Interreg - IPA CBC

EUROPEAN UNION

EMPLOYOUTH

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CREATING EMPLOYMENT OPPORTUNITIES OF YOUNG GRADUATES IN THE CB AREA

Access to available financial means for startups

Most common funding options for startups

The project EMPLOYOUTH is co-funded by the European Union and by National Funds of the participating countries

Access to available financial means for startups

Introduction

EMPLOYOUTH project aims to implement a comprehensive package of actions that will have as final result the entering to employment of highly educated people and the emergence of prospects based on competitiveness, productivity and innovation.

The intervention includes a holistic package of measures which will utilize the valuable human capital of the two countries in the labor market with ultimate objective of exchanging qualified personnel, improving the competitiveness of the two economies and strengthening regional cohesion in the border region.

Project Objectives

- Creation of a dynamic entrepreneurship culture
- Investment on human capital as one of the most valuable resources of the cross border area for promoting economic activities
- Development of entrepreneurship and conditions facilitating job creation
- Enhancement of skills and boost of human potential

Expected results

- Build on existing potential of the region
- Focus on educated youth to create jobs
- Limit the brain drain phenomena the two countries are facing
- Enhance the attractiveness of the region for young entrepreneurs

Target groups

Potential entrepreneurs will be supported to develop a viable business plan based on their own innovative idea

Existing entrepreneurs with different backgrounds and with long experience in the business world will present their company, highlight success stories and difficulties encountered in their entrepreneurial route.

Contents

Types of funding

Access to funding is one of the most significant challenges a startup may face especially in the first years of its operation. Although there may be a brilliant innovative idea, lack of funding is one of the reasons that a start up may fail especially during the idea validation until the market entry.

There are traditional sources of funding available such as by own funds or bank loans, but also there are emerging alternative methods widely used, such as "crowdfunding", business angels, and venture capital, which are the most popular source of financing.

The best timing to raise funding depends mostly on the nature and type of the business. But once you have identified the need for fund raising, below are listed the most common available funding options for startups that will help you raise capital for your business.

1. Bootstrapping method

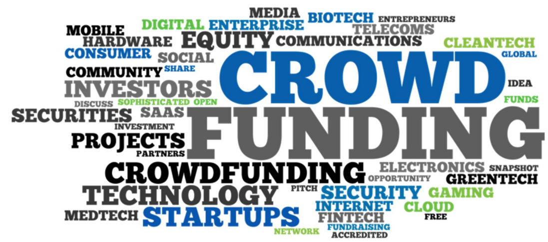
Self-financing, also known as bootstrapping, is an effective way to finance a startup, especially at the early stages of running the business. Basically it means that start-ups build the company from scratch with their own funds, without any external financing and cover the expenses only from their income.

The use of this method of financing is possible only if the company does not require a large investment in the early stages of its development. The advantage of this approach is that the entrepreneur retains complete control and allows him to put all his efforts in the product/ service provided.

It is of course a rather difficult way to follow, as the start up founders take all the financial risk and often with very limited resources that might limit growth. Therefore, it is wiser not to use our own funds directly for purchasing equipment but to use it as a working capital to pay the staff, rent, taxes especially in the first months of operation.

The benefits of bootstrapping are many. Initially, starts up founders are not forced to "frozen" their idea, in order to look for investors. Instead, they utilize all the time in the best possible way to develop more data and gain the customer traction, which will allow them to raise funds from investors on better terms in the future. At the same time, it has been proven that entrepreneurs who finance their project with their own funds show greater responsibility, maturity of decisions and commitment to the success of their startup.

2. Crowdfunding



Crowdfunding is a new popular method raising funds from a large number of stakeholders, mainly through internet platforms. While crowdfunding was originally associated with the financing of various community projects or art forms, it has recently emerged as a method of raising funds for start-ups. It is usually referred to as an open internet call to the general public to fund specific projects.

