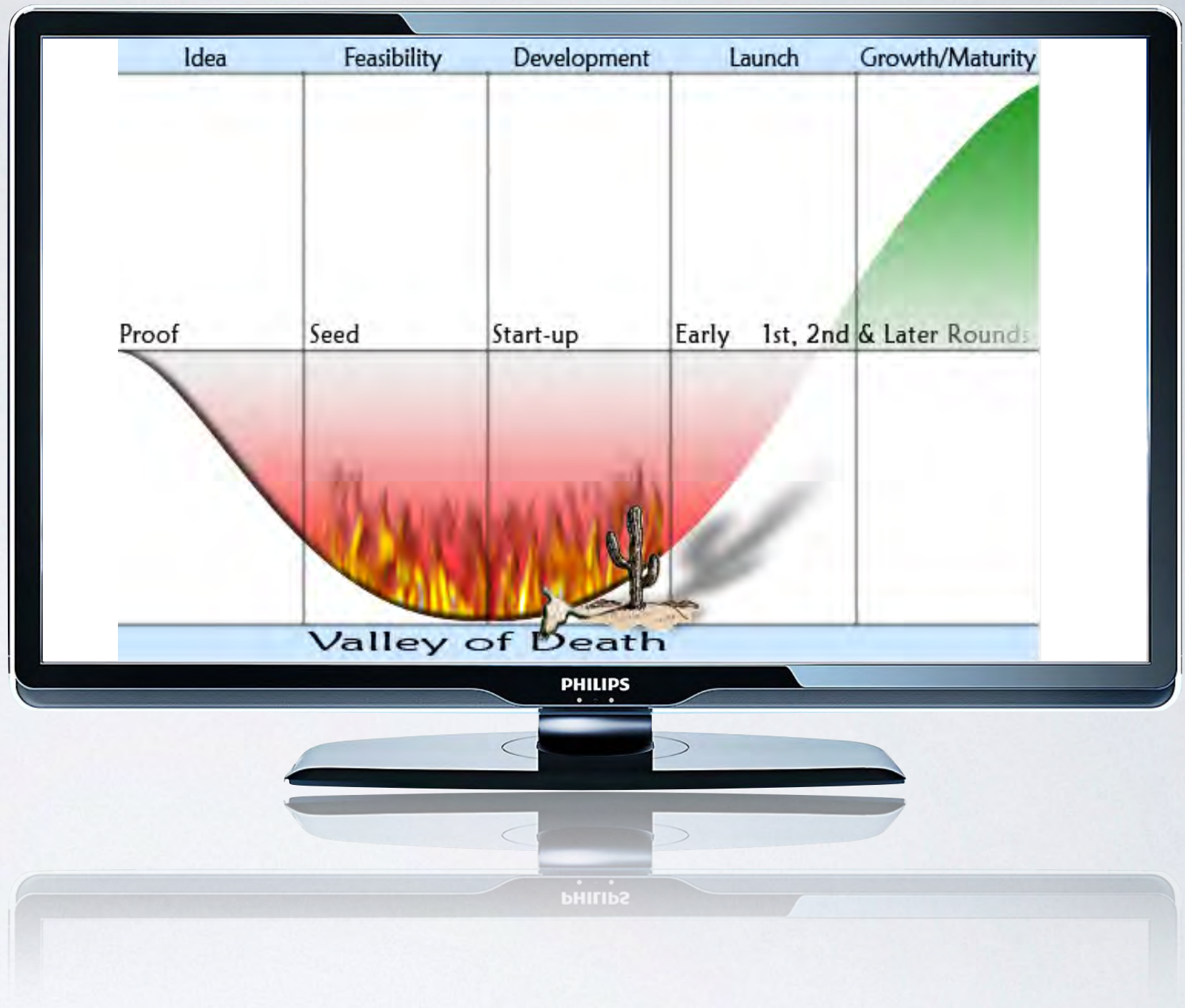




OPENING THE “BLACK BOX” OF FINANCING “HIGH-GROWTH” COMPANIES

Erik P.M. Vermeulen





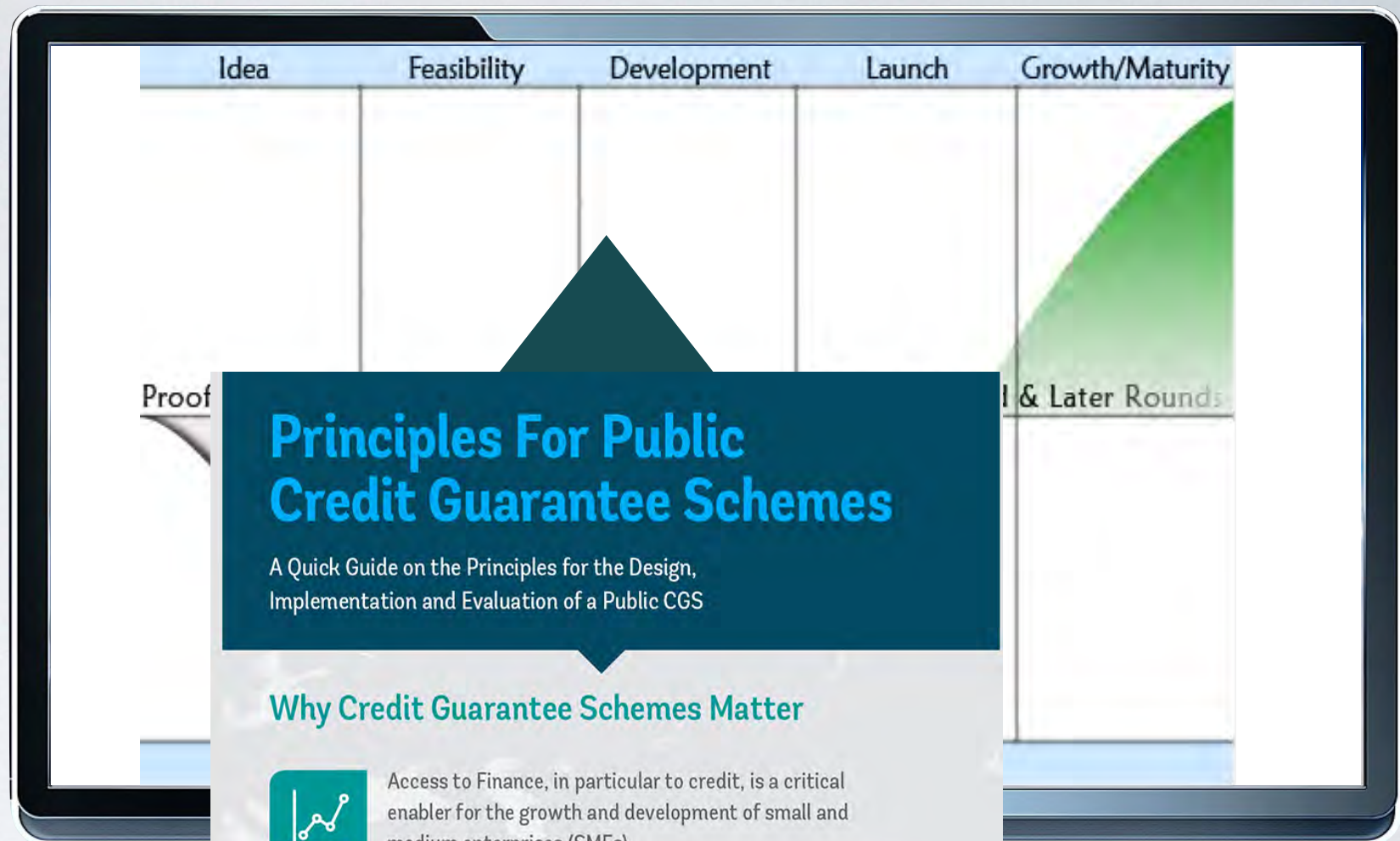
THE ENTREPRENEURIAL STATE



Debunking
Public vs. Private
Sector Myths



MARIANA MAZZUCATO



Principles For Public Credit Guarantee Schemes

A Quick Guide on the Principles for the Design, Implementation and Evaluation of a Public CGS

Why Credit Guarantee Schemes Matter



Access to Finance, in particular to credit, is a critical enabler for the growth and development of small and medium enterprises (SMEs).



SME credit markets, however, are notoriously characterized by market failures and imperfections.

THE TRILLION DOLLAR GAP

