



POWER4BIO
REGIONS FOR
BIOECONOMY



How to finance **bio-based chemicals and its value chains** using ESIF .

The Ingenium funds, ESIF early stage funds as a tool to foster regional development

This project has received funding from the European Union's
Horizon 2020 research and innovation programme
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ESIF- The European Structural and Investment Funds



The EU is committed to creating jobs and building a socially inclusive society:
European Structural and Investment Funds, ESIF

ESIF funds have two main goals:

- Investment **to boost growth and jobs**, a common goal for all three types of regions: less-developed, transition and more-developed
- **European territorial cooperation**, supported by the European Regional Development Fund (ERDF)

ESIF- The European Structural and Investment Funds



ESIF programme support is mainly delivered either in the form of grants or through financial instruments in the form of loans, guarantees and equity investments.

Grants schemes are NOT financial instruments because are not revolving

ESIF programmes are approved by the Commission and implemented by Member States and their regions. It is therefore the ultimate decision of managing authorities in Member States where and how funds are invested at project level within the framework of the relevant programme setting out the specific objectives, results to be achieved and types of action to deliver them.

LOAN

“Agreement which obliges the lender to make available to the borrower an agreed sum of money for an agreed period of time and under which the borrower is obliged to repay that amount within the agreed time*”.
Under a FI, a loan can help where banks are unwilling to lend on terms acceptable to the borrower. They can offer lower interest rates, longer repayment periods or have lower collateral requirements.

GUARANTEE

“Written commitment to assume responsibility for all or part of a third party’s debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default*”.
Guarantees normally cover financial operations such as loans.

EQUITY

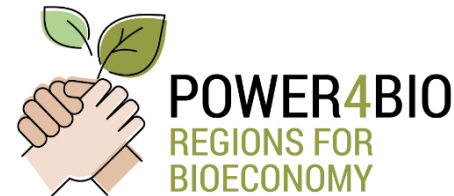
“Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm’s profits*”.
The financial return depends on the growth and profitability of the business. It is earned through dividends and on the sale of the shares to another investor (‘exit’), or through an initial public offering (IPO).

QUASI-EQUITY

“A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity investments can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity*”.
The risk-return profile typically falls between debt and equity in a company’s capital structure.



ESIF FINANCIAL
INSTRUMENTS
(or PRODUCTS)



WHAT MA NEED TO KNOW BEFORE STARTING..

Before allocating money to a financial instrument, managing authorities **have to assess** **what** is needed, **why** and by **whom**.

Financial instruments are usually managed by nationally or regionally operating financial institutions (such as banks) that are selected and entrusted with running financial instruments on behalf of the managing authority.

For grants, ex ante assessment is not required

Financial instruments supported with the ESIF must comply with specific regulatory provisions which are set out in a range of legislation: **the Common Provisions Regulation (CPR)** which governs implementation of ESIF; each of the fund-specific regulations and several related delegated and implementing regulations.

THE EX-ANTE ASSESSMENT (in brief)



According to Article 37 (2) of the CPR, the required content of an ex-ante assessment is around seven main groups:

1. Analysis of market failures or suboptimal investment situations and the estimated level and scope of public investment needs;
2. Assessment of the value added of the FI, consistency with other forms of public intervention in the same market and possible State aid implications;
3. Estimate of additional public and private resources to be potentially raised by the FI, including assessment of preferential remuneration when needed;
4. Identification of lessons learnt from similar instruments and ex-ante assessments carried out in the past;
5. Proposed investment strategy, including an assessment of its possible combination with grant support, options for implementation arrangements, financial products and target groups;
6. Specification of expected results including measurement of indicators;
7. Provisions allowing the ex-ante assessment to be reviewed and updated.

TAILOR-MADE INSTRUMENTS VS OFF-THE-SHELF FINANCIAL INSTRUMENTS



When using ESI Funds, Managing Authorities (MAs) must implement Financial instruments and related financial products according to the ex-ante assessment results.

MAs have 3 different options, providing a financial contribution to:

- **already existing or newly created FIs** which are specifically designed to achieve the intended purpose, and which respect the applicable Union and National rules.
(**tailor-made instruments**)
- FIs complying with the standard terms & conditions laid down by the Commission by means of implementing acts in accordance with the examination procedure referred to in Art 143 (3). (**Off-the-Shelf Instruments**)
- to invest part of their structural funds in compartments of EU level instruments "**ring-fenced**" for investments in regions and policy areas covered by operational programmes from which structural funds resources are contributed ("joint instruments").

"OFF-THE-SHELF" FINANCIAL INSTRUMENTS



Objective: To provide standard terms & conditions for a set of predefined FIs that can be set up and managed by MAs under Article 33 (1) (b) of the CPR.

