



- NEWSLETTER N° 3, DECEMBER 2005 -

FinNetSME – Network for Regional SME Finance

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CALENDAR OF NETWORK EVENTS

Date	Theme	Venue
23 March 2006	Mid-Term Conference	Kiel, Germany
May/June 2006	Challenges for Regional Finance (3 rd Seminar)	Turin/Aosta, Italy
October 2006	Financial Engineering (4 th Seminar)	Kainuu region, Finland
January 2007	Validation seminar	Caen, France
May 2007	Final Conference	Brussels, Belgium

Editorial

The second seminar of the FinNetSME project organised in Greece last September confirmed the high interest of both project partners and associated members in the work of FinNetSME.

The event, organised in Halkidiki (Greece) and devoted to the concept of "Regional Supply Chain", gave the opportunity to both national and regional organisations from Greece to explain how they contribute to the financial supply chain for the benefit of Greek enterprises.

It appeared that much effort is being undertaken both by public authorities (Ministry of Economy and Finance) and public support agencies (Credit guarantees, Centre for entrepreneurial and technological development, Business and Cultural Development Centre) to ensure access to financial and coaching support for entrepreneurs and businesses at different stages of their development.

The second day of the seminar was organised around the 4 working groups seeking to develop innovative models for early-stage financing, micro-credits, equity finance, and regional supply chain.

This third edition of the network newsletter seeks to give insights on the seminar and to provide information on elements of the financial supply chain in different regions involved in the FinNetSME project.

One crucial element of the financial supply chain in Greece, and presented on page 9, is the Credit Guarantee Scheme presented by TEMPME S.A. which attracted much attention during the seminar. With reference to the topic of sectoral entrepreneurship tackled at the event by a representative of www.businessportal.gr for women entrepreneurs, this edition features an article about the efforts conducted in Finland to provide loans for the same special target group.

Germany is home to interesting initiatives: Saxony-Anhalt has consolidated its commitment to early stage venture capital funding by creating a business angel network, while North Rhine Westphalia is seeking to enhance the competitiveness of SMEs through employee participation in enterprises.

The Mortgage and Land Bank of Latvia explains how they seek to complete or improve their financial instruments through exchange of experience with regional financing institutions from all over Europe in the framework of FinNetSME.

Finally, we are very proud to announce that, since the last publication of this newsletter in May 2005, four entities have newly joined the FinNetSME network as Associated Partners. We are looking forward to an enriched exchange of financing know-how with:

- "Насърчителна Банка" АД (Encouragement Bank AD, Bulgaria)
- UAB "Žemės ūkio paskolų garantijų fondas" (Rural Credit Guarantee Fund, Lithuania)
- Ministerium für Wirtschaft des Landes (Ministry of Economy of Brandenburg, Germany)
- Finance Wales plc (United Kingdom)

Two of these new members have already taken part in the seminar event and the working group meetings in Greece, with the presence of representatives from the Ministry of Economy of Brandenburg and the Lithuanian Rural Credit Guarantee Fund.

In this newsletter, Finance Wales, the UAB and the Ministry of Economy of Brandenburg give us insights on the scope of their activities.

Enjoy the newsletter and Season's Greetings!

About the FinNetSME Project

The Network for Regional SME Finance, FinNetSME, is a project designed to encourage an intensive exchange between regional public financiers on how to improve access to finance for Small and Medium Size Enterprises (SMEs).



20 development banks and development agencies from nine EU Member States have jointly created the network in order to discuss current problems of SME finance, to compare the situation in their respective regions and to suggest practical ways how to bridge the market gap in SME finance, with or without public funding. In addition, the networks strongly welcomes the participation of other actors as 'Associated Partners', in order to create the broadest possible basis for discussion.

The project, supported by the European Union, will contribute to a greater awareness of the value of regional access to finance in the partners' regions. Through the establishment of enhanced co-operation among partners and other stakeholders, the project will make it easier for regional governments to gain expertise in facilitating access to finance through their specialised institutions.

Starting Point

SMEs play a key role in regional development. They ensure economic and social cohesion as well as sustainable development. However, they depend on adequate access to finance. Currently, the market does not respond sufficiently to the finance needs of SMEs, particularly in the economically less dynamic regions. These market gaps will become even greater with the effects of the Basel II Accord, especially the increased capital requirements for banks that will be felt keenly by SMEs, especially in the new Member States.

The issue of insufficient access to finance for SMEs is of particular relevance to the regional funding institutions, owned and run by their respective governments and specialised in SME finance, as they hold key responsibilities in creating favourable conditions for the regional economy. There is a strong need for an inventory of existing good practices in SME finance to help improve the situation by exploiting the given financial sources in an innovative way. Policy makers and financiers need this reliable source of regional know-how to find the best solutions for the development of their region.

Typically though, regional actors are compartmentalised, and information of value for public financiers, entrepreneurs and potential investors is not shared. Despite the efforts to establish European and national networks for interaction on the issue of regional SME finance over the past years, the exchange of know-how between regional financiers on successful ways of employing public support structures for SMEs is still weak, and transparency is lacking.

FinNetSME was created in 2004 to overcome these weaknesses. Activities will run at least until June 2007.

Project Objectives

- Improvement of access to finance for SMEs
- Closure of the equity gap
- Promotion of entrepreneurship
- Reduction of unemployment
- Contribution to regional economic development

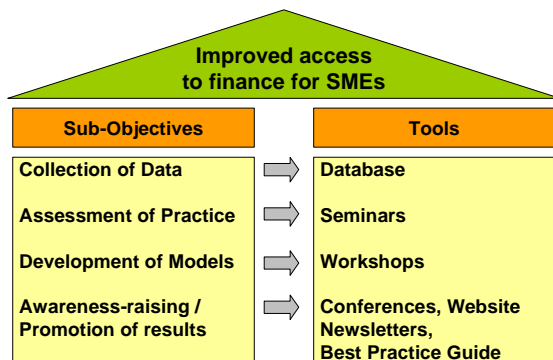
The sub-objectives are:

- Collection of data on regional finance
- Assessment of existing regional practices
- Development of models for regional finance
- Raise of awareness for value of public SME support

Project Tools

A database comprising publicly supported regional financing instruments has been set up and is currently fed with good practice examples by the partners and associated partners. The project website www.finnetsme.org provides online information on public regional finance and will give access to the database later on. Throughout the project, electronic newsletters inform about the latest developments in regional finance.