The central idea of crowdfunding is to raise money from a large number of people through the internet. The constant rise of the internet and social media has made it possible for many people to gather and communicate, often referred to as the "crowd". Companies, platforms or individuals approach this crowd in order to raise money for a specific project, business idea or business (crowdfunding).

Even if a crowdfunding campaign is not successful, the effort made has already generated publicity, interest and feedback from the public. All of this is as valuable as the amount of money you need and it might eventually attract venture-capital investment given a successful campaign.

There are several crowdfunding types, the most common ones used by start-ups are peer-to-peer (or marketplace) lending, equity crowdfunding and reward based crowdfunding.

For more info visit: https://ec.europa.eu/growth/access-to-finance/funding-policies/crowdfunding_en

www.eurocrowd.org

3. Business Angels

Many start-ups use personal funds to prove to potential investors that they can engage their first customers. Following this path makes it easier to reach out to business angels willing to finance your start up.

Business angels (informal venture capitalists) can play an important role in providing capital to start-ups. They also provide consulting services and guidance (formal and informal) thus contributing significantly to the development of startups. Business angels are usually extremely wealthy individuals who want to invest some of their surplus capital in new businesses. Often, these individuals are highly active entrepreneurs with significant experience managing their own companies. Business angel networks provide matching services, bringing potential investors in contact with startups.

Business Angels invest in startups usually in exchange for convertible debt or a shareholding in the start-up. This source of private capital, business skills and networking has become an increasingly important way for start-ups to finance their development and growth offering them the opportunity to take theirs first steps in the market.

Business angels are willing to take more risk based on a good business idea expressed though a teamwork rather than on purely technical-economic criteria and usually they invest in the early stages of a business life cycle while providing networking and mentoring.

Business angels as a funding option has its shortcomings too as they usually invest less amounts than venture capitalists. The amount of funding can range from a few tens of thousands of euros to 2.0 million euros, amounts that VCs and banks do not cover when it comes to start-ups.

For more info visit: https://www.eban.org

4. Venture Capitals

It is a kind of private investment granted to new, innovative and promising companies in exchange for a percentage of the shares and extends over a period of 3-7 years.

VCs ("venture capital funds" or "innovative funds" or "venture capital funds") are organized funds of investors who make high-risk investments in new startups, usually in innovative technologies for an ownership stake or equity in the company. Venture Capitalists invest much larger amounts compared to Business Angels (another main difference being that BA invest in an idea, while VCs will invest after the company has taken its first steps and showing first results and progress).

Venture Capital (VC) investors are only interested in business ideas with high growth prospects and with an experienced and ambitious team, able to turn its business value proposition into a profitable company.

The range of VC participation is related to the anticipated risk and expected profits of the start up and focuses on emerging start-ups seeking funds for the first time. Venture Capital companies however are not limited to the provision of funds but also provide assistance in terms of management, marketing, staffing and strategic planning of the start up.

One substantial advantage of financing through VCs is that in case of the start-up's fail, VCs do not claim any refund of the invested funds, i.e. there is no obligation of guarantee prior to the investment, no obligation to repay.

However, there is also a negative side of Venture Capitals as a funding option. As in many cases, the risk for investors is particularly high, their expectations for expected profits increase with the expected annual rate of return on investment being very high. In other words, VCs often decide to recover their investment within three to five years.

For more info visit: https://ec.europa.eu/growth/access-to-finance/funding-policies/venture-capital_en

5. Bank loans

Bank loans are the foremost commonly used source of funding nowadays. The amount of loan, the rate of interest and the repayment period are among important issues that a startup must consider of before deciding to apply for a loan.

Even tough, in some counties there are governmental guarantees that help to get the loan with lower risk and collateral than in normal conditions.

