Innova-FI
Interreg Europe

VILNIUS | LITHUANIA

ACTION PLAN

How to use Financial Instruments to enhance regional development

European Union
European Regional Development Fund

BUSINESS AND CULTURAL DEVELOPMENT CENTRE

GENERAL INFORMATION

ACTION PLAN

PARTNER ORGANISATION
"INVESTICIJŲ IR VERSLO GARANTIJOS", LTD (INVEGA)

OTHER PARTNER ORGANISATIONS INVOLVED
MINISTRY OF ECONOMY AND INNOVATION OF THE REPUBLIC OF LITHUANIA
MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA

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EXECUTIVE SUMMARY

This document is the Innova-FI Action Plan for Lithuania. The Action Plan is the means to transfer the best practices and the lessons learnt through exchanging experience in Phase 1 to Phase 2 of the project of Innova-FI. This regional action plan aims to affect an Investment for Growth and Jobs programme and more specifically, two policy instruments: "Direct loans" (this instrument is divided into two financial instruments – "Direct loans for business entities" and "Direct loans for RDI") and „Accelerator 2".

Lack of viable lending alternatives to traditional loans issued by commercial banks is a major problem facing the Lithuanian financial market. The bank-centric financing of Lithuanian businesses hinders the development of small and medium-sized enterprises (SMEs) by underfunding their activities. This bank-centric model of financing is particularly challenging during economic downturns. Streamlining the flow of funds to companies without the involvement of any financial intermediary has the potential to tackle some of the problems in Lithuanian financial markets and ultimately achieve great long-term benefits of enhanced effectiveness of public and private business investments.

Besides the lack of financing alternatives, the Lithuanian entrepreneurship ecosystem is also characterized by a low level of commercialization of new products. Although SMEs undertake various R&D activities, which lead to the creation of new product prototypes, most of them simply refrain from further commercialization or fail in the process of it. The main reasons behind their failures are the previously mentioned low access to finance, underdeveloped and unreliable business models, and lack of marketing skills. As such, a business accelerator facility that would increase initial funding accessibility to SMEs, as well as provide business-development oriented training programmes has the potential to substantially improve the Lithuanian entrepreneurship eco-system and foster business development.

Taking into consideration the lessons learnt from the exchange process and the interaction with stakeholders (good practices identified by project partners, feedback from Local Stakeholders Groups meetings, etc.) two sets of actions are proposed within this Action Plan. The first set of actions aims to create a new policy instrument “Direct loans” that will enhance the Lithuanian business environment by sparking more innovation and supporting entrepreneurship. The second set of actions aims to launch a new policy instrument “Accelerator 2”. “Accelerator 2” is aimed at investing in a diversified portfolio of high-growing companies, which are either in pre-seed or seed stages.

The Action Plan also specifies the nature of the actions to be implemented, lessons learnt from the exchange process and the interaction with stakeholders, the actions timeframe, and the players involved, the costs and funding sources, and finally offers a specific guide on monitoring and implement it successfully.

INVEGA will be responsible for the implementation of the refereed actions in the context of this Action Plan.

SUPPORT LETTER

LIETUVOS RESPUBLIKOS FINANSŲ MINISTERIJA
MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA

06-12-2021
Our Ref.: (24.41 M2) - 6K-2107121
Your Ref.:

INTERREG EUROPE PROJECT PGI05374: ENDORSEMENT LETTER

On behalf of the Ministry of Finance of the Republic of Lithuania (hereinafter the Minister of Finance) as the Responsible Authority of the Operational Programme for the European Union Funds' Investments 2014–2020; specific objective "Promoting competitiveness of small and medium-sized business", I herewith confirm that the project "Financial Instruments for Innovation" has been successfully implemented in Lithuania.

I would like to express support to National Promotional Institution „Investicijų ir verslo garantijos", Ltd by approving the Action Plans for "Direct loans" and "Accelerator 2" developed within the Innova-FI project.

The Ministry of Finance recognizes the significance of Innova-FI in the promotion of synergies between European regions and in the development of the action plan which demonstrates a realistic approach to improve SME competitiveness in Lithuania.

Sincerely yours/Faithfully yours,

Mindaugas Liutvinskas

Viceminister

Support letter INVEGA EN.docx

Ministry of Finance of the Republic of Lithuania, Lukiškių g. 2, LT-01512 Vilnius, Lithuania, Telephone: +370 5 239 0000, Fax: +370 5 279 1481, e-mail: finmin@finmin.lt, http://finmin.lt. Data is recorded and stored in the Register of Legal Entities, code 288601650.

POLICY CONTEXT

> "SMEs is the core of Lithuanian economy; their status and ability to engage in structural economic changes will have a direct effect on economic growth and employment as well as on social cohesion."

The competitiveness of Lithuania and its ability to restore and further enhance the welfare lost during the crisis is primarily built on the ability to innovate and launch new products, services, businesses, social processes and models. A very small share of enterprises implementing all types of innovations, limited business expenditure on research and technological development, low commercialisation of the existing Lithuanian scientific potential signal the need for substantial changes.

