations to gather experience in actively supporting SMEs with internationalisation plans. Thanks to this, innovative companies from Sweden, Estonia, and Poland received cross-border support to implement their cooperation plans, or to enter new markets within the JOSEFIN regions. A Swedish SME interested in the German market was supported by a German coach in finding cooperation partners for marketing and distribution in a highly specified market segment (see box). This kind of support is of great value for SMEs since it tackles one of the main barriers for SME internationalisation: the lack of knowledge of foreign markets. The issue of access to finance for internationalisation is another issue that cannot be covered by organisations in the framework of EEN.

JOSEFIN established dedicated contact points in every region that inform SMEs of funding possibilities in their region and how to use them to finance transnational cooperation projects.

The experience of JOSEFIN shows that networking between SME support institutions in the Baltic Sea Region is significant in increasing the ability to support regional growth companies to reach an international market. SMEs benefit from this cooperation in a two-fold manner:

- 1) 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
- 2) The transnational cooperation opportunity gives innovative SME essential support and access to important contacts in their internationalisation process

To be able to continue this cooperation on a permanent basis, the JOSEFIN regions have developed a cooperation agreement (see *annex*) 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.

Example SPINTSO

Through networking between JOSEFIN partners, the Swedish innovative SME SPINTSO International AB made contacts with the German company Alzweck Sportartikel. The companies have started a long-term cooperation in the market for football

referee equipment. During 2011, Spintso has started sales in Germany of SPINTSO PDA and SPINTSO watch via Allzweck's channels and Allzweck started sales of their referee equipment in Scandinavia via Spintso's channels. Spintso has also reached a contract with DFB Deutscher Fussball-Bund (German Football Association).

Transnational activities to directly support innovative SMEs are also in line with the Europe 2020 strategy, which has a clear focus on fostering innovation and knowledge transfer. EU funded instruments for such cooperation initiatives include the programmes for European Territorial Cooperation (ETC) and the establishment of transnational funds for financing growth and innovation in European SMEs.

The ongoing planning for the next framework for structural funds (2014-2020) foresees an increasing amount of expenditures for ETC (from € 8.7bn in 2007-2013: to € 11.7 bn., € 2.4 bn. of which is devoted to transnational cooperations)⁵. Furthermore, the linking of ETC with the goals of the Europe 2020 strategy will be enforced. Macroregions like the Baltic Sea Region will continue to play a more important role in the scope of EU programmes for transnational cooperation. This development offers many opportunities to build on the experiences of projects like JOSEFIN in order to deepen the cooperation in the Baltic Sea Region for better support of internationalising SMEs.

Together with EIF and EIB, the EU also intends to develop dedicated transnational funds for cross-border support of start-ups and SMEs. Fostering of innovation will

⁵ Source: Draft document of the European commission, published October the 17th of 2011.

be a focus of this. An example for this development is the idea of a so-called Nordic Innovation Fund for the Scandinavian countries⁶. Such funds will most probably play a growing role in further enhancing access to finance for SMEs with internationalization plans in the future. Networks of regional support offers like the JOSEFIN partnership can offer complementary services, helping the companies to make effective use of them.

6.2. Benefiting from transnational cooperation

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 to ensure significant added value for the involved institutions and organisations coming from transnational cooperation and its specific benefits. The main objectives of such cooperation are:

- To exchange ideas on, and concepts of, new support schemes and tools for financing of innovative SMEs
- To create synergies for joint fostering of innovation (operational collaboration)

⁶ The concept of the Nordic innovation Fund was developed by EIF and Nordic innovation on the basis of a joint proposal from 2009 to develop a "Nordic Baltic Investment Fund".

- To initiate and develop pro-active relations between entities providing transnational instruments and services for innovative SMEs
- To create the framework for permanent communication between institutions from different projects, including mutual feedback as well as the exchange of experience
- To leverage additional economies of scale by significantly increasing the number of addressed beneficiaries and decision-makers that are linked to the various projects and institutions
- To develop the mutual information, communication and promotion channels for the innovation support organisations and their instruments

An effective way to realise such cooperation activities is to contact ongoing transnational cooperation projects that share the same target group (innovative SMEs) and feature initiatives with similar activities.

