Policy brief

Engagement of private investments to bring research and development results to the market

Based upon the experience on implementation of financial instruments in the past cohesion policy cycles and their importance in the current multiannual financial framework, the European Commission and the EU legislative and policy framework for 2014-2020 encourage its further expansion. The aim is to strengthen the use of financial instruments in the new programming period in order to stimulate more investments in research and innovation and to complement traditional grant-based financing, in line with the objectives of the Investment Plan for Europe (IPE).

The new legal and policy framework shall provide:

- greater flexibility to the EU Member States and regions in terms of funding target sectors and implementation structures
- a stable implementation framework founded on a clear and detailed set of rules, built on existing guidance and previous experiences
- synergies between financial instruments and other forms of support (e.g. grants)
- compatibility with financial instruments set up and implementation at the EU level under indirect management rules

Regional Commissionar Corina Cretu said:

"Financial Instruments are an efficient way to invest in new ideas, businesses and in the talent of EU citizens while using less public resources. Their potential to mobilise private capital is huge and should be fully exploited when investing the ESI Funds."

The EU Member States and Managing Authorities may use financial instruments in relation to all thematic objectives covered by the Operational Programmes (OPs), and for all Funds, where it is efficient and effective to do so. Contrary to the 2007-2013 period, the new rules for financial instruments are non-prescriptive when it comes to sectors, beneficiaries, types of projects and activities that are to be supported. Moreover they enable a better combination of financial instruments with other forms of support, in particular with grants, as this further stimulates the design of tailored support schemes meeting the needs of specific target groups.

1. "Off-the-shelf" financial instruments

The 2014-2020 regulations contain an important novelty, the "off-the-shelf" financial instruments. They are a set of predefined financial instruments that can be set up and implemented by Managing Authorities under Article 33(1)(b) of the Common Provision Regulation (CPR) characterised by a facilitated design and management procedures.

The "off-the-shelf" financial instruments are already compliant with the European Structural & Investment (ESI) Funds Regulation and State Aid rules and are designed to increase the take-up by the EU Member States in revolving financial support, rather than traditional grants, and to combine public and private resources. The "Off the shelf" instruments are:

- Loan for SMEs based on a portfolio risk sharing loan model (RS Loan)
- Guarantee for SMEs (Capped guarantee)
- Equity Investment fund for SMEs and start-up companies based on a co-investment model (Co-investment Facility)
- Renovation Loan based on a Risk sharing loan model (RS Loan)
- Urban Development Fund

"Off the shelf" instruments are based on the implementation experiences and know-how capitalised during the programming period 2007-2013. The need to establish the "off the shelf" instruments should be determined by an ex-ante assessment in accordance with Article 32.2 of the Common Provision Regulation (CPR).

2. The Co-investment model

The Co-investment Facility is one of the most important innovations. It allows the set up of specific financial instruments to invest in a business opportunity since the very beginning, when it is just coming out from the research labs and needs to prove the concept. It shall take the form of an equity fund managed by a financial intermediary investing 100% ESIF contribution into SMEs, at any stage of their life. The Co-investment Facility shall attract additional investments in SMEs through a partnership approach with private co-investment in the business on a deal-by-deal basis.

3. Co-investment scheme advantages:

- Possibility to access a larger and better qualified flow of deals thanks to the support of other experienced operators as intermediaries;
- Ability to better engage other investors, decreasing the overall financial risk;
- More effective due diligence activities and investment negotiations with other investors thanks to the presence of other investors;
- Possibility to better channel resources on individual investment operations;
- Possibility to make available the best managerial support through the use of expertise of the involved co-investors, such as Business Angels, to the portfolio companies.

4. Key ingredient for a successful implementation

Create an ecosystem. The introduction of a new measure to bridge the access-to-finance gap by entering into venture capital requires additional and complementary measures, such as investor readiness programs, scouting, competitions of business plans, etc.

Awareness. Entrepreneurs in search of venture capital must be aware of the main selection criteria used by investors, criteria that are not related only to the technological or scientific excellence of the project, but also refer – and most of the times mainly - to the strength and expertise of the team, the amplitude and scalability of the market or the soundness of the business model.

The market. Measures that are targeting the creation of venture capital funds are selective measures bound to finance "excellence". They can not be designed to generate consensus among a plurality of beneficiaries; such projects financed represent a very small percentage in comparison to the received requests.

Size matters. Another critical point is that the size of the fund must be proportionate to the needs of potential customers in order to ensure that the investee companies have sufficient resources for their growth and development.

Languedoc Roussillon Instrument for SMEs: Managed by SORIDEC, SAS JEREMIE Languedoc-Roussillon is a co-investment venture capital vehicle which takes equity in technology-based SMEs active in different sectors such as health, information technology, robotics and services for the environmental and manufacturing sectors.

References:

- European Commission- DG REGIO - Guidance on European Structural and Investment Funds 2014-2020.
- Fi-compass platform for advisory services.;
- FIN-EN - GUIDELINES FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS.
- *Financial instruments:* Common provisions regulation (CPR) - Regulation (EU) No 1303/2013; Delegated regulation No. 480/2014 (CDR); Implementing Regulation 964/2014.
- *State Aid:* Regulation 651/2014 (GBER).
- *Public procurement:* Directive 2014/24/UE on public procurement.

#managingauthorities, #financialInstrments, #R&D results, #Multiannual financial framework 2014-2020, #ERDF, #Offtheshelf, #Co-investmentmodel

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