In addition, a "Best Practice Guide on regional supply chains and public regional finance" as well as a "Who is Who of public regional finance" will be produced. These tools are to serve for future guidance of developers of financial schemes and regional supply chains. Thus, a Centre of Competence of regional finance centralising existing regional knowledge and contacts is emerging.



Four seminars, hosted by the network partners in locations across Europe, provide a platform for discussion of core issues with regards to regional SME financing. Two of these events, "The Role of Regional Financiers in the EU" and "The Regional Supply Chain", have successfully taken place in Vilnius (Lithuania) and Halkidiki (Greece), while two seminars featuring "Challenges for Regional Finance" and "Financial Engineering" are yet to come.

The range of network events also includes three conferences open to all interested parties, reaching national and regional financial players, incubators, regional development agencies, business associations, public authorities and EU

institutions. While the first conference in Brussels in November 2004 marked the official project kick-off, the second conference in Kiel in March 2006 will be the occasion for a mid-term review. The last conference, again in Brussels in May 2007, will give the opportunity to take stock of the results achieved.

Long-Term Impacts

In the long run, FinNetSME will contribute to regional development in the EU by improving regional access to finance for SMEs and the quality of new financial instruments, therefore fostering enterprise creation and stimulating a culture of entrepreneurship that will reduce unemployment. Linking regional specialised funding institutions to develop common approaches towards EU institutions and the EIF, FinNetSME will shape future EU regional policies and instruments.

- Sustainable dialogue between regional financiers
- Greater awareness of the value of SME support
- Increased transparency of financial instruments
- Facilitation of gaining expertise on SME finance
- Improved quality of new financial instruments
- Contribution to regional development

For further information, please visit the project website www.finnetsme.org, or contact:

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The FinNetSME Partnership

Organisation	Country
Sächsische Aufbaubank - Förderbank - (SAB)	Germany
Finanziaria Laziale di Sviluppo (FILAS)	Italy
Agencia de Desarrollo Económico de Castilla y León	Spain
Investitionsbank Schleswig-Holstein	Germany
Thermokitida Neon Epichiriseon Chanion	Greece
NRW.Bank	Germany
Gepafin Spa	Italy
Fundación Comunidad Valenciana – Región Europea	Spain
Centro Sviluppo S.p.A.	Italy
UAB "Investiciju ir verslo garantijos" (INVEGA)	Lithuania
Investitionsbank Berlin (IBB)	Germany
Latvijas Hipotēku un zemes banka	Latvia
Investitionsbank Sachsen-Anhalt	Germany
Kainuun Etu Oy	Finland
European Association of Development Agencies - EURADA	EU
Società consortile Langhe Monferrato Roero a.r.l. (LAMORO)	Italy
Comité d'Expansion de Basse Normandie - CEBANOR	France
Anaptixiaki Anonimi Eteria Anatolikis Thessalonikis "ANATOLIKI A.E."	Greece
Finpiemonte S.p.A. (Istituto Finanziario Regionale Piemontese)	Italy
European Association of Public Banks - EAPB	EU
Banca San Francesco (Associated Partner)	Italy
Encouragement Bank Bulgaria (Associated Partner)	Bulgaria
UAB "Žemės ūkio paskolų garantijų fondas" (Associated Partner)	Lithuania
Ministerium für Wirtschaft des Landes Brandenburg (Associated Partner)	Germany
Finance Wales plc (Associated Partner)	UK

Report from the 2nd Thematic Seminar "Regional Supply Chain" (Halkidiki, 28-29 Sept. 2005)

On 29 of September 2005, the partner institutions of FinNetSME met for the second thematic seminar in Halkidiki (Greece). The event was hosted by the Greek network partner Development Agency of Eastern Thessaloniki "ANATOLIKI S.A." and focused on the roles, functions, complementarities and competence of institutions involved in the regional supply chain as financiers or/and as supporting structures for business development. In addition to the formal project partners and associated members, several policy-makers and stakeholders from the Region of Central Macedonia attended the event.

Planning new Policies, Strategies and Methods to improve SME access to finance

Ms. Zoi Georgopoulou, Representative of the Greek Ministry of Economy and Finance, officer of the Community Support Framework Managing Authority, presented how the Ministry of Economy and Finance incorporates in the Regional Operational Programmes significant measures for direct SMEs support and how the new methods and procedures of implementation for the third cycle of call for tenders improve the SMEs' access to financing.

SMEs in Greece experience problems of adaptability; they have few opportunities for development and face difficulties in access to financial systems. In parallel, they are lacking know-how and ability to expand to boarder markets, while their production and operational costs remain high.

Because the stimulation of the regional economy is crucial for Greece, about 473 M€ of direct capital aid are dedicated to the direct support of SMEs' investments in the manufacturing and tourism sectors through the Regional Operational Programmes of the European Support Framework 2000-2006. In order to simplify both the management of the aid scheme and the pre-evaluation of the investment plans, commercial banks act as supporting bodies (one-stop-shop serving points).

There are other parallel measures for SME support (e.g. Information Society, Competitiveness, etc.), and the regional operational programmes also include measures for indirect SME support, covering SMEs in the service sector as well.

TEMPME – A New Financial Tool

Ms. Tessa Avgerinou, Director of Guarantee and Risks Department of the Credit Guarantee for Small and Very Small Enterprises (TEMPME S.A.) presented this new support tool for the Greek SMEs.

For more information on TEMPME, please read the article on page 6 of this newsletter.

Supporting SMEs: Technical and Financial Issues

Mr. George Kokkas, General Manager of the Centre for Entrepreneurial and Technological Development (KETA-KEMAK) explained how this institution supports SMEs in tackling technical and financial challenges.

Created by the Thessaloniki Chamber of Small & Medium Sized Industries, Thessaloniki Chamber of Trade and Commerce, 8 Chambers of the Prefectures in Central Macedonia (Imathia, Kilkis, Pella, Pieria, Serres, Halkidiki), KETA-KEMAK is an urban non-profit organisation which promotes business activity in the region of Central Macedonia. It is incorporated in the regional supply chain as it provides services for the enforcement of SMEs' investment readiness as well as facilitates their access to proper financing tools.