Banks offer two major categories of business loans:

A. Working Capital Loans, which are short-lived and are intended to improve the liquidity of the business

a) Open or revolving loans and

b) Current accounts

B. Long-term loans that include installation loans and professional equipment loans. They have a lower interest rate due to their longer repayment period.

a) Business facilities loans

b) Loans for the purchase of fixed equipment

The recent financial crisis had an impact on startups financing and has made it even harder for a loan to be approved. Bank institutions are now also asking for higher loan collateral from borrowers and enforce tougher credit criteria and requirements, but startups do not have any credit history or current assets to show.

6. Microcredits

Microcredit (also known as microfinance or micro-loans) refers to low interest rate loans up to 25.000,00 euros, which do not constitute a bank loan and are granted exclusively in accordance with specific law provisions. These loans are intended to increase the liquidity of individuals and startups, which normally could not be financed by credit institutions, as they do not have to offer any collateral. The amount of the loan can be used both as working capital and for development expenditure.

Microcredit is usually provided by specialized institutions and the evaluation of beneficiaries is not based on criteria of funding credits that applied by banks, but in sociopolitical criteria.

Lending ratings and decisions are based not only on the financial data provided, but also on the qualitative characteristics of the borrower such as character, skills, personal commitment, integrity and experience. These elements are evaluated in perfect combination with the business idea and with a realistic plan for how the borrower will use the financed amount. The aim is to create sufficient cash inflows so that they can repay the loan without any problems.

The assessment of a microcredit application is different from that of a traditional loan. The approval process is more flexible and fast, as no evaluation costs and guarantees are required. However, as microcredit is still a form of credit your application should highlight a viable business, in which it is worth investing.

For more info visit: https://www.european-microfinance.org

7. Business Incubators & Accelerators

Incubator and Accelerator programs may be consider by startups as a funding option. These structures, located in almost every major city, support hundreds of start-up companies each year.

There are few key differences between incubators and accelarators. Incubators are organizations that support startups in the very early stages of their development by offering them access to office facilities, financial means, mentoring by experienced experts, and support their networking with other similar companies and business intermediaries.

Business Incubators are landscaped spaces, which are created to provide an environment that offers technical and business infrastructure and special services for a period of time. The aim is to facilitate the start-up and development of new innovative businesses, which then move to their own premises and are replaced by other newer companies. They form a unique and highly flexible combination of business development services (mentorship, trainings, matchmaking etc.), infrastructure (office facilities, open office, meeting rooms, etc.) and people offering the opportunity to enhance the growth of a startup company by helping them to survive during their early stages of development.

Business incubators are usually designed for the startup companies or full-scale teams who have validated their business model, built the MVP or prototype, and are ready to launch the product or service on the market.

Business incubators are normally not investing money to the startup companies, but some programs tend to have a system of grants or other financial support available. The services of the business incubator are usually not for free and the entrepreneurs need to pay some fee (that is relatively low compared with the service fees in real market conditions).

On the other hand, startup accelerators are structures / programs aimed at strengthening and supporting start-ups, in order to pass from the stage of preparation to the stage of launching the company. Accelerators offer professional advice and guidance to start-ups, but it is not required to offer hosting facilities. The main role that accelerators play is to help businesses move from idea to product, providing them with guidance and / or financing at an early stage.

Accelerators provide a mix of education, finance, guidance and access to a network of experienced consultants. They focus on growth and run over specific time periods that boost product development.

For more info visit: https://ebn.eu

8. Participation in start-up competitions

Start-up competitions are emerging as an important tool for financing but also as tool for promotion and provision of consulting to start ups and have been growing steadily in recent years. Such competitions are taking place worldwide each year and have helped winning startups to explore the opportunities for fund raising.

It does not necessarily mean that by winning in a start up competition you have reached the top of the hill and you should leave the efforts for further development.

There are cases where start-up teams that have won tens of thousands of euros are not even on the map today due to wrong choices and behaviors. In other words, competitions and cash prizes provide the first step and only those who have a clear strategy and their "mind in the head" take advantage of the opportunity given.

It is essential that when a startup participates in such competitions, their project idea must be noticeable. It should be presented in a way that can convince anyone that the idea is worth investing in.

