



Financial instruments for financing SMEs, types of instruments and their advantages

Examples from EU financing

Oana-Andreea Dordain, European Commission and
Desmond Gardner, European Investment Bank

Tuesday 5 April 2022

 #ficompass

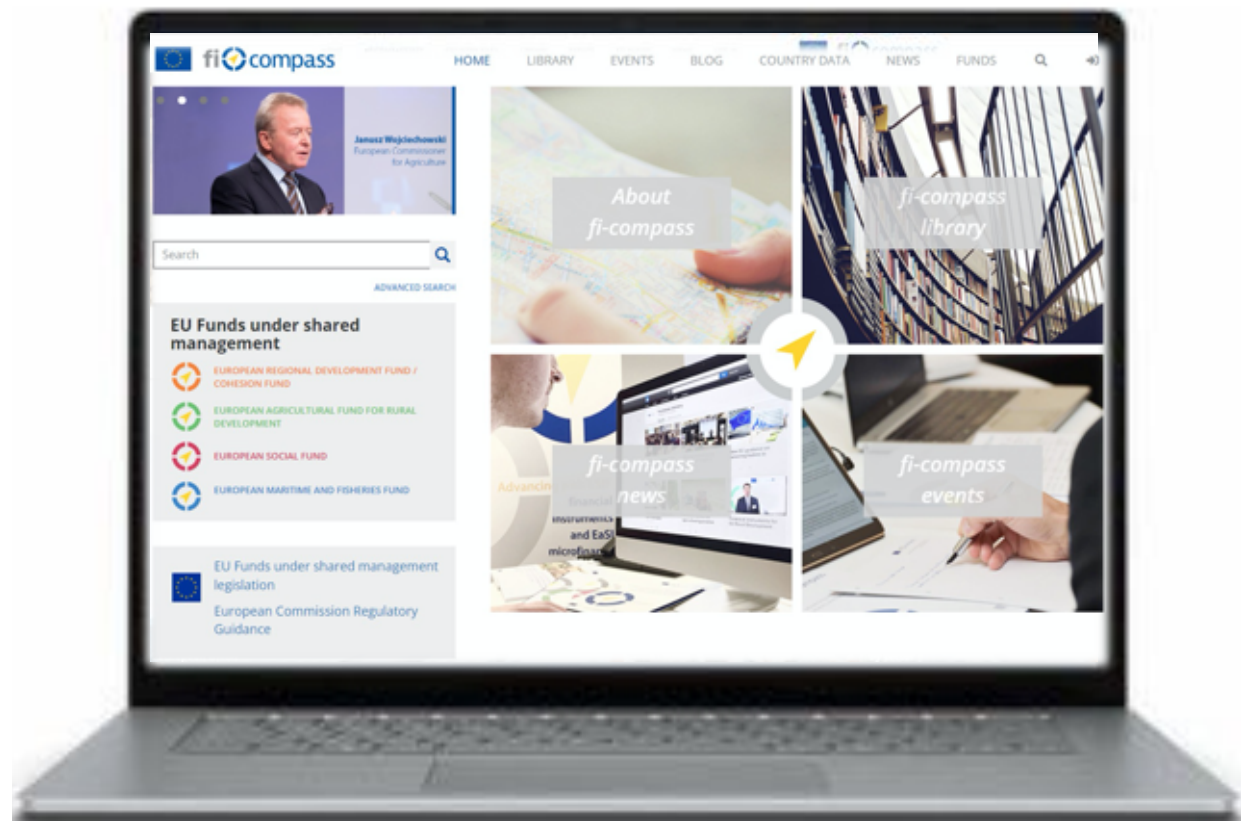


fi-compass advisory support for financial instruments



<https://www.fi-compass.eu>

The one stop shop for resources on financial instruments in the 2021 – 2027 Multiannual Financial Framework (MFF)





Financial instruments

- co-funded by EU shared management funds
- a sustainable and efficient way to invest in growth and development
- can support a broad range of development objectives to the benefit of a wide range of final recipients





Why use financial instruments

A **more efficient** use of (scarce) public sector resources, especially for revenue generating or cost saving projects

Greater **leverage potential**

Brings **financial discipline** into the project/initiative: transparency/identification/selection process

Can be **combined** with technical support and/or grants to overcome market barriers

Reutilisation of resources: **revolving nature** of the instruments

Final recipients are **familiar with products and processes**. Easy to access finance through ordinary business practices.

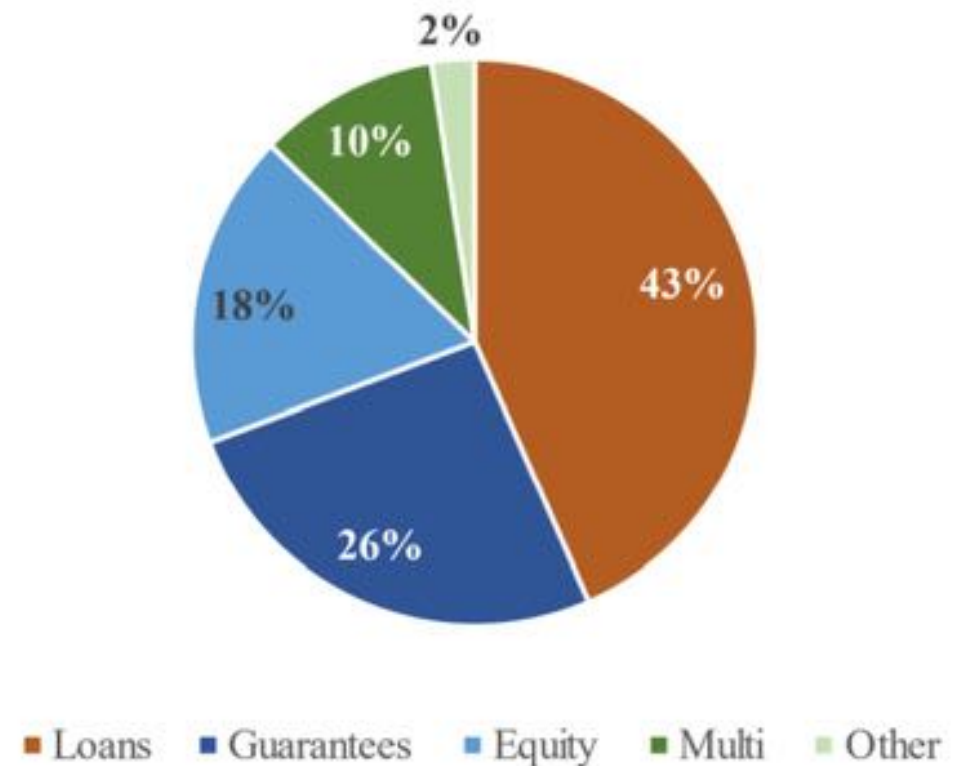
Financial instruments in action

The 2014-2020 programming period

- EUR 27 billion committed to financial instruments in 2014-2020 programming period
- Typical ERDF leverage rate of x3 – for every euro of ERDF, 3 euros co-investment mobilised
- Sectors – SME access to finance, energy efficiency, Research, development and innovation, urban development and climate/environment – also agri, social and fisheries
- Products – loan, guarantees, equity and multi (a FI with more than one type of product)



