



Innova-FI

Interreg Europe



European Union
European Regional
Development Fund

REPORT EXCHANGE OF EXPERIENCE 03

2019, Vilnius

EXCHANGE OF EXPERIENCE

Within Innova-FI project, each participating partner is responsible for the preparation and implementation of one Exchange of Experience – intraregional learning. As partners are not directly managing the policy instruments for internationalisation, the aim of the exchange of experience meetings is to:

- a) Analyse the situation in the hosting region, i.e. investigate the state-of-play in the territory, strengths and weaknesses;
- b) Deepen the knowledge of the project partners and stakeholders on a concrete topic and get inspired and aware of possibilities for policy change in other domains;
- c) Find synergies with other processes (programs and projects) that are part of the organisational work-load and are linked to financial instruments;

Report Elaboration

The aim of this report is to describe and reflect the exchange of experiences and to gain insight into the intraregional learning process. The corresponding project partner should elaborate the report after each exchange of experience event and send it to the National Innovation Agency (Lead Partner) and Startup Europe Regions Network (advisor partner). The news should be prepared – by SERN – for the Innova-FI website accordingly.

1. Introduction

The Interreg Europe ‘Financial Instruments for Innovation’ (Innova-FI) project aims to improve the design and implementation of Financial Instruments (FI) as a delivery mode of Structural Funds so that they best meet and serve the financing needs of innovative and R&D&I-driven businesses in all the stages of their start-up and growth. The third Exchange of Experience (EoE) of Innova-FI was hosted by Investment and Business Guarantees, Ltd (INVEGA), the partner of the project, in Vilnius (Lithuania) from 15 to 17 July 2019.

INVEGA has extensive experience in the management of the Holding Funds (Fund of Funds) (since 2009) and implementation of FI (since 2001). Currently is manager of 2 Fund of Funds financed from ESIF and 2 Holding Funds financed from national budget. The main objectives of the operations of INVEGA are as follows: provision of financial services and implementation and administration of financial and other support measures for enterprises, mainly for SMEs.

The meeting focused on cross-border cooperation – Baltic Innovation Fund (BIF), crowdlending and equity-type instruments for R&D&I. The representatives from European investment fund (EIF), the private equity fund Invalda INVL, KEPA, Bank of Lithuania, the crowdlending platform operator “Finansų bite verslui” Ltd, the venture capital fund “Iron Wolf Capital”, the co-investment fund “Koinvesticinis fondas”, the Agency for Science, Innovation and Technology (MITA) and INVEGA.

Also, on this Exchange of Experience, the primary results of the mapping tool ‘Financing Innovation’ were presented too. The partners were invited once again to provide comments, suggestions and feedback on its relevant taxonomies and thematic classifications to make sure this tool is a practical guide to apply in each partner region. Although the Innova-FI mapping tool will help map existing FI, it is not intended to substitute the Ex-ante analysis that each region has in order to define their OP funds distribution.

2. More Information About the Session

Following the agenda, EoE began with a welcoming speech from Mr Kęstutis Motiejūnas (CEO of INVEGA) and speed dating exercise, a team bonding activity, which gave the participants the opportunity to get to know each other better and to improve the communication channels.

The highlights of the first day of EoE include the session on BIF, presentation of the project SmartFI and learning workshop on Design Thinking for Innovation. BIF was presented from a different point of view: the fund of funds manager's (Jūratė Aželionytė), national agency INVEGA (Inga Beiliūnienė), private equity fund manager's Invalda INVL (Vytautas Plunksnis) position.

BIF is a Fund-of-Fund initiative launched by the EIF in close co-operation with the Governments of Lithuania, Latvia and Estonia in 2012 to boost equity investments made into Baltic SMEs with high growth potential. BIF represents a EUR 52 million investment by EIF with each Baltic Government committing EUR 26 million through their respective national agencies (INVEGA in Lithuania, KredEx in Estonia and Altum in Latvia (previously LGA). A significant part of the resources committed by national agencies are returned resources from earlier Structural Fund financed FI under JEREMIE framework, now being reused.

BIF invests EUR 130 million into private equity and venture capital funds focusing on the Baltic States through a 'fund of funds' process to attract additional private finance and implement the best market standards for equity investing in businesses. This trans-national process provides a real opportunity to further develop the Baltic Private Equity and Venture Capital market and to stimulate employment and competitiveness in the region. Furthermore, two interesting topics were presented during the second day of EoE – the crowdlending and the equity-type instruments for R&D&I.