During the JOSEFIN project, a continuous identification of initiatives for possible cooperation was facilitated throughout the project period. In this context, a list of contact persons within the partner networks has been set up and maintained by the JOSEFIN project to secure permanent and up-to-date communication between JOSEFIN and the cooperation projects. To maximise the impact of activities carried out and to create synergies for joint fostering of innovation, JOSEFIN and other projects/networks established an effective and successful working platform for collaboration within a number of areas, such as:

- Information sharing
- Joint events organisation (info-days, workshops, training sessions, tutorials, networking events)
- Integrated services – ‘client transfer’
- Joint promotion and dissemination activities

Moreover, Information workshops for (Lead-) Partners of other projects were organised by JOSEFIN. They focused on distributing information about financial and coaching services tools developed within the project. JOSEFIN also actively promoted the project’s findings, schemes and instruments through presentations at national and transnational workshops and conferences of a large number of other projects.

During the project duration, JOSEFIN developed special relations with four European transnational cooperation projects whose activities and results could be interesting for institutions and organisations that are implementing and running regional JOSEFIN solutions. Thanks to the cooperation activities described above, the initiatives that were involved in these projects are already well informed about the JOSEFIN approach and should be willing to engage in further collaboration activities for SME support throughout the Baltic Sea Region.



BaSIC (Baltic Sea InnoNet Centres, www.basic-net.eu) the follow-up initiative of the INTERREG III B project BaltMet Inno. The main objective of the project is to create a seamless working environment for fast growth innovative SME all over the Baltic Sea Region, embedded in a reliable network of leading Science Parks and clusters. Emphasis is given to identifying, selecting, training, and coaching SME-gazelles; to provide them with harmonized access to markets (establish a tool kit

of market access points) and to connect them with access to finance for internationalisation and growth.

During the JOSEFIN project, BaSIC helped to identify dynamic companies for business internationalisation within the respective Science Parks & Incubators. JOSEFIN partners provided individual coaching and finance for innovation projects planned by these SMEs, thanks to BaSIC's platform, on which JOSEFIN could receive easy access to SMEs searching for these exact kinds of financial and coaching instruments. The BaSIC project also offers information and advisory services through its Market Access Points (MAPs), which are valuable instruments to help innovative tech-based growth companies and entrepreneurs to find improved access to Baltic Sea markets. MAPs offer synchronised services related to internationalisation needs, including 'soft-landing' services. In particular, MAPs offer the Local Case Manager for Companies service, which welcome firms interested in doing business in Baltic Sea Region metropolises: Berlin, Copenhagen, Helsinki, Oslo, Riga, Stockholm, Tallinn, Vilnius, and Warsaw. Each Local Case Manager guides the region's companies outwards and foreign companies inwards to markets in the region.



KNOW-MAN (Knowledge Network Management in Technology Parks, www.know-man.eu) is an INTERREG IVC project aiming to improve regional development and spatial innovation policies by using tools of regional Knowledge Network Management.

With this aim, 15 partners from six European regions (viz., Rome metropolitan area (Italy), Veneto province (Italy), Lower Silesia province (Poland), Koroška (Slovenia), Andalusia (Spain), and Berlin-Brandenburg (Ger-

many)) have joined their forces to improve regional cooperation between public authorities, the research community, and innovative small and medium sized enterprises. As an excellent 'innovation hub', Know-Man ensured access to many innovation-driven SMEs located in technology parks, which were supported by the JOSEFIN services (e.g. in the Lower Silesia region). An especially interesting result of the project is the instrument of regional Knowledge Atlases, which help innovative and knowledge-based start-ups and SMEs to explore their business environment and get to know the right services and people. With an easy search, the various services, events, and projects are presented in the categories: Business, Networking, Training & Education, and Research Focus. Currently two atlases are available on the project website (for Berlin and Rome) and four further reports will be published soon.



