Promotion of Renewable Energies for Water Production through Desalination

PRODES

www.prodes-project.org

Feedback from the investors' community

Deliverable WP 5.2

CAPITAL CONNECT
Capital Connect Consultants

Intelligent Energy Europe

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Acknowledgements

This publication has been produced as part of the ProDes project. The logos of the partners cooperating in this project are shown below and further information about them and the project is available on www.prodes-project.org :

www.wip-munich.de

www.ineti.pt

www.aquamarinepower.com

www.befesa.es

www.cres.gr

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Intelligent Energy Europe

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Preface

The current report has been developed within the frame of ProDes project which supports the market development of Renewable Energy Desalination in Southern Europe. ProDes supports the use of renewable energy in remote areas where the electricity grid cannot accommodate high penetration of intermittent energy sources and focuses in Southern Europe where desalination is an increasingly important energy demand factor. The project is co-financed by European Commission through the Intelligent Energy Europe program.

More information about the project, its partners and the results is available on the website: www.prodes-project.org.

This report has been prepared by Capital Connect Consultants Ltd in cooperation with the project coordinator WIP and delves into issues regarding the financing of RE-desalination projects (Task 5.2). More specifically, the scope of this paper is to define the financing requirements that are set out by the technology developers and describe the potential investors' financing philosophy. There is an effort to build bridges and bring the two sides closer, facilitating the adequate financing of RE-desalination projects and product development. As a main tool to achieve that, the final section of the report includes a detailed step-by-step guide for a business plan that will steer developers to the appropriate direction as regards the fitting fund-raising techniques.

In order to ascertain the nature and size of funds required for the development of the RE-desalination products and projects and gain the market share they are targeting, a survey was conducted by WIP targeting various developers of such products in the EU (Task 5.1). In addition to the above, the survey aimed to derive the methods that are commonly utilized by the developers for fund raising. The survey was carried out via structured interviews, which provided a summary of the developers' requirements.

On the other hand, Capital Connect Consultants Ltd. referred to the investment community so as to derive the basic requirements that are being set out by potential investors when it comes down to funding RE-desalination projects or companies. In particular, certain groups of the investment community were contacted that could form a network of potential investors. The main concern here was the identification of the key factors investors pay attention to when appraising an investment. By pointing out these issues, developers of RE-desalination projects can steer their attention to cater for important issues that will affect their fundraising process.

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Executive Summary

Desalination of sea or brackish water is increasingly used by many regions around the world in their effort to respond to the increasing demand for clear water. However, desalination process requires considerable quantities of energy. The use of conventional energy sources (fossil fuel) counterfeits the benefits of the process as they directly contribute to the climate change which in turn, affects the water cycle, intensifying the original problem desalination is intending to solve. In addition, conventional energy sources are continuously exhausting and their costs increasing.

For desalination to remain a viable option, Renewable Energy sources have to be used for powering whole or at least, part of their requirements. Several combinations of desalination systems with Renewable energy have been developed.

ProDes project (www.prodes-project.org) supports the use of renewable energy in remote areas where the electricity grid cannot accommodate high penetration of intermittent energy sources. It focuses in Southern Europe where desalination is an increasingly important energy demand factor. The project is co-financed by European Commission through the Intelligent Energy Europe program.

Among the objectives of ProDes project is to support technology providers to improve and equally compete with conventional water supply solutions in isolated, water-scarce areas. Raising the necessary funds to achieve this objective is a challenge.

This work has been prepared by Capital Connect Consultants Ltd. within the framework of ProDes project and delves into issues regarding the financing of RE-desalination projects (Task 5.2). It intends to bridge the gap between technology developers and potential investors by improving the understanding and facilitating the collaboration between the two parties.

In the first part of this document, it was important to imprint the funding requirements set out by the technology providers. A survey conducted by WIP aimed in defining and analyzing the nature and size of the funds technology providers require to develop their products as well as examining the methods they followed to raise the funds necessary so far. The findings of this survey are presented in Chapter 1.

A broad range of technology providers were approached, covering different technologies and being in different stages of development too.

Although the questions referring to the size of the funds invested or further needed were mainly not answered, there is valuable information regarding the nature and the origin of the aforesaid funds.

Most developers collaborated in the beginning with a research institution or university to develop the project, then they formed a company. The early stages of the project seem to be more easily financed by government funds. In the later stages of development more sophisticated sources of financing are required, thus the development of a business plan is important.

In Chapter 2, the bases for understanding the investment process are set, the relation between the company's development stage and the funds required as well as the different types of funds and/or investors that better fit the funding needs of each stage.

Every company goes through different stages of development during its life cycle, each stage presenting different capital requirements. Financing may come either from own funds or external sources.

Before starting seeking financing for a business, it is important to know the available options as well as their terms and requirements. Although there are many options, a company may only qualify for a few of them. These options depend (among other factors) on the company's stage of development, its credit history and how established it is in the market, the milestones achieved by the company, the investment risk level and the amount required.

The philosophy and requirements of each type of fund providers are further analyzed in the last section of this chapter.

In Chapter 3, the focus is put on investors' point of view, bringing in light their knowledge and experience as well as their requirements when it comes to financing renewable energy desalination projects.

Capital Connect Consultants contacted investors from the area of Investment Banking and Venture Capital. This survey was held through structured interviews.

In the first part of the survey, Investors commented on the outcomes of technology developers in order to collect their comments on the nature of funds invested, the needs and the procedure the developers followed to attract funds. They all agreed on the decision of most developers to rely to own funds in the early stage of the development or to seek funds and grants from Local, National, Federal and Supranational Agencies. Nevertheless, the more advanced the project is, the more diverse the sources of funding can be; external financing from the Banking sector, venture capitalists or private equity funds may be interested in participating.

Therefore, the second part of this survey investigated the predisposition of Investors in this specific industry as well as the key factors they pay attention to when evaluating an investment opportunity.

Finally, this procedure resulted in certain recommendations and tips for the developers regarding the issues and the actions they should take care of when they call for fund raising and prepares their Business Plan for financing.

Chapter 4 is dedicated to the development of a step-by step guide for building a Business Plan. This guide is general as it has to cover different technologies, companies being in different stages of development and having different financing requirements or even different situations among countries. Examples have been used to clarify specific topics.

A business plan is a blueprint for how the business will run and reveals the future direction the business will take. In case of fund raising, it is a prerequisite since it is the sole document needed to sell the venture as an investment opportunity to potential investors and partners.

Therefore, the quality of the business plan is crucial for winning the attention of the investors; numbers reveal that only one out of 20 business plans are read by prospective investors beyond the executive summary and only 6 out of 1000 business plans get funded. The quality of the business plan is not only reflected by the right content, but also by external factors of format / presentation such as the organization into logical and clearly defined sections, thorough research and documentation and even a writing style that maintains reader's interest.

As writing a Business Plan is a skill, it is strongly advised either that the companies have assigned an expert to prepare it or at least have reviewed the initial document by professional consultants.

The last step is the preparation for the meeting and the presentation to the investors. The key elements investors pay attention at when judging the quality of a business plan is described in the last section of Chapter 4.

This paper intends to inform both parts, technology developers and investors' groups on the needs, the requirements and the possibilities of each one of them; major reasoning is based on the current situation regarding RES powered Desalination systems, taking into consideration the framework conditions, the separate legislation for 2 sectors (Renewable Energy and Desalination), the technologies currently available and the fact that the market is still missing a break through case proving the efficiency and the viability of the combination of the 2 technologies.