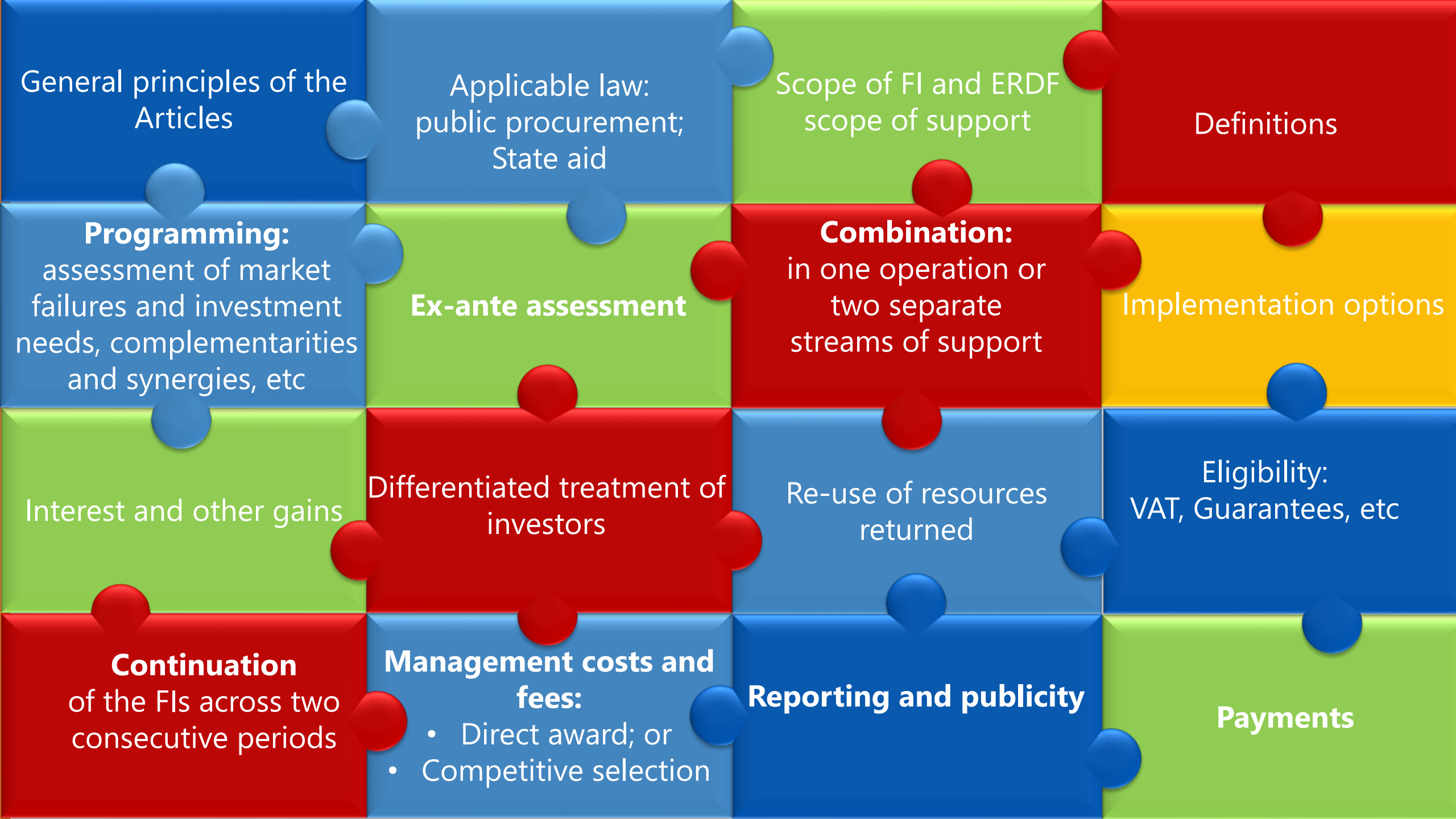
Programme amounts committed to FIs by product , at end 2020





The 2021-2027 Common Provisions Regulation





General principles of the Articles

Applicable law:
public procurement;
State aid

Scope of FI and ERDF
scope of support

Definitions

Programming:
assessment of market failures and investment needs, complementarities and synergies, etc

Ex-ante assessment

Combination:
in one operation or two separate streams of support

Implementation options

Interest and other gains

Differentiated treatment of investors

Re-use of resources returned

Eligibility:
VAT, Guarantees, etc

Continuation
of the FIs across two consecutive periods

Management costs and fees:

- Direct award; or
- Competitive selection

Reporting and publicity

Payments

2021-2027 CPR

MA's perspective



- **Art. 22 - Programmes**
 - Justification of the form of support for grants and FIs;
 - Reference to the amount foreseen for FIs and the description of the planned use of FI
- **Art. 73 - Selection of operations by the managing authority**
 - Art. 73 applies to the 1st level of the operation (relation between the MA and beneficiary)
- **Art. 58 – Scope of FIs, ex-ante assessment and combination with grants**
 - Possibility to set-up regional FIs to achieve specific objectives of the programmes
 - Support to final recipients for investments in both tangible and intangible assets as well as working capital
 - No re-financing possible
 - Ex-ante assessment – not in the programme, but a tool for the MA to implement the FI: amount (range), estimated leverage, proposed financial products (loans, guarantees, (quasi-) equity, targeted final recipients, use of differentiated treatment of investors, contribution to specific objectives
 - Combination with grants under the FI rules: under certain conditions, final recipients receive a grant which follows the FI rules

2021-2027 CPR

Eligibility and Payments



- **Eligibility (Art. 64, 65, 68)**
 - VAT eligible at final recipients level (the grant part follows the grant rules ONLY for VAT)
 - Durability requirements not applicable to FIs
 - Expenditure eligible once the loan or the equity investments were disbursed (for guarantees see Art. 68(1)(b) and 68(3))
 - Possibility to continue the FI across consecutive programming periods
 - MCF capped in case of direct award (see Art. 68(4))
- **Payments (Art. 92)**
 - Advance of 30% at the signature of the FA and payment to the body implementing the FI – to be cleared no later than the final accounting year
 - Eligible expenditure in line with Art. 68

Management costs and fees – Article 62(2)



Simplified rules for management costs and fees

1

Differentiated thresholds in case of **direct award of contract**:

- holding funds,
- specific funds

The **threshold** is applied to **programme contribution disbursed to final recipients or amount set aside for guarantee contracts** – final amount known at closure

2

3

Performance-based with a methodology to be defined by the managing authority in case of direct award and competitive tender