In emerging markets and developing economies, between 55 to 68 percent of formal SMEs are either unserved or underserved by financial institutions, leading to a total credit gap estimated in the range of \$0.9 to \$1.1 trillion.¹



To address this challenge, governments intervene through public credit guarantee schemes (CGSs), which provide third-party credit risk mitigation to lenders.



CGSs are becoming increasingly popular as they typically combine a public subsidy with market-based credit allocation.

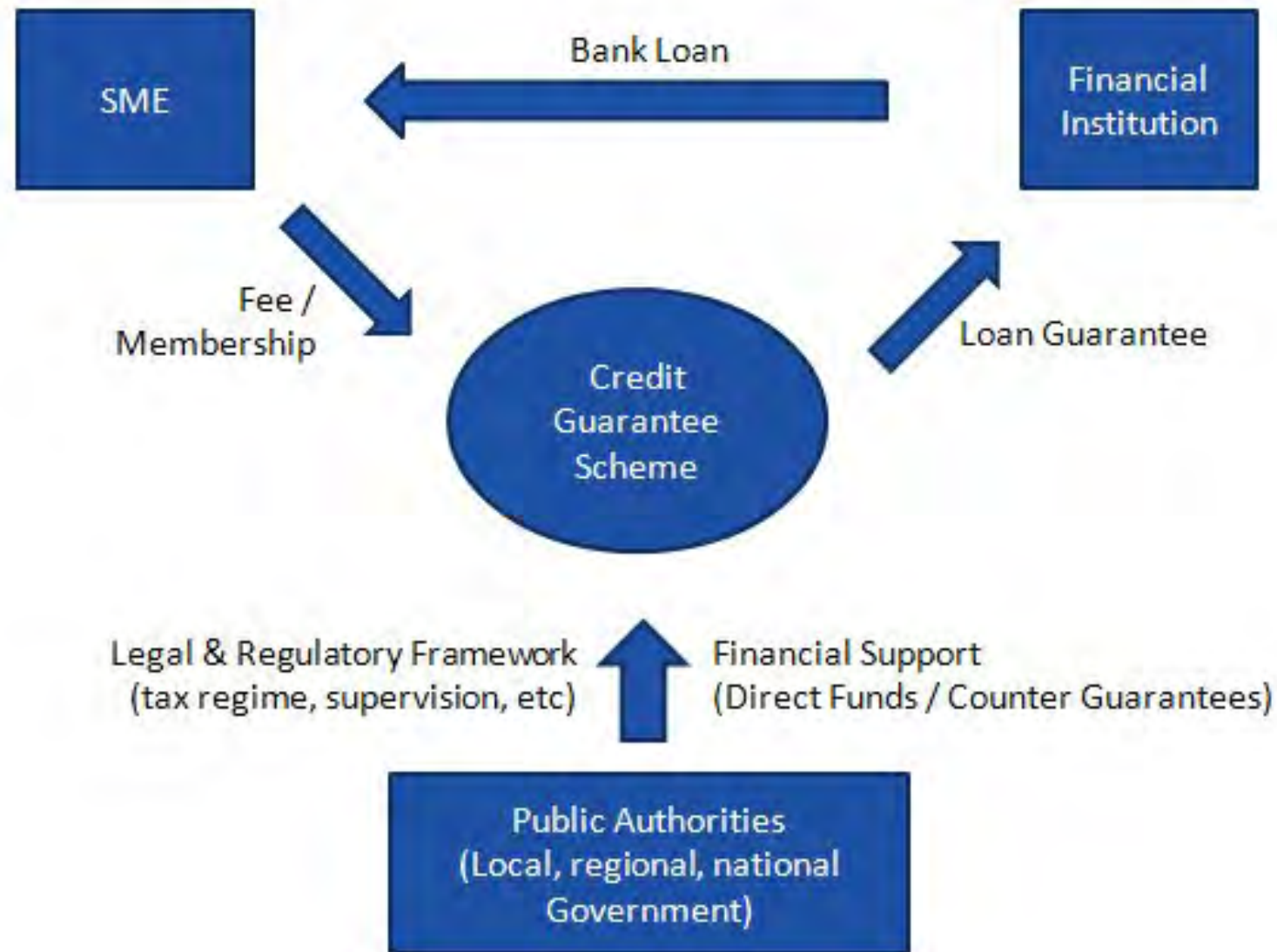


It is important that CGSs are properly designed and operated to achieve both outreach and additionality in a financially sustainable way.



The Principles are expected to guide country authorities in the design, implementation and evaluation of existing and new CGSs.

