

Scale-up financing gap Webinar 05 Oct 2021

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Talking points

Slovenian Enterprise Fund (SEF) had been developing the venture capital market for more than 15 years, with several mechanisms, such as convertible loans, direct co-investments with private investors or through fund of funds. Since 2010 when we started with first private equity support program, 120 investment have been made in amount of 60 mio Eur, 50% was private money, 50% public one, 90 investments of seed capital together with business angels and seed capital funds and 30 investments of venture capital with 4 supported VC funds.

Since 2018 Slovene enterprise fund has been also the part of existing fund of fund of venture capital for fast growing companies in our region – so called CEFOF, in which Slovenia joined forces in this filed with Austria, Hungary, Czech Republic and Slovakia, EIF also enter in the fund as main coinvestor and as manager of the fund of fund. This model can be good practice for cross border cooperation of venture funds in Europe. But unfortunately till now no investments in Slovenian scale ups companies have been made.

Financial instruments are mostly managed by the Slovenian Enterprise Fund (SEF). While SEF has developed several instruments such as: micro-loans, guarantees (that are also matched with private investments), start-up incentives, seed capital, venture capital, they can only be available for a limited number of SMEs. Although SEF is developing further, the total amount of funding is too small.

Besides capital investments (direct or indirect) SEF implements also so called start up/scale up plus program with soft support such as coaching programs, start up clinic, demo weekends, networking activities,...

So, the ecosystem sees us as the main and good facilitator in this area.

The same applies to the second key player in Slovenia, SID Banka, the Slovenian Development bank. Risk capital is available but for a limited number of SMEs.

But only these activities are not enough. The venture capital market is still very underdeveloped. According to the OECD^[1], venture capital investments in Slovenia in 2020 amounted to

- 3.003 million US dollars,
 - 2.513 million US dollars were in start-up and other early stage,
 - while 0.492 million US dollars were in later-stage ventures.

According to experts in the venture capital market, the annual need for funding in Slovenia from VC is around €70 million while the country has a fragment of the funds ready to invest (3.003 million US dollars in 2020).

VC is particularly missing at key stage of the start-up life, i.e. early- (pre-seed and seed) but also late- stage (growth) VC, post-TRL 9 and pre-commercial and innovation stages.

Another explanation is that currently, venture capital (VC) lacks clarity in Slovenia. Although there are funds, companies have difficulties to match the scheme proposed with their needs or alternatively to find the right scheme for their need. This is mainly due to the number of criteria to fulfil. It implies a need to coordinate better across schemes, and to focus on deep-tech companies. However, there is a lack of trust for other investors to join, when a young company receives public funds.

For this priority area, three distinctive challenges have been identified:

- Lack of structured and attractive Risk Capital ecosystem;
- Administrative hurdles and tax burdens are currently hampering investors to settle down in Slovenia. Regulatory adjustments are needed to ease their way into the country;
- VC is missing for early- (pre-seed and seed) but also late- stage (growth).
- We should address reasons for gaps for each industry separately, equating industries with each other could be counterproductive.

RECOMMENDATIONS:

Recommendation 1 - Setting up the right instruments

The country should rely on investors and venture capital funds to finance the innovation ecosystem including pre-seed and seed phase through accelerators, technology transfer offices, etc., on the other hand to rely on investors for strong scale up financing scheme.

Prospects for future improvement in scaleup performance will rely on Europe's ability to keep growing its pool of investors. Part of that will come from attracting more global technology investors. We should attract more institutional investors. In Slovenia we don't have institutional investors for scale up companies.

Another part will depend on getting more international fund managers to discover the European tech scene and inject money into new homegrown funds and stimulate the competent fund managers. Education, training, networking for investors and investment managers who sometimes do not have enough knowledge of how to execute an investment and then help the company to grow is also necessary.

Our goals for the future (with the new European financial perspective) are definitely to increase the number of activities we do to develop especially the VC market in Slovenia for scale ups with:

- Initiating a new VC fund with EIF - SEF is in the process of establishing the so called »SLOVENE SCALE-UP FUND« finance with EU structural funds (**besides potential MEGA EU FUND for Europe local funds for less developed markets are needed**), which will be even more focused on scale-up companies, again in cooperation with the EIF. We would be happy to collaborate closely with other EU member states and stakeholders on this specific project too – similar as in CEFOF. Through Fund, we aim to ensure a seed and venture capital in all stages of growth, from early- to scaleup-stage. The fund will receive a public financing in amount of 50 million EUR. Private investors are expected to add at least 30% private financing. The VC fund will manage at least 70 million EUR to invest in innovative companies in Slovenia in next five years with ratio 70% public – 30% private.
- Encouraging business angel networks and individuals to invest more in the early stages
- Attracting corporate investors to participate on the private market
- Encouraging cross-border investments and attracting foreign funds to be more active here in Slovenia
- Participating in European-wide investment platforms

Recommendation 2 - Reform the system level

To do so, investors and venture capital (VC) funds must be attracted by the Slovenian ecosystem, for example to establish a fiscal policy on EU level, that would:

- Force large companies to devote a certain share of their profits to this gap
- provide tax incentives for businesses and individuals to invest in the gap
- cut the red tape - EU should focus on shortening procedures from application to actual transfer and make it less complex. It takes too much time to get money from VCs or public tenders

Recommendation 3 - Address the Information and Coordination Asymmetries

- Need for establishment of effective communication channel between companies and public service for the flow of ideas.

Other recommendations:

It is not enough to have financial incentives for risk sharing and system incentives but:

1. we should further build on a thriving ecosystem and make it more collaborative. Knowledge triangle partnerships, the so called EIT KICs are already showing results, the whole eco system has to be involved and has to act as the harmonized and connected network not as the individual single player on on ground which is focused only on its own subjects and rules – financial industry is more or less used on

individualism and quite close relationship – but this time is ended – the harmonized action are needed – also on European level – promote cross-border collaboration of business angles and institutional investors, we should strive for a strong, tightly connected and dynamic cross-border partnerships to overcome a fragmented European innovation landscape All our actions should lead to a greater territorial convergence of the EU.

2. We should run a vertical start-up and scale-up that addresses specific challenges in different industries.
3. Links between startups and corporates should intensify and become systematic
4. we should take advantage on the existing policies, programs, projects and mechanisms at the EU and national level - we should deploy them 'at the right place, at the right time', to achieve coordination, synergies and complementarity, and to position European start-up and scale-up ecosystem at the forefront of the international arena, the National Recovery and Resilience Plans offer an enormous opportunity to speed up the recovery process by massive investments in green and digital transition, in addition, the Horizon Europe, the EIC Pilot and other EU managed programs should be further exploited.
5. Let's not forget about talent - We have to do everything in our power, to ensure the availability of "homegrown" talent, and attract resourceful individuals from outside the EU, for example via tech and startup visas.
6. We will also in the time of Slovenian presidency, in which also follow up activities for several actions for start up and scale up eco system will have to go on, address on the government of Slovenia to reactivate working group to prepare scale up manifesto on national level which will try to implement many suggested proposal from scale up manifesto Europe, Slovenia promised to be proactive in this field and we will be one of indicator. Under its EU presidency at the end of Oct. Slovenia is going to organize also EU scale – up conference Next round.EU – high level summit and investment conference. Event is a follow up of already started activities under Portuguese and French colleagues with the aim to continue with all activities in the frame of SCALE – UP EUROPE manifesto and to make one step closer in budling global tech leaders in Europe.