



Innova-FI

Interreg Europe



European Union
European Regional
Development Fund

REPORT EXCHANGE OF EXPERIENCE 05

2020, Udine

EXCHANGE OF EXPERIENCE

Within Innova-FI project, each participating partner is responsible for the preparation and implementation of one Exchange of Experience – intraregional learning. As partners are not directly managing the policy instruments for internationalisation, the aim of the exchange of experience meetings is to:

- a) Analyse the situation in the hosting region, i.e. investigate the state-of-play in the territory, strengths and weaknesses;
- b) Deepen the knowledge of the project partners and stakeholders on a concrete topic and get inspired and aware of possibilities for policy change in other domains;
- c) Find synergies with other processes (programs and projects) that are part of the organisational work-load and are linked to financial instruments;

Report Elaboration

The aim of this report is to describe and reflect the exchange of experiences and to gain insight into the intraregional learning process. The corresponding project partner should elaborate the report after each exchange of experience event and send it to the National Innovation Agency (Lead Partner) and Startup Europe Regions Network (advisor partner). The news should be prepared – by SERN – for the Innova-FI website accordingly.

1. Introduction

The Interreg Europe ‘Financial Instruments for Innovation’ (Innova-FI) project aims to improve the design and implementation of Financial Instruments (FI) as a delivery mode of Structural Funds so that they best meet and serve the financing needs of innovative and R&D&I-driven businesses in all the stages of their start-up and growth. The fifth Exchange of Experience (EoE) of Innova-FI was hosted by Friuli Innovazione Research and Technology Transfer Centre, partner of the project, in Udine (Italy) between 13th and 15th January 2020.

Friuli Innovazione (FINN) is an innovation agency entrusted by the regional and local administrations to support innovative SMEs development and growth. It is responsible for supporting R&D investment and promoting innovation, fostering the links between research, companies, policy makers and investors. It covers the entire innovation value chain from knowledge transfer from universities to the commercial value creation including access to finance support.

The EoE5 was focused on ‘Highly Innovative ways of financing’ topic, on presenting the case study of Friuli Venezia Giulia Autonomous Region, while providing some practical exercise in designing financial instruments.

The first day included an agenda articulated to illustrate the features, good practices and trends in the public and private financial landscape of the FVG region targeting companies and some of the main elements of the Italian national framework. On the second day, the delegation visited the Science and Technology Park “Luigi Danieli”, engaged in a workshop and met both enterprises, regional officers and stakeholders who offered them an insight on real case studies and good practices of the Region.

2. More Information About the Session

The main topic of the Fifth Exchange of Experience (EoE) in Udine, Italy was: highly innovative financial instruments as European structural and investments funds delivery mode. Both public and private financial sector players, including regional representatives, authorities and investors, addressed the theme during the three-days meeting.

The first day focused in particular on the Friuli Venezia Giulia Autonomous Region case study. Invited speakers illustrated features, good practices and trends in the public and private financial landscape of the FVG region targeting companies, and some main elements of the Italian national framework. The highlight of the day was certainly the presentation of FRIE revolving fund, a unique instrument of subsidized loans created in 1955 especially for FVG enterprises. FRIE was especially appreciated by all partners due to its ability to allocate the whole revolving fund budget and to the high pay back rate. In general, the fund and its functioning mechanism is a good and replicable example to be taken into consideration for future implementation.

Ensuing the agenda, the Fifth Exchange of Experience (EoE) of Innova-FI began with a welcoming speech from the Managing Director of Friuli Innovazione, who briefly presented FVG region and then focused on Friuli Innovazione and on FVG entrepreneurial ecosystem. Following, the Councillor for Culture and Tourism of Udine took the floor for institutional greetings from the Municipality.