1 Technology Developers: Investment Requirements Definition

1.1 Introduction

WIP conducted a survey among European technology providers that are on the pre-commercialization stage or having market-ready technologies.

The objective of the survey was to analyze the nature and the size of the funds they require to develop their products and gain market share, as well as to examine the methods they followed to raise the necessary funds.

The survey was performed mainly through structured interviews *(Annex 1).*

Taking into consideration that this kind of information is confidential, emphasis is not put on detailed data but on qualitative information that will enable the ProDes consortium to develop the most suitable kind of support for motivating the required funds. The outcomes of the specific interviews are not publicly available and this report does not make reference to the companies involved; it only draws general conclusions on the nature, the size and the strategies followed to raise the required funds.

1.2 Findings of WIP survey

The survey approached broad range of technology providers: private businesses, Research Institutes, Universities and commonwealth organizations, covering different technologies which are in different stages of development.

Among 10 technology developers selected, 8 out of them responded to the survey. In general, the questionnaire was answered sufficiently. Although the questions referring to the size of the funds invested or further needed were mainly not answered, there is valuable information regarding the nature and the origin of the aforesaid funds.

Most of the developers started their projects within or in collaboration with Research Institutes. The majority of them formed a company after having completed the pilot phase or when they reached the pre-commercialization stage. There were also technology providers who decided to create the company from the beginning of the idea. The latter permitted earlier and easier access to financing.

At this point, there are several developers who already have testing installations in Cyprus, Dubai, Berlin and Namibia.

The field seems complicated since it combines 2 areas of technology, Renewable Energy sources and Desalination. While both technologies are separately considered mature to a greater or lesser extent, their combination in one plant is still to be proven.

Furthermore, all developers converge to the fact that the market is still immature, with many products or technologies offered, but with no proven technology, nor established marketing or distribution network.

While in the first stages of project development, own funds or public or EU funds were the main sources of financing for most of the technology providers, as they evolved towards commercialization, more sophisticated financing was required.

At this point, investors were interested, but they hesitated to submit as there is not a break-through case that will convince them on the success of the idea. In addition, the difficulty to define a clear potential for this market, creates a considerable barrier for potential investors.

Strategic investors (e.g. from water sector) appeared more receptive in financing these projects, since they have direct interest in product commercialization.

2
Background on Investment

2.1 Introduction

The objective of this chapter is to set the basis for understanding the investment process, the relation between company's development stage and the funds required as well as the different types of funds and/or investors that better fit the funding needs of each stage.
The philosophy and requirements of each type of fund providers will be further analyzed in the final section.

2.2 Stage of Company's Development and Funds needed per stage

Every business goes through different stages of development during its life cycle. Although a company's stage of development is very subjective and determined by many factors, it is widely accepted that businesses across the world experience 6 principal stages of existence. Each stage of business development has different capital requirements, as presented in Figure 2.2

Stage of development of the project company		Funds needed
Idea generation (+pilot)	To prove a specific concept for a potentially profitable business opportunity	No funds or relatively small amount of capital
Start - Up	A newly formed company to complete product development and initial marketing	Funding associated to expenses for marketing and further product development
First round	Early sales and manufacturing	Funds to initiate commercial scale manufacturing & sales
Second round	They sell products but they are *not profitable* yet	Funds needed to support growing accounts and inventories
Third round	A newly *profitable* company	Funding is necessary for further plant expansion, marketing, improvement of the product, expanding the product line, etc
Fourth round	A mature and profitable company, often still expanding	Funds to "go public"

Figure 2.2 Relation between company's stage of development and funds needed

2.3 Basic definitions

Investment is the act of placing or lending money to a business, after due diligence[1], that has a certain level of risk and provides the possibility of generating returns after a certain period of time.

The level of risk is related to the stage of development of the company, generally, the earlier the stage the higher the risk for the fund providers, the more "expensive" the funding is. On the other hand, companies in early stages usually require smaller amounts of capital.

While most companies do not seek outside financing at every stage in their growth, early-stage financing, expansion financing and acquisition /buyout financing exist at almost all stages. However, the stages can be extended by as many stages as the investment firm considers it should be needed.

Depending on the company's growth stage, the milestones achieved by the company, the funds required and the investment risk level, different types of funds or investors can be attracted.

2.4 Financing stage

Figure 2.4 demonstrates the relation between company's stages of development, the financing stage of the company/business and the investment risk related.

[1] Due Diligence is the research and analysis of the company's or project's financial status

Financing stage	Investors risk	Stage of development of the project company		Funds needed
Pre-seed	Phenomenally high	**Idea generation (+pilot)**	To prove a specific concept for a potentially profitable business opportunity	No funds or relatively small amount of capital
Seed	Extremely high	**Start - Up**	A newly formed company to complete product development and initial marketing	Funding associated to expenses for marketing and further product development
Early stage	Very high	**First round**	Early sales and manufacturing	Funds to initiate commercial scale manufacturing & sales
		Second round	They sell products but they are *not profitable* yet	Funds needed to support growing accounts and inventories
mezzanine	Moderate	**Third round**	A newly *profitable* company	Funding is necessary for further plant expansion, marketing, improvement of the product, expanding the product line, etc
Later stage	Reduced	**Fourth round**	A mature and profitable company, often still expanding	Funds to “go public”

Figure 2.4 Financing stage and company’s stage of development

2.5 Types of Funds according to company's financing stage

Before starting seeking financing for a business, it is important to know the available options as well as their terms and requirements. Although there are many options, a business may only qualify for a few of them. These options depend (among other factors)on company's stage of development, its credit history and how established is in the market.

In Figure 2.5, the available funding options are positioned according to company's stage of financing.

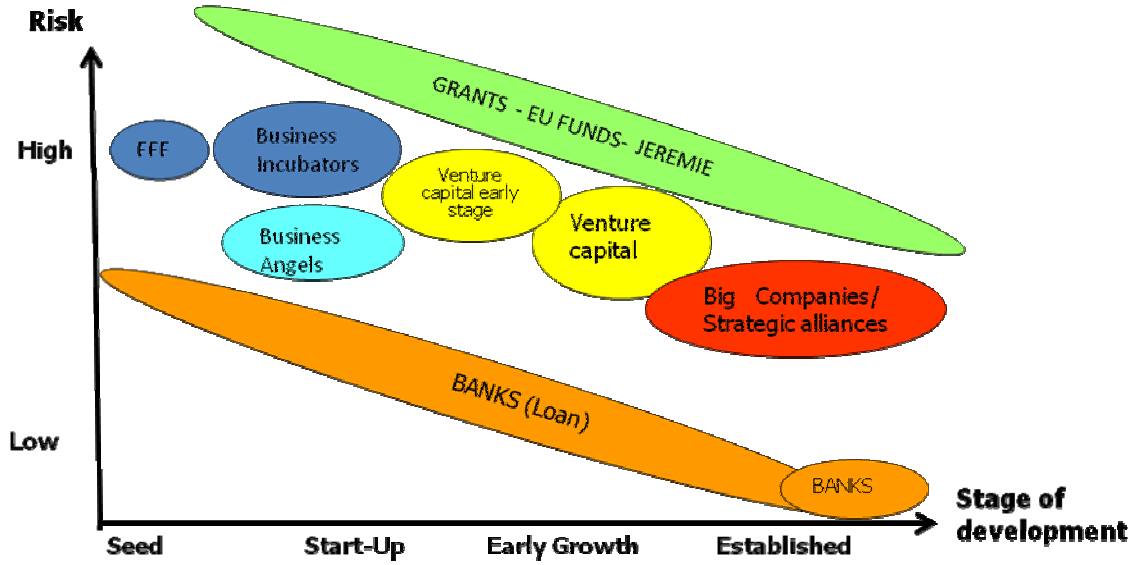

Figure 2.5 Types of funds available according to company's financing stage

2.6 Characteristics, Philosophy and Requirements per Investment Type

Friends, Family, Fools (FFF) & Bootstrapping

In the very beginning of a project development or a new company, and provided that the amount of money required is relatively small, necessary funding usually comes from the founder himself, family members, friends -in the form of loans or personal bank loans.