Investments into RDI are long-term and very risky, therefore the state plays a major role in promoting them: only a small share of business entities is capable of investing into this area independently. Insufficient investments of Lithuanian business into riskier stages of new product and service development – lead to a lower value-added-based structure of the Lithuanian economy. Export of Lithuanian knowledge-intensive products and services, employment in knowledge-intensive enterprises, economic impact of investments and other knowledge-intensity indicators are significantly behind the EU average.

The transformation of the economy towards new activities creating higher value-added requires a substantial increase in the number of enterprises engaged in innovative activities and incentives for the creation of innovation with greater economic impacts. For the purpose, it is planned to create comprehensive incentives for private investments in RDI, while focusing not only on the current innovators and encouraging them to create significant innovation, but also on enterprises operating in the lower value-added chain, encouraging them to shift to the development of new products and search for new business niches.

SMEs is the core of Lithuanian economy; their status and ability to engage in structural economic changes will have a direct effect on economic growth and employment as well as on social cohesion. The level of entrepreneurship in Lithuania is by far below the EU average. The nature of a small and open economy determines the inevitable need for SMEs to get more involved in local and international value chains, be more active in introducing organisational and marketing innovations which are still lacking in business in our country.

According to statistics, Lithuania falls behind the EU-27 average in terms of entrepreneurship level. More rapid establishment of new SMEs is impeded by a lack of initiatives promoting entrepreneurship and a lack of financing. Insufficient access of SMEs, particularly start-ups, to the necessary sources of financing remains one of the main disadvantages in the Lithuanian business environment.

ACTION

The Action Plan aims to impact:

- [x] **Investment for Growth and Jobs programme**
- [ ] European Territorial Cooperation programme
- [ ] Other regional development policy

Name of the policy instrument(s) addressed:

“Direct loans” is divided into two financial instruments – “Direct loans for business entities” and “Direct loans for RDI”. “Direct loans for business entities” falls under Operational Programme for the European Union Funds’ Investments 2014–2020; Priority Axis 3 “Promoting competitiveness of small and medium-sized business”; Investment priority 3.1; Specific objective 3.1.1 “Increasing the level of entrepreneurship”.

Further details on the policy context and the way the action plan should contribute to improve the policy instrument:

The action plan will shed the light on the procedural actions and implementation details of the policy instrument. This will allow for knowledge and experience-sharing initiatives which will contribute to the success of policy.

RELEVANCE TO THE PROJECT

"The bank-centric financing of Lithuanian businesses hinders the development of SMEs by underfunding their activities. This bank-centric model of financing is particularly challenging during economic downturns."

Lack of viable lending alternatives to traditional loans issued by commercial banks is a major problem facing Lithuanian financial market. At present, the assets held at commercial banks account for more than 70% of all flows in the financial system, creating an oligopolistic environment in which traditional banking dominates all spheres of finance. The bank-centric financing of Lithuanian businesses hinders the development of small and medium-sized enterprises (SMEs) by underfunding their activities. This bank-centric model of financing is particularly challenging during economic downturns. During downturns, traditional lenders tighten lending requirements and limit business lending further. Concurrently, the increased uncertainty and reduced revenue raises the borrowing needs for many businesses. The mismatch between availability of funds and borrowing needs in conjunction with the lack of lending alternatives, exacerbates the negative recessionary effects. This became particularly vivid during the recent economic fallout caused by the COVID-19 pandemic – the economic disruption led to tighter financing requirements and hence less credit available, at a time when it was most needed.

As such, Direct loans are one of the most apt financial instruments for widening the pool of lending alternatives and improving the delivery and effectiveness of business financing. In short, direct lending is an alternative method of debt financing where lenders provide loans directly to companies bypassing any intermediaries. This is in stark contrast to traditional lending where a financial intermediary (e. g. commercial bank) or other third-party facilitates the channeling of funds between lenders and borrowers. Hence, streamlining the flow of funds to companies without the involvement of any financial intermediary has a potential to tackle some of the problems in Lithuanian financial markets and ultimately achieve great long-term benefits of enhanced effectiveness of public and private business investments.

Given the potential benefits of direct lending, it has become an important financing strategy to be implemented by INVEGA. INVEGA implements and administers a vast array of financial support measures, one of which is the provision of financial services to SMEs in all stages of their development. INVEGA supervises financial instruments financed by the European Structural and Investment Funds and state-funded or internally generated resources to promote entrepreneurship and provide effective solutions for business growth in Lithuania. Direct loans offered by INVEGA represent an opportunity to scale up private and leverage public spending by building a pipeline of and removing barriers to business investments. There are two types of direct business loans to be offered by INVEGA – Direct loans for SMEs and Direct loans for research, development and innovation (hereinafter – RDI) purposes.

Direct loans for SMEs offered by INVEGA intend to promote the creation and development of new businesses. The main objective of this financial instrument, which is named “Direct loans for business entities”, aligns closely with the Priority Axis 3 of the Operational Programme for the European Union Funds’ Investments 2014–2020 (hereinafter – OP 2020), which notes the need to enhance the competitiveness of SMEs. The successful implementation of this objective can have substantial long-term consequences on a macroscale, such as lower unemployment and faster economic growth in the region.