No thresholds in case of **competitive tender**

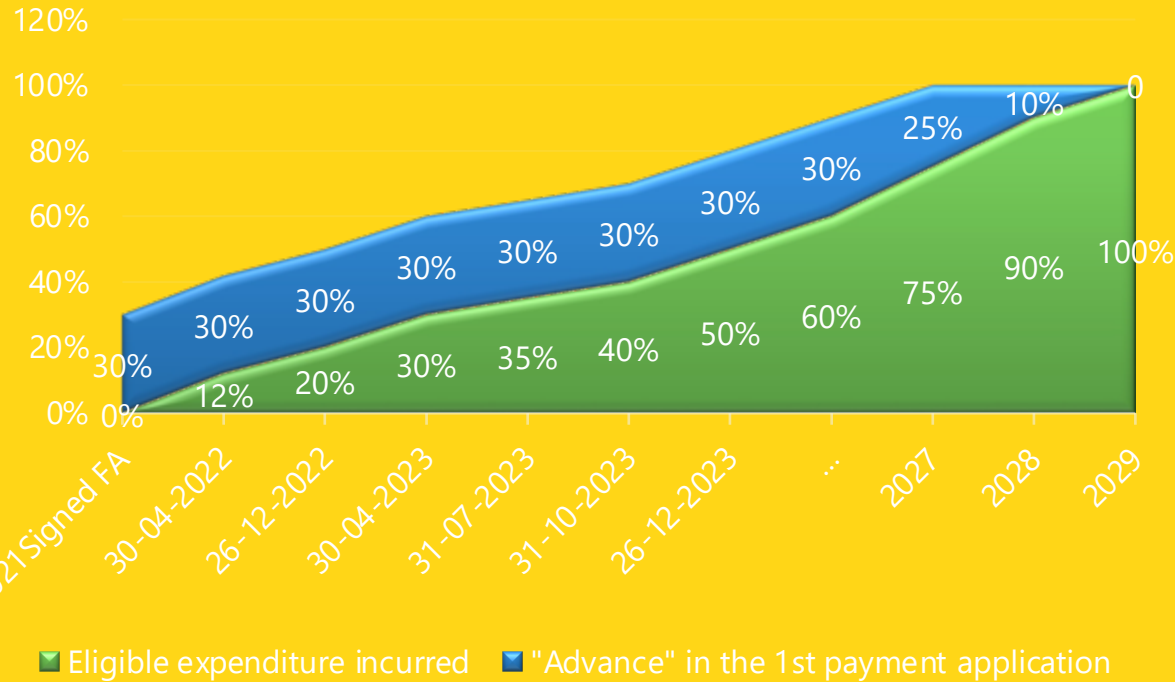
4

5

Payments – Article 86



Example of liquidity levels for FI



Amount signed in the FA = 500

Amount included in the 1st payment application = 150

Comments	Priority	Amount included in the first payment application and paid to the financial instrument in accordance with Article 86 (max 30% of the total amount of programme contributions committed to [the] financial instrument[s] under the relevant funding agreement)		Corresponding cleared amount as referred to in Article 86(3) ¹	
		(A)	(B)	(C)	(D)
		Total amount of programme contributions paid to financial instruments	Amount of corresponding public contribution	Total amount of programme contributions effectively paid, or, in the case of guarantees, committed, as eligible expenditure in the meaning of Article 86	Amount of corresponding public contribution
2021 Signed FA	Priority 1	150	150	0	0
30-04-2022	Priority 1	150	150	0	0
26-12-2022	Priority 1	150	150	0	0
30-04-2023	Priority 1	150	150	0	0
31-07-2023	Priority 1	150	150	0	0
31-10-2023	Priority 1	150	150	0	0
26-12-2023	Priority 1	150	150	0	0
...	Priority 1	150	150	0	0
2027	Priority 1	150	150	0	0
2028	Priority 1	150	150	50	50
2029	Priority 1	150	150	150	150

¹ This amount shall not be included in the payment application

Financial instruments (FI) specificities in payment applications submitted by MSs to the EC

In case of direct implementation (Art. 86(1)): eligible expenditure incurred in line with Art. 62(1)

NEW approach to submitting payment applications in case of FIs managed under the responsibility of the MA

NEW! The 30% included in the first payment application is cleared no later than in the final accounting year and also disclosed separately in the appendix to the payment application Art. 86(3)

Publicity (Article 45)

- Ensure the visibility of the Union funding and among other Union support instruments
- Provide coherent, effective and targeted information to multiple audiences, including the media and the public
- Statement that highlights the support from the Funds on documents and communication materials (intended for the public or participants)
- Short, proportionate description of the operation at their official website/social media site, highlighting the Union support



Reporting (Article 37)

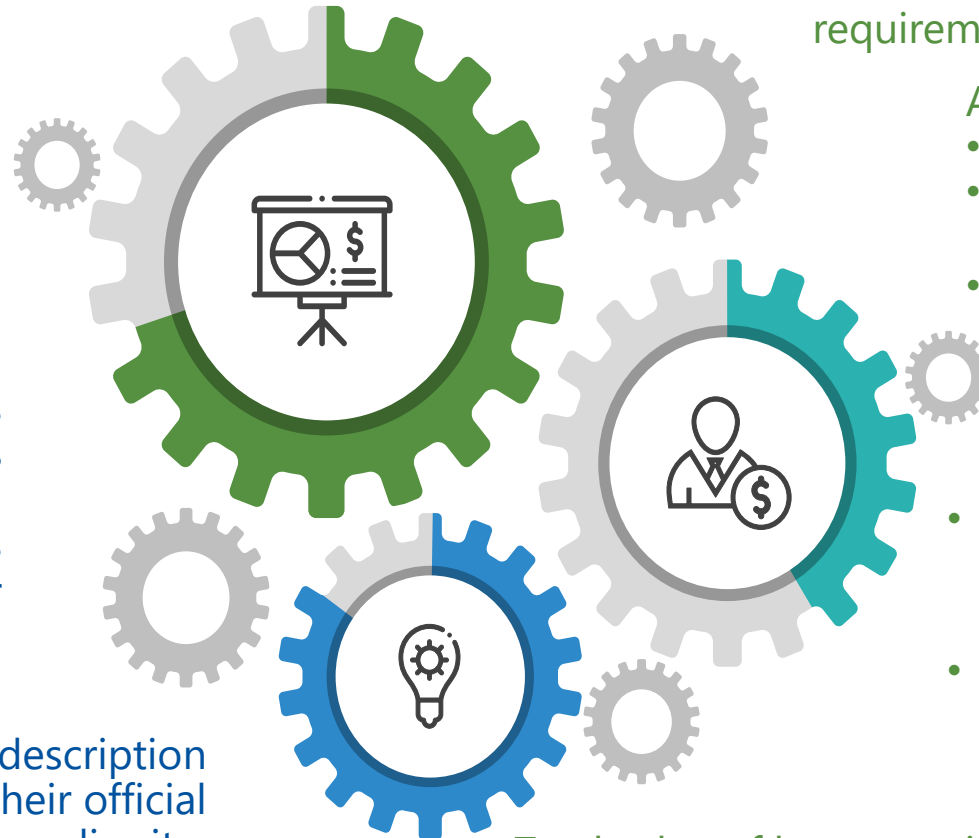


NEW! joint transmission of data on grants and FIs

SIMPLIFIED! fewer reporting requirements

A few FI specific data are collected:

- Eligible expenditure by product;
- Amount of management costs and fees declared as eligible expenditure;
- The amount, by type of financial product, of private and public resources mobilized in addition to the Funds ;
- Interest and other gains generated by support from the Funds to FIs, as referred to in Article 54;
- Resources returned attributable to support from the Funds, as referred to in Article 56
- Total value of loans, equity or quasi-equity investments in final recipients which were guaranteed with programme resources and which were disbursed to final recipients





