FIN-EN

Sharing Methodologies
on Financial Engineering
for Enterprises

F I N - E N

Sharing Methodologies on Financial Engineering for Enterprises

Thematic Working Group 2: Implementation

Synthesis Report

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JUNTA DE ANDALUCIA

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CONSEJERÍA DE ECONOMÍA, INNOVACIÓN, CIENCIA Y EMPLEO

INTERREG IVC
INNOVATION & ENVIRONMENT
REGIONS OF EUROPE SHARING SOLUTIONS

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Executive summary

Executive summary

This document is the synthesis report of the Thematic Working Group 2 (Implementation) of the project "Sharing Methodologies on Financial Engineering for Enterprises" (FIN EN Project), financed by the ERDF through INTERREG IV C.

This report presents the outcomes of a cross-regional learning process on implementation of FEIs in 13 EU regions. The goal of this document is to provide findings, recommendations and best practices to facilitate and to improve the implementation of FEIs across the EU.

The three most remarkable overall findings are the following:

- A great deal of diversity in implementation.
- Need of consistency.
- Effectiveness is the great challenge.

Other findings are presented throughout this document (e.g. room to improve in EU regulation, most important identified benefit and burdens for recipients, etc.)

The three major conclusions are described below.

1) A great deal of diversity in implementation

There is a great diversity of approaches for implementation across the EU regions, not only to address the identified financial market gaps, but also to pursuit other regional development objectives (e.g. to promote entrepreneurship, to foster innovation in SMEs, to develop industry clusters, to develop business angels networks, etc.)

Diversity in the implementation can be found in every element of the FEIs: objectives, types of instrument (loans, equity, combined instruments, etc.), types of financial intermediaries (none, commercial banks, government owned companies, etc.), remuneration schemes (% charge, unit price, reimbursements, etc.), FEI policies (collaterals, risk sharing, etc.), processes (actors, decision making, etc.) and so on.

It is hardly possible to find equivalent FEI implementations among participating EU regions. This makes it difficult to benchmark FEI among regions, and in particular, to identify and insulate causalities between parameters and their effects.

Nevertheless, best practices are transferable in general from one region to another, with the need to adapt them to the specific circumstances of the region (national and regional legislation, economic environment, specific market gap, etc.)

2) Need of consistency

Consistency among all parameters that make up a FEI is found to be critical for a successful implementation. The challenge is to achieve a consistent configuration of three core groups of parameters:

- The recipients and their needs (the "market target"): market failure, sector, companies' stage, geographical scope, size, expected number of deals, etc.
- The FEI (the "value proposition"): type and size of instrument, investment criteria and terms, investment process, etc.
- The financial intermediaries (the "channel"): number and type of FI, relation among FI, remuneration schemes, capillarity, capacity to create deal flow, etc.

Other important elements are: timing, life-cycle of the FEI, decision-making process, control and monitoring process, IT systems, etc.

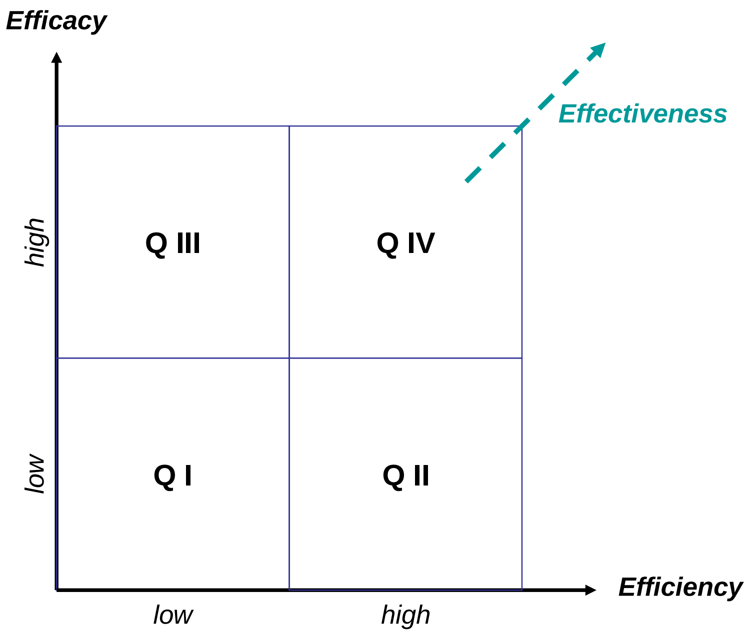
The lack of consistency may cause the instruments not to be effective. For example, fees that incentive intermediaries' behavior that are harmful to the FEI objectives.

3) Effectiveness is the great challenge.

The capability of producing the desired results –with reasonable effort– is ultimately the most important aspect of any financial engineering instrument.

Effectiveness is the capability of producing a desired result. Effectiveness implies both 'do the right things' and 'do the things right'.

As represented in the matrix bellow, effectiveness can be defined as a composition of efficacy and efficiency. Efficacy is the capacity to produce an effect. Efficiency, in general, describes the extent to which time, effort or cost are well used for the intended task or purpose.



Although there are not systematic evaluations available yet, the following general tendencies have been identified –on a preliminary basis– throughout this project.

QI

No type of FEI that is consistently located in Quadrant I has been found.

The main challenge in this case is to improve both efficacy and efficiency.

For example, a loan instrument with a lengthy processing time, heavy burdens for the SMEs and with little overall impact in the regional development.

QII

The following types of FEI, in general, tend to be in the Quadrant II:

– Risk sharing loan
– Microcredits
– Guarantee instruments

The main challenge in this case is to improve efficacy.

For example, a very efficient guarantees FEI with a very high private leverage achieved but with little impact in the financial market.

QIII

The following types of FEI, in general, tend to be in Quadrant III.

- Risk capital funds
- Mezzanine instruments
- Combined instruments

The main challenge in this case is to improve efficiency.

For example, a FEI combining loans and grants that it is proven to be very useful to promote entrepreneurship and to facilitate a transition from grants to loans but which faces serious operational issues.

QIV

No type of FEI that is consistently located in Quadrant IV has been found. This represents the ultimate target.

Some elements that are relevant in practice for FEI effectiveness have been identified. A first attempt to list and to assess them –based only in the information collected in this project– is presented in the table below.

Element	Efficacy	Efficiency
Leverage	+++	+
Remuneration scheme	+++	+
Size of target group	+++	+
Flexibility of intermediary	+++	+
Experience	++	++
Learning curve	++	++
Qualified staff	++	++
Political endorsement	++	++
Remuneration scheme	+	+++
Investment process / IT systems	+	+++
Competitiveness between FI	+	+++
Size of financial instrument	+	+++
Bureaucratic burdens	+	+++

Finally, another remarkable finding related to effectiveness of FEIs is the impact of the Global Crisis, which has deeply affected the designed strategies and the implemented FEIs in all their aspects. Nowadays FEI's are often playing a subsidiary role and they are largely addressing short-term market needs instead of addressing structural gaps and seeking other major regional objectives (e.g. innovation or entrepreneurship).

The scope has been broken down into 14 sections (7 for topics and 7 for best practice criteria). These sections and the main findings for each of them are briefly presented bellow.

T1) Funds:

Two main approaches for funds administration are observed: funds are transferred all at once or funds are continuously managed (progressively made available to FIs, invested, reallocated, etc.) The second one is suitable when resources for administration are available and relevant outcomes can be obtained. Some FEIs have already used funds more than once while others funds are underutilized. No clear rules beyond 2015 yet.

T2) HFM internal organization:

Two main approaches for HFMs are observed: bank-like organizations or government arm-length bodies. HFM are frequently existing financial entities. A mix of financial market skills and public policies skills within the HFM is recommended. Regulation is the main issue for the regions.

T3) Financial intermediaries:

FIs and FM are critical for FEI effectiveness. Many schemes for FEI intermediaries are observed (government or private controlled, number, competition, etc.) Selecting FI has often been difficult. Regulation (especially public procurement regulation) has frequently been reported to be a major difficulty in selecting FIs. They are mostly incumbent banks and financial institutions.

T4) Communication:

Communication is carried out mainly by HFM and MA, for deal flow generation and for general awareness, both at the fund level and at the FEI level. It has not been a high priority matter for the regions. Certain methods like events and networking are reported to be the most effective. Some communication obligations remain unclear and some innovative approaches are reported.

T5) Closing and exit:

There is little experience in exits (equity, loans, etc.) and in FEI closures (both ordinary and extraordinary, which some regions are facing) yet. It is important to consider the whole lifecycle of the FEI when designing and operating the FEI. No clear rules beyond 2015 yet.

T6) Future:

Regions agree that FEIs will be an increasingly more relevant public policy instrument over the following years. The Global Crisis has deeply affected FEIs and this kind of unexpected events may happen again. Better regulation in some fields (e.g. FIs selection) and the provision of EU level tools (e.g. off-the-shelves FEIs) can improve the implementation of FEIs across the EU.

T7) Effectiveness:

The capability of producing the desired results is the most important question for a FEI. Besides addressing the identified financial market gaps, many objectives for FEIs have been reported (e.g. clusters, business angels, innovation, etc.) Many issues might hinder FEI effectiveness and the impact of the Global Crisis is significant. Getting feedback, keeping a clear updated strategy and implementing a strong monitoring system are recommended.

P1) Innovative design:

Many innovative approaches are implemented, and they are mainly the result of a creative process. Besides, promoting innovation is usually an overall goal. Combined instruments are found to be very attractive, but complex to implement in practice.

P2) Management fees:

Many remuneration schemes for HFMs, FIs and FMs are implemented. They are found to be critical for the FEIs effectiveness. Some of them (e.g. yield restriction, loss mitigation, etc.) seem to be quite effective in practice. Standardization of remuneration is possible for some instruments.

P3) Co-financing actors:

Finding co-financing actors (both at funds level and at investments level) is a wide-spread goal, both for achieving leverage and for FEI effectiveness. However it is difficult to achieve in practice and maximization is not always recommended. Some implemented measures have been collected.

P4) Leverage:

Leverage (both at funds level and at investments level) is a wide-spread goal but difficult to achieve in practice, mainly in equity FEIs. Some implemented measures have been collected. No standard leverage calculation method that readily enables benchmarking has been found.

P5) Expenses for recipient:

Access to funding is currently the most important benefit for recipients. Potential burdens for recipient are multiple (e.g. fees, collaterals, red tape, etc.) and they can hinder FEIs effectiveness. However no major problems in this field have been reported, except in some specific cases.

P6) Implementation time:

FEIs implementation time is often found to be too lengthy, mainly due to regulation and coordination issues. Previous experience, high level political endorsement and strong leadership are found to be key to accelerate the process.

P7) Investment process:

The core of the implemented investment processes is quite standard. Two main approaches are observed: only one actor is involved (FI) or many actors are involved (FI, HFM, etc.) The first approach is used for high volume, standardized deals. The second one is used for FEIs with few deals and in which regional development judgment –or others specific matters– is critical.

The sections can be classified in 3 groups according to their relevance in the implementation:

- Level 1: P2, P3, T3, T7
- Level 2: P1, P4, P5, P7, T1, T4, T5, T6
- Level 3: P6, T2

In the report, for each section there is an introductory section, a group of findings, a group of recommendations, some quantitative tables and a group of cases that illustrate examples/best practice in the field.

Introduction

► Presentation

This document is the synthesis report of the Thematic Working Group 2 (Implementation) of the project "Sharing Methodologies on Financial Engineering for Enterprises" (FIN EN Project), financed by the ERDF through INTERREG IV C.

The goal of this is document is to provide findings, recommendations and best practices to facilitate and improve the implementation of financial engineering instruments across the EU.

The FIN EN project was launched in January 2012 and it aims at enhancing co-operation between regional and national authorities across Europe on the methodologies and instruments used for implementing financial engineering instruments without the European Investment Fund, in the context of the EU Structural Funds. The main goal of FIN-EN is to set up a wide and stable network where analyze and discuss each phase of the implementation of financial engineering operations and the underlying financial instruments, in order to find concrete solutions to similar problems and to enhance the best practices in this field.

FIN EN consists of 3 Thematic Working Groups, in accordance with the overall process for setting up financial engineering instruments, which basically can be broken down in three stages: Programming, Implementation and Monitoring.

The participants in the FIN EN project are 13 institutions coming from 13 European regions that have been selected among public bodies that are directly involved in the design, implementation and operation of financial engineering instruments. They are presented in the page 13.

The results of this TWG are the fruit of an exchange of knowledge and experience between the FIN-EN project partners. Specifically, they are the outcomes of a cross-regional learning process that took place between October 2012 and July 2013. It comprised the completion of a questionnaire; individual conference calls; the review of draft documents by all participants; and the joint work of all regions in 2 face-to-face workshops (Seville and Milano).

This document consists of two main parts: 'Topics' and 'Best practices criteria'.

The "Topics" part is dedicated to the analysis and development of the themes identified and agreed by the partners and approved by the Technical Advisory Committee on 19.10.12; later on a few more themes were added.

These themes were chosen in the framework of the trans-regional learning process between partners with the objective of individuating main relevant elements to be further developed in project discussion.

According to that, topics selected for the 'Implementing' phase of the financial instrument life-cycle were discussed during the two meetings of the Thematic Working Group n. 2 held the first in Seville in March 2013 and the second in Milan in April 2013 and further deepened with the support of a questionnaire completed by each partner.

The result of these activities is now illustrated inside the Topics part, organized as follows.

For each Topic there is:

- A short description.
- The explanation of the content of the Topic.
- The explanation of the main findings of the analysis.
- Recommendations for the future.
- A group of tables that summarize the main quantitative data from the questionnaire (they are merely indicative and not statistically significant due to methodology constraints)
- Partners' illustrative examples in the specific Topic.

The "Best Practice criteria" part is dedicated to the analysis and development of the Criteria deemed to be relevant for identifying a best practice, these criteria were agreed by the partners and approved by the Technical Advisory Committee on 19.10.12.

Criteria were chosen in the framework of the trans- regional learning process between partners with the objective of individuating key aspects for defining a best practice; a practice can be considered 'best / good' even if regarding just one of the criteria, but of course it can also cover more than one. Criteria selected for the 'Implementing' phase of the financial instrument life-cycle were discussed during the two meetings of the Thematic Working Group n. 2 held the first in Seville in March 2013 and the second in Milan in April 2013 and further deepened with the support of a questionnaire completed by each partner.

The result of these activities is now illustrated inside Best Practice criteria part, organized as follows.

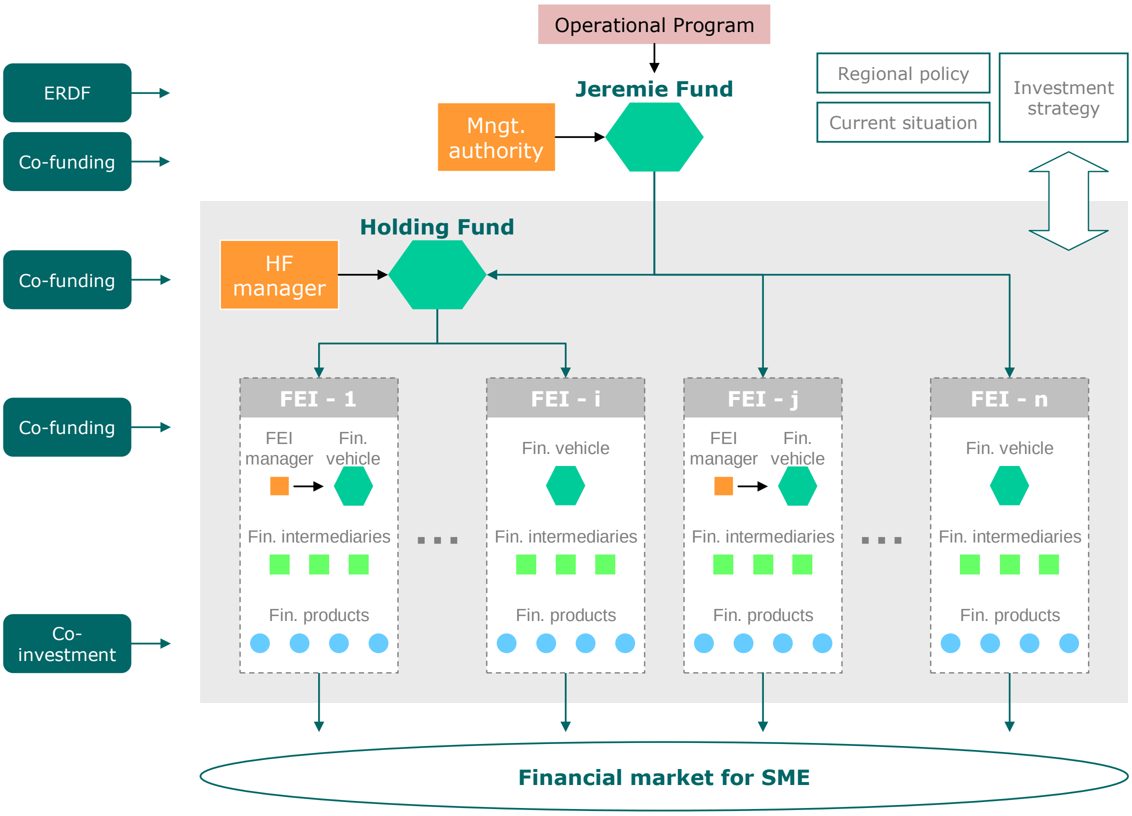
For each Criteria there is:

- A short description
- The explanation of the content of the Criteria
- The explanation of the main findings of the analysis
- Recommendations for the future
- A group of tables that summarize the main quantitative data from the questionnaire (they are merely indicative and not statistically significant due to methodology constraints)
- Partners' best practices in the specific Criteria

The following abbreviations are used in the document:

- FEI: Financial engineering instrument.
- MA: Management authority.
- HFM: Holding fund manager.
- FI: Financial intermediaries.
- FM: Financial engineering instrument managers.

The following graph is the framework that was developed, only as a first approach, to describe the concept of "implementation of FEIs" and facilitate the works in this TWG2.