The amount of funds dedicated to “Direct loans for business entities” is €20 million from Fund of Funds “Business Financing Fund”. The maximum duration of a direct loan to an SME is set at up to 10 years. Loans for entrepreneurs carry a great risk, therefore, the interest rate is higher. However, it is important to note that different financing conditions apply depending on the rating of the SME and the collateral offered. SME’s that have existed for up to 3 years and SME’s implementing social impact projects that have existed for up to 5 years are eligible to apply for a Direct loan up to 3 million. Nevertheless, this amount can vary depending on the value of the enterprise’s project being financed by the loan – INVEGA can issue a loan that covers no more than 80% of the project’s value, with the remaining amount required to be financed by the beneficiaries themselves.

The second type of direct loans is entitled “Direct loans for RDI” and is designed to assist in financing RDI projects run by innovative businesses. Although firms are the main drivers of technological advances, the OP 2020 noted that research and development (hereinafter – R&D) remains largely underfunded. The colossal costs, uncertainty and the possibility of knowledge spillovers – because of non-rival and non-excludable nature of RDI – significantly reduces incentives for businesses to undertake such activities. Most importantly, promoting productive and innovative projects can act as one of the main levers of nationwide structural change towards higher value-added industries and boost overall productivity. To create comprehensive incentives that would unleash this potential, the accessibility to funds and guarantees available for businesses must increase. INVEGA’s Direct loan for RDI projects addresses this issue head-on and aims to strengthen the innovative capabilities and competitiveness of Lithuanian businesses. This financial instrument can be used to finance the creation of products or services that are due to enter the market in the 5 years succeeding the loan. The sum allocated to finance RDI projects is €20 million. The term of the Direct loan for RDI is set to be up to 10 years. INVEGA’s direct loan for RDI is tailored to accommodate all phases of business development and its conditions vary depending on how long the business has operated.

Whilst success criteria for both types of Direct loans are yet to be clearly established, broad definitions of anticipated outcomes by 2023 have already been set. Starting with “Direct loans for business entities”, INVEGA aspires to ensure that 48 businesses receive financial support in forms other than subsidies. Furthermore, it aims to have at least 10 newly established firms by 2023. In terms of “Direct loans for RDI”, INVEGA anticipates having 4 businesses that receive financial support through channels other than subsidies and at least 1 newly established firm by 2023.

NATURE OF THE ACTION

"SMEs have traditionally been held captive to bank debt because of their limited ability to access capital markets. However, SMEs are the backbone of any developed country's economy. Evidence of this is the fact that more than 90% of firms in developed countries are SMEs."

1. As a first step, the determination of the most suitable Direct loan model will be completed. This is done by conducting ex-ante study, which allows to determine the best model of implementation for the measure

2. The implementation practices "Direct Loans" were collected from the Innova-FI project's and other exchange-of-experience events. The Interreg Europe programme supports the exchange of expertise and good practices as a base for developing action plans. In this regard, good practices were selected. The focus of the examples under search was the application of Financial Instruments targeting loan programmes for young SMEs and RDI projects.

   Participative and Subordinate Loans in Valencia Region. *Participative and Subordinate Loans promote the growth of newly created or growing companies, prioritizing innovation. Participative loans: promote the growth of newly created companies, prioritizing innovation, through co-investment with other private investors in projects in the Valencia Region. Subordinated loans: finance business projects of SMEs.*

   Proof-of-concept funding in the Netherlands. *Startups and SMEs can use a loan from the Proof-of-concept funding scheme to examine whether their idea is potentially feasible in the market. The loan plus the interest have to be repaid. Proof-of-concept funding is aimed at three target groups: SMEs innovative startups (5 years old or newer), academic, hbo (polytechnic) and TO2 innovative startups (whose economic activities directly and immediately benefit from research by a university or academic hospital).*

   Loans for development and piloting in Finland. *Business Finland loans are usually unsecured loans. The loan is advantageous for companies and the interest rate is three percentage points below the base interest rate, or at least one percent. For SMEs' development and piloting projects, Business Finland grants a loan covering 50% or 70% of the project's total costs. For large and mid-cap companies, the loan covers a maximum of 50% or*

70% of the costs, respectively. The maximum loan period is 20 years, but the most common period is seven or ten years, of which three or five years – even more if necessary – can be amortization-free.

Loans for entrepreneurs in Denmark. *This type of loan is aimed at young companies whose short existence or lack of security means a bank cannot provide the entire financing requirement. The loan must be a minimum of DKK 1 million and the company must have made a profit from existing customers. The entrepreneur must be able to acquire at least 50 percent private co-financing and provide a limited personal guarantee. Loans for entrepreneurs are generally subordinate to other loans from banks and other credit institutions. Loans for entrepreneurs carry a greater risk than ordinary bank loans and therefore the interest rate is higher.*

3. The main lessons learnt from the exchange process and the interaction with stakeholders are:

   • SMEs have traditionally been held captive to bank debt because of their limited ability to access capital markets. However, SMEs are the backbone of any developed country's economy. Evidence of this is the fact that more than 90% of firms in developed countries are SMEs. For this reason, their problems are a concern for national organizations in the different countries as well as in Lithuania.

   • According to Good Practice instruments start-up business loans are usually unsecured.

   • It was important to find out in almost all Good Practice examples that private sector investors usually participate together public funds. Investing private and public money alongside not only enables the leveraging of expertise and funding at the same time but also minimises the private sector investment risks and increases its willingness to finance riskier projects.