Q&A with the audience



Implementation of financial instruments



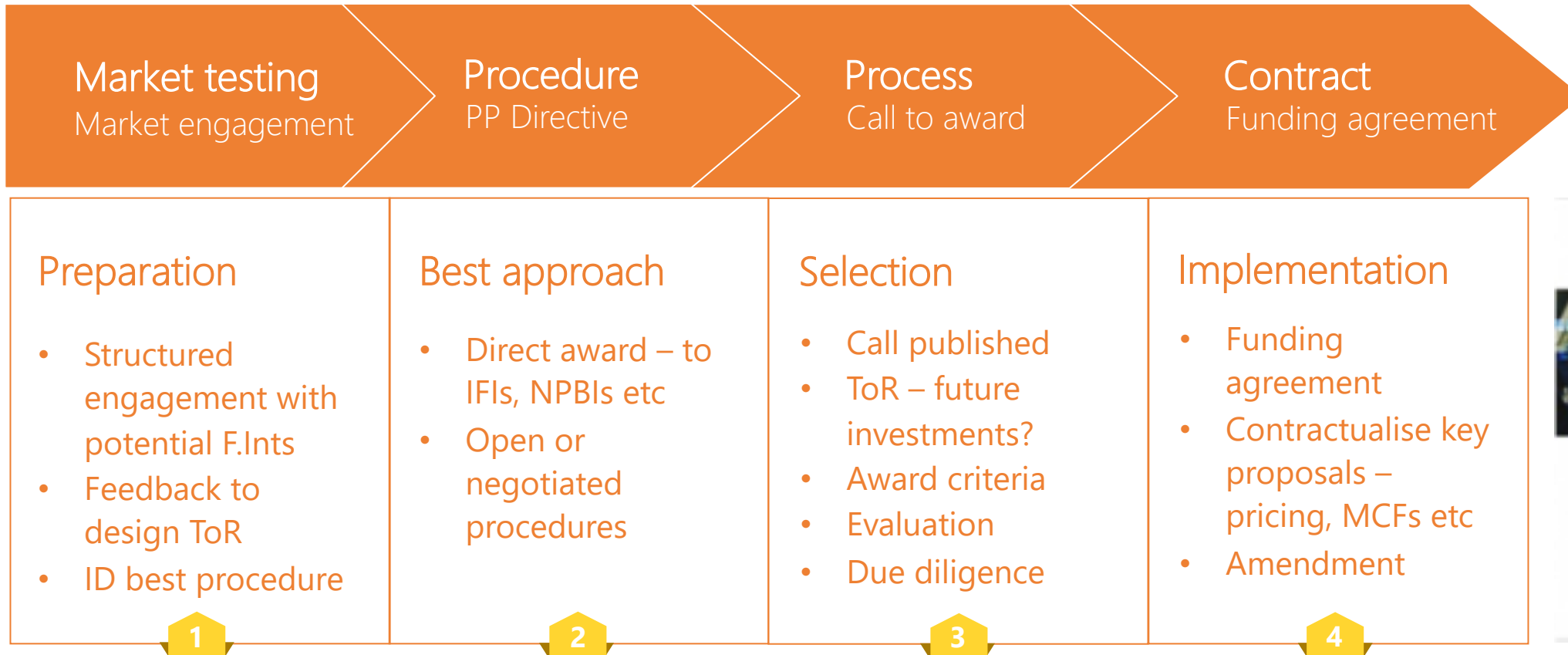
Ex-ante assessment

Overview of process



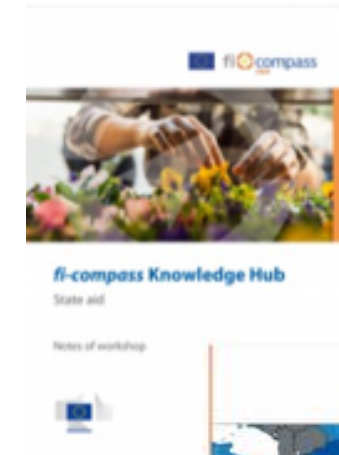
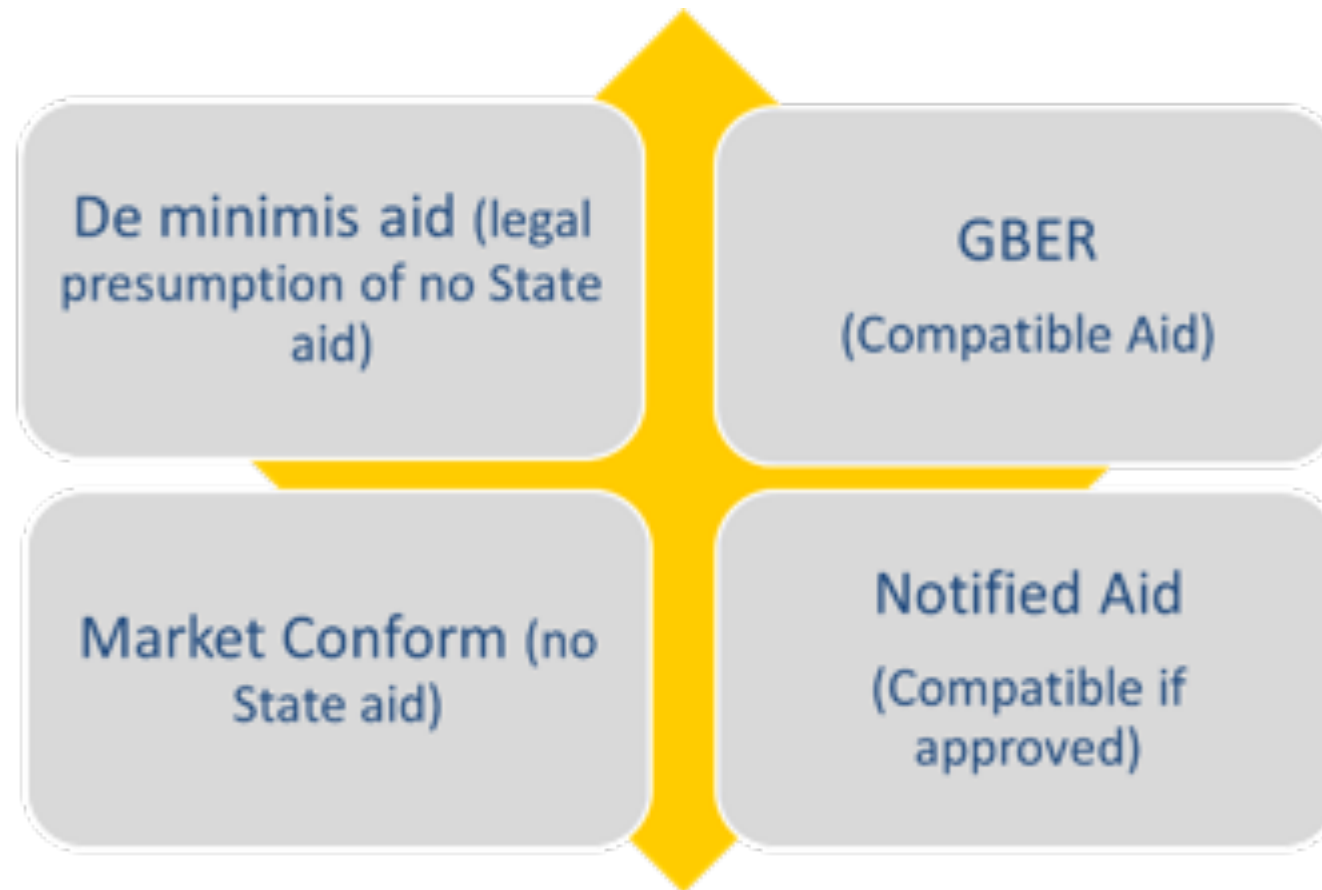
Selection

