

Venture Capital Market in Poland and Polish government activities

1. Venture capital market in Poland

The venture capital (VC) market was established in the early 90's, but venture capital funds (VC funds) are still minor supplier of the capital for SMEs, especially for those that are at the seed and start-up stages.

The total volume of VC investments in 2003 reached EUR 2,2 million which was 6% of total investments made in the PE/VC market. Start-up investments amounted to EUR 1,6 million and seed capital investments were slightly above EUR 2 million.

There was no single transaction carried by VC in 2004 and the only investments in 2005 which amounted to 0,66 mln EUR applied to start-ups.

At the same time (in 2005) total investments made by private equity (PE) including venture capital investments in Poland amounted to EUR 154 million, increased by 20% compared to 2004. The average size of PE/VC investment grew from EUR 3 million to EUR 4,8 million in 2005. It shows that the number of funds (that invest mainly in the seed and start-up phase) that offer financial support for covering the financial gap is constantly decreasing. VC funds operating on the market are unwilling to invest in risky undertakings due to high fixed costs and high risk of projects implemented at early stages of enterprise development.

2. Activities taken by the Polish government in the scope of attracting seed capital funds – pilot project 2004-2006 (Attachment 1)

The market gap in financing of high-risk undertakings (highly innovative, at the seed and start-up stage) which limits SMEs to obtain the necessary capital for investments reaches between 0,1 -2 mln PLN and 8-10 mln PLN. The problem with gaining capital for SMEs (especially at the early stages of development) justified the need for public intervention that would encourage investors to make capital investments in companies at early stage of development.

For the financial perspective 2004-2006, the Ministry of Economy prepared a pilot project supporting establishment and development of seed capital funds in Poland.

Call for proposals under the SOP Improvement of Competitiveness of Enterprises was carried out between December 2006 and February 2007. Polish Agency for Enterprise Development (PAED - Implementing Authority) received 12 applications of the total amount of PLN 117, 54 million. All the applications fulfilled formal and technical-economic criteria set for the sub-measure. Based upon detailed criteria 6 applications were recommended for total amount of PLN 65,86 million. The other 6 funds failed to fulfill high level of experience criteria of the fund's management or due to lack of any experience of managers in private equity/venture capital investments. On 30 March Managing Authority officially approved a list of funds that should receive public support under the sub-measure 1.2.3:

1. **IIF Seed Fund Ltd.** (PLN 10, million);
2. **Business Angel Seedfund Ltd.** (PLN 17 million);
3. **MCI.Bio Ventures Ltd.** (PLN 10 million);

4. **BIB Seed Capital** Ltd. (PLN 10 million);
5. **Spółka Zarządzająca Funduszami Kapitału Założkowego SATUS** Ltd. - **Fundusz Kapitału Założkowego** (PLN 10 million);
6. **Silesia Fund** Ltd. (PLN 8,4 million).

3. New financial perspective 2007-2013 (Attachment 2)

Based on the pilot project (implemented in 2004-2006) the Ministry of Economy decided to continue the support for SMEs at early stages of development through acquisition of shares or bonds by capital funds for financial perspective 2007-2013.

This will allow increasing the number of investments in innovative undertakes, both technological and organizational.

The measure covers support for venture capital funds through capitalizing VC and refunding partial costs of fund management and will be implemented by National Capital Fund that was established in 2005¹. The total budget for the measure reaches EUR 180 million.

¹ The fund of funds will be selected in accordance with Article 44 of Council Regulation No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999.