

- ESF
- EUR 17 million
- Loans, equity and non-financial support
- Expansion of labour force (more jobs)
- Denmark

...creating jobs in knowledge intensive and innovative start-ups strengthened by an intense coaching programme...

Central Denmark Entrepreneurship Fund, Denmark

Case Study



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The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
DBA	Danish Business Authority
DKK	Danish Krona, the national currency
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MIF	Midtjysk Iværksætterfond – Central Denmark Entrepreneurship Fund
OP	Operational Programme
SME	Small and medium-sized enterprise



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1 Summary

This case study illustrates how the Central Denmark Entrepreneurship Fund (Midtjysk Iværksætterfond - MIF), a financial instrument established in 2012 with European Social Fund (ESF) and national public and private funding, helped to support new, knowledge-intensive and innovative businesses in the Central Denmark region.

Set up by the Danish Business Authority, the managing authority of the ESF Operational Programme (OP) 'Regional competitiveness and employment' 2007-2013, the MIF provides loans, quasi-equity and equity, in collaboration with other investors, and together with incubator services. The financial instrument addresses a gap in small and medium-sized enterprise (SME) financing during their early stage of development, before they can access commercial loans. The Growth Forum of Central Denmark carries out the implementation under the responsibility of the managing authority, while Nupark Accelerace Management acts as fund manager. The financial instrument has invested in SMEs like 'Wildlife Communication Technologies', a university engineering spin-off created in 2012, which received a mezzanine loan¹ that helped it expand to export markets.

The financial instrument's investments were initially expected to be fully made through a new legal entity. Although this governance structure made it easier to the different parties to co-invest, it also implied that the funds were not invested sufficiently quickly to ensure full disbursement of resources by the end of the programming period. For this reason, the investment strategy was modified to also allow separate co-investments. The administrative set-up of the managing authority was a challenge, as it implied that payments could be made to the fund manager only after investments. A loan was provided from the Central Denmark Region to the fund manager, and also a loan with a bank was obtained, to ensure the cash flow needed.

Although investments are all relatively recent, most of the portfolio companies are developing positively. Thanks to co-investments, they are also finding it easier to negotiate with banks for any additional finance. MIF is expected to continue in the future; however, it is yet uncertain whether it will be allocated European Structural and Investment Funds (ESIF) 2014-2020 resources. A financial instrument could be implemented in a nationwide structure or possibly in a two-tier structure with one unit for East (the Capital and Zealand regions) and one for West Denmark (the North Denmark, Central Denmark and South Denmark regions). A final decision will be taken by the monitoring committee.

¹ Mezzanine financing consists of a mix between debt financing and equity. It can be distinguished between equity mezzanine – i.e. forms of mezzanine that have many elements of equity – and debt mezzanine – i.e. forms of mezzanine that have many elements of debt financing. Mezzanine financing is usually unsecured and subordinate (so-called 'junior') to normal debt financing (so called 'senior loans').

Central Denmark Entrepreneurship Fund, Denmark

THE FINANCIAL INSTRUMENT

Funding source

ESF, OP Regional Competitiveness and Employment 2007-2013

Type of financial products

Loans, equity and quasi-equity, combined with non-financial support in the form of coaching

Financial size

EUR 17 million total resources (EUR 8.5 million from ESF and EUR 825 000 national public funding from Accelerace Invest in Copenhagen and EUR 7.74 million from private investors)

Thematic focus

Expansion of the labour force (job creation)

Timing

April 2011² to April 2016

Partners involved

Danish Business Authority (managing authority)

Growth Forum of Central Denmark (body established to collaborate with the managing authority in allocating funds)

Central Denmark Region (secretariat to the Growth Forum of Central Denmark) Nupark Accelerace Management (fund manager)

Nupark Accelerace Invest (limited partnership between Accelerace Invest in Copenhagen, state funding co-investor and Færchfonden and Vald. Birn Holding A/S, private co-investors)

ACHIEVEMENTS

Absorption rate

100% of ESF resources (April 2016)

EU leverage

2 times³

Leverage of public resources

1.8 times⁴

Re-investment

n.a.

