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INNOGROW
Interreg Europe

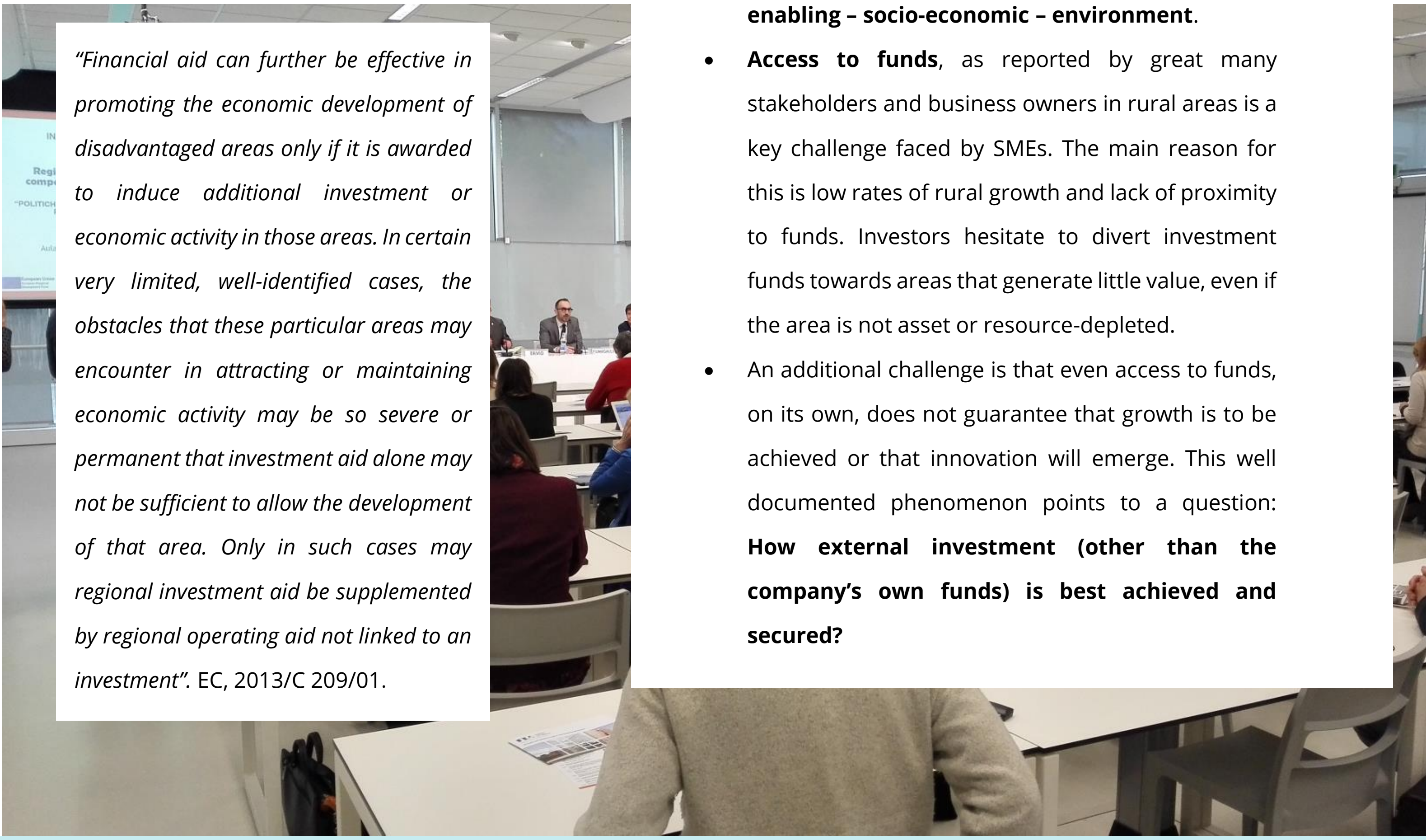
Policy Brief 10

Supporting New Business Models for Rural SMEs (II)

OVERVIEW

This brief picks up on the theme developed in the INNOGROW policy brief 8. The aforementioned brief intended to provide key information to stakeholders, policy makers and anyone with an interest in rural economy, innovation and development or about crucial aspects of rural SMEs growth. It thus focused on new business models adopted by enterprises. In this brief, the INNOGROW team continues with presenting exemplary cases of SMEs that have successfully adopted new business models. Thinking of innovation in terms of a 'business model' is a rather productive approach: it transforms innovation into something more tangible, realizable and specific. INNOGROW departs from the supposition that although an abstract concept like 'innovation' cannot be transferred, novel and concrete ideas about how to transform production, supply chain and other aspects that determine a business outlook and performance, are very well transferable. Last but not least: INNOGROW testifies to the challenges rural SMEs face, yet, some of these challenges can be turned on their head and become comparative advantages! This brief addresses regional funds as a means to support new entrepreneurial endeavors.