Operational Program
Jeremie Fund
Mngt. authority
Regional policy
Current situation
Investment strategy
ERDF
Co-funding
Co-funding
Co-funding
Co-investment
Holding Fund
HF manager
FEI - 1
FEI manager
Fin. vehicle
Fin. intermediaries
Fin. products
FEI - i
Fin. vehicle
Fin. intermediaries
Fin. products
FEI - j
FEI manager
Fin. vehicle
Fin. intermediaries
Fin. products
FEI - n
Fin. vehicle
Fin. intermediaries
Fin. products
Financial market for SME

Participants

- Partner 1: Finlombarda SpA, Italy (Milan), *Lead Partner*
- Partner 2: European Association of Public Banks, Belgium (Brussels) on behalf of Investitionsbank in Berlin.
- Partner 3: Agency for Innovation and Development of Andalusia, Spain (Seville)
- Partner 4: Managing Authority for Economic Development Operational Programme (EDOP), Hungary (Budapest)
- Partner 5: Auvergne Regional Council, France (Clermont-Ferrand)
- Partner 6: SID Bank, Slovenia (Ljubljana)
- Partner 7: Hipoteku banka, Latvia (Riga)
- Partner 8: INVEGA, Lithuania (Vilnius)
- Partner 9: Central Denmark Region, Denmark (Viborg)
- Partner 10: WIBank, Germany (Offenbach)
- Partner 11: ETEAN SA, Greece (Athens)
- Partner 12: MA COMPETE, Portugal (Lisbon)
- Partner 13: Department for Communities and Local Government (DCLG), UK (Warrington)

Topics

Section T1: Funds

▶ Description

Name	**Transferring of funds** from the MA to the FEI Manager, treasury **management policy of the FEI Manager.**		
Ref.	1	*Type*	Topics
References	--		

▶ Importance

- Large funds administration carries important responsibilities. Right liquidity and cash policies are needed for smooth operation. (*relative priority*: **B**)

▶ Explanation

- The design of right liquidity, cash and allocation policies:
  - Should be based on the strategy.
  - Should be consistent with the rest of the design.
  - Must comply with the legal regulation.
  - Must consider the whole life-cycle of the FEIs (even after period of investments)
- Although liquidity and cash policies are probably not one of the critical success factors for FEI effectiveness, they have many implications: return of financial assets; achievement of other goals (leverage effect, etc.); administration responsibilities; cash management duties (accounting, etc.); impact in a lean, smooth, agile operation; availability of funds along the FEI's duration; attractiveness for FI, etc.
- Time and pace are also important (capacity, temporary priorities, revolving effect, funds life-long availability, etc.) If the whole life-cycle is not considered, it may appear problems like unavailability of funds in certain years, strong imbalances, etc
- There are many design alternatives:
  - Number and type of funds (single fund, fund for each FEI, financial vehicles, …)
  - Transfers (on a call basis, at once, on an event base, …)
  - Legal form (legal personality, …)
  - Others
- Important topics:
  - Global architecture of funds and financial vehicles.
  - Administration of funds.
  - Allocation policy (along the whole life-cycle).
  - Liquidity and cash policy in the FEI (along the whole life-cycle).
  - Operations and resources for operations.
  - Major trade-offs to be faced.

Findings

f.T1.1. There are 2 basic models for funds management: 'static model' and 'dynamic model'.

Two basic models for the management of the funds have been observed: the 'static model' and the 'dynamic model'. Real schemes fit to these two archetypes to a greater or a lesser extent.

Static model: Funds are made available to FIs or FMs all at once, usually right at the beginning, and FIs or FMs are responsible for the funds administration during the whole life. This model will be obsolete in the next OP 2014-2020.

Dynamic model: Funds administration is carried out by HFM or MA during the whole FEI life-cycle, and funds are progressively made available to FIs or FMs in accordance with their use, typically on a call basis.

f.T1.2. Ensuring a 100% execution of FEIs by 2015 is a common priority for the regions.

Ensuring a 100% execution of all FEIs by 2015 is a shared priority for all regions, but not a same level priority for all.

f.T1.3. Some FEIs have already used funds more than once but others funds are underutilized.

Actual degrees of execution of FEIs are diverse. Some FEIs have been reported to have already used the available funds more than once, which is an optimal result. Conversely, there are concerns that other FEIs are underutilized and will not be 100% executed at the end of the operational lifetime.

f.T1.4. There may be issues related to the size of the region and the size of the funds

Although there is not definitive evidence, there may be issues arising from imbalances between the size of the region and the size of the funds (relatively too small o too large funds).

f.T1.5. Management fees are not eligible beyond 2015.

Management fees are only eligible until December 2015 (regarding the actual OP 2007/2013); after that date the managing costs can be charged to the HF but they have to be paid with the returns (interest, principal etc.) of the FEI.

Recommendations

r.T1.1. Choose the right model for the defined strategy and implement accordingly.

A sound design of the funds management schemes and policies must be always based on the strategy: overall goals, general approach, timing, etc. Each model has advantages and disadvantages. Also, the design should be consistent with the rest of the design, must comply with the legal regulation and must consider the whole life-cycle of the FEIs (even after period of investments)

r.T1.2. Consider the whole FEI life-cycle in both strategy and execution.

It is necessary to consider the whole FEI life-cycle when designing the instrument and during execution. Particularly, the availability of funds along the life of the FEI, the FEI closure process, the remaining funds at the end of the OP period, the management fees at the later stages, etc. A high level strategy in the OP and good allocation plans makes it easier to have a 100% execution of the FEI.

r.T1.3. Some particular recommendations for the 'static' model.

In general, the 'static model' for funds management is more suitable for situations where resources for funds administration are scarce, where no relevant outcomes (e.g. yields) can be obtained from it or where the execution of the instrument is expected to be very fast in consuming all budget. For optimization it is recommended to:

- Build a sound agreement (especially with clear rules in case of non-compliance, defaults, underperformance, etc.)
- Keep operations as simple as possible.
- Have reallocation options.
- Others.

r.T1.4. Some particular recommendations for the 'dynamic' model.

In general, the 'dynamic model' for funds management is more suitable for situations where resources for funds administration are available and relevant outcomes can be obtained, like financial yields or improved effectiveness of FEIs (e.g. by promoting a fair competition between FIs) For optimization, it is recommended to:

- Use tranches for allocation
- Have reallocation options.
- Build effective mechanisms for funds allocations (e.g. competitive calls)
- Be aware of time and pace of allocation and of later stages of FEI lifetime.
- Build a skilled team for funds administration
- Do not de-motivate (e.g. with a too demanding allocation scheme)
- Others.

▶ Tables

Question H3. What are the main issues about the funds architecture, allocation and liquidity policy in your region? Please spread 100 points across the elements of table H.1

Table H.1		
1	Return of financial assets	15,9%
2	Achievement of other goals (leverage effect, etc.)	15,9%
3	Administration responsibilities	8,6%
4	Cash management duties (accounting, etc.)	5,9%
5	Impact in a lean, smooth, agile operation	10,9%
6	Availability of funds along the FEI's duration	11,8%
7	Attractiveness for FI	14,1%
8	Regulation compliance	15,0%
9	Retaining control	1,8%
10	Others (please specify)	0,0%
	Based on number of answers:	11

Comments on the table: As stated in the 'Explanation' section, funds administration has many implications: return of financial assets; leverage effect, administration responsibilities; etc.

► Illustrative examples

National Development Agency

FIN-EN Sharing Methodologies on Financial Engineering for Enterprises

Identi-fication	Reference	P04-1
	Title of illustrative example	**Liquidity and allocation policy** A flexible approach to allocate funds between FEI which allows optimizing the execution.
	Section	Section T1: Funds
FEI	Name of FEI	Liquidation and allocation policy is applied in general. Slight differences can be observed according to FEI types.
	Type of FEI	Loan, guarantee, equity, combined
	Region	Hungary
	Addressed market	FEIs are available for SMEs in the whole territory of Hungary through Central Hungarian Operational Programme and Economic Development Operational Programme.
	Other	FEIs are implemented through Holding Fund and financial intermediaries (commercial banks, local development agencies, venture capital fund managers).
Descrip-tion	Purposes	Liquidity and allocation policy contributes to the efficient implementation of financial engineering instruments in Hungary as thanks to its resources are transferred to well performing financial intermediaries and there are no unused funds at the level of financial intermediaries.
	Description	Original allocation within the Jeremie programme was based on the financial needs of SMEs determined in the GAP analysis. An Action Plan (which is a programming tool under the OP level but above the level of the financial engineering instruments) was set up to determine the objectives and the allocated amount for each FEI. Action Plans are prepared and proposed by the responsible Managing Authority and approved by the Government. The financial system makes it possible to shift allocation among FEIs based on registered market needs during implementation. JEREMIE program is implemented through Holding Fund Manager who makes contract with financial intermediaries who provide financial instruments to final recipients (SMEs). In case of loan programs financial intermediaries receive funding in tranches. They can apply for next allocations only if they have used 80% of their previous tranche. If a financial intermediary doesn't use up 80% of the last received tranche it may be asked for payback. The fund request of a financial intermediary is evaluated by the HFM and the MA based mainly on the portfolio performance and financial stability of the financial intermediary. In case of venture capital funds there is a gradual pay-in policy, which is based on international practice and local regulations. 20% of funds is paid in upfront, both by the Jeremie programme and by the private partners, and further pay-ins depend on the use of existing funds. Next allocation can be required if 75% of previous pay-ins are invested in final recipients.
	Evidence of success	Liquidity and allocation policy contributes to the efficient use of the JEREMIE fund as financial resources are transferred to well-performing financial intermediaries and there are no unused funds at the level of financial intermediaries.
	Transfer-arability	Liquidity and allocation policy can be applied easily if the performance of financial intermediaries is monitored closely.
Contact details	Name	Krisztina Szabó
	Organization	National Development Agency Managing Authority for Economic Development Operational Programme (EDOP)

	Email	krisztina.szabo@nfu.gov.hu
	Web site	http://www.nfu.hu/

Identification	Reference	P10-2
	Title of illustrative example	**Silent partnership** Simplification of funds management
	Section	Section T1: Funds
FEI	Name of FEI	Hessen Kapital I GmbH, Mittelhessenfonds GmbH
	Type of FEI	Equity (Mezzanine/Quasi Equity)
	Region	State of Hesse (Germany)
	Addressed market	SME of the federal state of Hesse, all industrial sectors, investments in long-term assets, research and development, market launch of new products, operational expansion, MBO / MBI
	Other	The FEIs are managed without Holding Fund Manager
Description	Purposes	The "Silent Partnership" is a good practice of how a fund management can be simplified and standardized.
	Description	The funds management of Hessen Kapital I and Mittelhessenfonds is carried out by the BM H. The BM H manages further funds which use the same vehicle "silent partnership" to finance small and middle sized companies in the state of Hesse, as well as the one which started in 1971. So the investment professionals are used to handle this investment vehicle and the know-how can be easily transferred to Hessen Kapital I and Mittelhessenfonds. Based on the long years' experience of handling the vehicle "silent partnership" we designed the "process manual". It shows and describes all different activities which are necessary and suitable. It covers all steps from the first request of the SME, carrying out of the due diligence, writing the contract, disbursement up to the controlling during the time of investment.
	Evidence of success	The process manual is easily to adapt to the individual requirements of each different funds which is managed by the staff of the BM H. The implementation time could be reduced significantly thanks to the process manual.
	Transfer-arability	Even though the process manual of "Silent Partnership" is not transferable to other regions, it is recommendable to elaborate a standardized manual for each region in order to better use economy of scope and learning curve effects.
Contact details	Name	Hans Boley
	Organization	BM H Beteiligungs-Managementgesellschaft Hessen mbH
	Email	hans.boley@bmh-hessen.de
	Web site	www.bmh-hessen.de

Section T2: HFM internal organization

Description

Name	**Identification** of the Intermediate body/Holding fund/ FEI Manager **dedicated staff and structure.** Definition by the FEI Manager of the **internal managing process** detailing activities and roles, eventual graphic description.		
Ref.	2	*Type*	Topics
References	--		

Importance

- Well designed and managed organizations perform as expected within the context of the execution of a strategy. (*relative priority*: **C**)

Explanation

- A sound organization design must be based on the strategy: Mission and duties for the organization within the overall strategy (e.g. investment strategy) / Core capabilities needed / Others (available resources, regulation, context, etc.)
- There are legal issues, general approaches (e.g. a bank-like organization, a government arm-length body, etc.) and design alternatives (e.g. flat organization, functional units, geographical units, etc.) with advantages and disadvantages.
- The main topics are:
  - People: profile and skills of key people, dedicated staff, etc.
  - Resources: ICT resources, equipment, external services (e.g. technological expertise), etc.
  - Processes: Key VA process, supporting processes, etc.
  - Organizational chart: type (hierarchical, matrix, horizontal, etc.), major functions, etc.
- Governance issues are also important (governance body, management body, budgeting, evaluation, etc.)
- Not all regions have a HFM.
- Important topics:
  - General description of the organization (people, resources, processes, org chart)
  - Mission, core capabilities and organizational mechanisms to ensure them.
  - Governance schemes.
  - Criteria for design.
  - Major organizational constraints (regulation, current staffing, HR market availability, government recruiting, etc.)
  - Major trade-offs to be faced.

Findings

f.T2.1. There are 2 basic models: 'bank-like organization' and 'government arm-length body'.

Two basic models for the HFM have been observed: the 'bank-like organization' model and the 'government arm-length body' model. Real schemes fit to these two archetypes to a greater or a lesser extent.

Bank-like organization model: a commercial bank, an investment bank or a similar financial institution acts as the HFM for the funds. Predominant features are those related to financial markets actors.

Government arm-length body model: a government's arm-length body (e.g. a specialized agency) acts as the HFM for the funds. Predominant features are those related to public administration.

f.T2.2. HFM are mostly incumbent public financial institutions, with previous experience.

It has been observed that HFM usually are incumbent financial institutions under state control (not always banks), with previous experience in similar fields (like other financial engineering instruments, mortgages, public financial services, etc.).

f.T2.3. Regulation is the main issue for the regions with regard to HFM.

Most regions reported that regulation (especially regulation compliance) is the main issue with regard to the HFM design.

Recommendations

r.T2.1. Choose the right model for the defined strategy and implement accordingly.

A sound design of the HFM must be always based on the strategy: mission and duties for the organization within the overall strategy (e.g. investment strategy); core capabilities needed; others (available resources, regulation, context, etc.) Each model has advantages and disadvantages. Also, the design should be consistent with the rest of the design, must comply with the legal regulation and must consider the whole life-cycle of the FEIs (even after period of investments)

r.T2.2. Combine government expertise and financial market expertise within the HFM.

It is recommended to combine government expertise (i.e. administrative law, policy making, regional development, etc.) and financial market expertise (financial markets, investment banking, funds administration, corporate finance, etc.) within the HFM.

▶ Tables

Question I6. What are the major difficulties that you faced in the process of design and build the HFM? Please spread 100 points across the elements of table I.1

Table I.1		
1	Regulation	69,0%
2	Available budget	2,0%
3	Government recruitment and staffing regulation	9,0%
4	Lack of skilled people in the HR market	6,0%
5	Others (please specify)	14,0%
	Based on number of answers:	10

Comments on the table: f.T2.3

▶ Illustrative examples

Identi-fication	Reference	P05-3
	Title of illustrative example	**Jeremie Auvergne HFM** A public-private organization comprising all key capabilities
	Section	Section T2 : HFM Internal organization
FEI	Name of FEI	JEREMIE AUVERGNE
	Type of FEI	Holding Fund
	Region	Auvergne
	Addressed market	Support for innovation, for SMEs, for reinforcing quasi-equity
	Other	State is the Managing Authority, Regional Council is the fund subscriber and both form the Steering Committee. The Holding Fund manager is a public-private partnership between 2 entities.
Descrip-tion	Purposes	This practice is a good practice because the effective collaboration between four stakeholders is one of the key factors for the success of the JEREMIE Initiative in Auvergne.
	Description	The Steering Committee chose to select a manager for its JEREMIE programme through a call for tenders. Only one fully met the criteria. This is a multiregional private management firm, SOFIMAC PARTNERS, which forms a joint group with the Auvergne Region Chamber of Commerce and Industry (CCIRA). This private manager, with 35 years of experience in the private equity profession in Auvergne, has already been entrusted with managing financial provisions of the Auvergne Region in some of its funds. Accordingly, this public/private partnership has found an innovative solution covering all of the fields of action. Indeed, SOFIMAC PARTNERS manages the holding fund and oversees follow-up of the venture capital investment portfolio and the CCIRA the loan fund portfolio.
	Evidence of success	The points of view are very different & so very complementary, between public and private partners. The private partner brings the cost-effectiveness point of view and tools for financial analysis, while the public partner brings the public service point of view to JEREMIE Auvergne. In addition, both of them have different but great experiences. The Auvergne Region Chamber of Commerce and Industry has a strong territorial foundation, since its role was already to give loan on trust. The Sofimac Partners fund management company was already used to work with enterprises of Auvergne and has a clear vision of the regional financing market. One clear evidence of success is the very low default rate of the reimbursement from the enterprises, thanks to the closeness of the manager for the companies.
	Transfer-arability	This practice is transferrable to other regions. Advices are to check if private and public entites are existing with their field of actions and skills, and if they seem to be able to strongly cooperate.
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Section T3: Financial intermediaries

▶ Description

Name	**Public tender** by the FEI Manager **to select financial intermediaries** in compliance with European/national public procurement law. **Evaluation, selection** and awarding of the **financial intermediaries** (minimum contract requirements – e.g. management fees, performance fees, treasury policy, etc) by the FEI Manager		
Ref.	3	*Type*	Topics
References	Reg.1828 art. 44 Additional provisions applicable to holding funds; Reg. Proposal 11.09.12 General art.33.5; Cocof Note COCOF_10-0014-04-EN point 8.2.3 Public procurement/selection procedure. Reg.1828 art. 44 Additional provisions applicable to holding funds; Reg. Proposal 11.09.12 General art.33.5		

▶ Importance

- To build a great team is one critical success factor for effectiveness when acting through third parties. (*relative priority*: **A**)

▶ Explanation

- It is critical to have a process that enable to select the best intermediaries for the strategy; exclude unsuitable candidates and comply with the regulation and principles of competition, transparency, etc.
- Regulation (UE, national, regional) will affect the process and even may become a constraint in selecting the best candidates
- A sound methodology can help achieve good outcomes, although it is difficult, as there is little knowledge and experience available. Mechanisms that can help are: strong leadership, senior staffing, external services, benchmarking, etc.
- Evaluation is a key activity in the process:
  - What is evaluated and how: criteria, procedure and actors responsible; how it is linked to the strategy.
  - The standard profile for evaluation: core competences and skills, minimum requirements, type (e.g. banks), etc.
- Schemes pertaining to the group of intermediaries (cooperation, complementarities, competition, etc.) are also available mechanisms to pursuit some objectives.
- Important topics:
  - Selection process (tasks, decision making, time, actors, etc.)
  - Evaluation (criteria, minimum requirements...) and proposed standard profile.
  - Mechanisms to ensure suitability of selected FI and rejection of unsuitable ones.
  - Mechanisms to ensure key issues (effectiveness, leverage, link to strategy, etc.)
  - Major advantages and constraints resulting from legal regulation.
  - Relationship between FIs in a FEI (cooperation, complementarity, competition...)