Next on the agenda was Mr Alessandro Da Re, Management Committee Chair of **Fondo di Rotazione per Iniziative Economiche (FRIE)**, the main regional instrument of subsidized loans. His presentation introduced to the diverse stakeholders, FVG's oldest (65 years) and most forward-looking financial instrument: the FRIE. Mr Da Re first focused on FRIE's development: the laws it originated from and the funds it manages, then moved into the revolving fund's functioning. FRIE operates by a management committee through affiliated banks, providing indirect support to regional enterprises. Beneficiaries are both SMEs and large enterprises, according to EU regulations n. 651/2014 "exemption" and n. 1407/2013 "De Minimis". The fund finances up to 75% of the investment programs, which

have to be carried out within the regional territory, and must focus on initiatives relating to: industry, manufacturing craftsmanship, tourist-hotel activities, initiatives to be carried out in the Trieste port area, construction.

In addition, Mr Da Re offered also an overview of some of the funds managed by FRIE, which the most important is FVG Development Fund. The Development Fund supports SMEs, large enterprises and freelance, financing up to 80% both investments and participatory loans.

The session was followed by experts from **Confidimprese FVG** and **FVG Region Special Section Central Guarantee Fund** addressing the topic of Guarantee instruments.

Mr Federico Paron from **Confidimprese FVG** illustrated Confidi and its development. Confidi are mutual guarantee societies, promoted by association of small entrepreneurs, which directly operates in favour of member companies by issuing guarantees for bank loans granted to associate SMEs. After addressing the main issues SMEs encounter to credit access, Mr Paron showed how Confidi can facilitate the procedure providing guarantees, information, coaching and better terms when accessing credit. Following, the two model types of Confidi were presented: minor Confidi, whose guaranteed activities and assets don't exceed 150 million euros, and Confidi 106, whose guaranteed activities and assets exceed 150 million euros, supervised by the Bank of Italy. Next, Mr Paron gave an insight on Confidimprese FVG, the regional branch of Confidi, showing figures about the entrepreneurial system in the region and anticipating the evolution of Confidi's scenario.

Next on the agenda, Mr Stefano Ferrando showed the legal sources on which is based **FVG Region Special Section Central Guarantee Fund**. The fund is the regional section of the Central Guarantee Fund, which operates within the framework of ERDF. The guarantee of the Fund is a support by Italian Ministry of Economic Development and can only be activated after banks, leasing companies and other financial intermediaries granted loans in favour of enterprises and professionals. The Fund operates indirectly, it does not intervene directly in the relationship between bank and client. The Special Section intervenes on direct guarantee, reinsurance and counter-guarantee, increasing the national fund guarantee measures. The fund can finance investments related to the

working capital of the beneficiary company and connected to a business development project. At the end of his presentation, Mr Ferrando provided some figures about the number of beneficiaries and the amount of guarantee provided in FVG region by November 2019.

Mr Ferrando also described the highlights of Mr Gianpaolo Pavia's presentation from **MedioCredito Centrale** (who did not attend because of a last minute flight cancellation). Mr Ferrando described MedioCredito Centrale guarantee fund offering an overview of its latest achievements. Then, he explained the changes introduced by March 2019 reform, concerning the SMEs guarantee fund as: adoption of a rating model to assess the creditworthiness of companies, which allows the definition of a probability of default by the final beneficiary; the distinction between counter-guarantee and reinsurance; re-modulation of the guarantee measures based on the inverse risk of the borrower; introduction of new intervention method: tripartite risk operations; introduction of a specific regulation for investment transactions. The reform introduced also the possibility for MedioCredito fund to provide direct guarantee, counter-guarantee and reinsurance. Mediocredito Centrale also has a special FVG regional section, which provides more advantageous provisions, including an augmented guarantee and reinsurance percentages up to 80%.

Before breaking for lunch, Innova-FI partnership was entitled to a guided tour to Udine Castle, more specifically to the Salone del Parlamento: the hall of the ancient Friulian Parliament. All of the walls have been beautifully frescoed, while the elaborate wooden ceiling has been embellished with gilded frames and precious paintings. The walls are adorned with numerous coat of arms, spears and impressive 17th century swords.