Main outputs

43 enterprises supported and EUR 15.4 million investments at April 2016. These investments supported 211 jobs.

Exchange rate: DKK 1 = EUR 0.13

2 MIF was established in 2010. Two years later a special purpose entity, the Nupark Accelerace Invest was established.

3 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 17 million, divided by the total amount of ESF allocation to this financial instrument, i.e. EUR 8.5 million. It does not include the reuse of resources returned to the instrument.

4 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 17 million, divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 9.3 million. It does not include the reuse of resources returned to the instrument.



2 Objectives

Central Denmark is the second largest region in Denmark with 1.3 million inhabitants. There are two higher education institutions in the region, Aarhus University and 'VIA' University College, which together have 46 000 students. The region has a highly qualified labour force, a high employment rate, as well as many entrepreneurs. Key regional sectors include food, energy and environment, advanced manufacturing, creative industries and tourism.⁵

In the 2007-2013 programming period, financial instruments were set up under the ESF OP. The Danish Business Authority, as national-level managing authority, had participated in the JEREMIE⁶ initiative, which also involved a preliminary gap analysis. The analysis, however, did not lead to clear conclusions or any political decision concerning financial instruments. Instead, separate analyses were carried out by secretariats of the regional Growth Fora. These are platforms that bring together business associations, educational institutions, employers and workers' organisations, municipalities and regions to create growth and business development in the Danish regions, and act as intermediate bodies under the OP. Based on these analyses, the decision to provide support through financial instruments was taken by the intermediate bodies themselves. After that, the managing authority was responsible for final approval.

Before the creation of the MIF, innovative SMEs at their early stage in Central Denmark had little access to financing, despite the available public support. In the country, four innovation environments (incubators) support innovative start-ups from researchers and knowledge-based entrepreneurs on behalf of the state. The Danish Growth Fund is another state investment fund that provides capital and expertise to SMEs across Denmark, including in Central Denmark. Established in 1992, it has co-invested more than DKK 15 billion (EUR 2 billion) in over 5 400 Danish companies operating in many sectors, including agricultural development. However, the Danish Growth Fund supports mature companies. Therefore, MIF was established to provide investments in collaboration with private investors, in new, knowledge intensive and innovative businesses at their very early stages.

5 Central Denmark Region (2015) 'Redegørelse: Vækst- og udviklingsstrategi', <http://www.rm.dk/siteassets/regional-udvikling/vus/vus-dokumenter-2015/redegørelse-til-vækst-og-udviklingsstrategien.pdf>.

6 JEREMIE is an acronym for 'Joint European Resources for Micro to Medium Enterprises' and refers to a joint initiative developed by the European Commission (Directorate General for Regional Policy) in co-operation with the European Investment Bank Group and other financial institutions during the 2007-2013 programming period.

Wildlife Communication Technologies: Objectives and rationale

Wildlife Communication Technologies is a spin-off from Aarhus University, where researchers combined engineering principles and biology to understand bird behaviour and their response to scaring stimuli. The intelligent scarecrow, AniMan, is a result of this combination. It is supported by smart technology and is the only product today that can determine a bird's species based on sound.

AniMan was the 2012 winner of Agro Business Parks Innovators Award and received a New Product European Three Star Award at Agromek 2012, an international exhibition for agricultural machinery and equipment. AniMan was also awarded the 'Farm Management' Agromek Prize. These acknowledgements for an early version of AniMan motivated the three researchers involved to further develop the product.

The same year they set up the company with an equity investment from the private venture capital company Agro Business Innovation A/S. Today the company has three employees, a chief executive officer (CEO) and two engineers working on product development. The researchers are employed at Aarhus University and contribute with data collection, which is an essential part of the business.

AniMan had since then mainly been sold in Denmark. Financial resources were needed to make the product more stable in preparation for export.