In many cases, founders may prefer the method of "bootstrapping", i.e. starting a new business without a start-up capital. It covers a range of methods for avoiding using funding from external investors (private credit card debt being the most popular way among others)

While bootstrapping involves a risk from the founders, it also gives them more freedom to develop their company, since any other stakeholders are absent at the time

Grants

Grants are any monetary or financial assistance which does not generally have to be repaid. They are usually awarded by government departments, corporations or private foundations to businesses, individuals, institutions or nonprofit entities in order to finance a specific project.

Although grants do not usually have to be repaid, they do require compliance, a considerable level of paperwork and substantial reporting on how the fund offered is used.

The European Commission provides direct financing in the form of grants in order to support projects or organizations that comply with EU interests or policies.

In Greece, government grants are disbursed by the Ministry of Economy under the Investment Incentives Law 3299/2004 which assumes for SMEs a 55% own funding and 45% financing from grants.

Business Incubators

Business incubators are designed specifically to help start-up companies; they nurture young companies helping them to survive and grow at the start-up phase, when they are most vulnerable. They provide several facilities, allowing the start-up to concentrate on business and raise growth.
Although most incubators offer their clients office space and shared administrative services, the heart of a true business incubation program is the services it provides to start-up companies[2].

More specifically, business incubators usually provide:

- flexible space and leases, many times at very low rates
- fee-based business support services, such as telephone answering, bookkeeping, secretarial, fax and copy machine access, libraries and meeting rooms
- group rates for health, life and other insurance plans
- business and technical assistance (marketing assistance, financial management, presentation skills, management team, training programs, intellectual property management, etc)
- assistance in obtaining funding, such as bank loans, guaranties, funds, etc.

[2] This is the main difference between Business incubators and Science Parks, the latter, housing university, government, corporate labs or even small companies but not offering business assistance services (*).

- links to strategic partners
- access to business angels or venture capitalists
- networking with other entrepreneurs

The most common types of firms using business incubators are light manufacturing, technology and service firms and those developing new products or engaged in research and development.

The primary goal of a business incubator is to produce successful businesses that are able to operate independently and financially viable. In other words, the success of an incubator depends on the performance of the companies they support.

As a growing trend, incubators tend to ask for an equity stake of the business in exchange of their assistance, becoming this way, venture capitalists with the benefit of being on site to help get the business off the ground.

For more information on business incubators, visit: European Business Incubators site *www.ebn.be*

Business Angels

Business Angels are individual investors who provide capital, entrepreneurial know-how and experience to start-up companies.

Usually, an angel investor is a high net worth individual who has been successful in business and wants to help other entrepreneurs get their business off the ground.

A small but increasing number of Business Angels organize themselves in networks, private or semi-public organizations to share research, pool their investment capital or help match up entrepreneurs and potential investors.

They are interested in rapid growth companies, operating in fields where they have experience and tend to opt for projects located close to their base[3] as they want to be in regular contact with the manager of the business, and /or have a closer control over the activities of the company[4].

For most start-up companies, Business Angels usually form the bridge between the self-funded stage of a business and the point the business needs the level of funding a venture capitalist could offer. They can overcome the information problem plaguing Banks and Venture Capital funds, as they can make investment decisions based on their knowledge and their appreciation of the potential of the company they are investing in. They are also a

[3] However, in niche sectors where the number of companies can be very small in the whole world, business angels do not consider geographical proximity as a limiting factor anymore and are willing to invest all over the world
[4] Many angel investors remain more passive and do not seek as much control over decision making

considerable alternative to bank lending, as start-up companies may be unattractive for banks because of their high overhead costs.

As they usually enter at an early stage of project development, they bear a high risk and require a high Return on Investment and a defined Exit strategy. Compared to venture capitalists, angel investors are generally less aggressive in valuation and they are willing to wait longer for payback.

Although an expensive source of funding, they are available for most early stage ventures.

Furthermore, they can have a leveraging effect for other sources of funding, including bank loans and formal Venture Capital. Thus, business angels are a key link in the financing and business development chain from start-ups to listed companies.

The fundamental nature of business angels market is informal: most angels prefer anonymity and are unwilling to spread information about their investment activities. In addition, in Europe, the business angels market is heterogeneous: there are very wealthy investors that invest up to €500,000-1,000,000 and angel syndicates that invest €4-5,000,000.

The European Business Angel Network represents the European business angel market and networks. For more information, visit the official site: www.eban.org

Big Companies / Strategic Investors

Strategic Investors are usually large companies that are already involved in the primary business of the project in hand. They will invest in the company in the early stages with a prospect of including the product in their existing line of products or expand into a promising niche that would complement their business line. In some cases a strategic investor may take the risks of a startup business simply to prevent the entrance of its main competitor.

Venture Capital

Venture capital is a form of financing for a company in which part of the ownership and control of the business is exchanged for capital for a limited timeframe.

Venture Capital firms typically invest providers' money. They are more interested in early-stage, innovative companies with a high potential of growth.

They contribute with capital, managerial and technical expertise and a network of potentially helpful contacts while, in exchange, they get significant control over company's decisions and/or participation. They usually prefer to exit through an Initial Public Offer (IPO), a merger, a buyout or a sale of the business.

Unlike banks, which seek their return through interest payments, venture firms are looking for capital appreciation. Their payoff is how much their original investment has increased. Venture firms generally are looking for a return 5-10 times their original investment and they wish to exit in 3-7 years.

Venture capitalists are very selective in deciding what to invest in and they require:

- A solid Business Plan
- A strong managerial team
- Investment, passion and commitment from founders
- Equity stake of the business
- An attractive exit strategy

They are the "solution" for enterprises too risky for a bank loan or for the standard capital market. They may enter at many stages of company's development

However, seeking for a venture capital is not only seeking for financing: the human factor is of utmost importance. As venture capitalists will be working closely with the management, they are looking for a strong chemistry that fits with them. That is why they often say that they "invest in people not in ideas". On the other hand, for the entrepreneurs, the right match can be one of the most rewarding relationships both financially and inspirationally.

The European Venture Capital Association includes a list of active firms. For more information, visit the official site: www.evca.com

Bank loans

Banks may be a source for additional capital to a newly established company. Banks do not wish to become shareholders of the company but they are always in need of "safety nets" for their investments. In order for banks to provide the funding, they commit into extensive due diligence. They estimate the relative risks of the business, anticipate the project's growth and the ability for repayment. Banks always ask for some sort of collateral, usually for the entirety of the loan.

They may provide financing with interest rates more favorable compared to venture capital firms or other investors.

