Not there yet

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BY **CYRIL DEMARIA**

Cleantechs seem to be everywhere, except in the European venture capital statistics. Even if this sector is increasingly familiar to business, as corporations are going green, investments remain largely limited to profitable companies (growth capital) or mature (leveraged buy-out). Tobias Reichmuth, CEO of SUSI Partners, a fund manager dedicated to renewable energies, in Zürich, declares that "if Switzerland was and still is an important player in cleantech research and development, Ger-

many has clearly taken the lead since the 2001 legal push to establish an important national market for renewable energies."

Switzerland is recognised for its capacity for innovation and its sensitivity for cleantechs and renewable energies. According to Barbara Möckli-Schneider, Secretary General and Member of the Executive Board of the Swiss-Asian Chamber of Commerce, (also Managing Director of SwissCham, the Association of Swiss Foreign Trade chambers, and Secretary General, SwissCham Southern Africa), "Switzerland consistently ranks as one of the world's most energy-efficient economies, thanks largely to advances in renewable energy, green buildings, waste management and sustainable transportation. Switzerland was also recently ranked second on the Yale's 2010 Environmental Performance Index." However, the country may loose ground on the mid term.

Mind the (venture capital) gap

The Swiss Federal Council has announced a Masterplan for Cleantech to strengthen the sector and propel Switzerland towards leadership in this sector in 2010. However, venture capital remains ouside the announced framework. That doesn't mean that Swiss venture capital dedicated to cleantechs doesn't need a boost. Gina Domanig, who heads Emerald Technology Ventures, the largest European venture capital fund manager dedicated to cleantechs, states to have "done 45 investments in the sector worldwide, but none in Switzerland."

Switzerland isn't short of public and private initiatives, as described by Barbara Möckli-Schneider: "Switzerland has considerable potential when it comes to cleantech: the combination of strong environmental awareness and stringent environmental legislation compared to other countries is a driving factor for innovation within the economy. Well-positioned research institutions offer ideal preconditions." However, these initiatives are not coordinated.

According to Gina Domanig, a key component is missing: the participation of seasoned managers to projects. "The number of Swiss business plans that we receive from experienced managers is low", she says. Experienced managers substantially accelerate the development of companies and mitigate the risks to investors. Joseph Lassiter, the professor of Management Practice at Harvard Business School, states that the venture capital model proves to be relatively ill-adapted to cleantechs.

In fact, companies dedicated to information technologies can be financed from the inception to the sale of the company. Biotechs companies can be sold once their products have been through certain steps of the validation process by authorities. Cleantechs require a first phase dedicated to the validation of technologies, then a phase showing the stability of the technology and its scalability. This is too long for the usual venture capital time frame (ten years).

Opening the source of funding

Public financing is volatile. According to Lassiter, future entrepreneurs and investors in cleantechs should spend some time in public administrations dedicated to this sector – a statement which could be ▶


Tobias Reichmuth

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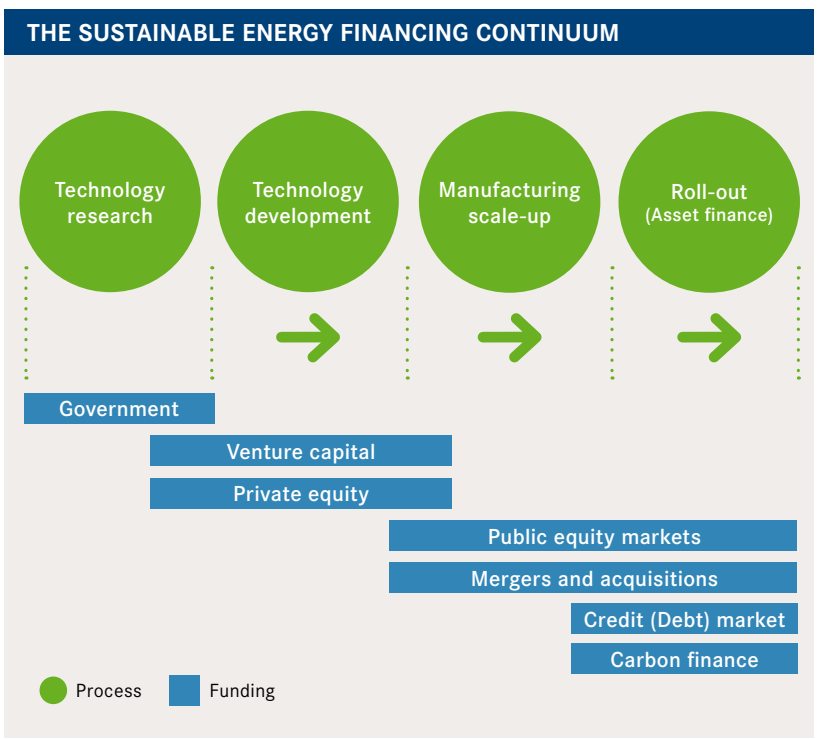