Key considerations



State aid – compliance options

Four legal bases



Notes of workshop





Success story –equity financial instruments to support innovative start-ups in Berlin, Germany



Supporting innovative start-ups

ERDF co-financed Venture Capital, Berlin, Germany

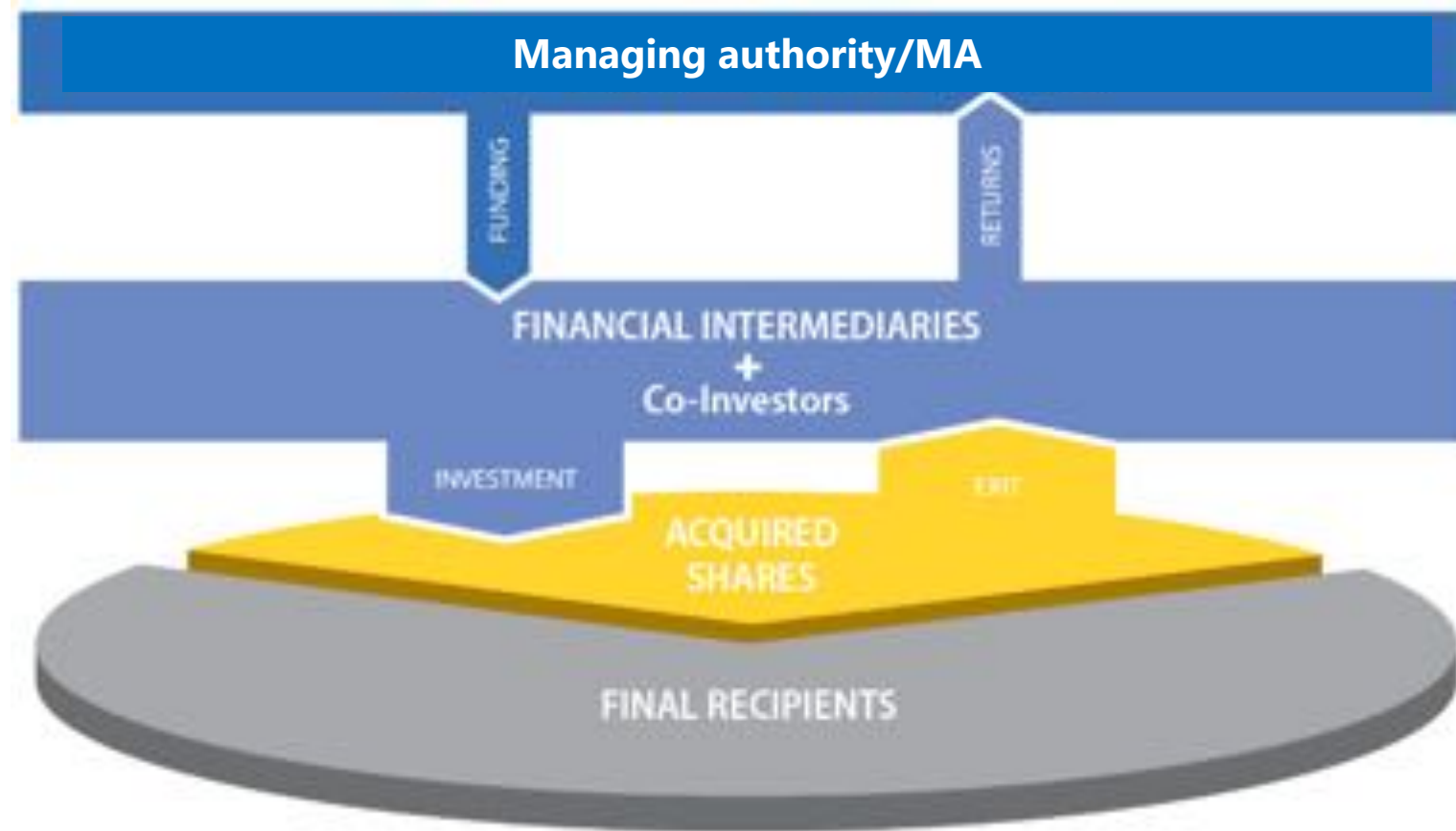




Financial instruments products



Equity - How does it work?



Equity – pros and cons



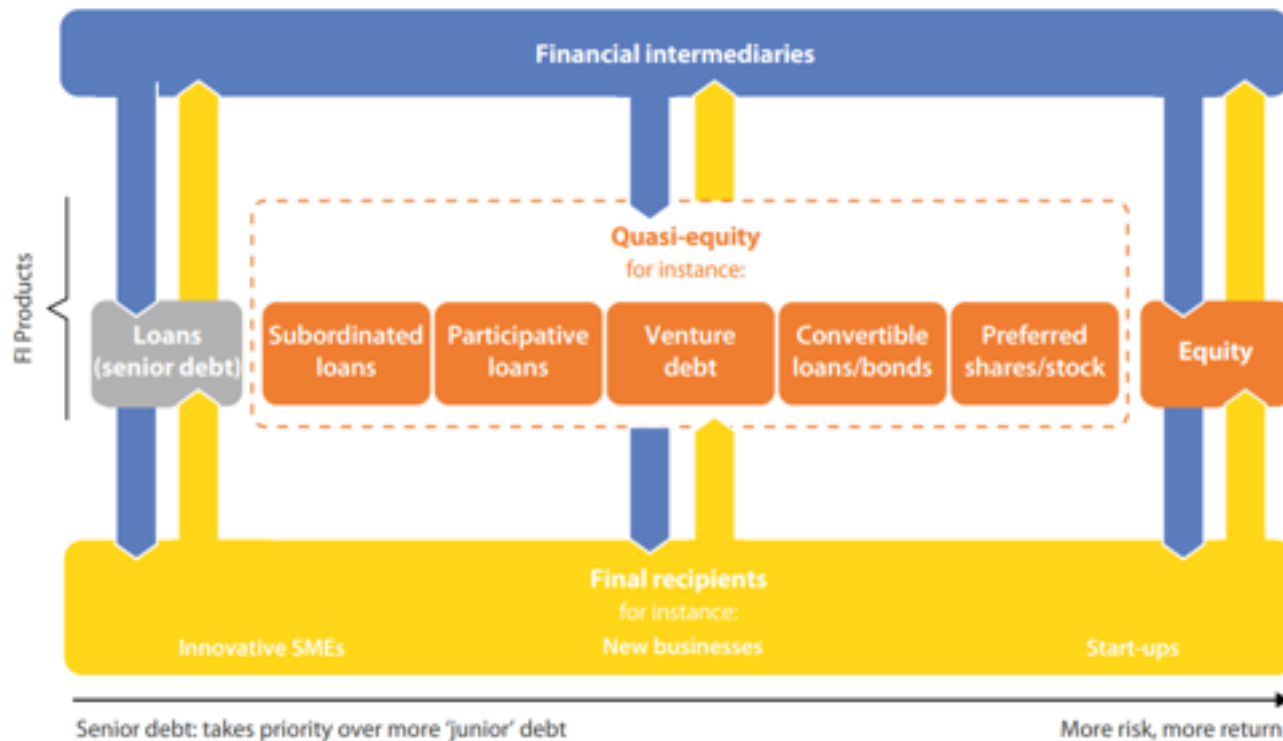
PROS

- **Higher potential returns** compared to pure debt instruments
- **Active role** in project management and access to shareholder information **for the investor**
- Stimulates **investment by local private equity** industry also in **riskier areas** not previously serviced.
- Company can **benefit from investor's** management **expertise**