The afternoon session opened with the topic 'Innovative Financial Instruments in Private Market'. On this session, the investor Mr Carlo Asquini presented the largest Italian business angel network - **Italian Angels for Growth (IAG)** - highlighting that the improvement of the annual deal-flow funnel in Italy, as in the rest of Europe, necessarily requires not just funding, but rather the development of a complete and sustainable startup

ecosystem. Mr Asquini described IAG approach to startup support providing data about IAG's activity with enterprises and about its working method.

First comes the startup scouting by IAG team and a first matching with the investors. Then, a meeting between investors and founders is organized to discuss the technical matters, confirm the interest in supporting the chosen startups and find a sponsor for each company. Thirdly, a committee of 7 senior IAG members is called to validate IAG investment requirements. After the validation, an investor day is organized with pitches by all chosen startups. In case of cumulated commitments higher than €200k, the IAG sponsors perform a Due Diligence (patent, commercial, tax and legal). Finally, the investment is confirmed with the incorporation of an «ad hoc» SPV.

The first day ended with a session on the regional players in the equity market from spokespersons of **Friulia** and **Finest** and a forum on the overall national landscape with representatives of **Cassa Depositi e Prestiti** (a financial institution controlled by the Italian Ministry for Finances) and **Invitalia, the National Agency for Inward Investment and Economic Development**, owned by the Italian Ministry of Economy.

Ms Federica Seganti took the floor to describe the work of **Friulia**, a holding company created by FVG Region. Traditionally, Friulia acquires minority shareholdings in the companies' capital with impact on the regional territory and has a unique positioning in the market thanks to: support in companies' development keeping the ownership/shareholder continuity; provision of chance for market operations with the transfer to industrial/financial third parties investors; solutions for a balanced growth, through the provision of financial resources and the availability of competencies in strategical and organizational context. Since 2006, Friulia is the group-leader of some regional strategic interest's companies, previously controlled directly by the Region FVG. It provides holding services (i.e.: treasury, tax consolidation, administrative/accounting consulting, personnel, etc.) and, more generally, coordination and support services. Friulia provides both business finance, including minibond, and micro finance to regional SMEs and startups.

Next on the agenda, Ms Lara Di Vicenzi introduced **Finest**, a subsidiary of Friulia, active in the support of SMEs' internationalization. Finest is an equity partner, a finance company, an advisor, and a business developer for North-East Italian companies investing

in the international proximity markets. Finest takes minority shareholdings of foreign enterprises, which are fostered by North-East Italian firms. It also provides a potential foreign direct financing aimed at satisfying the needs for development of enterprises, subsidies, advisory and business development.

Afterwards, Mr Alberto Castronovo discussed **Cassa Depositi e Prestiti (CDP)**. CDP manages three investment funds and fosters the development of the Country, using national savings to support growth, boost employment, leveraging on innovation, business competitiveness, infrastructure and local development. Mr Castronovo described the development of CDP focusing also on future goals, strategic strategies and new challenges. One of CDP goals is to accelerate the international expansion of Italian economy and investments in research by Italian businesses, thanks to specific financial and insurance instruments created in partnership with SACE and SIMEST. CDP provides long-term support for strategic national enterprises by protecting their economic sustainability, including through direct equity investments via CDP Equity. CDP is also able to support enterprises throughout their life cycle, from start-up to restructuring, providing growth capital and an accelerated path towards market listing for medium enterprises. Mr Castronovo presented also some case studies, in order to provide practical examples of how CDP operates in collaboration with the financial system and national and international funds.

