

The Dutch Risk Capital Market and the Role of Government Policies

National Policy Report

THE NETHERLANDS

ICE Working Paper

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About the International Consortium on Entrepreneurship (ICE)

The International Consortium on Entrepreneurship (ICE) is a consortium of leading entrepreneurship countries (Canada, Denmark, Finland, the Netherlands, Norway, Sweden and the U.S) working to improve the analytical foundation for entrepreneurship policies.

The members decide biannually on new entrepreneurship projects.

ICE projects are not aimed at producing new data, but rather to critically demand accurate entrepreneurship data from other respectable sources designed to meet the specific needs of the member countries.

The consortium also initiates comparative policy studies in order to improve the understanding of the functioning of entrepreneurship policies and compare them across countries.

The ICE Provides a Foundation for Fact-Based Entrepreneurship Policies.

This report does not necessarily reflect the views of the Dutch Ministry of Economic Affairs.

EXECUTIVE SUMMARY

This national report summarises the findings of the risk capital market policy mapping project conducted in the Netherlands by FORA, a policy research unit under the Danish Enterprise and Construction Authority in collaboration with the Dutch Ministry of Economic Affairs.

The policy mapping project was carried out in the spring of 2007 within the analytical framework developed by the *International Consortium on Entrepreneurship (ICE)*. The project compares the Dutch risk capital market activities to the public policy priorities in the area.

A Large and Growing Dutch Private Equity Market...

Since its departure in the early 1980s, the Dutch risk capital market has increased its investment activity substantially amounting to close to €20 billion in capital under management in 2006. The total private equity under management initially peaked in 2000 followed by a severe decrease due to the economic downturn. Following this, the Dutch market has increasingly caught up. Today, the private equity market in the Netherlands is booming and remains large when comparing invested private equity capital in % of GDP with other European countries.

...But With Possibly Decreasing Risk Capital Activities...

However, while Dutch investors have increased their overall investment activities, they are gradually placing more of their capital with expansion and buyout firms. In other words, the Dutch investors have “moved up” leading to shrinking investment activity in the early-stage segment, which in turn could hamper the development of entrepreneurship in the Netherlands.

Already in 1999, the total amount of invested private equity grew while investment in early-stages decreased. This development has continued and left the market for early-stage financing vulnerable and shattered. Hence, although the overall Dutch private equity market is still large, it is largely dominated by bigger investment in the later stages.

...Re-Assuring Governmental Involvement in Early-Stage Financing

Responding to the declining early-stage or “risk capital” investment activities, the Dutch government has in recent years introduced a number of new policy programmes to reassure additional private investment in young, entrepreneurial and potential high-growth firms.

It is difficult to conclude to what extent there is a financing gap in the Dutch market for risk capital. Such conclusions would require a more in-depth analysis of the market’s demand side and the entrepreneurs’ actual need for risk capital and then comparing this with the total supply of risk capital in each segment of the risk capital market.

However, there are signs that the Dutch investors’ movement from early to later stages could have left the risk capital market under-invested. Nevertheless, there is plenty of available and non-invested capital in the Dutch market, and some of this could be redirected back into the risk capital segment. The latest policy efforts by the Dutch Ministry of Economic Affairs already seem to have initiated this reorientation among Dutch investors.

By providing public guarantee schemes and co-investment programmes, the government aims at bridging the financing gaps by increasing the supply of early-stage capital. Much of the policy efforts have been concentrated around fuelling the supply of capital and redirecting the capital back to the earlier investment stages. At the same time, it seems that less attention has been directed towards ensuring that the demand for capital actually meets

the investors' investment preferences. Consequently, according to interviews with domestic investors, an increase in early-stage investment in the future is not a given fact.

Moreover, the movement of domestic investors away from early-stage investment to becoming more active in buy-out funds has apparently led to fewer professional investment managers in the early-stage segment compared to earlier years. Therefore, it could be necessary to strengthen the human capital among early-stage investors.

In order to enhance policy learning, the results of the Dutch policy mapping will be compared to similar national policy mappings in the other ICE member countries. The final outcome will be summarised in the "ICE Risk Capital Policy and Data Handbook" prepared by FORA in collaboration with the OECD in the spring of 2008.

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PREFACE

In October 2006 the *International Consortium on Entrepreneurship* (ICE) decided to investigate and compare risk capital market activities, public policies and data across the seven ICE countries.¹ It was agreed upon that the first ICE policy mapping of risk capital market policies should be conducted in the Netherlands as a pilot study.

Based on national mappings of public policies and risk capital data, the overall ICE risk capital project aims at comparing policies implemented to strengthen risk capital activities across countries and further exploring data and definitions applied by policymakers, professional association surveys and risk capital researchers in the ICE countries (see Box 1 for more details).

Box 1: The ICE Risk Capital Policy and Data Project

In order to improve the understanding of risk capital markets, government policies in the field and existing data and definitions of risk capital across countries, the *International Consortium on Entrepreneurship* (ICE) has initiated the risk capital market project. This project sets out to compare risk capital policies and data across seven ICE countries including Canada, Denmark, Finland, the Netherlands, Norway, Sweden and the U.S.

Policy Track and Data Track

The ICE risk capital market project is organised around a policy track and a data track. The policy track is organised by the Danish research entity FORA and strives at enhancing the policy makers' understanding of risk capital and public policies applied in various countries. Policy studies will be conducted in each ICE country and will provide a platform for a discussion of various policy approaches, which will be summarised in a final report. The data track is being conducted by the OECD and aims at mapping and comparing existing data and definitions of risk capital terms across regions. As a result, an overview of existing risk capital definitions comparing similarities and differences will be provided including stages, investors types and so on.

The ICE Risk Capital Policy and Data Handbook

The final output of both tracks will be consolidated into the ICE Risk Capital Policy and Data Handbook in 2008. It will provide an overview of risk capital policy actions and guidelines for further work with risk capital data and definitions.

Following this first risk capital market policy study similar policy studies have been carried out in Canada and Denmark and more policy mappings are currently being prepared in Finland, Norway and the U.S.

The risk capital market policy mappings are based on the Investment Policy Model (IPM) developed by the *International Consortium for Entrepreneurship*. The investment model suggests a number of policy categories, which are viewed as imperative to the development of risk capital markets. Each policy category lists a number of specific policy areas in which the government could play a role, for instance by improving framework conditions for risk capital through public co-investment schemes, loans and equity guarantees, tax policy or strengthening human and social capital among investors.

¹ The International Consortium on Entrepreneurship (ICE) includes policy makers and researchers from leading entrepreneurial countries including Canada, Denmark, Finland, Norway, the Netherlands, Sweden and the United States.

This Dutch policy report is based on the ICE risk capital market policy questionnaire filled out by policymakers in the Dutch Ministry of Economic Affairs. Moreover, it draws on information from 23 interviews conducted with Dutch investors, entrepreneurship organisations and other stakeholders throughout the month of March in 2007.

The objective of the report is to investigate the relationship between the Dutch risk capital market's structure and activities and the country's policy priorities in this area. In addition, it aims at providing an overview of past and current risk capital policy programmes. Such an overview includes a grouping of government policies divided into demand and supply side oriented policies and a mapping of policies according to year of implementation.

The report does not evaluate concrete policy initiatives implemented by the Dutch government, nor does it provide concrete policy recommendations for the Dutch government. Although the report does put forward some domestic policy issues, it is ICE's view that actual policy recommendations should be based on comparisons of risk capital market policy efforts in different countries rather than on a single-country study alone.

Hence, once an additional number of risk capital policy studies have been carried out in other ICE countries, some prime cases, good practices and less successful policy experiences will be brought forward. These findings will be presented in the final ICE Risk Capital Policy and Data Report in the summer of 2008.

This report has been prepared for the country members of the *International Consortium on Entrepreneurship* by FORA, a policy research unit under the Danish Enterprise and Construction Authority in close collaboration with the Ministry of Economic Affairs in the Netherlands.

The authors (Glenda Napier and Jeroen van den Heuvel) would like to thank all of the interviewed persons in the Netherlands for their valuable and unique input to this project (see the full list of interviewed persons in Appendix A). We would also like to send an extended thanks to David Lauwen and the Dutch Venture Capital Association (NVP) for their valuable contribution regarding access to Dutch risk capital data.

INTRODUCTION

Access to risk capital through effective capital markets is fundamental to the development of vibrant entrepreneurial climates.

However, numerous studies have shown that capital markets continuously fail to provide sufficient sources of risk capital to young investment-seeking entrepreneurial firms (Sohl 2003; HM Treasury 2003; Harding et al 2003; Vækstfonden 2004). Very often this shortage of risk capital is referred to as the 'financing gap'.

Since the early 1980s, governments have been involved in fuelling risk capital activities aimed at improving the overall framework conditions for entrepreneurship. While governments have addressed the financing gap by introducing a variety of public policies and programmes, the question is to what extent these policies have addressed the risk capital market – and demand and supply side issues – efficiently and effectively.

For instance, if demand (entrepreneur) side issues predominate, any policy effort aiming at improving the supply (investor) side could distort the market and vice versa. Demand and supply side issues could also vary across countries and yet similar public policy instruments are being used. Moreover, are there any major differences in the ways that leading risk capital countries have prioritized their policies efforts?

As with the other ICE risk capital market policy studies, the objective of this report is to investigate the relationship between the risk capital market activities and the government's policy priorities in the area. In addition, it aims at providing an overview of past and current risk capital policy programmes implemented in the Netherlands. Furthermore, a cross-country comparison of similar current and future risk capital market studies carried out in the other ICE member countries will be presented in a synopsis policy report in 2008.

The Investment Policy Model

Risk capital activities vary between countries, and different governments have applied different policies to fuel investment in high-risk entrepreneurial firms.

In this report, the Dutch public intervention in the risk capital market is examined. The Dutch risk capital policy mapping is based on the analytical framework as depicted in the Investment Policy Model. The ICE has developed the IPM, which lists some possible policy areas through which governments can intervene in the risk capital market. It should be noted that the IPM is not meant to make recommendations about which policies should or should not be used by governments in their intervention, nor does the model set out to evaluate implemented policies. The aim of applying this model is mainly to map and organise the range of possible policy actions that are found in the ICE countries and to compare similarities and differences in these actions.

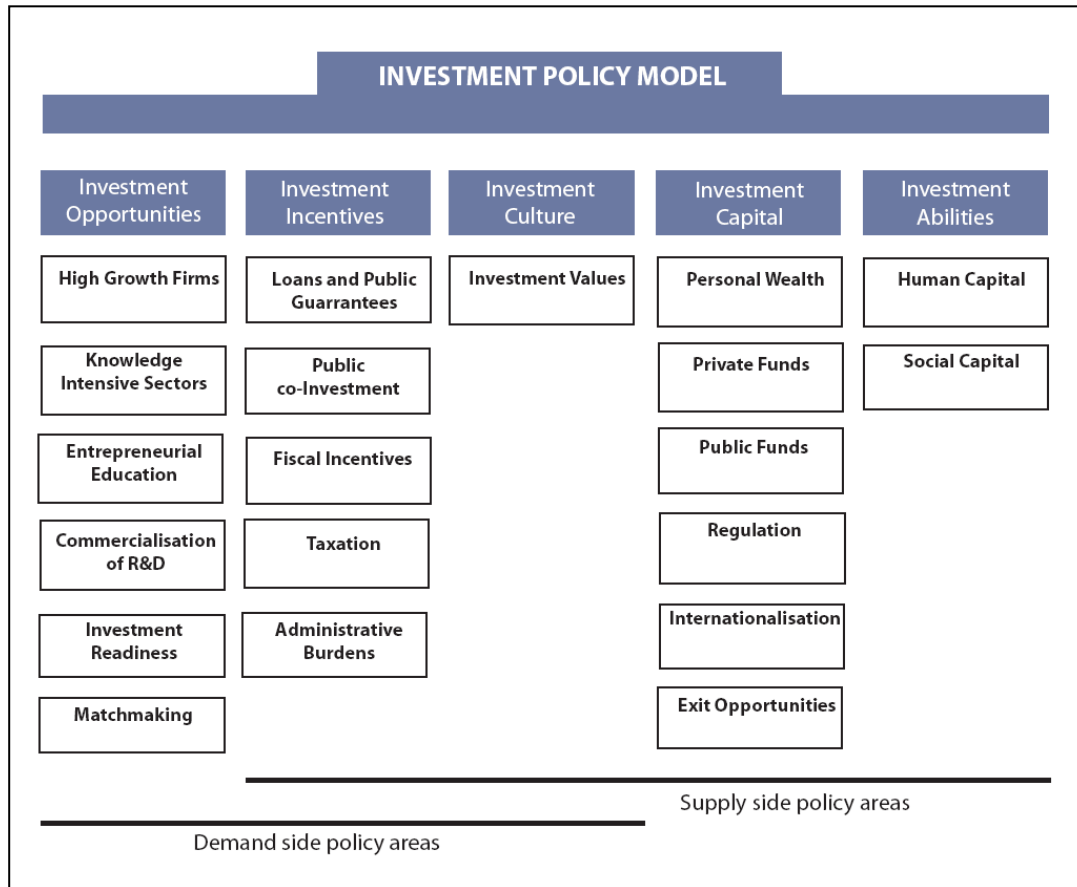
According to the Investment Policy Model, a country's risk capital activity can be influenced mainly through five types of policy categories (and 20 policy areas) including:

- Investment Opportunities (High Growth Firms, Knowledge Intensive Sectors, Entrepreneurial Education, Commercialisation of R&D, Investment Readiness, Matchmaking)
- Investment Incentives (Loans and Public Guarantees, Public Co-Investment, Fiscal Incentives, Taxation, Administrative Burdens)
- Investment Culture (Investment Values)

- Investment Capital (Personal Wealth, Private Funds, Public Funds, Regulation, Internationalisation, Exit Opportunities)
- Investment Abilities (Human Capital, Social Capital).

The five policy categories in the Investment Policy Model can be divided into supply or demand side categories depending on their orientation towards either the entrepreneurial firms (demand side) or the investors (supply side). While some policies address only the entrepreneurial firms or the investors, others can be used to target both the supply and demand sides.

Table 1: The Investment Policy Model*



* Note: The Investment Policy Model does not provide a complete overview of the total set of policy actions used to address the field of entrepreneurship. It focuses on the set of possible policy actions related to the development of risk capital activities. The possible policy actions are organised around five policy categories including investment opportunities, investment incentives, investment culture, investment capital and investment abilities.

Source: FORA 2006

According to the Investment Policy Model, governments can target and influence the demand for and supply of risk capital through the following five policy categories:

1. Investment Opportunities targets only the demand side of the model – the entrepreneurs requiring capital for their ventures. This policy category includes policy areas aiming at strengthening the demand for capital. This includes enhancing a firm's growth potential, knowledge insensitivity, commercialisation of R&D, entrepreneurial education, investment readiness of investment-seeking firms and

strengthening matchmaking opportunities between entrepreneurs and investors. In this way, governments can fortify the demand side by making it more investment-ready and hence more attractive to investors.

