FIN-EN

FIN-EN NEWSLETTER

December 2013

FIN-EN plays its part in Brussels Open Days

INTERREG IVC

European Union
European Regional Development Fund

Brussels hosted the eleventh 'Open Days' event in October 2013. Open Days is organised annually by the Committee of the Regions and the European Commission's Directorate-General for Regional Policy (DG REGIO).

Around 100 seminars, workshops and debates were held (alongside exhibitions and extra networking opportunities), allowing partners, regions and cities to present the results of their programmes and projects, while showcasing the impact these have on regional development.

'Financial instruments' was one of the main topics discussed during the event. The FIN-EN Project contributed in a concrete way to the discussion, hosting a workshop and panel debate on 8 October. The FIN-EN workshop consisted of high-level representatives from FIN-EN partners, DG Regio as well as politicians from various European countries. The aim was to share first project results and recommendations with not only regional, national and European authorities, but also with private, public banks and other institutions interested in the future of 'financial engineering'.

The panel discussion took its inspiration from FIN-EN inputs. The speakers moved suggestions - mainly to DG Regio - to improve the use and impact of financial instruments, using their own experiences. Some of the main messages which emerged from the debate were:

- *To tackle market gaps, public authorities should be able to attract private resources, meaning that the implementation options of financial instruments should be such that this leads to private actors taking risks that they usually avoid;*

- *A deep expertise in regulations is fundamental to being able to exploit all the possibilities offered by the legislative framework;*

Speakers at the Open Days' workshop held on 8 October in Brussels

- *Clarity and transparency in the legislative framework are essential to avoid problems related to interpretation of rules;*

- *Flexibility is one of the main success factors: it is not true that 'one size fits all'. It should be possible to "mix" and adapt all the elements and knowledge available to design effective instruments*

EAPB Secretary General Henning Schoppmann said: "The FIN-EN project offers a golden opportunity for regional partners to join in on the debate on the future of Financial Instruments, which is now in full swing. I am convinced that FIN-EN will enhance an improved impact of EU investments. We now count on the active support of regions and cities to come forward with concrete translations of FIN-EN's goals for growth and jobs into smart investment and projects in order for Europe's regions and cities to take off for 2020".

Our lively panel discussion covered the topic of Financial Instruments

Contents

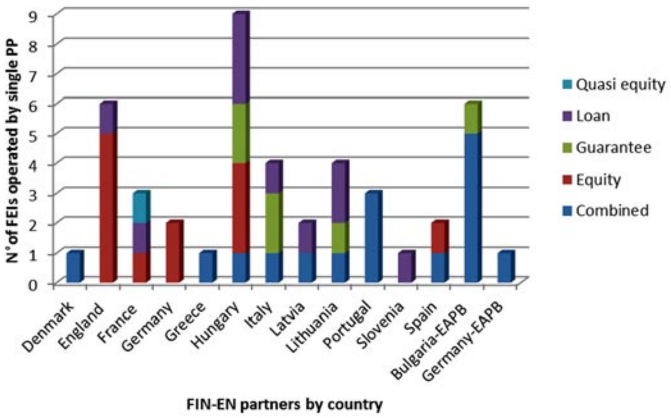
FIN-EN NEWSLETTER

December 2013

Project progress made in 2013

The second project year was centered on the core FIN-EN activities that were the consolidation of mapping the database of partners' financial instruments and the exchange of experiences aimed at identifying good practices.

The 13 partners worked together to analyse 45 financial instruments (six guarantees, 10 loans, 13 equity, 16 combined) directly implemented mainly according to tailor-made schemes, going through the financial instrument life-cycle (Programming – already addressed in 2012, Implementation, Monitoring and Reporting).



Meetings, Thematic Working Groups, study visits, open conferences: occasions for discussion were plentiful, each one focused on one or more aspects related to the management of financial engineering instruments.

Thanks to the exchange of experience FIN-EN provides a deep qualitative insight of a sample of 2007-2013 implemented financial instruments which is not elsewhere available and which could represent a common asset for future 2014-2020 programming period.

Thematic Working Groups (TWGs) - the right place to exchange experience

After the first meeting (October 2012 in Clermont-Ferrand in Auvergne, France) dedicated to the Programming phase, partners met three times in 2013 to deal with the other two phases of financial instruments' life-cycle: Implementation and Monitoring & Evaluation.

The FIN-EN partners visit 'Solúcar' (Solar) Platform

TWG 2 - Implementation of Financial Instruments (Part One) hosted in Seville by Agency IDEA (Andalusia)

Representatives of the various institutions coming from 13 European regions as part of the FIN-EN project met on 14 and 15 March in Seville (Spain), to share their management methodologies for their financial refundable instruments to support enterprises.