EU FUNDS

Energy and Water sectors are key policy objectives of the European Commission. For Energy, EU has committed to achieve 20% reduction of gas emissions (compared to 1990 levels) and 20% share of Renewable energy in the overall EU energy mix by 2020. To support these objectives, EU provides financing through the Directorate General of Energy and the Directorate General of Environment, under the following programmes and schemes:

Seventh RTD Framework Programme 2007-2013

The 7th RTD Framework Programme (FP7) for research and technological development for the period 2007 to 2013, dedicates a larger support to the development of environmental technologies. In addition to traditional collaborative research, FP7 provides support to technology platforms and Joint Technological Initiatives which are large initiatives implemented in public/private partnerships. Environmental technologies research is included across different themes of the Framework Programme, in particular in environment, energy and transport. The FP7 Capacities programme is provided with a budget of € 4,097 million, to operate specific areas (http://cordis.europa.eu/fp7/capacities/home_en.html).

The CORDIS website (http://cordis.europa.eu/home_en.html), provides on-going information on calls and activities in the research and demonstration fields.

Competitiveness and Innovation Programme (CIP)

The Competitiveness and Innovation Programme (CIP) aims to encourage the competitiveness of European enterprises. With small and medium-sized enterprises (SMEs) as its main target, the programme will support innovation activities (including eco-innovation), provide better access to finance and deliver business support services in the regions. It encourages a better take-up and use of information and communications technologies (ICT) and help to develop the information society. It also promotes the increased use of renewable energies and energy efficiency. The CIP runs from 2007-2013 with an overall budget of €3,621 million and the funds are managed in cooperation with the European Investment Fund (EIF) and other international financial institutions.

http://ec.europa.eu/cip/index_en.html

Eco-innovation

Within the framework of The Competitiveness and Innovation programme, Eco-Innovation (http://ec.europa.eu/environment/eco-innovation/index_en.htm) supports the first application and further market uptake of some of the best eco-innovative products and services in Europe and helps overcome critical barriers for their commercial success.
Among financial instruments for Eco-innovation, the High Growth and Innovative Facility (GIF) is the most significant one, as it allows the Commission to participate in venture and risk capital funds set up to provide equity to SMEs in their early (GIF1) and expansion phase(GIF2).

www.eif.org/equity/resources

LIFE +

LIFE+ is a limited but focused funding instrument providing specific support for the development and implementation of Community environmental policy and legislation and resulting thematic strategies.

http://ec.europa.eu/environment/life/funding/lifeplus.htm

The European Water Initiative

EUWI is an international political initiative, not a financial mechanism. It takes a partnership approach with national governments, donors, the water industry, NGOs and other stakeholders. Through national policy dialogues, it aims to improve coordination & cooperation and deliver more effective development assistance.

http://www.euwi.net

Global Energy Efficiency and Renewable Energy Fund

The European Commission is setting up a global risk capital fund to mobilise private investment in energy efficiency and renewable energy projects in developing countries and economies in transition.

The Global Energy Efficiency and Renewable Energy Fund (GEEREF) will accelerate the transfer, development and deployment of environmentally sound technologies and help to bring secure energy supplies to people in poorer regions of the world. These projects will also combat climate change and air pollution.

http://ec.europa.eu/environment/jrec/energy_fund_en.htm

The Energy Facility

The European Commission has approved €220 million for the ACP-EU Energy facility to increase access to modern energy services for people in Africa, the Caribbean and the Pacific (ACP).

It is a funding mechanism that will make it possible to use the leverage effect of development aid resources to attract funding from other financial sources. This is a significant contribution to the EU Energy Initiative for Poverty Eradication and Sustainable Energy that was launched at the World Summit or Sustainable Development in Johannesburg in 2002

http://ec.europa.eu/europeaid/where/acp/regional-cooperation/energy/index_en.htm

STRUCTURAL FUNDS AND COHESION FUNDS

The cohesion policy focuses on the economic and social pillars of sustainable development by strengthening growth, competitiveness, employment and social inclusion. Some of the priorities of the regional policy contribute to the promotion of environmental technologies (including eco-innovations), of sustainable transport and energy systems, and of all other investments improving water, air and soil quality and addressing climate change problems.
The regional programmes of these funds can support and facilitate the wide application of technologies when they reach their full-scale development.

Check conditions and get information at Inforegio website.
The website of the Directorate-General for Regional Policy provides information on the European Union's action in support of regional development:
http://ec.europa.eu/regional_policy/index_en.htm

THE JEREMIE INITIATIVE

The European Commission, the European Investment Bank and the European Investment Fund launched a joint initiative to improve access to finance for SMEs in less developed regions. The initiative, called **Joint European Resources for Micro to Medium Enterprises** (or **JEREMIE**), will enable Member States and regions to use part of their structural funds to provide guarantees for loans as well as equity and venture capital finance to SMEs. The programme is operational since 2008.

JEREMIE is a modern financial mechanism that goes beyond a grant, combining grants with private resources and providing revolving character(lending products under favorable terms, the repayment of which will re-finance new projects).

It is a "tailor made" tool to "fill the gap" between supply and demand of financial engineering needed by SMEs and micro-credit in the regions in order to improve their competitiveness.

It provides wide range of products such as: equity and venture capital, mezzanine financing, loans, guarantees, advice and assistance.

http://www.eif.org/jeremie

THE ENERCAP FUND

The Enercap Power Fund will support projects in central and South-Eastern Europe, based on the use of mature technologies in the wind sector, as well as in the biofuel and other renewable energy sectors considered to be environmentally beneficial and contributing to the reduction of greenhouse gas emissions.

This operation is being implemented in the framework of the EIB's Structured Finance Facility (SFF), an innovative financing solution that enables the Bank to support priority projects bearing a higher lending risk than would traditionally be assumed by the EIB.

The Enercap Power Fund is expected to reach a total size of EUR 100 million-150 million.
A significant proportion of the investments made by the Fund are expected to be in Hungary, Slovakia, Poland, Croatia, and the Czech Republic**.**

Other useful links

As a majority of EU funds are managed at national or regional level, the national, regional or local authorities often provide the necessary information and support facilities.

For a list of **managing authorities** for structural funds in every region go to:
http://ec.europa.eu/regional_policy/manage/authority/authority_en.cfm

Enterprise Europe Network, 600 partner organisations in more than **40 countries.**

http://www.enterprise-europe-network.ec.europa.eu/index_en.htm

European portal for SMEs (with an overview of the main funding opportunities available):
http://ec.europa.eu/enterprise/sme/index_en.htm

For funding opportunities by policy area see the Commission's portal on grants:
http://ec.europa.eu/grants/index_en.htm

List of managing authorities for structural funds in every region:
http://ec.europa.eu/regional_policy/manage/authority/authority_en.cfm

For more information on financial instruments see:
http://ec.europa.eu/cip/index_en.htm and **http://www.eif.org/**

The new Instrument for Pre-accession Assistance (IPA) will offer funding opportunities not only for EU companies but also for those from EU accession countries
http://ec.europa.eu/enlargement/how-does-it-work/financialassistance

3

Feedback from the investors' community - Recommendations

3.1. Introduction

In this section, the focus is put on investors' point of view, bringing in light their knowledge and experience as well as their requirements when it comes to financing renewable energy desalination projects.

In the first part, the outcomes of the technology developers survey were discussed with Investors so as to collect their comments on the funds invested, the needs and the procedure the developers followed to attract funds.