CREATIVE
METROPOLES

CREATIVE METROPOLES (Public Policies and Instruments in Support of Creative Industries, www.creativemetropolises.eu) is an INTERREG IVC project targeting decision-makers and executives in local governments, as well as

creative industry stakeholders, and is expected to result in a more focused and efficient public support system for creative industries. The experience gathered within the project was summarized in a 'good practices' publication entitled 'How to Support Creative Industries' and several interesting findings were used by the JOSEFIN project for the development of policy recommendations (see chapter 7) and to open the services offered for this target group. The most relevant and valuable practices from a JOSEFIN perspective can be found in sections: 'Access to Finance for Creative Business' and 'Business Capacity and Internationalisation of Crea-

tive Industries'. The publication covers 11 experienced and newcomer cities: Oslo, Helsinki, Stockholm, Amsterdam, Berlin, Barcelona, Birmingham, Vilnius, Riga, Warsaw, and Tallinn.



EUNOP (EU-Net Oderpartnership, www.eunop.eu) is a two-dimensional project gathering German and Polish non-profit business supporting organisations from Berlin, Brandenburg, and 4 western regions of Poland. The main aim of the network was to support German-Polish economic cooperation, especially through de-

velopment of contacts between business supporting organisations and European information points and, as a result, through direct linking Polish and German SMEs, all with a special emphasis on high-tech, innovative companies. Thanks to cooperation with Eunop network, JOSEFIN partners from Poland and Germany significantly improved their regional service models and got open, comfortable access to many public and private institutions supporting innovative and international development of SMEs. Currently on the project website 192 profiles of different institutions can be found: technology parks, technology transfer centres, incubators, regional agencies, innovation centres, high technology clusters, chambers of commerce, networks, etc. Each profile consists of contact data and general information on geographical coverage, target groups, areas of expertise, main themes/topics, etc.

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 experience on the role of regional and national policies to create enabling frameworks for such services. The policy options that were developed by the regional authorities involved were discussed with other policy makers from the regions during dedicated policy meetings. As a result of these meetings, the following conclusions for policy makers in the BSR were derived.

For the economic development of the BSR, it is important to enable SMEs to follow strategies for sustain-

able growth via innovation and internationalisation. But there is an unmet demand from innovative SMEs in the BSR for better support in financing innovation and internationalisation projects. This is a challenge for policy makers at the regional and national level. Most of the existing regional innovation strategies do not target this demand in a sufficient way. In some regions, dedicated innovation strategies are not even in place yet.

The issue of internationalisation is of growing importance for regional SME promotion. The opportunities of the Common European Market are mainly being seized by large companies. The substantial growth po-

tential of innovative SMEs going international is still untapped in most regions of the BSR.

In the light of rising public debt and the trend towards more sophisticated financial engineering instruments in the EU Structural Funds regime, the use of revolving financial instruments is the future of public promotion at regional level in the BSR. For public SME finance, it is the most efficient approach. Giving out grants or “soft loans” is no viable and sustainable solution beyond the early phases of technological developments.

The support structures for SMEs are already well developed throughout the BSR. Nevertheless there is lack of tailor made solutions that combine elements of financial and non-financial support for this target group. Therefore, it is important to leverage synergies through sophisticated combinations of existing support instruments, newly developed support and financing instruments and supporting policies.

Based on these conclusions the following policy recommendations offer a starting point for more SME friendly innovation policies to help foster the internationalisation of such companies.

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

Regional innovation strategies need to provide solutions to continuously empower SMEs 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, and access to finance in particular, 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. Integrated support strategies or one-stop-solutions - which is even more suitable for SMEs - need to be implemented. Integrated solutions should involve support for better access to finance as well as consulting and coaching services.

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

Revolving instruments are the future of financial innovation and economic development strategies, despite remaining doubts among various policy makers. Loans, guarantees, and risk capital are more efficient than grants to foster competitiveness and growth among SMEs and have little to no market distorting effects. EU-financial instruments such as the SME guarantee facility from the CIP-programme, or the JEREMIE initiative, are ideal funding sources for counter-back guarantees that allow a higher outreach to under collateralized SMEs.

Stakeholders should support public and private finance institutions to engage in a public-private risk-sharing

approach rather than invest in interest subsidies or direct finance.

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

In order to facilitate easier access to finance for innovative enterprises and internationalization projects with typically low collateral and higher perceived risk, EU structural funds are particularly well suited to supporting public-private financial engineering. 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 or strengthen the strategic objective of financing innovative SMEs.