   • It was noticed in the Good Practice examples that the public loan instruments offer the funding to enterprises based on approved reports and cost statements. The first instalment of a loan can be paid in advance.

4. As a second step, the terms of the financial instrument will be discussed and agreed together with the Ministry of Finance and Ministry of Economy and Innovation.

5. As a third step, the preparation of legal acts and conditions will proceed. After agreeing on the most suitable Direct loan model, the mentioned ministries should validate the implementation plan for the financial instrument. Alongside, the preparation of the terms of financial instrument will be carried out and discussed both with the responsible authorities and the public.

6. As a fourth step, discussed and agreed financial instrument terms should be coordinated with the state aid scheme and agreed with by the Competition Council of the Republic of Lithuania.

7. As a fifth step, INVEGA, together with the stakeholders, shall determine the financing agreement of the measure to finalise the preparation of legal acts and conditions.

8. As a sixth step, INVEGA preparation for the implementation of the financial instrument shall commence. INVEGA, together with its separate divisions, will finalise the pre-implementation phase of the financial instrument. This will allow to complete the preparation process and start direct lending facility. INVEGA's divisions are obligated to prepare risk assessment and loan pricing methodologies, as well as prepare other administrative documents (provision policy and conditions, standard loan agreement and its annexes, cooperation agreement with a financial intermediary, money laundering and terrorist financing requirements). Technical preparation activities, such as IT programming works, preparation of the manual for loan granting procedures, the procurement procedures and harmonization of IT systems will also be envisaged during this action of implementation. These completed actions will enable the direct lending process to start.

STAKEHOLDERS INVOLVED

INVEGA is directly involved in all phases of the project. Nevertheless, INVEGA's engagement in the project will be multifaceted. In the first phases of the project, INVEGA's involvement is envisaged as the main coordinator, participating in each activity.

Ministry of Economy and Innovation together with the Ministry of Finance are together involved in key actions such as consultations on the selection of the most suitable Direct loan model, ex-ante evaluation of the need for financial instrument, approval of the necessary legislation and administrative units, coordination of the conditions/terms of the financial instrument, etc. Competition Council participation is a one-off due to the approval of the state aid scheme.

The last phase of the project, aimed at finalizing the financial instrument and providing loans to enterprises, will be implemented only by INVEGA and its divisions.

INITIAL TIMEFRAME

The most suitable Direct loan model will be developed within 4 months. During this period the search for best practices for direct financing will be carried out and experience of national promotional institutions will also be defined. The terms of the direct financing proposition will then be discussed together with Ministry of Economy and Innovations, Ministry of Finance.

The update and validation of the ex-ante evaluation of the need for financial instrument took place in parallel; a period of 6 months was foreseen for this activity.

After this action, 1 month will be devoted to the confirmation of the implementation plan.

Thereafter, months 7 to 10 of this project will be spent preparing the terms of the financial instrument, informing both the authorities and making it available for public discussion. Once the terms of financial instruments have been agreed, the state aid scheme will also be approved by Ministry of Economy and Innovation.

After this, 1 month is set aside for the coordination of the financing agreement.

In parallel, 10-15 months are devoted to the preparation of INVEGA for the implementation of the financial instrument. For example, experienced risk assessment, loan pricing methodologies, preparation of administrative documents, IT programming works and manual of loan granting procedures. From 15th month onwards direct lending will start, but the procurement procedures and harmonization of IT systems will also be envisaged during this stage.

INDICATIVE COSTS AND INDICATIVE FUNDING SOURCES

The implementation costs of the financial instrument "Direct loans for business entities" will come from Operational Programme for the European Union Funds' Investments 2014–2020. The total budget of the instrument is up to €20 million.

Initially, the financial instrument "Direct loans for RDI" will be financed from the State budget. Initially, the budget of the instrument is up to €20 million. It will be considered to finance this instrument from Operational Programme for the European Union Funds' Investments 2021–2027 in the future.

RISK ANALYSIS AND MITIGATION

Two main risks have been identified regarding the implementation of Action 1.

1. **Insufficient activity of potential final beneficiaries.**

Mitigation measures:

It is planned to implement publicity campaigns actively using various publicity measures. It is planned to ensure that the information is provided in a proper, timely, relevant and accurate manner. INVEGA will react promptly and objectively to external inquiries or untrue facts.

2. **Risk of suitability of the financial instrument for the market.**

Mitigation measures:

The ongoing monitoring process will analyse changes in the market situation, the conditions of the financial instrument will be adjusted acordingly.