Following, a survey among certain groups of investors took place in order to investigate their predisposition in this specific industry as well as the key factors they pay attention to when evaluating an investment opportunity.

Finally, this procedure resulted in certain recommendations and tips for the developers regarding the issues and the actions they should take care of when they call for fund raising.

3.2. Investors' feedback

Capital Connect Consultants Ltd. (CC) addressed investors from the area of Investment Banking and Venture Capital. The survey was conducted through structured interviews and all investors replied to all topics questioned.

All investors agreed on the choice of most developers to rely to own funds in the early stage of the development. This decision shows the solid commitment of the owners to build their business and is very much appreciated when the companies reach the point in the business cycle of seeking external financing. Obviously a very wise decision is to also seek funds and grants from Local, National, Federal and Supranational Agencies.

The more advanced the project is, the more diverse the sources of funding can be. After the initial research is concluded and a pilot stage is accomplished then the venture capitals and private equity funds may be interested in participating. The project has to grow out of the pilot stage and be able to present a sufficient and sustainable cash flow in order to attract Bank financing, since their risk/reward appetite is usually prohibitive.

All the professionals that participated in the survey emphasized on the need of a realistic and solid business plan to be presented to potential investors at all stages of the business. One of the major topics for investors when appraising a project is also the company's management team. They appreciate sound management skills, wise decision making abilities, a shared vision and a very detailed and deep understanding of the market and the technology they are in.

There is a strong belief that the area of Renewable Energy Desalination could be of immense interest, both in financial terms and social aspects. The "green" character of the project fits the latest global trends and fads and turns the area into a «hot topic". However, the niche market character, the lack of a sound success story and the serious risks investors believe are inherent to this kind of projects, make them reluctant to invest in.

Investors are asked to assume a great number of risks, including financial, technical, legislative, market, competition, and even social acceptance issues. Renewable Energy Desalination companies (RE-Des), at least at the moment, form a very specialized and niche market segment, as well as an industry for witch is difficult to define the market potential.

Hence, it is strongly advised that the more suitable and appropriate source of funding should be attracted among potential investor groups. Strategic investors may be large companies or organizations in the respective fields of Water or Energy. When allying with a RE-Des company or business, they may wish to gain a competitive advantage in the industry, or to have access to innovative patents, or to enhance their product range with a dynamic and forward looking idea. On the other hand, as they better understand most of the inherent project risks, or they have already assumed these risks for their core business, it is easier for them to mitigate them.

The second possible group of investors could be specialized venture capital or private equity funds that invest in the sectors of Energy or Water. Thirdly, Grants originated either by local governments, regions, EU or other entities that are specifically structured for innovative start-up companies, should be taken into account. It is not wise, nevertheless, to solely rely on these funds due to possible delays, political issues, uncertainty and other factors.

Regarding a desired Return on Investment, the group of people interviewed declined to comment as there was not enough information to evaluate.

Finally, all investors stressed the importance of the providers to understand the need to disclose commercially and financially "sensitive data" to a lot of prospective investors. As many of the interviewed developers fenced with questions referring to the amount of funds invested or further requested, investors remarked that this is a vital and necessary part of the process in order for the developers to attract the funds they require.

3.3. How to overcome possible barriers for investors

During the interviewing process, potential investor groups pointed out some recommendations and tips for the developers regarding the issues and the actions they should take care of when they call for fund raising. All these issues are considered to be crucial for the project's business plan. As there are topics that can lack documentation, investors advised on the following:

If it is difficult to define the market potential on a local level, try to extrapolate the figures needed by gathering data regarding:

- the water consumption nationally and locally
- the energy consumption nationally and locally
- the percentage of water deriving from desalination nationally and internationally
- the percentage of energy from RES nationally and internationally
- the areas in need of water and energy locally
- the global trends regarding Water (i.e."Blue Gold", water funds, etc.) and Energy

If it is difficult to convince on the success of the venture, try to provide assurances from other sources. You may need:

- To present letters of intent from the users (i.e. from citizens to convince the local authorities, from hotel units to convince municipal authorities, etc).
- To build on the competitive price of the water produced compared to existing situation or methods so far used for water supply
- To validate the economies of scale

If the project is in a very early stage and it is difficult to prove that the technology works, show both the theoretical approach and the practical proof of the process.

4
Business Plan Guide

4.1 Introduction

A business plan is a blueprint for how the business will run and reveals the future direction the business will take. It is an evolving document and grows along with the business. In case of fund raising, it is a prerequisite. It is the document ultimately needed to sell the venture as an investment opportunity to potential investors and partners. Thus, it is not just a report; it is a selling document as it holds the destiny of the company's funding necessary for its expansion.

Therefore, the quality of the business plan is crucial for winning the attention of the investors; relevant surveys reveal that only one out of 20 business plans are read by prospective investors beyond the executive summary and only 6 out of 1000 business plans get funded.

Furthermore, not only the right content is important, but what is crucial too is the organization into logical and clearly defined sections as well as a writing style that maintains reader's interest.

4.2 Step-by-Step Guide to a Business Plan (for Financing)

(a) **Preparation: Business Plan Research**

Before beginning writing the Business Plan, it is important to have done some research that will enable to make informed decisions and create a successful direction for the final outcome. The procedure could be as following:

- Gather information sources
- Record relevant information
- Analyze the information gathered and note the associated opportunities and risks
- In case of submitting to investors, research of what types of investment opportunities are available to the company and why investment is required (banks, government, private equity investors, etc.)

What types of information to gather:

1. Primary Data Sources:
    - Quality tests of the product/ technology
    - Survey or comparative tests of similar products/ technologies offered

- Reports and publications from ProDes project (www.prodes-project.org/results)

2. Secondary Data Sources:
    - Libraries
    - Government industry agencies
    - University publications
    - Trade Associations
    - Newspapers, Magazines, Periodicals
    - The Internet
    - Industry Directories
    - Economic Development Departments
    - Competitors' Financial Statements or annual reports
    - Etc.

(b) **Business Plan Outline**

There are many different types of Business Plan formats and they may depend on the type of the business, the purpose of the plan, the readership, the writing style, etc. Although some extra sections can be added or others can be ignored, a basic outline is presented below:

1. Executive Summary
2. Company Profile
3. Business History
4. Marketing Plan
    - Industry trends
    - Product or Service
    - Target market
    - Competitive analysis
    - Marketing Mix
5. Operational Plan
    - Manufacturing
    - Insurance (Risk Management)
6. Management team/ Human Resources
7. Financial Plan
    - Start-up costs
    - Cash flow Statement
    - Income statement
    - Balance sheet
    - Summary of financials and use of Funds
    - Expected Outcome of business operations
8. Conclusions/ Actions
9. Appendices

(c) **Writing the Business Plan**

- Consider the audience, to whom the business plan is addressed
- Use clear vocabulary, appropriate for the audience
- Make a strong case of the competency of the owners to lead the business

4.3 The Business plan by section

4.3.1 The Executive Summary

It is the most important part of the business plan as the investors will read it first. It should give at "a glance" the most important and necessary information one should know about the project: The opportunity and the proof that any investment in the venture will provide a good return. Based on the Executive Summary, an investor will decide whether to read more about the opportunity.