- **Note**: agreements; evaluation of FIs and cancellations are not within the scope.

► Findings

f.T3.1. There are 2 basic models: 'state-controlled FI' and 'privately-controlled FI'.

Two basic models for FIs have been observed: the 'state-controlled FI' model and the 'privately-controlled FI' model. Real schemes fit to these two archetypes to a greater or a lesser extent.

State-controlled FI model: a state-controlled entity (typically a government-owned company) acts as the intermediary in the FEI. Although they are commercial entities, they exhibit some features related to public administration (e.g. board, not primarily profit-oriented, etc.) They allow some flexibility in models, schemes and risk taking.

Privately-controlled FI model: a venture capital management company, a commercial bank or a similar financial institution acts as the intermediary in the FEI. They are ordinary financial markets actors. Models and schemes are largely predetermined and flexibility is limited.

f.T3.2. There are 2 basic models: 'limited number of FI' and 'large number of FI'.

Two basic models for the sum of FIs have been observed: the 'limited number of FI' model and the 'large number of FI' model. Real schemes fit to these two archetypes to a greater or a lesser extent.

Limited number of FI model: the FEI is implemented through a very limited number of FIs, typically only 1.

Large number of FI model: the FEI is implemented through a relatively large number of FIs, typically several tens, with or without a scheme of competition between them.

f.T3.3. Public procurement regulation is a serious difficulty for selecting FI.

Most regions reported that regulation (especially public procurement regulation compliance) is the main issue with regard to the selection of FIs (especially for risk capital). Sometimes it even is found to be a barrier to select the best candidates. However, doubts have arisen about when and how it should be applied.

f.T3.4. There is not predominant or most suitable methods to appoint FIs

From the regions' answers it is not possible yet to identify predominant or recommended process and criteria to select and appoint FIs for each type of FEI. Some types of process (especially the competitive dialogue process) seem to be the most suitable. Predominant criteria seem to be technical and financial capacity, proposed leverage and price.

f.T3.5. FI are mostly incumbent banks and financial institutions.

It has been observed that FIs usually are existing financial institutions (not always banks) or entities under state control, with previous experience in similar fields (like other financial engineering instruments, mortgages, public financial services, etc.)

f.T3.6. The selection of FIs is critical for the performance of a FEI.

Practice has shown that the FI are key for the overall performance of a FEI. Thus, the selection of FIs is a critical task for the success of a FEI. FIs can be a source of strengths or weaknesses for the FEI. Not well designed schemes of FIs or an incorrect selection of FIs do ultimately lead to FEI underperformance.

f.T3.7. Standardization of FI selection criteria is possible only for equity instruments.

For equity instruments the FI selection criteria (investment strategy, track records, minimum experience, ability to attract private money, distribution cascade, and management fees) can be standardized due to the fact that the working principles are quite similar in all regions. A general standardization of selection criteria for loan and guarantee instruments is difficult to establish, as the variety of implementation schemes is quite broad.

► Recommendations

r.T3.1. Devote the time and effort needed

FIs are a critical success factor for the FEI and it is extremely important to devote all the time and the effort needed to design a sound FIs scheme, select the right FIs and build the right agreements.

r.T3.2. Choose the right model for the defined strategy and implement accordingly.

A sound design of the FIs scheme for a FEI (both number and type of FI) must be always based on the strategy: overall goals, general approach, timing, etc. Each model has advantages and disadvantages. Also, the design should be consistent with the rest of the design, must comply with the legal regulation and must consider the whole life-cycle of the FEIs (even after the period of investments)

r.T3.3. Some particular recommendations for the 'state-controlled FI' model.

In general, the 'state-controlled FI' is more suitable for instruments with a relatively low number of deals with a great deal of diversity or for instruments in which regional development judgment is critical. For optimization it is recommended to:

- Build an organization with strong financial skills that can become an effective actor in the market.
- Partner with other actors or develop a wide network to create deal flow.
- Avoid unnecessary administrative law constraints.
- Keep operations as simple as possible.
- Ensure sound investment decisions that are based on market criteria.
- Build strong investment decision mechanism (e.g. independent committee)
- Clarify the application of civil or administrative law.
- Others.

r.T3.4. Some particular recommendations for the 'privately-controlled FI' model.

In general, the 'privately-controlled FI' is more suitable for instruments with a large number of standardized deals and with clearly defined criteria, rules and goals. For optimization it is recommended to:

- Build a detailed agreement (especially with clear rules in case of non-compliance, defaults, underperformance, etc.)
- Ensure public-private targets balance
- Provide ICT support for real-time monitoring and for the ex-post monitoring
- Others.

r.T3.5. Some particular recommendations for the 'limited number of FI' model.

In general, for the sum of FIs, the 'limited number of FI' model is more suitable for instruments with a relatively low number of deals that need a specific approach or where there aren't enough potential FIs. For optimization it is recommended to:

- Build a sound agreement (especially with clear rules in case of non-compliance, defaults, underperformance, etc.)
- Work closely with the HFM.
- Others.

r.T3.6. Some particular recommendations for the 'large number of FI' model.

In general, for the sum of FIs, the 'large number of FI' model is more suitable for instruments with a large number of standardized deals and with clearly defined criteria, rules and goals. Also, for situations where there is a large number of widely spread potential beneficiaries or where other relevant outcomes can be obtained, like the improvement of FEI effectiveness by promoting a fair competition between FIs. For optimization, it is recommended to:

- Standardized as much as possible.
- Build strong coordination mechanisms that enable handling with numerous FIs.
- Provide ICT support for real-time monitoring and for the ex-post monitoring.
- Select FIs that are well-established throughout the region (especially commercial banks) and with a strong network.
- Put into place competition mechanisms (e.g. progressive allocation of funds in accordance with their use).
- Others.

r.T3.7. Build agreements attractive for FIs but with mechanisms of flexibility and enforcement.

It is highly recommended to build agreements with FIs that are attractive enough for them, but also agreements that can be enforced and do enable to react in case of FEI bad performance or difficulties (even finishing a contract or closing the instrument)

r.T3.8. Use standardized FIs selection criteria for equity, but not for loans.

It is recommended to use standardized FIs selection criteria for equity, but not for loans and guarantees. Main criteria for equity instruments are:

- Investment strategy
- Track records
- Minimum experience
- Ability to attract private money
- Distribution cascade (determination of the moment (deal by deal/ at the end) and preference of the participants/fund manager regarding the distribution of the returns)
- Management fees

r.T3.9. Provide EU-level tools for regional FEIs development.

The EU could provide regions with standardized EU-level tools for the development of new FEIs, like recommendations, guides, etc. for the selection of FIs. For example, clarification on the implementation of public procurement regulation, recommended procedures (e.g. possibly the competitive dialogue process), standardized criteria, etc. (see section M for more on this)

Tables

Question J2. Which model is closer to the current process to appoint the financial intermediaries for the FEI? (please select item(s) from table J.1 and specify if necessary)

Table J.1 - **All**		all	loans	guarantees	equity	combined
1	Direct appointment	20,0%	33,3%	0,0%		16,7%
2	Open procedure	30,0%	0,0%	0,0%		50,0%
3	Restricted procedure	0,0%	0,0%	0,0%		0,0%
4	Negotiated procedure	0,0%	0,0%	0,0%		0,0%
5	Request for proposal procedure	0,0%	0,0%	0,0%		0,0%
6	Open call	40,0%	66,7%	0,0%		33,3%
7	Always open qualification system	10,0%	0,0%	100,0%		0,0%
8	Others (please specify)	0,0%	0,0%	0,0%		0,0%
	Based on number of answers:	10	3	1	0	6

Comments on the table: f.T3.4

Question J6. What are the most significant criteria for the evaluation of the candidates? Please spread 100 points across the elements of table J.2

Table J.2 - **All**		all	loans	guarantees	equity	combined
1	Type of actor (financial institution, arm-length body, etc.)	5,5%	6,3%	5,0%	6,0%	4,0%
2	Technical capacity (core competences and skills)	19,3%	21,9%	17,5%	16,0%	20,0%
3	Financial capacity	20,0%	18,8%	22,5%	20,0%	20,0%
4	Committed leverage	17,0%	14,4%	22,5%	16,0%	18,0%
5	Price (proposed fees, etc.)	15,7%	17,5%	12,5%	8,0%	23,0%
6	Contribution to other objectives (e.g. business angel networks development)	0,0%	0,0%	0,0%	0,0%	0,0%
7	Human and knowledge capital	14,3%	13,8%	10,0%	22,0%	11,0%
8	Others (please specify)	8,2%	7,5%	10,0%	12,0%	4,0%
	Based on number of answers:	22	8	4	5	5

Comments on the table: f.T3.4

Illustrative examples

Identification	Reference	P01-1
	Title of illustrative example	**Standard document signature** A different way to select financial intermediaries
	Section	Section T3: Financial intermediaries
FEI	Name of FEI	FRIM ERDF
	Type of FEI	Loan financial instrument, developed without holding fund
	Region	Lombardy Region - Italy
	Addressed market	To support SMEs in accessing credit and to boost investments in innovating products, processes and in using the results of research for industry
	Other	
Description	Purposes	This financial instrument can be considered as a good practice in the mechanism of selection of Financial Intermediaries
	Description	For the selection of financial intermediaries in compliance with public procurement provisions, it is commonly used a public tender to which financial institutions reply submitting their offer, after the evaluation of all received offers one or more financial intermediaries are selected. This process generally requires long time to be concluded, affecting the roll out of the instrument. In the case of FRIM ERDF it was decided not to use a public tender but to elaborate a so called 'regulation': a document fully describing role, activities, remuneration, deadlines to be respected by the financial intermediary willing to adhere to the initiative. According to that, financial intermediaries willing to participate have not to submit an offer but just to sign the regulation. Of course the content of the regulation must be carefully defined by the financial instrument manager in order to be appealing to financial institutions.
	Evidence of success	In the case of FRIM ERDF 33 banks adhered to the initiative by signing the regulation, it was a success in terms of private co-financers involvement
	Transfer-arability	It is easily repeatable in different economic context as it respects EU requirements in terms of public procurement provisions: it is open, transparent, and not-discriminatory.
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Identi-fication	Reference	P08-1
	Title of illustrative example	**Entrepreneurship Promotion Fund and Guarantee Fund** Criteria, schemes and processes for the selection of financial intermediaries.
	Section	Section T3: Financial intermediaries
FEI	Name of FEI	Entrepreneurship Promotion Fund and Guarantee Fund
	Type of FEI	Loans, Guarantees
	Region	Lithuania
	Addressed market	Lithuania
	Other	
Descrip-tion	Purposes	High number of financial intermediaries active in whole region even in the remote area. This ensure high number of final beneficiaries
	Description	**Entrepreneurship Promotion Fund** - financial intermediary (consortium of 57 credit unions active in whole region including remote area) was selected under public procurement procedures. When selecting FI the following main criteria were evaluated: management fee, investment strategy, SMEs loans portfolio, geographical coverage, etc. It was very important to select FI who will cover all regions in Lithuania especially in the remote area. HFM prepared the Tender documentation in accordance with the Lithuanian Law on Public Procurement. Tender documentation was approved by the relevant ministries. Evaluation was carried out by the Public Procurement Committee which was composed of the employees of INVEGA. **Guarantee Fund** – In case of Guarantee fund INVEGA as a FEI manager does not select financial intermediaries. All credit institutions/leasing companies which operate in Lithuania and have signed Cooperation Agreement with INVEGA can apply for INVEGA's guarantees. There is no any specific term for the signature of Cooperation Agreement, every new FI which wants to get INVEGA's guarantee can enter to the Cooperation Agreement any time. The process is as follow - INVEGA concludes Cooperation Agreement with the FI. SME's apply to FI for the loan or leasing. After that FI applies to INVEGA for the guarantee. INVEGA evaluates the project and makes decision whether issue guarantee or not. After the guarantee is issued INVEGA takes decision include that guarantee to Guarantee Fund portfolio or not. Only guarantees which comply with additional criteria can be included in the portfolio of the Guarantee Fund. In case of SME default FI asks INVEGA for guarantee payment. In case the guarantee was included to Guarantee Fund portfolio, guarantee payment is made from GF resources
	Evidence of success	High number of the FIs: **Entrepreneurship Promotion Fund** - 57 credit unions active under joint liability agreement and represented by the Central Credit Union; **Guarantee Fund** – Cooperation Agreements with almost all credit institutions and some leasing companies active in Lithuania (more than 80 Cooperation Agreements)
	Transfer-arability	Relevant stakeholders should be involved especially association of credit institutions
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Section T4: Communication

► Description

Name	**Communication duties** of the FEI Manager/financial intermediaries in order **to create awareness and activate deal flow.**		
Ref.	4	*Type*	Topics
References	Reg.1828 art 5 on information and publicity duties.		

► Importance

- Targeted potential beneficiaries must be aware of the availability of the FEI and apply in a suitable way. (*relative priority*: **B**)

► Explanation

- It is key for the effectiveness of the FEI to have a good flow of applications and deals which is suitable in amount, quality and pace.
- Sourcing comprise matters such as exploit available sources, refine existing sources, identify new sources, eventually pursue proprietary deal flows, etc.
- Not only 'pure' communication activities are within the scope, but also other marketing activities (e.g. branding, promotion, advertising, assistance, etc.)
- There are two main kinds of communication and related marketing activities:
  - General: to create a general awareness, communicate policy and others (e.g. principles of competition, transparency...)
  - Specific: aimed to prospects, to attract and activate the deal flow.
- Time and pace are also important (capacity, temporary priorities, revolving effect, FEI life-long availability, etc.)
- In a communication plan it is important to consider:
  - Objectives, segmentation, targets.
  - Resources, methodologies, tools, other organizations involved.
  - Responsibilities, monitoring, evaluation.
- Important topics:
  - Sources and prospects.
  - General communication and related marketing activities.
  - Targeted communication and related marketing activities.
  - Mechanism to ensure flow quality, quantity and pace issues.
  - Budget, legal issues, responsibilities and evaluation.

Findings

f.T4.1. Communication hasn't been a top priority matter for the regions in general.

For the regions, communications and other marketing activities (e.g. branding, promotion, advertising, assistance, etc.) hasn't been a top priority matter.

f.T4.2. Communication is carried out mostly by MA and HFM.

Communication activities are reported to be carried out mostly by MA and HFM and to a lesser extent by FIs and FMs. Many methods are use, mainly advertising, events and networking.

f.T4.3. Communication is mostly carried out to create deal flow and general awareness.

For the regions, the main goals when conducting communication activities are to create a good deal flow and to create a general awareness of the instruments in the society. An insufficient deal flow may be caused by a bad communication policy.

f.T4.4. Certain communication obligations remain unclear.

Doubts have arisen as to whether certain communication obligations (deriving from the public nature of the funds and the nature of some actors) exist or not. Particularly, to meet certain deadlines, to state the reasons for a decision of investment (denegation or approval) and to disclosure the identity of beneficiaries.

Recommendations

r.T4.1. Conduct activities like events and networking to create deal flow.

Activities like seminars, events and networking seem to be the most effective approach for deal flow, in particular for equity and combined instruments. Qualified investors and other actors can act as good deal flow generators. To build a strong network (i.e. business schools, innovation network, incubators, etc.) around the FEI can secure a continuous flow of good projects.