2. Investment Incentives can influence both the demand and supply side. The category represents the benefits as well as costs associated with making an investment. Areas that increase the average return on investments like public guarantee schemes and public co-investment schemes and fiscal initiatives represent the benefits. The costs are represented by taxation and administrative burdens. Both factors could reduce the return on a given investment and thereby reduce the incentives to invest.
3. Investment Culture is related to a country's investment culture and tradition and is viewed as relevant to both the demand and supply side. Governments may enhance a certain investment culture by supporting investment campaigns and other awareness activities for entrepreneurial firms as well as investors.
4. Investment Capital is merely an investor category and represents the actual supply of risk capital, which may come from various sources such as private individuals, public investors, private and institutional funds. Furthermore, informal and formal types of investors can supply the capital. This policy category includes the size of the available capital and the regulatory framework affecting the supply of capital. In addition, the capital can be raised among national and international investors. Governments can influence the size of available risk capital by providing incentives for certain investor types to engage in the market or by simply providing capital themselves. Finally, exit possibilities are also included as they represent a source of capital. Promising exit opportunities affect the investor's willingness to provide capital in the first place.
5. Investment Abilities refer to the investor's human and social capital, including investor background and access to investor related networks and associations. Governments may influence the investor's investment abilities through training, courses and diverse networking activities.

The national policy mapping will show to what extent a government is currently active in one or more of the policy categories and areas. It is not given that governments should play a role in any/all of the policy areas and none of the policy areas are initially viewed as being more efficient than others in the national reports. However, by comparing the policy experience from all the ICE policy mappings, the different governments' policy approaches are discussed in the final ICE Risk Capital Policy and Data Handbook.

The Dutch Policy Mapping

This national policy report maps and discusses the Dutch government's experience in the area of risk capital policies. Being one of the first active markets to develop in Europe, the Dutch risk capital market has been active for a longer period compared to most other European countries. A broad variety of public risk capital policies and instruments are therefore expected to be identified in this study. In addition, some learning points from a more "experienced" market are also expected.

Over the past decades, the Dutch government has increasingly developed policy initiatives and implemented policy instruments in the area of finance and capital market activities. Due to the active involvement of the Dutch government and the resources that have been allocated to this policy area, the individual instruments are regularly evaluated by the Ministry of Economic Affairs together with independent external organisations. Also, initiatives have been taken to examine the capital market from particular perspectives. One example is the

report on SME Financing (2007), which focuses on the finance gap and SME financing. Also, various interest groups publish reports providing information about particular topics, such as the report published by the Dutch Venture Capital Association (NVP) and PriceWaterhouseCoopers on the Dutch private equity market in 2006.

In this context, the ICE risk capital policy mapping employs a different approach. The focus is not directed towards individual instruments, nor is a particular perspective taken. The added value of the ICE risk capital policy mapping lies in its broader scope, examining the risk capital market as a whole and the role of government policies therein. Furthermore, the final report of the ICE risk capital policy and data project will present a comparison of the results of identically structured studies in other countries. Moreover, the final report provides insights on cross-national differences between the structure of the capital markets and the different roles and approaches that governments apply.

Outline

The report is structured as follows. First, it shows the development of the risk capital market in the Netherlands and compares the Dutch development with developments in other ICE countries. Following this, the results of the policy mapping are presented and the government's policy priorities related to the development of the risk capital market are discussed before concluding. A more thorough description of the single policy tools can be found in the Appendix.

A PROGRESSIVE DUTCH RISK CAPITAL MARKET

Introduction

In order to understand the relationship between the development of risk capital activities in the Netherlands and the Dutch government's policy priorities in the field, developments in the Dutch risk capital market are described below.

The description of the Dutch risk capital activities includes the following market elements:

- The development of the overall Dutch private equity market
- Types of investors
- Investment stages
- Internationalisation
- Informal investments
- Average investment and financing gap

The market description is based on data from professional association surveys in the Netherlands (Dutch National Venture Capital Association) and across Europe (EVCA).

As much of the available and internationally comparable data is collected and presented as private equity covering both seed, start-up, and expansion (referred to as 'risk capital' in the text) as well as later stage (referred to as 'buy-out' in the text – NOT risk capital), a clear distinction between risk capital and buy-out data is not always obtainable (see also Box 2).

However, whenever possible, data sources covering only the risk capital segment are used.

Investment activities in the Netherlands are compared to investment activities in the UK, Sweden and Denmark. The UK and Sweden are among the leading (% of GDP) private equity countries in Europe. Furthermore, both Sweden and Denmark are ICE members and therefore relevant to include in this Dutch policy study.

Finally, the informal private investors such as business angels are not included in the abovementioned description. This informal segment of the risk capital market is discussed subsequent to the overview of the formal risk capital activities. The reason for this is that none of the EVCA surveys includes the informal investment segment, and available data is merely based on varying national surveys of informal investors.

Box 2: Defining Private Equity, Buy-Out, Venture Capital and Risk Capital

Private Equity

Private equity refers to equity invested in non-quoted firms. Private equity includes venture capital, growth capital, mezzanine capital and buy-out. Private equity can be used for firms to expand working capital, to develop new products and technologies, to make acquisitions etc. Private equity can also be used for succession in family firms, management buy-out and buy-in of a company. The ICE refers to private equity as covering the full range from seed to buy-out capital

Buy-Out

Whereas private equity covers the whole range of capital sources, the buy-out segment refers only to the later stages of investment (everything after expansion). The ICE follows this definition of buy-out.

Venture Capital

To many professional associations venture capital is a subset of private equity and refers to equity investments made for the seed, start or expansion of a business. This type of capital is typically used to invest in new and/or growth and/or high-tech businesses with the potential to develop into significant economic contributors. Venture capital investments are usually high risk, but offer the potential for above average returns. Venture capital often includes managerial and technical expertise to the firm and venture capitalists usually have a say in company decisions. Venture capital is an important source of equity for start-up companies – with limited operating history – which cannot raise funds through a debt issue, and is essential to innovative, often high tech firms.

However, there is some confusion when using the term venture capital, as some professional organizations refer to venture capital meaning later stage capital. Due to this uncertainty, this ICE project does not use the term venture capital, but refers to investment in seed, start-up and expansion as “risk capital”.

Risk Capital (ICE Definition)

Despite efforts to agree on the term venture capital, in many occasions it still differs across regions and countries. Therefore, this ICE project refers to investment in seed, start-up and expansion stages as “risk capital” including investment made by public investors, business angels and institutional funds.

Risk Capital Market Activities

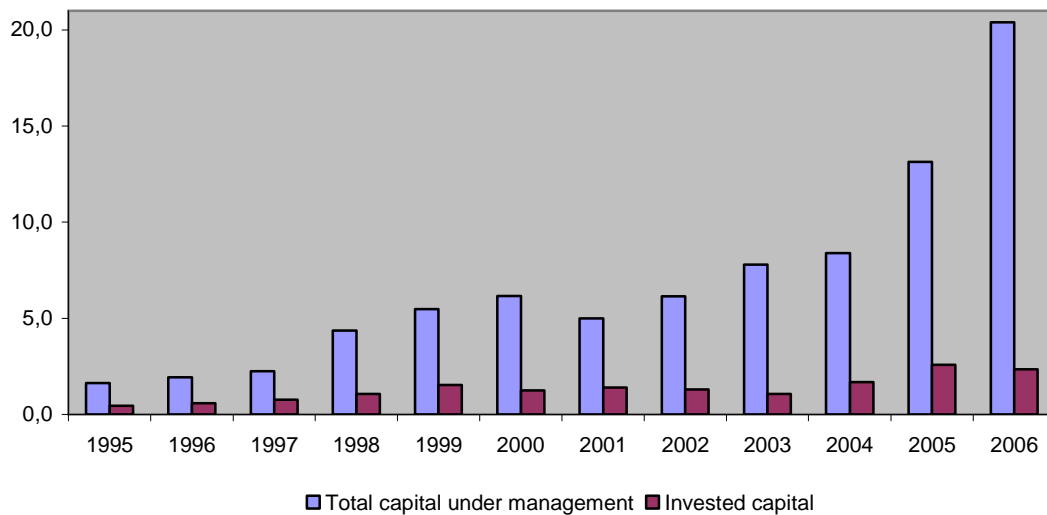
To assess a country’s risk capital market, one should not only look at the total capital under management and invested capital, but also include the different stages of investment, capital sources, sectors etc. A mature and well-functioning capital market will be able to supply capital throughout the different stages of development from early stages including seed, start-up and expansion till later stages including buy-out. In this study, risk capital activities are understood as investment activities in seed, start-up and expansion stages.

The Dutch Market for Risk Capital

The Dutch risk capital market developed as one of the first European markets in the 1980s. In particular, the risk capital market was strengthened by some of the U.S. biotechnology firms' presence in the country in the early 1980s. As these firms were funded with risk capital seed money, their success inspired the Dutch market to increasingly finance their firms in similar ways.

Particularly, the biotechnology industry took advantage of the new opportunities, and adapted the concept of growing businesses from university research and later funding them with risk capital.

Figure 1: Dutch Private Equity under Management and Invested Capital, 1995-2006, € billion

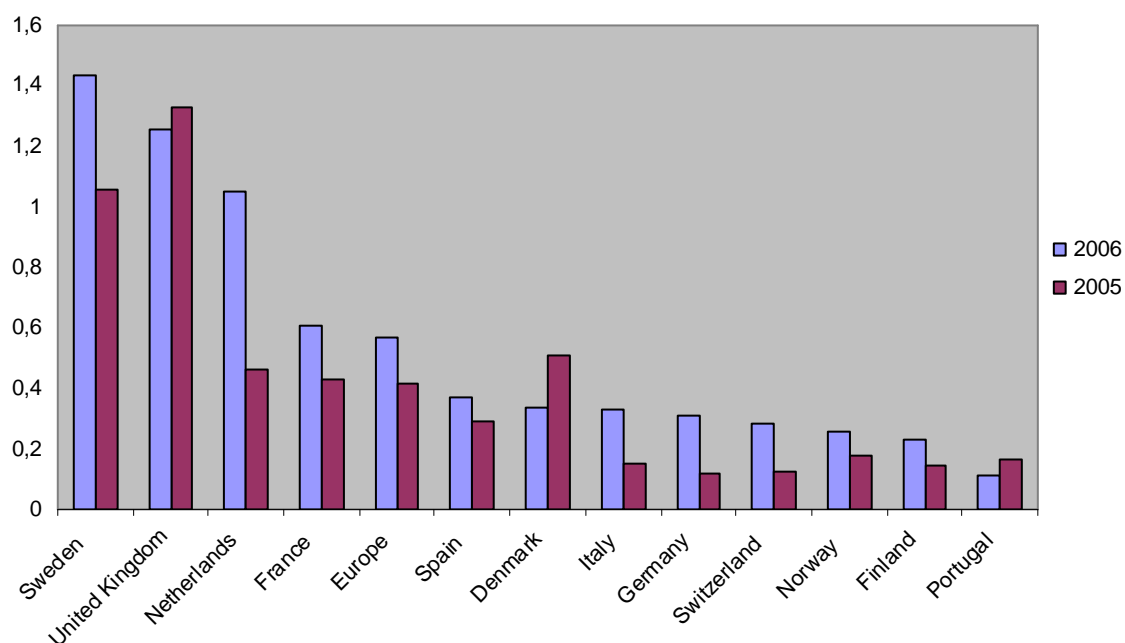


Source: NVP, 2007

In Europe, the Dutch and UK risk capital markets developed in similar ways. However, as with most other markets, the 2001 economic downturn affected risk capital activities in the Netherlands and as a result the market saw fewer funds raised. However, since the economic downturn, the total capital under management has increased, while the level of invested capital has been more or less constant (Figure 1). Total capital under management defines all funds raised by the total group of investors in Netherlands of which the total capital invested is a subcategory. The growing gap between capital under management and invested capital is likely to be explained by the fact that investors have been a bit more cautious with making new investment.

Evidently, the Netherlands is currently performing quite well when comparing private equity activities across European countries (Figure 2).

Figure 2: Private Equity across European Countries (as % of GDP)



Source: EVCA, 2006; EVCA, 2007

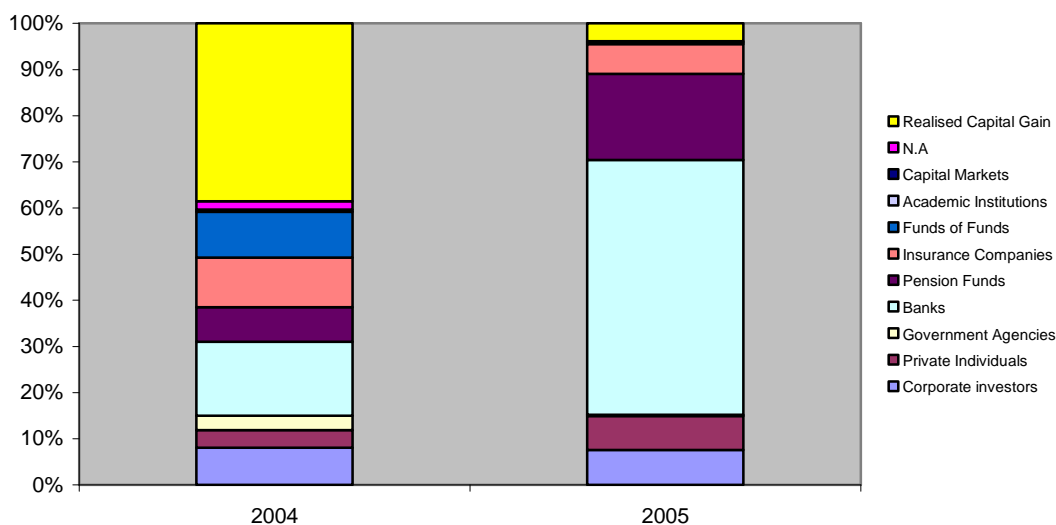
In 2005, 0.465% of GDP was invested in private equity in the Netherlands (Figure 2). The country saw a significant increase in private equity investment compared to the previous year. Total investment increased by 40% from €1.7 billion in 2004 to €2.3 billion in 2005 (EVCA, 2006). In 2006 invested private equity increased and reached more than 1% of GDP resulting in the Netherlands ranking third among European countries in terms of private equity investment. In 2006, only UK and Sweden had higher investment activities.

Types of Investors

The type of investors providing back-funding for private equity and risk capital funds is an important indicator for the risk aversion among investors in a given market. Generally, back-funding investors such as institutional investors, governments and others provide capital to funds, which then manage the capital and invest it in investment-seeking firms. The investors providing sources of back-funding therefore very often don't invest directly themselves.

Nevertheless, different types of back-funding investors have different degrees of risk aversion and could therefore have an impact on the general risk taking behaviour in the market.