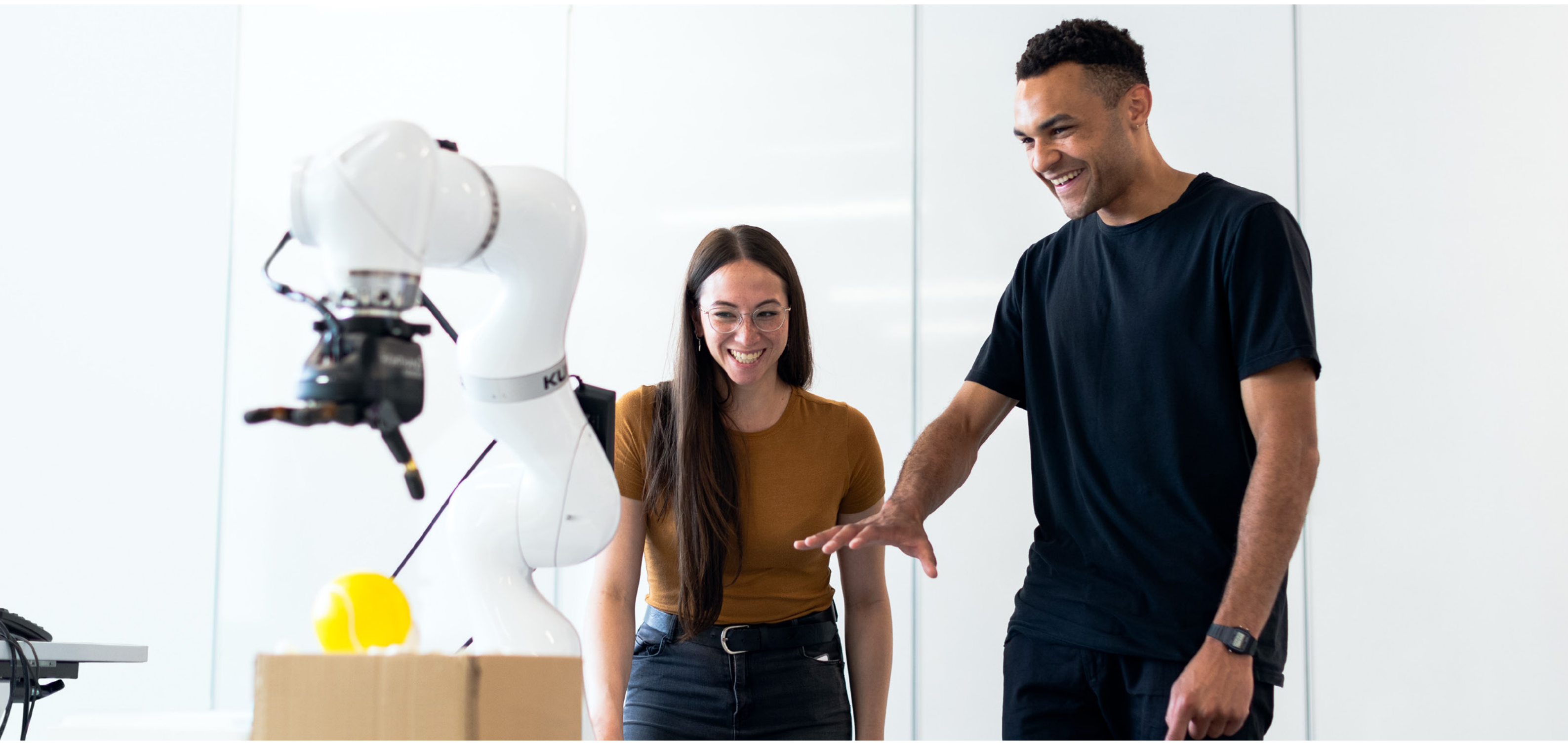
OUTLOOK

Direct loans to be offered by INVEGA is due to become a promising financial instrument that will enhance the Lithuanian business environment by sparking more innovation and supporting entrepreneurship. This financial instrument will scale up private and leverage public spending by building a pipeline of and removing barriers to investments of the new business entities and RDI projects run by innovative businesses.

ACTION

The Action Plan aims to impact:

- ☐ Investment for Growth and Jobs programme
- ☐ European Territorial Cooperation programme
- ☑ **Other regional development policy instrument**



Name of the policy instrument(s) addressed:

The Innovation Promotion Fund.

Further details on the policy context and the way the action plan should contribute to improving the policy instrument:

The action plan will shed the light on the procedural actions and implementation details of the policy instrument. This will allow for knowledge and experience-sharing initiatives which will contribute to the success of the policy.

RELEVANCE TO THE PROJECT

INVEGA is planning to launch a new financial instrument, called “Accelerator 2”. “Accelerator 2” is aimed at investing in a diversified portfolio of high-growing companies, which are either in pre-seed or seed stages.

The traditional bank-centric model of financing entrepreneurship dominates the Lithuanian financial system, hindering the development of micro or small enterprises (hereinafter – MSEs) by limiting their access to funds. During economic turmoil, such as the fallout caused by the Covid-19 pandemic, drying up of liquidity from tighter lending requirements imposed by traditional lenders accentuate the lack of viable business financing alternatives. As such, widening the pool of alternatives and improving their delivery modes is vital for improving the Lithuanian financial system.

Besides the lack of financing alternatives, the Lithuanian entrepreneurship ecosystem is also characterized by a low level of commercialization of new products. Although MSEs undertake various R&D activities, which lead to the creation of new product prototypes, most of them simply refrain from further commercialization or fail in the process of it. The main reasons behind their failures are the previously mentioned low access to finance, underdeveloped and unreliable business models, and lack of marketing skills. As such, a business accelerator facility that would increase initial funding accessibility to MSEs, as well as provide business-development oriented training programmes has the potential to substantially improve the Lithuanian entrepreneurship eco-system and foster business development. The two should ultimately contribute to the increased level of competitiveness of Lithuania and overall business productivity.