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

European projects, especially INTERREG innovation projects often create concrete results for innovative SMEs. But these projects usually operate in a completely isolated manner from regional innovation strategies and their stakeholders. The commitment of all stakeholders (regional authorities, promotional institutions, EU/INTERREG project partners, and cluster manager) to acknowledging the potential of European cooperation as added value for their activities is essential to establish 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.

“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

“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

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

Maciej Grupinski
Bank Gospodarstwa Krajowego

8 Annex

JOSEFIN Cooperation Agreement

Joint support for innovative SMEs in the Baltic Sea Region

With Europe 2020, the European Union has formulated a growth strategy for the coming decade that aims at developing the EU into a smart, sustainable and inclusive economy. We, the signing partners of the INTERREG IV-B project JOSEFIN (Joint SME Finance for Innovation) are convinced that for this task it's important to join regional forces to unlock the full potential of European SMEs for innovation and internationalisation. This connects also to the EU's Baltic Sea Region Strategy to further coordinate stakeholders to promote a more balanced development of the Region.

As a result of the JOSEFIN project the partners are offering support services for innovative SMEs and products that ease the access to finance for innovation and internationalisation. These services and products are based on the jointly developed JOSEFIN Service Model.

To sustain the established cooperation between the partners beyond the end of the JOSEFIN project, the signing organisations agree to further collaborate in providing these support activities to innovative SMEs with seat or branch establishment in the respective partner region. These services will build on the cooperation experiences, which were gathered during the JOSEFIN project, and the JOSEFIN website will be used as an information hub for these activities.

In continuation of the pilot activities carried out during the lifetime of the project, the partner regions herewith commit themselves to act as Regional JOSEFIN Contact Points for SMEs looking for finance for their innovation projects or internationalisation activities. The Regional JOSEFIN Contact Point will support the search for foreign business partners, and provide coaching for finance as well as the respective sign posting services.

Additionally, the signing JOSEFIN partners agree to further cooperate in providing information on their regional JOSEFIN offers to other projects and initiatives that support innovative SMEs. Also other regions that are interested in the JOSEFIN Service Model and the regional solutions are welcome to contact the JOSEFIN Initiative that is open to share its experiences and to transfer knowledge in order to extend its geographical coverage and to further improve access to finance for innovative SMEs.

Signed by 14 JOSEFIN partner organisations covering all JOSFIN regions

Case study Berlin: Pumacy Technologies AG

Pumacy Technologies AG is a leading provider of knowledge, innovation, and process management solutions with a holistic approach ranging from a first strategy and systematic analysis to a professional concept and the implementation of the final solution. Pumacy Technologies AG intends to provide a central point of contact for client queries regarding Product Lifecycle Management (PLM). For this, the office Berlin is to be extended to include the "Innovation Centre PLM" where companies from the traditional manufacturing sectors, as well as the growth sectors life sciences or new energies, will learn how to streamline their product development processes by using innovative software technologies.

Main challenges of the project

The challenge for Pumacy Technologies AG is to manage investments amounting within a short period of 18 months to a multiple level of what would be conventional in this period of time. For this, Pumacy has to provide additional securities. Berlin Kredit Innovativ has been key to success. In cooperation with IBB, Pumacy was able to organise the overall financing plan within a few weeks and convince the house bank of the benefits of the project.

Form of assistance / service received

Loan of €500K from commercial partner bank with 60 % guarantee by IBB with the new product "Berlin Kredit Innovativ". Additional assistance by IBB-key customer support.

Added value of the JOSEFIN services for the company?

The IBB loan in the frame of the JOSEFIN project additionally supports the investment for the Innovation

Centre PLM. „Berlin Kredit Innovativ“ provides the last component for a structured financing package facilitating the further growth of the entire organisation.

International perspective of the company

The Innovation Centre PLM will support international collaboration with partners. As a value added reseller of the French company Dassault Systèmes, partner of the Norwegian company Induct Software, and with its own product KMmaster (www.kmmaster.de), Pumacy provides leading software solutions across the entire product life cycle.