An Executive Summary consists of one or two paragraphs of the topics covered in the analytical business plan and more specifically of the following:

- Answers the question of "What Business Am I in?" (define the core value the business offers to consumers)
- Defines the opportunity for the company to provide this value
- Marketing highlights :
  - Distinctive features of the Product/Service
  - Target market Summary
  - Competition Analysis
  - Key marketing strategies
- Operational Highlights
  - Critical Legal issues related to the specific venture
  - Management team overview- roles and pertinent skills of each
  - Major suppliers and current or proposed relationships with them
- Financial Highlights
  - The equity of owner/ partners invested in the venture
  - Why financial input is required
  - How it will be used

4.3.2 The Company Profile

The Company Profile provides a snapshot of the business and the owners. This is an important page for prospective investors as they can scan the type of the business, the commitment level and the involvement in one page. As this page follows the Executive Summary, it provides an overall impression of the business.

(Suppliers and potential partners may also be interested in this page).

It consists of:

- Company's legal structure (sole proprietorship, partnership, corporation, etc)
- Owners /Principals: a List of names of all the owners along with a brief description for each one regarding the role in the company, the experience and the years in the industry or other previous experience, major achievements or awards, revealing the reason why should people invest in the specific owners
- Trading name(s), as registered in the country
- Date of registration
- Number of registration
- Company's registered location / domain.
- Location & Facilities: describe the location selected or already occupied, size of the space, city or town, reasons for selecting the specific location and how this is related to the nature of the business. Also specify whether the locations & facilities are owned or leased
- Business description (what is the business type, the product, the service)
- Licenses and permits
- Business Operation (Full Time, Part time, operating hours)
- Contact information (telephone & fax numbers, http address, email)
- Business Advisors (Lawyers, Accountants, Consultants, etc)

4.3.3 History of the business:

- If the business plan is being used to support a new business venture, state the requirement of support, i.e. seeking a partner, a bank loan, a private investment, access to an incubator, etc., state the reasons why you are seeking this type of investment and how an investment in your firm will benefit this particular type of investor or partner.

- If the business plan is to be used to support the purchase or expansion of an existing business, a history of the business is required. Include years in existence, current owner, current location, market share, strengths, weaknesses, and financial information for the past three to five years (or however long the business has been in operation.

4.3.4 Marketing Plan

- **Industry overview:** It is a synopsis for the reader about the industry and the general economy the business will be operating in. It deals with issues not

necessarily within the control of the business that may affect directly, positively or negatively, the service offered or the sales. Specifically:

- Market trends and the way they relate to the venture. Consider the key success factors of the business that will allow to benefit from these trends
- What are the barriers to entry for this industry, including the size of the industry (large-small), the costs to enter the market (high-low), type of the industry (based on technological advantage or supplier relationships)
- Any changes from which the business will benefit, such as:
    - social change
    - technological change
    - legal or political change (new laws, regulations, policies, etc)
    - demographic change
    - economic change (taxes, economic & spending trends, etc)
    - environmental change (raw material availability, pollution, climate changes, etc.)

Example: *Many regions in the world experience severe water shortage issues. In Europe, there are still remote and arid areas that do not have access to potable water. The climate change, the increase of temperature, the unsustainable water management affects directly the water availability. Desalination of brackish or seawater has become one of the most important sources of drinking water in many regions around the world. However, desalination demands considerable amounts of energy. When conventional sources of energy are used, they contribute negatively to climate change; moreover, sometimes, the existing grid cannot support the energy demand for desalination or, arid areas do not have access to conventional energy. The increasing concern on the petroleum depletion, its increasing cost and its contaminant character, turn the use of renewable energy sources into a sustainable option. Therefore, desalination systems with the use of renewable energy fit perfectly with the current perceptions on environment sensitivity as well as with the social concerns related to water availability.*

- **Product or Service:** This part describes the attributes and benefits of the product and/or service offered. It defines the product function, how it will be used, the innovation it brings to the market, the uniqueness of the product or service. It is crucial to capture the core essence of the product or service offered and stress the uniqueness of the proposition in a clear and precise way, as this feature differentiates the product/ service from competition and forms the "competitive advantage" of the venture.
    - What are the product / service's unique characteristics
    - Are there any complementary products or services to depend upon and what are they?
    - What are the value-added features to the end user?
    - How is the product /service positioned against competition
    - What this company is doing differently from what is on the market currently
    - Image of the product / service, i.e. exclusive, convenient, high quality,

customer-oriented, etc
- Type of marketing positioning, i.e. Market Leader vs. Follower, Price vs. Quality, Innovator vs. Adaptor, Private Sector vs. Government, International vs. Domestic
- Provide further descriptions of the product/service, such as pictures, diagrams, specifications, functionality description, design components, complimentary features to related product /services, etc

Example 1: *We refer to a service, in case of a community who adopts the system/plant to provide the inhabitants with potable water. That could be a service contract or concession contract with a regional or national agency responsible to supply a region with water. In this case, the Company formed is charged with the planning, the financing, the implementation and the operation of the RE-Des unit as well as with the supply (sale) of the final outcome (the water) to the grid of the local organization.*

Example 2: *We refer to a product in case the technology and the plant are sold to a body/ agency responsible to operate the installations in order to supply water for the needs of the region/end-user. In this case, the Company formed undertakes the maintenance of the installation during the operating period but it is not responsible for the operation or the financing.*

Any of the two above mentioned scenarios selected by the company, should be analyzed and justified.

- **Target market:** This is the group of people or stakeholders willing to pay/adopt the products or services. Knowing the target-market profile helps make critical decisions on the marketing mix as well as on cash flow projections.
  - Market characteristics: the size of the target-market the company is competing for, the market potential, seasonality of the product or service usage, segmentation of the market
  - Are there any secondary target markets that will have a need filled by this product or service? If yes, what are the characteristics of that target market?

Example: *Target groups could be regional or municipality authorities to adopt the project for the benefit of the community, Hotel Unit owners/ managers, technology developers that produce only one part of the system and desire to further develop their technology (i.e. they produce the desalination unit and want to combine with a RE unit using wind power),etc.*
Market size should be calculated upon the turnover, number of people affected, total consumption figures of the relative segment, etc.
Seasonality: in case of installing a RE-Des unit in a Greek island, seasonality could be observed in summer months with an increase of water demand due to tourism.

- **Competitive Analysis:** This section highlights the competitive landscape for the business, identifies strengths & weaknesses of competitors and provides insight into

the price, market and differentiation points. Apart direct competitors, indirect competition should be also considered as they compete for the same consumer's purchasing power although they are not providing the same product or service.

- Description of **Direct Competitors**, including: product or service offered, years in business, hours of operation, customers profile, pricing, distribution (i.e. where their customers purchase the product /service), marketing & advertising, strengths & weaknesses (why customers prefer them? how would they possibly switch?), opportunities for the business, knowledge from their operations.
- Description of **Indirect Competitors**, including: characteristics, the way they affect target-consumers, the reasons customers would switch to purchasing the company's product /service.

Example: ***Direct competitors*** *could be the existing plant /owners of Desalination systems connected to the electricity grid, or the existing company responsible for the administration of water supply. They can also be providers of a different RE-Des system that they bid for the same area (i.e. a PV-RO supplier versus a wind-driven vapour compression system).* ***Indirect competitors*** *could be ship companies that transport water to isolated islands with tankers, or in-land transporters that deliver water to the isolated area, drilling companies to extract groundwater, etc.*

- **Pricing strategy:** The pricing of the product/service is the fee charged to the customer. This is a number that will be based on the costs, competition, and customers' perceived value for the product or service. The pricing strategy should provide with a desired profit level, it should be consistent with the positioning of the product/service in the market; it also has to match with the 'perceived' value of the product or service. For example, end-users might consider paying higher than current water supply in return for the higher quality and reliability of supply all year round.