Given the potential benefits of a business accelerator facility, INVEGA is planning to launch a new financial instrument, called “Accelerator 2”. “Accelerator 2” will be implemented by the Innovation Promotion Fund, the fund-of-funds established by the Ministry of Economy and Innovation of the Republic of Lithuania (hereinafter – Ministry of Economy and Innovation) and the Ministry of Finance of the Republic of Lithuania (hereinafter – Ministry of Finance) and INVEGA. The main purpose of “Accelerator 2” is to promote the development of risk capital market and facilitate access to long-term equity and quasi-equity financing, while also launching the Pre-acceleration program and Acceleration program MSEs) in Lithuania.

"Accelerator 2" is aimed at investing in a diversified portfolio of high-growing companies, which are either in pre-seed or seed stages. Under "Accelerator 2", two separate Fund will be established – the Pre-seed Fund for implementation of free of charge Pre-acceleration program, including provision of grants for Participants, implementation of free of charge Acceleration program and pre-seed investments and the Seed Fund for the seed stage investments. Pre-acceleration program dedicated to team and idea development. Pre-acceleration program is an aggregate of planned events (inter alia events of potential founders selection, team formation, idea, product or business model generating events), activities (inter alia potential founders selection, team building and support, provision of grants to some of Participants), consulting (inter alia of technology experts), mentoring, training (in the field of team formation, business idea formation, development, and validation). Acceleration program is an aggregate of planned activities providing training (at least company building, team forming, legal, fundraising, pitch, sales, product etc. trainings, consulting or lectures) lasting for at least 10 weeks. The main objective of the Acceleration program is to prepare its recipients for a successful market launch and to raise external investment to expand their business activities.

The financing support from "Accelerator 2" can be used to fund the establishment of new enterprises, early-stage capital (i.e. pre-seed capital, seed capital and start-up capital), realization of new projects and new developments by existing enterprises. Financing support from the Fund may include investments in (a) both tangible and intangible assets, (b) working capital within the limits of applicable state aid rules and with a view of stimulating the private sector as a supplier of funding to enterprises and (c) the costs of transfer of proprietary rights in enterprises, provided that such transfers take place between independent investors.

It is important to note that INVEGA recognizes the underinvestment of the deep technology and life sciences industries in Lithuania and hence the priority will be given to businesses in these sectors. An updated ex-ante assessment noted that for the deep tech, funding should take the form of a partially non-repayable grant, or a soft loan, instead of a non-repayable grant. However, due to the limited number of participants in the deep technology, including life sciences, the updated ex-ante assessment noted that there is no need to set up a separate fund to finance such activities. In order to meet the needs of these sectors, it is rather necessary to encourage accelerator funds to adapt their programmes and expand their activities to deep tech and life sciences industries. As it is suggested in the updated ex-ante assessment, INVEGA adopted this approach when launching "Accelerator 2".

Another important aspect of the measure is that the Pre-seed Fund recipients of funding shall be located (established and operating) in the Republic of Lithuania at the moment of each initial risk finance investment (initial or follow-on investment) from the Pre-seed and shall accrue the benefit to Lithuania not less than 1 year after each risk finance investment (initial or follow-on investment) from the Pre-seed Fund or till the write-off or exit of such investment.

The Seed Fund recipients of funding shall be located (established and operating) in the Republic of Lithuania or outside the Republic of Lithuania (established in any other country) at the moment of each risk finance investment (initial or follow-on investment) from the Seed Fund and shall accrue the benefit to Lithuania not less than 1 year after each risk finance investment (initial or follow-on investment) from the Seed Fund or till the write-off or exit of such investment.

Total financing of EUR 18 million will be made available for the implementation of the financial instrument, with the total amount divided equally between the two selected Fund managers and shall be segregated into two separate funds (the Pre-seed Fund and the Seed Fund). It is foreseen that the Pre-seed Fund should target during the implementation of the Pre-acceleration program grants to at least 120 Participants and provide Acceleration program, investments for at least 45 recipients. The Seed Fund should target investments in at least 10 recipients.

NATURE OF THE ACTION

1. The very first step taken in the preparation of the measure's launch is the conduction of an ex-ante assessment. The ex-ante assessment allows to determine the best model of implementation for the measure. Preparation of the ex-ante assessment is facilitated by the Ministry of Finance, Ministry of Economy and Innovation, and INVEGA.

2. The implementation practices for "Accelerator 2" were collected from the Innova-FI project's exchange-of-experience events. The Interreg Europe programme supports the exchange of expertise and good practices as a base for developing action plans. In this regard, good practices were selected. The focus of the examples under search was the application of Financial Instruments targeting acceleration programmes.

Good Practices:

Startup Lisboa, Portugal Ventures in Portugal
Startup Lisboa is running two acceleration programs: WPP Booster for startups that aim to innovate the communication and media industry and From Start-To-Table, a program supported by Turismo de Portugal, aimed at reshaping the ecosystem of restaurants. Startup Lisboa is a unique and important reference for the entrepreneurial ecosystem that, in addition to continuing to support it, has a mission of helping Lisbon be better prepared to receive ideas and entrepreneurs willing to build value.

ABC Accelerator in Slovenia
ABC Accelerator is one of the largest accelerators in South-Eastern Europe with an award-winning acceleration program for startups and scaleups designed to grow your business and increase your valuation, combined with an option for 100k-250k€ investment as the way to scale.