The last speech of the first day was given by Ms Danila Sansone from **Invitalia**, streaming from Rome. Invitalia is the National Agency for Inward Investment and Economic Development. It is a joint-stock company owned by the Ministry of Economy, which exercises shareholder rights together with the Ministry of Economic Development. Its mission is to promote the productive system development and boost the economic competitiveness of the country. Invitalia manages all national incentives that promote the creation of new companies and innovative startups and that allow existing enterprises to become more competitive. Invitalia is actively involved in the management of subsidized measures co-financed by ERDF resources, in particular, within the PON Enterprise and Competitiveness. Invitalia manages loans, guarantees and equity instruments, having some main advantages: the capability of the financial instrument to leverage private sector resources in addition to public ones; funds are revolving i.e. with funds repaid being used

again in the same area and for new SME investments; the instruments are designed to attract co-investment from other sources, including private investment, to increase the amount of public funds available. In conclusion, Ms Sansone gave an overview of how granted aids in the form of loans, guarantees and equity are distributed on Italian territory.

The equity market theme has been widely discussed during past EoEs and the instruments implemented in Friuli Venezia Giulia Autonomous Region are not highly innovative. Therefore, the presentations of regional players in the equity market did not prompt a wide debate among the audience in comparison with other sessions.

The following day, Innova-FI and the international delegation (stakeholders) visited the Science and Technology Park “Luigi Danieli” run by Friuli Innovazione. The agenda started with the keynote speech of Ms Barbara Zilli, **Councillor for Finances of FVG Region**, who presented the forthcoming 2021-2027 EU programming, focusing on the differences from 2014-2020 programme, as the 5 new goals: Smarter Europe, Greener and carbon-free Europe, More connected Europe, More social Europe, Europe closer to citizens. Ms Zilli continued focusing on how new goals and regulations will be translated on a national and regional level with the new S3.

The day was also the international exposé of the new **Guarantee Fund for Investment in Venture Capital** of FVG region. The Director of the business credit service, Mr Diego Angelini, clarified this innovative FI targeting SMEs which ensures investments from institutional investors and business angels in case of default. Taking in consideration the risk aversion felt in the region and the number of small enterprises, this Guarantee Fund is the proverbial solution, intending to cover part of the risk in order to stimulate financial operators' investments in startups located in Friuli Venezia Giulia, seeing it will cover up to 70% of the investment without commission costs, for a maximum guaranteed amount per initiative and final beneficiary of 1 million euro.

The fund guarantees investors who carry out venture capital operations (of a minimum duration of 3 years) in innovative startups¹ in the exercise of their core business. In particular, these are financial intermediaries and holding companies. In accordance with the object of the guarantee issued in favour of the investors, the following investments may be guaranteed: investments structured as preferred share capital, to be implemented by subscription of shares or quotas, with a "put option"; unsecured and subordinated debt, to be made in conjunction with investments structured as preferred share capital.

On the operations guaranteed by the Fund, the investor cannot acquire any further guarantee, real, insurance, banking or surety, with respect to the guarantee of the Fund. In the case of investments in the share capital, the general rule is that the hedging of the Fund intervenes on the amount of the loss given by the difference between the purchase price and the sale price of the shares or units of the final beneficiary, as resulting from the deeds of subscription and sale of the investor. The guarantee of the Fund has a duration corresponding to the guaranteed investment and in any case not exceeding 7 years.

The regional Guarantee Fund for Investment in Venture Capital constituted the highlight of the second day. The instrument is highly innovative, especially when it comes to public authorities' measures, and prompted the interest of the audience.

On the weaknesses side it has to be listed its amount, quite small (4,5 million Euros) since it is intended to be a pilot action. Secondly, it has to be mentioned that it will not be funded using ESIF resources but own regional funds. This because one of the main barriers to use ESIF for introducing FI is the number of obligations to be respected that increases the bureaucracy burden. In particular, this is true in a Region where there is no in-house or external organization acting as Managing Authority and the regional administration itself

¹ For the Italian law innovative startups must meet the following requirements: be limited companies (including cooperatives); being new businesses, or being operational for less than 5 years; have the HQ in Italy or in another EU country, with at least a production site branch in Italy; have an annual turnover below €5 mln; not listed on a regulated market nor on a multilateral negotiation system; do not distribute profits; are not a result of company merger, split-up or selling-off; develop, must produce and commercialize innovative products or services with a clear technological component. Startups that comply with these requirements can be listed in a national register <http://startup.registroimprese.it/isin/home>

is entitled to develop and run the multiannual Regional Operational Programmes (ERDF, ESF).