Figure 3: Private Equity raised by Type of Dutch Investors (% of amount raised)



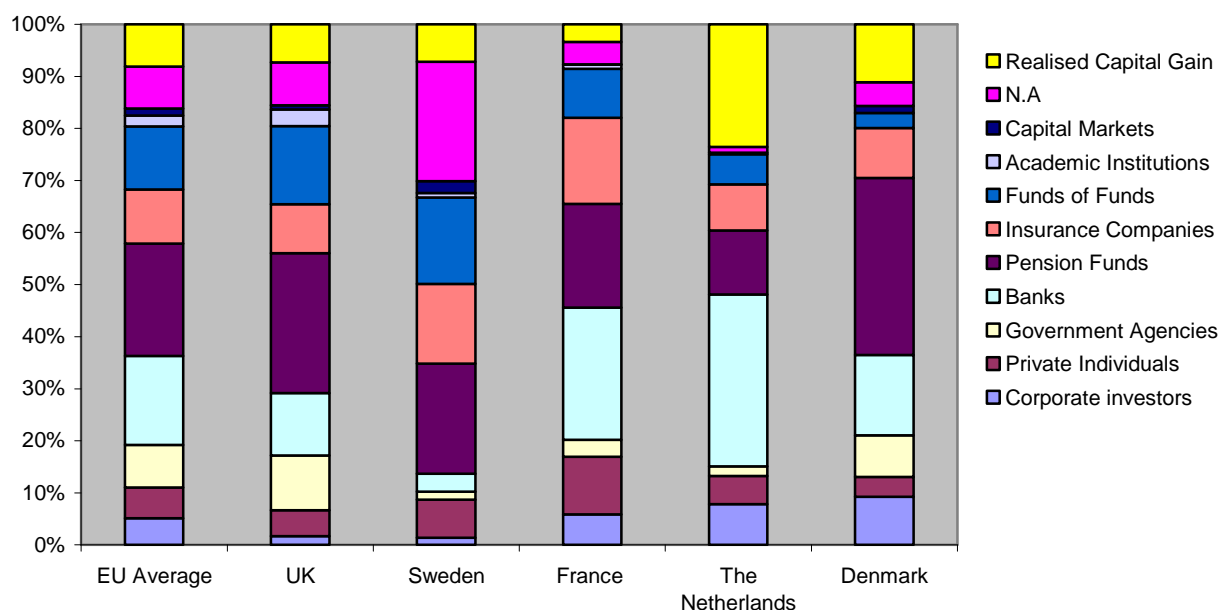
Source: EVCA, 2006

In the Netherlands, realised capital gain (gains from previous investment) was the main source of raised capital in 2004, which presumably reflects a fairly high return on investment in previous years. In 2005, banks increased their investment volume and thereby constituted the largest source of finance in the Dutch market (Figure 3). However, banks tend to be more risk adverse when investing, and often prefer later stage investment activities.

According to Figure 3, the role of the Dutch government as a source of private equity including risk capital was limited in 2004 and virtually non-existing in 2005. However, in late 2005 and onwards the Dutch Ministry of Economic Affairs established 12 new early-stage funds through the TechnoPartner Seed programme (with a maximum amount of investment capital per fund of €8 billion) financed with 50% public and 50% private capital.

These co-investment funds will have a direct impact in the market. Following the regulations that introduced the funds, they will invest in early-stages and new NVP and EVCA figures for Government Agencies in the Netherlands are expected to reflect this development in the coming years. The requirement for each fund is to have an average amount investment per deal of €800.000.

Figure 4: Private Equity Raised across Europe, 2004-2005 (% of amount raised)



Source: EVCA, 2006

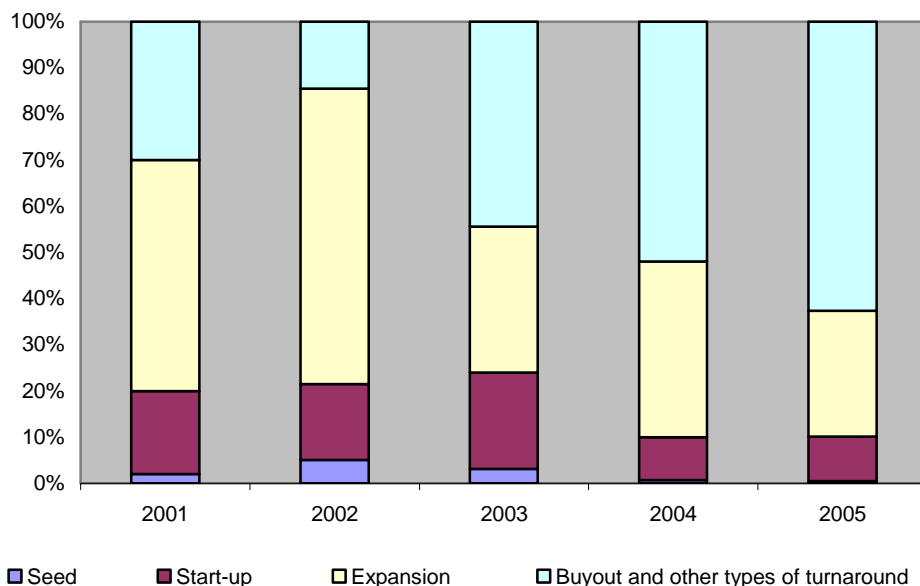
When comparing the Dutch sources of raised capital with sources in other countries in 2004-2005, it is evident that government agencies play a greater role for the European average, the UK and Denmark compared to the Netherlands (Figure 4).

In addition, whereas pension funds seem to be more active in other countries, banks are far more important as back funding sources in the Netherlands than in other comparable markets.

Investment Stages

A country's investment volume in different stages (seed, start-up, expansion and buyout) can indicate the maturity of the risk capital market. For instance, the more risk capital investment (seed, start-up and expansion), the more investors are obviously willing and prepared to handle risky businesses. On the other hand, the more buy-out investments, the more risk-averse investors generally are assumed to be.

Figure 5: Investment Stages in the Netherlands (% of total number of investments, 2001-2005)

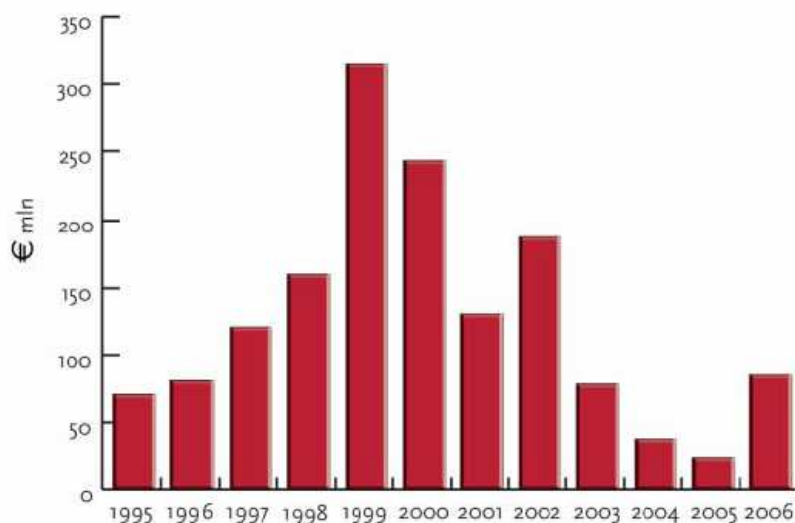


Source: NVP, 2004; NVP, 2006

Risk capital investments used to be strong in the Netherlands. According to the Dutch National Venture Capital Association (NVP), 70% of the total number of private equity investments was directed into risk capital investment in 2001. This number topped for the first time in 1999 and again in 2002 with almost 90% of the investment directed in risk capital firms (Figure 5).

However, from 2003 and onwards the Dutch risk capital market is largely dominated by buy-outs. In 2003, the buy-out segment (buy-out and other turnarounds) attracted 45% of total number of investments against 15% the year before. This number increased to 65% in 2005 leaving only 35% of investment being allocated to seed stage, early-stage and expansion firms.

Figure 6: Invested Risk Capital in the Netherlands, 1995-2006

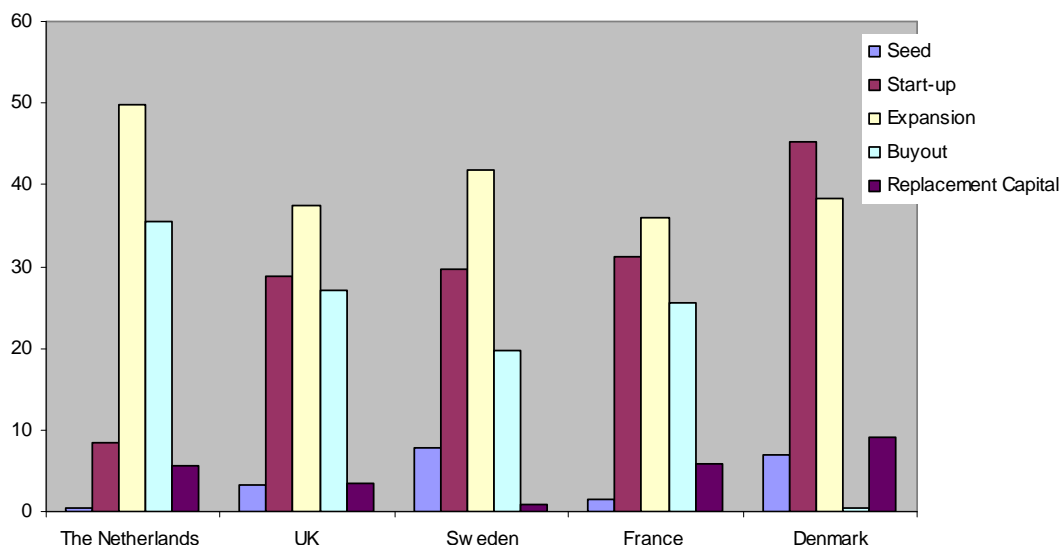


Source: Ministry of Economic Affairs, 2007

The Dutch risk capital market appears to have changed its risk profile since the late 1990s. From being very active in early-stage financing, it comes across as immature in terms of early-stage investment today even when comparing absolute figures for investment over years. After a slowdown from 2002 through 2005, it seems that invested risk capital caught up in 2006 (Figure 6).

A similar development away from risk capital has occurred throughout other risk capital markets in Europe – although not quite as strong in all of them (Figure 7).

Figure 7: Investment Stages across Europe, 2004-2005 (average % of total number of investment)



Source: EVCA, 2006

When comparing the relative distribution of investments per stage in 2004/2005 the Dutch buy-out activity is larger than buy-out activities in the UK, Sweden, France and Denmark (Figure 7). Furthermore, the Dutch seed and start-up activities appear smaller in comparison to these countries. This is also evident when comparing actual amounts invested in risk capital (Table 2).

Table 2: Investment Stages Across Europe 2004-2005 (Average Invested capital, in € x 1000)

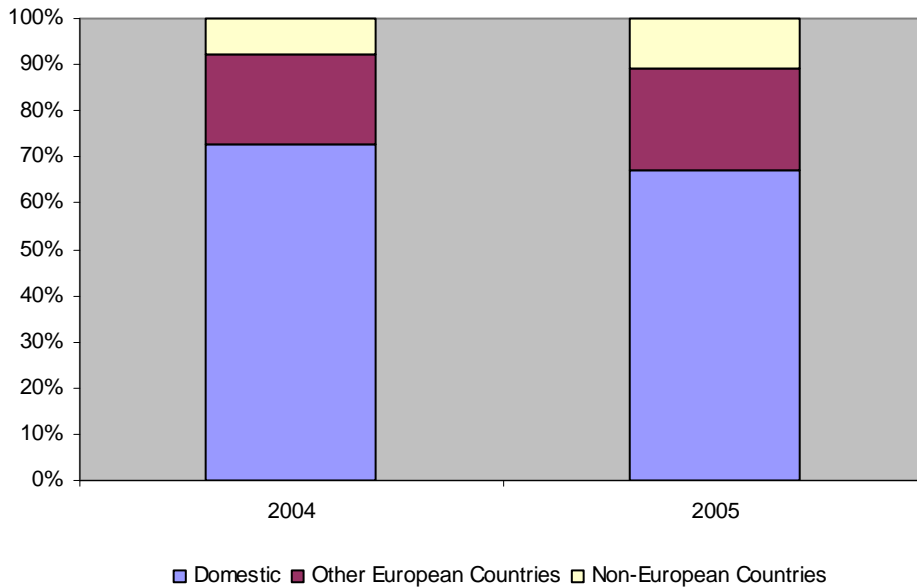
Country	Seed	Start-up	Expansion	Buyout	Other
UK	17024	812020	3590288	16238109	801459
Sweden	16763	173644	556849	1540886	23475,5
France	18266	422942	1047653	4565831	205496
The Netherlands	652	23801	418265	1388068	166829
Denmark	10237	126064	423406	165452	592,5

Source: EVCA, 2006

Internationalisation

To what extent do Dutch investors invest in domestic firms, and how much do they invest abroad?

Figure 8: Geographical Distribution of Investment (% of amount invested)

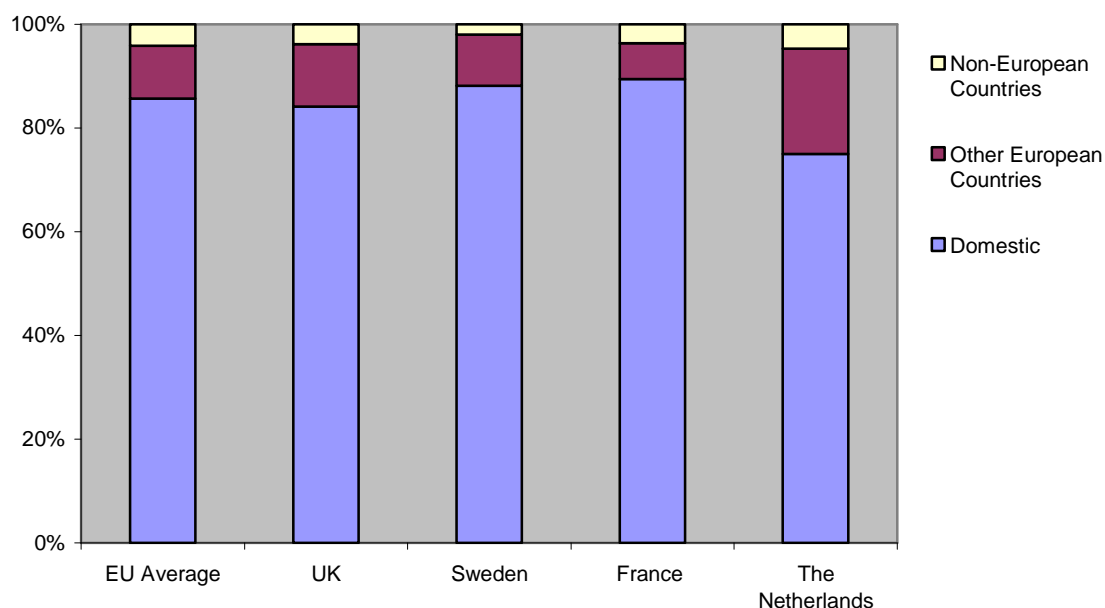


Source: EVCA, 2006

When looking at the Dutch investors' investment activity abroad The Netherlands appears to be a fairly internationalised market

In 2004, 73% of the total amount invested was invested domestically and the rest was invested mainly in other European firms (Figure 8). In 2005, more Dutch capital was invested abroad, as 1/3 of the capital was put into European and non-European countries leaving only 67% of invested capital for Dutch firms.