CONS

- **Insolvency risk** for all the invested capital
- Time-consuming and cost-intensive investment
- **Complexity** in terms of administering than normal loans (high set-up and operational costs)
- Short-term financing is not possible, since **returns** are expected only in the **long term**
- Establishing the process for the investment can be challenging

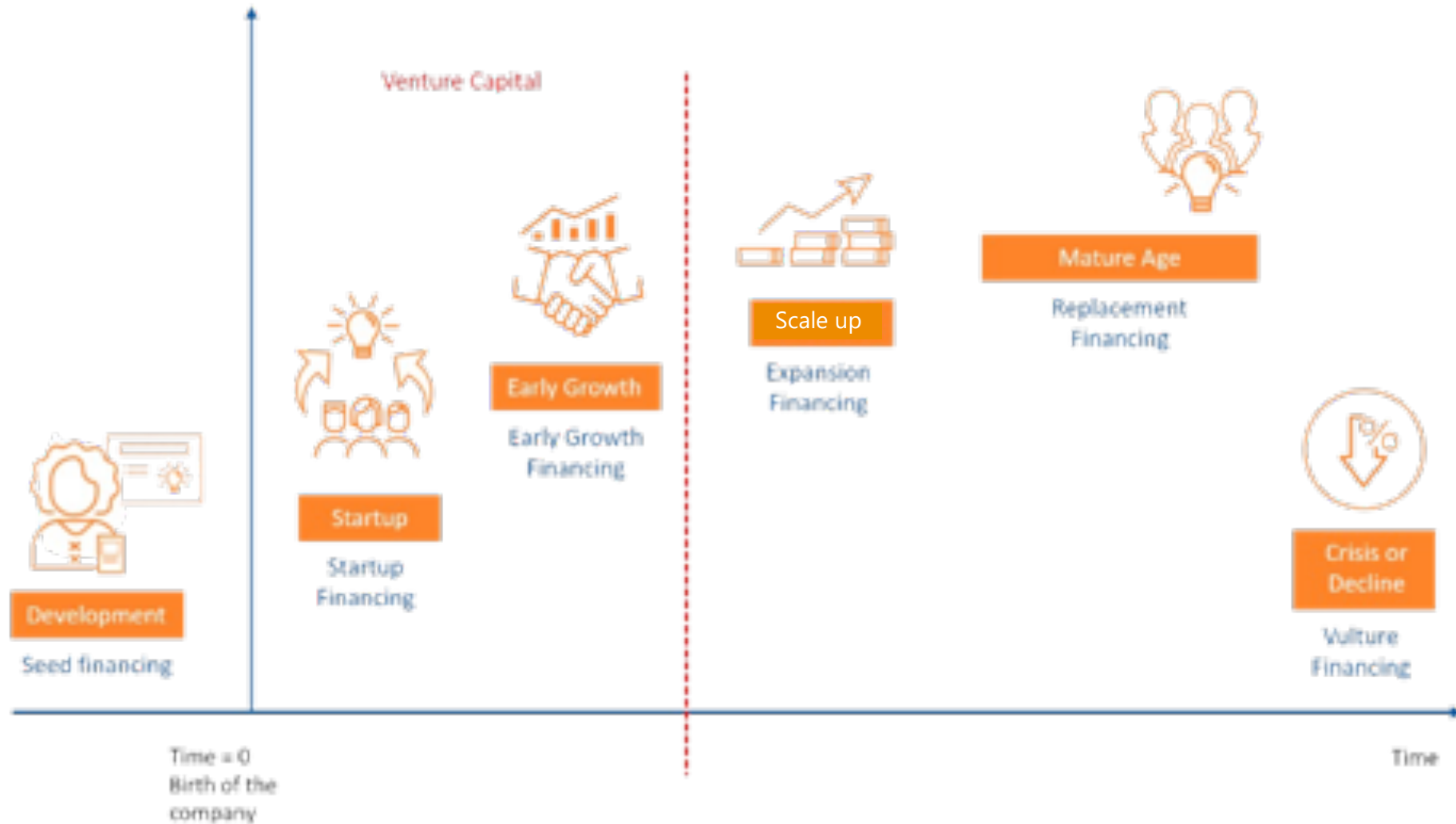
Quasi-equity financial instruments



- Solution orientated support for specific investments
- Patient capital – interest and capital paid at maturity
- Higher interest rates and/or share options
- Subordinated shareholder loans alongside equity investments

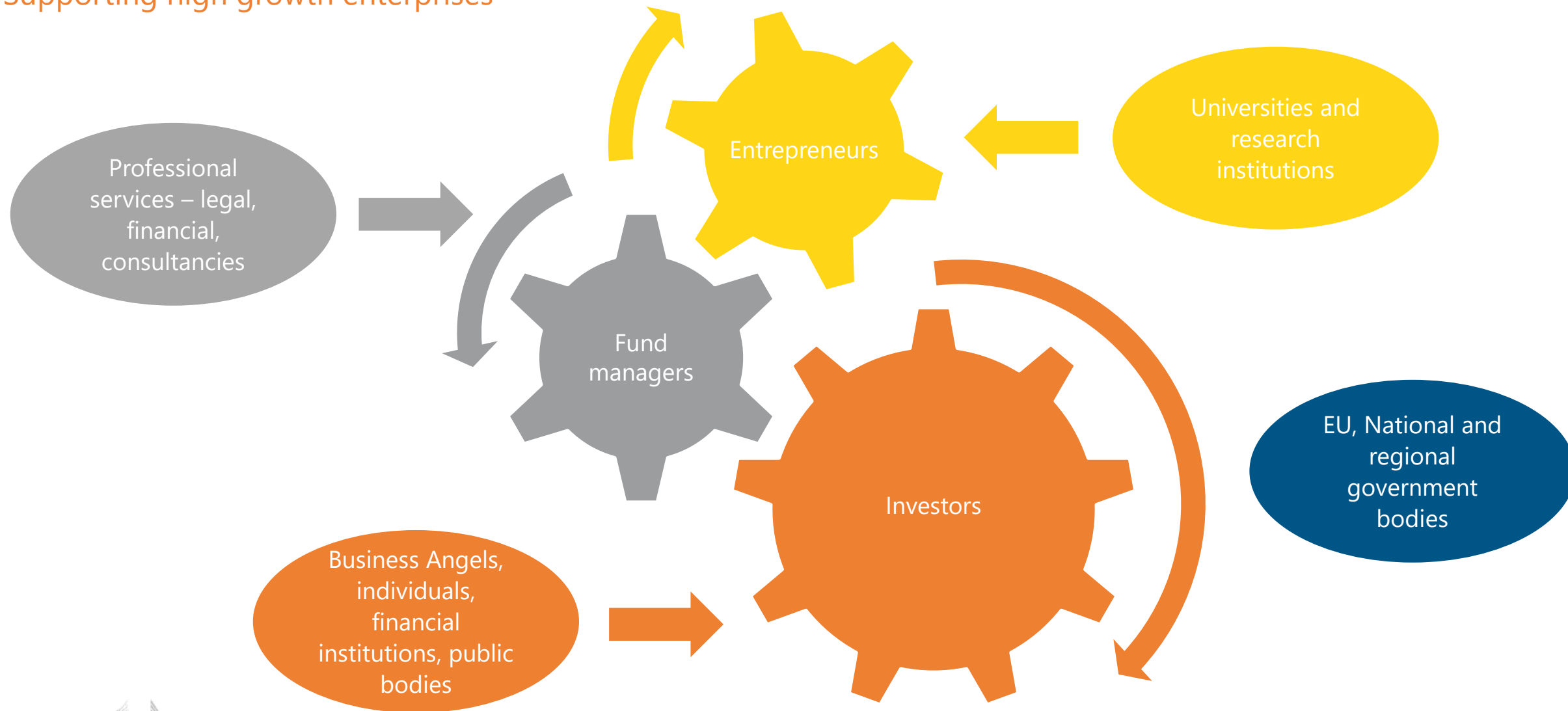


The life-cycle of a high growth company



Equity investment ecosystem

Supporting high growth enterprises





Success story –guarantee and equity financial instruments to support innovation and competitiveness in Bulgaria