3 Design and set-up

The establishment of this financial instrument is the result of cooperation between the managing authority, the Growth Forum of Central Denmark and its secretariat, and the fund manager. The governance structure is designed to attract private co-financing, through a special purpose vehicle – the Nupark Accelerace Invest – created along with three other investors, as well as by allowing co-investment at final recipient level.

3.1 Preceding events

In the 2007-2013 programming period the managing authority allowed six intermediate bodies – the regional Growth Fora – to implement financial instruments using ERDF or ESF funding based on their decision. The Central Denmark region served as a secretariat for the Growth Forum of Central Denmark, which in 2012 introduced this financial instrument under the ESF OP Regional Competitiveness and Employment 2007-2013. The decision to set up the financial instrument was based on a market gap study which showed that access to risk capital for small start-ups was challenging in their early growth phase, as well as on the experience of the intermediate body with the regional business environment.

In line with the traditional bottom-up approach to Structural Funds management in Denmark, the design of the financial instrument was the responsibility of the Central Denmark Region, and the Danish Business Authority advised on possible approaches and ensured compliance.

When the MIF was established in 2012, the managing authority already had experience with financial instruments and recommended that the Central Denmark region should launch a call for tenders to establish a fund management company. This process was developed by the Growth Forum secretariat. In the final call, tenderers were required to bring in co-investors whose contribution would match the ESF financing. The Nupark business park, based in Holstebro, Central Denmark, was awarded the contract to establish a management company with matched funding from three co-investors: Accelerace Invest, Færchfonden and Vald. Birn Holding A/S. Accelerace Invest is an investment company based in Copenhagen, which aims at supporting start-ups. Færchfonden and Vald. Birn Holding A/S are two locally-based private co-investors with a long experience in investments and supporting start-ups in the region. In order to make investments through MIF, Nupark business park and the three co-investors created a partnership, the Nupark Accelerace Invest.

Wildlife Communication Technologies: Financing gap

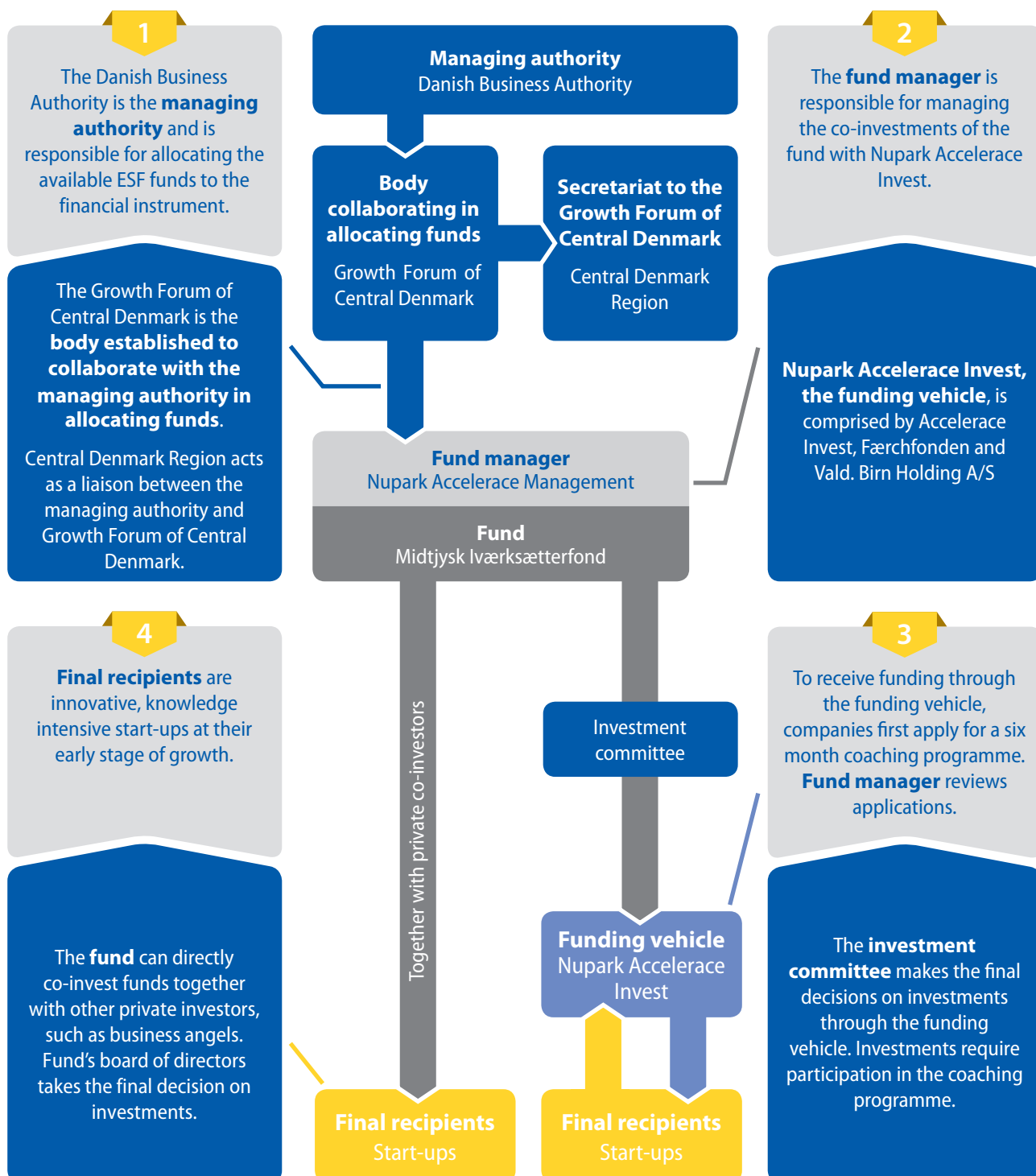
At the same time Wildlife Communication Technologies obtained a mezzanine loan from MIF, the existing private investors increased their funding strengthening the equity of the company. Before that, the company was not ready for a commercial bank loan. The mezzanine loan from MIF, in combination with the equity investment, gave the company funds to develop the product for export.