“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

Case study Brandenburg: SMSCentral

SMSCentral offers information services for defined communities. The investment project referring to the services of JOSEFIN is related to the ambitions to enter the German market.

Main challenges of the project

- Project planning itself, because of law regulations dealing with personal data protection in Germany
- Locating proper partners with access to clients
- Financing the start of the service and its implementation on the new market

Form of assistance / service received

- Coaching in close cooperation of the JOSEFIN partners ARR Zielona Gora and ZAB Brandenburg especially in terms of internationalisation.
- External coaching (2 days) dealing with how to do business on the German market.
- Additional coaching by the staff of ARR and ZAB.

Added value of the JOSEFIN services for the company?

- Individual approach to the needs of the company
- Comprehensive and integrated service for most of the topics
- Introduced as “Best Practice” during the second Policy Maker Seminar in Berlin

International perspective of the company

The internationalisation activities are shifted to 2012. Support from JOSEFIN partner ZAB is agreed.

“Excellent coaching services and support”

Marcin Kapustka, Owner

Case study Dalarna: Superior Metals Sweden AB

Superior Metals Sweden AB has developed a casted alloy and a method to control the properties of said alloy. The business idea is based on research performed at KTH Royal Institute of Technology in Stockholm. Two different applications have been identified and the company is working with two costumers to develop a product that suits the client. The investment project is to support the working capital of the company, testing the properties of the developed products as well as researching the market.

Main challenges of the project

The company has a shortage of funding and the development of the alloy towards a sellable product is very time consuming.

Form of assistance / service received

Superior Metals have received support through the JOSEFIN service model by business coaching of 12 hours per month during 2011. From the coach and the incubator, the company has acquired financial guidance and then applied for financing from Dalasidd in July 2011. The financial support has so far consisted of grants, but they will also likely receive loans during the next year.

Added value of the JOSEFIN services for the company?

The company relocated to Dalarna, where the understanding for the steel industry is better and the production of such a product should be easier in future. Dalarna also has the advantage of having future costumers nearby. Apart from that, the coaching offer of specialists in Dalarna equipped the company with better business knowledge.

International perspective of the company

The identified applications are highly applicable in an international market. The connections as well as the financing obtained within the JOSEFIN project will develop the product further in an international market.

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

Katarina Fredriksson, CEO

Case study Estonia: Defendec

Defendec develops products based on ad hoc wireless sensors network technology. The investment project referring to the services of JOSEFIN is related to the ambitions to expand internationally.

Main challenges of the project

As a start-up, Defendec's main challenge was getting access to finance. As Defendec deals with sensitive and long period selling processes, financial institutions see them as high-risk clients. There were not enough financial guarantees available.

Form of assistance / service received

JOSEFIN partner Tehnopol has been providing business development services to Defendec since May 2009 and till today the company has been receiving regular coaching sessions. Defendec was involved in the Tehnopol business incubator process receiving regular 4-6 hours of coaching per month from Tehnopol mentors and business coaches.

Added value of the JOSEFIN services for the company?

The added value of JOSEFIN can be assessed through the coaching and mentoring activities that Defendec has received. Thanks to JOSEFIN, Tehnopol was able to provide a wider cooperation network, specific mentors, and easier access to foreign markets. Tehnopol was also able to attract the VC-s and business angels to Defendec.

International perspective of the company

Defendec operates in international markets and most of the company's revenue comes from abroad. Defendec has sales offices in the USA, Asia and Finland.

"Good way to get coaching that would improve your business plan, which will make you more reliable for financial institutions."

Tauri Tuubel, CPO

Case study Greater Poland: DIZGUT

Established in 2010, the main goal of DIZGUT is the design and construction of the vertical wind tunnel „FreeFlyCenter“ as a free fly simulator. After construction, DIZGUT will be responsible for skydive training.

Main challenges of the project

Wind tunnels with full air recirculation construction design is completely new project on both national and global scale. Current technologies are relatively young.

Form of assistance / service received

The company has received 10 hours of coaching as support for further development and is now in the process of making a declaration of cooperation with JOSEFIN partners FRiPWW/WARP.

Added value of the JOSEFIN services for the company?

