

## Venture-capital & private-equity firms.

France ranked as Europe's third-largest venture-capital and private-equity market in 2001, after the UK and Germany, according to a report prepared by the international accounting firm PricewaterhouseCoopers and the UK private-equity investor 3i. France was third in terms of total investment (US\$3bn) and the amount of technology investment in 2001 (US\$1.1bn) and second (ahead of Germany, but still behind the UK) in terms of buyout investment (US\$1.7bn) and funds raised (US\$4.9bn). The market was much less buoyant than the previous year when US\$5.2bn was invested and US\$7.5bn was raised. France accounted for 18.14% of investment in Western Europe in 2001, 14.4% of funds raised, 13.25% of technology investment and 17.53% of buyout investment.

The French venture-capital firm **Chausson Finance**, which monitors developments in French investments in new technologies, noted a downturn in the second half of 2000 and throughout 2001. It also identified an increasing scarcity of early-stage start-up capital, as opposed to late-stage top-up capital. In 2001, 58% of all funds went to refinance existing projects.

The number of firms offering venture capital contracted to 44 in the second half of 2001 from 34 a year earlier, according to **Chausson Finance**. These venture-capital firms invested in 562 companies in 2001, with the top ten accounting for 54.4% of all funding. Leading French companies included Innovacom, a venture-capital firm sponsored by state-owned telecom France Telecom, the French subsidiary of 3i and SGAM, the asset management subsidiary of French bank, Societe Generale. For a list of the country's top new technology venture-capital firms, see the table on page 26.

However, this ranking of the top ten understates the position of CDC IXIS, which has a specialist subsidiary for telecoms investments (Part'Com) and another for other types of venture capital (CDC IXIS Innovation). Other financial institutions also have more than one venture-capital subsidiary, including Rothschild.

Of the estimated 200 active players in the French market, 178 are active members in the Industry grouping, the French Association of Venture-Capital Investors (Association française investissements en capital risque -- AFIC; see list of key financial contacts on page 62). AFIC's annual report, produced in conjunction with PricewaterhouseCoopers, put the total amount of investment at E3.29bn in 2001, down from E5.09bn the previous year. AFIC notes that over the period 1997-2001, funds raised increased eightfold and investments by 2.5 times. Technology accounted for 45% of investment in 2001, followed by industry (23%). Refinancing accounted for 35% of the total. Some 43% of the funding was syndicated and 87% of the investment was in France. Total funds under management were estimated at E20bn.

### Top equipment leasing companies\*

Ranked by value of new contracts in 2001 -- E bn

Company	New contracts
BNP Paribas Lease Group	12.1
Franfinance (Societe Generale)	5.8
DIAC France (Renault)	3.0
Ucabail (Credit Agricole)	2.3
ECS Group (Societe Generale)	1.9
Lixxbail (Credit Lyonnais)	1.6
Bail Banque Populaire	1.3

\*All companies listed are French-owned but figures include extensive international activities in some cases, notably BNP Paribas Lease Group and ECS Group.

Source: Economist Intelligence Unit compilation from company data.

Though most banks and some insurers have venture-capital subsidiaries, they do not dominate this sector as they do other segments of the financial markets. France Telecom is not the only French industrial firm with a venture-capital arm; others include the information-technology company Thales, the industrial and medical gases manufacturer Air Liquide and the equipment manufacturer Schneider Electric.

A special corporate form exists for venture-capital companies (societes de capital a risque -- SCR) which exempts them from corporate income tax. The SCR's investments must be in countries within the EU in order to be eligible for this waiver. The existence of risk-capital mutual funds (fonds communs de placement a risque -- FCPRs) and innovation mutual funds (fonds communs de placement dans l'innovation -- FCPIs) also make it easier to raise venture capital (2.3). Two of the main funds operated, by CDC IXIS Innovation, are FCPRs, for example. **Chausson Finance** noted that in the second half of 2001 three of the top five were FCPIs (SGAM, Siparex and Spéf). It regarded this as a sign of a trend towards the growing importance of FCPIs in French venture-capital finance. Since 2002, these vehicles have been able to invest anywhere in the EEA, not just in France.

There are a large number of local, regional, state and EU-financed or guaranteed schemes for start-ups, young entrepreneurs and small- and medium-sized enterprises. A more limited amount of assistance is available to large businesses. The state's main financial partner for channelling these funds is the BDPME (1.6), but it acts in partnership with other banks. Most major banks can provide advice on how to access this funding, as can a variety of government agencies (see 6.6).

Financial institutions investing in venture-capital funds with placements in small- and medium-sized businesses may obtain guarantees against loan default or failure of a company in which the institution has taken a financial stake. These are provided through the Societe Francaise pour l'assurance du capital-risque des petites et moyennes entreprises (Sofaris), a subsidiary of the BDPME. Sofaris guaranteed E4.37bn of funding for small- and medium-sized enterprises in 2001. It will generally only guarantee 50% of the funding, but there are exceptions, such as a guarantee of as much as 70% for some biotech investments.