The MIF mezzanine loan was matched by a syndicated investment at an interest rate of 10%, an exit bonus of 3% and rights to 25% of dividends.

3.2 Funding and partners

The **managing authority** is the Danish Business Authority which is the national managing authority for Denmark's ESF OP. The Growth Forum of Central Denmark, a body established to collaborate with the managing authority in allocating funds, is in charge of the implementation, supported by a **secretariat**, the Central Denmark Region. The fund is MIF and its **fund manager** is Nupark Accelerace Management. Investments are made by Nupark Accelerace Invest, the MIF coinvests with **other private investors** and **business angel networks**.

Figure 1: Operational structure of the MIF





The financial instrument is funded by EUR 8.5 million from ESF (including a supplement in December 2015), EUR 825 000 from national public funding from Accelerace Invest and EUR 7.74 million of private funding.

Table 1: Funding structure of the financial instrument

Funding sources	Amount
ESF	EUR 8.5 million
State (Accelerace Invest as partner in Nupark Accelerace Invest)	EUR 825 000
Private (partners in Nupark Accelerace Invest)	EUR 7.74 million
TOTAL	EUR 17 million

The funding structure has not changed since the instrument's set-up – while at fund level the EU leverage is two times, i.e. the ESF allocation is matched 100% by state and private funding, investments can be matched by other private co-investors at final recipient level.

