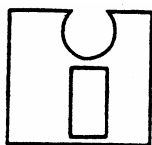


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**PARTNERING WITH VENTURE CAPITALISTS AND FINANCING THE  
DEVELOPMENT AND COMMERCIALIZATION OF INVENTIONS  
(SEED FINANCING, ANGEL FINANCING, VENTURE CAPITAL)**

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## I. INTRODUCTION

1. UptonowonlytheUnitedStatesofAmericahasafullyestablishedsystemfor nurturingitshigh -technologyresearchersandentrepreneursbyhelpingthemrealizethe commercialpotentialoftheirinnovativeideas.Commercialexploitationofadvanced technologyisvitaltoeconomicgrowthandtothegenerationofnewemployment opportunities.ThefutureprosperityoftheEuropeanUnion(EU)andthecountriesthathave appliedforEUmembershipdependsonit.EvenfortheEU(andofcourseforthecountriesin transition),theattitudetothe start -upofanynewventurehasuntilrecentlybeencautious, especiallywhentheventurehasbeenbasedontechnologicalinnovation.Beingawarethat thereisalackofentrepreneurialskillsamonginventorsandresearchers,thosecountries,like therestoftheworld,havetofindwaysofensuringthefinancialbackingthattheyneed.

2. Lookingatthefiguresfortherateofunemploymentandinvestmentinresearchand developmentitiseasytoconcludethatthecountriesthathaveinvestedmostinresearchand innovationarethosethathavecreatedthemostjobsoverthelasttwodecades.Inspiteof excellentscientificabilities,thecountriesfromtheformerso -calledSocialistbloc(whynot theEUitself?)sufferfrom“innovationdeficit” -wheresuccessfulresearchfailstotranslate intocommerciallysuccessfulproducts.Thegapbetweeninventorsandsmall innovative enterprisesontheonehandandthefinancethattheyneedontheotherisoneofthemajor factorscontributingtothisdeficit.

3. Turningtheresultsofasuccessfulinventionorprojectintoatechnology -basedbusiness ventureisveryoftenmoredifficultthancarryingouttheresearchworkitself.Thedifficulty offindingthemoneytostartupanewcompanyorbusinesspreventsmanyventuresfrom beingactuallysetinmotion.Inthispaperwearegoingtopresentwaysoffinancing exploitationofnewinventionsandresearchresultsbyinter -linkingfinanciers,investorsand inventors,andalsoinitiativesformobilizingprivatecapitaltofinancesuchinnovative projects.

## II. WHOAREVENTURECAPITALISTSANDWHATSHOULDENTREPRENEURS PREPARE?

4. Venturecapitalisoneofthemostimportantsourcesoffinanceforinnovativegrowth companiesandinventorswhoarestartingtheirownbusiness.Venturecapitalconsistsof fundsraisedbyspecializedoperatorsonthecapitalmarket.Venturecapitalistsbuysharesor convertiblebondsinthecompany.Theydonotinvestinordertoreceiveanimmediate dividend,butratheretoallowthecompanytoexpandandeventuallyincreasethevalueoftheir investment.Hence,theyareinterestedininventorsandinnovativecompanieswithveryrapid growthrates.

5. Beforecontactinganyventurecapitaloperator,inventor -entrepreneursshoulddrawupa clearandsolidbusinessplan,andinformthemselvesonthe precise natureofventurecapital andothertypesoffinancing.Thebusinessplanisadetailedstatementofthecompany's presentcircumstancesandofitsstrategyforthefuture.Tostartuphisnewcompanythe inventormustexplainwhyhethinksthatthebusinesssthatwilltakehisinventioninto manufacturingandonthemarketwouldbesuccessful;healsohastoexplainwhatis uniqueaboutit.Thisexplanationshouldspecifyindetailthebasicassumptionsofthe businessinorderto clarifymanagementthinkingandestablishmilestonesforfuture development.Thebusinessplanmustgivearigorousdemonstrationoftheproposed venture'scommercialviabilityandhighgrowthpotential.Itshouldcoverallaspectsofthe

business, from its marketing strategy, its competitors and its potential customer to its management and finances, and its annual sales forecast and targets. Typically, the plan will cover the next five to seven-year planning horizon.

### III. THE EUROPEAN WAY OF FINANCING INVENTORS AND ENTREPRENEURS

6. The First European Action Plan for innovation identified four levels of action to improve innovation financing:<sup>1</sup>

A. fostering venture and equity capital investment, particularly for new enterprises (so called "seed capital") and high growth companies, a major source of new jobs;

B. developing a trans-European capital market for innovative enterprises (as a counterpart to NASDAQ in the United States);

C. improving connections between innovation operators, starting with participants in the Community's research programs and financial circles;

D. fostering access to long-term bank finance for advanced technology companies generally.

7. Since 1984, even before the First Action Plan, the European Commission has encouraged and supported the development of the European Venture Capital Association (EVCA), which brings together the vast majority of professionals. The Association is now fully self-financed; it has more than 350 venture capital operators from 30 countries (meaning almost all European countries, not just EU members). When they started in 1984, there were only 43 members. The main purpose of the Association is to promote venture capital among institutions and decision-makers in order to create an environment that lends itself better to this type of investment.

