



Innova-Fi
Interreg Europe

Policy Booklet

Financial instruments
for Innovation in
European regions



European Union
European Regional
Development Fund



WELCOME

Being in the face of one of the serious and demanding challenges in the last decades, the pandemic of COVID-19 has exposed and emphasized issues related to Europe's cohesion and integration. Thus, the need to adopt an effective strategy that fills the emerging problems towards economic recovery emerged.

After two intensive years of fighting the pandemic crisis, we, as Europeans, continue to make efforts to defy and win the challenges imposed by the virus. We have to still cope with the recession and reorganisation of production to better manage the future ahead. Therefore, financial instruments play a key role in the implementation of European strategies and in applying them effectively.

Innova FI has been making significant efforts to identify effective practices for SMEs and startups and promote this knowledge of financial instruments across Europe. Specifically, we address the way different partners have implemented and instigated financial instruments and how well they performed taking into account the accomplishment of the desirable and planned objectives.

This booklet presents examples of the success of financial instruments, whose main aim is to help small enterprises conquer the competitive and contemporaneous environment, assisting them towards innovation. It emphasises several initiatives and instruments, such as the SMART INNO platform, BIF and BIF2, or SID Bank, taking place in various European nations, regionally-focused. The case studies describe the situations, main objectives, partners, investment strategies, implementation processes, and achievements of those instruments. Thus, this booklet verifies the importance of adopting and developing financial instruments in startups and SMEs to overtake existing weaknesses and barriers (i.e. access to resources and funding). If the instruments are adequately used, they can bring greater knowledge and accelerate the process of funding and the dynamics of innovation in Europe. In sum, we hope that this booklet can be helpful to you and it also inspires you to face the shared challenges that we must face towards an immediate economic recovery.

Alexandre Almeida, ANI
Lead partner of Innova-FI

SMART INNO Platform and the AI BAN

SMART INNO PLATFORM AND THE AI BAN

FUNDING SOURCE

Private

TYPE OF FINANCIAL PRODUCTS

Capital investment

THEMATIC FOCUS

Startup, innovation

Timing

07/2015-07/2020

Partners involved

Friuli Innovazione

Re-investment

Not expected

Main results

7567 contacts by SMEs, startups, investors, researchers, stakeholders and policy makers.

806 SMEs and startups registered in the Platform, in order to receive support for their business plans.

499 SMEs and startups involved in mentoring and coaching activities.

SUMMARY

This case study explains how the SMART INNO platform, realized in the framework of SMART INNO project, co-funded by the EU through the “IPA Adriatic Cross-border Cooperation Programme 2007-2013” in the 2007-2013 programming period, addressed the increase of competitiveness and support of SMEs sustainable growth through the implementation of the Adriatic Ionian Business Angels Network. The project fell within the priority n°1 “The theme of innovation” that aimed to foster cooperation between stakeholders and policy makers to increase RDI capacity and create mechanisms oriented to SMEs to support their RDI capacity to improve their competitiveness.

The project was set up and implemented from 2014 to 2016 by 18 partners, coming from 8 Adriatic Countries (Italy, Albania, Bosnia-Herzegovina, Croatia, Greece, Montenegro, Serbia, Slovenia), that addressed the need to bridge the gap between the Adriatic regions and EU average in terms of RTDI investments and to strengthen the regional cohesion within Ionic Adriatic macro-region.

The SMART INNO project, through its platform, wanted to overcome existing weaknesses (e.g. low access to financing, low amount of early-stage investments, lack of synergies among SMEs and R&I producers, policymakers, and investors) by bridging demand and supply of innovation, putting into connection 17 regions of the 8 involved countries. The platform allowed the Adriatic Ionian Business Angels Network to operate in the region in support of innovative startups and SMEs seeking transnational capital investments opportunities.

Thanks to the SMART INNO project the first Adriatic-Ionian Innovation Ecosystem Platform has been launched to collect in one place all the available facilities and information sources needed by companies to develop innovative business projects and promote innovative processes in the Adriatic-Ionian macro-region.