To this end, KETA-KEMAK has a network of specialised advisers in all the prefectures of Central Macedonia. Their mission is to brief companies on current business issues and, even more, to provide individualised assistance to enterprises for the improvement of their operation. The support by KETA-KEMAK covers all the productive sectors of the economy (industry, trade, tourism,

services, energy, technology etc.) and is provided free of charge for its clients.

The Regional Supply Chain

Mr. Giannis Tsitsopoulos, Head of Small and Medium Enterprises Reinforcement Program of the Operational Program "Competitiveness" (OPC) for the Regions of Central and West Macedonia, Business and Cultural Development Center (KEPA-ANEM), based his presentation on two axes: The first one concerned the general financing framework for SMEs in the European Union and in Greece, emphasizing the SMEs reinforcement via the 3rd CSF 2000-2006 and more specifically via the Operational Program "Competitiveness". The second axis concerned the supporting structures in Greece, focusing on Intermediary Management Agencies of Projects in favor of SMEs, such as KEPA-ANEM.

Mr. Tsitsopoulos identified four determinative and interlinked factors as the basis for proper actions and programs in the financing of SMEs:

- existence of the funds needed,
- configuration of proper decreative framework for their management,
- creation and growth of suitable mechanisms to inform SMEs about possible ways of financing,
- involvement of private entrepreneurship agencies in all phases of planning and implementation of the SME development policies.

Support Structures' activity aim at:

- Effectiveness for the businessman,
- Proximity to everyone interested,
- Friendliness,
- Services reciprocity.

Although a majority of supporting institutions still function under the co-financing of the CSF, there are recent examples of structures created by business or social sector initiatives. Intermediary Agencies with regional focus recognizably play a very distinguished role in the management of Structural Funds

towards SMEs. KEPA-ANEM is the Intermediary Body for the OPC in the Regions of Central and Western Macedonia while development agencies, representing the local action groups, are the corresponding Intermediaries for LEADER+. Other important actors include the KETA-KEMAK, the European Information Center for enterprises, and the Rural Information Center.

Mr. Tsitsopoulos underlined that the seminar provided the possibility to exchange experience and opinions and to shape common actions for further collaboration in the field of SMEs and entrepreneurship.

Regional Supply Chain: The Role of Incubators in Innovation Development

Ms. Maria Perakaki, Project Analyst for the Incubator of New Enterprises of Chania, explained the role of incubators in the regional supply chain.

There are about 900 incubators in the EU which, in average, accommodate 18 firms. Their main mission is to offer:

- physical space,
- networking and sharing of know-how,
- entrepreneurial training,
- technology and innovation support,
- financial support,
- business advice.

Ms. Perakaki suggested improvements for a better function of incubators in the future: In order to maximize an incubator's effectiveness and to secure the results of its efforts, incubators should be integrated into a network of agencies, institutions and schemes that work together to promote innovation, competitiveness and technology transfer. Regions should ensure that incubator operations are part of a wider regional (technology) development strategy and supported by partnerships on a broad basis. The performance of an incubator will be judged ultimately in terms of the performance of tenant companies as well as their development after their exit from the incubator.

The Supply Chain in the Region of Central Macedonia: The Experience of an SME

Ms. Stella Giossi, finance consultant for the "businesswoman.gr" portal, deals intensively with women entrepreneurship. She presented the case study of an enterprise in the Region of Central Macedonia and evaluated the tools and support mechanisms offered in the region.

The case study concerned an advertising company which designs, produces and exports advertising gifts (especially business class) and is owned 80% by a businesswoman. The company benefited from three regional programs. As a result, the SME has managed to improve the quality of its products, to increase its turnover by 50% from 2000-2005, to upgrade its whole business image, and to improve the advertising business ranking.**The Role of the Region of Central Macedonia in the SME Supply Chain**

Ms. Dina Giulezzi, Representative of Region of Central Macedonia (R.C.M.) who attends the works of FinNetSME on a permanent basis, closed the seminar with a presentation of the character and the role of the R.C.M.

The central aim in the current programming period is to support not only technical infrastructure but also the productive structure of Thessaloniki and its wider area, focusing on innovation and competitiveness. Through specific measures, R.C.M. funds the necessary infrastructures for business development, organizes and implements actions for the direct or indirect support of SMEs.

The Region of Central Macedonia, as Administration, has a threefold role in the

supply chain: The first is to plan the regional strategy. The second is to manage funds for the strengthening of all the actors for business development in the region, and the third is to manage funds for direct financing of SMEs.

Conclusions of the Seminar

Ms. Anna Michou, General Director of ANATOLIKI s.a., drew the conclusions from the thematic seminar.

The seminar provided a platform for transfer of experience and exchange of different views among a wide range of actors in the regional financing supply chain, such as the Ministry of Economy and the Region of Central Macedonia representing public political instances, TEMPME as a new national tools that fills in identified gaps in the SME's access to finance, regional intermediary institutions as KEPA-ANEM, regional non-financial tools as KETA-KEMAK, and an incubator that may combine financial and non-financial support. The participants also shared the experience of an SME that profited existing regional and national funds.

The fact that each speech had raised several questions and remarks by the participants was a sign that the contributions had raised interest and were useful. The FinNetSME partners have, thus, gained new knowledge and important information which can now be taken into account in the process of further developing innovative models for regional SME finance.

A more detailed summary of the seminar will be available soon on the project website www.finnetsme.org.

TEMPME S.A. is the Credit Guarantee Fund for Small and Very Small Enterprises in Greece. The project "creation and operation of TEMPME" was integrated within the 3rd European Community Support Framework and more particularly in the Operational Program "Competitiveness" (2000-2006).

TEMPME S.A. is a Societe Anonyme with a share capital of 200 million € which has been co-financed by the European Union / ERDF (67%) and the Greek state (33%). It provides guarantees and counter-guarantees to the Greek financial system on behalf of small enterprises employing up to 30 persons. The Credit Guarantee Fund is a support for the SMEs, as it fills in possible gaps of SMEs financial and market needs and enhances the competitiveness of Greek Small & Very Small Enterprises.