The General Secretary of Innovation, Industry and Energy of the Andalusian Ministry of Economy, Innovation, Science and Employment, Mr. Vicente Fernández, (who chaired the opening session, accompanied by the General Director of the Andalusian Agency of Innovation and Development Mr. Antonio Valverde), introduced the Andalusian JEREMIE experience, saying that "it had demonstrated to be a useful instrument to promote innovation and growth for SMEs".

"The philosophy of this instrument has enabled the Andalusian Ministry of Economy, through the Agency IDEA, to set up additional (not ERDF backed funds) 12 evergreen funds that, together with the JEREMIE Fund, represent the management of €998 million. Within this framework, the amount of investment approved has reached €360 million for 453 entrepreneurial projects with an associated private investment of €1,443 million, and generation of more than 23,000 jobs".

Starting from the concrete experience of Agency IDEA, the partners found common solutions during the working group to shared problems regarding implementation of financial instruments, focusing on guarantee and loan instruments implemented in the current programming period.

The goal was to identify those good practices that resulted in the ability to increase the efficiency and efficacy of the implementation processes in the current programmes, and highlight examples for promoting good use of these financial vehicles within the future Structural Funds, after 2013.

(Continued on Page 3)

On the second day, partners had the opportunity to visit the 'Solúcar' Platform (of Abengoa Group) in Sanlúcar La Mayor (Seville). The meeting was held at the 'Innovation Entrepreneurial Park SOLAND', that exists to be a productive arena for R&D, solar energy and eco-innovation: a Park of technological and environmental excellence conceived to boost sustainable development at a public and private level.

TWG 2 - Implementation of Financial Instruments (Part Two) hosted by Finlombarda in Milan (Lombardy Region)

The second meeting of the Thematic Working Group 2, hosted by Finlombarda, was introduced by Olivia Postorino, of the Managing Authority of ERDF in Lombardy Region. Mrs Postorino told of the experience gained by Lombardy Region in managing FIs, through Finlombarda as Managing Body, during the past and the current Programming Period, in particular stressing the wide portfolio of the instruments implemented to promote competitiveness in Lombady, which include guarantees (such as the "Made in Lombardy" and the JEREMIE FESR), loans (FRIM FESR) and combined instruments (Jeremie ESF), each addressed to a different sector or target group (SMEs vs industries, start ups vs seed, etc.).

Milan was the venue for a meeting of the Thematic Working Group 2

Mrs Postorino explained that the decision to promote FIs arises from the opportunity of exploiting the innovative and revolving nature of Financial Instruments, which create added value and a leverage effect on the territory due to additionality and subsidiarity and to the involvement of private actors - features distinguishing FIs from grants. On this basis, partners – under partner IDEA's coordination – continued the discussion started in Seville, deepening those topics identified by partners as the most relevant ones in the implementation phase, that are related to the leverage policy, the creation of impact, the selection of financial intermediaries, the treasury policy, state aid regulation and the use of combined instruments.

The outcomes of the cross-regional learning process will be described in the TWG2 Report, in which the identified best practices will also be presented. The report will be published on the project website during the first half of 2014.

Delegates met in Budapest, Hungary, for the TWG3 event in June 2013

TWG 3 - Monitoring and Evaluation of Financial Instruments hosted in Budapest by EDOP (Hungary)

The third meeting was held on 20 and 21 June, 2013 in Budapest. During the two days, partners focused on experiences gained on FIs' monitoring and reporting procedures, verifications and checks, corrective measures applied and quantitative and qualitative evaluations.

Discussion centered on the main critical points shared by most partners linked to monitoring system used (including frequency of reporting), the scope and target of verifications and checks, and the EC audit.

In relation to these points, some valuable practices have been identified according to efficiency and effectiveness criteria, related to - among others - the timing of processes, but also the IT tools adopted and the capacity of implement corrective actions to face unforeseen difficulties.

The report of the discussion's finding will be available by the beginning of 2014.

FIN-EN NEWSLETTER
December 2013

2014-2020 Period: Identification and Transfering of Good Practices

One of the main goals of the project is to identify, among the experiences analyzed, those practices considered as 'good' according to efficiency and effectiveness criteria and transferable from one context to another.

It is extremely difficult to find a financial instrument that can be considered a 'good practice' as a whole, but, at the same time, it is feasible to identify examples of single processes, procedures or tools adopted in one or more implementation phases of the financial instrument itself.