¹ IFC Enterprise Finance Gap Database (2011)

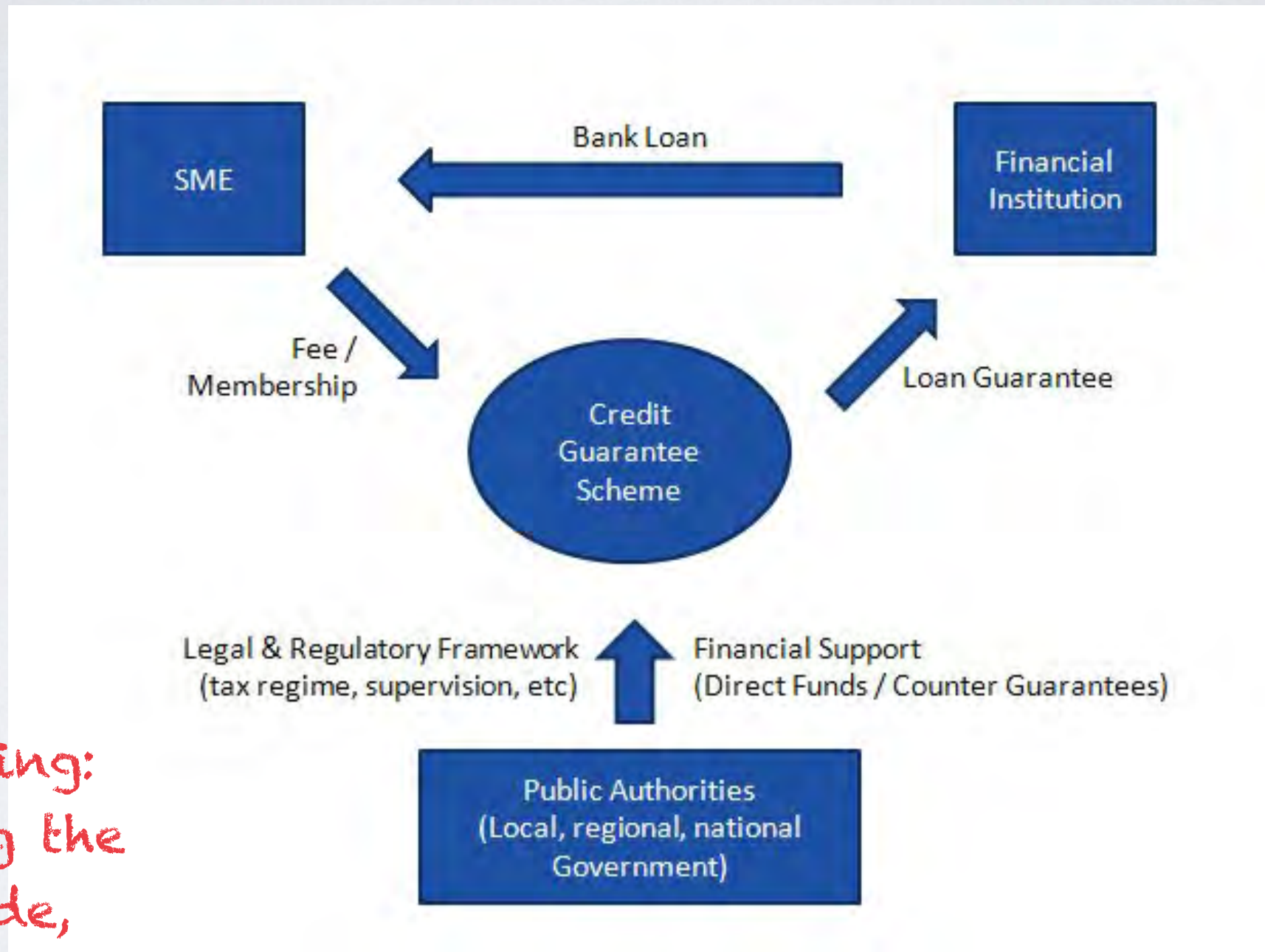


"It is all about the money (and not about making the high growth company more successful)"

"time-consuming"

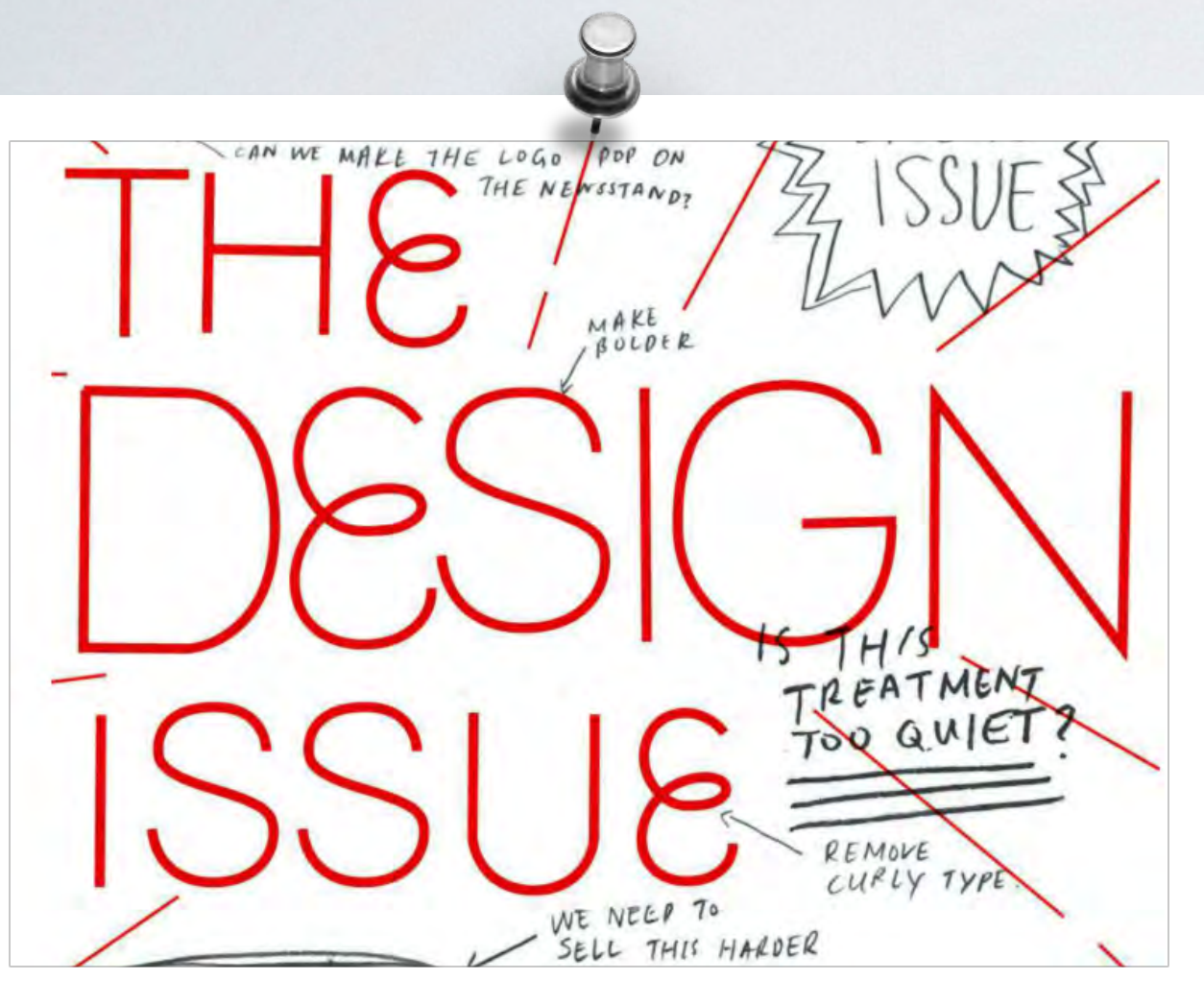
"complex terms"