TEMPME's main objective is the support of:

- Viable small enterprises, under establishment or already operating, of all economic sectors and at all stages of the business cycle (start-up, development, restructuring, succession, internationalization), and
- Small enterprises with lack of access to financing due to insufficient collateral and risk bearing higher than the market average (i.e. newly established, social enterprises, "new economy" enterprises etc.)

Apart from the above main objectives TEMPME, also expects from the provision of guarantees the following results:

- The enhancement of the business-investment environment
- The creation of new enterprises and the increase of employment
- The mobilization of private capital for investments
- The regional development, as it is expected an important percentage of guarantees to be allocated in frontier and poor regions

TEMPME, based on the principle of risk allocation among private and public sector, has signed a co-operational agreement with all Greek commercial banks (19) as well as with 16 Co-operative Banks, representing 3.080 branches throughout Greece.

TEMPME, till present, has created 5 programs providing guarantees to business short-term and long-term loans that amount from 10.000€ - 320.000€. The differentiation of the programs is based on the number of employees, the age of the enterprise, the duration and amount of the loan. The guarantee rate ranges from 45%-70% and the guarantee fee is approximately 1% p.a. of the outstanding loan amount.

It should be mentioned that medium-long-term loans of a minimum maturity of 3 years for Programs 1, 2, 3 and a minimum maturity of 1,5 years for Program 4, benefit from a counter-guarantee issued by the European Investment Fund under the European Community's Multi-Annual Programme for Enterprise and Entrepreneurship (MAP) and, in particular, for Small and Medium sized Enterprises (SMEs) (2001-2005). European Investment Fund's counter-guarantee is provided for the period 25/10/2004-31/12/2005.

The procedure for applying for a guarantee is simple and rapid: The entrepreneur visits the bank. If the bank considers the business / investment plan financially viable and desires TEMPME's guarantee, then an application form is filled in by the entrepreneur and sent to TEMPME by the bank. TEMPME replies within 4-5 days. In case of a positive response, a Guarantee Act is signed by the 3 parties.

TEMPME, from the beginning, has paid particular attention to disseminating information about its programs nationwide and to include as many actors of the regional financial supply chain as possible. More precisely, TEMPME has developed communication channels with these actors either ad hoc or permanent activities at

regional level. In order to increase awareness, TEMPME has followed a direct approach towards the entrepreneurs.

During the period January 2004 - September 2005, 77 informative meetings and presentations held by Greek Chambers of Commerce and Centers of Business and Technological Development (KETA) took place in 50 Greek towns, obtaining full coverage of all 13 regions and the majority of the 52 prefectures of Greece.

Furthermore, TEMPME provides updated data on guarantees as well as informational material (e.g. leaflets) to both Chambers of Commerce and Centers of Business and Technological Development, as well as to other regional institutions, which are involved in local entrepreneurship. In addition, TEMPME has sent to each General Secretary of all regions and to 130 local newspapers statistical data concerning peripheral guarantee activity.

Apart from the above, TEMPME also participates in national and regional trade fairs, often in co-operation with the Ministry of Development/ Department of Competitiveness. TEMPME's presence at the fairs is often supported with door-to-

door activities. Fairs offer the opportunity to existing and potential entrepreneurs to be informed by TEMPME's executives regarding the guarantee programs offered.

The aforementioned efforts are complemented by other actions such as publicity in the mass media (mainly newspapers, regional and national), direct mails to newly established or already existing enterprises and a very user-friendly website, which has on average 3000 visits per month.

As a conclusion, the regional supply chain has been a very useful tool as a communication channel between TEMPME and the SMEs. It is worth noting that TEMPME has received applications from all 13 regions of Greece. It should also be noted that 50% of applications received and 50% of guarantees approved are from enterprises situated in regions except Attica (Athens' prefecture) and Central Macedonia (Thessaloniki's prefecture).

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Finnvera's Financing Helps Women Entrepreneurs

The purpose of the loans for women entrepreneurs is to encourage women who have good business ideas but insufficient collateral to obtain financing for setting up their own businesses. Finnvera shares the collateral risk with the entrepreneurs and other financiers.

The loan for women entrepreneurs is intended for both existing and new businesses that employ a maximum of five people. Women should be majority shareholders in the enterprises in question, and they should also be managed by women. The criteria for granting the loan are the same as for other types of Finnvera financing: The enterprise must have the potential for profitable business and the entrepreneur's private finances must be in good shape.

By the end of October 2005, the loans for women entrepreneurs granted by Finnvera totalled 22.4 M€, showing an increase of approximately 20% on the previous year. "The number of applications we received from women in Kainuu was also up from the previous year. By the end of October, we had granted loans for women entrepreneurs in the amount of 779,000 €," says Ulla Niskasaari, Assistant Regional Manager for the Finnvera Regional Office in Kajaani.

The importance of small enterprises as employers is undeniable. In the first half of 2005, projects carried out by small enterprises and funded by Finnvera created 4,100 new jobs, of which 950 were enterprises run by women entrepreneurs who had been granted loans for women entrepreneurs.

Consumer services head the list

Entrepreneurship among women is still strongly service-oriented. This trend was also evident in the sector distribution of loans for women entrepreneurs granted in early 2005: more than one-fifth of the loans were granted to entrepreneurs in the consumer service sector.

The outsourcing of social and health care services has created a demand on the

market that is met by small enterprises. Finnvera's financing to consumer services is divided between social and health care services on the one hand and on beauty care services on the other.

The competition for the consumers' money is often highly localised and the offering of already existing companies relatively comprehensive. "In order to succeed, a new company that is starting up must stand out from its competitors," Niskasaari says.

Carving out a niche requires competence and also financial resources, since in consumer services demand reacts quickly to economic fluctuations. For this reason, setting up or developing your own company requires careful planning and calculations.

"You should remember that you need sufficient funds also after the start-up phase. Thus you should convert your business idea and its implementation into figures on a cash flow statement or a profit or financing plan to avoid liquidity problems," recommends Niskasaari.

A careful approach or controlled risk-taking?

Among companies established in 1999 which received financing from Finnvera, a total of 79% were still in business after five years. According to a survey carried out by ILO, the corresponding rate for new companies in countries such as Germany, the USA and the Netherlands is approximately 50-60% (Good Practice Guide, Micro finance for self-employment in industrialized countries, ILO).