Increased visibility, valuable feedback, media coverage and networking are among the benefits of participating and – why not – winning the competition.

For more info visit: https://startupeuropeawards.eu/

9. EU Funding Programmes for Startups

EIC Accelerator

The EIC Accelerator or as previously known as the SME Instrument is one of Europe's strongest programmes for startups. The programme provides funding opportunities and offers coaching and mentoring services to startups in order to develop and commercialize new innovative products and services.

Participant projects may receive either up to €2.5 million in grants or up to €15 million in blended finance (investment in equity in addition to the grant).

For more info visit: https://ec.europa.eu/easme/en/eic-accelerator

EIT Knowledge and Innovation Communities

The European Institute of Innovation and Technology (EIT) is an EU body set up by the European Union in 2008 to strengthen Europe's innovation capacity. The EIT is an integral part of Horizon 2020, the EU's research and innovation framework program.

The Knowledge and Innovation Communitiesfocus on finding solutions to a specific global challenge: from climate change and sustainable energy to healthy living and food.

For more info visit: https://eit.europa.eu/our-communities/eit-innovation-communities

Erasmus for Young Entrepreneurs

Erasmus for Young Entrepreneurs helps ambitious European entrepreneurs acquire the skills needed to start and / or run a small business successfully in Europe. Young entrepreneurs meet and exchange knowledge and business ideas with an experienced entrepreneur, with whom they live and work for a period of 1-6 months. During the exchange programme they acquire key skills such as sales, marketing, accounting, customer relations and business financing. The accommodation is partly funded by the European Commission.

For more info visit: https://www.erasmus-entrepreneurs.eu/index.php?lan=en

Calls for calls for proposals and tenders

The European Commission and its funding bodies publish calls for proposals regularly on the Funding & Tenders Portal regarding public funding to assist start-ups in their development and economic growth.

For more info visit: https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/competitive-calls

Supportive Networks

If you qualify for EU funding to start or expand your own business you can get help to gain access to EU funding opportunities by contacting the following networks:

- The National Contact Points

https://ec.europa.eu/easme/en/section/horizon-2020-national-contact-points-ncps

- The European Enterprise Network

https://een.ec.europa.eu/

- Europe Direct

https://europa.eu/european-union/contact/europe-direct-answering-your-questions-about-eu_en

By way of conclusion

Different sources of funding are suitable for different kind of entrepreneurs and different business ideas. The first thing a startup needs to do is to think about how much money is needed and where it will be used.

Funding needs vary depending on the type and size of business. After considering all the available sources of funding and coming up with the one that best fits in, startups should work to meet the required criteria that this form of funding may set.

In most cases the business plan plays an important role. A good business idea imprinted in a good business plan has a great chance to lead to achieve the goal which is raising capital.

The biggest challenge for a start-up is to formulate the appropriate financing framework for its activity, as the financial needs of a company follow the changes that take place in the markets and the wider economic environment.

Decisions to finance a start-up are crucial for the start-up, especially when it is in the so-called "death valley" of the investment cycle, i.e. when the start-up is in its infancy and has no income but rather expenses.

The financing methods available today provide multiple opportunities for startups. So before you decide on a way of financing, do a thorough research and find the way that exactly fits the profile and needs of your business.

Funding is essential for startups as they can further strengthen the efforts to achieve three key objectives:

- The further expansion of the turnover in the areas where they operate as well as in entering new markets.
- The continuous improvement of the product / service they provide
- The creation of a healthy organization that will continue to attract and develop talented professionals.

If you want to grow really fast, it would be wiser to ask for outside sources of funding. This is because by leaving your startup without external funding for a long period of time, you may not be able to explore and exploit market opportunities that may arise.

However, the most appropriate option should be a combination (optimal) of internal and external financing. What this combination will be and in what correlation (absolute amounts or %) will depend both on the ability and the intention of the entrepreneur to risk his own money, as well as his ability to convince someone else to lend him money.

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