After the conventional Innova-FI team-building exercise, the day continued with the presentation of **ICOP Group business case**, a high-tech engineering firm from FVG region using minibonds. ICOP, after a sector crisis in 2014 decided to change its organization, starting with a statutory audit in 2015. As a consequence of the audit, ICOP decided to increase its capital in collaboration with Friulia. The entry of a new shareholder into a family-owned company had positive side effects, as the compliance with procedures, more structured decision, enforcement of budgeting and reporting. In 2016 the company decided to implement a project financing structure, while in 2017 it started issuing minibonds. The ICOP minibond issue was considered one of the best 14 out of 350 issues placed on the market between 2013 and 2017 in Italy.

Afterwards, professor Paolo Fedele from the **Economics and Statistic Department of the University of Udine** offered the academic perspective on how innovation in finance can be manifested in the modern world and how government core operations can foster innovative ecosystems. Professor Fedele described how in the last decades, the public sector of most countries has been interested by territorial decentralization of decision-making authority; organizational differentiation of service delivery arrangements; fiscal consolidation (effects on both opex and capex). This background empowered the role of private and not for profit providers as public services delivery and investment in key assets for public services.

Academic and policy debates mostly took a government point of view focusing on government operations' efficiency and on innovation in government service/product and process. An eco-system of innovative firms is both a precondition and a potential consequence of the reform's megatrends. In this framework, arrangements other than direct provision are meant to: reduce costs; generate investments in key areas; access expertise not available in-house to meet one-off needs; access expertise on a long-term basis in order to be able to vary its quantity and mix over time; replace current government operations in extreme cases where their provision is unsatisfactory.

The Government's role is to encourage competitive supplier markets, as a prerequisite for success. The government has a clear role to play in developing and sustaining such markets, by avoiding over-reliance on a single supplier. Similarly, the nature, length and size of individual contracts can affect the number of potential suppliers.

The government must take into account some potential barriers to innovative business ecosystems. In particular, government contracts have a tendency to be prescriptive and process oriented, it has sound accountability concerns and tries to avoid blame through beaurocratization. The more prescriptive or input oriented the contract is, the more difficult it is for the contractors to be flexible and innovative. To address this issue, public management reform advocates for stricter contract specificity and have the tendency to establish rigidly defined service standards so that little or no product differentiation may be possible from suppliers. Given the government's attitude, short-term cost concerns might prevail, while lowest cost is traditionally the main criterion that determines a winning bid. There are examples of suppliers submitting unrealistically low bids ("lowballing") and then engaging in post-contract negotiations over the lifetime of the contract to increase the price. Such practices may lead to innovative suppliers withdrawing from the government market place in general.

The morning was closed by a guided visit to a shared open space for collaboration, the Additive FVG Square laboratory. Additive FVG is an initiative launched by Friuli Innovazione in 2018 in collaboration with 5 regional firms, the engineering regional cluster COMET and the support of the regional government in a sort of public-private-partnership experiment. The aim is supporting companies in the adoption of advanced production technologies based on 3d printing, and thus stimulating innovation in business models of traditional manufacturing industries, improving skills and promoting investments for new startups.

The afternoon of the second day, seeking to explore innovative financial instruments to support innovative companies, was dedicated to the **workshop "What is innovation in Financial Instruments?"** facilitated by Mr Lorenzo Palego and Mr Nicola Brignani from **T33 S.r.l.** a company specialized in reviewing policies that did just finish a project on FIs

on behalf of the FI-Compass initiative. The first part of the workshop was dedicated to an introduction to financial instruments in the current EU programming period compared to the “game rules” forecasted for the next period. The overview on how the EU 2021-2027 programming will address new financial instruments, how FIs will be managed and the new topics FIs will address, were greatly appreciated by the audience, since the overview included details not yet disclosed to the general public being still at the debate stage among European technicians.

