

## **Interview: Vida Económica**

**1 – A great economic flag of José Sócrates' Government is the Technological Plan. There are people who claim it is too vague. Are you of that opinion too?**

Sincerely, I have some difficulty in pronouncing myself about a theme that, although it is the current flag, until this moment only tried to sensitize the civil society to the importance of the creation of reference boards to allow the Portuguese to be aware that the world changed and that it is necessary for them to adopt a more flexible and proactive attitude, based in innovation, networking and technology. Naturally that this fact, for itself, will evidence its virtues, but unfortunately makes me remember of consultants that only create their scenarios leaving an “empty” when it is necessary to give them the empirical and executable accomplishment, and without which, in this concrete situation, can not give a effective contribution to turn Portugal into a country more competitive and with more opportunities.

Effectively, the set of strategic targets settled in the Technological Plan is important to the country, however, the useful effect will depend, inevitably of a suitable framework in a strategic vision that will be mostly mobilization dynamics and that connects it to a development project in Portugal.

**2 – A Plan that bets strongly in areas like entrepreneurship, innovation, technology. Could this be the right model to introduce these concepts in the Portuguese society? Are there already any changes?**

Professor Jorge Vasconcellos e Sá in his classes of Strategy, and to give a better perception about its importance in the business success, often asks to his students if they want to be happy, obviously gathering always the consensus in the affirmative answer to this question.

However, the problem is not in waiting to be happy, but how to be happy!

Well, besides being too soon to see any kind of change minimally structuring, I consider that the model, no matter how suitable it, at its conception level,

evidences itself in all its slopes through a strong bet in the referred areas, will only be a necessary but not sufficient condition to the effective implementation of concepts like entrepreneurship, innovation and technology in the Portuguese society. And so the strategic objectives defined in this model will be no good – and in that extent will only be mere objectives – if they are not accomplished in practice, by the right people and using the suitable means, a set of coherent and wise initiatives, which allowed an effective operationalization of these concepts.

In this matter, I consider that the confusion present in the recent past in the orientation of the mentioned Plan and, more recently, the non existence of meetings with the Consultive Council, due to agenda reasons, will be examples enough to understand what I was saying.

**3 – The Portuguese economy is still stagnant. We are talking about a consequence of structural problems or a lack of efficacy in the economic policies of the government, and also, of this Technological Plan?**

Naturally that a country that continues to base its organizational model in principles of an Industrial Economy and not in a Knowledge one (see Table I attached) can not, in a short term, present any kind of positive performance, no matter how much economic measures the governments decided to introduce in their mandates aimed to fight against the low productivity and growth in the Portuguese economy.

**4 – The decrease of the foreigner direct investment is, among others, one of the indexes that leave us in a bad position in terms of ranking. Does this mean that Portugal is a country where it is not worth risking? Do we present too many risks? Do you notice any will – like, for example, in bureaucracy – of diminishing them?**

In the current state of the World Economy, the competitiveness for the interest in investors that cast anchor in significant investments, has become complex because they put in the same category a country with 1000 million people like India or a country of 10 million like ours. In this scenario, it is not surprising the

inexistence of differencing factors in our country relatively to many other countries that like us compete for the mentioned funds, does not make it attractive to the radars of the world Great Economic Groups.

In my opinion, more important than the bureaucratic and tax matters, that in some concrete situations do not show themselves determinant – for example Siemens that continues increasing their investments in Portugal, at their excellence centres level, independently of the existing bureaucracy - despite of, obviously, being sensitive subjects by the time of decision making, it is important to have an interesting offer, by the entrepreneurial community, at the level of products and services which can satisfy a need at global scale. That is why we have to concentrate in creating a true **Entrepreneurial Ecosystem** – in which the main value is not only knowledge but also compromise, global vision, energy and passion – with capacity to generate the services that the market needs at the global scale and, next, identify the kind of investors that can leverage these projects, in stead of fighting for investments that all countries want, namely the ones of the large automotive plants.

**5 – It is still hard to turn to venture capital. What is lacking to leverage this sector? The role of the state in this area is far from what would be expected?**

Portugal has seen in past year, for the first time in 20 years of venture capital, a true potential environment for the entrepreneurial activity, mainly due to the excellent performance reached by Private equity Companies, where the State as significant shareholding majority. In this period, I can assure that all the young entrepreneurs, which have projects of high potential of growth and valorisation and are based in a good management team, managed to obtain the necessary capital to the start-up of their projects, independently of their activity areas and even of the involved amounts.