8. During the last decade the EU has supported the creation of the European Association of Security Dealers (EASD), an association of 75 bankers and venture capital operators which initiated the introduction of the European Association of Security Dealers Automated Quotation. Similar markets were set up in London, Paris, Frankfurt, Amsterdam and Brussels, and in Italy. As already said, their aims, structures and operating rules are generally inspired by the tried and tested principles of the United States NASDAQ. They offer a wide range of potential financing, and the opportunity for investors to acquire a stake in innovative companies while avoiding the difficulty and expense of international transactions. In 1989 a project was launched by the European Commission which supported 23 seed capital funds in eight Member States. The new project was called the European Seed Capital Fund Network (ESCFN).

9. Today, there are several other programs financed by the European Commission:

A. I-TEC (Innovation and Technology Equity Capital) Finance is a pilot project that aims to foster the investment of start-up capital in technologically innovative small and medium enterprises. The Commission's financial contribution covers a part of the initial evaluation and management costs of investment, up to a maximum of 500,000 euros per investment fund. This fund can be used to finance access to information services on the

<sup>1</sup> "Attracting capital to major companies... when they are still small business." *Innovation and Technology Transfer*, November 1997.

global market and intellectual property rights. The total sum set aside by the European Investment Fund is 75 million euros.

B. I-TEC Partner is a pilot project designed as an interface between Community research programs and the financial sector.

C. I-TEC Info's principal activities are studies and analyses, comparisons between countries, sectors and types of operator, the organization of meetings between innovative enterprises and financiers and investors.

D. LIFT (Linking Innovation Finance and Technology) is a project that enables researchers and inventors to understand the financial world better, to produce a quality business plan, to assess whether or not they are ready to contact investors and financiers and to approach these investment sources effectively. It is based in Luxembourg. Researchers, inventors and entrepreneurs looking for assistance can access LIFT directly, both online and offline. A multinational team of innovation, business support and financial specialists is on hand to offer advice. LIFT also provides a wider range of products and services including:

(a) a comprehensive information package as a self-assessment tool to help entrepreneurs assess their venture;

(b) assessment of ventures as a toolkit for checking business proposals against a number of criteria, including market potential;

(c) preparation of a technology business plan;

(d) financing innovation – a guide reviews the sources of funding available to inventors and entrepreneurs;

(e) seminars and workshops to afford a better understanding of the financial world;

(f) a helpdesk for individual assistance;

(g) specialist services such as business plan feedback, a database of all high-tech investors in Europe, and advice on how to obtain assistance from other third parties.

E. FIT (Finance - Innovation - Technology) aims to promote European initiatives in financing innovative technology through surveys and analyses, collective discussions and publicizing effective methods of financing innovation. FIT action focuses on:

(a) guarantee mechanisms and their role in making finance available for innovative high-tech firms;

(b) technology appraisal methods and their use in making investment decisions;

(c) informal investors such as business angels and similar non-institutional financiers;

(d) spin-off and spin-out of exploitable research results from universities and how to convert them into business start-ups.

F. The Gate2Growth Initiative's prime objective is to support innovative entrepreneurs in Europe; it aims to help service providers improve their capacity by fostering networking and the exchange of experience and good practice at the European level. These providers include early stage venture capital investors, managers of technology incubators, managers of industrial liaison and technology transfer offices linked to universities and research centers and academics engaged in entrepreneurship, finance research and teaching. Gate2Growth provides tools, infrastructure and support services for the benefit of both innovative entrepreneurs and their supporters.

#### IV. BUSINESS ANGELS

10. Business angels are wealthy individual investors – usually people who have made their own money as entrepreneurs. Usually better equipped than banks and most venture capital funds to assess the potential of very young businesses, they contribute not only equity but much-needed business expertise, offering company founders hands-on support and advice. Angels bridge the gap between the personal savings of inventors and their families and friends – often an important source of seed capital – and the “second round” financing that venture capitalists can offer. Investors of this kind are growing rapidly in Europe thanks to regional and national Business Angel Networks (BANs). These networks are helping to increase the number of active business angels and to stimulate informal investment in a growing number of member States. In the opinion of the vast majority of entrepreneurs business angels offer “smart money” compared with venture capitalists. Traditional European venture funds are not sufficiently specialized in specific technology, and it is possible that in the future they will be replaced by mega-angels, syndicates and structured networks of business angels operating as venture capitalists.

11. Six different types of business angels are recognized: entrepreneurial, corporate, income-seeking, wealth-maximizing, latent and virgin. If they were asked what the prime reason was for not investing, all would volunteer the lack of proper business proposals. Proposals are often very badly written and contain suspect data, or they do not match the angel's interests. So, once again we emphasize the value of having a well-prepared business plan before asking for any kind of assistance from venture capitalists, seed financiers or business angels.

#### V. CONCLUSION

12. Venture capital is one of the most important sources of finance for innovative growth companies and inventors who are starting their own business. It consists of funds raised on the capital market by specialized operators who buy shares or convertible bonds in the company, not investing in order to receive an immediate dividend but to allow the company to expand and eventually increase the value of their investment. Access to venture capital needs an excellent business model and a well-prepared and realistic business plan.

13. Business angels may be more interesting for inventors since they may not only provide financial assistance, but also advice, guidance and networking.

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