Figure 9: Geographical Distribution of Investment across European Countries, 2004-2005



Source: EVCA, 2006

Comparing the Dutch investors' investment activities abroad with other countries, it is clear that the Netherlands invest slightly less (in terms of % of total invested capital) in domestic firms compared to the European average, and compared to Sweden and France in particular.

Another way of measuring internationalisation in the Dutch market is inflows of foreign capital. According to NVP (2007), the buy-out segment in particular attracts investment from abroad. In 2006, 7 buyouts alone accounted for a total of €6 billion.

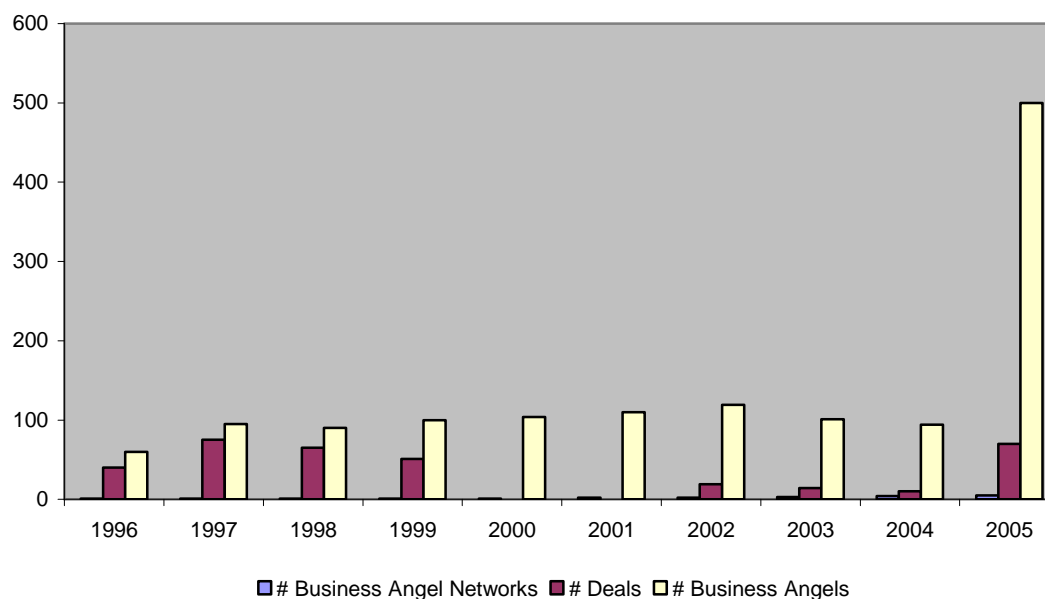
Informal Investment

As in most other countries the Dutch market for informal risk capital investment including friends, families and founders (FFF) and business angels is plagued by imperfections. According to a recent Dutch study, the informal risk capital market is underdeveloped due to high transaction costs, the Dutch socio-cultural situation, government policies, moral hazards and adverse selection (Parastuty, 2006).

The informal type of investment in the Netherlands was formally organised for the first time in 1995 by the privately-initiated Business Angel Network (NeBIB). NeBIB is a nationwide organisation working to spread the awareness of business angels in the Netherlands as well as providing matchmaking services for entrepreneurs and investors.

Due to the informal character of the market, it is difficult to collect data about the size of the market and the number of investors. However, some business angel networks collect data on the investors, which may provide some indications on the extent of informal activities.

Figure 10: Dutch Informal Investment Activities, 1996-2005



Source: EBAN, 2006.

Based on the figures provided by the business angel networks, the number of both accredited projects and number of deals increased in 2005 following a period of decline from 2002 to 2004. Currently, a number of business angel networks (e.g. NeBIB, TIIN, Business Angel Network Netherlands and OostNV 'Masters of the Future') are in existence and most of them are operating on commercial conditions with some receiving (limited) public support. In 2005, around 500 business angels are somehow affiliated with the business angel networks, which is a factor 5 increase from 2004. Based on the increasing number of business angels and number of deals, it seems that the informal part of the risk capital market is developing itself in a positive sense. However, drawing definite conclusions is difficult due to a lack of existing data that could describe the market in more detail.

Assessing the Financing Gap

According to the interviews conducted with Dutch risk capital investors investing in the Netherlands, the Dutch informal investor and business angels invest in average around €100.000-120.000 per investment. If they syndicate, one business angel investment can amount to approximately €500.000 (NeBIB, 2007).

Following the business angel syndicate, the early stage fund "ECART Invest" invests an average €1million per investment. Hereafter, the NVP has registered among their members an average investment of €3.6 million per firm. One of the Dutch later stage funds is the Life Science Partners (LSP), which invests on average €6-8 million exclusively in the life science sector.

It is difficult to conclude whether there is a financing gap or not. It requires a further look into the demand of capital and what their capital needs really are. Both interviewees of NeBIB and OostNV's business angel network 'Masters of the Future' explained that there is plenty of business angel capital available for investment ready firms. The challenge is that many of the investment-seeking firms are not investment ready.

In addition, although the entrepreneurs looking for business angel investment typically look for €200.000, their real capital need is often a lot smaller. This is due to the fact that miscalculations and budgets are often becoming more realistic once the professional investor has looked at the firm and its figures.

According to many fund participants the funding gap (€500.000 - €2 million) is non-existing for good investment proposals. Most interviewed fund managers stated that good investment proposals could easily find sufficient capital. They indicated that the main problem is not tied to the supply of investment capital, but is related to the demand side. In fact – in line with the figures on the level of internationalisation of the Dutch risk capital market – some investors explained that they invest abroad because they cannot find enough investment ready proposals with sufficient quality and business opportunity in the Netherlands for the amount of capital they would like to invest.

In order to better understand the financing gap, it is necessary to measure the total demand for capital and see whether the supply of capital would be sufficient to cover total demand. Apart from the fact that such figures are hard to get and virtually non-existent, in particular when taking into account the real need for capital when accounting for 'miscalculations', this study does not aim at measuring the entrepreneur's capital need. Therefore, knowledge about the entrepreneur's demand for capital is limited to the interviews that were carried out with entrepreneur organisations. These interviews will be used as a qualitative indicator for the demand side's success in fund raising.

Another indicator for risk capital availability is the World Economic Forum's figures for entrepreneurs with innovative ideas and the venture capital that is available to them. According to WEF 2006, the Netherlands ranks third when comparing countries access to venture capital for innovative ideas (WEF, 2006). This could indicate that the actual financing gap is not as severe as perceived by the players in the market but rather that the lack of access to risk capital is related to factors other than actual financial availability.

According to the interviews with Dutch entrepreneurial organisations, some entrepreneurs do face some problems in locating risk capital. A lack of transparency in the market, a non-risk capital culture among the entrepreneurs and the low level of investment readiness and quality of prospects were suggested as explanations for the "financing gaps".

Summary

The Dutch risk capital market had a progressive start in the 1980s and has since been active with an overall trend of growth in the total capital under management and a more constant development in the level of invested capital. However, not surprisingly, the nature of the market has changed over the years.

Since 2001, investors have changed their risk profile and invested more in later stages such as buy-out. Compared to other European risk capital markets, the relatively strong movement towards later stages is remarkable in the Netherlands. As a consequence of this development, the earlier stages have suffered from less available capital and almost appear to be immature in recent years.

Looking at the most recent developments in the Netherlands, there has been a shift in the importance of some types of investors in the capital market. Comparing the shares of particular types of investors of the Dutch risk capital market to Europe (and the UK) it appears that pension funds and government agencies play a more important role in Europe and the UK. In the Netherlands, banks and realised capital gains appear more often as back financiers for the investment funds. This may have an influence on the risk aversion among investors and funds lowering the overall risk-taking willingness in the risk capital market. To

slow down or reverse this development, the Dutch government is providing new sources of capital to the market, which in turn is expected to fuel the (riskier) early-stage segment.

Looking at the rate of internationalisation of the Dutch risk capital market, it is evident that the market is fairly internationalised. Over the past years, investments abroad have increased. At this moment, relative to other European countries, Dutch investors invest more abroad, both within Europe as well as outside Europe.

Another part of the risk capital market is the informal investment market, which has recently seen a firm rise in activity. However, although improvements can be noticed in recent years when it comes to the number of deals and the number of business angels, it seems that the informal risk capital market would benefit from an injection, especially when considering the importance of informal risk capital for entrepreneurial firms in their start-up/initial growth phase. Specifically syndication of informal investors can play an important role in this part of the market.

When comparing average investment size, it seems that there are some financing gaps in the market. However, the question is whether the cause for the gaps lies in the supply side of the risk capital market (e.g. a lack of capital) or in the demand side of the risk capital market (e.g. a lack of investment ready entrepreneurs)? Apparently, most investors view the lack of good investment proposals as the main issue, making it more a demand side issue than a supply side issue at this point in time.

HISTORICAL VIEW ON POLICY PRIORITIES AND RISK CAPITAL PERFORMANCE

Introduction

In this section, the relationship between the government's overall policy priorities and the risk capital activities in the Netherlands is discussed. The policy efforts are compared with the development in risk capital market activities to see if certain policies occur in periods with certain risk capital market activities.

Background

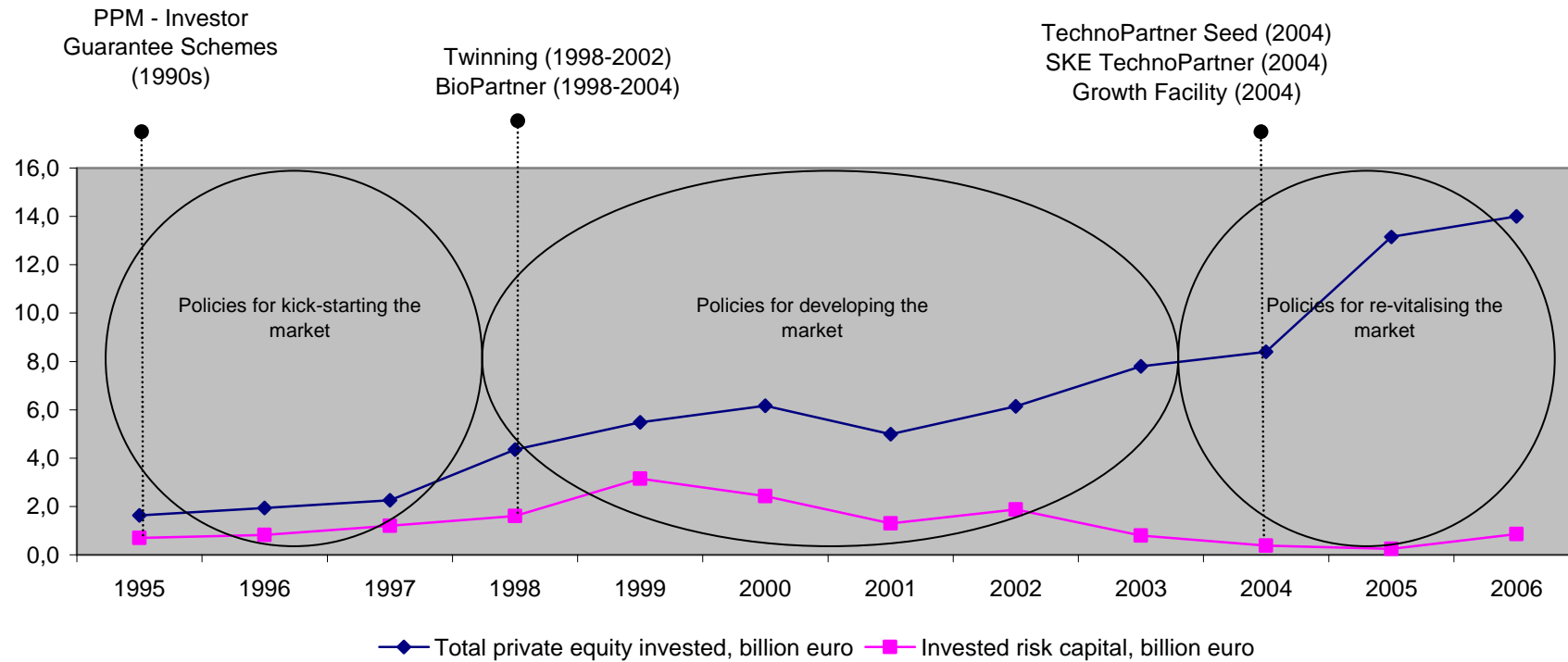
The Dutch government has intervened in the market for financing entrepreneurship since 1916, where the first loan scheme for more traditional firms was set up. Since the late 1980s, existing policies have been adapted and new ones created.

Most recently, a set of risk capital policies have been combined by the Ministry of Economic Affairs in a so-called "Capital Market Package" (CMP). This policy package aims at more transparency, lower execution costs and shorter and simpler procedures in the Dutch risk capital market. The policy package brings together both new and existing public programmes including the existing bank guarantee scheme "BBMKB", the support to firms in foreign emerging markets "IFOM", a new guarantee scheme for investors "Growth Facility Scheme", the new public co-investment scheme "TechnoPartner Seed Facility Programme" and the Shipbuilding Regulation.

Varying Policy Approaches

Generally, public intervention and risk capital policy actions need to match a given market failure and respond to certain needs in the market. In most cases, public policy actions change over time as markets develop. In Figure 11, the Dutch policy actions are viewed over a span of time. As expected, the actions seem to vary reflecting developments in the private market.

Figure 11: The Role of Dutch Public Policy Priorities and the Development of Risk Capital Activities*



Source: The ICE Policy Mapping, 2007

Note: It is not possible to have data for total private equity investment and invested risk capital before 1995. Hence, when showing policies from before 1995 it is not possible to compare with data for market activities. The Figures does not show all risk capital policy instruments for the period 1995-2006.

Phase 1: Kick-Starting Market

Since the late 1980s, the Dutch government has implemented programmes aimed at kick-starting the risk capital market. The overall level of private equity investment grew from very low levels, and early-stage investment followed this overall trend in the market. To help fuel the domestic market in the beginning of the 1990s, the Ministry of Economic Affairs introduced a guarantee system for investors “Guarantee Settlement Private Participation Societies” (PPM).

The guarantee scheme provided private risk capital funds with a protection against lost capital. In this way the private institutional investors were encouraged to take bigger risks and the young market was fuelled. An investment culture was initiated. Moreover, a tax programme “Tante Agaath” for individual investors was introduced to encourage smaller, informal and private investment in younger firms.

Phase 2: Developing Market

By the end of the 1990s, the gap between total private equity investment and risk capital investment started to widen. More capital was invested in the market, but it was not directed into the early-stage segment (Figure 6 and 11).