We should refer, as clarifying examples, the case of Alfama that “picked up” €3 million, Bysat with €365 thousand or even Bricopólis that “picked up” €50 thousand.

This period will, surely, be recorded in the national venture capital history, for the first time, the number of projects supported in seed and start-up stages (see

Table II attached) overcame the accomplished investments in expansion stage in which, as known, the maturity state of the projects decreases significantly the risk and, thus, directs often many more investments.

Due to these facts, I think that the State's role was, for the first time, harmonized with the needs of the Portuguese young entrepreneurs, as we can see by the large amount of projects that since the beginning of the current exercise are knocking at the door of Portuguese venture capital companies, namely the public ones.

### **6 - Venture capital and ventures are a credible alternative in a moment like this that we are living in, in Portugal, in economic depression?**

It is important to refer, firstly, that venture capital operators invest in projects that have good management teams, which identified a good market opportunity, preferentially at global level, and that have a solution, independently of being one at technological level, manufacturing or commercialization. After verifying these conditions, the investment probability, by private equity companies, will certainly be an independent fact of the underlying macroeconomic conditions.

As we can see by the American experience it is frequent, in times of higher unemployment rates, that several projects with higher grade of uncertainty take place once that entrepreneurial potential knows that only the ones that can offer disruptive solutions with the conventional "modus operandi" can make the difference, and allows obtaining good surplus value of the investors.

### **7 – Although the path is yet long for this venture capital area, is there an economic sector that evidenced itself for turning to this support frequently?**

In last year, the biotechnology sector revealed a great vitality in the access to investments through venture capital, once that were accomplished several operations, such as Alfama €3 M, Biotecnol (€1,3 M), Bioalvo (€1,3 M), Biotrend (€0,425 M), Biosurfit (€1,28 M), Biocodex (€0,06 M), Bioteca (€0,47 M), Imunostar (€2,17 M), Genetest (€0,178 M), Space (€0,330 M), Micropolis (€0,06 M).

We might add that the referred projects were, in most cases, in a seed capital stage, i.e. at the conception and/or prototype. This is a very clarifying fact on the potential of the National Scientific Community, that when has, for the first time, an adequate offer, by the national private equity companies, foresees good successes in a near future, mostly by demonstration effect, it will produce near the referred community.

It is also important to evidence that the launched project by Bioalvo's entrepreneurs (which has a solution that can help do decrease significantly the effects of paramyloidosis and financed with €1,3 millions by PME Investimentos), has currently as competition a project financed by an American private equity company near €5 million that, for its turn, has in its management team a young Portuguese scientist living in the USA, also believe to have the key to eliminate the mentioned disease.

This example is for itself significant of the excellent work produced in Portugal in the research area and by the venture capital operators, mostly of the state, that believe in the entrepreneurial potential of our young people, though they recognize that, just as like their American congeners, despite of what one may think, the high uncertainty of the success for the mentioned projects.

This example, applied to the biotech area, evidences itself as a strong motive to bet, in a more consistent way, in financing through, in projects leaded by qualified entrepreneurs and backed in innovation.

Over this, I will not hesitate to state that the national bet in venture capital operators, in projects with those characteristics shall continue to be a reality, even if for those that the Portuguese State is the main stimulator, through venture capital companies in which it is the main shareholder – following the example of the English government that in the last month supported significantly Amadeus Capital Partners so that it would invest in the start-up of technology based companies through Amadeus and Angels seed Fund (AASF) – because its time to end the waste of ideas and entrepreneurs in Portugal.

**8 – Some people say that our banks are not ready enough yet to support the projects which involve some risks. Do you agree with this kind of position?**

I would like to take this opportunity to clear that the banks are not an investment alternative in the area of business projects through venture capital. What does happen is that financial groups, in which banks are included, is that they have investment vehicles which act essentially in the private equity area, i.e. in operations of some financial dimension and in activity sectors that are characterized by high maturity, reassuring that a reasonable foreseeing of evolution of the respective businesses.

At this level, the existing offer of the private equity companies of the financial Groups has been suitable for the Portuguese market, as can be demonstrated by the current financing example (near €100 million) made by Caixa Desenvolvimento (Grupo CGD) in the acquisition of Compal by Grupo Sumolis. However, and to prove that there are exceptions in this kind of operators, we can look at the recent bet of the private equity company from Grupo Espírito Santo (ES Capital) in the start-up “YDreams” in the amount of €7,5 million, i.e. in an activity sector where the uncertainty level is quite high, but where the opportunity of creation of high returns is something possible.