Not an obligation but an opportunity for MAs to deliver faster & safer financial means to the final recipients

OFF-THE-SHELF FINANCIAL INSTRUMENTS

Type of instruments proposed



5 off-the-shelf financial instruments have been designed:

- **RS LOAN:** Loan for SME's based on a portfolio risk-sharing loan model
- **CAPPED GUARANTEE:** Guarantee for SMEs (partial first loss portfolio)
- **CO-INVESTMENT FACILITY:** Equity Investment Fund for SMEs and start-up companies based on a co-investment model
- **RENOVATION LOAN:** Loan for energy efficiency and renewable energies in the residential building sector
- **URBAN DEVELOPMENT FUND,** to finance and support implementation of urban development projects in assisted areas

OFF-THE-SHELF FINANCIAL INSTRUMENTS

Selection of bodies implementing financial instruments



Art 33.4 CPR for FIs under 1.b) **Managing Authorities may:**

a) invest in the capital of existing or newly created legal entities...; or

b) entrust implementations tasks to:

- EIB
- FIs in which a MS is a shareholder or financial institutions acting in public interest / under the control of a public authority
- A body governed by public or private law selected in accordance with EU and national rules

c) undertake implementation tasks directly for FIs consisting solely of loans & guarantees

Delegates acts include terms & conditions to select implementing bodies, their roles and responsibilities, the rules concerning funding agreements, as well as management cost & fees. They also include the specific requirements regarding the transfer & management of assets managed by the entity to which implementation task are entrusted.

OFF-THE-SHELF FINANCIAL INSTRUMENTS

Compatibility with state aid regime



Off the self financial instruments are structured in such a way that their terms and conditions do not require state aid notification and subsequent clearance by the Commission.



OFF-THE-SHELF FINANCIAL INSTRUMENTS

Combination of FI & other forms of support:

The FI may be combined with a grant or for scouting, or advisory service to support the business development of the benefitting companies.

The grant can be part of the FI operation (Art 32.5 CPR) and managed by the body implementing the FI

- ⇒ The programme contribution to the FI includes also the grant and the financial intermediary shall be entitled to a fee or can be provided through a separate operation supported by the operational programme
- ⇒ => MA is free to give direct support to an enterprise or select the institution which will manage the scheme.

Conditions:

- Grant to the benefit of final recipient
- Total amount of grant shall be in compliance with GBER Art 19 (advisory support) and Art 22 (scouting cost and initial screening)
- The expenditure covered by the grant cannot constitute part of the investment to be financed by the loan.

EU money goes to regions and countries ...



EU funds are allocated ...



... to countries and regions ...



... which assess the finance gap ...

... to invest in activities ...



... for loans, equity and guarantees ...



... to allocate the money to financial institutions ...



... and develop an investment strategy ...

... that repay the funds, to spend again ...



... to invest in people and enterprises ...



... which grow and repay the funds ...



... to be invested over again.



POWER4BIO
REGIONS FOR
BIOECONOMY

TO SUM UP..

fiCompass, 2015. A sustainable way of achieving EU economic and social objectives. Financial instruments

Rationale for an ESIF financial instrument:

- Why we need new innovative (bio chemicals) companies
- PPP: why we need to use (also) public money

Case studies: Regional equity funds: the Ingenium funds

Main conclusions and take away

WHY DO WE NEED KNOWLEDGE INTENSIVE COMPANIES?



New jobs are created by new companies:

TOP 1% OF NEW COMPANIES = 10% of all new jobs*

NEW COMPANIES = 100% new jobs*

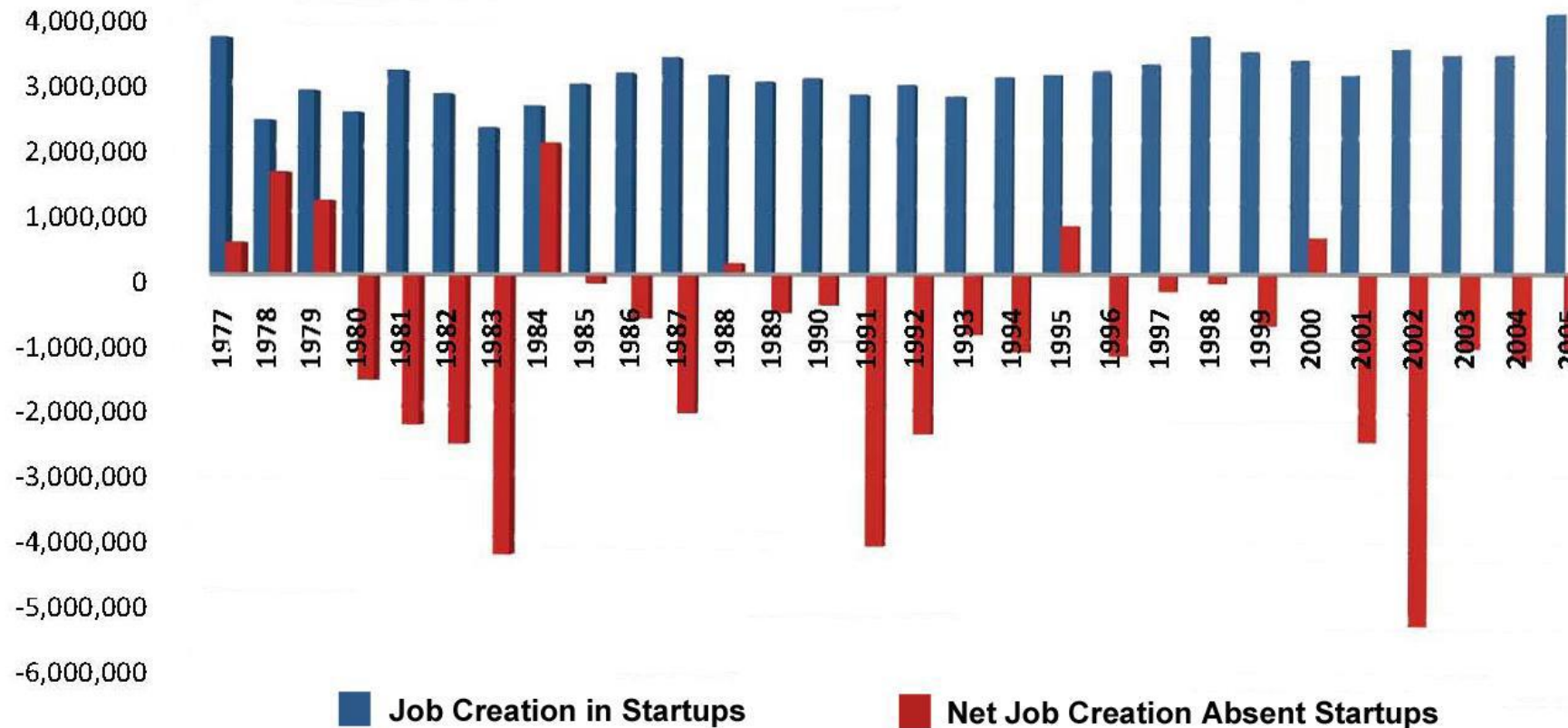
*High-Growth Firms and the Future of the American Economy – Kauffman Foundation - March 2010