In 1998, the Twinning programme was introduced and allowed the government to invest directly in new technology based firms. This programme intended to further strengthen the risk capital market. At the time of the Twinning programme being active, there was an increase in early-stage funding from 1998 to 1999. Not surprisingly, it is difficult to tell the extent to which the public involvement caused these improvements. But the government certainly was active in a period where the market was undergoing an overall positive development. The new policy programmes seemed to be used to further develop the market and the risk capital market did experience higher levels of investment soon hereafter.

Following the flourishing period, the Dutch risk capital market faced severe losses as did other markets.

Phase 3: Re-Vitalising Market

In 2001, the economic downturn hit the risk capital market in the Netherlands as in all other countries. As a result, mainly driven by domestic investors’ risk aversion, the risk capital market shrunk enormously relative to the overall investment level. In this period, the buyout segment experienced impressive growth. The level of risk capital had been falling until 2005.

Reacting to the downturn and the shrinking early-stage investments, the Dutch Ministry of Economic Affairs decided to fuel the market for early-stage funding once more. This time, the Ministry of Economic Affairs introduced the aforementioned Capital Market Package with a number of new initiatives. TechnoPartner was installed as a structure of recognition to stimulate deal flow through increased visibility of the policy instruments. From 2004, public co-investment schemes and new types of guarantee schemes are used to encourage investors to increase their risk capital investment once again. This way the government appeared to be introducing policies that would re-vitalise early-stage investments.

The latest figures on invested risk capital show an increase in investment (Figure 6 and 11). Despite the difficulties in linking the increase in risk capital investment directly with the public involvement and the expectation that the full impact of the new policy initiatives will become

visible in a few years, some of the increase is assumed to be related to the TechnoPartner Seed Facility funds and the Growth Facility, a new guarantee schemes for investors.

Summary

It appears that different types of policy instruments have been used in different periods with varying levels of risk capital activities. Some policy programmes have been used to kick-start the risk capital market, while others were introduced to further develop it. It is argued that third-generation policies recently have been necessary to “re-vitalise” the risk capital market in the Netherlands.

In the past, the Dutch government has devoted a significant amount of attention to the (risk) capital market. This already started in 1916 with less intensive interventions, but from the 1980s and onwards the government has played a more prominent role. In the 1980s, the interventions were aimed at providing instruments that could kick-start the risk capital market.

A guarantee system and incentives for individual investors (with personal assets) were initiated to stimulate the investment culture. In the second half of the 1990s, growth in investments in the risk capital market was lagging behind growth in the overall capital market, mainly caused by a low level of early-stage investments. This led the government to install policy initiatives in which the government could more actively participate in the investment decisions in order to further develop the risk capital market.

The latest developments find their origins in the aftermath of the economic downturn around 2001. Recently, the government has initiated new policy instruments to revitalise the market. One instrument is given the form of a guarantee scheme and another instrument is a fund-of-fund scheme. Furthermore, the government has reacted to voices from the risk capital market by increasing the visibility, structure and coherence of the policy instruments directed towards the risk capital market, putting into place the Capital Market Package.

MAPPING OF DUTCH POLICY ACTIONS

Introduction

Governments are carrying out a number of different actions to stimulate or revive risk capital activities throughout the world. Some have concentrated their public involvement around offering tax policies, while others are applying a much more intervening approach by making public funds available for investment-seeking firms. Some countries have been actively involved in fuelling risk capital market activities for many years, and others have become active more recently. Yet again, others might find public intervention unnecessary and disturbing.

With the aim of better understanding the varying risk capital policy initiatives across countries, a comparison between the policy efforts in the ICE countries has been initiated. This comparison is based on the Investment Policy Model as described in the Introduction.

The purpose of the policy mapping is to obtain a better picture of the policy areas in which governments tend to prioritise their policy efforts. For instance, have some governments mainly been focusing on improving the supply of risk capital or have they also been active in making the demand side investment-ready?

Based on the Investment Policy Model and the policy mapping, this chapter summarises the results of the Dutch risk capital policy mapping carried out in the spring of 2007. The results of the Dutch policy mapping will be compared with the results of the policy mapping in the other ICE countries. This comparison will also include a discussion of the Investment Policy Model and the various areas where governments are and could be active. This discussion will be presented in the forthcoming ICE Risk Capital Policy and Data Handbook in the spring of 2008.

The policy mapping below is based on information provided by policymakers in the Dutch Ministry of Economic Affairs on current risk capital policy instruments.

Mapping of Risk Capital Policy Areas

According to the interviews conducted with policymakers in the Dutch Ministry of Economic Affairs, a total of 15 different policies are currently affecting risk capital supply and demand.

In Table 3, some of the policy instruments are listed in more than one policy area, as they are viewed to target the market in more than one way.

Table 3: Mapping the Dutch Risk Capital Market Policies*

INVESTMENT POLICY MODEL**				
Investment Opportunities	Investment Incentives	Investment Culture	Investment Capital	Investment Abilities
<u>High Growth Firms</u> 1. Syntens 2. Mastering Growth 3. Opportunity Zones	<u>Loans and Public Guarantees</u> 1. BBMKB 2. Growth Facility 3. Challenges Credit 4. TechnoLabel 5. IFOM	<u>Investment Values</u> 1. BAN OostNV 2. TechnoPartner Platform	<u>Personal Wealth</u> 1. BAN OostNV 2. Tante Agaath	<u>Human Capital</u>
<u>Knowledge Intensive Sectors</u> 1. SKE	<u>Public co-investment</u> 1. TechnoPartner Seed		<u>Private Funds</u> 1. Growth Facility 2. TechnoPartner Seed	<u>Social Capital</u> 1. BAN OostNv
<u>Entrepreneurial Education</u> 1. Partnership Programme 2. Entrepreneurship and Education	<u>Fiscal Incentives</u>		<u>Public Funds</u> 1. Regional Development Agencies	
<u>Commercialisation of R&D</u> 1. SKE TechnoPartner	<u>Taxation</u> 1. Tante Agaath		<u>Regulation</u>	
<u>Investment Readiness</u> 1. Syntens 2. SKE TechnoPartner 3. BAN OostNV	<u>Administrative Burdens***</u>		<u>Internationalisation</u> 1. TechnoPartner Seed	
<u>Matchmaking</u> 1. SKE TechnoPartner 2. BAN OostNV			<u>Exit Opportunities</u>	

* The Investment Policy Model does not provide a complete overview of the total set of policy areas directed towards entrepreneurship. It focuses on the set of policies merely related to the development of risk capital activities, which are organised around five policy categories including investment opportunities, investment incentives, investment culture, investment capital and investment abilities.

** The Investment Policy Model shows the current set of policy actions implemented by the government. The policy areas are categorized as high, middle or lower priority areas according to how many policy actions which are currently in place in that particular policy area. Areas with 3 or more are categorised as high priority areas. Areas with 1-2 policy actions are categorised as middle priority areas and areas with none policy actions are described as areas with lower priority. This categorisation is not an evaluation of the policy efforts or should be seen as a guide for which areas governments should or should not be active in. It is merely a way to structure and compare the discussion on different countries' policy actions.

**' The policy area "Administrative Burdens" does not include the Dutch policy actions directed entrepreneurship generally and start-ups in particular including efforts to reduce the administrative burdens for small firms in the Netherlands. It merely reflects the policy actions directed towards minimizing the administrative burdens related to investment for either firms or investors.

Source: ICE Risk Capital Policy Mapping, 2007.

The ICE policy mapping shows that the Dutch government currently has policy instruments in all five of the policy categories including investment opportunities, investment incentives, investment culture, investment capital and investment abilities.

Prioritised Policy Areas

The Investment Policy Model ranks governments' policy priorities in the risk capital field as high, middle or low according to the number of currently existing policy tools in one policy area. Total costs related to the implementation of each policy instrument could have been used alternatively, but it has not been possible to get these data from all policy instruments in all ICE countries.

*Table 4: Current Prioritised Policy Areas in the Netherlands, 2007**

High Priority Areas:		
Policy Areas with Currently Minimum 3 Policy Instruments		
<ul style="list-style-type: none"> • High Growth Firms • Investment Readiness • Loans and Public Guarantees 	Middle Priority Areas:	
	Policy Areas with 1-2 Policy Instruments	
	<ul style="list-style-type: none"> ▪ Knowledge Intensive Sectors ▪ Entrepreneurial Education ▪ Commercialisation of R&D ▪ Matchmaking ▪ Public co-investment ▪ Taxation ▪ Investment Values ▪ Personal Wealth ▪ Private Funds ▪ Internationalisation ▪ Social Capital 	Lower Priority Areas: Policy Areas with 0 Policy Instruments <ul style="list-style-type: none"> • Fiscal Incentives • Administrative Burdens** • Public Funds • Regulation • Exit Opportunities • Human Capital

* This table only includes policies which are specifically directed towards the risk capital market. Policies that are mainly directed towards entrepreneurship in general are not included.

** The policy area "Administrative Burdens" does not include the Dutch policy actions directed entrepreneurship generally and start-ups in particular including efforts to reduce the administrative burdens for small firms in the Netherlands. It merely reflects the policy actions directed towards minimizing the administrative burdens related to investment for either firms or investors.

Source: ICE Risk Capital Policy Mapping, 2007.

As shown in the policy mapping, three policy areas have been highly prioritised by the government in the current set of policies targeting the risk capital market in the Netherlands (Table 4). Each of the single policy tools is described in details in Appendix A.

High Priority Areas

According to the policy mapping, three policy areas have high priority in the Netherlands when it comes to risk capital financing. The Dutch government has currently minimum 3 policy instruments in three policy areas including High Growth Firms, Investment Readiness and Loans and Public Guarantees.

Middle Priority Areas

A number of policy areas have middle priority. The Dutch government has implemented 1-2 policy instruments in the following eleven policy areas including Knowledge Intensive Sectors, Entrepreneurial Education, Commercialisation of R&D, Matchmaking, Public co-investment, Taxation, Personal Wealth, Private Funds, Public Funds, Internationalisation and Social Capital.

Lower Priority Areas

Currently, the Dutch government has implemented no policy instruments aimed specifically at the risk capital market in the following five policy areas including Fiscal Incentives, Administrative Burdens, Regulation, Exit Opportunities and Human Capital. The policy area “Administrative Burdens” does not include the Dutch policy actions directed towards entrepreneurship generally and start-ups in particular including efforts to reduce the administrative burdens for small firms. It only examines the policy actions aimed at minimizing the administrative burdens related to investment for either firms or investors. The existing policy actions to reduced administrative burdens generally for SMEs in the Netherlands are therefore not reflected in Table 4.

Supply Side and Demand Side Risk Capital Programmes

In this section, the current set of policy instruments are grouped according to their focus on either the supply of or demand for risk capital. This is done to see whether there is a balanced policy focus on both sides.

Supply side programmes are understood as programmes that are aimed at the investors and which very often are aimed at increasing the amount of capital available.

On the other hand, demand side programmes are understood as those directed towards improving the quality of business plans and increasing the investment readiness among entrepreneurs.

Table 5: Supply and Demand Side Risk Capital Programmes, 2007

Supply side oriented initiatives	Demand side oriented initiatives
<ul style="list-style-type: none"> • BBMKB (1916) • Tante Agaath (1980) • TechnoPartner Label (2004) • Growth Facility (2005) • TechnoPartner Seed Facility (2005) • SKE Programme (2005) • Challengers Credit (2006) • Regional Development Agencies • DBIN (or NFIA, Netherlands Foreign Investment Agency) • IFOM 	<ul style="list-style-type: none"> • Syntens (2001) • TechnoPartner Platform (2005) • SKE Programme (2005) • Regional Development Agencies

Source: ICE Risk Capital Policy Mapping, 2007.

According to the policy mapping, the supply side in the Dutch risk capital market has been and still is benefiting much more from the policy priorities than the demand side. Since the beginning of the public intervention, fuelling the supply side has been in focus. Only in more recent years, programmes for strengthening the demand side have been established (Table 5).

The question is if only one side or both sides need to be addressed and to what extent an intensified policy focus on one side influences the development of the other side. For instance, easier access to capital would encourage more potential entrepreneurs to actually proceed with their ideas. On the other hand, more high-quality investment proposals and business plans would presumably make investors invest more (“hen and egg” situation).

For a more nuanced discussion we look into some supply and demand side issues, which came up during the interview rounds with Dutch investors and entrepreneurship organisations in the Netherlands.

Some Supply Side Issues

As shown, investors have become more risk adverse by moving away from early-stage into later stage investment. However, according to the interviewed investors there is no financing gap. There is plenty of capital available for sound innovative and technology based ideas. According to investors the reason for not investing in the market is mainly related to the “readiness” of the entrepreneurial projects and ideas referred to as a lack of “investment readiness” and “investment ready proposals” (Interviews with Dutch investors, 2007).

However, some investors also pointed to their own backyard. In recent years, professional investors have moved upwards leaving the early-stage segment not only with a financing gap, but also with a lack of skilled and professional early-stage investors. This makes it more difficult to create new early-stage funds led by professional investment managers (Interviews with Dutch investors, 2007).

It should also be noted that the supply side of risk capital is sector oriented in some cases. For example, some (private) investment funds specifically focus on life sciences and bio-sciences such as the Life Science Partners. There are signs that the availability of risk

capital in certain sectors is sufficient, but that the sector-specific projects are not there. Again, this is related to the investment readiness as mentioned, but also to the degree of firms starting up in certain sectors.

Some Demand Side Issues

Demand side programmes are aimed at entrepreneurs providing services to the firms. Many of the interviews with investors pointed to the demand side when trying to explain the funding gaps.

There seems to be a certain resistance among entrepreneurs towards external investors investing in their firms. Apparently, the entrepreneurs tend to prefer bank financing as sources of capital. According to interviews, this is partly because it can be cheaper to get banks involved and partly because banks obviously get less involved in the firms' day-to-day business management and strategic decision taking (Interviews with entrepreneurship organisations, 2007). Hence, scarce access to risk capital is not always a supply side issue.

In order to overcome such obstacles, entrepreneurs might need a better understanding of external investors, the value of having external investors involved and the non-financial role of informal investors. This way entrepreneurs could become more open to investors and hence take greater advantage of them. This issue is likely related to the investment culture in the Netherlands as well as in other European countries.

It was pointed out that one major challenge is the lack of role models and successful ex-entrepreneurs, who get involved in entrepreneurship activities. There is an urgent need for success stories around entrepreneurs and for getting ex-entrepreneurs more involved in promoting the entrepreneurial business and the positive and value added role investors can have for the business (Interviews with entrepreneurship organisations, 2007). Also, educational activities for entrepreneurs that are directed towards understanding investors and their added value and possibilities that they may bring to the firm can positively influence the quality and quantity of the demand side.

Summary

In this chapter, the current set of policy actions of the Dutch Ministry of Economic Affairs focusing on the risk capital market is mapped. The Investment Policy Model (IPM) is used as the frame of reference in which the different policies are categorised. Based on the information from the IPM, the intensity of each policy area is derived. Also, the policies are categorised into two groups: demand side orientated and supply side orientated policies.

