

PROGRAMME: Baltic Innovation Fund (BIF)
Originator: Audrius Zobotka, INVEGA
Weblinks: <http://www.invega.lt/en/services/baltic-innovation-fund.htm>
http://www.eif.org/what_we_do/resources/BIF/index.htm
E mail: difass@invega.lt **Tel:** 3705210 7510

1 SUMMARY OF GOOD PRACTICE

The Baltic Innovation Fund (BIF) aims to facilitate Private Equity, Venture Capital and Mezzanine Investments into SMEs.

▪ Overview & Aims

Launched in June 2012 the **Baltic Innovation Fund (BIF)** is one part of an overall umbrella of financial strategies and instruments operated by INVEGA to support SMEs of different types and sizes at different stages of growth.

Termed as a Fund-of-Funds initiative the BIF was launched by respective financial institutions in three Baltic States (Lithuania, Latvia and Estonia) and the European Investment Fund (EIF).

The aim of the instrument is to provide investment funds and **boost private equity investment in SMEs with high growth potential** located in, or operating close to, the three Baltic regions involved. Funds are **targeted at companies needing investment for expansion** i.e. who are at the later stages of their growth.

The **secondary aim** of the Pan-Baltic fund is to **develop the private equity market** across the three regions involved: to raise awareness and 'discover' the potential of Baltic States and the investment opportunities available, encouraging private institutional investors and pension funds to participate in the market.

▪ Key Resources

– Programme Partners

BIF is an initiative with partner financial institutions in each participating countries; INVEGA in Lithuania, Latvian Guarantee Agency (LGA) in Latvia, KredEx in Estonia and the EIF.

– Funding: Funding Body & SME Contribution

Total Instrument budget €100M EIF: €40M+ Estonia, Latvia and Lithuania at €20M from INVEGA, LGA and KredEx . INVEGA has committed 'recycled resources' returned from investments from other projects financed with 2007–2013 ERDF Funds.

BIF is expected to leverage an additional/minimum €100M from private equity investments at VC/PE fund/co-investment level resulting in a total investment of at least €200M.

- **Eligibility Criteria**

SMEs and Small MidCaps (enterprises with up to 500 employees) with a particular focus on SMEs with high growth potential located in, or operating close to the 3 Baltic regions involved.

- **Terms and Conditions**

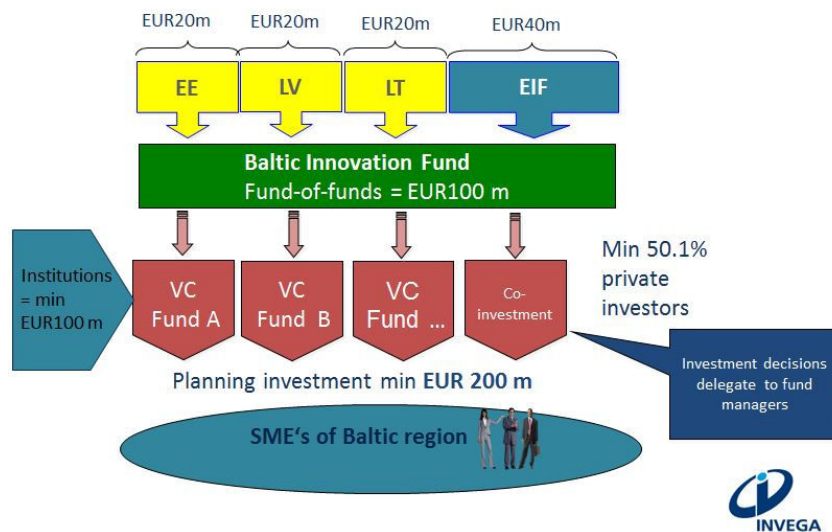
The amount of investment enterprises can obtain ranges from a minimum of €1M to a maximum of €15M depending on the investment strategy of the VC/PE fund receiving investment from BIF. 'Repayment' will depend on the investment strategy of the particular VC/PE fund BIF invested, but normally exists within all investments into the VC/PE funds which are expected to be completed by the of 2019.

2 IMPLEMENTATION

- **Key Steps – How it Works**

Operational since the 1st January 2013, BIF has already committed into 3 funds: venture capital, private equity and mezzanine funds.

Baltic Innovation Fund: Structure



Acting as a cornerstone the investor invests in the VC/PE funds. This process enables each particular fund manager to attract additional private finance and implement the best market standards for equity or quasi equity investments in businesses across a 4 year investment period. The transnational 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 leveraging additional investment into enterprises.

Investment opportunities considered via the BIF include:

- Investments into venture capital and private equity funds (including mezzanine funds) with proven experience and insight into the Baltic market;
- Running alongside Business Angels, family businesses and institutional investors, co-investments into early to growth phase SMEs. BIF co-invests with investors who are considering investment in the Baltic States.
- Investment in other innovative instruments and appropriate good quality opportunities that will result in a good return on investment e.g. technology transfer investment vehicles, may also be considered.

▪ **Key Stats**

Funding for enterprises has been available from the scheme since the first round/closure for applications invested in by the BIF. The First 'closing of BaltCap Private Equity Fund II (BPEF II) was in early 2014 with one investment made to date. The application and decision making process will depend on the investment policies of the equity funds financed by the BIF. Due to run until January 2029 the BIF may be extended by 3 years.

3 KEY LEARNING POINTS & OPPORTUNITIES

What worked well/Strengths

BIF is a **pilot equity instrument** and although at a very early stage of development, legacy benefits include:

- ✓ **Transnational Fund.** The co-operation of several small EU Member States enabling a large joint fund and a bigger deal flow for SMEs that would not have been possible otherwise as well as more efficient and effective promotion of business development in the region. (**The BIF is the first multi country fund**).
- ✓ **Very good leverage rate.** The participation of private (including institutional) investors multiplying BIF investments and enabling eligible SMEs to receive more funds than that original committed by the original BIF investors (3 Baltic States and EIF). This will ensure sufficient funding available for high growth innovative companies, expected to result in new jobs and higher added value for the economy.
- ✓ For Lithuania, a **good example of how to use recycled funds** returned from previous schemes funded by EU Structural Funds.

– **Challenges/Weaknesses**

No benefits for Start-Ups, funds aimed at later stage SMEs
No end results to date, difficult to assess how it will work in terms of execution.

▪ **Transferability**

– Opportunities:

The Fund-of-Funds approach is considered by BIF to be a good opportunity for similar countries or regions, particularly the smaller ones to attract stronger/wealthier fund managers and private investors, enabling further development of their private equity and venture capital markets and helping SMEs with high growth potential to easier attract funding

– Threats:

Transfer to other regions is dependent on respective authorities or institutions willingness to cooperate and agree on technical issues and terms arising from negotiations
Different regulations in different countries may be a barrier to transfer.

FURTHER INFORMATION:

DIFASS You Tube Channel: <https://www.youtube.com/watch?v=cMadmcJSBYA>