Among women entrepreneurs who had received the loan for women entrepreneurs, the survival rate was 76%. Women entrepreneurs usually keep their business risks small enough that even if should the worst happen, they are able to meet their obligations. This keeps credit losses low and may partially explain the low threshold for closing such businesses. In addition, women entrepreneurs often operate in sectors that are exposed to economic fluctuations. "Almost half of the

enterprises managed by women who had received loan for women entrepreneurs operated in trade or consumer services,” notes Niskasaari.

Women entrepreneurs are often criticised for being too cautious. According to Niskasaari, this coin also has a flip side. ”I would call it realism rather than caution. Women have taken more controlled risks. This is reflected also by the fact that Finnvera’s credit losses for loans granted to women entrepreneurs have been small,” says Niskasaari.

According to the 2004 labour force survey, women entrepreneurs accounted for just over 30% of all entrepreneurs, and their share does not seem to be increasing, at least not significantly. The small number of women entrepreneurs is partially explained through difficulties in integrating entrepreneurship and family life.

Despite this conflict of roles, Ulla Niskasaari encourages women to set up their own businesses. ”Optimally, entrepreneurship is based on the belief that you can provide services or products better than others, yet you can also tolerate insecurity. Self-fulfilment is another potential motive. Naturally, the entrepreneur should also set out to make a profit, otherwise the business cannot be developed,” says Niskasaari.

Finnvera plc is a specialised financing company offering financing services to

promote the domestic operations of Finnish businesses, and to further exports and internationalisation of enterprises. Owned by the Finnish state, Finnvera is Finland’s official Export Credit Agency (ECA).

www.finnvera.fi

Loans for Women Entrepreneurs

For whom? A small enterprise with no more than five employees of which at least 50% is owned by women and which is also managed by a woman.

Purpose? Investments, working capital, other business start-up and expansion projects or company development.

Terms and conditions of the loan?
Loan amount: 3 000 – 35 000€
Loan period: 5 years, the first of which is amortization-free.

For more information on these loans:

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Business Angels Network: A New Link in the Saxony-Anhalt Supply Chain

Start-up and early stage companies face a difficult environment regarding equity finance. Saxony-Anhalt has just launched a new way to reduce the companies' lack of equity by working towards the active engagement of business angels in local enterprises. Business angels are private investors with extensive business experience investing their own money in early stage unquoted companies.

Business angels provide on one 'wing' capital and on the other 'wing' managerial experience and business contacts to the start up company. But how do potential business angels and young, innovative and growth-oriented companies find each other?

This is where the Business Angels Network Sachsen-Anhalt (BAN), founded in February 2005 and located under the roof of Investitionsbank Sachsen-Anhalt, comes into play. The main goal of the BAN is to facilitate the identification of entrepreneurs / companies with potential and to match them with business angels for long-term benefits for the local and regional economy. As a first selection step, capital seekers have to undergo an intensive screening procedure. This increases the efficiency of the second step, the matching of angels and entrepreneurs, since angels are more likely to find a suitable young company to invest in. Matching is done through

specific matching events or individual meetings organised by the BAN office.

In order to identify the most promising start-ups in the region and to make them ready for an angel investment, the BAN cooperates closely with other players acting within the 'ego - start up initiative' of Saxony-Anhalt. During the last months, cooperation with 'UNIVATIONS', a project aiming at qualifying young innovative entrepreneurs or teams of entrepreneurs from universities for their business start, and the 'Business-Plan-Competition', have proven especially successful.

So far, the BAN has screened over 80 business ideas, organised one entrepreneurial workshop and other workshops for business angels and one matching event. In the first nine-month of existence of BAN, already three deals have been concluded successfully.

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Employee Financial Participation: A Modern Instrument to Increase the Competitiveness of SMEs

In the light of the current financing problems of SMEs, the idea of employees taking over parts of their employers' shares, thus providing him/her with additional financing, is of increasing interest. Employees' financial participation, in a broader sense, can be understood as any kind of contractual, durable participation of the employee in the capital of his employer.

Employee-financial-participation schemes in general can be divided into three main groups, depending on the way the employees invest their money in the company:

- **Debt capital:** The employee lends money to his employer. The company in turn has to pay interest and has to repay the principal amount at maturity.
- **Mezzanine participation schemes:** Forms of participation that are treated as debt capital from a legal point of view but are seen as equity capital from an economical perspective (e.g. participation certificates, convertible bonds etc.).
- **Equity capital:** Employees actually buy shares of their employer.

Apart from the general improvement of the financial situation of the SMEs implementing such programs, employees financial participation offers also numerous other advantages: The dependency of the enterprise on bank loans, traditionally the most important source of finance for SMEs in Germany, is being reduced, the equity-capital base is often strengthened and

hence the increasingly important rating will improve.

Besides, the financial participation of employees can lead to a changed awareness within the workforce: Employees having a share in their company start to feel more like entrepreneurs rather than just dependently employed workers. They tend to be more motivated and thus more productive than their "normal" colleagues.

Despite these advantages, employee-participation-schemes are still hardly implemented by SMEs in North-Rhine-Westphalia. This is mainly due to a lack of awareness and know-how regarding these schemes within the group of SMEs. For that reason, NRW.BANK as the development bank of the State of North-Rhine-Westphalia, has set up a project-office on behalf of the ministry of economy in order to promote the idea of employees' financial participation and coach the enterprises interested in implementing such schemes.

Until today, more than 2.300 entrepreneurs from North-Rhine-Westphalia have contacted the project-office to obtain information on the various fields of employee-financial-participation-financing schemes. 160 enterprises have received a one-to-one coaching on possible models.

For more information on the work of the project office as well as on the topic employees financial participation in general, please visit:

www.mitarbeiterkapitalbeteiligung.nrw.de
or www.nrwbank.de

Mortgage and Land Bank of Latvia: Promotion of Start-ups and Growing Enterprises - A Challenge for the Future

The Mortgage and Land Bank of Latvia (MBL), being one of two institutions from new Member States within the FinNetSME project, has particular interest in other partners' experience, in order to improve and broaden its own instruments towards financing of SMEs and start-ups.