"misaligned incentives"



"de-risking: protecting the downside, instead of focusing on the upside"

"ruining the structure, thereby killing the opportunity to secure follow-on investment"



LEGAL & REGULATORY FRAMEWORK

1. Establish the CGS as an independent legal entity.
2. Provide adequate funding and keep sources transparent.
3. Promote mixed ownership and treat minority shareholders fairly.
4. Supervise the CGS independently and effectively.



CORPORATE GOVERNANCE & RISK MANAGEMENT

5. Clearly define the CGS mandate.
6. Set a sound corporate governance structure with an independent board of directors.
7. Design a sound internal control framework to safeguard the operational integrity.
8. Adopt an effective and comprehensive enterprise risk management framework.



OPERATIONAL FRAMEWORK

9. Clearly define eligibility and qualification criteria for SMEs, lenders, and credit instruments.
10. Ensure the guarantee delivery approach balances outreach, additionality, and financial sustainability.
11. Issue partial guarantees that comply with prudential regulation and provide capital relief to lenders.
12. Set a transparent and consistent risk-based pricing policy.
13. Design an efficient, clearly documented, and transparent claim management process.



MONITORING AND EVALUATION

14. Set rigorous financial reporting requirements and externally audit financial statements.
15. Publicly disclose non-financial information periodically.
16. Systematically evaluate the CGS' performance and publicly disclose the findings.