WHY DO WE NEED KNOWLEDGE INTENSIVE COMPANIES?



ENTREPRENEURS ARE KEY TO JOB CREATION

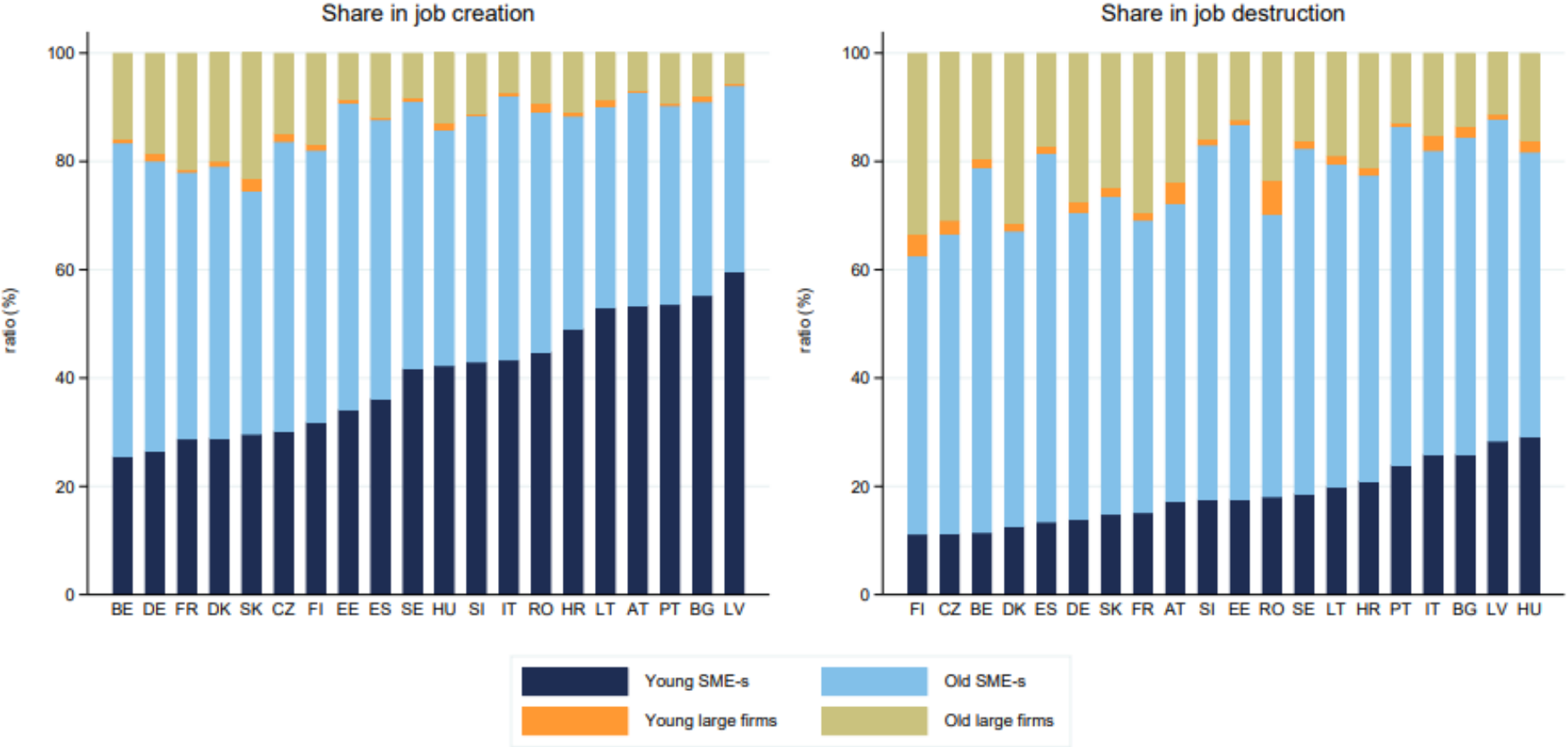
No Startups, No Job Creation



Source: *Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States*. Census Bureau and Kauffman Foundation, January 2009