  - Is the target market price sensitive? Low Med High
  - How important is value to the customer? Will the price reflect the perceived value of the product?

  Pricing a Product or Service: The general categories of costs for a service or a product are as follows:

  Labor =Direct man hours into a product or service
  Overhead= Indirect costs to produce the product /service (electricity, machine time, etc.)
  Materials =The Direct cost of materials going into the product or service

  The desired profit margin will be based on the selected pricing strategy.

- **Location:** this section should be split in two (just in case the company's domain and the location of the plant are different)
  - Describe the reasons behind the company's decision for the location selection of its **legal domain**. Did it need to be close to its competitors, close to its partners / suppliers, nearby to government facilities / central agencies? Are there any tax or regulatory implications? Did the proximity to fairs/ exhibits or academia/ research centers play a role? Or is it simply a decision based on the owners' place of origin?
  - Describe in detail the advantages and disadvantages of the proximity of the location of the **production plant** regarding supplies, raw materials, energy providers, transport infrastructure. Was the choice of location influenced by any association with local authorities?

- **Promotion:** This section describes the different ways and methods followed in order to communicate with the stakeholders (target market). This may include participation in trade fairs and shows to present the technology or the plant, organization of seminars, indirect and direct publicity, advertisements, trade magazines, web site, etc., in order to build awareness for the business and create links with the stakeholders.
  For each of the potential promotion channels selected, provide information regarding the reason they have been selected for, the importance they have over stakeholders awareness or decision making (effectiveness), the target groups they affect and the costs involved.

4.3.5. Operational Plan

This section defines how all the tasks will be accomplished. It should cover the suppliers, manufacturing plans and execution strategies.

- **Development Synopsis**: brief outline of the design and development plans, and strategy details for taking the venture from concept to reality.
  - Current status of Product/ Service offered
  - Proposed "finish" date of development
  - Obstacles, if any, the company must overcome in this process
  - Specific tasks that should be accomplished
  - Who, if anyone, outside the company will be involved
  - What is the competitive advantage
  - How company's proprietary technology or competitive advantage is protected
  - List of suppliers, their terms & conditions, pricing, trade discounts and reliability
  - Rules & regulations, tax considerations, industry specific issues that the business will be subjected

- **Product or Service Manufacturing & Installations Plan**: describes the process and resources needed to create and install the product / service. It will also highlight

the impact the production process will have on the physical location, equipment requirements, human resources, time lines and licensing

- Description of production methodology
- Description of production process
- List of costs associated with this process, including direct & overhead costs
- Research & Development requirements
- Costs and timelines associated with R&D
- Requirements for Plant/ Equipment/Installations/Storage facilities
- Costs involved with this
- Sub-contractors
- Suppliers /Raw material
- Infrastructure
- Transportation
- Software
- Operating season / hours
- Quality control of production cycle
- Detailed description of any patents or trademarks on any of the products or technologies involved, if any

- **Risk management:** There is always a downside risk in every venture. It is necessary to provide a list of all potential risks that could impact the business. These risks may be:
  - Environmental risks
  - Climate change related
  - Legal considerations
  - Installations permit risks
  - Technical risks (Maintenance, Operations, etc):

Example: *Environmental groups that may react on the installation of wind turbines or desalination plants at a specific area as they are considered to affect the trip of emigrating birds. Another example would be the risk that the supporting legal framework providing subsidies or guarantees for buying the water might be altered before the investment is paid back.*

For each of the risks, there should be an analysis including:

- Description and the impact it has to business
- The likelihood of happening (low-middle-high)
- The level of impact it may have on business (low-middle-high)
- The strategies or actions to mitigate the risk

Example: *a team of local technicians has been trained by the company in order to provide technical assistance regarding the functioning of machinery. The team will be wholly supported by the company and will be able to move efficiently and effectively to each site to assure the seamless operation of the units.*

- **Insurance:** It is important to identify the risks of loss inherent to the business since this will form the basis of the insurance needed. Potential investors and partners need to know that you accurately assessed and provided some type of insurance against the risk of loss. You need to assess the probabilities of these business interruptions occurring as well as provide the adequate coverage for them. Some of the typical types of insurance are:
  - Workers' Compensation
  - Business liability, i.e. any legal action taken out as a result of the business operation
  - Product liability, i.e. any legal action taken out as a result of injury, damage or death from the product
  - Business assets, in case of damage, fire, burglary, etc.
  - Others

4.3.6. SWOT analysis

Strengths, Weaknesses, Opportunities and Threats (S.W.O.T.) analysis is a strategy development tool that combines internal organizational characteristics (strengths & weaknesses of the company) with external parameters (opportunities & threats from the market or the environment).

SWOT analysis is based on the assumption that if managers can carefully review the strengths, weaknesses, opportunities and threats of the business, they will be able to set effective and successful strategies too.

Internal	Build on **Strengths**	Resolve **Weaknesses**
External	Exploit **Opportunities**	Protect against **Threats**

4.3.7. Human Resources / Management team / organizational chart

This part provides an overview of the people that will run the business. It is necessary to consider the expertise levels of people in the business, the related costs and the areas of need. A strong management team is of utmost importance to investors as is the recognition that were skill gaps exist, there is a plan to fill in the need with the appropriate staff.

- **Management team and ownership.** Demonstrate that the company has the required human resources to be successful. Provide for each one, name, position/role in the company, experience, full resume:
  - Key management personnel
  - Owners/ other investors/ shareholders
  - Board of Directors

  - Professional advisors (lawyers, accounting firms, technology advisors, etc)
- **Current staff** : for each one, describe the name of the employee, job description, relevant strengths/skills, salary, working hours, previous experience/background
- **Required staff:** for every position and employee, provide the job description, responsibilities, required skills, salary, working hours, number of persons required per position, timetable for recruiting, recruiting strategy
- **Organization chart:** represents the business structure and the personnel either already engaged or required
- **Training programs**: to further develop human resources, maintain qualification skills, or even check in regular intervals that the current skills of staff members are still appropriate for the business.

4.3.8. Sustainability Plan

- **Environmental impact** : description of the way the business could potentially affect the environment, including benefits or concerns as well as the engagement or reaction of the community involved
- **Social amenity**: the impact of the project in the economy and life of the community involved
- **Employment**: new employment opportunities, etc
- **Strategies** to resolve/minimize or mitigate the possible constraints of the environmental impact and any other risks involved
- **Action plan table**, list of environmental/sustainability milestones to achieve and when expected to reach each target

4.3.9. Financial Plan

This section provides the prospective investor with the facts and figures of the venture. It provides information regarding issues such as the costs associated with the business, the marginal profit, the existence of a secure path to grow the business, financed by cash flow or debt financing, the time line within which the investor can expect to earn his returns.

Sound financial management is one of the most effective ways for a business to remain profitable and solvent. To effectively manage the company's finances, it is important to plan a sound, realistic budget by determining the actual amount of money needed to open the business (start-up costs) and the amount needed to keep it open (operating costs).