SOURCE: DOW JONES NEF TREND SURVEY

PHOTOS: HANNU VIITANEN, DREAMSTIME, NEWS SERVICE


Gina Domanig

"Switzerland is among the top ten countries in terms of assets managed by pension funds, but these pension funds do not invest in cleantechs."

applied and adapted to Switzerland. Swiss institutional investors are not very inclined to finance Swiss cleantechs. According to Gina Domanig "Switzerland is among the top ten countries in terms of assets managed by pension funds, but these pension funds do not invest in cleantechs." Tobias Reichmuth states that "pension funds should be motivated to invest in renewable energies." In California, CalPERS, the largest American pension fund, was one of the leading actors in the adoption of green technologies by allocating a few hundreds of million dollars in a specific mandate.

The poor presence of Swiss institutions in the sector is even more damaging: "over the course of the last years, the Swiss financial industry has understood the potential of environmental technologies and renewable energies. Several players, such as private banks and fund managers, have launched initiatives and financial vehicles in these two sectors", declares Tobias Reichmuth. The financial inflow could come temporarily from electricity producers – if not from pension funds – notably due to their financial capacities and their long horizon perspective of investment.

An incubator as a catalyst

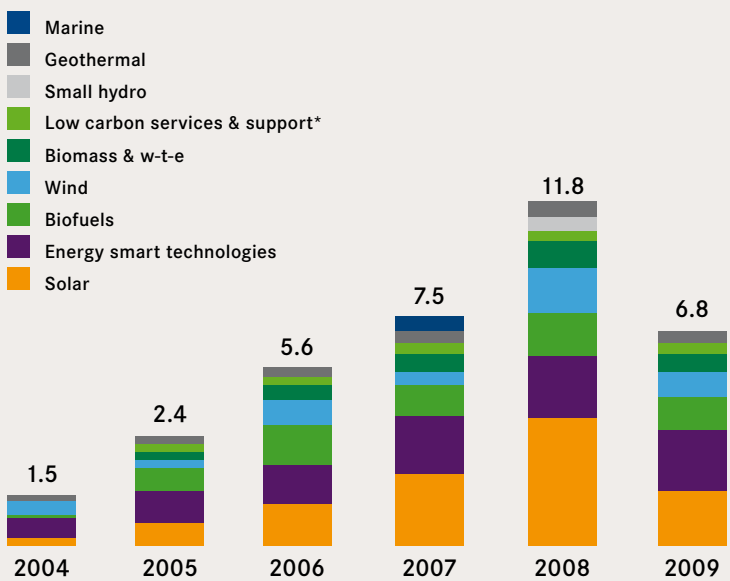
An incubator would be a solution to reduce substantially the risks associated with venture capital investments for institutional investors. Incubators are efficient bridges between invention and entrepreneurship, as illustrated by Cambridge in the UK, Israel or Silicon Valley. For example, "Israel has more than 60 companies listed on the Nasdaq, and three times more entrepreneurs in cleantechs than Switzerland", declares Gina Domanig. That would be the way for venture capital funds to reduce the total length of investments happening downstream, while structuring projects that are able to attract seasoned managers.

Even more, it would be a way to gather federal, cantonal, private and university energies. "Switzerland has multiple incubation services, but very few are dedicated to cleantechs. glaTech in Dubendorf covers some of the segments of the cleantech sector, together with the EMPA (part of the ETH Zürich). BlueArk specialises in hydroenergy. Since 2009, there are multiple initiatives such as Swisscleantechs. Cleantech Alps or Cleantech Switzerland of the OSEC, but no initiative to coordinate these efforts", explains Gina Domanig.

According to professionals, very few elements are missing to transform Switzerland in the leading country in cleantechs. As a matter of fact, "Switzerland's sustainable/cleantech investment market at the end of 2009 was worth approximately USD 30 billion and employed a workforce of 160,000 in cleantech – 4.5% of all employment in the country. The worldwide market volume for cleantechs by 2020 will be EUR 2215 billion – 5.5 to 6% of the economic activities worldwide", declares Barabara Möckli-Schneider.

"Start-ups in cleantechs are born global and must grow in a context of international competition", concludes Gina Domanig. Seed investments and access to an incubator providing professional services, adapted facilities and support for industrial alliances are crucial to succeed in this business. This is also one of the conclusions of Josh Lerner in his book *Boulevard of Broken Dreams*, which analyses successes and failures in supporting innovative companies.

VC/PE NEW INVESTMENT - BY SECTOR, 2004 - 2009 ($BN)



Buy-outs are not included as new investment. Total values include estimates for undisclosed deals.
*Includes CCS

SOURCE: BLOOMBERG NEW ENERGY FINANCE, UNEP SEFI