Strengthening Financial Sectors

www.firstinitiative.org



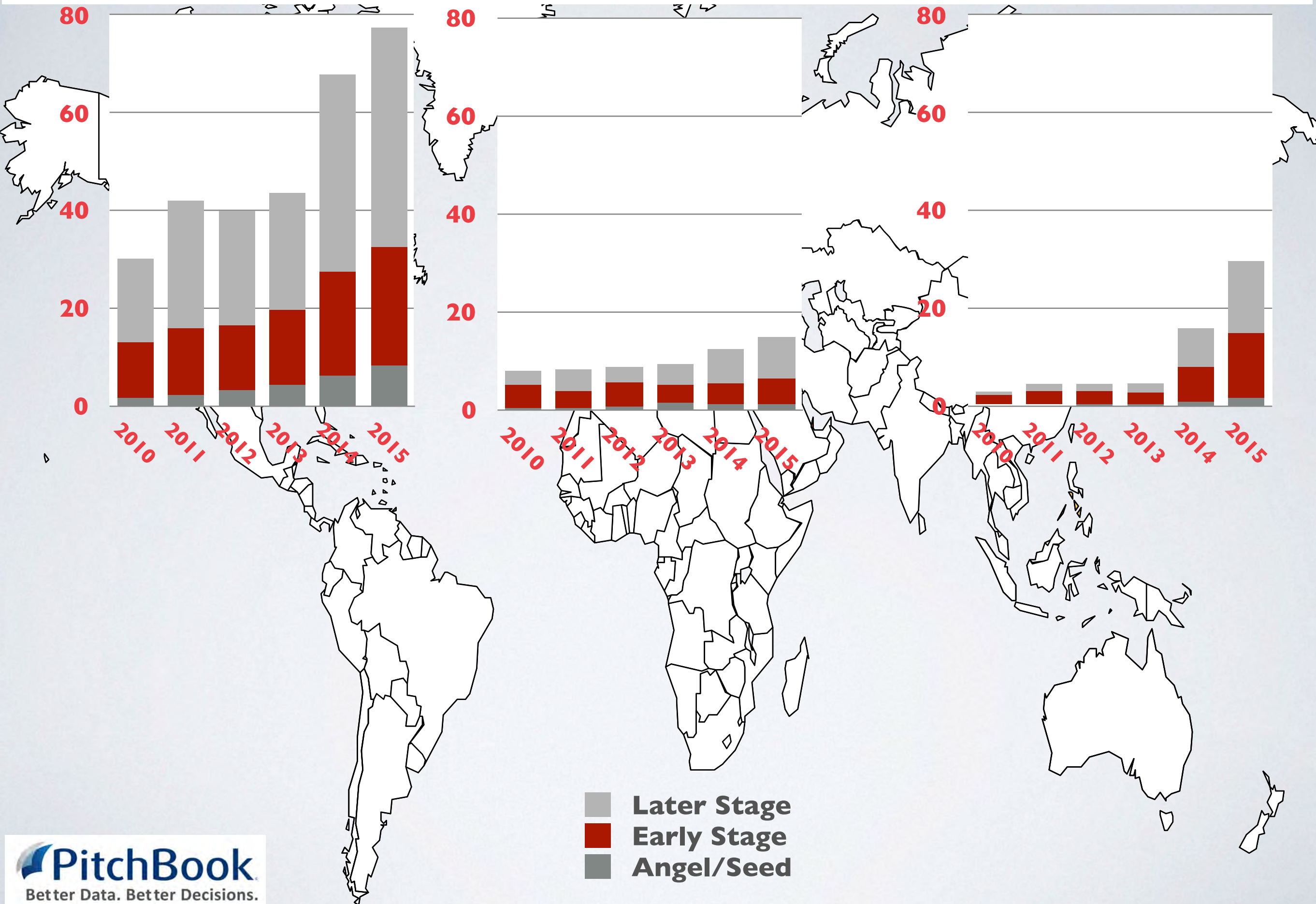
WORLD BANK GROUP

www.worldbank.org



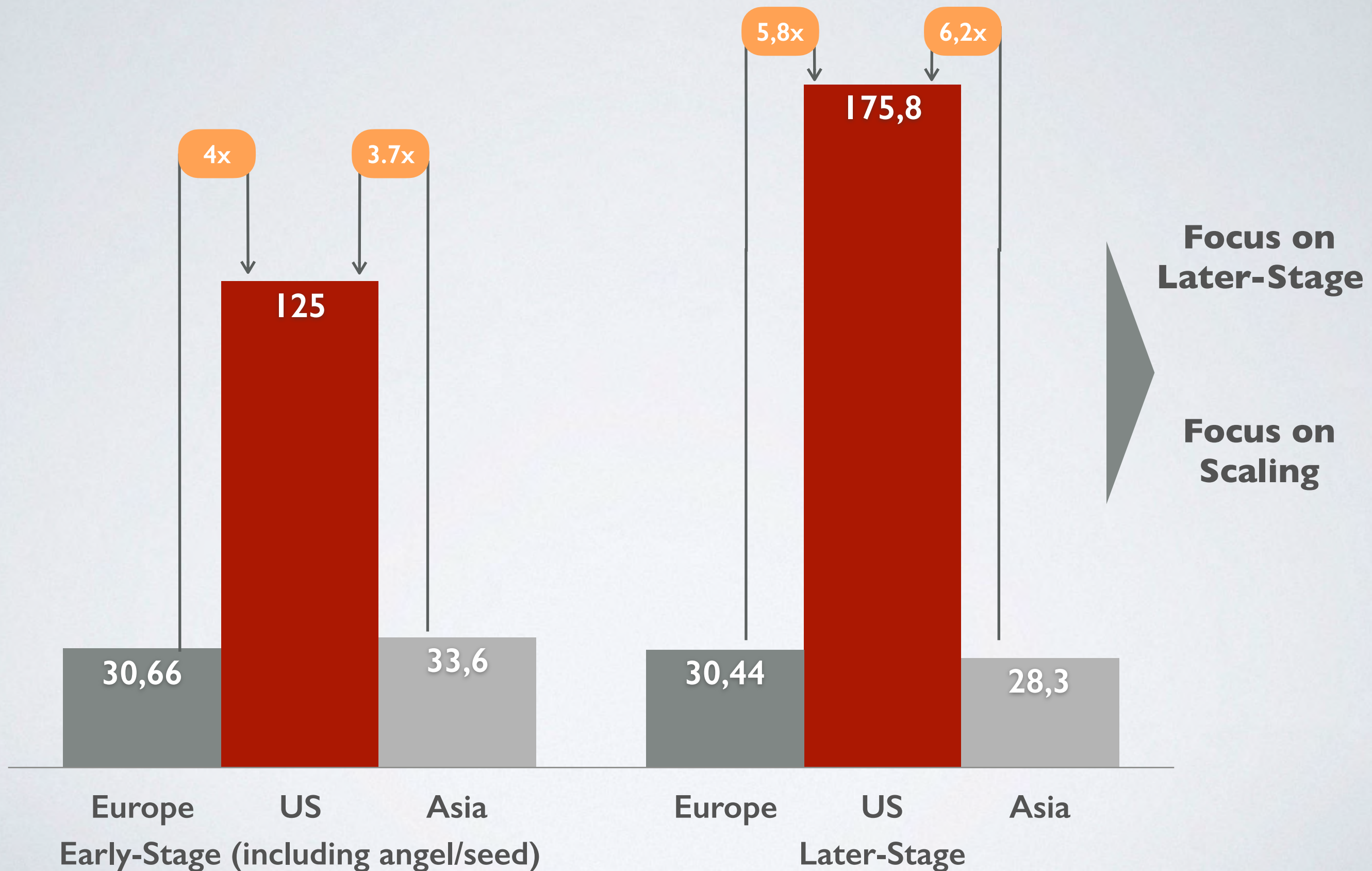
From “Start-Up” to “Scale-Up”

Trends in Equity Finance



Later Stage
Early Stage
Angel/Seed

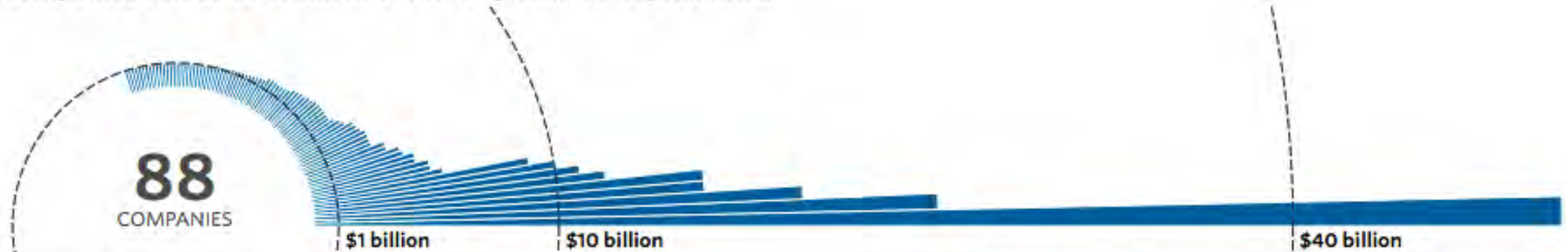
Capital Invested, 2010-2015, US\$B



The Billion Dollar Startup Club

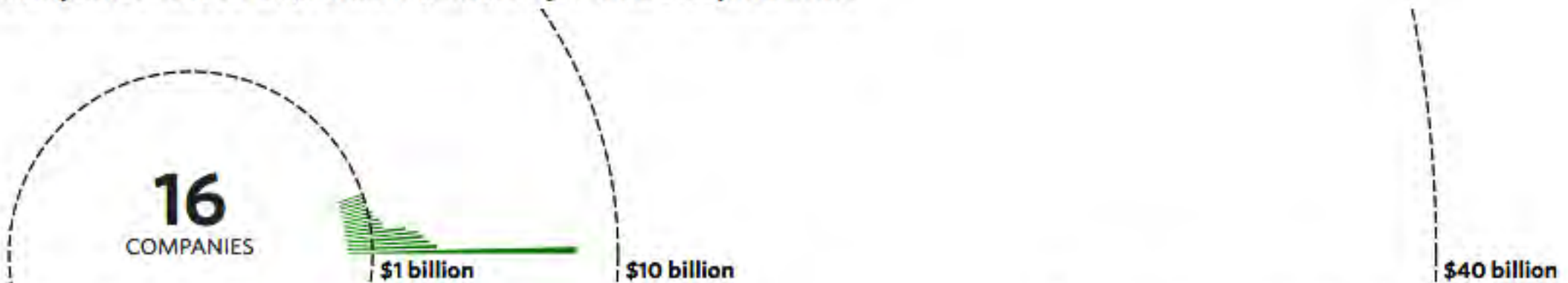
THE WALL STREET JOURNAL.