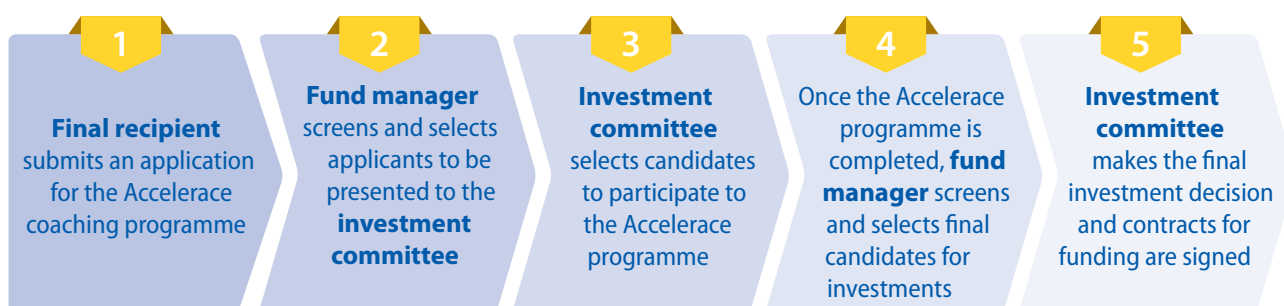
3.3 Investment strategy

The financial instrument offers loans and equity to new, knowledge-intensive and innovative businesses in collaboration with other investors. The procedures for these investments differ between co-investments made through Nupark Accelerace Invest and those made by MIF together with other private investors.

The fund's initial strategy was to make direct investments through Nupark Accelerace Invest, which requires all companies to take part in a six-month coaching programme developed by Accelerace - the so called 'Accelerace Programme' - before they can be considered for investment. An Accelerace consultant follows the companies closely and works with them individually at least once a week during the six-month period.

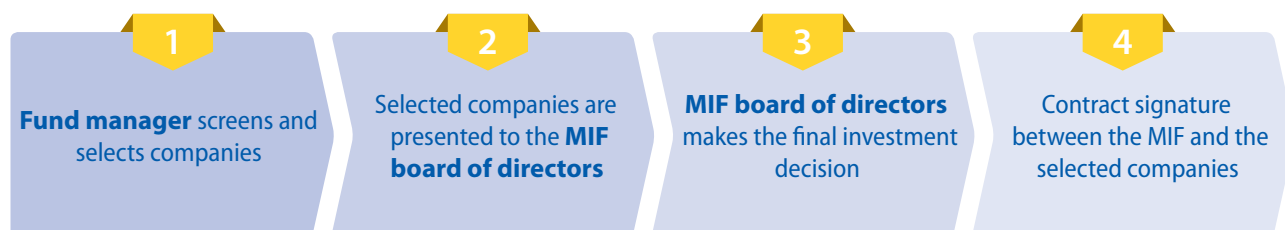
Applications for coaching can be made twice a year and are reviewed by the fund manager. Typically, they receive 50 applications of which 15 are selected and presented to the investment committee, who then selects 10 final candidates. Of these, two or three companies can pitch their growth plan to the investment committee at the end of the coaching programme and loan or equity investments are decided on a case-by-case basis. This investment selection process typically takes eight months from application to final contract.

Figure 2: Investment selection process for Nupark Accelerace Invest



The MIF was established relatively late in the programming period and it became clear that the ESF contribution was not being spent fast enough through the Nupark Accelerace Invest. To address this, the MIF was allowed to co-invest funds together with other private investors in the region, e.g. business angel networks. In this case, the investment process takes approximately two months from when a company is first in contact with the fund manager until contract is signed, after approval by MIF's board of directors.

Figure 3: Investment selection process for MIF co-investments with other private investors



3.4 Governance

The governance structure of the financial instrument involves a number of entities.

The managing authority of the ESF OP Regional Competitiveness and Employment 2007-2013 is the Danish Business Authority, which has the overall responsibility of allocating the ESF funds to the financial instrument. The Growth Forum of Central Denmark decides on which projects should be supported with EU funds. The Central Denmark Region acts as a secretariat to the Growth Forum of Central Denmark and a liaison between the managing authority and the Growth Forum of Central Denmark.

The fund manager is Nupark Accelerace Management, a joint company created by Nupark Innovation A/S and Accelerace Management A/S. The fund manager is responsible for screening and selecting applications for the coaching programme, as well as for the direct investments of MIF with private co-investors. It is also responsible for managing Nupark Accelerace Invest, the special purpose entity created to invest in start-ups, in which the MIF is a partner. Nupark Accelerace Invest invests in start-ups which have successfully passed the Accelerace programme. Nupark Accelerace Management is also the secretariat of the Nupark Accelerace Invest partnership.

