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ARKimedes fund raises risk capital from public

ARKimedes used guarantees and tax breaks to raise money from the general public for investment in Flemish SMEs via existing risk capital funds. Since the funds double what they receive from ARKimedes, the Flanders region will be able to inject over €200 million at a cost to the taxpayer of just €25 million. The same approach could easily be used in any region with fiscal autonomy.

European SMEs often struggle to raise the finance they need to innovate and grow. In Belgium, the risk capital market has contracted by about 40% since 2000, while funding for start-up and early-stage companies has fallen by 90%.

Named after the Greek philosopher, the ARKimedes fund leverages investment from personal investors to raise even more risk capital for Flemish SMEs.

But the general public still has money to invest. "There is enough money about. It is just a question of getting it to SMEs," says Rudy Aernoudt, head of the private office of the Flemish Minister for Economy, Enterprise, Science and Innovation. "People who invested in risk capital funds in the past were stung during the stock market crash. ARKimedes is modelled on the US Small Business Investment Companies (SBIC) programme, and aims to unlock this potential by transferring some of the risk to government."

ARKimedes offered investors two options – a 100% guaranteed fixed interest bond, or shares. More emphasis was placed on the share scheme, which gave a guarantee for 90% of the amount invested and a tax break of 35% on the first €2,500, spread over four years.

The fund is operated by PMV, Flanders' public financing body, but was offered to the public through high-street banks, supported by advertisements on radio and in newspapers. It raised €35 million within ten minutes of opening and met its €110 million target in four days.

Double your money

Altogether, ARKimedes will provide €220 million for SMEs, however. Rather than investing directly, ARKimedes will channel money to existing investment and venture capital funds co-selected by the European Investment Fund – which will have to match the amount the funds receive.

Aernoudt argues that this is a straightforward way to raise finance. "For about €25 million of public money you can inject almost ten times that amount into the development of SMEs and the growth of the local economy. The cost benefit you get from this use of public money is probably 20 or 30 times more than you might get from other initiatives."

And he sees no reason why similar schemes would not work in other European countries, or in regions with fiscal autonomy. "For the public, ARKimedes was a great investment. It had a minimum return of 2.1% (a worst-case scenario) and a more likely return of 8 or 10% (based on EVCA averages). As there is plenty of liquidity in the financial markets, schemes like this could easily be used to leverage even more."

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