Companies valued at \$1 billion or more by venture-capital firms



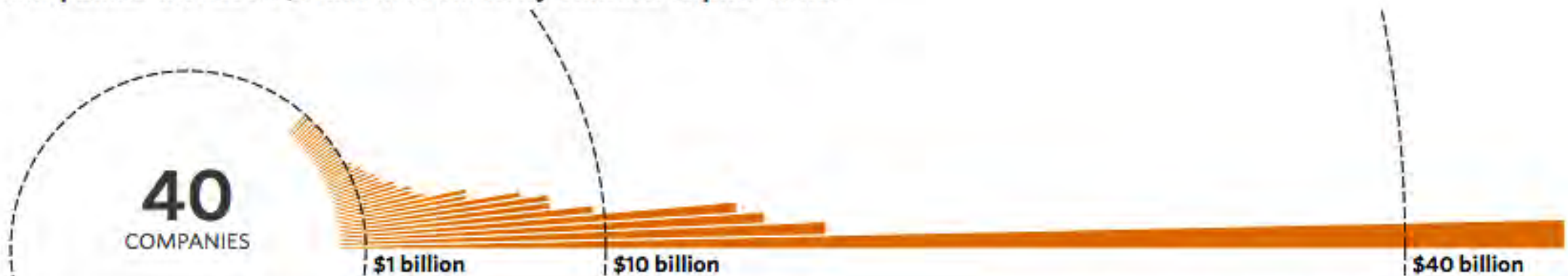
Valuations as of March 2016

Companies valued at \$1 billion or more by venture-capital firms



Valuations as of March 2016

Companies valued at \$1 billion or more by venture-capital firms



Valuations as of March 2016



OPERATIONAL FRAMEWORK

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Open
Communication

Flat
Hierarchy

Inclusive
Partnering

THE PRINCIPLES

Why "public
authorities" need a
partnering-for-
innovation scorecard
for "financial
institutions"

The Metrics



Scoring - Partnering-for-Innovation

**Real
Partner**

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

Involvement

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

Social Media

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

**Give Before
You Get**

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

Platforms

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

**Online
Footprint**

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

**Level of
Entrepreneur
Friendliness
& Trust**

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

Full Service

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

**Educating
the
Ecosystem**

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

Respect

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

Connectivity

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

**Demystifying
Confusing
Concepts**

0 - disagree
1 - moderately disagree
2 - moderately agree
3 - agree
4 - strongly agree

16

16

16

**Total Points
Available**

48 (100%)

Level of Fluidity

75% up to 100%

high

50% up to 75%

moderate

0% up to 50%

low

?



Get a partner who gets you.

“Our team at SVB are colleagues who know our business and help drive it with insight, introductions, and guidance. They are far more than just bankers.”

Dave Wang, CEO
Striiv



Starting up?

Advice, networking and banking that gets entrepreneurs.

Managing growth?

Banking for pioneering companies taking it to the next level.

Global complexity?

Corporate finance for the companies changing the world.

Need Fund Banking?

Solutions for private equity and venture funds and their investors.

Need wealth advice?

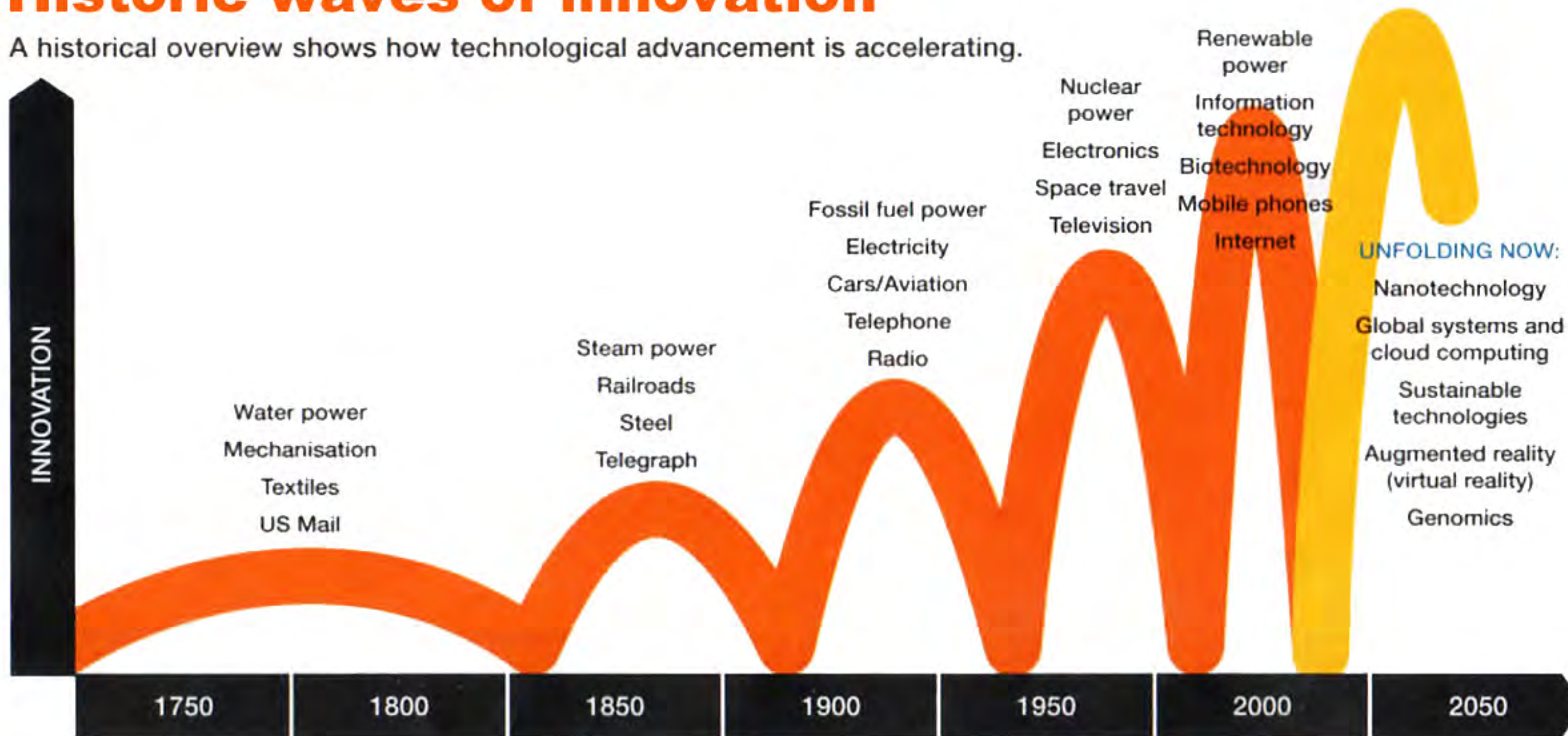
Wealth advisory and private banking for innovation leaders.