Profile of the MBL

The MBL was established in 1993. As a joint stock company, MBL is 100% owned by the Government of Latvia and thus is the only state-owned bank in Latvia. Accordingly, MBL's development strategy is approved by the Government. The mission of the bank is to promote Latvia's economic development through the provision of financial mediation and related services. While following this mission, MBL also operates as a promotional bank and commercial bank. MBL is subject to the general banking legislation as well as the banking regulatory framework.

The main activities of MBL are: 1) lending to SMEs (promotion of economic activity under state-approved and -supported promotional programmes); 2) provision of retail banking services all over Latvia on a commercial basis (financial mediation); 3) issuing of mortgage bonds (development of mortgage lending system).

Since its foundation, MBL has grown significantly. Among Latvia's 23 commercial banks, MBL ranks number 6 according to its credit portfolio. Today, MBL has 31 branches and 8 sub-branches covering the whole territory of Latvia. In addition, MBL has established subsidiaries for dealing with leasing, equity financing and consultancy.

MBL activities as Promotional bank

One fifth of MBL's assets are promotional programmes commissioned by the government. Some of these programmes are: SME Lending Programme, Housing Development Lending Programme, various rural development programmes, credit line for women entrepreneurs etc. Most of the loan programmes are financed

jointly with international financial institutions (EIB, EIF, NIB, CEB, KfW etc.).

Currently, the main promotional programme implemented by MBL is the SME Lending Programme which provides investment loans on favourable conditions to start-ups and growth companies lacking collateral and track record. Since 2000, more than 1,500 loans have been granted for a total amount of 83.4 M€. As a result, more than 4,500 new jobs have been created (in average, one loan creates 3 new jobs). MBL also pays particular attention to micro-lending and co-operation with the credit unions (loans, technical assistance).

To keep pace with the development of promotional banks and other specialised financial institutions, MBL takes an active part in financial associations and networks, e.g. European Association of Public Banks (EAPB), Network of European Financial Institutions for SMEs (NEFI), Club of Institutions of the EU Specialising in Long-term Credit (ISLTC). MBL hosted several international meetings in Riga, for instance the 6th International Meeting of Promotional Banks in May 2001 as well as 4th Round Table Meeting of Bankers and SMEs in April 2003. MBL has developed bilateral contacts with institutions like Finnvera, KfW and several German regional promotional banks.

Creation of a Promotional Programmes Office- a new challenge for the future

Being a bank with 2 parts – development bank and commercial bank, MBL shall ensure that the state aid is not used for commercial benefits. To this end, MBL has reorganized its management system and recently separated the functions of the development bank and commercial bank. A new unit - the Promotional Programmes Office (abbreviation in Latvian language - APP) has been created in January 2005. APP is acting as a „bank within the bank“, which is similar to several German regional promotional banks. Although it is part of the bank, APP is positioned as an independent branch in its relations with

borrowers and commercial banks partners of APP.

APP's products are high-risk loans for prospective and competitive investment projects. Respectively, APP's clients are SMEs, especially start-ups and enterprises with high growth potential. APP's main office is based in the country's capital Riga, and three regional offices will be opened in different parts of country.

APP's current activities can be characterised as a pilot project. In order to approbate the new unit's organisational and human capacity, more than 20 loan projects have been approved for a total amount of 2.8 M€ during the last summer. In comparison to typical commercial loans, conditions for APP's loans are softer (less requirements on collateral, borrower's own capital and track record). During the pilot project, APP has supported both existing enterprises and start-ups. Among the granted loans are projects in building industry, production of metal construction, and services (i.e. tourism, barber shops etc.).

A crucial task for APP is to develop close co-operation with commercial banks. According to APP's operational principles, the unit does not compete with commercial banks, but rather complements commercial lending. APP may grant a loan independently or co-finance the client

together with a commercial bank (commercial banks recommend their clients to APP if they are not able to grant a loan themselves because of high lending risk). Before granting the loan, both a commercial bank and APP analyse the loan, and agree on conditions of collateral and risk sharing.

Speaking about the future plans, MBL is planning to launch two new promotional programmes supported by the EU structural funds in the next months. The new programmes foresee financing investment projects of growth companies and start-ups, especially micro enterprises. Each programme has a budget of 30 M€. In addition, another promotional programme combining both training and consultancy for start-ups and finance (micro-loans, grants) will be administrated by APP starting mid 2006. Hopefully, APP's entrepreneurship support activities will contribute to further development and competitiveness of Latvian SMEs both at local and European markets.

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Finance Wales plc – Public / Private Intervention in SME Finance Markets

Finance Wales plc was created by the Welsh Assembly Government to address the market gap in the availability of growth and development funding for Small to Medium Size Enterprises (SMEs) in Wales

The organisation works by encouraging private sector partners to match public sector support, thereby establishing public/private investment funds. Finance Wales then invests these funds and uses returns to encourage on-going provision of finance for SMEs through securing additional private sector partnerships to establish further term funding rounds. The SME market is closely monitored, and where needs are identified that cannot be provided for within the existing 'product' range, new solutions are sought.

The organisation's goals are that, by 2008, it will:

- Invest £100m in Welsh businesses and social enterprises;
- Create access to £300m of private sector funding;
- Assist 4,000 businesses in Wales;
- Create or safeguard 10,000 jobs;
- Develop self-sustaining funds.

Finance Wales works in a number of ways to ensure that SMEs have greater opportunities to attract funding in a manner that reflects the requirements faced throughout a typical SME lifecycle. These range from loans to Spin-out companies from Higher Education Institutions (HEIs) through to equity investments of up to £1 million, and include micro loans of less than £10,000 and larger loans of up to £150,000. The maximum Finance Wales can combine is £2.5m into any one company.

Specifically, Finance Wales focuses on the following areas:

Start-up & Early Stage investments:

Finance Wales has a strong and increasing portfolio of companies actively growing their businesses from small beginnings. Consequently, the

organisation possesses an excellent understanding of the challenges faced by early-stage ventures and the factors critical to their survival and success.

Expansion and growth finance:

Mature and established companies play a key role in Finance Wales' investment strategy. These companies often possess more visible cash-flow streams and generally face pressures of a different nature to those faced by fledgling businesses. Finance Wales provides growth capital for a variety of purposes – for capital expenditure, to help businesses bring additional products to market, to help businesses tackle new markets, to improve sales and marketing operations and to facilitate the spinning-off of new areas of business.