TechnoBIT Venture and Beskid Technology Accelerator in Poland
TechnoBIT Venture and Beskid Technology Accelerator provided equity instruments investments combined with non-financial and advisory support.
This practice shows successful implementation of public-funded financial instruments that raise private investments, with a high potential for transfer of these instruments to other regions or countries.

3. The main lessons learnt from the exchange process and the interaction with stakeholders are:

• Startup accelerators have developed rapidly in different countries because they meet the needs and aspirations of both start-ups with high-growth potential and potential investors. Policymakers have also recognised their potential to support entrepreneurs in emerging and fast-moving sectors that can be a basis for long-term economic development.

• Accelerators that provide financial support to startups normally do it either in the form of a grant, which is non-refundable financial support, or in the form of equity investment. In some cases, accelerators combine both options. Following the example of TechnoBIT that offers funding and non-financial and advisory support to SMEs, it is concluded that there is a need for provision of combination of such services to start-ups in Lithuania.

• General funding, i.e. mainly the costs for the implementation and management of the acceleration programme, is often allocated from the public funds, which makes the model attractive for additional private investors, who then focus on their investment in the selected startups. Once the acceleration model has proven to be successful, private investors are more willing to contribute to the operation costs. The Startup Lisboa acceleration programs was an interesting example of the attraction of private investors' funding.

• The public funding of acceleration programmes offers a highly attractive opportunity for private investors to access the pre-selected teams and business projects. This considerably limits the costs and risks for those investors compared to a situation without the benefits of an acceleration programme. As a result, the total private investment in startups is likely to increase in a sustained way over time.

• Looking at the good practices identified the main feature can be drawn: a sectoral focus is not always strictly applied. However, it is necessary to encourage accelerator funds to adapt their programmes and expand their activities to deep tech and life science sectors in Lithuania.

4. As the next step and after agreeing on the most suitable "Accelerator 2" model, the Ministry of Finance, together with the Ministry of Economy and Innovation, shall validate the implementation plan of the measure. Alongside, the preparation of the terms of the financial instrument will be carried out and the finalised document will be discussed with the mentioned ministries and INVEGA.

5. As a third step, finalised terms of the financial instrument will be presented to the state aid scheme and agreed with the Competition Council of the Republic of Lithuania.

6. As a fourth step, INVEGA, together with the mentioned ministries, shall sign the financing agreement in order to finalise the preparation of legal acts and conditions of the measure.

7. As a fifth step, INVEGA's preparation for the implementation of the financial instrument will commence. INVEGA, together with its separate divisions, and "Accelerator 2" manager(s) will finalise the pre-implementation phase of the financial instrument. This will allow to complete the preparation process and start investments into MSEs. INVEGA's divisions are obligated to publish the Call for Expression of Interest in order to identify a Fund managers to establish and manage two risk capital Fund for the implementation of the Financial Instrument "Accelerator 2" , supervise the process of its selection, as well as prepare other administrative documents. This action also includes INVEGA's designation of the Fund managers of "Accelerator 2", and attraction of private investments. Technical preparation activities such as IT programming works and preparation of the manual for "Accelerator 2" procedures will also be envisaged during this action of implementation. After these actions are completed, Fund managers of "Accelerator 2" shall start the investment process.

STAKEHOLDERS INVOLVED

The main stakeholder of the project is INVEGA. Within the initial part of the project, INVEGA's participation is envisioned as the main coordinator, engaged in each project activity.

The governmental institutions, such as Ministry of Economy and Innovation, Ministry of Finance, Competition Council, participation in project is supplemental. Both ministries are involved in key parts of the project, including ex-ante evaluation of the need for financial instrument, approval of the necessary legislation and administrative units, coordination of the conditions/terms of the financial instrument. Involvement of Competition Council is one only for approval of the state aid scheme.

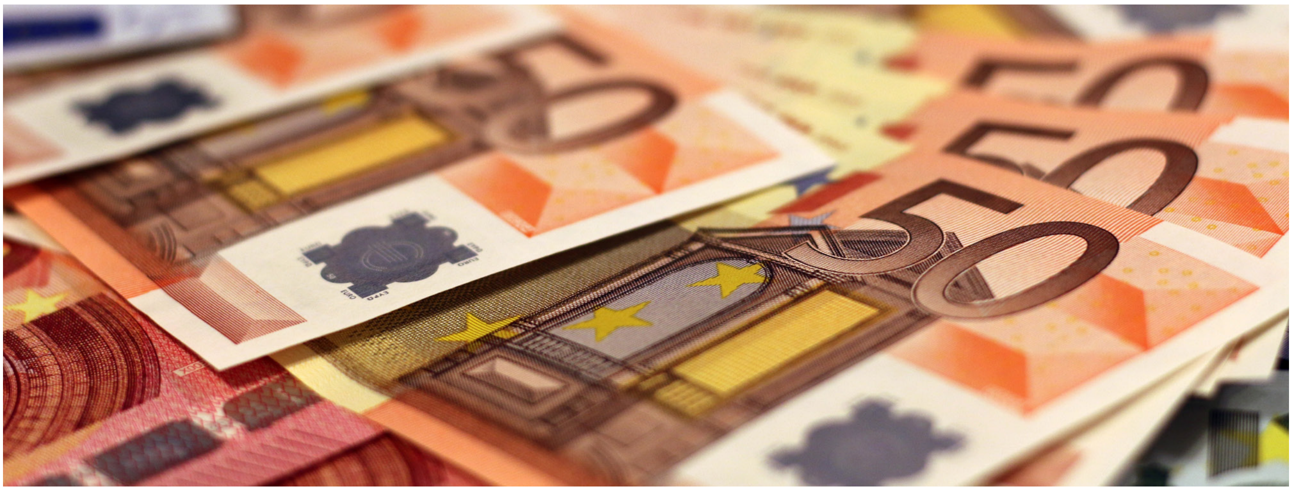
Other important stakeholders of the project activities will be Fund managers. Fund managers of "Accelerator 2" are involved in several finalizing steps, for instance attracting funds from private investments and beginning to make investments in micro and small-sized enterprises.