One more thing...



Historic waves of innovation

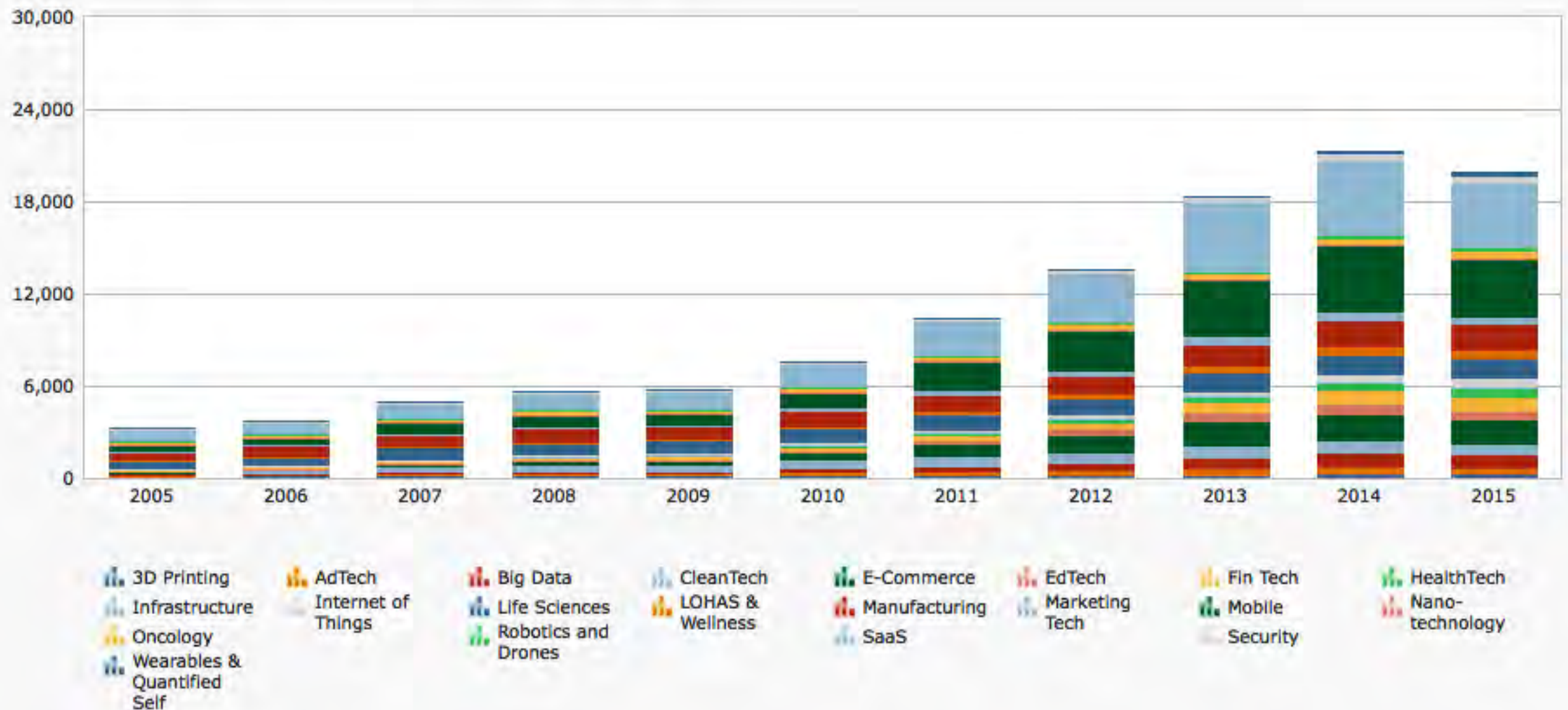
A historical overview shows how technological advancement is accelerating.