The FIN-EN project offers partners the possibility to find good practices related to the management of financial instruments by dissecting each one according to phases of the instrument life-cycle first, and then to topics. The search for good practice of course also takes into account the potential transferability of the model considering that the aim is to promote a better implementation of FIs in the 2014-2020 period,

Up to now, 16 good practices have been identified in relation to the Programming phase. They can be grouped according to the following topics: the co-financing policy, the elaboration of an ex-ante evalution, the investment strategy, the process of incorporation in the operational programmes, and the selection of the funding management.

These 16 practices will be completed by the results from Thematic Working Groups 2 and 3 for the database.

SHARING EXPERIENCES - First Study Visit:
MA COMPETE Business Angels Co-investment Fund
(Lisbon, Portugal)

On 26 and 27 September, Lisbon hosted the first Study Visit, when the Portuguese Participant Managing Authority COMPETE shared its knowledge and best practices in the field of Financial Engineering Instruments (FEI).

Experts in the fields of credit and risk capital markets, including venture capital funds managers and business angels, as well as relevant Portuguese institution managers,

Delegates (top) and Francisco Nunes, Manager, FEI Division, MA COMPETE, opening the Lisbon event

such as the national holding fund (FINOVA) manager and the national mutual guarantee system manager, plus recipients of the FEI supported by MA COMPETE, presented best practices, improvement opportunities and recommendations regarding FEI currently being supported by MA COMPETE and FEI to be conceived for the next programming period (2014-2020). Among the financial instruments illustrated, the visit focused attention on the 'Business Angels (BA) Co-investment Fund' that has been considered by partners to be an innovative FEI, in its design, specifically regarding the asymmetric distribution of investment returns between the public (MA COMPETE) and the private participants (BAs), which enhanced the BAs" attractiveness to become co-financing participants of the FEI.

The objective of the BA Co-investment Fund is to finance BA Societies. During the setup of the FEI, 54 BA Societies (with over 200 Business Angels) were selected to receive financing (currently, the number of BA Societies of the FEI is 51).

(Continued on Page 5)

Whenever the BA Societies of the FEI make a new investment, the BA's of the Society must bring 35% (at least) of the total funds required for the investment, while MA Compete will make a 10 year (maximum) loan of 65% of the total required. This 'loan' does not have an associated 'interest rate'. The innovative aspect of the 'loan' is the calculation associated with its repayment. In this regard, the repayment of the 'total investment', between the BA Societies and MA Compete, will occur in 3 different phases:

- *Phase A, until BA Societies receive their investment back: 80% to the BA Societies and 20% to MA Compete;*

- *Phase B, until MA Compete receives its investment ('loan') back: 50% to the BA Societies and 50% to MA Compete;*

- *Phase C, after MA Compete and BA Societies have received their total investment back, until the exit strategy occurs: 80% to the BA Societies and 20% to MA Compete. Within this framework, Phase C, of each investment, will be attained when the ROI has achieved a value of 156%.*

MA COMPETE set up the (BA) Co-investment Fund, (initially) worth €41 million, in terms of public and private budget, in overall proportions of 65% and 35% respectively. Recently, due to the revision of the investment perspectives of the actors of this FEI, its budget has been reduced to €38 million.

Moving forward...

SHARING EXPERIENCES - Second Study Visit: JEREMIE, Auvergne - the SMEs' point of view
(Clermont-Ferrand, France)

The second study visit of the project, organised by the Regional Council of Auvergne, will be a field visit. Four SMEs of Auvergne (Perfect Memory, Biofilm Control, Effidence and Cycles Victoire) will open their doors to FIN-EN partners, to show their activities & projects.

They are all beneficiaries of JEREMIE Auvergne, including JEREMIE Innovation. The two managers of JEREMIE Auvergne, the Regional Chamber of Commerce and Industry of Auvergne and Sofimac Partners, will explain the instruments and the funding procedure.

FIN-EN MID-TERM CONFERENCE:
"Financial Engineering:
which improvements for the future?"
Friday 6 December 2013 in Clermont-Ferrand

FIN-EN Mid-term conference

On Friday 6 December, the FIN-EN Mid-term conference will be held, aiming to answer the main question: "Financial engineering: which improvements for the future?"