Tables

Question K1. What are the main objectives for the HF communication, general communication and other related activities? Please spread 100 points across the elements of the table K.1

Table K.1		
1	Create a general awareness of the FEIs	21,9%
2	Communicate EU, national or regional policy (e.g. shift to grants, priorities, etc.)	16,5%
3	Create deal flow	44,6%
4	Enforcement of principles of competition, transparency, etc.	5,8%
5	Create an umbrella brand for the FEIs	11,2%
6	Others (please specify)	0,0%

Based on number of answers: 13

Comments on the table: f.T4.3

Question K2. What are the main activities that you carry out with regard to the general communication? Please spread 100 points across the elements of the table K.2

Table K.2		
1	Advertising campaigns (TV, newspapers, magazines, etc.)	26,3%
2	Events (presentations, meetings, etc.)	29,2%
3	Training (workshops, etc.)	5,4%
4	Building links with institutions (universities, business schools, associations, science & technology parks and centres, etc.)	13,3%
5	Networking, public relation and similar activities	17,5%
6	Feedback	6,7%
7	Others (please specify)	1,7%
	Based on number of answers:	12

Comments on the table: f.T4.2

Question K4. Who is accountable for these activities? Spread 100 points across the elements of the table K.3

Table K.3		
1	Management authority	24,2%
2	Holding fund manager	50,8%
3	Financial intermediaries	20,8%
4	Others (please specify)	4,2%
	Based on number of answers:	12

Comments on the table: f.T4.2

Question K9. What are the main objectives of the FEI specific communication and other related activities? Please spread 100 points across the elements of the table K.4

Table K.4 - **All**		all	loans	guarantees	equity	combined
1	Create a general awareness of the FEI	25,3%	24,5%	24,0%	24,6%	28,1%
2	Communicate EU, national or regional policy (e.g. shift to grants, priorities, etc.)	13,3%	13,0%	8,0%	10,0%	21,9%
3	Create deal flow	39,0%	35,5%	40,0%	41,7%	38,8%
4	Enforcement of principles of competition, transparency, etc.	6,7%	9,5%	8,0%	5,8%	3,8%

5	Create a brand for the FEI	15,7%	17,5%	20,0%	17,9%	7,5%
6	Others (please specify)	0,0%	0,0%	0,0%	0,0%	0,0%
	Based on number of answers:	35	10	5	12	8

Comments on the table: f.T4.3

Question K10. What are the main activities that you carry out with regard to the FEI specific communication? Please spread 100 points across the elements of the table K.5

Table K.5 - **All**		all	loans	guarantees	equity	combined
1	Advertising campaigns (TV, newspapers, magazines, etc.)	23,0%	26,5%	28,0%	18,3%	22,5%
2	Events (presentations, meetings, etc.)	29,0%	29,0%	36,0%	29,2%	24,4%
3	Training (workshops, etc.)	12,7%	14,0%	20,0%	11,7%	8,1%
4	Building links with institutions (universities, business schools, associations, science & technology parks and centres, etc.)	9,1%	5,5%	2,0%	6,3%	22,5%
5	Networking, public relation and similar activities	22,4%	20,0%	8,0%	32,1%	20,0%
6	Feedback	3,7%	5,0%	6,0%	2,5%	2,5%
7	Others (please specify)	0,0%	0,0%	0,0%	0,0%	0,0%
	Based on number of answers:	35	10	5	12	8

Comments on the table: f.T4.2

Question K12. Who is accountable for these activities? Spread 100 points across the elements of the table K.6

Table K.6 - **All**		all	loans	guarantees	equity	combined
1	Management authority	27,6%	28,9%	54,0%	10,8%	35,0%
2	Holding fund manager	29,7%	25,6%	34,0%	28,3%	33,8%
3	Financial intermediaries	24,7%	34,4%	12,0%	19,2%	30,0%
4	Others (please specify)	17,9%	11,1%	0,0%	41,7%	1,3%
	Based on number of answers:	34	9	5	12	8

Comments on the table: f.T4.2

▶ Illustrative examples

Identification	Reference	P03-3
	Title of illustrative example	**Deal flow partnership** A flexible approach for engaging third parties in sourcing and deal flow generation
	Section	Section T4: Communication
FEI	Name of FEI	JEREMIE Multi-instrument Fund
	Type of FEI	Loan and Mezzanine Fund
	Region	Andalusia
	Addressed market	The target group of the Multi-instrument fund is innovative companies in early and later stage expansion phase. The typical investment amount is between 1 and 2 millions of Euro per investment. The FEI has no special industry focus.
	Other	The financial intermediary is a public company that is also managing other financial instruments
Description	Purposes	The purpose of the practice is to show how to generate and optimize a high quality deal flow.
	Description	The Financial Intermediary (public company) of the Multi-instrument Fund was concerned about the poor quality of deal flow. The Financial Intermediary designed and activated a network of collaborators (private investors, financial consultants, etc.) via agreements and selected by open call (about 20 collaborators). The collaborators are paid neither by the fund nor by the intermediary. However, they can make private agreements with the potential beneficiary (success fee). Driven by this mechanism the collaborator complies with 2 functions: 1) he generates and filters the projects 2) he depurates and refines the project to make it "investable". The result for the Multi-instrument fund is more and better projects
	Evidence of success	The number of financed project increased significantly after the installation of the collaboration network. The approval ratio also increased significantly.
	Transfer-arability	This practice is transferable to all Instruments with a relatively low number of projects (equity and mezzanine funds) and a deal size not below 200.000 EUR (smaller deals would not be able to pay the expected success fee for the collaborator). Instruments with a massive number of deals are normally managed by bigger organizations (banks etc.) that have other measures/channels to generate deal flow.
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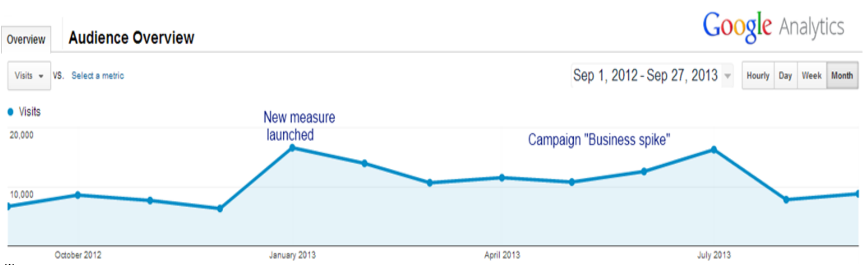
Identi-fication	Reference	P08-3
	Title of illustrative example	**Communication activities** Increase of interested actors after communication events.
	Section	Section T4: Communication
FEI	Name of FEI	INVEGA Fund, Guarantee Fund, Entrepreneurship Promotion Fund
	Type of FEI	Loans and guarantees
	Region	Lithuania
	Addressed market	Lithuania
	Other	
Descrip-tion	Purposes	Seeking to achieve the main publicity goals INVEGA is implementing typical publicity measures: Information and project visit trips for journalists; Annual events; Press releases; Press conferences; Initiation of comments and topics; Radio and TV projects; Projects in biggest news portals; Participation in various events, fairs, etc.; Communication in social media; Common projects with governmental, social, economical and media partners; Websites www.invega.lt and www.esparama.lt. All these publicity measures are complex and supplement one another. One of the best, innovative and successful media campaign named "Business spike" was implemented in March-July 2013. This campaign has increased visibility of our FEIs
	Description	The media campaign "Business spike" was launched in the biggest Lithuani[illegible]) already in December 2012 an[illegible]llustrating 13 business success[illegible]essful, INVEGA decided to conti[illegible]fferent communication measure[illegible]pike" moved to second biggest[illegible]min.lt) as a separate column[illegible] promoting financial engineering instruments. In this stage we introduced two heroes – businessmen – who discussed their daily business situations and tried to find the best solution to solve the problems. This campaign also included radio shows and TV reportages about business success stories, how EU structural support and different FEIs helped them to start and expand their business. From March to beginning of May 29 unique stories were presented. Finally, in May INVEGA introduced a new personage – an expert who had joined to those businessmen and helped to find the best ways to start or expand their business. His name is Martynas and he is a real expert currently working in INVEGA. From end of May till beginning of July we had 10 new stories. In this stage of campaign stories were illustrated not only with interactive banners but also were reinforced with short video stories where Martynas visited the projects and not only discussed about the business but tried different jobs, participated in daily businessmen tasks. Visitors had the possibility to vote for the best story as well. Moreover, a youtube channel "Business spike" was created. At the moment we have 21 subscribers and over 12 thousand views.

	Evidence of success	As a result of this campaign and other measures visitors flow to INVEGA website (especially new visitors) and general awareness about financial engineering measures for business visibly increased. If to compare 6 month period 8.2012-2.1013 with 3.2013-09.2013, the visits increased by 21 percent, unique visitors – 38 percent, new visitors – over 10 percent.  *
	Transfer-arability	N/A
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Section T5: Closing and exit

Description

Name	**Closing and exit policy** by the FEI Manager and financial intermediaries.		
Ref.	5	*Type*	Topics
References	Reg.1828 art.43 on General provisions applicable to all financial engineering instruments; Reg. Proposal 11.09.12 General artt.38,39 on reuse of resources;		

Importance

- A correct implementation must cover the entire lifecycle of each transaction and each FEI. (*relative priority*: **B**)

Explanation

- Closures refer to instruments (e.g. closing a low performing VC fund or the end of a FEI life-time)
- Important topics related to the closures of FEIs (ordinary or extraordinary) are:
  - Causes for closure (rules, time due, under-accomplishment, a no longer necessary FEI, etc.)
  - Process (tasks necessary to stop operation, liquidation of assets, ownership transfer, transferring of funds, eligibility of expenditures, etc.)
- Exits refer to deals (e.g. a loan full repayment, a default, the successful sell of stock in an equity investment, a non-compliant deal, etc.)
- Important topics related to the exits out of transactions (ordinary or extraordinary) are:
  - Criteria for exits and expected outcomes (rules, time, returns, default rate, etc.)
  - Process (tasks necessary to get out, destination of funds, vehicles for exits, etc.)
- The whole life-cycle of each FEI and each transaction should be comprised in the design (e.g. FEI plan) and execution of FEIs (e.g. closure terms in agreements, secure exit in analysis of a transactions, etc.)
- Another major issue is the closure of the ERDF Programme (2013+2=2015).
- Important topics:
  - Exit policy and procedures, ordinary and extraordinary.
  - Closing policy and procedures, ordinary and extraordinary.
  - Mechanisms to comprise FEI closure and exits in the design and operations.
  - Exits and closures experiences.
  - End of ERDF Programme and period of justification (2015)

▶ Findings

f.T5.1. There is little experience available for both closing and exit so far.

So far, there is limited experience, knowledge and few lessons learned available in the regions for both closing of a FEI (especially extraordinary closure) and exits out of an investment (equity disinvestment, loan full repayment, defaults, etc.). However, exits in the financial market can be suitable references.

f.T5.2. Some regions are facing the need of an extraordinary FEI closure.

Due to underperformance, some regions are facing the need of an extraordinary closure of certain FEIs, which in general was not envisaged in the design and implementation of the instruments. Legal basis, procedure, etc. are unclear.

f.T5.3. There are not clear rules beyond 2015 yet.

Certain rules and criteria for beyond 2015 remain unclear yet. Particularly, funds management fees after 2015 and investments criteria beyond 2015.

▶ Recommendations

r.T5.1. Consider in the design the closure or change of a FEI due to underperformance.

The whole life-cycle of each FEI must be taken into account in the design, implementation and execution of the FEIs (e.g. a closure term in FI agreements). It is important to set the rules and criteria that will apply in case of underperformance of the FEI, particularly the possibility of an extraordinary closure of the FEI or the cancellation of the agreement.

r.T5.2. Consider in the design dealing with defaults and extraordinary exits and others.

The whole life-cycle of each transaction must be taken into account in the design, implementation and execution of the FEIs (e.g. a defaults term in FI agreements). It is important to consider in the design of the FEIs and in the agreement with the FIs the rules and criteria that will apply in case of defaults, extraordinary exits and other special cases such a non-compliant investment.

▶ Illustrative examples

Identification	Reference	P13-2
	Title of illustrative example	**Closure of FEI** Causes, triggers, processes and results of the extraordinary closure of a FEI.
	Section	Section T5: Closing and exit
FEI	Name of FEI	The Northwest Fund
	Type of FEI	Loan and Equity
	Region	Northwest England
	Addressed market	The Northwest Fund is a £155m investment fund established to provide debt and equity funding from £50,000 to £2m to small and medium sized enterprises based in the Northwest of England.
	Other	
Description	Purposes	The purpose of this practice is to ensure the minimum amount of disruption to the fund in case of non performance by a specific Fund Manager.
	Description	The appointment of Fund Managers to the Holding Fund followed a two-stage OJEU process; appointments to a Framework Panel followed by a mini-competition round to select from the Framework Panel the Fund Managers for the different Funds. The Fund Management contracts that are in place are standard for the market with the option of contract termination for any serious breach of contract, which could only realistically be seen as a final option as this could have serious legal and financial consequences.
	Evidence of success	Due to changes in one of the Fund Managers investment activity in the UK it was agreed with the Holding Fund to hand over the management of the Fund to a new Fund Manager. The panel approach used by the Holding Fund was beneficial, in that it enabled the Holding Fund to appoint a Fund Manager for the new mezzanine fund arrangement without having to restart a full OJEU procurement process. This enabled a smooth transition between Fund Managers whilst ensuring SMEs still had access to available finance.
	Transfer-arability	This practice has worked very well for the Northwest Fund and ensured continuity of service for the SME's. Again this practice could be transferred to another partner with ease in terms of appointing future Fund Managers to a panel.
Contact details	Name	David Read
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	Web site	_

Section T6: Future

Description

Name	Orientation on future.		
Ref.	6	*Type*	Topics
References	--		

Importance

- A sound evolution of FEI may eventually have a great positive impact in the EU regional development. (*relative priority*: **B**)

Explanation

- Major topics that will help shape the evolution of FEI are:
  - Trends and driving forces (e.g. financial markets, economy, policy, technology, etc.)
  - Vision for the FEI (mainly shared vision)
  - Cross-regional learning, benchmarking, lessons learned and research.
  - Analysis (e.g. gap analysis, FEI effectiveness assessment, etc.)
  - Others.
- Governance and management of FEIs should comprise evolution and future (e.g. prospective studies)
- The different horizons should be considered: long-term, medium-term and short-term.
- The different FEI topics should be considered: role, gaps to overcome, size, instruments, co-financing schemes, management, etc.
- Future and evolution are not easy to deal with in a systematic manner.
- Important topics:
  - Major topics that will shape FEI future.
  - Vision for the regional FEI at different horizons and in its various aspects.
  - Evolution and future in the current regional FEI governance and management.
  - Major changes decided or under consideration for regional FEI and their sources.
  - Suggestions of EU's actions related to the future and evolution of FEI.

▶ Findings

f.T6.1. FEIs will probably become increasingly relevant policy instruments across the EU.

In general, regions believe that, over the coming years, FEIs will probably become increasingly relevant policy instruments throughout the EU and that they can be a very effective tool for European regional development. However, it is not a high priority topic in the political agenda yet.

f.T6.2. The Global Crisis has deeply affected FEIs and this may happen again.

The Global Crisis has deeply affected the designed strategies and the implemented FEIs in all this aspects. Furthermore, such a radical change of scenario (in the economy and in financial markets) may happen again.

f.T6.3. Trends and driving forces will shape the evolution of the FEIs.

In general, regions believe that the evolution of the FEIs in the EU over the coming years will probably be shaped mainly by the global trends and general driving forces (e.g. financial markets, economy, policy, technology, etc.) Also analysis (e.g. gap analysis, FEI effectiveness assessment, etc.) will be important but probably to a lesser extent.

f.T6.4. Some important matters for the future of FEI have been identified.

Important matters for the future FEIs in the EU can be identified from the regions' experience. For example:

- The suitability of the EU regulation (see below).
- The influence of the size of territories (too big or too small for FEIs).
- The need to set the stage for tools like combined instruments.
- The distinction between administrative and civil law (along the FEIs lifecycle).
- Others

▶ Recommendations

r.T6.1. Improve EU regulation that affects FEIs for the next programming period.

It is highly recommended to upgrade the EU regulation that affects the design, implementation and operation of FEIs, as well as to clarify certain unclear aspects of the current regulation. Particularly, with regard to the key issues indicated above:

- State-aid rules (for FI remuneration, combined instruments, etc.)
- Public procurement in selection of FIs (exceptions, adequate procedures, etc.)
- Suitability of state-controlled FIs.
- Communication obligations.
- Investment beyond 2015.
- Fees at the later stages of the OP, particularly for HFM.
- Multi-regional FEIs.
- Extraordinary closure of FEIs (procedure, legal basis, etc.)
- Separation of FEI regulation from grants regulation.
- Others.

r.T6.2. Provide EU-level tools for regional FEIs development.

Assess the idea of providing the regions with EU-level tools for the development of new regional FEIs, like:

- "Off-the-shelf" FEIs: standardized models of FEIs (or archetypes) with areas of application, main features, advantages and disadvantages, etc.
- Lessons learned
- Cross-regional learning mechanisms
- Multi-regional collaboration in FEIs development (e.g. regulation analysis within a country)
- Standardized and recommended criteria for FIs selection
- Standardized and recommended FIs selection procedures (e.g. competitive dialogue process)
- Others.

Risks and benefits should be assessed carefully, so that significant advantages should be offered (e.g. better designs, less efforts, less risk, more effectiveness, more innovation, shorter implementation times, etc.) but without more burdens (e.g. red tape, constraints, stiffness, less customization, etc.)

► Tables

Question M3. What will be the most important elements for the evolution of the FEE? Please spread 100 points across the elements of table M.1

Table M.1		
1	Trends and driving forces (e.g. financial markets, economy, policy, technology...)	42,7%
2	Vision for the FEI (mainly shared vision)	13,8%
3	Cross-regional learning, benchmarking, lessons learned and research	16,2%
4	Analysis (e.g. gap analysis, FEI effectiveness assessment, etc.)	27,3%
5	Others (please specify)	0,0%
	Based on number of answers:	13

Comments on the table: f.T6.3

► Illustrative examples

Not available

Section T7: Effectiveness

Description

Name	**Effectiveness** of the FEI.		
Ref.	7	*Type*	Topics
References	--		

Importance

- The capability of producing the desired results is ultimately the most important aspect of any instrument. (*relative priority*: **A**)

Explanation

- Effectiveness of a FEI can be defined as the capability of producing the desired impact in practice. That is, the extent to which the sum of all individual transactions in a FEI produces the desired outcomes and contributes to the pursued objectives for the region.
- FEI are 'financial instruments' and thus they require a reasonable balance between risk and reward, particularly when there are private co-financing actors.
- However, FEIs are implemented in order to achieve certain goals of public interest (market gaps filling, innovation, etc.) which is usually contrary to the above.
- The general interest objectives for a FEI can be classified as follows:
  - Market gap filling (in accordance with a up-to-date market analysis)
  - Regional policy goals (create o maintain jobs, innovation, entrepreneurship, growth, more exports, business angels development, etc.)
- The broader vision of regional development is critical to assess the effectiveness of the FEIs. Ultimately these are policy instruments for regional development policies and programs.
- There are always constraints on the effectiveness of FEIs: regulation, market, context, size of the region, etc.
- There are many factors affecting the effectiveness of FEIs: design and features of the FEI, suitability for the recipients, FIs remuneration, FIs profile, general situation, etc.
- Some mechanisms to improve efficiency are: flexibility to adapt, innovative features, FIs profile, operational excellence, attractiveness for FI, allocation policy, etc.
- Important topics:
  - Market gap filling goals and regional policy goals.
  - Balance between a good financial profile and the public interest goals.
  - Mechanisms to ensure and for optimization of FEI effectiveness.
  - Measurement of effectiveness.
  - Main constraints and main factors affecting effectiveness.

Findings

f.T7.1. The relevance of the outcomes is different for different regions.

A great deal of diversity can be observed in the relevance for the regions of the outcomes and results of the FEIs (e.g. jobs, innovation, entrepreneurship, market gap filling, etc.). Not all regions have the same regional priorities and thus, 'effectiveness' may mean different things for different regions.

f.T7.2. Regions have objectives other than just to bridge a certain market gap.

Regions have reported to have clear objectives other than to just fill a certain market gap. They are mostly final goals (e.g. innovation, R&D, etc.) or complementary goals (e.g. business angels networks development, soft transition from grants to loans, etc.)

f.T7.3. The Global Crisis is affecting FEIs, which are taking a subsidiary role.