DIZGUT expects assistance acquiring financial support or financial partner. Thanks to the financial guarantee, it will be easier to find a bank or other financial institution, enabling us to establish The Vertical Wind Tunnel „FreeFlyCenter“ according to schedule.

International perspective of the company

Despite of the planned location of the "Vertical Wind Tunnel" in Greater Poland, about 50% of usage is expected to be by skydivers from foreign countries.

I can highlight two main impacts that help us to achieve our plans and significantly reduce the possibility of project failure: coaching – helping us to understand our issues and providing personal development, and surety and loan on preferential conditions – helping in innovative projects by collecting the necessary funds and finally balancing the budget.

Przemysław Wolański, CEO

Case study Latvia: Pogritech Ltd.

Powderised materials are used as production input in various industries. The activated powder of Pogritech increases density of the end-product, compared to the alternative powders. Additionally, Pogritech powders allow customers to reduce energy costs in their production process. The new powder production technology developed by Pogritech is technically finished, but investment is needed to begin production.

Main challenges of the project

The main challenges of this project are the too high risk for bank finance, the need for detailed market research, and the potential risk that clients may be unwilling to switch from their existing suppliers.

Form of assistance / service received

The CEO of the company received coaching assistance and the project was discussed by experts in the Investment and Development Agency of Latvia and the coaches. Market and technology oriented research was carried out, organised by the Investment and Development Agency of Latvia and performed by scientists at Riga Technical University and the coaches. The CEO of the company was actively involved.

Added value of the JOSEFIN services for the company?

The added value of the JOSEFIN services for the company was the possibility to get individual coaching both in business development and also market research. The opportunity of additional coaching decreased project implementation risks. Coaching helped to find the most appropriate source of funding.

International perspective of the company

The project is mainly oriented towards international markets. Powderised materials are used as production input in various industries: parts for transport, coatings and targets for nano-coatings, nuclear power infrastructure, alternative energy, electric motors, turbine blades, etc. The company has the potential to market their product in these international industries.

“Coaching offered by JOSEFIN helped to organise thoughts about the project and to gain more detailed knowledge about the target markets. A reliable, impartial view is an invaluable asset in the business.”

Martins Prusis, CEO

Case study Lithuania: Media Traffic UAB

Media Traffic UAB is an advertising company, specialising in public transport advertising (via LCD monitors). The company has developed an IT tool for remote media control which is compatible with accounting programmes and suitable for reporting.

Main challenges of the project

The company had a shortage of funding for the development of their products, and so external financing was necessary.

Form of assistance / service received

Coaching was provided in areas such as company set-up, raising of authorised capital, business plan structure and negotiation skills with financial institutions.

Added value of the JOSEFIN services for the company?

Thanks to JOSEFIN, the company could offer its products and services to neighboring countries.

International perspective of the company

The company has plans to expand its activities in other Baltic states and Poland.

“Thanks to JOSEFIN, we’re really self confident in terms of dealing with financial institutions. We also became much stronger in terms of strategic planning through the preparation of business plan”

Dainius Raupys, CEO

Case study Lower Silesia: Apeiron Synthesis

Apeiron Synthesis is a high-tech chemical company developing and commercialising results of breakthrough research on olefin metathesis. The planned investment project involves self-development of new innovative products and business internationalisation.

Main challenges of the project

The main challenge was obtaining a high amount of funding for further development.

Form of assistance / service received

The coaching services within JOSEFIN lasted almost 2 months. Apeiron Synthesis collaborated with three experts from Wrocław Centre for Technology Transfer.

As the result, it became obvious that the best solution for the company would be a strategic investor (venture capital fund).

Added value of the JOSEFIN services for the company?

Thanks to JOSEFIN, Apeiron Synthesis received a professional, targeted and comprehensive package of coaching services that enabled the company to analyse and assess available financial instruments, to develop and improve the business plan, to analyse all potential threats from an intellectual property rights perspective and to prepare for future investors.

International perspective of the company

Apeiron Synthesis creates high performance catalysts for use in global industries: pharmaceuticals, advanced polymers, personal care products, detergents, fuels, lubricants, etc.

“Apeiron Synthesis really enjoyed taking part in the JOSEFIN project and the company would definitely recommend it to those who wish to raise money for further development of a company.”