Innova-FI partners and stakeholders were then encouraged to take part in a group exercise where they were asked to design and set up a financial instrument to support innovative SMEs /startups and creative industries, following the steps of the 2021-27 ex-ante assessment. Starting from a fictional situation of an “X” region, the groups had to analyse the scenario and outline an ex-ante assessment, define the setup of the FI and then present it on a plenary session.

It should be mentioned that the workshop could have been more effective if the participation, especially during its second part, was larger.

On the third day, in conclusion of the Exchange of Experience, the **Innova-FI Steering Group meeting** took place with all the partners in order to collect their feedback on the event, discuss changes in the EoE methodology and organise the next steps.

Overall, the Exchange of Experience 05 managed to meet its two primary goals, i.e. presenting the case study of Friuli Venezia Giulia Autonomous Region and delivering a “hands on” day to learn and design innovative financial instruments to support innovative SMEs.

3. Recommendations and Next Steps

After the conclusion of the second day, the partnership highlighted the overall coherence and organisation of the Exchange of Experience. More in detail, it was underlined that the information supplied concerning the region and its financial instruments was excellent and potentially transferable; the mix between study visits, working hours and cultural activities was carefully planned; and that the guest speakers invited were on-target, being as their overall scope is aligned with the work some of the partners (and their stakeholders) are undertaking.

The LP suggested for the upcoming EoE to save some time to organise a workshop just for the partnership. A potential topic for this group session is “Designing Action Plans”, i.e. a preliminary session to discuss the action plans and to strengthen the work of the partnership as a whole. A common template piecing together all the good parts of other actions plans already approved and inviting the JS to this session were some of the ideas of the brainstorming exercise. Another potential topic is “Service Design” and rethinking the way we create. According, to the LP Portugal, has a governmental/national unit that could be invited to participate.

Additionally, the LP stated its interest in working beyond this Project / Exchange of Experience. His idea is to prepare in advance for the next programming period, hence being essential the creation of a prospective and stable Innova-FI network to discuss future cooperation (perhaps even an Innova-FI project instalment).

The 6th EoE is expected to be held in Ljubljana, Slovenia, in May 2020. The event will consist of two full working days with all the stakeholders. The first day will be spent (upon Interreg Europe authorization) to the international conference PODIM² (Maribor); the second day the group will move to Ljubljana. During PODIM, the biggest regional event on FIs for start-ups and SMEs in Slovenia and central Eastern Europe the Innova-FI

² <https://podim.org/>

partnership will have the chance to organise a workshop and the partners will attend two sessions with the Slovenian Ministry of Development and Technology and the second with the Slovenian Enterprise Fund. Detailed agenda and logistic details will be shared later on proposal of GODP partner.

4. Conclusion

In conclusion, the outcome of the Fifth EoE was certainly positive. The partners appreciated the topics addressed by financial sector players, regional representatives, authorities and investors. The partnership also found most of the instruments potentially transferrable into their financial architecture, underlying the overall effectiveness of the Exchanges of Experience scheme, which allows 1) share information and best practices and 2) build new relationships among those working in the design and deployment of FIs in Europe.

The partnership pointed out the interpretation provided from/into Italian and English in real-time was perfectly understandable, though the speakers' power point presentations should have been in English for a more user friendly experience. A recommendation for future EoE is to provide English presentations even for those speakers who won't give their speech in English.

Additionally, as suggestions for future EoEs improvement, partners agreed on keeping a space in the agenda for a private workshop only for the members of the consortium, to share and deep dive the project outcomes at local basis; secondly to think and test ways to make the audience more reactive during the Q&A sessions, to increase the value added connected with the EoE participation, both for organizers and guests.

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