The Dutch government has been active in encouraging risk capital activities throughout the country beginning modestly in 1916 and strongly intensifying policy efforts from the 1980s onwards. The IPM shows that the Dutch government has a current set of policies covering all five policy categories.

The intensity of policy actions directed towards the risk capital market is highest in the policy areas "High Growth Firms" "Investment Readiness" and "Loans and Public Guarantees". Subsequent to the IPM classification, the policy instruments are classified in demand side versus supply side orientation. This classification shows that the policy priorities have been mainly concentrated on the supply side of the risk capital market by fuelling the supply of available risk capital directly (through founding funds in which the government participates) and indirectly (by issuing guarantees to stimulate private investors to invest). But a number of actions have also been taken to enhance the demand side.

However, there is still room for improvement in relation to the demand side. For instance, there is a possibility for working with entrepreneurs' willingness to have external investors onboard. This was also reflected in the interviews with various investors as well as some organisations representing the demand side.

MOVING FORWARD WITH RISK CAPITAL ACTIVITIES IN THE NETHERLANDS

This national policy reports summarise the results of the ICE policy mapping and discuss the development of the Dutch risk capital market and the public policy intervention in the area.

First, some aspects of the Dutch risk capital market were described and analysed: types of investors, investment stages, internationalisation, informal investment, and average investment and the financing gap. The analyses show that the supply of private equity has traditionally been high in the Netherlands. Since its departure in the early 1980s, the Dutch risk capital market has increased its investment activity tremendously amounting to close to €20 billion of capital under management in 2006. The total private equity under management initially peaked in 2000 followed by a severe decline due to the economic downturn. Hereafter, the Dutch market has increasingly caught up. Today the private equity market in the Netherlands is booming and is still large when comparing the invested private equity capital as % of GDP with other European countries.

However, in recent years most of the invested capital has more often been directed into later stages and the investment patterns have changed over time. Investors are moving upwards leaving the risk capital market with what is perceived by some as financing gaps, particularly in the early stage segment and in the segment between the investment sizes that cannot easily be reached by informals and private investors and the investment sizes that are indicating the lower bound on which investments are still efficient for larger (formal) investment funds. This also follows from the analysis of the average investment sizes in the Dutch risk capital market. At this moment, there are indications that the cause of the financing gaps are to be found on the demand side of the market caused by the relatively low level of investment readiness of entrepreneurs. Many Dutch entrepreneurs would prefer not to have external investors and the knowledge about how to develop business plans and financial thinking could be strengthened.

It is difficult to conclude to what extent a financing gap exists in the Dutch risk capital market. Such conclusions would require more in-depth analyses of the demand side's need for capital compared to the total supply of capital. Apparently, there is a continuum of risk capital investors in the Netherlands. Business angel investments seem to be matched with bigger venture capital investments. Although most investors state that there is no real financing gap, the financing gap does exist according to policy makers and some entrepreneurial organisations. However, the investors' movement from early to later stages may have left the risk capital market under-invested. There is plenty of available and non-invested capital in the Dutch market, and some of this could be redirected back into the risk capital segment by further enhancing the investment readiness among investment-seeking entrepreneurs.

Another issue is the type of investors that are active on the risk capital market in the Netherlands. Compared to other countries banks and realised capital gains in the Netherlands more often appear as back financiers for the investment funds, whereas pension funds and government agencies play a smaller role in the Netherlands. Furthermore, figures show that a relatively large part of the Dutch risk capital is invested abroad.

In addition to the formal risk capital market, the informal risk capital market may also play a substantial role in the total risk capital market. In the Netherlands the informal part of the market is growing; however, when looking at the number of deals and business angels an injection would seem beneficial in particular to start-ups or companies in their initial growth phase.

Overall, three consecutive periods can be distinguished: 1) kick-starting the market, 2) developing the market and 3) revitalising the market. The first period - kick-starting the market - started in 1916 with less intensive interventions and grew in intensity in the 1980s. During this phase, public programmes and initiatives have been introduced to bridge the supply of and demand for risk capital in order to stimulate more domestic risk capital. The second period - developing the market - was apparent in the second half of the 1990s. During this period, the policies mainly focused on increasing the investments in the risk capital market, specifically by increasing volume in the early stage segment. Furthermore, the government started to participate more actively in the risk capital market. The third period that may be distinguished started right after the severe economic downturn in 2001. During these years, the government's policies were mainly aimed at revitalising the market. Guarantee schemes are provided by the government to reduce the risk and protect investors from downsides of investment. 2006 saw an increase in invested risk capital for the first time since 2002.

The policy mapping shows that mainly three policy areas have been highly prioritized by the Dutch government: Supporting Growth Firms, Providing Loans and Public Guarantee Schemes and Improving Investment Readiness.

Concerning the main supply side and demand side issues, the following can be concluded. The main supply side issue is that the professional investor is moving upwards – to the larger investments segment – mainly because of efficiency reasons and risk averseness, leaving the early stage investments and part of the market for risk capital undersupplied with financial as well as human capital. On the demand side, the main issues are the investment culture in terms of willingness to get involved with external financiers, and human capital which translates into investment proposals lacking sound financial perspective not necessarily meeting the needs of investors.

Following, there seems to be a possibility for further strengthening the demand for risk capital in order to enhance risk capital activities. This possibility was also mirrored in the interviews with investors as well as some organisations representing the demand side.

ventures. This includes enhancing a **firm's growth potential, knowledge insensitivity, commercialisation of R&D, entrepreneurial education, investment readiness** and **improving matchmaking opportunities** between entrepreneurs and investors. This way the government can provide programmes, which will strengthen the investment readiness among entrepreneurs and hence become more attractive for investors.

In recent years, the Dutch government has increased its focus on the demand side. Each of the policy tools is explained in more detail below.

Syntens

In 2000, the innovation network "Syntens" was created out of an existing organisation named "InnovatieCentrum". Syntens is a network for innovative firms with 5-250 employees, which provides innovative firms with coaching and services related to innovation and business model developing a. Syntens has about 450 employees, of which 300 are consultants spread across 15 offices in the Netherlands.

Syntens has adopted a sector-approach, and focuses on high-growth firms and tech start-ups. Tech start-ups must have turnover and customers and market a new technology developed by the company itself. In 2002, Syntens collaborated with Shell on a LifeWire programme linking up entrepreneurs with technology developed in the Shell organisation.

The vast part of Syntens' budget (90%) is funded by the Ministry of Economic Affairs. Together, the Ministry, Port4Growth, de Baak and Syntens have developed the "Mastering Growth Programme", which is a scheme offering coaching and networking opportunities to fast growing firms. Syntens provides coaching and learning circles to companies with 5 to 15 employees. Until now, 15 groups or circles of fast growing firms have been created throughout the country. The main objective with these groups is to create meeting places, where likeminded entrepreneurs can meet and exchange experiences.

For more information about Syntens please visit: www.syntens.nl

Mastering Growth

In partnership with De Baak Management Centre, Port4Growth and Syntens the Department of Economic Affairs launched the Mastering Growth Programme in 2006. Addressing the preconditions for successful growth the program consists of four unique masterclasses tailored to companies in various stages of their development.

- Regional Mutual Learning Circles for companies with 5-15 employees.
- Regional Emerging Growth Masterclasses for companies with 15-35 employees.
- National Fast Growth Masterclasses for companies with more than 35 employees.
- Invitation-only Masterclasses for Growth for companies with more than 250 employees.

These masterclasses pay particular attention to the entrepreneur's role and influence in terms of the growth of their company. As well as topics like finance, they address vision, strategy, culture and leadership roles. The masterclasses provide an informal – but not casual – meeting place for entrepreneurs at which they can learn from one another. The interactive nature of the programme means that the classes are led by - as well as being attended by - entrepreneurs. The theme of the session is introduced by a Dutch or international guest speaker with practical experience, and there is also a tutor on hand to provide the context, theory and supervision needed to stimulate the learning process. Attracting participants has been made a priority, since that proved to be a stumbling block with previous initiatives of this kind.

The total number of participants has reached the number of 250 entrepreneurs in February 2008.

Total budget: € 90.000 for programme development and marketing. Companies pay the fees for the master classes themselves.

The Opportunity Zones

In 2006, the Department of Economic Affairs signed covenants with the three Dutch universities of technology and their local authorities to establish so-called opportunity zones in which start-ups and high-growth companies are offered special assistance. This is provided through so-called "formula managers" at the participating universities and authorities. Their task is to help break through walls of rules and bureaucracy which can so often delay and frustrate such businesses. That improves public services and provides entrepreneurs with specific assistance so that they are less troubled by regulation. For example, the three formula managers have reached agreement with the Immigration and Naturalisation Service that it will accelerate the processing of residence permit applications from overseas students seeking to set up a business in one of the opportunity zones. And there are also specific arrangements in each of the zones. Eindhoven, for instance, has made agreements with the tax authorities to address problems associated with VAT returns by start-up companies. Meanwhile, the Delft zone has extended its horizons by establishing an alliance with Shanghai to make it easier for entrepreneurs from either city to link up with business partners and academic institutions in the other.

The Knowledge Exploitation Subsidy Arrangement (SKE)

In 2004, the Knowledge Exploitation Subsidy Arrangement (SKE) was introduced by the TechnoPartner organisation. The scheme encourages the utilisation of publicly financed knowledge by the private sector. It is an investment readiness scheme targeting university spin-offs.

The objective is to enhance the knowledge exploitation among knowledge institutions so that better high-techs are started within these institutions and strong market relevant patent portfolio are brought forward. Knowledge intensive and innovative firms are helped by entrepreneurial organisations and private parties to start up their business.

The programme is divided into a number of modules for which knowledge institutions and public-private consortia can apply for subsidies. The modules include the following activities:

1. The screening and scouting module relates to activities aimed at identifying research with commercialisation potential and transferring the results to the market.
2. The patent expenditure module focuses on identifying available funds for patent activities.
3. The high-tech start-up support module includes activities for high-tech start-ups to overcome barriers related to creating local networks of high-tech experts, coaching and providing high-techs with special equipment.
4. The pre-seed module includes activities related to provide high-tech start-ups with early-stage capital. Loans are provided to new firms in partnership between universities and local firms. 50% of the loan is provided by the governments and 50% from a local bank. A loan of maximum €100.000 is paid in public-private partnership according to milestones. The firm has 6 years to return the loan, and payment can take place at low or no interest. The private party has the decision making power on this matter.

In each module, TechnoPartner provides support and offers access to networks of specialists and equipment. The government subsidizes activities in the above described modules for a total maximum of €2.5 million per project.

For more information, please see: www.technopartner.nl

Partnership Programme

Improvements in the alignment between educational programmes and the work for which young people are being trained requires young people to be well trained technically for a profession that is needed in the labour market. This requires schools and businesses especially SMEs to collaborate more intensively, in particular in terms of academic and professional orientation and work placements.

Much can be gained from more intensive advice and guidance during academic programmes. Career discussions should begin during the training phase. The educational programmes should be designed so that a continuous career path as it were is achieved from the person's educational programme into and including his or her career. Of course, the importance of broad-based training must not be overlooked in this regard either. Cooperation between the educational institutions and industry also offers possibilities in respect of community service work placements.

More specifically, the Cabinet will improve the alignment between education and the labour market by:

- Starting an experiment in de-compartmentalisation between preparatory secondary vocational Education (VMBO) and secondary vocational education (MBO);
- Having MBO institutions offer courses with a broad initial phase;
- Improving the parameters for lateral inflow into the education system;
- Encouraging teacher placements in industry;
- Assessing the possibilities for closer collaboration between educational institutions and industry in the form of business schools within the two learning tracks in vocational education;
- Introducing a new funding system for vocational training and adult education (BVE). The new system will be tested before it is definitively implemented.

Entrepreneurship and Education

In January 2007 the State secretary of Economic Affairs launched the subsidiary scheme Entrepreneurship and Education 2007.

This scheme is build on two pillars:

1. Seed money for the Partnership Entrepreneurship and Education: stimulating projects from primary to university. In 2007 there is €5 million available for projects: €2 million for primary education, €2 million for secondary schools and €1 million for vocational education. A minimum of 50% co financing is mandatory. The participation of SME's and entrepreneurs is also mandatory.
2. Stimulating the establishment of Centres for Entrepreneurship in higher education. Through a call for proposals higher education institutes are invited to present their plans for the development of a centre for entrepreneurship. In total there is €12 million available, with a maximum of €3 million per centre. A minimum of 50% co financing is mandatory. The participation of SMEs and entrepreneurs is also mandatory.

In January 2008 six centres for Entrepreneurship were launched as were 25 projects in primary, secondary and vocational education. The Cabinet is also funding the initiative of *New Venture*. New venture is a national business plan competition.

Business Angel Network (BAN OOSTNV)

The “Masters of the Future” programme is a publicly supported Business Angel Network placed in the Regional Development Agency East Netherlands (OostNV) and founded in 1997. The Ministry of Economic Affairs and two regional provinces are shareholders in the “Masters of the Future”.

The “Masters of the Future” collaborates with universities, local banks, advisory firms and other business service providers to provide the following activities:

1. Platform for informal investors and entrepreneurs;
2. Established a database of informal investors with currently 170 registered investors;
3. Matchmaking activities for informal investors and entrepreneurs. At each meeting 3 to 5 investment proposals are presented and between 10 to 30 business angels attend the meetings;
4. Coaching of entrepreneurs and syndication possibilities for investors;
5. Provision of information on issues such as legal issues, success stories, investment advice, etc. to both business angels and entrepreneurs;
6. Training and workshops for both investors and entrepreneurs.

“Masters of the Future” receives between 120 and 150 investment proposals annually. After a screening process, the remaining proposals are presented to investors. In 2005 and 2006 20 deals were closed with a total invested amount of €3 million with an average of €150.000 per deal.

The average deals size in 2005 alone was slightly lower amounting to around €50.000-100.000. According to the network manager, the differences in average investment sizes are likely to be explained by the Dutch economic situation.

For more information about “Masters of the Future”, please see: www.meestersvandetoekomst.nl

Investment Incentives

The policy category “Investment Incentives” represents the policy areas influencing both the demand and the supply side. The category represents the benefits as well as costs associated with making an investment. Areas that increase the average return on investments including public guarantee and public co-investment schemes and fiscal initiatives represent the benefits. The costs are represented by taxation and administrative burdens.

Over some decades, the Dutch government has very actively worked to encourage private investors to invest in risk capital and to generally serve entrepreneurs with better financing opportunities including bank lending.

The ICE policy mapping showed that the Dutch government has implemented seven policy instruments including BBMKB (a loan guarantee scheme for banks), TechnoPartner Label (provides banks with a technology guarantee), the Growth Facility Scheme (equity guarantee

scheme), the Challengers Credit, Seed Facility Scheme (public co-investment scheme), Funds for Emerging Market and Tante Agaath (tax scheme).

The programmes are explained in more detail below.