From this we can conclude that, though the projects' financing in seed and start-up stages is not included in the covered area of the private operators, we are already seeing signs from their responsible that reveal them more receptive to investments in projects with those characteristics, much for the strength of the demonstration effect that the strategic reorientation made by PME Investimentos that made possible in terms of dynamization of the demand side, i.e. entrepreneurs.

## **9 – In this area and in comparison with the rest of Europe is our delay considerable or are we walking towards convergence?**

The national venture capital industry had an interesting development in the last year, as I said in the previous answers, at the financing level of the mentioned projects, in the initial stages of the life cycle of the companies, rousing a great admiration from the international operators once they are in a minor stage of involvement in this kind of projects.

So here I think we are in the right path, and sincerely I hope that the restructuring of the public venture capital, that has been mentioned since one

year ago, does not contribute to a retrocession of this excellent dynamic already initiated and that will not be regardless to the most recent initiative launched by IAPMEI called Programa Finicia which has as main objective the creation and the impulse of start-ups and from which we are waiting with great expectation for its results.

For its turn, in relation to the tendencies currently in Europe, at the level of a significant addition of the offer of Management Buy Out and Management Buy In, and that do not have equivalence in Portugal, I consider that that is due to, not so much to the supply side, but mainly for its lack, until the moment, of Portuguese managers, with entrepreneurial features which are sensitized to the existing opportunities in property transmission of companies mainly by the funding entrepreneurs.

However I believe that in the next two years, also at this level, the national market will “heat” and the private equity companies will have there an excellent opportunity to realize their investments just like has been happening in Spain.

**10 – The delay of Europe in comparison to blocks like United States or Japan can find here, in the eventual lack of venture capital promotion, one of your justifications? What do you think? Is there any European country that is particularly advanced in the inputs given to their economy in the sense of turning to venture capital?**

Leaving from the premise that the investments through venture capital focus themselves in projects supported with solutions with great added value – biotechnology, communication and information technologies, energy, nanotechnology – and in which the USA is the main investor at world level, then certainly it will be easy to conclude that part of its advance relatively to European countries is justified, greatly, for turning to their companies as important source of business financing.

However we can not forget though the European school system is higher than the one from USA (there is, however, in this country excellence paths and top universities that benefit of an adequate **Venture Capital Ecosystem** both formal and informal – commonly known as Business Angels – supplier of the “jet fuel” necessary to the propulsion of businesses start-ups, the European

countries invest, annually less than €130 million than the USA in the research area.

As to the second part of the question we should notice that it is highly known the impact that the English venture capital industry has been producing in some consecutive years, in the economy of its country representing more than 50% of the total investments made by the European venture capital industry.

We shall also refer the incredible dynamism registered in the Spanish venture capital industry in the last two years, because we went from the €2 million invested in 2004 to the €4 million of 2005, thus producing a fantastic effect, in the Spanish economy, in such a short term.

**11 – The European Union, in its economic policy, has promoted in the correct way these more innovative views to entrepreneurship or is there a lot to do in this area?**

At the conception level, all is represented as a tailor made, i.e. perfectly suitable to the existing necessities in several areas of the economic activity, as it is demonstrated by the 7<sup>th</sup> program – European Community Frame in activities like research, technological development and demonstration to the term from 2007-2013 – which has an €70 million budget to invest in these areas representing more than the double of the 6<sup>th</sup> program.

However, it will not matter how noble the intentions of the policy's responsible are and how competent the coordinators of each country in these subjects are, once that the referred economic policies will remain sterile, as a seed that was dropped in a rock, if they are not put into practice.

When I approach this question I always remember the following statement by the former president of USA Ronald Reagan when he assumed the presidency – not hesitating to put his higher values and beliefs above the demagogic mud which all governors see themselves into in the search for easy answers to complex problems – clearing his governing philosophy: “government is not the solution to our problems; it is the problem.”

**12 – The Bologna process is being implemented all over Europe. An innovation that wants to create a more dynamic, entrepreneurial and demanding education to the student. Do you think that this will be a way to give potential to the business spirit, the will to risk that lacks to the Portuguese economy?**

Regarding this subject it is important to evidence that the main objective of the Bologna process is, essentially, to obtain convergence in the university and higher education, giving, designating and recognizing the academic grades which stimulate the mobility and creation of conditions so that all individuals can have access to learning all life long.