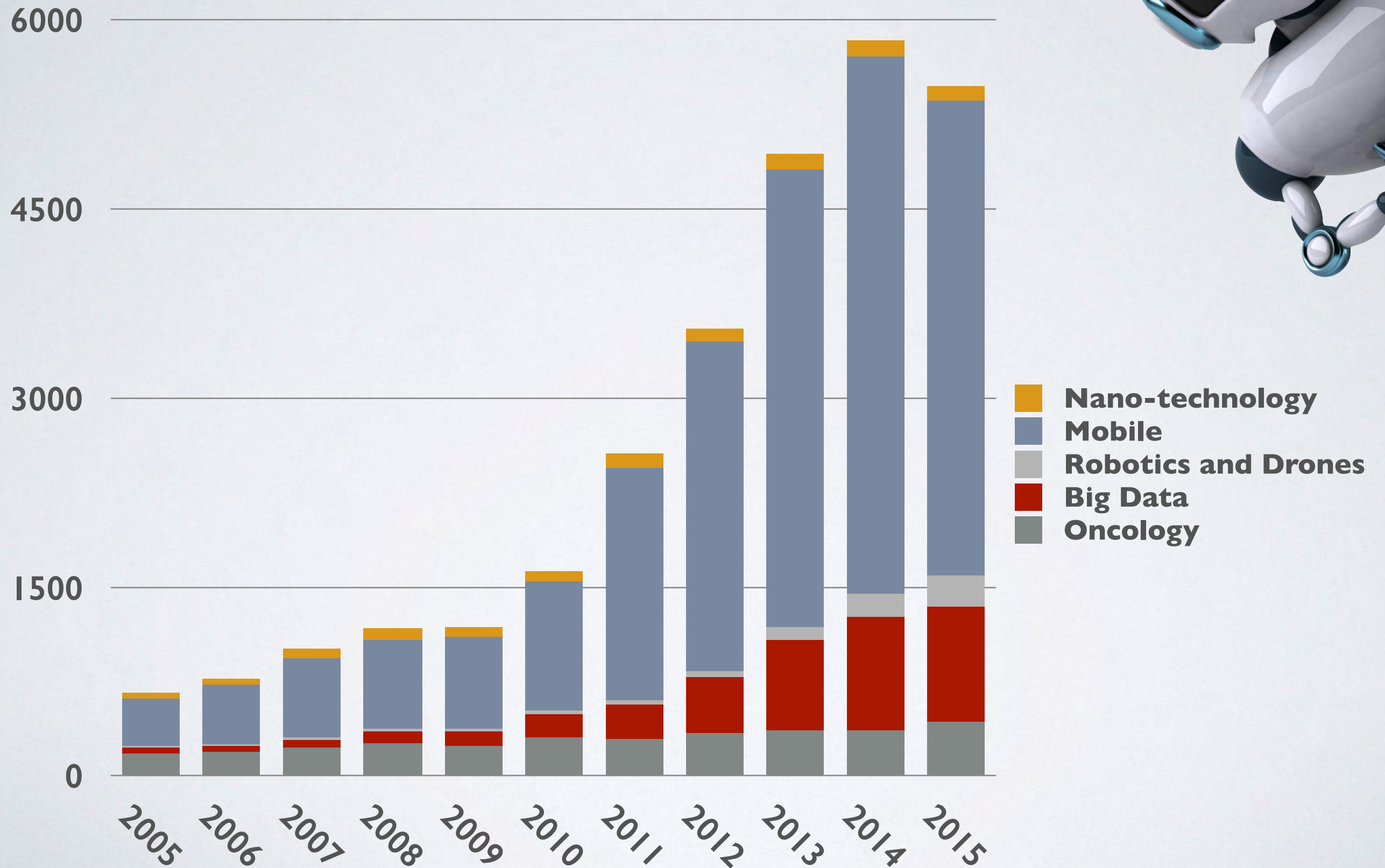
ADAPTED FROM WAVES OF INNOVATION MODEL, *THE NATURAL ADVANTAGE OF NATIONS*, K. HARGROVES AND M. SMITH. (2005)

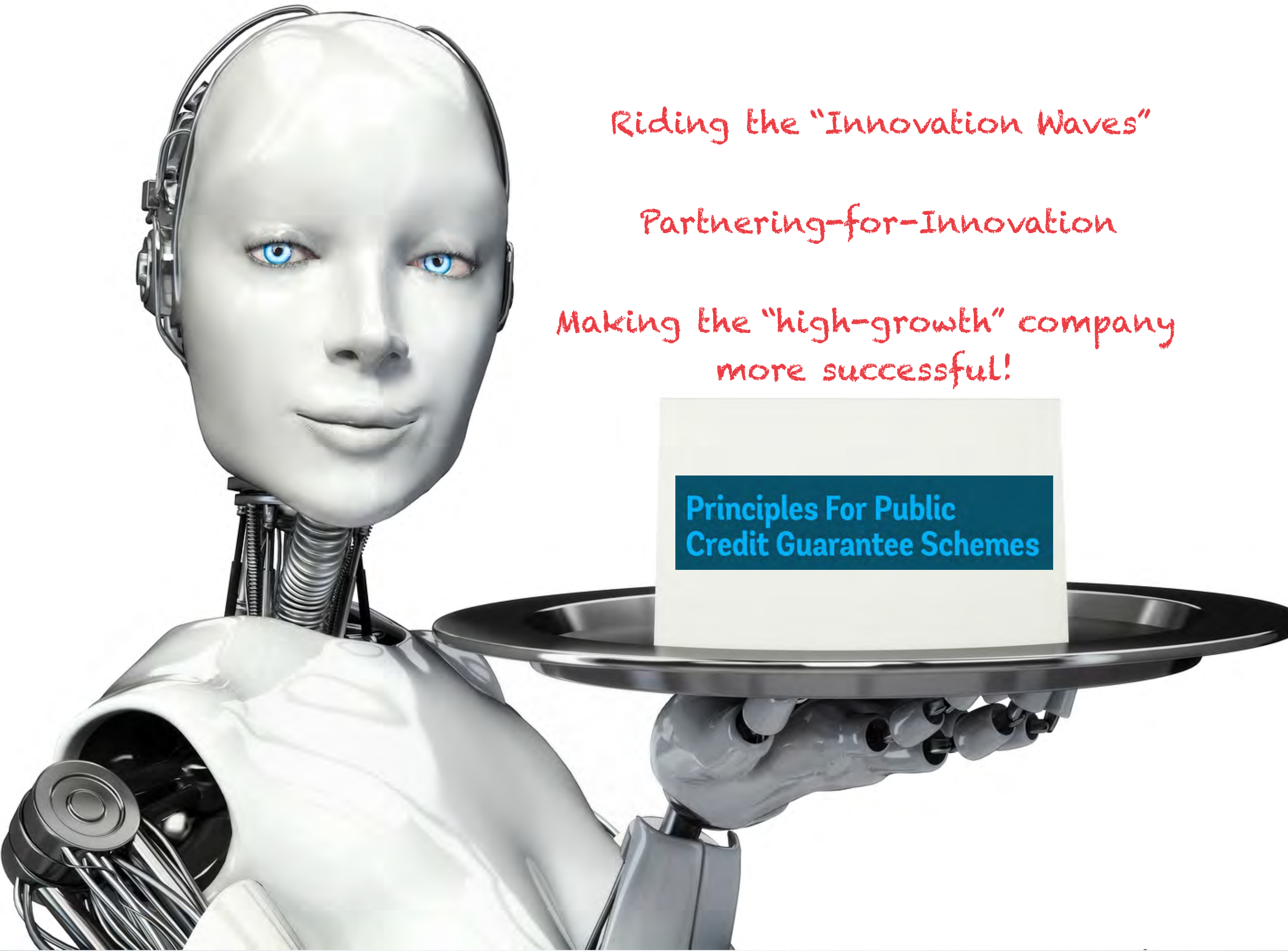
Which Sector...?

Deal Count by Industry Vertical



The Next Wave...?





Riding the "Innovation Waves"

Partnering-for-Innovation

Making the "high-growth" company
more successful!

**Principles For Public
Credit Guarantee Schemes**



e.p.m.vermeulen@tilburguniversity.edu