The Global Crisis has deeply affected the designed strategies and the implemented FEIs in all this aspects. Due to the Global Crisis and the subsequent shortage of credit in the financial markets, access to funding is now considered the most important benefit for recipients. FEI's are playing a subsidiary role and they are largely addressing short-term market needs instead of addressing structural gaps and seeking other major regional objectives (e.g. innovation). In general, the present circumstances are far more complex that those considered when designing the current strategies and FEIs.

f.T7.4. Many issues affect FEIs effectiveness.

Practice shows that the effectiveness of the FEIs is affected by numerous issues, which are of a very diverse nature. For example, selected FIs, remuneration schemes, co-investment constraints, operational issues, size of regions, lack of an updated strategy and a monitoring system, major objectives and incentives of MA and HFM in charge of the FEI, etc.

f.T7.5. Doubts have arisen about guarantees effectiveness.

There are doubts about the actual effectiveness of guarantee instruments in practice. For example, for a financial institution that is planning to invest a certain fund, to provide the institution with a guarantee instrument, for a relatively very small amount, would indeed lower the risk for the fund, but it probably wouldn't make any difference in the investment decision. Besides, in markets of economies in financial crisis, guarantees would not work because there is no liquidity available.

f.T7.6. Burdens for the recipient may make FEIs become ineffective.

It has been observed that the burdens for the recipient can make a FEI become ineffective. Complex instruments, high co-investment requirements, too demanding collateral policies, high interest rates, too lengthy procedures, etc. can make a FEI not suitable for the recipients and thus not effective to achieve the pursued goals.

Recommendations

r.T7.1. Use different approaches according to the desired impact and market.

There is not a 'one-size-fits-all' solution and it is necessary to set different approaches in accordance with the desired impact, market and relevant elements of the context. Particularly, to select adequate FIs (e.g. public or private); to design an attractive remuneration for FIs (e.g. asymmetric sharing) in line with pursued goals; and to design a suitable instrument for the targeted recipients.

r.T7.2. Ensure flexibility in the strategy and in the design of the FEI.

It is highly recommended to ensure flexibility in the investment strategy and in the design and implementation of the FEIs. The context may change, the designs may be not suitable in practice, the activities may not be carried out as planned, etc. and it is important to enable an eventual reaction (to redesign, to adapt, to cancel, etc.) in order to ensure the effectiveness of FEI.

r.T7.3. Beware of losing the focus due to a subsidiary role during the Global Crisis.

Take care not to lose focus of the FEIs (market gap / other goals) due to a subsidiary role during the Global Crisis. Assess the benefits, risk and consequences of providing FEIs only to bridge a short-term credit shortage in the market.

r.T7.4. Keep a clear updated strategy and implement a strong monitoring system.

It is highly recommended to always keep an up-to-date investment strategy (usually a responsibility of regional governments) with clear goals and to implement a strong monitoring system to ensure that the activity (usually deployed by third parties like arm-length bodies, public agencies, etc.) is always carried out as originally planned. It is very important to always consider the broader vision of regional development, as FEI are ultimately policy instruments for this purpose.

r.T7.5. Conduct FEI assessments and implement feedback systems.

It is highly recommended to implement feedback systems and conduct frequent assessments of the FEIs to ensure that the FEIs are effective (i.e. they produce the desired impact in practice) and meet the basic requirements. Other instruments (e.g. indicators, benchmarks, milestones, etc.) can also be used to assess the compliance and outcomes of the instruments.

► Illustrative examples

Identification	Reference	P01-2
	Title of illustrative example	**FEI for cooperatives needs** Punctual reply to a need and mutual involvement
	Section	Section T7: Effectiveness
FEI	Name of FEI	JEREMIE ESF
	Type of FEI	Combined financial instrument: loan and guarantee
	Region	Lombardy Region - Italy
	Addressed market	To cover the financing gap for cooperatives willing to strengthen their assets
	Other	
Description	Purposes	This financial instrument can be considered as a good practice in terms of identifying a precise territorial need and in the mechanism of mutually involving company and employees
	Description	The role of cooperatives in Lombardy Region is quite relevant as they employee a good number of people, especially those with personal/job difficulties, and represent an opportunity to foster social inclusion; according to that they need to be capitalized in order to more stable and reliable in front of banks. It was the first time they had a specifically dedicated instrument to support capitalization and reacted to this opportunity very positively submitting a high number of applications. The instrument foresees a strong involvement both of cooperative and employees in supporting the capitalization project. It is the cooperative itself which collects all the documents and guides single employees in submitting their application to the bank. The employee is made responsible of monthly repaying the loan and feels as an active subject inside his workplace.
	Evidence of success	Almost the entire plafond of the instrument was spent (20M€)
	Transfer-arability	It is easily repeatable in different regions as cooperatives or similar entities supporting people with personal/job difficulties as it consists in involving employee and employer sides in a common financial project where both will benefit from it (capitalization): the employer will be stronger and able to hire new people, the employee will his job more guaranteed
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Identification	Reference	P13-3
	Title of illustrative example	**Sector Specific Funds** A FEI as a success factor for the development of a cluster.
	Section	Section T7: Effectiveness
FEI	Name of FEI	The Northwest Fund
	Type of FEI	Loan and Equity
	Region	Northwest England
	Addressed market	The Northwest Fund is a £155m investment fund established to provide debt and equity fudning from £50,000 to £2m to small and medium sized enterprises based in the Northwest of England.
	Other	
Description	Purposes	Establishing a fund of funds model enables different finance sub-funds or products to be tailored to the identified needs of the SMEs in the regions.
	Description	Developing sector specific sub funds at a regional level is dependent on the thoroughness of the market assessment, the clarity about how the sub-fund structure responds to a combination of economic development and market need, and the testing and resulting robustness of key assumptions. This is important as it is a key determinant of the underpinning investment strategy, both overall and by specific sub-fund. The sector sub-funds also sought to attract new fund managers to the region, thereby strengthening the SME finance market. The sector specific funds, covering biomedical, digital and creative, and energy and environment, were driven in large part by the regional economic development strategy and by market testing of fund managers which had shown the potential to deliver such sub-funds.
	Evidence of success	This practice has proven very successful with the sector specific funds performing very well. In particular the biomedical fund has performed exceptionally well and a biomedical cluster has now been formed within Merseyside.
	Transfer-arability	The use of sector specific sub-funds needs to be carefully considered, bearing in mind not just the economic development rationale for the sector focus but also the scope to deliver efficiently in light of the scale of demand for finance, size of sub funds and the ability to source the necessary investment expertise. The evidence to date suggests that this route was well justified in the region.
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Best practice criteria

FIN-EN
Sharing Methodologies on Financial Engineering for Enterprises

Section P1: Innovative design

Description

Name	**Innovative design.**		
Ref.	1 (a)	*Type*	Best practice criteria
References	--		

Importance

- The introduction of new products, process or models can dramatically improve the effectiveness of FEIs. (*relative priority*: **B**)

Explanation

- Nowadays, innovation is the key for competitiveness in advanced economies. Outcomes and impact can dramatically improve through innovation. Many products become obsolete quickly. Non-innovative organizations may fall sidelined.
- However, to innovate is usually not easy: processes and results are often difficult and uncertain. Financial innovation is even more risky and dangerous, as the global Financial Crisis has shown.
- There are several types of innovation:
  - Products (e.g. a brand-new financial product for the market)
  - Processes (e.g. a new IT workflow system for the investment process)
  - Business models (e.g. a new co-funding scheme)
  - Others
- Innovation may occur in only one feature (e.g. the fees of a FEI)
- Innovation should be systematically approached (e.g. through an innovation management system). Innovative culture should be spread.
- Important topics:
  - Innovations introduced, mainly FEI innovations (value, difficulties, etc.)
  - Innovations under consideration.
  - Innovation management and innovation culture.
  - Main sources for innovation and innovation assessment.

Findings

f.P1.1. There is a great deal of diversity in FEIs designs and implementations.

The different regions have designed and implemented a wide range of instruments (due to different market needs, region characteristics, general approaches, etc) There is a great deal of diversity in the implemented FEIs across the regions: type of FEI, objectives, number and type of FIs, features, co-financing schemes, number and size of deals, recipients, etc. Frequently they're product innovations for the regional market.

f.P1.2. The main source for innovation was creativity.

The regions reported that the main source for innovation for the design of the new FEIs was creativity and to a lesser extent, benchmarking, cross-regional learning and others.

f.P1.3. Combined instruments are very attractive, but complex to implement.

Several regions have designed and implemented combined instruments. 'Loan plus grants' is well-known but there is a wide range of combinations (loan, grants, guarantees, assistance, interest subsidies, etc.) Although they seem to be very attractive (e.g. for a soft transition from grants to revolving instruments or severe market failures) they are very complex to implement, due to regulation and operational issues. It is still unclear if such aids are compatible and if they should be considered state aid or not. Besides, the 'loan procedures' and the 'grant procedures' are difficult to coordinate in practice.

f.P1.4. Other findings.

Many regions considered the utilization of FEIs to promote innovation in the regions' SMEs to be within the scope of this section.

Recommendations

r.P1.1. Perform "ex ante" evaluations.

It is recommended to conduct deep "ex-ante" evaluations of new innovative FEIs as issues will arise and changes will be difficult after deployment.

r.P1.2. Provide EU-level tools for regional FEIs development.

The EU could provide regions with standardized EU-level tools for the development of new FEIs, like "off-the-shelf" FEIs (see section M for more on this)

r.P1.3. Learn from other regions' experiences.

Great deals of lessons learned are available from other regions' experiences. A region should take advantage of this for the inception, design, implementation and management of new FEIs.

r.P1.4. Deeply analyze combined instruments before launching or wait for the next OP period.

Due to the difficulties related to combined instruments in practice, it is important to conduct a deep analysis of the feasibility of the instrument before the implementation, with a focus on regulation and operational issues (compatibility, state aid regulation, operational coordination, etc.) Alternatively, it is recommended to wait for the next OP period, when regulation issues should be clarified.

▶ Tables

Question A4. What are your main sources for innovative ideas? (Please select item(s) from table A.1 and specify if necessary)

Table A.1		
1	Benchmarking	14,5%
2	Cross-regional learning	16,8%
3	Creativity	30,0%
4	Systematic search (e.g. demand analysis, literature review, etc.)	12,7%
5	Suggestions (e.g. call for projects, potential suppliers, etc.)	10,5%
6	Others (please specify)	15,5%
	Based on number of answers:	11

Comments on the table: finding f.P1.2

▶ Illustrative examples

Identification	Reference	P07-1
	Title of best practice	**The Start Programme** An innovative design of a combined program providing loans, grants and services
	Section	Section P1: Innovative design
FEI	Name of FEI	The ESF Start Programme (ESF Programme "Support to Self-employment and Business Start-ups")
	Type of FEI	Combined
	Region	Latvia
	Addressed market	Business start-ups and newly established companies (age < 3 years).
	Other	Combined support for business start-ups and newly established companies in a shape of consultations, training and financing (loans and interest rate subsidies) for starting the business
Description	Purposes	The Start Programme serves as an example of an innovative tool how to combine different support means towards business start-ups and newly established companies for starting their business. The Bank acts as one-stop-shop providing in one place whole package of services: consultations, training and financial support (loans up to EUR 77 thsd. and interest rate subsidies). The bank provides its own consultants specifically prepared to serve the clients of the programme. Through its 9 branches and 18 sub-branches consultancy services cover whole the territory of country.
	Description	The Bank provides the whole cycle support: initially consultants evaluate business at its earlier stage, as well as consult on requirements of the programme. In addition, by means of test/ interviews the consultants assess the applicant's knowledge and practical experience. If necessary, additional training in particular modules, e.g., management, accounting and taxes, marketing etc. is available. In further stages consultations on drafting concrete business plan and implementation of the project are being provided. After submission of business plan and related documentation the loan officers examine applications according selected criteria, e.g., economic implementation feasibility of the idea, market assessment, the planned cash flow etc. and select viable projects to be financed.
	Evidence of success	According statistics, every second application has been accepted for further financial support. The clients' satisfaction surveys shows that often specifically the Start programme has played essential role as incentive to overcome hesitation to start own business (previously the Programme clients were rejected by commercial intermediaries due to insufficient own financing, insufficient practical experience etc.). The Programme loans have favorable conditions, e.g., for the loans below EUR 7 thsd. no own co-finance obliged, for the loans above EUR 7 thsd. own financing must be at least 10%, attractive interest rates, interest rate subsidies, minimal commission fees etc. Current results: out of 2100 submitted business plans 1100 have been approved for allocated loans in amount of EUR 18 mln. 1800 participants of the Programme have been trained as well.

	Transfer-arability	The key success factor of the Programme is integrated/ package approach. Over time the Programme has experienced some changes on its conditions as well. E.g., due to some inadequacy with the EU Commission requirements (COCOF Notes) the grant component has been replaced by interest rate subsidies (with less aid intensity). The training component has been re-shaped as separate support activity, formally managed by another institution dealing with the grant scheme (the Bank as implementer of FEI, is not eligible to deal with grants directly).
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Identi-fication	Reference	P09-1
	Title of best practice	**Nupark Accelerace** An innovative design of a program comprising a start-ups acceleration program
	Section	Section P1: Innovative design
FEI	Name of FEI	Midtjysk Iværksætterfond
	Type of FEI	Combined FEI
	Region	Denmark - Central Denmark Region
	Addressed market	Denmark - Central Denmark Region (early stage innovative start-ups with a high potential for growth)
	Other	
Descrip-tion	Purposes	The comprising acceleration program for start-ups serves a combined purpose of effectively accelerating business growth while serving as a due diligence test on whether the single companies seems competent to execute a 12-18 month growth plan that would be part of the capital bundle offered by the fund.
	Description	Applying companies first have to complete a 6 month qualifying acceleration program supervised by the FEI manager. On the basis of program results, selected companies are offered capital and a 12-18 month growth plan agreement is contracted. Companies that receive capital are followed closely by the fund manager who works actively within the single companies at least once a week during the growth plan execution period.
	Evidence of success	Note: The program is still relatively new, and statistic proof for success is not yet available. So far our experience is: - Companies find great value in the content of the acceleration program - also even if they end up not receiving capital. - The FEI manager finds the program effective for testing entrepreneurs and their performance aptitudes. - The FEI setup makes it easy to monitor the portfolio and actively help companies succeed.
	Transfer-arability	The FEI setup is targeted for early stage innovative start-ups with a high potential for growth. Quality of the acceleration program is important in assuring that all companies appraise the course to be profitable - also even if they end up not receiving any capital.
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	Web site	www.rm.dk

Identi-fication	Reference	P12-1
	Title of best practice	**Business angels initiative** Cross-regional learning and the study of case studies and best practices for designing a new FEI
	Section	Section P1: Innovative design
FEI	Name of FEI	BA Co-investment Fund
	Type of FEI	Equity FEI
	Region	Portugal - Convergence Regions (North, Center, Alentejo)
	Addressed market	Portugal - Convergence Regions (North, Center, Alentejo)
	Other	Implemented through National Holding Fund (FINOVA)
Descrip-tion	Purposes	MA Compete set up an innovative Financial Engineering Instrument (FEI), with the format of a Business Angel (BA) Co-investment Fund, (initially) worth EUR 41 million, considering public and private budget, in the 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 EUR 38 million. The objective of this BA Co-investment Fund is to finance BA Societies. During the setup of the FEI, 54 BA Societies (with over 200 Business Angels at total) were selected to receive financing (though, currently, the number of BA Societies of the FEI is 51).
	Description	Whenever the BA Societies of the FEI perform a new investment, the BA's of the Society must bring 35% (at least) of the necessary funds, while MA Compete will make a 10 year (maximum) loan of 65% of the necessary funds. 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%.
	Evidence of success	- SME supported: 78 - Funding granted: 14M€
	Transfer-arability	- Adaptation of the COMPETE co-investment scheme to each specific region, involving the relevant stakeholders in the process, namely National and Regional BA Associations.
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Section P2: Management fees

Description

Name	**Incentivizing management fees method**.		
Ref.	1 (b)	*Type*	Best practice criteria
References	Reg.1828 art 43 on management fees ceilings		

Importance

- Remuneration is probably the most effective mechanism to ensure that actors perform as expected. (*relative priority*: **A**)

Explanation

- If an activity is carried out through third parties, it is key that their behavior is aimed at achieving the pursued objectives.
- Fees are a very strong incentive for intermediaries' behavior.
- Therefore, fees are critical for the overall performance of FEI and key aspects (gap addressing, leverage, efficiency, etc.)
- Poorly designed fees can cause negative effects. E.g. to compensate just closed deals can lead to large investments without significantly overcoming the gap. Conversely, well designed fees can ensure a good performance.
- For effectiveness, remuneration must be attractive for the intermediaries. However, remuneration must not become state aid.
- There is a great deal of diversity in the features that make up a remuneration scheme:
  - Recipient: HFM, FI, FEI manager, intermediate body, etc.
  - Nature: % charge, unit price for services rendered, management cost items reimbursed against evidence of expenditure, cross-selling opportunities, etc.
  - Type: successful exits, invested amount, fund size, number of deals, number of assessments, raised co-funding, etc.
  - Time: annual, on a deal basis, etc.
  - Payer: fund, HFM, FEI recipient, none, etc.
- An issue that is becoming very important is the FI remuneration beyond 2015 (during the period of disinvestment).
- Important topics:
  - Implemented remuneration schemes.
  - Mechanisms to ensure gap addressing and achievement of other objectives.
  - Mechanisms to ensure major issues (e.g. effectiveness, leverage, risk level)
  - Design, agreement, adjustment and update.
  - State aid and remuneration beyond 2015.

Findings

f.P2.1. Remuneration schemes for HFMs are similar for all regions.

Most regions reported similar remuneration schemes for the HFM: a management fee equal to a certain percentage of the fund size, in accordance with the regulation. To establish complementary funding streams to cover the HFM's operating costs via a grant has been reported by Northwest England. No region reported the use qualitative or quantitative indicators (e.g. performance, outcomes, etc.) for the HFM's remuneration.

Regarding the remuneration post 2015 it has become clear that management fees are only eligible until December 2015 (in the OP 2007/2013); after that date the managing costs can be charged to the HF but they have to be paid with the returns (interest, principal etc.) of the FEI.

f.P2.2. There is a great deal of diversity in the remuneration schemes for FIs and for FMs.

The different regions have designed and implemented a wide range of remuneration schemes for the financial intermediaries and for the FEI managers. There is a great deal of diversity in them: nature (%, unit price, evidence of expenditure...), timing (annual, on a deal basis...), payer (fund, HFM, recipient...), etc. Also, there a great deal of diversity in the pursued effect (e.g. yields restriction + loss mitigation VC)

f.P2.3. Some innovative remuneration schemes for FIs seem to work well.