The Regeling Borgstellingskredieten MKB (BBMKB)

The public loan guarantee scheme Regeling Borgstellingskrediet MKB (BBMKB) was implemented in 1916 and still plays a major role in the financing of Dutch SMEs.

This policy instrument aims at stimulating the provision of credit for small and medium sized enterprises with satisfying perspectives of solvability, but with shortage of securities/collateral (Algemene Rekenkamer, 2004). The guarantees provided under BBMKB only apply to credits that would - given normal bank conditions - not be granted for own account and risk because of these shortages.

The BBMKB is a guarantee provided by the Ministry of Economic Affairs to banks guaranteeing that under certain conditions parts of the loan will be paid back in default situations.

The BBMKB applies to SMEs with a maximum of 100 employees. A special design feature of the BBMKB is that the banks decide whether an SME is (can be) granted a guarantee under the regulation. In case of default, the administrator of the guarantee scheme – the public agency SenterNovem – checks the process and applicability of the BBMKB in that specific case in retrospect. This ensures a minimum of administrative burden for all parties.

Earlier, the BBMKB was directed towards regular businesses with an average or below average risk profile², but later the regulation has been broadened to also include guarantees for innovative firms² and start-ups³

Today the BBMKB guarantee is divided into three categories including:

- 50% coverage of lost on loans provided to 'regular' businesses to a maximum of €1 million (max. for 6 years, or 12 years in case financing is used for real estate that will be min. 50% own use);
- 66,6% coverage of lost on loans provided to innovative firms to a maximum of €1 million (max. for 12 years);
- 80% coverage of lost on loans provided to general start-ups to a maximum of €100.000,- (max. for 6 years, or 12 years in case financing is used for real estate that will be min. 50% own use).

If entrepreneurs cannot offer them adequate security banks may apply for the BBMKB guarantee. The scheme guarantees only the part of the loan for which there is no collateral. There is a procurement of 2-3.6% on each loan (depending on the period of the loan) for the banks to pay to SenterNovem. The redemption of the guaranteed loan must be linear, per month or quarterly.

Since the early 1990s, the maximum yearly quotas for the amount of money for which guarantees are given by the government have been steadily raised. The early 2000s saw a

² An innovative firm is a firm that has obtained an S&O (R&D) statement within the last 16 months. The R&D statements are issued by SenterNovem in context of the WBSO (Wet Bevordering Speur- en onderzoekswerk, or; fiscal regulation for stimulating R&D).

³ A start-up is: 1) a person who has held a firm for less than 5 years and has not had a firm for at least one year in the past six years, 2) a person who is planning to hold a firm (or limited liability company) and has not had a firm for at least one year in the past six years, or 3) a limited liability company of which the CEO holds the majority of the shares and has not held the majority of the shares for more than 5 years and has not held a firm (himself or through a limited liability company) for at least one year in the past six years.

decline in the number of guarantees due to a lower attractiveness of smaller loans which is accredited to disproportional transaction costs. In 2005, a high growth in total realised guarantees (i.e. the amount of money on which the government actually put a guarantee) from €360 million in earlier years to €475 million in 2005 was seen. This increase was mainly induced by earlier adaptation of the BBMKB regulation: the higher level of guarantee for small loans and the TechnoPartner Label.

In 2006, the quota for the total maximum amount of guarantees provided to the market in 2006 was €603 million⁴. SenterNovem provided guarantees for €572 million. This means that 95% of the quota was effectuated with a total of around €1 billion of loans provided to firms through the BBMKB. The three largest banks in the Netherlands (ABN-AMRO, Rabobank, ING-bank) account for 90% of the quota. Programme evaluations of the BBKMB show that the annual lost capital (guarantees paid out on lost capital minus the procuration) amounts to approximately €2 million. The total costs including employees and material costs are €4.5 million – €7 million on a yearly basis.

Some adaptations of the BBMKB have recently been made. First of all, as from 2006, the BBMKB is restructured for small loans (< €500.000) in order to lower the costs of execution and to stimulate the use of the BBMKB. Also, the procedures for BBMKB have been adapted in order to achieve a better fit with the procedures that are installed with the banks.

Furthermore, in order to strengthen the banks' incentive to provide loans to tech starters and innovative start-ups through the BBMKB, SenterNovem has developed a TechnoPartner Label initiative. The TechnoPartner Label is a certificate that evaluates the technological risk and the guarantee connected to the loan. More about the TechnoPartner Label can be found below.

⁴ This figure reflects the guarantees provided, not the amount of money that was actually paid out due to e.g. bankruptcies.

Table 6: Developments of the BBMKB since 1992

	Quota for total amount of guarantees (in €million)	Realized guarantees provided to the market (in €million)	Ratio of realised guarantees / quota for total amount of guarantees (%)	# of guarantees
2006	603	572	95	n.a.
2005	530	479	90	2871
2004	370	363	98	2388
2003	450	357	83	2397
2002	429	356	83	2779
2001	n.a.	n.a.	n.a.	n.a.
2000	n.a.	n.a.	n.a.	n.a.
1999	465	433	93	n.a.
1998	385	349	91	n.a.
1997	385	370	96	n.a.
1996	385	373	97	n.a.
1995	340	326	96	n.a.
1994	340	280	83	n.a.
1993	272	259	96	n.a.
1992	272	257	96	n.a.

Sources: Yearly Reports by the Ministry of Economic Affairs and Algemene Rekenkamer (2004).

More information about the BBKMB can be found on www.senternovem.nl/bbmkb and in the document of the Algemene Rekenkamer (2004).

The Growth Facility Scheme

In 2006, the Dutch government introduced the Growth Facility. The Growth Facility is a guarantee scheme for banks and risk capital funds. The scheme sets out to improve the financing situation for firms with high growth or with acquisitions plans. In particular, it aims at assisting firms with a financing need of less than €5 million.

The Growth Facility is the successor of the Regulation Special Finance (Regeling Bijzondere Financiering), which was rarely used due to a gap between the structure of the regulation and the needs of the market.

The Growth Facility Scheme dovetails with the BBMKB, although there are some differences:

- The focus of the Growth Facility Scheme is more on risk bearing capital instead of debt capital;
- The Growth Facility Scheme includes risk capital funds (in addition to banks);
- Growth Facility Scheme is more focused on growth firms and acquisitions;
- The Growth Facility Scheme has a higher maximum amount of financing (max. guarantee of €2.5 million instead of €1 million under BBMKB).

The Growth Facility scheme targets banks and fund investors including organised informal investors and other types of risk capital funds. Under the Growth Facility scheme the government provides a guarantee of 50% on risk capital as either shareholder capital or subordinated loans provided to small and medium-sized firms (< 250 employees). The public guarantee extends to a maximum amount of €2.5 million, so the total financing amount can be €5 million.

The government receives a yearly 3% risk premium on effectuated guarantees, which aims to cover for eventual lost capital. The banks and risk capital funds pay a commission of 1% of the quota they have reserved. With this financing structure, the scheme is expected to be cost neutral for the government.

The total amount (quotas) available for guarantees was €85 million in 2006 and €119 million in 2007. The total amount will continue to rise gradually to €170 million in 2009. Consequently assuming that the loans and risk capital under the Growth Facility scheme will be issued on top of the existing market the risk capital market will receive an additional amount of €170 million in 2006 to €340 million from 2009.

Currently, quotas for guarantees for subordinated loans have been granted to ABN AMRO bank, Fortis bank, Rabobank and Friesland bank. Quotas for guarantees on risk capital and subordinated loans have been granted to the four regional development organisations, Antea Participaties, Ecart Invest and Friesland Bank Investments. These 11 risk capital suppliers have applied for €63 million of guarantees (summer 2007).

To be eligible, the SME must be headquartered and have the majority of its activities in the Netherlands. Also, the financing party must have checked for reasonable earning power and perspectives for continuity of the firm. Furthermore, the growth facility cannot be used to replace other credits, no extraordinary capital withdrawing may have occurred in the past 12 months and the financing under the Growth Facility may only be used for own activities and acquisitions.

The scheme is financed by the Ministry of Economic Affairs and administrated by the public executing agency SenterNovem. The new funds and financiers must be screened and accredited by SenterNovem in order to benefit from the guarantee scheme. The quotas that are acknowledged are available to the banks and risk capital funds for the maximum of 2 years. The minimum quota is €500.000.

The Challengers Credit

The Challenges Credit is a new loan scheme provided to growth firms with an excellent innovation aimed at commercialisation R&D. The scheme aims at increasing the availability of risk capital to growth firms and was introduced in 2006.

The public executing agency SenterNovem provides and administrates the scheme. There is no private sector involvement during the evaluation process of the firms. There are no interest rates that should be returned and if loans are lost they are not required to be paid back.

Loans are provided without further follow-up or services. The Dutch government is currently considering increasing the public funding of the scheme to €60 million in 2008.

TechnoPartner Label

The TechnoPartner Label or Certificate is a part of the BBMKB guarantee scheme which aims at lowering the risk for banks when financing tech starters as well as making it easier for tech starters to obtain financing. The scheme was introduced in 2004.

The TechnoPartner Label is a written agreement between the Dutch government and domestic banks ensuring that the government will guarantee a given loan based on an evaluation of the applied technology.

The TechnoPartner Label is administrated by the public agency TechnoPartner. Technology specialists at TechnoPartner evaluate the technological risk in a given project, and provide banks with a second opinion including views on the technical expertise or market outlooks.

As part of the evaluation, banks receive the TechnoPartner Label for the loan application declaring that the government will guarantee 80% of the loan to a maximum of €100.000 over 6 years or 67% of the loan to a maximum of €1 million over 12 years.

In order to apply for the TechnoPartner Label, firms should be a tech starter with a business plan that contains financing and cash-flow plans. The firm should have sufficient means for making the investment, possess a healthy growth potential but lack adequate security. Read more about the TechnoPartner Label on www.technopartner.nl.

Further to the TechnoLabel, banks are supposed to take a reduced technological risk when providing loans to tech starters through the BBMKB scheme as they are covered from losses if the loss is caused by factors related to the applied technology.

The TechnoPartner Seed Facility Scheme

In 2005, the Dutch government introduced a new co-investment seed capital arrangement, the Seed Facility Scheme, aimed at reducing the financing gap. Investing in a young innovative firm often means more risk because there is no track record and because the market opportunities are not known yet. Meeting these hurdles to investment, the objective of the Seed Facility scheme is to encourage and mobilise the bottom of the Dutch risk capital market in such a way that tech starters are able to meet their capital needs.

The idea is to increase the numbers of early stage investors by creating new public-private co-investment funds. The government provides a 50% co-investment (maximum €4 million) to accredited funds (consequently with a maximum of €8 million). The scheme is inspired by the SBIC programme in the US and similar initiatives in the UK. It is financed by the Dutch Ministry of Economic Affairs and implemented and administrated by the TechnoPartner organisation.

The Seed Facility can only be used by closed end funds⁵ that invest in start-up firms with high risk profile (tech starters⁶). TechnoPartner screens and accredits selected institutional investors among organised private investors, venture capitalists, corporate investors and

⁵ A closed end fund is a fund that is specially installed to finance tech starters. The fund must limit itself to activities that are connected with obtaining and managing of investments in tech starters under the Seed Facility scheme and the fund must not exist longer than 12 years.

⁶ A tech starter is defined as a person or legal body who/that operates or prepares the startup of a firm, on basis of a new technological development or a new application of an existing technology. The new firm must sell and deliver products, process and/or services (no advices). The firm should be registered with the Chambers of Commerce for less than 5 years and at the time of application meet the European criteria of an SME.

banks. The funds must invest in tech starters and start-ups not older than 5 years, which are experiencing the equity gap (€100.000 – €2.5 million investment sizes) and are active in sectors such as life science. To ensure that the investments made are not all in the upper part of this range, the Seed Facility also requires that the average amount invested per deal is €800.000,-. Within the boundaries of the predefined definition of tech starter, each fund can install its own criteria which a tech starter must meet.

The funds are returned to the government through a flexible pay-back system. From the moment the fund starts to generate revenues, it pays back only 20% of the revenues to TechnoPartner. Once the new fund has earned back its initial investment, the fund starts to pay back 50% of the revenues to TechnoPartner until the governmental investment has been fully returned. From there onwards, the two parties continue to split on an 80/20 basis split between the fund and TechnoPartner. The co-investment is repaid after a maximum of 12 years and when the fund is dissolved.

The TechnoPartner Seed Facility Scheme was developed in accordance with the following policy approaches:

1. Don't disturb the market. Only in case of a market or system failure public intervention is acceptable.
2. The intervention must be market oriented. The market selects and is the lead investor/funder.
3. Stimulate access to finance by improving the risk-return profile for early stage venture capital funds. Prevent "death-by-fees" through critical mass of fund size and smart fund constructions, don't subsidise management fees.
4. Intervention requires an integrated approach; a mix of instruments covering finances, R&D support, coaching, use of incubators, etc, to improve the success rate of SMEs' and the governmental efforts.
5. The fund-of-fund approach with professional private venture capital funds has a better risk-return profile.
6. National initiatives are limited to operate within a national context. This constraints the market conform business model of venture funds. Co-intervention and stimulating pan-European approaches by the EC could tackle this constraint.

In 2005, the TechnoPartner Seed Facility budget was €11 million to be invested in new funds. In 2006, the budget was initially increased to €19.2 million (of which €3.2 million is assigned to the creative industry) and later increased to a total budget of €23 million. In 2005, 14 applications were submitted of which 7 were accepted. The total investment capacity of the accepted funds over 2005 was €41.2 million of which TechnoPartner supplied €20.6 million. In 2006, 10 applications were submitted of which 6 were accepted. The total investment capacity of the accepted funds over 2006 was €46 million, of which TechnoPartner supplied €23 million. Thus, in the period 2005-2006, the Seed Facility Programme established and co-invested with 13 new seed funds with a total of €87.2 million available for investment in the Dutch seed market. The funds have so far invested in 156 new start-ups.

The overall aim is to establish approximately 20 new early-stage funds in the market in order to stimulate competition between the funds. The TechnoPartner Seed Facility seems to encourage private investment in early stages through co-investment schemes. However, some problems are related to the size of the funds. Many small funds have been created, but are likely to be bigger over the years. The plan is to pull out the Seed Facility from the market when the market failure or financing gap in the early stage market seems to be closed.

For more information, please visit: www.technopartner.nl

Investment Fund for Emerging Markets (IFOM)

The Investment Fund for Emerging Markets (IFOM) stimulates the Dutch private sector to invest in emerging markets such as China by furnishing capital and experience. The fund is a joint initiative of the Dutch Ministry of Economic Affairs and the Dutch Development Finance Company (FMO).⁷

Via IFOM, FMO may extend medium and long-term loans to a local subsidiary or a joint venture in which capital has been invested by a Dutch company. Investments can reach a maximum of €5 million. Maturities range from 3 to 12 years and a grace period of up to 3 years is possible. Depending on the specific need for investment, IFOM may take the form of a loan, a guarantee, a subordinated loan, equity or a combination. FMO prices its financing based on market standards and individual risk profile associated with the investment.

