

## SWEDEN

### Implementing local development strategies

#### Location

Åres Gröna Dalar

#### Programming period

2007 – 2013

#### Axis / Priority

Axis 4 – LEADER

#### Funding (EUR)

Total budget 35 000

EAFRD 7 800

National/regional 5 200

Private 22 000

#### Project duration

2010 – 2012

#### Project promoter

Åre Lokalkapital AB

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**Establishing a totally new and innovative crowd-sourcing concept combined with a local financial intermediary.**

### Summary

The project led to the establishment of a totally new and innovative crowd-sourcing concept combined with a local financial intermediary: Åre Lokalkapital, which serves as an intermediate between entrepreneurs with new innovative ideas and possible funding actors both locally and globally.



Through this innovative approach, more financial resources can on a continuous basis be invested locally in a LEADER region, whereby resources are mobilized regional-internally (from people in the area) and -externally. With stronger equity being inherent to a company, banks are also able to step in to boost the investment.

### Results

Since 2014 the local financial intermediary Åre Lokalkapital AB has been active with 36 founding members.

Currently, the tool offers three options for investors: gifts, loans (often with interest in kind), and investments. Interest in kind to be paid to savers/ investors can be, for instance in the case of a spa, free access to spa-facilities.

The initiative has to prove itself worthy to sell support services to local business and/or to municipalities and regions.

### Lessons & Recommendations

- ❑ A key feature of this solution is efficiency. While most crowd-funding platforms today offer for sponsorship and/or investments that require the entrepreneur to handle all the relations with the investors and thus creating a lot of manual work, this platform alongside with the local intermediary lets the entrepreneurs focusing on what they do best, and not on administrative issues.
- ❑ It is therefore essential to present investment objectives at early stage with high visibility, strengthening trust of local investors and enterprises in the overall concept and to showcase the intermediate's functionality.

## Context

The LEADER region Åres Gröna Dalar was set up to implement the LEADER approach in the area in accordance with the local strategy. The needs for a driver for strategic development of the region and for the integration of business establishments and development in a social and environmental context were eminent. Small-business development with a broader focus than economic return did stand little or no chances to compete on the risk capital market. At the same time banks are becoming more restricted in provision of credits.

When trying to address this problem in 2010, the Local Action Group (LAG) wanted to go beyond transferring public funds directly to the local area; it saw the need to increase the mobilization of private investments in the region. Its vision was thus to develop a local capital acquisition body/enterprise with a broader societal perspective. The project was inspired by the American Business Alliance for Local Living Economies, BALLE.

## Objectives

The objective of the project Åres Gröna Dalar 2.0 was to pave the way for establishing a new local solution for capital acquisition. The LAG thus needed a web-platform as the “hub” of a financial matchmaking tool, alongside with a local capital acquisition enterprise which needed a “balanced scorecard” to evaluate business proposals following a holistic approach, which was not a simple task to solve. A dialogue between local businesses was deemed necessary, seen to form the basis of the funding body of the new intermediary. The objective was to launch a totally new institution which can be labelled as a local and relational risk and/or working capital market.

## Activities

A group of five people was pivotal to initiating the project. The process of finding a partner that could deliver the web-platform, and the conceptual back-office design of this new innovative tool was done in conjunction with another national project (Lokalt Kapital) funded by the Swedish Board of Agriculture. The concept was confronted by a number of juridical and organizational challenges and drawbacks to handle, which were one reason to fall back on external expertise.

Several local meetings to create the local intermediary as well as meetings with the Swedish Financial Supervisory Authority were held to discuss and design the tool and receive the right to actually act as a financial intermediary.

The model basically converts equity loans given from the investor/saver to Åre lokalkapital to invest as equity (shares) in the suggested investment objective. When Åre lokalkapital invests in a certain investment object, the funds raised as loans are turned into own capital and thus strengthening the business equity. This increases the opportunity for banks to actually also allow loans to entrepreneurs otherwise not considered sufficiently creditworthy.

Within this process funds of the LAG were used for awareness raising, establishing the local network, technical assistance and setting-up of a local structure to become a new intermediate body. At national level supplementary to the LEADER project, national funding was used to establish parallel initiatives in other parts of the country, and to develop the “back-office” banking system required to get the approval of the Swedish Financial Supervisory Authority.