Some innovative remuneration schemes for FIs are implemented (e.g. asymmetrical profit and risk sharing) and they seem to work well in practice so far.

f.P2.4. To design the right remuneration scheme for a FEI is not easy.

Practice has proved that to design the right remuneration scheme for a FEI is not an easy task. All remuneration schemes show advantages and disadvantages and many aspects are involved (efficiency, state aid regulation, etc.) The experience has shown that difficulties and drawbacks may arise from fees schemes (e.g. stiffness, bad performance, etc.)

f.P2.5. Management fees of equity instruments are quite standardized.

It could be found that the remuneration schemes of equity instruments are relatively homogeneous and based on the established market standard of private equity (combination of fixed management fee + carried interest), whereas the variety of remuneration schemes of loan and guarantees instruments are much broader and without a clear pattern.

Recommendations

r.P2.1. Design the remuneration schemes according with the investment strategy.

A sound design of the remuneration schemes must be always based on the strategy: goals, general approach, timing, etc. Also, the design should be consistent with the rest of the design, must comply with the legal regulation and must consider the whole life-cycle of the FEIs (even after period of investments)

r.P2.2. Find a balance between the different components of remuneration mechanisms.

To design well working schemes it is important to find a balance between different components of a remuneration mechanism, so that the desired behavior is incentivized without hindering other aspects. For example, do not build schemes that ultimately incentivize only volume, only profitability, only low risk, etc.

r.P2.3. Build mechanisms in the FI agreements to allow reacting along the FEI lifecycle.

Although legal certainty and stability are obviously a requirement for the agreements with the FIs and FMs, it is highly recommended to build mechanisms (inside the agreements) that would allow the eventual reaction (to redesign or to adapt) in case of FEI bad performance due to poorly designed remuneration schemes. For example, through an annual revision of certain terms.

► Illustrative examples

Not available

Section P3: Co-financing actors

Description

Name	Number and type of **co-financing actors**.		
Ref.	2	*Type*	Best practice criteria
References	Cocof Note COCOF_10-0014-04-EN point 4.1.2 and 4.1.4		

Importance

- Co-financing can significantly improve the impact of the FEIs both in quality and in quantity. (*relative priority*: **A**)

Explanation

- A market failure in the supply side is intrinsic to the concept of financial market gap (e.g. investment is not interesting for financial institutions)
- There are two kinds of co-financing:
  - Co-funding (in a fund or vehicle)
  - Co-investment (in financial transactions)
- Co-financing increases the amount of money available for SME by providing a multiplier effect to the available funds.
- Also, leveraging can improve the quality of the impact:
  - Better and more reliable investment decisions.
  - Pursuit of other relevant objectives (e.g. development of business angels networks)
- For private funds co-investing can be highly advantageous too (leverage of own funds, possible lower risk level, etc.)
- However, co-financing might become a constraint for the achievement of objectives (e.g. excessively binding agreements, private funds not willing to invest in risky ventures o sectors, underutilized resources due to lack of private funds, etc.)
- The key is to develop new synergistic schemes of cooperation which are much more advantageous than to act alone.
- State aid regulation has implications for minimum targets of leverage.
- Important topics:
  - Implemented co-financing schemes.
  - Major barriers.
  - Mechanisms to find synergies and promote co-financing.
  - Mechanisms to avoid hindering effectiveness.
  - Risk sharing and other main topics in the agreement.
  - State aid rules

- **Note**: Qualitative topics are considered mainly in this section. Quantitative topics are considered mainly in section D of the questionnaire.

► Findings

f.P3.1. It is difficult to attract private co-financing at all levels and there is a wide casuistry.

Almost all regions have reported difficulties related to co-financing, both at the fund level (co-funding) and at the deal level (co-investment). Difficulties comes from the type of instrument (loan, guarantees, etc.), strategy (e.g. targeting innovative sectors, nonprofit oriented, high risk profile, too lengthy investments, etc.), region characteristics (e.g. size), targeted market (e.g. type of FEI, industry, SME's stage, etc.), availability of suitable actors, etc.

f.P3.2. Co-financing is now even more difficult because of the Global Crisis.

The Global Crisis and the current situation of the financial markets make even more difficult to achieve the expected levels of co-financing. In general, the present circumstances are far more complex that those considered when designing the current strategies and FEIs.

f.P3.3. Leverage maximization is not always recommended as it can hinder effectiveness.

For FEI effectiveness, leverage maximization is not always recommended and co-financing might become a constraint for the achievement of the pursued objectives. For some financial market gaps, leverage maximization should be considered only a secondary objective. In severe gaps (where no private money is available, e.g. very early stage funding) to try to reach a certain level of leverage (sometimes because of a binding agreement) may cause to underutilize the funds and to fail in bridging the market gap.

f.P3.4. Co-funding at the fund level seems to be more effective.

Although there is no conclusive evidence and this is still uncertain, it seems that to have a co-funding fund rather than a co-investment fund makes easier to invest the funds and more quickly to invest in businesses. It avoids having to secure private leverage on every deal. But it is probably more difficult to achieve.

f.P3.5. For guarantee FEIs, motivations and goals are different from all other instruments.

In general, the motivations and pursued goals for co-financing in guarantees instruments differ greatly from other kinds of instruments, like equity or loans. For the later, main reasons are higher leverage and better deals (for HFM or FEI manager) and higher leverage and lower risks (for co-financing actors).

► Recommendations

r.P3.1. Partner with institutions like EIF or EIB, which are considered private money.

In general, to partner with institutions like EIF or EIB is a very favorable choice for maximizing leverage. They are public entities but their funds are considered 'private money'. Also, the regulation constraints (e.g. procurement) for them are low in comparison with government and arm-length bodies.

r.P3.2. Some particular recommendations for co-financing at the fund and FEI level.

In general, to optimize co-financing at the funds level, it is recommended to:

- Design and implement a strategy that would be attractive for a private investor.
- Design a fund that that would be attractive for a private investor (e.g. FIs' fees)
- Involve potential co-funders in the design and implementation of funds and FEIs.
- Partner with state-controlled private financial institutions.
- Include private leverage in the criteria for FIs selection.
- Engage a respected professional management.
- Transfer tranches of funds to co-funders early as a financial advantage.
- Build an attractive portfolio (size, diversified risk, etc.)
- Maintain a long-standing relationship with FIs.
- Others.

r.P3.3. Some particular recommendations for co-financing at the investment level.

In general, to optimize co-financing at the investment level, it is recommended:

- Build track records.
- Provide clear incentives for investments (e.g. yield restriction + loss mitigation)
- Involve potential co-investors in the design and implementation of FEIs.
- Appoint as FIs (or partner with) actors with a wide network of potential investors.
- Include private leverage in the criteria for FIs selection.
- Build a level of critical mass to invest alongside a fund (BA networks, banks, etc.)
- Organize deal flow through partners (business angels, investment funds, incubators, etc.) so that the deals would come 'prequalified' and with a previous decision of private investment.
- Require the SME to prove that it has tried and failed to access funding elsewhere.
- Not to finance 100% of the needs at the deal level and require a minimum % of private funding.
- Use a consortium of co-financing partners for each project facilitating subsequent rounds without public participation.
- Convince SME’s leaders to securely open their capital (for family business)
- Allow public and private investors to act independently (e.g. to exit or to stay)
- Minimize the public co-investment to the minimum amount of risk sharing that the private participants require.
- Invest in equity to facilitate additional loans.
- Others.

▶ Tables

Question C8. What is most important for the HFM or the FEI manager in connection with co-financing? Please spread 100 points across the elements in table C.1.

Table C.1 - **All**		all	loans	guarantees	equity	combined
1	Increase available funds	32,6%	30,6%	28,0%	28,3%	44,4%
2	Better access to good deals	19,0%	22,8%	8,0%	21,7%	17,5%
3	Better and more reliable investment decisions	14,6%	16,1%	8,0%	19,2%	10,0%
4	Financial market development (e.g. business angels networks)	15,4%	11,1%	30,0%	15,8%	10,6%

5	Pursuit of other relevant objectives (e.g. industry development)	14,9%	17,8%	26,0%	8,8%	13,8%
6	Others (please specify)	3,5%	1,7%	0,0%	6,3%	3,8%
	Based on number of answers:	34	9	5	12	8

Comments on the table: As stated in the section 'Explanation', regions find that co-financing increases the amount of money available for SME and can improve the quality of the impact. / finding f.P3.5

Question C9. What is most important for co-financing actors? What is their motivation? Please spread 100 points across the elements in table C.2.

Table C.2 - **All**		all	loans	guarantees	equity	combined
1	Compulsory co-financing	12,3%	15,0%	30,0%	5,8%	5,6%
2	Leverage of own funds	19,0%	21,1%	5,0%	17,5%	29,4%
3	Profits magnification (e.g. asymmetric profit sharing)	8,7%	4,4%	0,0%	16,7%	8,1%
4	Risk reduction (e.g. asymmetric risk sharing)	24,0%	21,1%	25,0%	24,2%	26,3%
5	Shared objectives (e.g. a certain industry development)	10,4%	12,2%	13,3%	8,8%	8,8%
6	Participation in investment decisions	9,0%	8,9%	3,3%	12,5%	8,1%
7	Strengthen weakness in investment capabilities	6,9%	8,9%	8,3%	4,2%	7,5%
8	Others (please specify)	9,7%	8,3%	15,0%	10,4%	6,3%
	Based on number of answers:	35	9	6	12	8

Comments on the table: As stated in the section 'Explanation', regions find that for private funds co-investing can be highly advantageous too (leverage, lower risk level, etc.) / finding f.P3.5

▶ Illustrative examples

Identi-fication	Reference	P04-2
	Title of best practice	**Yield restriction and loss mitigation** A remuneration scheme that is effective and attractive for cofinancing.
	Section	Section P3: Co-financing actors
FEI	Name of FEI	New Hungary Venture Capital Program, New Széchenyi Venture Capital Program Joint Seed Fund, New Széchenyi Venture Capital Program Joint Growth Fund
	Type of FEI	Equity
	Region	New Hungary Venture Capital Program was introduced in the whole territory of Hungary, while New Széchenyi Venture Capital Programs can be reached only in the convergence regions (the whole territory of Hungary except the Central-Hungarian Region).
	Addressed market	Target group of the programs are SMEs. Maximum investment amount is 1,5 million euro in case of New Hungary Venture Capital Program and 150 000 euro and 2,5 million euro in case of New Széchenyi Joint Seed Fund and New Széchenyi Joint Growth Fund.
	Other	New Hungary Venture Capital Program was established with two structures. These are the Joint Fund structure that operate in the convergence regions and the Co-investment structure that was introduced in the Central-Hungarian region. In case of Joint Fund structure private investors provide capital at fund level while in case of Co-investment structure private capital is invested at transactional level.
Descrip-tion	Purposes	The aim of the programs is to encourage private investors to invest capital also in SMEs that are not in the focus of their investment at present. Achieving the programs contribute to the development of venture capital market as well in Hungary.
	Description	In case of venture capital calls Hungary is encouraging private investors to provide capital to SMEs during early and expansion lifecycle that due to level of risk who currently don't receive capital from the market. In order to make venture capital calls attractive for private investors in the JEREMIE program Hungarian government introduced a "yield restriction" clause and a "loss mitigation" clause which mean the following: "Yield restriction": in case the liquidation of the fund, if it has a positive yield overall, a restriction on the latter may be applied in terms of the national resources invested in the capital. This means that only a pre-defined sum of the yield may be attributed to the State – and any surplus is returned to the private investors. "Loss mitigation": respectively, if the fund has a negative yield, a certain percentage of loss equal to the highest subscribed capital of the fund will be absorbed by the JEREMIE (state owned) part of the fund. The remaining sum of the loss will be shared between the State and the private investors in proportion to their contribution.
	Evidence of success	Venture capital programs attract private investors to finance SMEs that couldn't get resources from the market and thus these FEIs contribute to the development of venture capital market in Hungary.

	Transfer-arability	Venture capital programs were introduced based on the community guidelines on state aid to promote risk capital investments in small and medium-sized enterprises that makes possible to apply incentives for private investors in the programs. Because of this the programs were needed to be notified by the European Commission.
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Identi-fication	Reference	P06-1
	Title of best practice	**European Investment Bank** Partnership with the European Investment Bank
	Section	Section P3: Co-financing actors
FEI	Name of FEI	Razvojno-spodbujevalni program SID banke za financiranje tehnološko-razvojnih projetkov 2011-2013 The development-promotional programme for financing of technological projects 2011 - 2013
	Type of FEI	Loan
	Region	Slovenia
	Addressed market	Companies (of all sizes) in Slovenia which invest in RDI
	Other	SID bank set up a Financial Engineering Instrument (FEI) at the national level, not engaging EU resources but only national resources (national budget). The instrument takes form of a Loan Fund (loan as a state aid) in accordance with the Public Finance Act, a national law to arrange the implementation of FEI, based on the article 44. Budget of loan fund is equal to EUR 150 million Fund, EUR 50 million brought by the Ministry and EUR 100 million by the SID Bank. These last funds were borrowed from the EIB. The SID Bank normally do indirect financing, but the loan fund means direct financing as pilot project. Pilot project is use to develop the technology for the implementation of FEIs, which will be later transfer to banks (cohesion policy 2014-2020).
Descrip-tion	Purposes	To provide a quality source of funding (price, maturity standpoint) to the final beneficiaries for the purpose of covering expenditures of the new RDI projects.
	Description	EIB in accordance with its mandates provides funds with favorable interest rate and maturity to financial institutions, with the purpose of transferring these advantages to the final beneficiaries. EIB requires appropriate use of funds and in this context monitors the use and records the amount of transferred financial advantage to the final beneficiaries. EIB funds allowed SID bank to use lower interest rates than the market, in accordance with the EC notice (2008/C 14/02), while all the parameters determining the interest rates follow the private investor principle and banking regulations.
	Evidence of success	EIB funding source enables financing of the final beneficiaries at the level of the average interest rates of the euro area.
	Transfer-arability	Applicable in the cases when the leverage is provided by FEI manager, provided that FEI manager is suitable for borrowing from the EIB.
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Identi-fication	Reference	P06-2
	Title of best practice	**National development bank** Partnership with national development bank
	Section	Section P3: Co-financing actors
FEI	Name of FEI	Razvojno-spodbujevalni program SID banke za financiranje tehnološko-razvojnih projetkov 2011-2013 The development-promotional programme for financing of technological projects 2011 - 2013
	Type of FEI	Loan
	Region	Slovenia
	Addressed market	Companies (of all sizes) in Slovenia which invest in RDI
	Other	SID bank set up a Financial Engineering Instrument (FEI) at the national level, not engaging EU resources but only national resources (national budget). The instrument takes form of a Loan Fund (loan as a state aid) in accordance with the Public Finance Act, a national law to arrange the implementation of FEI, based on the article 44. Budget of loan fund is equal to EUR 150 million Fund, EUR 50 million brought by the Ministry and EUR 100 million by the SID Bank. These last funds were borrowed from the EIB. The SID Bank normally do indirect financing, but the loan fund means direct financing as pilot project. Pilot project is use to develop the technology for the implementation of FEIs, which will be later transfer to banks (cohesion policy 2014-2020).
Descrip-tion	Purposes	To raise the budget of FEI.
	Description	SID Bank, in accordance, with its mandates provides funds for the implementation of FEI and therefore because of its transformative role maximizes stakeholders' value added (e.g. EIB, Government, final beneficiary).
	Evidence of success	Agreement with the national development bank directly enables higher multiplicator of funds - in case of loan funds.
	Transfer-arability	Applicable in cases when the leverage should be provided by FEI manager.
Contact details	Name	Irena Čermelj, Nejc Dvoraček
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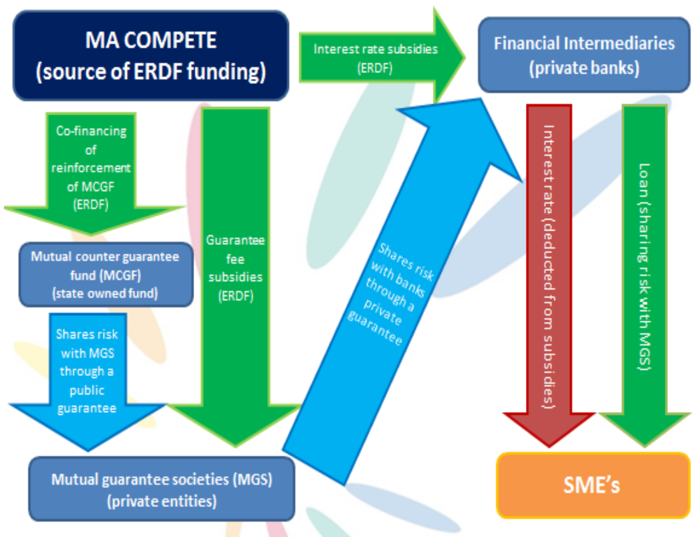
	Web site	http://www.sid.si/

Identi-fication	Reference	P12-2
	Title of best practice	**Credit lines combined with guarantees programs** An FEI providing a "support mix" with promising results and a limited public cost.
	Section	Section P3: Co-financing actors
FEI	Name of FEI	Credit Lines PME Investe I & II
	Type of FEI	Debt FEI (credit line, combined with guarantees, guarantee fee subsidies and interest rate subsidies)
	Region	Portugal - Convergence Regions (North, Center, Alentejo)
	Addressed market	Portugal - Convergence Regions (North, Center, Alentejo)
	Other	Implemented through National Holding Fund (FINOVA)
Descrip-tion	Purposes	This practice is considered a good practice as it achieves a high level of investment, with low public resources.
	Description	MA COMPETE set up a FEI consisting on a credit line, combined with guarantees, guarantee fee subsidies and interest rate subsidies, according to the following scheme:  *
	Evidence of success	Key facts of this FEI: • 3.664 loans to SME's; • 1.270 M€ of total investment activated (50% guaranteed by MGS); • 103,1 M€ of total public expenditure (ERDF and national co-financing): o 61 M€ - reinforcement of MCGF; o 31,5 M€ - interest rate subsidies; o 10,6 M€ - guarantee fee subsidies. • Current leverage: 12X the public expenditure.
	Transfer-arability	- Adaptation of the COMPETE scheme to each specific region, involving the relevant stakeholders in the process, namely Private Banks and Mutual Guarantee Societies.
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Section P4: Leverage

Description

Name	**High leverage.**		
Ref.	3	*Type*	Best practice criteria
References	Cocof Note COCOF_10-0014-04-EN point 4.1.2 and 4.1.4		

Importance

- Leverage can significantly improve the impact of the FEIs both in quality and in quantity.