Dr. Michał Bieniek, Chairman of the board

Case study Lubusz: DEM DRUK

Specialising in offset printing, the company intends to increase its competitiveness by implementing new innovative technology.

Main challenges of the project

The main challenge was to find an appropriate institution or person with expertise on innovation technological credit applications.

Form of assistance / service received

The company received 50 hours of Development Coaching.

Added value of the JOSEFIN services for the company?

The company gathered many new contacts, which have led to new ideas. Thanks to the appropriate qualifications and experience of the coach, DEM DRUK was able to complete the preparation of full project documentation for the credit application.

International perspective of the company

The technology which the company wants to implement has very promising perspectives. Thanks to its location and contacts gathered within JOSEFIN, this project has huge potential abroad.

"Small and medium entrepreneurs face many difficulties in getting the right advice or funding for ideas. JOSEFIN offers the best solution. We got great advisory help and were told how to work efficiently to realise investment plans. It's 100% effective to participate in JOSEFIN"

Marek Drygowski, Co-owner

Case study Mecklenburg-Western Pomerania: Yoga OÜ

Yoga OÜ is a pioneer in providing innovative wired and wireless building automation solutions. The company has invented the first self-learning building automation systems based on artificial neural network technology.

Main challenges of the project

Yoga OÜ intended to enter the German market.

Form of assistance / service received

The Technology Centre Vorpommern (TZV) offered Yoga OÜ, as a technology-oriented and innovative SME from Estonia, international coaching support. Therefore, special meetings between the TZV and Yoga were organised and a market entry strategy for the German market was developed. Based on the specific needs of Yoga German distributors, resellers and installers were contacted.

Added value of the JOSEFIN services for the company?

In order to expand the businesses to the German market, the Technology Centre Vorpommern supported Yoga and offered the possibility to build a first Demo location in Germany.

International perspective of the company

The aim of finding German distributors and installers has been realised thanks to the installation of a demo room in North Germany.

Thanks to the JOSEFIN project, we could easily enter the German market.

Priit Vimberg, Founder and CEO

Case study Oslo: LandTech RE<C

The company plans to build a 20 - 60 kW demonstrator to power a military wheeled utility vehicle with 200 - 600 hp propulsion system, providing electrical energy when parked and self-recharging while being used.

Main challenges of the project

LandTech RE<C is searching for investors to enter foreign markets.

Form of assistance / service received

So far the Company has been eligible for the following sources of funding: Norwegian Research Counsel R&D support, the TaxRefundforCash Program, and Innovation Norway - industrial cooperation project funding.

Added value of the JOSEFIN services for the company?

The company was enabled to speed up business modeling, technology verification, and market exposure and entry at an early stage.

International perspective of the company

The LandTech RE<C Powergenerator offers global decentralizing power solutions by providing working energy within areas affected by natural disasters.

Case study West Pomerania: EU.CARE CONSULTING

Responding to the needs of the European market for training and education in the field of disability, EU.Care Consulting offers ready-made, comprehensive education and training modules, which would allow and facilitate large institutions and organisations of the central government to implement their own system of continuing education and staff development for employees in the public health and social welfare sectors.

Main challenges of the project

The main challenge for the company is the shortage of funding.

Form of assistance / service received

Via the JOSEFIN service model, the company has received support by business coaching with 60 hours during 2011. The company has planned to apply for

finance to the Szczecin Loan Fund and "Pomeranus Seed" Capital Seed Fund.

Added value of the JOSEFIN services for the company?

- Developing the primary business model to increase the probable success ratio and developing the basis for creating training models and sales methods
- Enhancing the financial planning abilities, better understanding of financing mechanisms and preparation for conducting meetings with potential investors

International perspective of the company

The company is searching for and selecting partners in target markets such as Sweden, Germany, Great Britain, and France.

"The coaching allowed us to develop the primary business model with emphasis on the target market and our selling methods. Additionally, it helped to achieve better understanding of financing mechanisms and expectations of financial institutions."

Dr Grażyna Cetys-Ratajska,
Director of EU.CARE CONSULTING Sp. z o.o.

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2020