SHARE IN JOB CREATION AND JOB DESTRUCTION IN EUROPE

Within-country Averages



Job Creation in Europe: A firm-level analysis, 2019 , Hallak, Issam Harasztosi, PÉter

SHARE IN JOB CREATION AND JOB DESTRUCTION IN EUROPE WITHIN-COUNTRY AVERAGES



Main findings :

- SMEs are the main contributors to both job creation and job destruction.
- SMEs contributions is relatively even across countries, not the split between young and old SMEs.
- **Young SMEs are large net job creation contributors.**
- New member states are those most benefiting from young SMEs job creation.

Job Creation in Europe: A firm-level analysis, 2019 , Hallak, Issam Harasztosi, PÈter

Conclusion no. 1



NEW ENTREPRENEURSHIP IS ONE KEY DRIVER FOR THE REGIONAL WEALTH

“Fostering the development of fast-growing firms in innovative sectors is an integral part of modern R&D and innovation policy. Studies show that while there are fewer fast-growing innovative firms in the EU than in the US, overall employment growth depends critically upon them given that they generate directly or indirectly a disproportionately large share of jobs, and can contribute to increased innovation investments during economic downturns”.*

*OECD (2010), "High-growth Enterprises: What Governments Can Do to Make a Difference". Archibugi, D et al. (2013) "Economic crisis and innovation: is destruction prevailing over accumulation?" Research Policy 42, 2.

WHY DO WE NEED PUBLIC MONEY?



To foster the company creation process of **knowledge intensive companies**, money is needed, but the chances for a start up to access finance are very few (**the equity gap**)



Can the public money be used to attract private investors to bridge the equity gap?



PUBLIC PRIVATE PARTNERSHIP

Public investor is keen to support less developed Regions
creating new jobs: the profit is **NOT** a priority

Private Investors are profit driven

Can they both sleep in the same bed with different dreams?

PUBLIC PRIVATE PARTNERSHIP



It is necessary to build Public Private Partnership (PPP) capable to fulfil the expectations of both parties engaged



CONDITIONS TO MAKE A PPP ACCEPTABLE

- The fund managers must be independent and profit oriented
- Investment strategies should combine public (environmental protection, regional development, equal opportunities, etc.) with private objectives (profit!)
- The Public investor should play a monitoring and controlling role
- **From co-financing schemes to co-investment funds**

TO SUM UP



- Knowledge intensive start-ups are crucial for the regions => They account for 100% of new jobs+
- Their value is based on intangible and a future cash flow
- They need money BUT they are not attractive for banks not to traditional VCs
- They need equity, there is a market gap in early stages
- Public intervention is needed to attract private investors (PPP)
- ESIF Co-investment facilities are a viable option



The ESIF solution? Equity Co-Investment Financial Instruments

ONE SIZE DOES NOT FIT ALL CO-INVESTMENT SCHEME



Ex Ante Assessment

The need for intervention and the financial characteristics of the co-investment facility have to be based on a market failure (ex-ante assessment Article 37.2 of the CPR):