Guarantee and equity finance

Different products to meet range of needs in Bulgaria



SME Initiative

- Implemented by EIF
- EUR 102 million ERDF resources
- Guarantee instrument
- >EUR 600 million loans at favourable terms

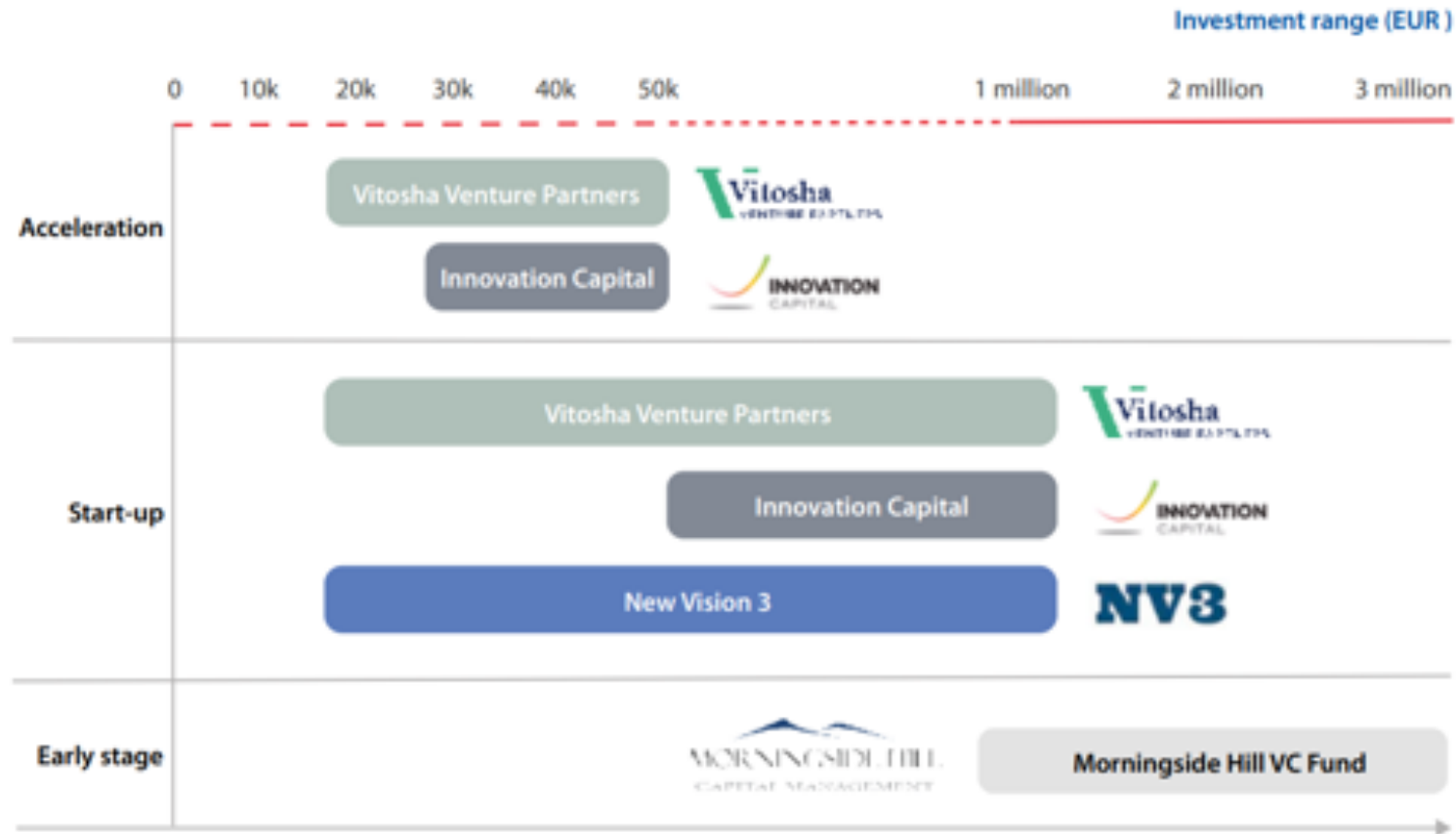
Equity Funds for Innovation and Competitiveness

- Implemented by Fund Manager for Financial Instruments in Bulgaria (FMFIB)
- ca.EUR 150 million ERDF resources
- six equity funds



FMFIB equity financial instruments

Tailored to support different stages of life-cycle of innovative companies



- Creating an equity ecosystem
- Attracting fund managers back to country
- Boosting capacity amongst professional advisers
- Supporting entrepreneurs creating high growth companies

Nasekomo

ERDF financial instruments supporting sustainable biotech business



- EUR 1.25 million equity investment from two financial instruments
- Biotechnology start up – production of insect protein for animal feed
- Develop product and set up first production facility
- 42 employees – potential to become leader in new markets



“As an institutional investor with a development role we believe Nasekomo is a great example of innovation at work for sustainable business growth. Furthermore, our investments aim to unlock the great potential of companies like Nasekomo so as to attract additional private funding.”