(*relative priority*: **B**)

Explanation

- Leverage increases the amount of money available for SME by providing a multiplier effect to the available funds.
- Also, leveraging can improve the quality of the impact:
  - Better and more reliable investment decisions.
  - Pursuit of other relevant objectives (e.g. the development of business angels networks)
- For private funds co-investing can be highly advantageous too (leverage of own funds, possible lower risk level, etc.)
- However, leverage might become a constraint for the achievement of objectives (e.g. excessively binding agreements, private funds not willing to invest in risky ventures o sectors, underutilized resources due to lack of private funds, etc.)
- There is a wide variety: co-funding (HF); co-funding (financial vehicles); co-investment; through guarantees, first-loss schemes, etc.
- Important topics:
  - Achieved leverage effect.
  - Mechanisms to ensure leverage at each level: HF, financial vehicles and investments.
  - Mechanisms to avoid hindering effectiveness.
  - Risk sharing and other main topics in the agreements.
- **Note**: Quantitative topics are considered mainly in this section. Qualitative topics are considered mainly in section C of the questionnaire.

Findings

f.P4.1. Highest levels of leverage are achieved in guarantees instruments.

The highest reported levels of leverage (see FIN-EN database) are achieved in guarantees FEI (up to several hundred %). However, this data may be misleading. For example, for a financial institution that is planning to invest a certain fund, to provide the institution with a guarantee instrument, for a relatively very small amount, would indeed lower the risk for the fund, but it probably wouldn't make any difference in the investment decision. However, the leverage would be very high.

f.P4.2. Lowest levels of leverage are achieved in equity instruments.

The lowest reported levels of leverage (see FIN-EN database) are achieved in equity instruments, especially for seed and early stages. In general, leverage maximization in equity is difficult to achieve, especially because when ERDF money comes in a fund, the entire fund must comply with ERDF rules, being ERDF share 10% or 90%. With this limitation (that is intended to prevail in the future risk finance instruments guidelines) private equity manager tend to maximize the public participation in ERDF funds and have additional private funds without ERDF.

Recommendations

r.P4.1. Build common leverage calculation standards.

It is recommended building a common leverage standard at the EU level, in accordance with the generally recognized standards of business practice in this field, providing clear rules, criteria, etc. for calculating leverage for each type of FEI, and thus allowing safe and reliable benchmarking and comparisons between the regions. The basic idea is to have a global measure of the number of Euros available for SMEs in the market for each Euro provided by the EU for the funds (an "overall multiplier").

Illustrative examples

Identification	Reference	P03-1
	Title of best practice	**JEREMIE Risk Capital Fund** A FEI with leverage at both co-funding and co-investment levels simultaneously
	Section	Section P4: Leverage
FEI	Name of FEI	JEREMIE Risk Capital Fund FCR
	Type of FEI	Risk capital
	Region	Andalusia
	Addressed market	The target group of the JEREMIE Rick Capital Fund is technological or innovative companies with very high growth potential, normally in start-up and early stage expansion phases. The typical investment amount is between 0,5 and 3 millions of Euro per investment. The FEI has no special industry focus.
	Other	The financial intermediary is a public company
Description	Purposes	The purpose is to maximize the mobilization of private money, or in other words a high financial multiplier, but without losing effectiveness of the instrument (addressing of the market gap). The FEI is leveraged on 2 levels, on instrument level (private co-participation in the fund) and on deal level (private co-financing)
	Description	In order to obtain the private leverage on FEI level, the ratio of private participation was used as a selection criterion in the public procurement process. The minimum ratio was 30%. Another condition in the public procurement process was the limitation of the intensity of financing at 70% on deal level (the FEI cannot finance more than 70% of the financial needs of a company, the rest must be private). This means, that the theoretic leverage is 2 (1/70%/70%).
	Evidence of success	The observed overall leverage of the FEI is 4 which means 2 times higher than the theoretic leverage. The reason is that on deal level the intensity of financing is much lower than the maximum of 70%, because the FEI does not act as a lead investor and always is co-investing with other private equity firms.
	Transfer-arability	This practice is easily transferable to other regions by incorporating the mentioned conditions as criteria in the public procurement process.
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Identi-fication	Reference	P05-1
	Title of best practice	**Loan on trust** A scheme to facilitate subsequent leverage to the SMEs
	Section	Section P4 : Leverage
FEI	Name of FEI	JEREMIE
	Type of FEI	Loan
	Region	Auvergne
	Addressed market	Regional and local scope, final recipients are small companies on traditional and innovative activities, investment amounts are from 2K€ to 50K€ and the loan duration is between 2 and 5 years.
	Other	Financial intermediaries are associations which provide loans on trust, meaning a medium term credit granted to a person without personal or real guarantees and without interests.
Descrip-tion	Purposes	This practice is a good practice because it achieves a high leverage for access to bank loans. Indeed, people without own contribution can borrow money on a personal basis, which will be considered as equity. The file becomes eligible related to financial ratio between debt and equity. It often concerns people with low incomes.
	Description	The loan on trust is directly provided to the project owner, not to the company. It enables to consider this funds as equity and not debt and then to achieve a high leverage effect. Moreover, it enables to have more credibility because of the company leader presents its project in front of a jury composed of experts (bankers, lawyers, etc.), who make the decision to provide the loan. Then, bankers have the choice to complete with a bank loan, and it's not always the case, but it really increases the reliability of the project.
	Evidence of success	This practice is successful because it achieves a high leverage of bank loans, as the national regulation requires to complete the loan on trust with a bank loan. For example, loan on trust structures invested 3 448 108 € (JEREMIE funds) into companies and it enables an amount of associated bank loans of 36 600 975€.
	Transfer-arability	The practice would be transferrable in another region if the national/regional regulation could enable to provide loans without interest rates directly to the project owner. Moreover, these structures are associations which are not under the Financial Markets Authority. In France, a specific decree exists to allow associations to provide loans and microloans.
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Section P5: Expenses for recipient

▶ Description

Name	**Limited expenses for the final recipient** (arrangement fees, collaterals required).		
Ref.	4	*Type*	Best practice criteria
References	Audit track experience		

▶ Importance

- Excellent FEIs which are not affordable for SMEs will not be effective.

(*relative priority*: **B**)

▶ Explanation

- It is essential that the ratio of value to cost is reasonable for the FEI. In general, the FEI must be affordable for SMEs.
- Otherwise, the FEI would be useless or underused. Also it may have other negative effects: e.g. a too demanding collateral policy can hinder the "second chance" policy (see EU SBA) for entrepreneurs.
- "Expenses" must be understood broadly (as any burden for the SME):
  - Fees, interest rates, charges, etc.
  - Collaterals required, etc.
  - Complexity, tasks, duties, etc.
- However, a reasonable return and level of risk are needed for the FEIs.
- Also, experience shows that providing resources at no cost does not produce good outcomes in general.
- It is also important to consider FEI cost and expenses in comparison to market conditions.
- Important topics:
  - Description of expenses policy (types, rates, rules, links with collaterals policy, etc.)
  - Collaterals policy (acceptable collaterals, rules, links with expenses policy, etc.)
  - Other burden for the SME (obligations, duties, overall complexity, etc.)
  - Criteria to ensure suitability for SMEs and also suitability for other standpoints.
  - Expenses in comparison to market conditions.
  - State aid.

Findings

f.P5.1. Access to funding is now the most important benefit for recipients.

Due to the Global Crisis and the shortage of credit in the financial markets, access to funding is considered the most important benefit for recipients. Other benefits (e.g. low interest rates) have become secondary.

f.P5.2. The main burdens for recipients differ among types of FEI.

The main burdens for recipients differ among types of FEI. For loans, the main reported burdens for recipients are red tape and collaterals required. For guarantees, fees, red tape and lengthy procedures. For equity, interest rates (in terms of expected rate of return y or investment multiple), red tape and general complexity. For combined instruments, subsequent control and report obligations, interest rate and lengthy procedures. However, no feedback systems are deployed and this is mostly based on the HFM and FI's experience.

f.P5.3. Specific problems exist for the regions.

Some regions reported specific problems related to the burdens for the recipient. For example: in France, the required interest rates for mezzanine financing made the instruments too expensive for the recipient; in Germany there aren't private investors willing to invest; etc. Most regions reported specific problems.

f.P5.4. For loan instruments, the required level of security differs greatly between regions.

For loan instruments, the required level of security (e.g. collaterals requirements) differs greatly between regions. Many regions reported that the requirements are the 'market standard'. For example; in France, there is a 'loan on trust' which does not require any collateral; in Latvia, collaterals are required only for amounts greater than a certain limit; in Spain, there are fears that the collateral policy would be too demanding; etc.

Recommendations

r.P5.1. Implement feedback systems.

It is highly recommend implementing feedback systems to collect back facts, measurements, lessons learned, views, etc. from recipients and other actors (e.g. FI) and thus enabling to optimize the FEI performance.

r.P5.2. Always consider the broader vision of regional development.

It is very important to always consider the broader vision of regional development, as FEI are ultimately policy instruments. Thus, burdens for recipients (e.g. collaterals, fees, etc.) should be conditioned mainly by the overall regional objectives, without prejudice of the acceptable risks levels.

▶ Tables

Question E1. What are the main benefits for the recipients of this FEI compared to market conditions? Please spread 100 points across the elements of table E.1

Table E.1 - **All**		all	loans	guarantees	equity	combined
1	Access to finance (availability, higher risk investment, etc.)	53,5%	35,5%	68,0%	61,7%	54,4%
2	High level of financing (low level of required co-investment)	13,9%	18,5%	10,0%	13,3%	11,7%
3	Low interest rates	11,1%	28,0%	0,0%	0,0%	13,3%
4	Low collaterals	11,4%	9,0%	22,0%	14,2%	4,4%
5	Limited yield requirement	4,4%	4,5%	0,0%	5,4%	5,6%
6	Simplicity	3,9%	3,5%	0,0%	3,8%	6,7%
7	Others (please specify)	1,8%	1,0%	0,0%	1,7%	3,9%
	Based on number of answers:	36	10	5	12	9

Comments on the table: f.P5.1

Question E2. What are the main expenses and major burdens for the SME in this FEI? Please spread 100 points across the elements of table E.2

Table E.2 - **All**		all	loans	guarantees	equity	combined
1	Fees and charges	9,1%	3,5%	30,0%	12,9%	0,0%
2	Interest rates	17,9%	7,0%	5,0%	31,7%	17,5%
3	Collaterals required	9,4%	23,0%	2,5%	0,0%	10,0%
4	Red tape	21,4%	31,4%	24,5%	18,3%	11,8%
5	Lengthy approval procedure	12,7%	11,8%	21,5%	7,5%	17,3%
6	Work and duties involved (application, reporting, later control, etc.)	15,2%	12,8%	16,5%	11,7%	22,9%
7	General complexity of the instrument	12,1%	10,5%	0,0%	17,9%	11,3%
8	Others (please specify)	2,2%	0,0%	0,0%	0,0%	9,4%
	Based on number of answers:	34	10	4	12	8

Comments on the table: f.P5.2

▶ Illustrative examples

Identi-fication	Reference	P05-2
	Title of best practice	**Loan on trust** A favorable collateral policy for SME
	Section	Section P5 : Expenses for recipient
FEI	Name of FEI	JEREMIE
	Type of FEI	Loan
	Region	Auvergne
	Addressed market	Regional and local scope, final recipients are small companies on traditional and innovative activities, investment amounts are from 2K€ to 50 K€ and the loan duration is between 2 and 5 years.
	Other	Financial intermediaries are associations which provide loans on trust, meaning a medium term credit granted to a person without personal or real guarantees and without interests.
Descrip-tion	Purposes	This practice is a good practice because it reduces expenses for recipients and facilitates their access to credit.
	Description	The loan on trust doesn't require any guarantee or personal liability from the project owner, that's the meaning of "on trust". The project owner must strongly prepare its request and particularly its business plan to convince the jury and to benefit from this favourable loan. Each structure (providing loans on trust) can have a guarantee provided by bpifrance (national public bank) to bear defaults. However, it is not an obligation and some structures don't take this guarantee.
	Evidence of success	This practice is successful because it concerns very small loans for people who couldn't have access to bank credits because of their lack of equity.
	Transfer-arability	The practice would be transferrable in another region if the national/regional regulation could enable to provide loans without real guarantee.
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Identification	Reference	P10-3
	Title of best practice	**Silent partnership** A standardized FEI which is very suitable for SME needs
	Section	Section P5 : Expenses for recipient
FEI	Name of FEI	Hessen Kapital I GmbH, Mittelhessenfonds GmbH
	Type of FEI	Equity (Mezzanine/Quasi Equity)
	Region	State of Hesse (Germany)
	Addressed market	SME of the federal state of Hesse, all industrial sectors, investments in long-term assets, research and development, market launch of new products, operational expansion, MBO / MBI
	Other	The FEIs are managed without Holding Fund Manager
Description	Purposes	The "Silent Partnership" is a good practice of how the standardization of a FEI helps to meet the needs of the SME.
	Description	The FEI "silent partnership" is a special vehicle which exists only in Germany, Switzerland and Austria. But it is very close to the convertible debt or subordinated loan. As it is a very old vehicle and based on the regulations of the German commercial code, it is well known (also by the final recipient) and easy to handle. From the point of view of the SME it is a very suitable financing vehicle: on the one hand the planned project is financed and on the other hand it increases the credit worthiness as it is fully liable capital. The enterprise must not provide any securities as it is necessary for bank loans. During the whole investment period all conditions are fixed and the repayment takes place at nominal amount. Thus the whole investment from the beginning to the exit can be calculated precisely in advance. Even though a detailed contract is recommended it has not to be notarized and it needs no registration in the company's register.
	Evidence of success	The procedures and financial terms are completely standardized which delivers significant efficiency gains in the management of the instrument. At the same time the instrument is still responding to the specific needs of SMEs in early stage.
	Transfer-arability	Even though the procedures and terms of the "Silent Partnership" cannot be transferred to other regions, standardization in general is a main driver for efficiency. The key, in the case of "Silent Partnership" is to maintain the capacity to give a personalized financial solution to the SME within a standardized framework of procedures and terms.
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Section P6: Implementation time

Description

Name	**Short implementation timing** (setting up, evaluation, self regulation, etc).		
Ref.	5	*Type*	Best practice criteria
References	Audit track experience		

Importance

- A reasonable time-to-market is key to provide an adequate and timely supply of FEI.
(*relative priority*: **C**)

Explanation

- A very short implementation time (or time-to-market) is highly advantageous:
  - It allows to act quickly and to provide timely FEI which are right suitable for the needs and circumstances.
  - It allows a more efficient use of resources.
- However, time is needed to design, build and test good and reliable FEIs.
- Inevitably there is a trade-off between speed and quality.
- The learning curve is an important issue too.
- Some of the main barriers are: 'legal limbo'; public procurement regulation; lack of experience, knowledge or information; difficulty of testing and validation; internal coordination and approval processes; etc.
- Some mechanisms can help to minimize the implementation timing are: strong leadership and political endorsement; proven methodologies; senior staffing and external services; past experience, role models and benchmarking; etc.
- Important topics:
  - Overall description of the process and general approach (leadership, methodology, staffing, etc.)
  - Major barriers and difficulties.
  - Mechanisms to minimize time-to-market while ensuring quality and reliability of the FEI.
  - Learning curve.

▶ Findings

f.P6.1. For most regions, the existing FEIs are their first experiences.

The currently implemented FEIs are the first experiences for most regions, although some regions reported previous experiences with FEIs (e.g. Germany) with or without EU funds. Thus, the process of designing and implementing the current FEIs were also first experiences for most regions.

f.P6.2. The regions find implementation processes too lengthy in general.

The regions find that the implementation time for the existing FEIs (frequently around 2 years) was too long and that it should be shorter for new FEIs.

f.P6.3. Main issues are related to coordination needs and regulation.

Practical difficulties arose mainly from the need of coordination among all involved actors and the legal regulation (public procurement regulation and sometimes the lack of regulation). A specific difficulty was the need to involve financial institutions, as there exist regulation constraints if they are going to make a bid for the tender.

▶ Recommendations

r.P6.1. Ensure political endorsement, strong leadership and expertise.

It is highly recommended for the optimization of the implementation process to:

- Ensure a high level political endorsement (e.g. regional ministry)
- Build a strong leadership, with a single point of accountability.
- Bring expertise and past experience to the process.

r.P6.2. Some particular recommendations for a shorter implementation time.

Other recommendations for improving the design and implementation process are to involve financial institutions (see above), build on past experiences and economies of scope, make use of lessons learned, etc. In this regard, to save the teams' knowledge and experience for future FEIs is critical.

r.P6.3. Provide EU-level tools for regional FEIs development.