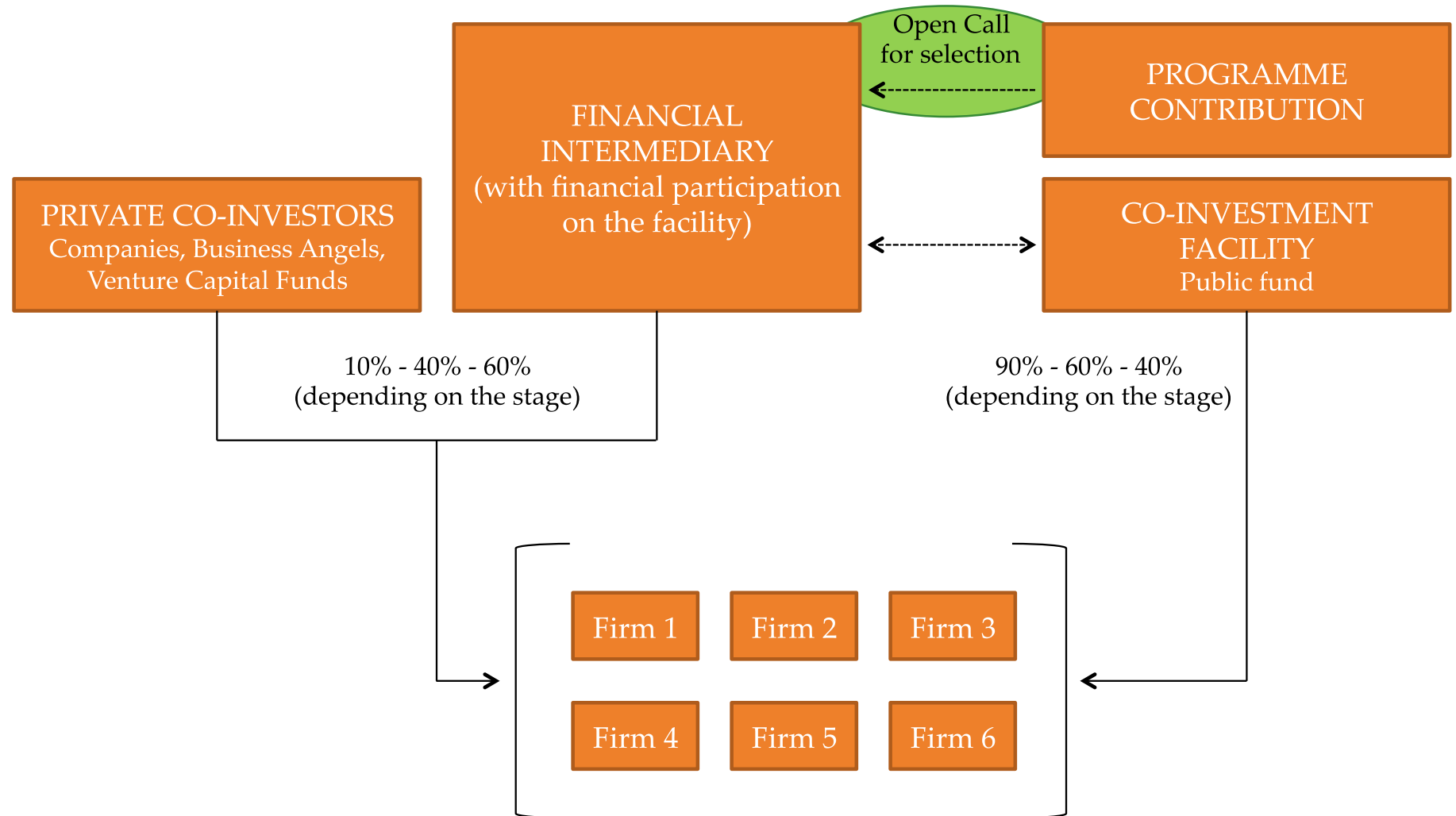
Must be carried out prior to decision to support financial instruments

Shall include:

- Rationale/additionality against existing market gaps and demand/supply
- Value added, potential additional public and private sector involvement
- Target final recipients, products and indicators

How? Equity Co-Investment FI (Fund) for SMEs and start-up companies

Off the shelf equity financial instrument (draft version) - PPP



Equity Investments for Innovative SMEs Co-Investment Scheme



The Co-Investment Facility

- Provides equity and quasi-equity to eligible SMEs.
- Co-invest in SMEs at seed, start-up, expansion stage
- The duration is 10 years + 2 of grace period (with the consent of the managing authority).
- will be a revolving instrument.
- Not only finance but also services
- Size between an indicative range of minimum EUR [10] million and maximum EUR [50] million.
- Could invest up to 15M in a single SME.

Equity Investments for Innovative SMEs Co-Investment Scheme



The Co-investors

- Economically and legally independent from the co-investment facility.
- Qualified long-term investors including venture capital funds, business angels, high net worth individuals, family offices, or companies with proven and sophisticated know-how and operational capacity in identifying, assessing, and structuring investments in final recipients.
- Must provide a different % of funding according to the stage of the target SMES:
 - 10% for seed companies;
 - 40% for start ups;
 - 60% for expansion companies

Equity Investments for Innovative SMEs Co-Investment Scheme



The Financial Intermediary (FI)	<ul style="list-style-type: none">○ Is a private or public entity.
	<ul style="list-style-type: none">○ Takes all investment/divestment decisions with the diligence of a professional manager.
	<ul style="list-style-type: none">○ Is economically and legally independent from the managing authority.
	<ul style="list-style-type: none">○ Has to invest into the facility at least (1%, 4%, 6%, depending on the stage of investment).
	<ul style="list-style-type: none">○ Will undertake, on a deal by deal basis, the due diligence to ensure a commercially sound investment strategy.
	<ul style="list-style-type: none">○ Must select suitable co-investors.
	<ul style="list-style-type: none">○ Investments within an eligible SMEs have to be profit-driven.