The investment committee includes representatives from the boards of directors of all investors of the Nupark Accelerace Invest: Accelerace Invest, Færchfonden and Vald. Birn Holding A/S, as well as of the MIF. The investment committee makes the final decisions on investments of the Nupark Accelerace Invest, while the board of directors of the MIF takes the final decisions on investments of the MIF with private co-investors, other than those of Nupark Accelerace Invest.



Table 2: Timeline for the financial instrument's implementation

Time period	Action taken
2010	The secretariat to the Central Denmark Growth Forum analyses the need for a financial instrument in the region. Different approaches are discussed with the Growth Forum and the managing authority.
December 2010	The Growth Forum establishes the MIF
November 2011	Launch of call for tenders for the selection of fund manager
December 2011	Selection of fund manager
December 2012	Establishment of the MIF within the winning fund management company Nupark Accelerace Management (a year passed before the statutes were approved by the managing authority)
December 2012	Establishment of the Nupark Accelerace Invest
March 2013	First investments made

Wildlife Communication Technologies: Application and administration

The CEO of Wildlife Communication Technologies was informed about MIF when participating in business networking events in the region. He contacted the fund management company, expressing an interest in obtaining a mezzanine loan. Equity investments were subsequently obtained independently.

The company interacted with one contact at the fund management company and the process from first contact to final contract took about two months.

The CEO prepares monthly progress reports, which are checked by the fund manager. This is not considered to be much of a burden.

4 Implementation

The financial instrument makes equity, quasi-equity, and loan investments in cooperation with private co-investors, at conditions that are in line with the market. The target start-ups are based in Central Denmark and are mostly technology-oriented.

4.1 State aid

The managing authority is responsible for ensuring that State aid provisions are followed. This has not been an issue for this financial instrument as investments are made on market terms and hence the public investments do not involve State aid.

4.2 Financial products and terms

The financial instrument provides equity, quasi-equity/mezzanine loans, and loan investments, combined with non-financial support such as coaching, office space and business advice.

All loans are typically granted for seven years, with a grace period of two years. These have an interest rate of 10%, an exit bonus and a profit bonus in cases of mezzanine loans. Exit and profit bonuses are decided on a case-by-case basis.

For equity investments, investors hold shares or preference shares, i.e. shares having priority over ordinary shares in the payment of dividends and upon liquidation. Payments are made according to a milestone plan for the individual company. Once an investment is made, the fund manager continues to follow the companies and can provide support when dealing with other investors e.g. with banks for seeking finance, or in case of difficulties. In many cases, they have a representative on the board of directors, either as a member or as an observer, as well as they receive monthly status reports from the supported enterprises.

Initial advertisements published by the fund manager in regional newspapers to promote the Nupark Accelerace Invest towards potential recipients did not prove useful. Instead, participation to entrepreneurship fairs, business angel events and other entrepreneurship-related activities was the most effective way to approach them. The financial instrument and Nupark Accelerace Invest are also promoted through a website that in addition provides information about the investment process and portfolio companies.



4.3 Final recipients targeted

Companies located in Central Denmark with fewer than 15 employees are targeted. They need sufficient capital to complete the six month development period – in case the investment is made through the Nupark Accelerace Invest, thus the supported enterprise takes part to the accelerator programme. Furthermore, they have an innovative product or service with international market potential that is close to being marketed. The majority of investments (56%) so far were in IT-related companies, 26% in energy and environment, 11% in clean-tech, and 7% in other types of companies.

4.4 Changes in strategy

As indicated in Section 3.3, a second compartment besides the Nupark Accelerace Invest was established in 2013, allowing the fund to invest directly in companies and speed up expenditure. There were no other major changes to the investment strategy.

Wildlife Communication Technologies: Advantages and challenges of the financial instrument

The MIF mezzanine loan allowed Wildlife Communication Technologies to make the investment needed to expand to international markets. The new capital also strengthened its bank relationship. The company has not applied for a loan from a commercial bank for the time being, but they have a credit agreement and are confident they can get a loan when they need it.

