FINANCITES

- A social capital venture company
- Created in 2007 and financed by private and public funds
- Aiming at financing the growth of small enterprises implanted in underpriviledged urban areas (ZUS)

Governance bodies and structuration

- Public and private shareholders:
  - Public (50%): IDF Region (31%) and CDC (19%)
  - Private (50%): HSBC (15%), BNP (15%), CNP (8%) and others (12%)
- Governance bodies:
  - A supervisory board
  - A board of directors
  - An investment board
- Team:
  - CEO
  - 1 business officer
  - 60 volunteers

SOCIAL BUSINESS MODEL

The objective assigned by the shareholders: generating enough profit to cover costs and investment losses while creating wealth in underpriviledged urban areas.

TARGET

Small growthing enterprises (less than 10 employees) located in underpriviledges urban areas (ZUS) or run by entrepreneurs coming from these areas.

UNDERPRIVILEDGED URBAN AREAS

- Theses areas concentrate a variety of difficulties:
  - Unemployment
  - Community phenomenon
  - Poverty
  - Exclusion phenomenon
- Solutions for populations living in these areas: the creation of their own jobs

ENTREPRENEURS FROM UNDERPRIVILEDGED URBAN AREAS

- Mainly caracterised by:
  - Low education level
  - Low management knowledge or experiences
- Financing exclusion:
  - from banks and other financial institutions
  - Phenomenon of self-exclusion

Most of these enterprises are financed thanks to the savings of the entrepreneurs, and of their families and friends (love money)

THE FINANCIAL ISSUE OF GROWTH FOR THE ENTERPRISES

The development of an activity often requires more working capital than the quantity planed at the launching of the activity. But:

- The bank doesn't finance the growing capital (the phenomenon is aggravated for enterprises coming from underpriviledged urban areas)
- The capital venture companies only finance activities for wich the profit expected is high enough compared to the existing risk of losses (ROI expected: 15%)

FINANCITES'S MODEL

- Criteria of eligibility: subjective and objective criteria
- Amounts invested: from 25K€ to 125K€
- 2 types of intervention: equity or participating loan

CRITERIA OF ELIGIBILITY

- Objective criteria:
  - A link with an underpriviledged urban area
  - At least one year of turnover
- Subjective criteria:
  - A strategy of development
  - The entrepreneur must be evolutionary (mentorship)
  - The entrepreneur must be carefully with spending money

EQUITY AND PARTICIPATING LOAN

- From 2007 to 2012: only equity
- Since 2012: equity and participating loans
  Why this evolution?
  - Very low perspective of selling the entreprise's shares with a capital gain
  - Weak management capacities
  - Low level of education

EQUITY

- Purchase a minority part of the shares of the enterprise
- Limited partner
- 5 years
- From 25K€ to 125K€
- Business model:
  - Instruction fees: 1,5% amount of the financing
  - Capital Gain if succeeding to sell the shares to a price higher than the one paided when investing (ROI expected: 5%)

PARTICIPATING LOAN

- 5 years
- No postponing possible
- From 25K€ to 125K€
- No warranties
- Interesting rates: between 7% and 10%
- Instructions fees: 1,5% of the amount of the financing

A less risky financing tool but in the same time less profitable

	Advantages	Inconvenients
Equity	The money remains in the entreprise Credibility toward partners	Complexity of the former associate contract Intrusive
Participating Loans	Les intrusive Easier Credibility	The money doesn't stay in the entreprise (need cash flow)

THE FINANCING PROCESS

7 steps

1. Checking the eligibility (objective and subjective criteria) – *1 week after first contact*
2. Instruction (economic, financial and human) – *2-3 month after first contact*
3. Agreement of the boarding of directors
4. Agreement of the shareholders
5. Negociation of the financing condition – *between 1 week and 2 months*
6. Mentoring
7. Outgoing - *between 1 month and 1 year*

TRACK RECORD

- Capital stock: 6,5M€
- 50 companies financed since 2007
- 3,2M€ invested since 2007 (average amount: 64K€)
- 38% failures (19 companies)
- 4 outgoing at the nominal price
- Actual portfollio:
  - 28 enterprises
  - 1,2M€ invested – Net Value of the portfollio: 851K€
  - 144 created jobs

CONCLUSION

- FinanCités is still looking for the right way to achieve its aims while being profitable
- It is complicated because of:
  - The special target (non educated and no management skills, small amount invested that lead to small profits)
  - The specificities of the venture sector: a very risky sector even when not considering the specificities of FinanCités
  - The asymetries of informations
- Experience shows that we must pay a lot of attention to the mentorship question with the aim to overtake the humans weakness and so on, to rise up the probability of succes for FinanCités.
- **But, how to finance it?**