Equity Investments for Innovative SMEs Co-Investment Scheme



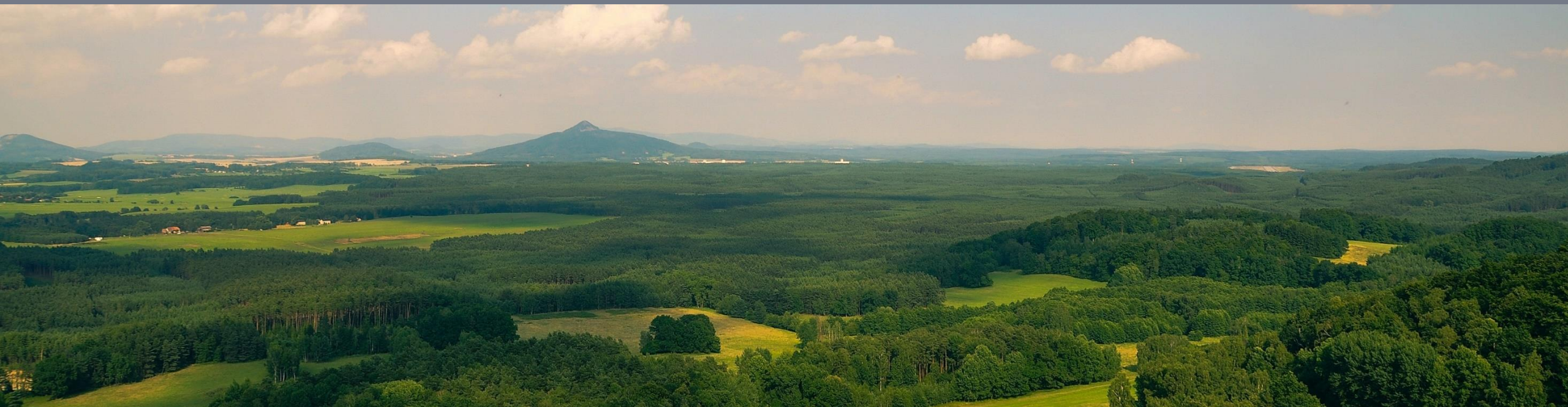
The managing authority (MA)	<ul style="list-style-type: none">○ It shall not be involved in any individual investment/divestment decisions taken.
	<ul style="list-style-type: none">○ It will evaluate the measure according to:<ul style="list-style-type: none">○ numbers of projects financed;○ value of the investments financed;○ number of jobs created
	<ul style="list-style-type: none">○ It must selected the financial intermediary through an open, transparent and non-discriminatory call

Equity Investments for Innovative SMEs Co-Investment Scheme



The co-investment agreement	<ul style="list-style-type: none">Contract between the Financial Intermediary and co-investors, which defines the terms and conditions for parallel investment in the final recipients.
The funding agreement	<ul style="list-style-type: none">It is the agreement between the Financial Intermediary (FI) and the Managing Authority (MA).
Additional measures linked to the development of the instrument	<ul style="list-style-type: none">The Co-investment fund may be combined with a grant type of support such as aid for initial screening prior to a formal due diligence OR advisory service to support the business development of the companies benefiting from the co-investment facility.The grant can be part of financial instrument operation or it can be provided through a separate operation supported by the operational programme.

Different ESIF instruments for different regions



One size does not fit all Regional Differences



Indicator	Emilia Romagna	Sardinia	Slovenia	Poland
Population	4.357.700	1.671.700	2.000.092	38.200.037
GDP/capita	24.396,00	15.895,00	17.500,00	9.300,00
Inhabitants/Km²	195,8	69,4	100,0	121,9
Youth unemployment rate	18,3%	44,7%	12,4%	23,7%
Public exp in education (% GDP)	2,9	5,3	5,2	5,38
Number of Universities	4	2	4	24
Productivity Level	44.500,00	38.600,00	29.323,30	16.914,40
EU Patents applications per million inhabitants	118,64	7,16	118,85	3,5