Start-up Budget The start-up budget should allow for these expenses:	**Operating Budget** The operating budget also should include money to cover **1 to 3 years** of operation. It should allow for the following expenses:
• personnel (costs prior to opening) • R&D expenses • legal/professional fees • occupancy • licenses/permits • equipment • insurance • supplies • advertising/promotions • salaries/wages • accounting • income • utilities • payroll expenses	• personnel • insurance • rent • depreciation • loan payments • advertising/promotion • legal/accounting • miscellaneous expenses • supplies • payroll expenses • salaries/wages • utilities • dues/subscriptions/fees • taxes • repairs/maintenance

Prepare a list with the associated costs within each section. These figures should be based upon research conducted or can put forth based on experience or familiarity with the industry/market, etc. Note that an operating budget is prepared when business is actually ready to open. The operating budget will reflect the priorities in terms of how to spend the money, the expenses that will incur and how to meet those expenses (with revenue or debt).

Financial Plan: the following financial statements are necessary:

1) Cash Flow Statement
2) Balance Sheet
3) Income Statement

1) Cash Flow Statement: This is the actual money that is collected from sales and the money that is paid out for expenses during each month. The Cash Flow statement takes the predictions and estimates drawn in the business plan, and transfers them to a comprehensive financial statement. A statement in which are analyzed the total monthly cash receipts minus expenses. It highlights potential problem areas in payment terms, etc., so that one can determine whether it is or it is not possible to draw funds from the business.

CASH FLOW STATEMENT (in €)	**Year 1**	**Year 2**	**Year 3**	**TOTALS**
Starting cash position				
Incoming				
Cash sales				
Collections from accounts receivable				
Other cash receipts				
TOTAL INCOMING				
Outgoing				
Fixed costs				
Administration				
Marketing				
Operations				
Variable costs				
Administration				
Marketing				
Operations				
TOTAL OUTGOING				
Result				
Change during month				
Closing cash position				

Note: make sure to include any affects of seasonality, promotions, discounts and payment terms in the cash flow.

2) Balance Sheet: shows the financial picture of the business at a certain point in time, highlighting the owned vs. owed. The Balance Sheet displays the liquidity to an investor.

BALANCE SHEET FORECAST (in €)	Year 1	Year 2	Year 3	TOTALS
Assets				
Current assets				
Cash				
Petty cash				
Accounts receivable				
Stocks				
Short-term investments				
Long-term investments				
Prepaid expenses				
Fixed assets				
Land				
Buildings				
Improvements				
Equipment				
Furniture				
Motor/vehicles				
TOTAL ASSETS				
Liabilities				
Current liabilities				
Accounts payable				
Interest payable				
Taxes payable				
Income tax				
Sales tax				
Payroll accrual				
Long term liabilities				
Borrowings				
TOTAL LIABILITIES				
NET ASSETS				
Owners' Equity				
Returned earnings				
Current year earnings				
Total equity (should equal net assets)				

3) Income Statement (or Profit and Loss-P&L): shows the profit or loss of your business over a certain period in time by listing the Income for a period of time first, and then the expenses over that same period of time. The Income Statement displays company's profitability over a certain period of time as well as the effect taxes have on the overall performance.

PROFIT & LOSS STATEMENT(in €)	Year 1	Year 2	Year 3	TOTALS
Sales				
Sales (invoiced)				
Cost of goods sold				
Gross profit				
Expenses				
Accounting fees				
Advertising				
Bank charges				
Bank interests				
Depreciation				
Electricity				
Equipment hire/lease				
Insurance				
Legal fees				
Motor vehicle expense				
Postage, telephone, fax				
Stationery				
Rent				
Repairs and maintenance				
Security				
Sundries				
Superannuation				
Transport/courier cost				
Wages				
Workers compensations				
TOTAL				
Results				
Net profit				
Gross profit margin				
Net profit margin				

SUMMARY OF FINANCIAL PROJECTIONS: The Financial Projections Summary provides a broad overview of the upcoming expectations and commitment levels for the business. The cash, equity and sweat the principals have invested in the business during the past months/years has directly contributed to the opportunity outlined here.

SUMMARY OF FINANCIAL PROJECTIONS (in €)	Year 1	Year 2	Year 3	Year 4	Year 5
Net sales					
Gross profit					
Gross margin %					
Net income after tax					
Profit margin after tax %					
Return on Equity %					
Return on assets %					
Current ratio :1					
Quick ratio :1					
Debt to Equity ratio :1					
Debt ratio :1					

USE OF FUNDS: The **Use of Funds** is an important point as well. It outlines how the money borrowed from the bank, private investor, partner, etc. will be used. It will highlight the capital allocation for the business.

USE OF FUNDS	in €
Acquisition of Business	
Professional fees, Consultants	
Working capital (including cash reserve)	
Marketing campaign for launch	
Plant and equipment	
Yours	
TOTAL	

Recommendation:

Create your business plan and have it reviewed by professional consultants. The review will provide feedback and suggestions on how to more effectively communicate the venture and set potential investment hunters on fire with interest.

4.4 What an Investor looks for in a Business Plan

There are 4 key areas that will ascertain the quality of a business plan. These areas, as considered by most categories of prospective investors (venture capitalists, private or strategic investors, banks) are:

(a) Vision
- Is the opportunity described large enough to generate significant return?
- Does the venture get the 'big picture"?

(b) Clarity
- Is the market problem/opportunity clearly identified?
- Does the solution offered clearly fit the objectives?

(c) Experience
- Is the management team qualified to solve the problem and sell the company or the product?

(d) Risk
- Market Risk: Market Size, Adoption, Competition
- Technology Risk: Does it work?
- Financial Risk: Enough Money? Strong Co-Investors? Adequate collateral?
- Execution Risk: What can go wrong?
- Management Risk: Experienced and flexible?

ANNEX

Questionnaires

I. Task 5.1: Investment requirements definition

II. Task 5.2: Feedback from the investors' community

Task 5.1: Investment requirements definition

Partner responsible: WIP

Questionnaire

1. **What funds have you invested so far in the development of your RE-desalination product and its marketing?**

2. **Where did these funds come from?**

3. **What funds do you assess are still needed for the further technical development of your product?**

4. **Do you have a Business Plan to show to the bank or potential investors?**

5. **What funds are needed for its initial commercialization, including the standardization, setting up of its production facilities and basic marketing?**

6. **How are you planning to use these funds?**

7. **How are you planning to raise these funds, or where are you getting them from? Please, inform us for any difficulties you are having in this process.**

Task 5.2: Feedback from the investors' community

Partner responsible: Capital Connect Consultants Ltd.

Questionnaire

1. **What do you believe that developers did right and what wrong in their process of fund raising?**

2. **How do you believe that they could get easier or better financing?**

3. **At what stage do you recommend the project should be in order to be able to raise funds?**

4. **Do you believe that the area of desalination powered by renewable energy sources is interesting in terms of investing?**

5. **What do you think are the major risks or barriers for prospect investors (related to Re-Des projects specifically)?**

6. **Which part of the project is more important for you in order to accept to finance it?**

7. **Is company's management crucial and what are the evaluation criteria for you?**

8. **What kind/type of risk do you think that prospect investors would accept to undertake (consider also environmental, legislation, etc)?**

9. **If you were supposed to advise on financing one of these projects, which type of funds would you recommend to approach (bank, venture capital, strategic investors, others) and at what stage of company's development?**

10. **What would be the required/desired ROI and under what terms?**

11. **Would you ask for securities from owners and what would they be?**

12. **Anything else you think is important to highlight regarding the nature, the size and the procedure to get the funds required from the investors' point of view**