The EU could provide regions with standardized EU-level tools for the development of new FEIs, like "off-the-shelf" FEIs (see section M for more on this)

▶ Tables

Question F2. What are the major difficulties that you faced in the process of design build and launch this FEI? Please spread 100 points across the elements of table F.1

Table F.1 - **All**		all	loans	guarantees	equity	combined
1	'Legal limbo'	21,3%	30,0%	7,0%	25,0%	15,6%
2	Public procurement regulation	20,0%	12,8%	20,0%	28,3%	16,1%
3	Lack of experience, knowledge or information (e.g. 2nd opinion)	8,7%	7,2%	11,0%	5,0%	13,9%
4	Unavailability of experts and specialized external services	2,9%	0,0%	4,0%	0,8%	7,8%
5	Difficulty of testing and validation	6,3%	15,6%	4,0%	4,2%	1,1%
6	Internal coordination and approval processes	29,4%	30,0%	26,0%	25,8%	35,6%
7	Others (please specify)	11,4%	4,4%	28,0%	10,8%	10,0%
	Based on number of answers:	35	9	5	12	9

Comments on the table: f.P6.3

Question F3. What are the main mechanisms to minimize time-to-market in this FEI? Please spread 100 points across the elements of table F.2

Table F.2 - **All**		all	loans	guarantees	equity	combined
1	Strong leadership and political endorsement	29,2%	26,0%	2,0%	40,0%	32,2%
2	Proven methodologies	21,6%	24,0%	26,0%	23,1%	14,4%
3	Expertise and past experience	29,5%	33,0%	34,0%	23,1%	32,2%
4	Senior staffing and external services	8,9%	8,0%	8,0%	10,8%	7,8%
5	Role models and benchmarking	4,6%	7,0%	2,0%	3,1%	5,6%
6	Others (please specify)	6,2%	2,0%	28,0%	0,0%	7,8%
	Based on number of answers:	37	10	5	13	9

Comments on the table: r.P6.1

▶ Illustrative examples

Agencia de Innovación y Desarrollo de Andalucía IDEA
CONSEJERÍA DE ECONOMÍA, INNOVACIÓN, CIENCIA Y EMPLEO

FIN-EN
Sharing Methodologies on Financial Engineering for Enterprises

Identification	Reference	P03-2
	Title of best practice	**JEREMIE Multi-instrument Fund** High level political endorsement and strong leadership to optimize the process of design and implementation of a FEI
	Section	Section P6: Implementation time
FEI	Name of FEI	JEREMIE Multi-instrument Fund
	Type of FEI	Loan and Mezzanine Fund
	Region	Andalusia
	Addressed market	The target group of the Multi-instrument fund is innovative companies in early and later stage expansion phase. The typical investment amount is between 1 and 2 millions of Euro per investment. The FEI has no special industry focus.
	Other	The HF manager (IDEA) had no experience with financial instruments like JEREMIE but only with grants
Description	Purposes	The purpose of this practice is how to minimize the implementation time of a FEI
	Description	The funding agreement (JEREMIE HF) had been signed by February 2009. The public procurement process for the Multi-instrument Fund started in June 2009, and in October 2009 the Multi-instrument fund was commercially launched. IDEA at that moment had no experience with financial instruments financed by structural funds. However, there were 2 important drivers that finally enabled the implementation of JEREMIE in a relatively short period (in total 8 months from starting to launch): 1) timing was an absolute priority for the Minister, so we received during the complete implementation process a very high political endorsement 2) A small but interdisciplinary (economist, lawyer, engineer) and high skilled project team. After the adjudication professionals of the financial intermediary were incorporated into the team
	Evidence of success	The implementation time from the beginning (funding agreement) till the commercial launch of the instrument was only 8 months. The instrument was launched only 4 weeks after the adjudication of the intermediary.
	Transfer-arability	Political endorsement is critical for the success and speed of the implementation of FEIs, however it depends from the region and the willingness of the government. It is recommended to create strong implementation teams, ideally staffed with professionals from both HF and Intermediary.
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Identification	Reference	P10-1
	Title of best practice	**Silent partnership** A FEI based on very proven past experiences that allow shortening implementation time
	Section	Section P6: Implementation time
FEI	Name of FEI	Hessen Kapital I GmbH, Mittelhessenfonds GmbH
	Type of FEI	Equity (Mezzanine/Quasi Equity)
	Region	State of Hesse (Germany)
	Addressed market	SME of the federal state of Hesse, all industrial sectors, investments in long-term assets, research and development, market launch of new products, operational expansion, MBO / MBI
	Other	The FEIs are managed without Holding Fund Manager
Description	Purposes	The "silent partnership" is a good practice about how a very old and proven investment vehicle can reduce implementation time.
	Description	The FEI "silent partnership" itself is a very old and proven investment vehicle. The base regulations one can find in §§ 230-237 HGB, which is the German "Commercial Code". The first funds of the BM H which used the investment vehicle "silent partnership" to finance small and middle sized companies in the state Hesse started in 1971. So we have a long years' experience with this investment vehicle. Therefore concerning implementing the particular investment vehicle we needed only little time.
	Evidence of success	The gained experience in former vehicles that used the same financial product (silent partnership) helped significantly to reduce the time-to-market of the whole set up and implementation of Hessen Kapital I GmbH, Mittelhessenfonds GmbH (including procedures, investment criteria etc.)
	Transfer-arability	The financial construction of silent partnership exists as well in Switzerland and Austria. A comparable formula in other countries would be "convertible debt" financing. However, the reduction of the implementation time due to the past experience is not so much a matter of transferability of the instrument, but rather a result of the learning curve within the same organization.
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Section P7: Investment process

▶ Description

Name	**Investment process** and **investment decision.**		
Ref.	6	*Type*	Best practice criteria
References	--		

▶ Importance

- Well designed and executed processes can provide good outcomes consistently and effectively. (*relative priority*: **B**)

▶ Explanation

- For a FEI, the investment process can be defined as the structured sequence of activities designed to make an investment.
- Process standardization can make the FEI an effective and reliable system.
- Procedures indicate how to proceed. Process standardization provides all participants with detailed directions on how work must be done, order tasks in time and space and across functions, clearly defines inputs and outputs, etc.
- However, flexibility is also needed to cope with exceptions and cases which are out of the scope.
- Regulation may be a constraint for the design too.
- It is important to consider:
  - Key activities (e.g. decision making)
  - Key issues (e.g. how to ensure minimum requirements, like no refinancing)
  - Effectiveness of the process (e.g. an efficient, reliable, fast, streamlined process)
- Important topics:
  - General design of the investment process (tasks, decisions, time, actors, etc.)
  - Description of the key activities (decision making, approvals, analysis, agreement design, etc.)
  - Mechanisms to ensure key issues (minimum requirements, contribution to objectives, risk level, leverage, etc.)
  - Mechanisms to ensure a good overall performance (efficiency, duration, reliability, etc.)
  - Process management (design, monitoring, optimization etc.)
- **Note**: Internal FI’s processes and activities not considered (FI as “black boxes”).

Findings

f.P7.1. There are 2 basic models for the process: 'open process' and 'closed process'.

Two basic models for the investment process have been observed: the 'open process' model and the 'closed process' model. Real processes fit to these two archetypes to a greater or a lesser extent.

Open process model: More than one actor is involved in the investment process (e.g. HFM, FI, FM, MA, etc.) Especially, the investment decision is clearly separated and independent from the rest of the process, and involves more than one actor.

Closed process model: The full investment process is carried out by the FI, without the participation of any other actor. The investment decision is assumed by the FI.

f.P7.2. The selection of the model is sometimes a political decision.

The selection of the model for the investment process ('open' or 'closed') is sometimes a political decision within the context of a regional development policy.

f.P7.3. The standard content for an investment process is generally adopted.

The standard content for an investment process is generally adopted by all regions. This comprises: sourcing and deal flow - screening and preliminary analysis - deep research and analysis - investment design - investment decision - investment execution - monitoring and advisory - exit - default management.

f.P7.4. Compliance is the main concern

For the regions, regulation compliance and minimum requirements compliance are the most important issues with regard to the process. To a lesser extent, other matters like process performance or risk level.

Recommendations

r.P7.1. Choose the right model for the defined strategy and implement accordingly.

A sound design of the investment process must be always based on the strategy: overall goals, general approach, timing, etc. Each model has advantages and disadvantages. Also, the design should be consistent with the rest of the design, must comply with the legal regulation and must consider the whole life-cycle of the FEIs (even after period of investments)

r.P7.2. Provide a good ICT support.

It is very important to provide a good ICT support for the investment process and for monitoring. Although customized software may be necessary in some cases, 'off-the-shelf' tools and existing financial institutions' software will be OK in general.

r.P7.3. Some particular recommendations for the investment decision.

Investment decision is a critical task in the investment process. For optimization, it is recommended to:

- Ensure expertise (e.g. financial market professionals and institutions)
- Ensure independency (e.g. an independent investment committee)

- Ensure reliability (e.g. several investment approvals depending on the amount)
- Make a well-informed decision (e.g. a due diligence, an acceleration program…)
- Others.

r.P7.4. Some particular recommendations for the 'open process' model.

In general, the 'open investment process' is more suitable for instruments with a relatively low number of deals with a great deal of diversity or for FEIs in which regional development judgment is critical. For optimization it is recommended to:

- Build effective mechanisms of coordination between actors (i.e. lean interfaces)
- Build strong investment decision mechanisms (e.g. independent investment committee involving key stakeholders)
- Others.

r.P7.5. Some particular recommendations for the 'closed process' model.

In general, the 'closed investment process' is more suitable for instruments with a large number of standardized deals and with clearly defined criteria, rules and goals. For optimization it is recommended to:

- Build a detailed agreement (especially with clear rules in case of non-compliant deals or defaults)
- Provide ICT support for the workflow, for the real-time monitoring and for ex-post monitoring.
- Others.

▶ Tables

Question G3. What are the main issues in the FEI's investment process? Please spread 100 points across the elements of table G.2

	Table G.2 - **All**	all	loans	guarantees	equity	combined
1	Contribution to objectives	7,2%	7,5%	6,0%	9,6%	4,4%
2	Minimum requirements compliance (e.g. eligible industry, SME, no refinancing, state-aid compliant, firms in difficulty,...)	25,8%	22,0%	12,0%	29,2%	33,3%
3	Other FEI policy elements compliance	3,5%	5,5%	2,0%	2,9%	2,8%
4	Process performance (e.g. speed, efficiency, etc.)	16,4%	13,0%	30,0%	14,2%	15,6%
5	Leverage	9,3%	10,0%	4,0%	11,7%	8,3%
6	Guarantees (e.g. principles of competition, transparency...)	9,2%	11,0%	8,0%	6,7%	11,1%
7	Risk level	14,3%	15,0%	10,0%	16,7%	12,8%
8	Regulation compliance	14,3%	16,0%	28,0%	9,2%	11,7%
9	Others (please specify)	0,0%	0,0%	0,0%	0,0%	0,0%
	Based on number of answers:	36	10	5	12	9

Comments on the table: f.P7.4

► Illustrative examples

Identi-fication	Reference	P08-2
	Title of best practice	**High volume of deals** Scalability and management of a high volume of deals.
	Section	Section P7: Investment process)
FEI	Name of FEI	Open Credit Fund, Entrepreneurship Promotion Fund, Guarantee Fund, Small Credits_2
	Type of FEI	Loans and Guarantees
	Region	Lithuania
	Addressed market	Lithuania
	Other	Open Credit Fund or Small Credits_2 are implemented through INVEGA Fund
Descrip-tion	Purposes	FEIs created by INVEGA are carried out through credit institutions, i.e. banks, credit unions and leasing companies (hereinafter referred to FI). This helps to reach a larger number of final recipients. Also, the FIs have a noticeable advantage as they are experienced in business financing due to their activities. More than 10 years of collaborative experience between INVEGA and FIs helps to develop and implement the existing or new FEI.
	Description	FI are selected by using the public procurement procedures. After the HF contract is signed and the HF Steering Committee is created, the tender documentation is drawn up, according to which FIs complying with the conditions of the requirements set in the tender documentation may apply for the implementation of FEI. The contracts are signed with each appropriate FI after the selection process. The whole supervision process is described in the agreements with FIs. All EU and Lithuanian legal requirements related to EU structural support and administration of FEI are included in the agreement. The agreement stipulates that FIs provide a monthly reports on issued loans. These reports provide the information about the borrower, the loan amount, the loan period, the interest rate, the contract expiration date, the region in which the project is implemented, the borrower's activities, etc. Every month the report is processed in the INVEGA's information system, monitoring, if FI provides loans to eligible borrowers (if the business range is supported, if the amount of the loan does not exceed the maximum allowable amount, etc). On the basis of these reports the on-spot-cheks are carried (at the level of FI and at the level of final recipient). Once the discrepancies with the legislation or with the data provided by FI are identified – the non-compliance or violation investigation are made by INVEGA
	Evidence of success	4154 SME supported (2013-09-30) through more than 170 Financial Intermediaries Amount reached SMEs: 366M€
	Transfer-arability	It's easy to create and implement new similar FEIs because FIs know the schemes of such FEIs. These schemes of FEIs can be used in other EU country because all EU countries have private banks, credit unions, etc.
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Identi-fication	Reference	P09-2
	Title of best practice	**Nupark Accelerace** A start-ups acceleration program to make well informed investment decisions.
	Section	Section P7: Investment process
FEI	Name of FEI	Midtjysk Iværksætterfond
	Type of FEI	Combined FEI
	Region	Denmark - Central Denmark Region
	Addressed market	Denmark - Central Denmark Region (early stage innovative start-ups with a high potential for growth)
	Other	
Descrip-tion	Purposes	When investing in early stage innovative start-ups there are per definition very little prior company performance to evaluate. A start-ups acceleration program can test entrepreneurs and their performance aptitudes, which can serve as an indicator for expected company performance.
	Description	The 6 month intensive action learning acceleration program consists of 10 sessions including 2 Stage Gates. Through a combination of teaching from international specialists and focused working sessions, FEI manager and company management gets a 360 degree overview of the company and its challenges. This way the program serves as a due diligence test that gives the FEI manager deep insight into the single companies and the management teams performance aptitudes.
	Evidence of success	Note: The program is still relatively new, and statistic proof for success is not yet available. So far our experience is: - FEI manager finds the program effective for gaining deep insight into company and its challenges. - FEI manager finds the program effective for testing entrepreneurs and their performance aptitudes. - Companies find great value in the content of the acceleration program - also even if they end up not receiving capital.
	Transfer-ability	The FEI setup is targeted for early stage innovative start-ups with a high potential for growth. Quality of the acceleration program is important in assuring that all companies appraise the course to be profitable - also even if they end up not receiving any capital.
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Identification	Reference	P13-1
	Title of best practice	**CRM software** A custom-made software tool for monitoring investment processes and reporting
	Section	Section P7: Investment process
FEI	Name of FEI	The Northwest Fund
	Type of FEI	Loan and Equity
	Region	Northwest England
	Addressed market	The Northwest Fund is a £155m investment fund established to provide debt and equity fudning from £50,000 to £2m to small and medium sized enterprises based in the Northwest of England.
	Other	
Description	Purposes	One of the greatest challenges facing a Holding Fund Manager is staying on top of customer data. They need visibility of applicants to the Fund and the work being undertaken by the individual Fund Managers. Information about existing clients and prospects helps manage investment activity and performance reporting.
	Description	The key to any customer relationship management system is to ensure that reporting is clear, accessible and consistent. After researching the market the Holding Fund Manager selected Microsoft CRM system, tailoring it to meet management and reporting requirements at the Holding Fund and Fund Manager level. Applications to the Fund come through the website and go directly to the CRM system. They are automatically allocated to the most relevant Fund Manager. The Fund Manager updates progress of the application on the CRM system and can link this to their emails, so when they send an email to applicant a copy can be attached to the CRM record. The Fund Manager can also put reminders on records of when monitoring and output information is due.
	Evidence of success	The CRM system has improved the effectiveness and efficiency of monitoring the investment process and reporting. The Holding Fund at any time can see how many applications have been received, where from, source of referrals etc. and have designed reports within the system which enable them to quickly and accurately run progress monitoring reports. The system has also been beneficial in providing assurances to the Managing Authority that the data they receive from the Holding Fund is reliable, up to date and with an ability to respond to information requests quickly.
	Transfer-arability	The CRM software would be a best practice that would be easily transferable to partner countries. The software that was purchased is a standard piece of software which can be easily adapted to each individual fund.
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Glossary

Glossary

Business Angels:

Natural persons that invest directly in unlisted young expanding companies and give them advice. They generally provide funding in exchange for a stake, but can also procure other funding over the long-term.

Equity capital:

Stake in a company's capital, represented by shares issued in favour of investors.

Financial intermediary:

Entity acting as intermediary between the capital supply sources and the demand.

Funds:

Distinct portfolio of financial engineering instruments managed by one or more fund managers and serving investment policies and set objectives. A fund may be constituted of a legal entity or separate funding entity within an existing financial institution.

Fund manager:

Entity tasked with implementing the investment strategy of a fund and managing its portfolio of financial instruments in accordance with the contractual provisions.

Grant:

Non-reimbursable budgetary contribution granted by the EU or any other public institution of a Member State. Also called "public grant".

Growth capital:

Funding aimed at ensuring the growth of a company that may or may not have reached the profitability limit or make profits, and used to increase the production capacities, develop a market/product or strengthen the company's working capital.

Guarantees:

A party's (the guarantee fund) commitment to bear, up to a pre-defined guarantee rate, the capital and interest due in the event of default on a loan granted by a financial intermediary (a bank) or SME.

Holding fund:

Fund constituted of a legal entity with a controlling stake in different subsidiary funds (stock fund, guarantee fund or loan fund).

Management costs:

Management costs refer to all costs relating to financial instrument management borne by the financial intermediary or SME.

Mezzanine:

Type of high-yield loan often encountered in company takeover operations by the employees and which often contains an option or right to buy a company's shares at a preferential rate. Mezzanine funding often takes the form of convertible subordinated loans.

Microloans:

Small loans (generally concerning an amount of less than 25,000 Euros) granted to micro-businesses.

Operational Programme:

Each operational programme defines a development strategy establishing a coherent set of priorities that must be followed with the help of a single fund or, if pursuing the Convergence objective, with the help of the Cohesion Fund and the European Regional Development Fund.

“Pari passu” clause:

Legal expression used to describe the fact that two (or more) financial instruments are of the same ranking with regard to right to reimbursement. This clause means the opposite of preferential treatment of an investor/the private sector.

“Prêts d’honneur”:

A medium term credit granted to a person without personal or real guarantees and interest-free. Also called ‘loan on trust’.

Private equity:

Financing using companies’ equity capital or quasi-equity during their first growth stages (seed, start-up and growth stages). This includes informal investment by providential investors, venture capital and use of other stock markets specializing in SMEs – particularly companies with high-growth potential.

Revolving:

Concept according to which contributions to a financial instrument may, after an initial use, be revolved (or reused, recycled).

Seed capital:

Funding provided for studying, assessing and developing a basic concept prior to the start-up stage.

Small and Medium-sized Enterprises (SMEs):

The category of micro-, small and medium-sized enterprises (SMEs) includes companies with fewer than 250 employees and an annual turnover of less than 50 million euro or total annual balance sheet of less than 43 million euro.

Start-up capital:

Funding provided to companies that have not marketed products or services and are yet to make a profit, for the development and first marketing of their products.

Venture capital:

Investments made in unlisted companies by investment funds (venture-capital funds) which manage the capital of private individuals, institutions or equity capital on their own behalf. It includes funding the start-up and growth stages but not replacement or buy-outs.

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