Case studies: Regional equity funds: the Ingenium funds



THE INGENIUM FUNDS



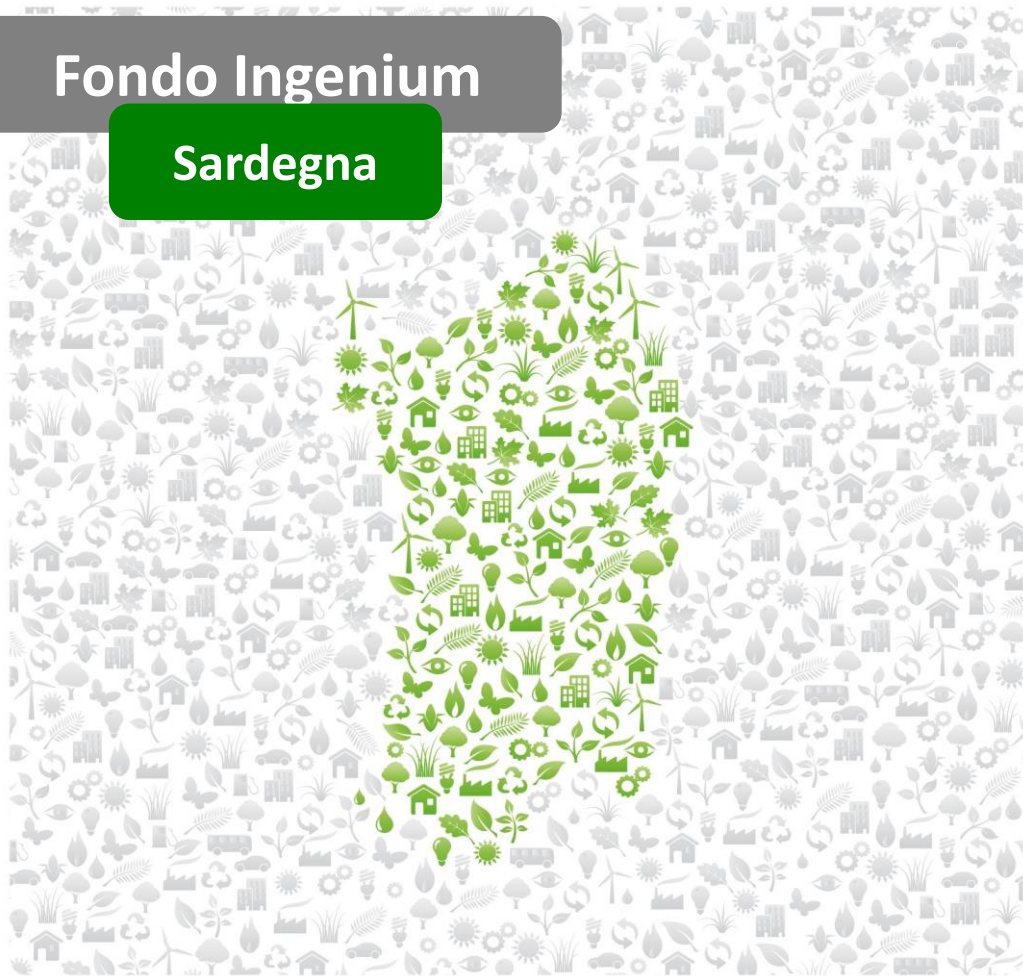
Ingenium is an early stage co-investment risk capital fund typically built around a Region of a few million inhabitants focused on Seed and Start-up but also considering expansion phase, companies with high value of intangibles, knowledge intensive companies with high growth potential, Regional coherence of sector of activity.