To stimulate the exchange of new ideas about crowdlending instruments, INVEGA invited the representatives from:

- Lietuvos Bankas (the Bank of Lithuania). Jekaterina Govina, Adviser to the Board Member at the Bank of Lithuania presented the Lithuanian financial system and the main initiatives of the Bank of Lithuania. The share of the three largest banks, as measured by assets, now exceeds 80 proc. The Bank of Lithuania also observes similar levels of concentration in key market segments, for instance, payments. This drives the Bank of Lithuania to encourage new market participants. Being an integrated regulator, the Bank of Lithuania has developed a wide range of instruments to attract new players and stimulate competition: opening up the Bank of Lithuania's payment infrastructure to non-banking entities, streamlining licensing procedures, the Bank of Lithuania introduced the concept of a specialized bank, which offers most of the mainstream financial services, but features a lower initial capital requirement, have initiated the creation of a legal framework for crowdfunding and peer-to-peer lending. This helps avoid regulatory arbitrage and eliminates the obstacles to the much-needed development of alternative financing sources.
- Finansų bitė verslui, Ltd. Audrius Griškevičius, CEO of Finansų bitė verslui, Ltd and Vilija Šveikauskienė, Chief project manager of INVEGA, followed up with a session about crowdlending FI Avietė which is facilitating the access to finance for SMEs business development projects. Avietė does so through crowdfunding platforms and contributing to the development of the fin-tech sector in Lithuania. The total amount earmarked for the financing of Avietė loans is EUR 4,615 million of the funds repaid and/or to be repaid to the INVEGA fund. The maximum amount per loan is EUR 10,000 and funding can be provided up to 40 per cent of the total loan amount. A loan may be granted for a period not exceeding 36 months and it is intended to finance both investments and circulating capital, except for the refinancing of financial obligations, financial activities and residential real estate. Crowdfunding platform operators, which have signed cooperation agreement for the implementation of Avietė loans, will select those business projects which will be co-funded under the measure Avietė. The number of crowdfunding platform operators is not limited; therefore, contracts can be made during all the period of implementation and until all funds of the measure are used. Each crowdfunding

platform operator which has submitted an application and concluded a cooperation agreement with INVEGA will have an opportunity to use Avietė funds according to need, for financing the business projects complying with the terms of the measure in the form of loans. All crowdfunding platform operators operating in the Republic of Lithuania and included into the public list of crowdfunding platform operators are invited to become partners under this FI. Crowdfunding platform operators can submit applications to become a financial intermediary during the entire implementation period of the FI.

- Lithuanian P2P and Crowdfunding Association. Vytautas Šenavičius, Chairman of the Board at Lithuanian P2P and Crowdfunding Association and Partner at TVINS Law firm has shared his insights on this legislation and explained its practical implications. According to the Bank of Lithuania, approximately 40 per cent of SME loan applications are rejected in Lithuania, and 50 per cent of Lithuanian residents hold their savings in cash. The number of rejected loans is even higher for startups. Therefore, during the last year, the necessity for alternative financing and alternative investment opportunities in Lithuania was one of the top priorities of the Ministry of Finance and the Bank of Lithuania. With the ambition to become one of the most attractive FinTech destinations in Europe, Lithuania approved a number of regulatory changes: amended KYC regulation (enables no face-to-face identification), amended consumer credit rules related to peer to peer regulation. Finally, the Parliament of the Republic of Lithuania passed the Law on Crowdfunding. The Law on Crowdfunding eliminates obstacles in Lithuania related to crowdfunding business in Lithuania. The Law on Crowdfunding entails the startups to raise funding in a new way. For startup market alternative funding opportunity is extremely important given the funding from the credit institutions is not always possible and angel investors' funding procedure could take couple of months. Through the crowdfunding platform the startup may get the funding in a few weeks. Moreover, the opportunity to publish startup's business idea in crowdfunding platform allows receiving prompt feedback on whether the crowd believes in your project. Startups who will decide to raise funding through crowdfunding platforms will, in general, have free marketing campaign in case their

project will be funded – the knowledge about the startup and its idea will spread between investors, their friends, colleagues, media, etc.

The next session was dedicated to the equity instruments for R&D&I:

- Žygimantas Susnys, the Partner, presented the investment strategy of the venture capital fund Iron Wolf Capital. After the first stage of attracting investment, the size of this fund equals EUR 16 million, with public sector funds in the amount of EUR 13.76 million assigned by INVEGA, and the remaining part provided by Iron Wolf Capital and other private investors. The fund has made a few investments in companies. On completing the second stage of attracting investment, the size of this fund will reach EUR 25-30 million. More than a half of the fund's money is intended for investments in innovative SMEs with a high growth potential which does or plan to engage in research, experimental development and innovation (R&D&I) in the field of smart specialisation. The goal of Iron Wolf Capital is to help strong teams to develop innovative businesses and become successful on a global scale. The team of the fund has interesting and useful experience and a great desire to continue growing and participate in creating unique businesses. The fund declares that it will cooperate with a broad international network of contacts developed by the fund's team to attract the necessary competences and new financial resources, and this way help to connect science with business and turn innovation into profit.
- Viktorija Vaitkevičienė, Director of Kofinansavimas, Ltd presented the co-investment fund, Koinvesticinis fondas. The fund's purpose is to improve the development of the Lithuanian venture capital market and the growth of new players in the venture capital market and so broaden the availability of capital for viable new Lithuanian companies which suffer from limited access to business funding facilities offered by banks. Koinvesticinis fondas invests in start-ups and growing private Lithuanian companies and provides investment and financial advice in relation to these investments alongside private investors including Venture Capital Funds and Business Angels groups. The fund participates in the

management of companies as a silent investor and assigns its non-property rights to the private investors approved by and co-investing with the fund. Koinvesticinis fondas through its separate sub-funds together with private investors invest on a deal-by-deal basis into SMEs, which have not yet distributed profits. Investments are made into potentially viable projects that are able to generate the expected investment returns and ensure rather easily predictable exits. Private investors are considered as investment initiators able to keep a regular flow of proposals to invest in prospective companies.