INITIAL TIMEFRAME

The update and validation of the ex-ante evaluation of the need for financial instrument were developed within three months. After this action, 1 month will be dedicated for the confirmation of the implementation plan for the financial instrument. Thereafter, months 4 to 7 of this project will be spent preparing the terms of the financial instrument, informing both authorities (i.e. Ministry of Economy and Innovation and Ministry of Finance) and making it available for public discussion. Once the terms of financial instruments have been agreed, the state aid scheme will also be approved.

After this action, 8-18 months are given to INVEGA so it can prepare itself for the implementation of the financial instrument. Preparation for implementation involves supervision of the process of selection of Fund managers of "Accelerator 2", preparation of various administrative documents, manual of investment granting procedures and IT programming works. In this action, period of five months is set aside for the process of selection of the Fund managers. From 19th month onwards, Fund Managers will start investing into MSEs.

INDICATIVE COSTS AND INDICATIVE FUNDING SOURCES



The implementation costs of the financial instrument "Accelerator 2" are covered from the Lithuanian state budget. The total budget is up to EUR 18 million (including Fund manager(s) management fee and costs).

The funding for the implementation of financial instrument "Accelerator 2" will come from Lithuanian state budget.

RISK ANALYSIS AND MITIGATION

Two main risks have been identified regarding the implementation of Action 2.

1. **Service quality risk of the fund managers.**

Mitigation measures:

To manage this risk, regular consultation meetings will be organized with the fund managers. Employees of the fund managers will be regularly consulted by phone and e-mail. The compliance with the provisions of the Financial Instruments Managers' Agreements will be periodically reviewed.

2. **Risk of suitability of the financial instrument for the market.**

Mitigation measures:

The ongoing monitoring process will analyze changes in the market situation, the conditions of the financial instrument will be adjusted acordingly.

OUTLOOK

"Accelerator 2" will increase initial funding accessibility to MSEs, as well as provide business-development oriented training programmes. This financial instrument has the potential to substantially improve the Lithuanian entrepreneurship eco-system and foster start-ups ecosystem development. It should ultimately contribute to the increased level of competitiveness of Lithuania and overall business productivity.

COMMU-
NICATION
PLAN

A communication plan is vital to expose the importance, purpose and impact of the implemented actions, using a variety of tools and methods in delivering specific messages to the identified key audiences, which are start-ups, SMEs and fund managers.

During the whole Phase 2 of Innova-FI project, various communication actions will take place, after identifying the project target audiences and selecting the most appropriate tools for reaching the dissemination activities.

The channels that INVEGA will exploit for successfully implementing the communication activities will be:

- events;
- partner meetings;
- posts through INVEGA's website;
- press releases distribution;
- INVEGA's social media accounts' posts;
- INVEGA's network of stakeholders.

ACTION PLAN MONITORING PROCESS

Monitoring process is a very important part of the project to make sure the action plan is implemented according to the goals and values of Innova-FI project. INVEGA will be responsible for monitoring of the implementation of the actions in the context of this Action Plan to watch the progress and define the impact.

Methodology – Monitoring Actions.

INVEGA will perform the following actions during the monitoring phase:

1. Biannual check of all actions.
2. Based on the following actions any changes that must be done will be altering the initial plan.
3. Based on the biannual checks, the staff will run a short evaluation reports, regarding actions performed, challenges, deliverables and results.
4. By the end of Phase 2, a final monitoring report will be delivered on the same issues, plus an analysis of future recommendations.
5. During Phase 2 activities INVEGA's staff will be participating in various project workshops and exchange knowledge regarding the action plan implementation and monitoring.

SIGNATURE OF ACTION PLAN

I hereby confirm that „Investicijų ir verslo garantijos", Ltd as a partner of the Innova-FI project with this Action Plan has defined priority actions target towards the improvement of policy planning and its instruments that are essential for promoting financial instruments for innovation.

Signature: **Kęstutis Motiejūnas**
Title: **Chief Executive Officer of "INVESTICIJŲ IR VERSLO GARANTIJOS", Ltd**

Motiejūnas

Date: 29-11-2021

Innova-FI
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CITY | COUNTRY

ACTION PLAN

How to use Financial Instruments
to enhance regional development

European Union
European Regional Development Fund

BUSINESS AND CULTURAL DEVELOPMENT CENTRE