INGENIUM ER I & INGENIUM ER II vs INGENIUM SARDEGNA



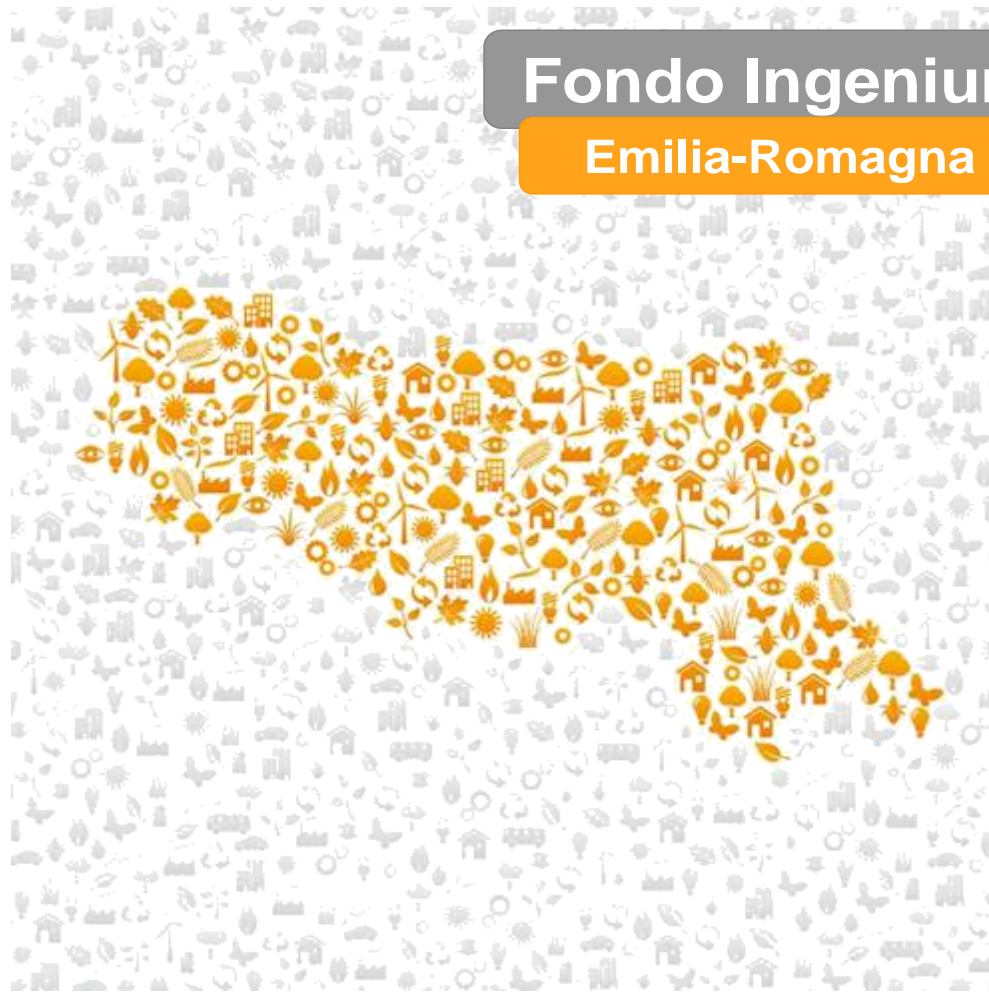
Fondo Ingenium

Sardegna



Fondo Ingenium

Emilia-Romagna



CO-INVESTMENT FACILITY

Main objective: to show world class innovation capacity of Emilia Romagna Region



Ingenium Emilia Romagna II

50% Private Investors



50% Emilia Romagna Region

14 Meuro Total Investment



SEED
FINANCING



START UP
FINANCING



EXPANSION
FINANCING

- Innovative companies: preferably ICT, Biotech
- Based or willing to be based in Emilia Romagna
- Up to 2 Meuro per company per year

Results: 14 Million invested into 13 companies: 2 exit, 3 write off

CO-INVESTMENT FACILITY

A testing bed: first regional VC fund privately managed



Ingenium Emilia Romagna I

30% Private Investors

70% Regione Emilia Romagna



9 Meuro Early stage fund

SEED
FINANCING

START UP
FINANCING

- Innovative companies
- Based (o willing to be based in Emilia Romagna)
- Less than 36 months old

RESULTS: 9 Million invested into 7 companies: 1 exit, 3 write off, 3 active

**Reasons for setting up
a risk capital fund**

Fostering the creation of new knowledge based companies

**Providing (public) equity
in order to fill the equity gap**

**Providing Regional new and innovative Smes
with managerial support**

**Offering to new innovative company a business network
(eg. for further round of financing,)**

**Increasing the SMEs credit rate(Sme-bankability)
to help them in accessing banking credit for
further round of financing**

CO-INVESTMENT FACILITIES

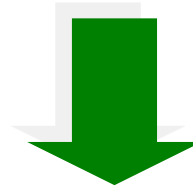
Main objective: to support the internationalization of Sardinian traditional companies



Ingenium Sardegna

50% Private Investors

50% Regione Sardegna (ERDF)



34 Meuro Venture capital fund

**SEED
FINANCING**

**START UP
FINANCING**

**EXPANSION
FINANCING**

- Innovative companies
- Based (o willing to be based in Sardegna)
- Up to 1,5 Meuro per company per year
- Up to 6 Meuro max

Final recommendations



Why equity main takeaways

Lessons learnt 1

- Equity is the suitable financial instruments for knowledge intensive companies, the engine for prosperity and job creation
- Co-investment equity facilities are suitable Financial Instruments for managing authorities willing to support High Growth companies and R&D results exploitation
- A deal by deal approach is what was missing so far and is key to leverage at its best the contribution of the private sector
- Co-investment facility (not only the fund but also services) including grants and advice to improve impact (investment readiness etc.)
- Commercially driven fund manager is necessary to align interests, take the necessary risk and build the adequate portfolio

A Good Fund Recipe

Lessons learnt 2



- The size of the fund must be consistent with the investment focus of the fund: the financial need of an early stage company generally is smaller than an expansion deal
 - A minimal size for a seed fund is around €15/20 million;
 - A good size for an early stage fund is around €30/50 million;
- “Scouting” costs could be relevant small early stage funds cannot be able to reimburse the costs to the Management Companies. MAs can provide grants to cover this costs;
- Unless there is a proven demand for a specific sector funds should be sector agnostic and a deal by deal approach is what is best to attract experienced private sector co-investors
- The co-investment instrument attracts more private investors (Bas, VCs) and contributes to professionalization of the local community of business angels and other investors.

On tender and reporting

Lessons learnt 3



- A number of Managing Authorities has presented us with substantially different tender specifications often quite far from market logic
- A number of tender we participated to were far from being “open, transparent and non-discriminatory”
- A lot of Managing Authorities are not aware of the off the shelf possibility, for equity it has not been officially published yet
- A lot of managing authorities do not perceive the need for a truly commercially driven fund manager for Equity Financial Instruments as they believe is similar to loans and guarantees
- Assigning management to “in house” or similar organization ends up in investing either blindly after private investors or de facto transforming equity in low risk loan types of instrument
- In some countries reporting for ESIF and reporting for AIFMD is quite different and very expensive and in general reporting is quite heavy



GBER – Global Block Exemption Regulation

Document: COMMISSION REGULATION (EU) No 651/2014

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0651&from=EN>

CPR – Common Provisions Regulation

Document: REGULATION (EU) No 1303/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (17 December 2013)

<http://ec.europa.eu/digital-agenda/en/news/eu-regulation-common-provision-regulation-cpr>

CPR's DELEGATED ACTS

Document: COMMISSION DELEGATED REGULATION (EU) No 480/2014

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0480&from=EN>

CPR's IMPLEMENTING ACTS

Only for portfolio risk sharing loan (RS Loan); capped portfolio guarantee and renovation loan

Document: COMMISSION IMPLEMENTING REGULATION (EU) No 964/2014 (11 September 2014)

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.271.01.0016.01.ENG

Thank you for your attention!

Francesca Natali

META Group

f.natali@meta.group.com



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