Succession-based packages:

Finance Wales understands the issues that lead management to approach financiers in buy-out or buy-in situations. It works with private and public organisations to help businesses through this period of transition.

Syndicating investment opportunities:

Finance Wales will look to syndicate investments with both public and private sector organisations in order to ensure that SMEs can secure the full funding that they require.

Encouraging Private Sector Investment:

Through xénos (the business angel network of Finance Wales) there are over 100 private investors registered looking to invest their money and commercial expertise in companies seeking investment and growth capital.

In addition to the above, the Wales Spinout Programme provides funding through Finance Wales and support for companies emerging from the Higher Education sector to help exploit concepts, prototypes and academic research by creating ventures with a firm commercial future.

Summary Table

Finance Wales has made a total of 935 investments totalling £40.7 million since inception in 2000. It has levered £over £112 million in private sector investment.

Fund	Number of investments	Amount invested
Equity	43	£12.7m
Mezzanine	60	£7.4m
Loan Fund	832	£20.5m

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Rural Credit Guarantee Fund – Lithuania

Lithuanian Rural Credit Guarantee Fund (RCGF) is a company established by the state in 1997 with a view to promote the economic development of the rural areas in Lithuania. Mission and aims of the Fund are very similar to those of the FinNetSME network partners: promote the economic development of the agricultural and rural sectors in Lithuania with the help of targeted financial instruments.

The main activities of the Fund are: credit guarantee issuing and administration of state supporting aid to guarantee beneficiaries. The Fund offers its clients credit guarantees, thus providing an opportunity for business entities lacking collateral to finance investment projects or supplement current assets. Credit guarantees provide agricultural entities with access to finance, encouraging their creation or expansion. By so doing, they contribute to the creation of self-employed or salaried jobs. Guarantees for rural SMEs promote the expansion of alternative (other than agricultural) economic activities in rural areas. Credit guarantees, whether related to short-term or medium-term credits extended to business entities help the latter to harmonize their cash flows, thus increasing their operational stability.

Company profile

The Fund was created in 1997 with a share capital of 1.8 million euro. Total equity was 12.3 million euro at the end of 2004. RCGF uses the network of banks (banks having the direct contact with the client), and it has signed agreements with all banks in Lithuania.

The Fund guarantees banks a repayment of up to 70% of the outstanding loan amount. In the case of young farmers (under 40 years of age), up to 80% of the outstanding loan amount is guaranteed for loans granted. RCGF issues guarantees for long-term and short-term credits. Beneficiaries of the scheme are farmers and individual entrepreneurs (self-employed), agricultural SMEs, processing companies and SMEs acting in alternative to traditional business areas. The self-financing rate is the following:

Beneficiaries must pay a 10% upfront guarantee fee, based on the guarantee amount, guarantee risk and other factors.

The Fund is involved in complementary activities to the credit guarantees: administration of some state-supported aid to guarantee beneficiaries - interest subsidies on the bank loan, compensation of the guarantee fee, subsidy of the insurance premium for the property mortgaged to the bank.

Advantages of the scheme:

- The RCGF guarantee facilitates the access to bank credits and the implementation of investment projects for the economic entities that do not have sufficient own funds or collateral. Without the state aid in the form of credit guarantees, the majority would not be able to have access to a bank loan. Starting a new business in the rural area without owning property would hardly be possible.
- Guarantees for rural SMEs promote the expansion of alternative types of economic activities in rural areas. This is very important, as the number of people employed in agriculture is constantly decreasing.
- Issuing guarantees for short-term and medium-term credits extended to agricultural entities ensures the stable functioning of these entities and helps harmonize their cash flows. Planning and implementation of investment projects are facilitated for entities.
- The Fund extensively contributes to the assimilation of EU financial support. The projects receiving EU support profit from more favourable credit guarantee conditions, i.e. the guarantee amount is not limited.

Evaluation of the system:

- The banks are very positive about the structure of the guarantee scheme (70%-80% guarantee). The guarantee by the Fund has become an effective way of addressing the problem of security, whereas commercial banks now have the opportunity to work with

agricultural and rural business projects as well as “start-ups” normally associated with higher risks.

- Shared responsibility with a bank: the bank shares the risk, which is covered by little collateral. This increases the bank's interest in careful assessment of the credit.
- Shared responsibility with the guarantee beneficiary: it shall finance at least 10% of the value of the business project with personal assets.
- Subsidies to beneficiaries as complementary activity to the SME loan guarantees reduce borrowing costs and create more favourable crediting conditions.

Clearly, the instrument proves to be an effective way of using public money to improve macroeconomic effects on the agricultural sector, especially when compared to non-gearing instruments based on public funds. The Fund has embarked upon a major qualitative work, notably the classification of customers according to rating scales, which enables a systematic monitoring of borrowers.

Key statistics

The total number of guarantees issued since the start of RCGF's operations in

1998 up to 2004 amounted to 333.2 M€. At year-end, the outstanding portfolio was 44.3 M€ in 362 still active guarantees. The results of 2004 are promising: Compared to the previous year, the number of customers grew by one third. According to our estimates, over 500 jobs were created or preserved in rural regions of Lithuania in 2004 alone. The clients of RCGF also actively use other state aid facilities promoting financing of agricultural operators, such as refunding of guarantee premiums, insurance premiums and some of the credit interests. The steady increase in demand for RCGF services proves that it remains an important link between the generation of a business idea and its realisation in the framework of rural business funding.

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RURAL CREDIT GUARANTEE FUND

Strengthening SMEs in Brandenburg

Small and medium enterprises (SMEs) are the backbone of Brandenburg's economy, and the driving force of our economic development. They play an important role in the process of economic restructuring.

SMEs represent 99.7% of all Brandenburg business subject to turnover tax, effect 44.8% of all taxable sales, account for 57% of total gross value added in industry, place 46% of gross investments, create 69.3% of jobs and offer 80% of training places (Ex ante evaluation for Structural Funds period 2007–2013). The Brandenburg Government therefore attaches great importance to supporting SMEs.