IFOM funds local subsidiaries and joint ventures in emerging markets that have demonstrated a need for (middle) long-term financing in order to (further) develop their activities. These must be the same, or at least similar to, those of the Dutch sponsor. The Dutch company must (or has) invest(ed) in the subsidiary or joint venture. Certain guarantees will also be asked of the Dutch company. To ensure the investment's sustainability, companies are reviewed in terms of financial performance as well as corporate governance, environmental and social policies and benefits to the local economy. In evaluating proposals, FMO considers the business plan of the emerging market venture and the Dutch parent company, as well as the strategic importance for the latter. IFOM-financing is additionally meant to add to the continuity and strength of the Dutch parent company. IFOM will not finance Dutch companies that wholly or largely shift to emerging markets. Other conditions are dependent on the specific company.

Eligible countries for IFOM-financing are all those members of the World Bank, including the Netherlands Antilles and Aruba, with the exception of high income countries and EU-members. For more information visit www.fmo.nl

Tante Agaath

In 1980, a new tax scheme for private investors was introduced by the Ministry of Economic Affairs. The "Tante Agaath" is a fiscal instrument for private persons to provide subordinated loans to firms which are not older than 7 years.

Evaluations show that the schemes seem to support loans to traditional SMEs rather than loans to high-risk firms. As a result, the scheme is currently under reconsideration.

Tante Agaath does not necessarily provide capital to tech starters or innovative firms. It could be considered to reorganise the tax scheme in a way that will encourage more private capital into more risky businesses.

⁷ The Netherlands Development Finance Company (FMO) is a joint venture of the Dutch State, the large Dutch banks and the Dutch business community that exists for over 35 years. The State holds 51 % of the shares. FMO supports the private sector in developing countries and emerging markets in Asia, Africa, Latin America and Central and Eastern Europe. FMO does this with loans, participations, guarantees and other investment promotion activities. The goal is to contribute to structural and sustainable economic growth in these countries and together with the private sector obtain healthy returns. These returns make FMO a valuable risk partner. FMO builds bridges between entrepreneurs and capital, locally as well as across frontiers, for sustainable development and healthy returns.

Investment Culture

The policy category “Investment Culture” is related to a country’s investment culture and tradition and is viewed as relevant to both the demand and the supply side. Government can enhance a certain investment culture through policy areas and instruments such as supporting investment campaigns and other awareness activities.

According to the ICE policy mapping, the Dutch government currently has two policy instruments in this policy area including the BAN OostNV and the TechnoPartner Platform.

The “TechnoPartner Platform”

The TechnoPartner Platform is the core platform, which constitutes the whole TechnoPartner organisation.

The organisation TechnoPartner or the TechnoPartner Platform encourages and helps people who want to start their own business based on a technical invention in the Netherlands. The ambition is threefold:

1. It must become common practice for researchers and (science and technology) graduates to start their own business.
2. Knowledge institutions should stimulate and support high-tech start-ups.
3. It must be common practice – and therefore profitable – for venture capitalists to invest in high-tech start-ups.

In order to fulfil its ambition, the TechnoPartner Platform offers three services or pillars including the TechnoPartner Label, the TechnoPartner Seed Facility Scheme and the Knowledge Exploitation Subsidy Arrangement.

The services are provided in close collaboration between the government, the private sector and the knowledge institutions. In these collaborations, the role of the government remains limited to resolving market and system imperfections without disturbing the market.

For more information about the TechnoPartner Platform and organisation, please visit: www.technopartner.nl.

Investment Capital

The policy category “Investment Capital” represents the policy areas, which target merely the supply of capital and investors such as private individuals, public investors, private and institutional funds. This policy category includes the size of the available capital and the regulatory framework affecting the supply of capital. In addition, the capital can be raised among national and international investors. Governments may influence the size of available risk capital by providing incentives for certain investor types to engage in the market or by simply providing capital themselves. Finally, exit possibilities are also included as they represent a source of capital. Promising exit opportunities affect the investors’ willingness to provide capital in the first place.

According to the ICE policy mapping, the Dutch government has currently six policy instruments in this policy area including the Regional Development Agencies, Tante Agaath, the Growth Facility and TechnoPartner Seed Facility. They have all been described in detail above except for the Regional Development Agencies.

The Regional Development Agencies

The Ministry of Economic Affairs is a majority shareholder in the four Regional Development Agencies (RDA). Also the provinces are shareholders in the RDAs. The RDAs are LIOF (the province Limburg), BOM (the province Noord-Brabant), OostNV (provinces Overijssel and Gelderland) and NOM (provinces Friesland, Groningen and Drenthe). The RDAs are founded to support and finance investments in economically disadvantaged regions in the Netherlands. They act as regional centres in the network between private companies, knowledge institutes and governments/public organisations. Initially they were focused on investment stimulating policy (especially acquisition), however in recent years, also other aspects of their development tasks have been added (e.g. cluster policy, business parks, starters). Next to their development task, the RDAs also have a participation task, predominantly the supply of risk bearing capital for particular segments of the market. Participation by the RDAs in business parks is allowed on a limited scale. Furthermore, the RDAs act as contact point for the Netherlands Foreign Investment Agency and they play a role in implementing programs of the European Structure Funds. The RDAs act closely with Syntens.

The Ministry of Economic Affairs and the provinces subsidize the working costs of the RDAs. The amount of subsidies is dependent on the RDAs' budgets and on yearly basis concrete appointments are made in terms of the products and results that have to be delivered with accompanying output measurements, finance and monitoring. The subsidies are not related to the core tasks of the RDAs, participation. These participations must be self-supporting by generating revenues, which can also be partly used to finance the other tasks of the RDAs. In 2005, the RDAs had collective working capital (on short term available for investments) of € 128 million.

Investment Abilities

The policy category "Investment Abilities" refers to the policy areas such as investors' human and social capital, including investor background and access to investor related networks and associations. Governments can influence the investor's investment abilities through training, courses and diverse networking activities.

According to the ICE policy mapping, the Dutch government has currently one policy instrument in this policy area including the BAN OostNV, which has been explained above.

Some Expired Policy programmes

Since the Dutch government started to implement public risk capital policy programmes in the 1980s, a number of the programmes have expired and been closed down including the Twinning, the Guarantee Settlement Private Participation Societies, DreamStart, High Tech Funds and New Venture. The programmes are described below.

Twinning

Towards the end of the 1990s, in collaboration with a number of market participants the Ministry of Economic Affairs established a start-up fund and a growth fund, which together constituted the Twinning. They were established in order to stimulate and facilitate mainly ICT and entrepreneurship.

Three regional Twinning centres were established (Amsterdam, Eindhoven and Enschede) offering start-ups accommodation, coaching and advice together with financing facilities.

The funds could facilitate investment up to €2 million in public-private partnership. In 2003, the Twinning funds were sold to Pon Holding. Apparently, only a few of the companies that Twinning invested in actually created profit. Looking back, the lesson from the Twinning seems to be that the government should not be in the driver seat in terms of facilitating new funds.

On the other hand, others refer to the moment of the sale of Twinning-firms as the reason for the poor performance. Later on the firms that emerged through Twinning apparently didn't do much worse compared to other firms invested in during the pre-bubble period. In fact, some of them seem to have performed even better than other non-Twinning firms.

Guarantee Settlement Private Participation Societies (PPM)

In 1981, the Dutch government introduced the first guarantee scheme for fund investors. The Guarantee Settlement Private Participation Societies (PPM) qualified institutional risk capital funds with up to 50% of retribution on losses from risk capital investment.

In order to benefit from the scheme, investments had to be less than a certain size and to receive the full 50% guaranteed amount, investors could not exit any sooner than 10 years from the date that the initial investment was made. The Guarantee Settlement Private Participation Societies became very successful and during the mid 1980s, an increasing number of funds were established, whereas the regional funds and captive funds run by banks had so far been the main beneficiaries. A fast exit was prohibited in 1989.

The scheme was discontinued in 1995, as the Dutch government viewed the risk capital market as being well-developed.

Dreamstart

The Dreamstart Foundation was established in 2000 with the objective of improving the prospects for a successful start-up and growth of technology-driven firms. The Dreamstart activities focused on creating awareness about high-tech entrepreneurship, providing access to required information for high-tech firms and assisting high-tech forms in creating useful contacts.

High-tech Start-up Funds

The High-tech Start-up Funds was a co-investment programme set up by the Ministry of Economic Affairs. The programme focuses on providing risk-bearing finance to companies wanting to develop high-tech products. The funds provided hare capital or deferred loans. The funds had around 10 million guilders for investment (\approx €4.5 million). The Ministry of Economic Affairs provided around 1/3 of this capital.

New Venture

The New Venture programme was established in collaboration with private market organisations. It aims at promoting entrepreneurship activities throughout the Netherlands. This is done by business plans competitions and by assisting entrepreneurs in developing

business plans and business potential. Moreover, the New Venture programme offers entrepreneurs support in the form of coaching and seminars.

The BioPartner Programme

In order to strengthen the life science segment, the BioPartner programme was established in 2000. The BioPartner programme aimed at improving the conditions for Dutch life science firms in order to elevate the Netherlands to the international life science elite.

The programme was supported by the Ministry of Economic Affairs and provided services, advice, business information and fund facilitation for seed, start-up and growth firms.

Initially the aim was to create 75 new life science firms. The BioPartner programme was closed in 2004.

Some Private Sector Initiatives

A number of private funds and investment activities are currently organised and taking place in the Netherlands. Some of these private sector activities are described below.

The Informal Investor Networks “NeBIB”, “TIIN” and “Antea Participations”

The Dutch Business Angel Network (NeBIB) was created in 1995 as a private network for informal investors. It operates both nationally and regionally providing matchmaking events and information material and awareness campaigns. NeBIB currently has around 100 business angels affiliated to the network.

The Informal Investors Network (TIIN) is another private business angel network located in the eastern part of the Netherlands. It has around 500 informal investors that invest between €250.000 and €2 million in new start-ups, particularly in ICT and medical firms. Whereas NeBIB spends approximately 70% of its time on promotion activities (books, articles, and providing info to the general audience), the TIIN mainly concentrates on ensuring a sufficient flow of investment proposals to its private informal investors through meetings and matchmaking events.

Antea Participations is an organisation that manages participation funds ‘for entrepreneurs by entrepreneurs’. Currently they have four funds under management, each of about € 30 million. The capital for the funds is supplied by ca. 170 informal investors, most of them (ex-) entrepreneurs. Antea Participations supplies risk bearing capital to SMEs with growth potential and a track record of some years. Also mature businesses in the expansion phase or buy-ins / buy-outs are part of Antea’s target group. Antea is focused on investments of €0,2 - €2,5 million and for larger transactions, syndication between more informal investors and/or other participation companies is a possibility. The average investment amount is ca. €1 million. Next to the supply of investment capital, Antea Participations is also often actively involved in the firms they invest in through the activity of the informal investors who deliver knowledge and expertise.

The New Clean-Tech Risk Capital Fund at Rabobank

Rabobank is one of the biggest investment banks in the Netherlands. It was engaged in risk capital activities from the early 1980s. Most recently, the bank has set up a new clean tech investment fund committing €25 million to early-stage investment in the clean tech area. The reason behind this decision is a wish to target the clean tech sector, but also to increase their market share for risk capital investments in early stage companies.

TERMINOLOGIES

- Policy objectives refer to any formal statements that address certain policy area.
- Programmes refer to all kinds of initiatives, incentives and policies that have been implemented within a certain field. It does not necessarily refer to a full policy package, but include single initiatives as well as broader policies.
- Risk capital is understood as a source of capital provided by private or public risk capital investors to entrepreneurial firms in seed, start-up or expansion stages (pre-IPO stages). Risk capital does not include sources of debt financing.
- Risk capital investment refers to investment made by private individuals (families, founders, friends, business angels) or funds, public funds or institutional pension funds or insurance firms in entrepreneurial firms.
- The demand for risk capital is understood as entrepreneurial firms in pre-seed, seed or expansion stages, which seek risk capital investors.
- The supply of risk capital refers to private and public sources of risk capital, including private individuals (business angels), private or public funds or institutional investors such as pension funds and insurance funds.
- Risk capital investor refers to private and public sources of risk capital, including private individuals (business angels), private or public funds or institutional investors such as pension and insurance funds.
- Entrepreneurial firms refer to young companies in seed, start-up or expansion stages. They are not listed on stock markets.
- Seed stage refers to the stage of an organisation from the start until the end of product development. The product/service is developed, patents requirements are completed and market surveys and team recruitment are key activities. The funds at this stage predominantly come from the entrepreneurs, their family and friends. Only a few business angels or informal investors invest in this phase due to the high risks and uncertainties.
- Start-up stage refers to the period in which the product can be launched. The entrepreneurs are ready to commence their product/service and investments are required in follow-up product introduction by doing marketing activities, producing more products to be sold, and hiring more people. Since the medium risk is still embedded, hence it is difficult to get the fund supported by formal capital institutions. Thus in this stage, the funds are still mainly provided by informal investors/business angels.
- Expansion refers to a period with growth in sales, but not yet profit. The company has gained some orders and starts to expand its current situation. There has been inflow money, but not yet a profit. The fund needed for this stage is used to increase the working capital since production is higher because the demand is increasing and the product/service is more widely known. As business has looked promising due to the prospect of the market and the product, venture capitalists may take a hand as well as commercial banks. Informal investors also still support in this stage.
- Definitions of high-growth firms differ between countries. In this study, high-growth firms refer to firms with high growth rates in employment, sales, turnover or market

shares. The important issue here is not the definition, but to what extent the government has a focus on high-growth potentials.

APPENDIX C: INTERVIEWS IN THE NETHERLANDS

Table 2: List of Interviewed Persons*

Name	Organisation
Jan Dexel	Ministry of Economic Affairs
Dinand Maas	Ministry of Economic Affairs
Jos Hessels	Ministry of Economic Affairs
Bart Heuts	Ministry of Economic Affairs
Martin Stutterheim	TechnoPartner
René Kuijten	Life Science Partners, Investment Fund
Rolf Metz	Ecart Invest, Investment Fund
Ben Lacor	NeBIB, National Business Angel Network
David Lauwen	The Dutch Venture Capital Association (NVP)
René Reijtenbagh	OostNV, Meesters van de Toekomst
Pieter den Bok	Venturion, Informal Investors Fund
Paul Terheegde	Brabantse Ontwikkelings Maatschappij (BOM), Regional Development Agency
Willem van den Berg	The Informal Investors Network
Hans Schut	Triodos Investments Management, Investment Fund
Albert Jan Slomp	Rabobank, Private Equity Unit
Frank Claassen	Newion Private Plus Fund
Joop de Jong	Port4Growth, Entrepreneur Organisation
Peter den Ouden	Syntens, Entrepreneur Organisation
Bert Twaalfhoven, Hilversum	European Foundation for Entrepreneurship Research (EFER)
Martin Noordzij & Suzanne Drion	VNO-NCW

* Note: All interviews have been conducted by Jeroen van den Heuvel from the Dutch Ministry of Economic Affairs and Glenda Napier from FORA.

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