5 Achievements

As of April 2016, the financial instrument has invested in 43 companies, of which 27 were through Nupark Accelerace Invest and 18 were co-investments with other private investors. These investments supported 211 jobs.

Table 3: Achievements

Type of investment	Amount
12 equity investments	EUR 3.3 million
31 loan investments, of which: <ul style="list-style-type: none">- 10 mezzanine loans- 7 normal loans- 14 microloans	EUR 12.1 million <ul style="list-style-type: none">- EUR 5.9 million- EUR 5.8 million- EUR 0.4 million

In addition, there were EUR 1.6 million of administration costs. As of April 2016, most of the supported enterprises were developing positively and none of the major investments were in financial distress. There were three exits, where final recipients fully repaid the loans received. In addition, two microloans, totalling EUR 30 000 were defaulted on.

Apart from the three exits, repayments were not yet due. The Growth Forum wants repaid funds to be reinvested for the same objectives, further strengthening the financial ecosystem in the region.

Wildlife Communication Technologies: Achievements

With the finance from MIF and the subsequent equity investments, the company improved its financial position and focused on export markets. The investment is so recent that it is not yet possible to establish any effects on job creation or profits.

In addition to its focus on developing and exporting AniMan, the company is also involved in R&D activities in a consortium within the wind turbine industry for a technology to visually identify bird species. That involves new knowledge and technology development, so the company is looking for grants from national foundations, such as the InnoBooster programme run by Innovation Fund Denmark. Together with the consortium, the company has also applied for an EU Horizon 2020 project for development of the technology.



6 Lessons learned

During the course of setting up and implementing the MIF, the stakeholders learned some valuable lessons for the future.

In particular, both the managing authority and the Growth Forum of Central Denmark and its secretariat acknowledge the minimal administrative burden for the supported enterprises as one of the key benefit of financial instruments. The fund manager noted that co-investment with private partners, based on analysis of the growth potential, can increase the willingness of banks to provide additional finance, improving the prospects of the supported enterprises.

The fact that the MIF was set up late in the programming period required further efforts to ensure quick investment of the funds and achieve full absorption. Based on this experience, the managing authority would like future financial instruments to define milestone targets from the start, which should promote timely investments.

6.1 Main challenges

A key initial challenge has been that the managing authority, using the same approach as for grants, does not make payments until after investments have been made. This implied the fund manager had to provide financing for the first investments of the financial instrument. To address this problem, the Central Denmark region granted a loan to the fund of approximately DKK 5 million (EUR 670 000). Also a bank loan was obtained by the fund of DKK 10 million (EUR 1.34 million). Additionally, the managing authority processes applications for payment from financial instruments before grants, so payments to the fund are approximately two months after investments. Nevertheless, balancing investments and liquidity continues to be a challenge for the fund manager.

6.2 Main success factors

If the set-up of Nupark Accelerace Invest as a limited partnership made it easier to co-invest private and public funds, the possibility for the MIF to also co-invest with other investors i.e. separately from Nupark Accelerace Invest, increased flexibility and helped to speed up investment.

Furthermore, the Accelerace six-month coaching programme is a central element of success as, while it helps new businesses to develop their potential, it also gives the fund manager the opportunity to thoroughly assess the potential final recipients.



6.3 Outlook

For the 2014-2020 programming period, the managing authority has left open the possibility of using financial instruments under both the ERDF and the ESF OPs. On that basis, the Regional Growth Fora launched a call for an ex-ante assessment to determine whether there was a need for support through financial instruments. This was carried out at the end of 2014 and presented to the monitoring committee in January 2015. It identified two key gaps – equity and loan capital for start-ups, equity for established small growth companies – and recommended the set-up of a financial instrument to be implemented either nationally or in a two-tier structure, for East (the Capital and Zealand regions) and one for West Denmark (the North Denmark, Central Denmark and South Denmark regions). These recommendations will be the basis for a final decision on whether and how to implement financial instruments, which is expected to be taken by the monitoring committee. As of April 2016 no decision has been made.

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