Lazar Petrov, Director FMFIB

Further information

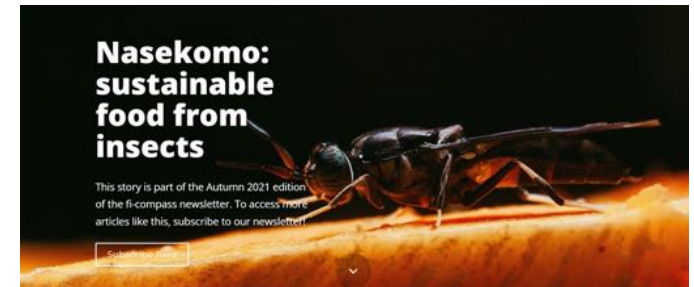
fi-compass resources



fi-compass case study – FMFIB – a multi sector fund of funds



fi-compass video case study – sustainable food from insects



fi-compass Newsletter article – Nasekomo sustainable food from insects

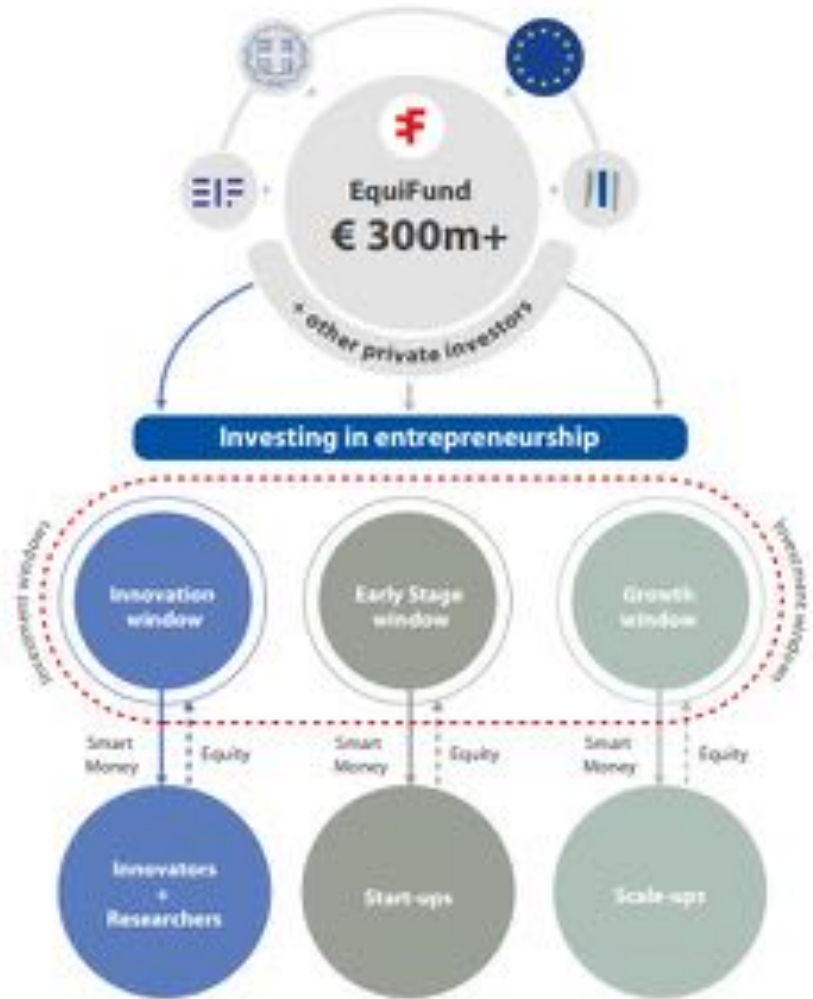


Success story – EquiFund, Greece



EquiFund

Equity financing for SMEs in Greece



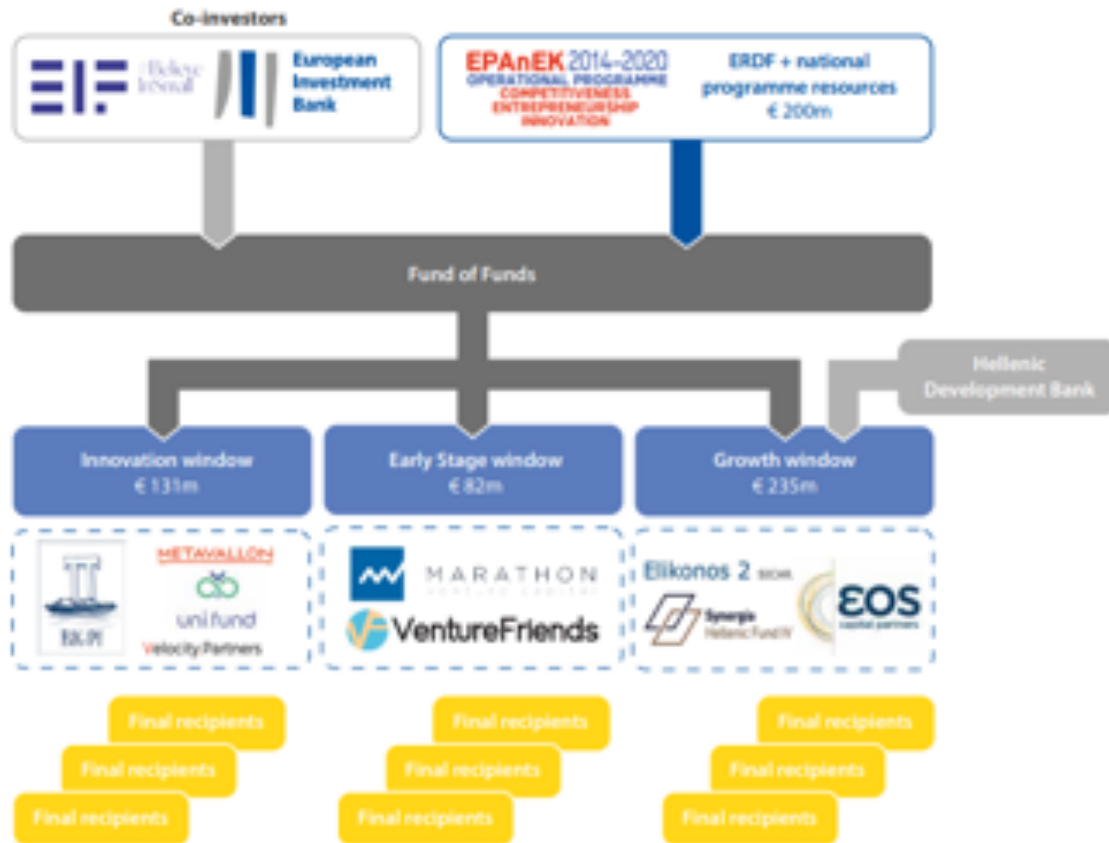
- EUR 156 million ERDF + EUR 44 million national – total EUR 448 million fund size and > EUR 750 million mobilised
- Nine equity financial instruments under three different investment windows
- VC/PE investment across the whole country and all phases of a growing company's life-cycle
- Sector agnostic
- First time teams of fund managers providing support to businesses alongside investments

"We cover the entire lifecycle of enterprises...from a powerpoint presentation... to becoming a unicorn tomorrow"

Hubert Cottogni, Fund of funds manager EIF

Fund of funds structure

Attracting additional investors to invest alongside ERDF resources



- Fund manager selected through open Call for Expression of Interest
- Fund manager contributes own investment
- Other private investors attracted to invest in the fund
- Additional equity investment may be made alongside fund through successive funding rounds



Equifund – early successful exits from investments

- operations retained in Greece post acquisition

Think Silicon

- based in Patras
- specialises in high-performance, technology for wearables, Internet of Things, home appliances and industrial automation displays.
- within 12 months of EquiFund investment, the company was acquired by Applied Materials, a NASDAQ listed company and one of Fortune's 'World's Most Admired Companies'.

Pushme

- e-mobility start-up
- Investment supported product development
- 15 months after investment – company acquired by larger German company- Tier Mobility

Instashop

- On demand grocery store
- Successfully established in Middle East and Africa
- Supported through several funding rounds by EquiFund
- Acquired by global leader Delivery Hero
- USD360 million acquisition a record exit from a Greek start-up



Further information

fi-compass resources



fi-compass case study
– Equity financing for
SMEs in Greece



fi-compass video
case study –
Equity financing
for SMEs



fi-compass
Newsletter article
– the power of
equity financial
instruments



Q&A with the audience



www.fi-compass.eu



fi-compass is provided by the European Commission in partnership with the European Investment Bank
Copyright © European Investment Bank 2014-2021
events@fi-compass.eu | www.fi-compass.eu