To conclude this Exchange of Experience, the Innova-FI Steering Group meeting took place with all the partners in order to collect their feedback on the event, discuss changes in the EoE methodology, discuss the policy booklet on 'Equity Type Instruments' to be produced in this semester and organise the next steps.

3. Recommendations and Next Steps

BIF is the result of strong cooperation between the three Baltic States and the EIF that is unique in its nature across Europe and places the region in a position to benefit from greater levels of private investment than before. Furthermore, the three governments are taking a lead in this process by investing in BIF through their respective national agencies and utilizing the revolved Structural Funds from previously successful SME support schemes to do so. This unique trans-national process provides a real opportunity to further develop the Baltic private equity and venture capital market.

BIF opens new opportunities for cross-border investments in new, creative companies. Usually, the state funds must always invest in the same country; for instance, Lithuania cannot invest its share of joint European resources for micro to medium enterprises in a Latvian or Estonian company. On the other hand, it is impossible for a venture capital company to be successful if it only does business in one country. BIF changes this situation. Funds that are active in just one country are forced to invest in “anything that moves” or in different sectors. But the managers of one fund cannot be the experts at everything. Thanks to the BIF, the amount of venture capital available in the region is increasing significantly. A serious venture capital fund should cover an area with at least 50 million residents, and it must have the capacity to analyse hundreds of applications for financing every year. Venture capital is very transnational in nature because it is impossible to run a commercially successful venture capital or private equity company in a market with less than 50 million people.

Nowadays, crowdfunding is an alternative way to finance different projects refusing or adding traditional financing instruments. This financial method proves that humanity has turned a new page in the history of the financial market. In general, crowdfunding is used to attract the funds of the craftsmanship, art performances, to purchase certain measures, and to develop public projects. However, today's crowdfunding extends practice boundaries and increasingly is related to financial return, which influences the increase of the risk exposure, and naturally, requires adequate legal regulation. Each country differently interprets the crowdfunding and their attitude respectively reflects the country's

legal acts. It is emphasized that not every country, in which executes the crowdfunding, legislation publishers adopt the corresponding regulatory acts. Meanwhile, many countries which have the provisions of crowdfunding which are at the earliest stage and have to be improved.

All sources of finance are important for small businesses looking for funds. Nowadays, crowdfunding platforms are gaining popularity, so businesses have more flexibility to attract funding. Therefore, the implementation of the FI Avietė also attracts private funds, which significantly increases the scale of investments.

During the EoE in Vilnius partners and stakeholders agreed, that the overall objectives to implement FI are:

- To take advantage of the revolving mechanism of FIs. The use of FIs enables the country or region to create a financial tool to recycle the financial resources slated for the supported projects, creating an independent source of funding that will be added to other resources which could be available in future programming periods.
- To use the ERDF for leveraging additional public and private funding for eligible investments, including private capital and/or public resources from regional and national sources.
- To promote long-term development and build the capacity of local and regional administrations to develop and implement projects that would be financially self-sustainable with long-term economic, social and environmental benefits.
- To encourage alternative financial markets.
- To use the private investor's approach. Many small business investors have extensive experience running companies and may even have specialized knowledge in the industry. Partnering with capable outside investors enables to finance the viable business.

4. Conclusion

The main conclusion is that the project partners and stakeholders had a possibility to gain more information about cross-border cooperation initiative, crowdlending and equity-type instruments for R&D&I in Lithuania. Cross-border venture capital or private equity investments play an important role in the scaling up of high-growth companies. However, policymakers worry that foreign VC investments will be transferred to the other countries.

On the one hand, startups welcome foreign capital, expertise, and networks that accompany cross-border investments. On the other hand, policymakers are concerned that cross-border investments predominantly benefit foreign economies and fail to develop the local entrepreneurial ecosystem. What is clear is the need for companies and funds pursuing cross-border investments to adapt their investment strategies and operations to function effectively at the intersection of government, business and finance. With the shared experience, the awareness of financial tools and instruments has increased and some synergies with other programs have been created.

Contact Information

Innova-FI Coordinator

Alexandre Almeida, ANI (National Innovation Agency)

Alexandre.almeida@ani.pt

Communication:



www.interregeurope.eu/innova-fi



[@Innova FI](https://twitter.com/Innova_FI)



www.facebook.com/Financial.Instruments.for.Innovation/



<https://www.linkedin.com/company/innova-fi>

Consortium Innova-FI