However, if the 19<sup>th</sup> century gave us the Industrial Era and the 20<sup>th</sup> century gave us the Managers Era, the beginning of the 21<sup>st</sup> century gives us signals that this century will form the Entrepreneurs Era – vide Professor Larry Farrell. And, to be an entrepreneur will be, without a doubt, the best “weapon” that our children will have to survive and prosper in the future world economy.

In this scenery, we have, obligatorily, to demand to the European Union’s politicians and principally to the Portuguese politicians – I recall that our country has in junior high and in high school more than 1.300,000 students – the immediate implementation of an entrepreneurial education, since elementary schools, once this will be the best defence that our young people will have in a world increasingly uncertain and subject of downsizing.

So it is urgent, because each day Europe it becoming delayed in comparison to its global competitors, to create an open, innovative and creative educational system that since elementary school will be capable to believe that all young people have potential inside them to reach success and make the difference since that, to that effect, are duly trained in a way to manage to develop their capacities to make something new, finding inside them e inside their minds new ways to make things.

Fortunately, in our country, we are already seeing some entrepreneurship education projects, based in the described philosophy like the program Road Show for Entrepreneurship ([www.rs4e.com](http://www.rs4e.com)) that is taking place in Região Autónoma da Madeira, from a partnership made in the beginning of this year between Gesventure and CG International and CEIM – Centro de Empresas e Inovação da Madeira.

We shall refer that in this stage were covered high school, professional schools and universities involving in the total 750 young Madeiran students, aged between 16 and 25 years old.

**13 – The Eastern Europe countries, new members of European Union, are said to have much better indexes in this entrepreneurship level of venture capital than the Portuguese ones. Is it that way or is there some exaggeration?**

Although the venture capital industry of Central and Eastern Europe has developed itself since 1998/9 and, since then, experienced quick periods of expansion and consolidation, mostly through investments in start-ups in the area of mobile communications and in software industries, with numbers that still reveal some delay relatively to our country.

With effect, in 2004, and according to the last available elements in European Venture Capital Association (EVCA), the values invested in Portugal were of €161 millions in comparison with €130 millions in Poland, €96 million in Hungary, €20 million in Czech Republic and €4 million in Slovakia.

For its turn, the ratio level between Venture Capital Investments and GNP of each of the countries mentioned are, in percentage, the following: 0,119 to Portugal and Hungary, 0,066 to Poland, 0,023 to Czech Republic and 0,013 in Slovakia in comparison to the European Union average of 0,354.

However, I believe that, in a short term, the venture capitals flows in the Eastern countries will be higher having in consideration the dynamic verified at university level, much due to the registered deregulation in the 1990s allowing, for example, Poland going from 500 thousand to 2 million of students and Slovakia, although having a more rigid system, to double its number of students in universities.

If to this we add that the strong capacity in R&D that these countries have in comparison to Portugal, as demonstrated by the significant number of patents and being these a critical factor of success to the attraction of foreign direct investment and so it is not strange that the current situation of some ascendancy in Portugal can, in a short term, not exist anymore.

**14 – Some people say that the European model is not so liberal, namely, in comparison with the United States e that is why it is less developed. Do you share this opinion?**

Normally the studies made by several specialized entities point out to some factors that justify that situation namely the existent divorce between the university system and ventures, the bureaucratic obstacles and the fact that taxes continue to be quite high in the wealth generated in companies.

However, I think that one of the main obstacles to the development of the European Union countries in general is due to the fact that they still have a mentality not open to venture capital and to the creation of new businesses because they still look with suspicion to wealth creation and to the politic power that follows it.

So that we can perceive the impact of this kind of mentality in the economic development of European countries I would like to refer that while in Europe we still debate the importance of a judicial and tax framework favourable to business angels' activity to compensate the lack of entrepreneurial spirit and the aversion to risk present in European societies, in USA, this investors community, so important to the development of American start-ups, invested in 2005, through 227,000 investors, something like 23,1 USD millions close to 49,500 projects representing a higher investment volume than the one from Venture Capital Industry in USA which invested in the same year 22,1 USD millions in 3008 companies.

***Answers given by Francisco Banha, president of Gesbanha, SA and Gesventure, SA to the journalist Sandra Ribeiro – Vida Económica***

13.06.06