To support the SMEs to cope with economic developments, the Minister of Economy, following the Governments policy address in October 2004, established the **SME project group**. Its task is to advise the Minister on issues affecting the development of SMEs and to suggest measures to support and facilitate their development and growth. In October 2005, the group together with external advisers completed a comprehensive review of SME funding schemes financed by the Brandenburg budget together with Community funding.

A significant characteristic of SME promotion is the abundance of programmes with numerous sources of funding that have created a complex and non-transparent system of SME promotion. Nevertheless or that is why, in the past years, borrowing has become considerably more difficult for most of SMEs.

After assessment of the effectiveness of the existing support measures, the group has come to the conclusion that, namely by broadening the scope of individual schemes and rationalising the application procedures, the funding schemes will address the needs of SMEs in the areas of financing, marketing and manpower training more comprehensively and effectively. It also considers that SMEs these days are facing major changes in the financial markets and need stronger support narrowing the existing gap in the

loan market. The project group notes that, apart from public funding, SMEs should first of all understand how to approach banks to obtain finance for their business activities.

Classic financing instruments continue to play an essential role across all company sizes and industries. Internal financing and bank loans are by far the most important forms of financing. Not least due to growing difficulty in accessing credit, many companies are aiming to apply non-traditional instruments more often in the future, in order to diversity their sources of funding. However, numerous businesses still expect only relatively slow growth in use of alternative instruments. Especially small enterprises experience problems in accessing credit at all.

Most of the companies have since realised how important internal bank ratings are becoming for corporate finance. Yet, many companies are unaware of their own rating, especially small companies are ill-informed in this regard. In conclusion, the Committee believes that the knowledge gap is primarily the most important reason for the difficulty in borrowing. As to the fact that the broad-scale use of internal bank rating tools is now being applied for small companies as well, they have to understand the banks' transparency requirements, which are needed for meaningful risk analysis and for calculating risk-based financing conditions.

In order to narrow the gap in the existing loan market and to facilitate SMEs to widen their knowledge on various financing means, the group recommends that:

- A **roundtable** comprising representatives from the government, the chambers for trade and industry and crafts, financial institutions and SMEs should be set up to enhance communication among various parties, particularly in the area of loan provision.
- After identifying the information generally required by financial institutions when vetting loan applications, a **checklist** of the information should be drawn up for the

reference of SMEs. This should help SMEs prepare their loan applications and, hopefully, improve the prospect of approval.

- The government should encourage the financial sector to develop and use a **credit scoring system** with which financial institutions can make objective and prompt assessments of credit risks on the basis of various indicators, thereby facilitating the processing of loan applications from SMEs. Experience shows that with a credit scoring system, financial institutions will be more willing to provide loans to SMEs.
- The government should, in collaboration with other SME support organisations, organise **educational activities** such as seminars and talks to motivate SMEs to enhance their financial transparency and to acquire better knowledge of and skills in financial management.

However, promotional funds continue to have great significance for companies when it comes to financing their capital expenditures. The project group recommended that, before market forces

come fully into play, the government should implement an interim loan guarantee scheme with a view to encouraging banks to respond more positively to the financing needs of SMEs for business installations and equipment.

The project group was tasked to explore practical measures to further development of SMEs under the themes of helping to start, build and expand a business. After months of extensive research, discussions and consultations, the group is aware that for public policy on this matter to be most effective, it is necessary to develop a widely accepted and empirically supported framework around the notion of capital market imperfections. Otherwise, unfounded perceptions of specific types of financial market “gaps” may inappropriately drive public policy.

For more information, please contact:

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Interested? - How to Become an Associated Partner

PLEASE COMPLETE THIS FORM IN BLOCK LETTERS AND SUBMIT IT IN BOTH ELECTRONIC AND PAPER VERSION TO:

Electronic version: FinNetSME@sab.sachsen.de

Paper version: Sächsische Aufbaubank – Förderbank –
State Development Bank of Saxony
Peter Flath
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D-01069 Dresden
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Conditions for an Associate Partnership of FinNetSME:

- Structure and aims similar to those of the formal network partners;
 - Structure: Owned, run or mandated by a public authority
 - Aims: Contribution to regional development via promotion of SMEs
- Ability and willingness to make an essential contribution to the network objectives;
 - Objectives:
 - Improvement of access to finance for SME
 - Closure of the equity gap
 - Promotion of entrepreneurship
 - Reduction of unemployment
 - Contribution to regional economic development
 - Sub-Objectives:
 - Collection and assessment of existing regional finance practices
 - Development of innovative models for regional SME finance
 - Raise of awareness for importance of public SME support
- Acceptance of the duties and rights (see below).

Rights of an Associate Partner:

- Participation in the seminars and, upon special invitation, in the workshops;
- Direct access to information (e.g. to the database of best practices);
- Provision of a forum (e.g. via the newsletters, links from the project website).

Duties of an Associate Partner:

- To bear own costs for the participation in the network events;
- Contribution of best practice examples to the database (see annex for structure);
- Contribution of newsletter articles, including on the relevance of the new Associate Partner to the partnership and to the network results.

CONTACT DETAILS

Full title of the institution in original language:

Title of the institution in English translation:

Acronym / short title of the institution:

Address:

Postal code:

Town:

Country:

Region:

Contact Person:

Phone: (Please include country code)

Fax: (Please include country code)

E-Mail:

Website:

PROFILE

Brief description of the institution's structure (incl. legal status [e.g. public / public equivalent / public-private / private] and role of the public sector in the activity of the institution [e.g. founder, shareholder, funds provider, subsidy provider]):

Brief description of the institution's activity profile (objectives, services provided):

Geographical area of action (if possible, indicate NUTS level):

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Please explain what you expect to benefit from an Associate Partnership of FinNetSME:

Please explain what you want to contribute to FinNetSME as an Associate Partner
(Specify your expertise, competencies and specific know-how in the field of SME promotion):

How have you learned about this project and the option of an Associate Partnership?

STATUTES

By signing this application form, I/we confirm that

- The above information is true and correct;
- I/we understand and accept the duties and rights linked with an Associate Partnership of FinNetSME, as stipulated above.

Name, Title and Position of Signatory:

--

Place, Date:

--

Signature and Stamp:

--

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