- INNOGROW evidence confirms the abovementioned view by pointing to the close link between the innovative potential of a small business and an **enabling – socio-economic – environment**.
- **Access to funds**, as reported by great many stakeholders and business owners in rural areas is a key challenge faced by SMEs. The main reason for this is low rates of rural growth and lack of proximity to funds. Investors hesitate to divert investment funds towards areas that generate little value, even if the area is not asset or resource-depleted.
- An additional challenge is that even access to funds, on its own, does not guarantee that growth is to be achieved or that innovation will emerge. This well documented phenomenon points to a question: **How external investment (other than the company's own funds) is best achieved and secured?**



"Financial aid can further be effective in promoting the economic development of disadvantaged areas only if it is awarded to induce additional investment or economic activity in those areas. In certain very limited, well-identified cases, the obstacles that these particular areas may encounter in attracting or maintaining economic activity may be so severe or permanent that investment aid alone may not be sufficient to allow the development of that area. Only in such cases may regional investment aid be supplemented by regional operating aid not linked to an investment". EC, 2013/C 209/01.

Regional funds

Regional funds provide an excellent opportunity to meet multiple targets at once from the point of view of regional policy making. As opposed to one-off investments, a regional investment fund represents a viable financing solution and can be linked to regional operating aid. Working in parallel, they are instruments that can unlock a region's potential and eventually provide enough momentum and visibility to attract external investors and kick-start innovative experiments.

In a nutshell:

Prior to setting up a rural investment fund

Institute a Supervisory Board. An IF supervisory board will be assembled by a group of shareholders of the fund. In cases of public investments, there will be representatives from local and central authorities and other parties to maintain check and balances. The supervisory board should determine the investment strategy, will be responsible for the overall supervision and will conduct periodical performance reviews. Generally, the more diverse the composition of the supervisory board, the more comprehensive the investment strategy will turn out to be as it will encompass a plurality of stakeholders' viewpoints.

- Taking **steps to found an Investment Committee**. The role of the IC is crucial as it is the body which reviews investment proposals and provides consultation. This Committee, apart from shareholders, it is necessary to include independent experts – preferably on a case-by-case basis depending on the nature of projects under review.

- **Fund manager**. All final investments decisions should be taken by a fund manager. These decisions are not to be taken independently. They should be informed by the previous two steps and driven by particular competition and profit-driven basis logics. This person will also be charged with arbitrating between different and conflicting interests and should not be prejudiced by own interests

Q & A

Loans, shares or bonds?

What type of funding will prevail and how will it fit with the type of investment sought? How do we go about clustering small projects in order to compose a large-scale programme that will be eligible for funding from sources that finance large projects (e.g. EIB)?

Consider how own regional funds will be secured for co-financing needs? Virtually all funding schemes require contribution from own funds. The EIB for instance indicates that regions classified as less developed can receive funding up to 90% of total investment sum and for developed regions, the rate falls to 70%. Note: The same criterion will normally apply both in instituting the fund and in allocating funds to projects.

Investment monitoring?

Monitoring and reporting procedures and methods should be carefully planned and detailed. They can include combinations of means, for instance, indicators and scoreboards for project implementation, as well as for the fund's own performance in terms of achieving its particular objectives, verification visits, sampling project results.

Rural investment fund: what focus?

A rural investment fund should be geared towards valorizing and extracting value, at least initially, from existing resources. A smart way to promote such perspective is to consider various rural unique characteristics (as opposed to urban realities) as developmental assets.

Natural or cultural resources. For instance, traditional agricultural infrastructure that is no longer operative has a cultural value, but only as long as it is somehow capitalised upon. Value is not inherent; rather, it emerges through practices of valorisation. This holds equally for natural resources. Natural and cultural heritage *become* resources or assets through careful and innovative management and marketing.

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