The conference will be held at the Institut d'Auvergne de Développement des Territoires, 51 boulevard François Mitterrand in Clermont-Ferrand. This event is free to access to any stakeholder, by registration only. For more information please visit the project website www.fin-en.eu

Franck Alcaraz, director of the economic development and Auvergne attractiveness department at the Regional Council of Auvergne, will open the conference, before giving the floor to Hanna Dudka from DG Regio of the European Commission (in video conference). Mrs. Dudka will give an overview on the legislation and the state-of-the-art of financial engineering for the next programming period.

Alain Bussière, First Vice-President of the Regional Council of Auvergne for higher education, research and Innovation will discuss, with the European partnership, the good practices identified through FIN-EN, in light of the coming 2014-2020 period. Finally René Souchon, President of the Regional Council of Auvergne, will close the conference.

The FIN-EN mid-term conference will be held at the Institut d'Auvergne de Développement des Territoires, 51 boulevard François Mitterrand in Clermont-Ferrand. This event is free to access to any stakeholder, by registration only. For more information please visit the project website www.fin-en.eu

SHARING EXPERIENCES - Third Study Visit: North West Competitiveness Operational Programme
(Manchester, England)

The third study visit will be taking place in Manchester, the city that led the Industrial Revolution and is the UK's fastest growing city region.

The North West of England has a strong track record of using ERDF backed Venture Capital and Loan Funds and the Study visit will focus on the JEREMIE fund established in the North West as part of the 2007-13 Programme.

The North West Fund has six sub funds providing a range of finance from loans to mezzanine/equity and supporting SMEs from early stage start ups to more established businesses. The fund has three regional sector funds to support Biomedical, Energy and Environmental and Digital & Creative.

The study visit will consist of understanding more about challenges and opportunities in the North West and visiting a range of businesses that have been supported through the NW Fund.

State aid rules: General Block Exemption Regulation

FIN-EN partners have highlighted the different State Aid routes taken to support their different instruments. While a number of partners notified their schemes, most utilised the Risk Capital Guidelines and the General Block Exemption Regulation (GBER).

The GBER covers a range of pre-approved State Aid areas that do not require individual approval from the European Commission in advance. Aid granted under cover of the Regulation only has to be notified within twenty days of the aid being granted.

At present, most FIN-EN partners' regional aid measures fall within the GBER which was due to expire on 31 December, 2013 but has now been extended until 30 June, 2014. On 8 May 2013, the Commission published Draft 2014-20 GBER for consultation.

The current GBER provisions applicable to risk capital aid are rather narrow in scope because, on the one hand, they only cover aid provided through private/public funds investing predominantly in equity/quasi-equity on a non-pari passu basis, which leaves most financial instruments (FIs), including debt instruments and guarantees, outside the safe-harbour.

On the other hand, they only cover investments into seed, start-up and early expansion capital, which excludes SMEs in their growth stage. Within this narrow scope, the GBER provides for relatively simple compatibility criteria.

In particular, the current GBER limits the maximum investment in each target SME to annual tranches of €1.5 million per successive periods of 12 months and requires compliance with 50%-30% private capital leverage ratios, depending on the assisted/non-assisted status of the regions where the target SMEs have their permanent establishment. Moreover, it requires compliance with 'profit-driven investment' and 'commercial management' principles.In particular, the current GBER requires that 70% of the budget of the measure has to be made in equity and quasi-equity investment instruments, leaving only the remaining 30% for debt instruments and liquidity management.

FIN-EN partners are keen to see the final version of the GBER however the draft guidelines support a number of the key priorities:

Larger scope: ensure access to debt and equity finance for SMEs while stimulating private investments in line with Europe 2020 including:

- *SMEs in their later growth stages*
- *Extension to follow-on investments and replacement capital*
- *Any form of risk finance to better reflect market practices and cover many financial instruments for SMEs*

Higher notification threshold: annual investment tranche of €1.5m replaced by overall investment cap of €10m per SME + new minimum private participation thresholds.

FIN-EN working with Europe

*Financial instruments are one of the main topics under discussion in the preparation of the upcoming 2014-2020 programming period. FIN-EN is making efforts to provide the EC with recommendations, from partners' experience, to make the 2014-2020 financial instruments more effective. Thanks to an intensive communication activity, it was possible to start a direct dialogue with the Commission and to disseminate the project at interregional level (an article on FIN-EN was published on **the Inforegio website** in April 2013 and in **PANORAMA magazine** last October).*
On 30 May a FIN-EN delegation met DG Regio with the aim of sharing the first evidence and finding the best way to maximize the added value of the project. The dialogue is still open and has been deepened thanks to DG Regio taking part in the workshop hosted by FIN-EN during the Open Days (see page 1) and in the project mid-term conference in Clermont-Ferrand (see page 5).

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