Key actors in the process have been the local promoter, Jörgen Andersson, now CEO of Åre Lokalkapital, and Leo Padazakos, the entrepreneur behind the back-office concept of lokalkapital, also CEO of Entreprenurfabriken. In addition, the Swedish Rural Development Network (NRN) has had a special task force on Rural Funding in the period 2009-2015, with members from the farmers’ union, the Board of Agriculture, Företagarna (The Swedish Small business association), Coompanion (Cooperative Development) and Lokalekonomerna (an association working to develop theories and concepts on Local Economy as opposed to business and national economics). Contacts with different universities was important for support on jurisdiction as well as on aspects related to institutions business affairs- and rural development.

## Main Results

Since 2014 the local financial intermediary Åre Lokalkapital AB has been active with 36 founding members. The first investment objects have been launched on the website using the tool that was developed. The first company to reach the target for money invested was Åre Mjök, a local producer of milk for direct sale to consumers, and other succeeding businesses have followed.

Through the innovative model with a web platform and a local intermediary body scrutinizing investment alternatives, local savings as well as capital from outside can be put at work for the benefit of the local economy, the local social and environmental sustainability.

From the beginning it was obvious to the project partners that it was about an interim solution to be enhanced step for step which has not to be valued as bad performance, when considering that generally financial institutions have been built up over a period of around two hundred years of trial and error (the first savings bank in Sweden was formed in 1820).

Currently, the tool offers three options for investors: gifts, loans (often with interest in kind), and investments. Interest in kind to be paid to savers/ investors can be, for instance in the case of a spa, free access to spa-facilities, in the case of a greenhouse company producing vegetables, free pick-up of vegetables to a certain value, or a clothing company, a certain discount on future purchases. In progress is the new tool for enabling exit through selling shares in a second-hand market as part of the platform.

In 2015, the crowd funding and the broader crowd-sourcing concept is on everyone's lips. The Swedish Government is asking the Swedish Financial Supervisory Authority for a state of the art update and more knowledge on how this kind of grassroots initiatives can be enhanced to enable SMEs to acquire capital for necessary investments to create new jobs.

The long term financial viability of the intermediate is of course dependent on the number of investment objects, and it also has to prove itself worthy to sell support services to local business and/or to municipalities and regions.

This kind of local intermediary can also act as an intermediate to the larger investment funds such as the Regional fund in Sweden offering revolving public funds to larger companies in peripheral areas. These funds are too big and have very little time to address smaller investments, but in small rural communities one rarely find huge investments. The local intermediary can be the "ear to the ground" in terms of finding investment opportunities, as well as the local monitoring and supporting body to secure success.

## Key lessons

To establish an innovation in the financial sector is a challenge, both to the enterprises, which normally turn to banks as their first option, but also to people with savings. The relative easiness with which a business has been able to acquire loans from banks for their investments in former times has, however changed and will continue to

be limited due to new legal restrictions (Basel treaties). On the other hand, for many years, people have seen their savings grow without taking risks (banks offering "secure" investments through different type of portfolios), and effort and cost to invest in alternative local business have been high. It appears, that the implementation of this innovative approach to financing may raise awareness and thus local investments may become more interesting.

A key feature of this solution is efficiency. While most crowd-funding platforms today offer an arena for sponsorship and/or investments that require the entrepreneur to handle all the relations with the investors, creating a lot of manual work, this platform alongside with the local intermediary lets the entrepreneurs focusing on what they do best, and not on administrative issues.

It has become evident that the companies in need of capital in early phases are in great need of advisory services of different kinds. Thus, for the success of this project it was important that the local intermediary also provides advisory services, both before the launch, but not least also after the investment to secure its success.

It is a challenge to change people's attitudes toward how they invest their savings, and for what purpose. It has therefore been a challenge to find a sufficient number of local investors who are willing to take this risk to invest in new emergent businesses.

It is therefore essential to present investment objectives at early stage with high visibility, strengthening trust of local investors and enterprises in the overall concept and to showcase the intermediate's functionality. The intermediary also needs to enable access to additional crowd-sourcing components to support the entrepreneurs or investments objectives.

Multiple types of crowd-funding sites and opportunities have been launched the last five years. Frequently, their success can be accrued to the rise of social media, where investment opportunities can find investors in a new global "many-to-many" model. However, in comparison to this project, most other solutions do not take the local perspective. The lokalkapital concept is thus much broader in its scope than traditional crowdfunding. It is as such also much deeper in its societal ambition, this is not just another crowd-funding solution. It will therefore be interesting to see how this platform and its recognition in the region will develop over time.