Objectives

The overall objective of the SMART INNO project was to develop a networking system for monitoring and fostering research & innovation capacity in SMEs. Thanks to this “smart” network the project aimed at increasing competitiveness and supporting SMEs sustainable growth through the use of financial instruments and coaching schemes on improving investment capability, with emphasis on cross-border cooperation across the Adriatic.

The main result of the project was the building of a web-based platform in English to inform and facilitate communication among the target groups, i.e. innovative startups and older firms, public and private investors, innovation and development agencies and policy makers responsible for SMEs competitiveness.

The main goal of the platform was to facilitate the access of SMEs and young entrepreneurs to financing and to identify transnational co-investment structures and new trends in fund-raising. Among other opportunities, the Platform offered the chance to Adriatic SMEs to get in contact with Business Angels of the Ionian Adriatic macro-region and match the service to find the optimal funding opportunity available for each enterprise innovation project.

DESIGN AND SET-UP

Funding and Partners

SMART INNO Platform was co-funded by the EU through the “IPA Adriatic Cross-border Cooperation Programme 2007-2013”. The partnership of the project was constituted by:

- The Province of Rimini (LP) - Italy
- The association of chambers of commerce of Veneto Region - Italy
- Friuli Innovazione, Research and Technology Transfer Center - Italy
- Scientific and Technology Park Tecnopolis PST S.c.a r.l. - Italy
- SIPRO development agency - Italy
- Agency for Innovation of Administration and Public Local Services - Italy
- Directorate for development of small and medium sized enterprises - Montenegro
- Zlatibor Regional Development Agency - Serbia
- Chamber of Commerce and Industry of Serbia - Serbia
- RDA Green Karst, Ltd. - Slovenia
- Regional Development Centre Koper - Slovenia
- Primorska Technology Park (PTP) - Slovenia
- LIR Evolution - Bosnia and Herzegovina
- Juraj Dobrila University of Pula - Croatia
- The Istrian Development Agency - Croatia
- ATLANTIS Consulting S.A. - Greece
- European Regional Framework for Cooperation (ERFC) - Greece
- AULEDA local economic development agency - Albania

The partners contributed to the creation of the Adriatic Ionian Business Angels Network (AI BAN) and promoted it to national private investors and business angels' national networks. 24 business angels from 4 Countries expressed interest in the AI BAN and signed a memorandum of understanding (MOU) during the project's lifespan. The memorandum had two main aims: to encourage the collaboration and the exchange of information among SMART INNO Partners and Business Angels (BA), which is relevant to the support of policies and actions directed at increasing the private investment market in the Adriatic Ionian macro region. In particular, in line with EU Startup Investors Manifesto, by supporting networking initiatives and actions in the target macro region aimed at:

- inspiring a co-investment culture amongst different market stakeholders;
- making investment easier and clearer for both businesses and investors;
- increasing market liquidity to avoid equity gaps;

- raising awareness and changing mindsets towards a favorable risk culture and in particular for improving the companies' investment readiness in the target area;
- to create a framework for the implementation of an Adriatic Ionian Business Angels Network.

A predetermined amount committed to the investments was not preliminarily set, due to the poor development of the equity market in the area at the time. Each investor independently decided the amount of own investment in each business project, taking into consideration, in particular, the innovation rate of business ideas and the sustainability of development plans.

Investment strategy

The Adriatic Ionian Business Angels Network aimed to spread the culture of angel investing as the engine of economic growth and competitiveness in the Ionian Adriatic area while appraising the best innovative business talents of the Ionian Adriatic region, as primary actors of innovation and economic growth of the region.

The participation of private sector entities as investors is a key feature of the European fund for strategic investments (EFSI), considering that investors could operate through project co-financing on a risk-sharing basis with European Investment Bank (EIB) covered by EFSI.

Of prior importance were the opportunities for applying to EU co-financing measures (i.e. EIF Co-investment Fund, ERDF Funds) combining BA's investments in the Adriatic Ionian macro-region, as well as the identification of financial opportunities for international calls.

The objects of the Adriatic Ionian Business Angels Network included:

- spread the culture of angel investing in all the region in order to promote the investment in startups and SMEs of the Ionian Adriatic region;
- raise awareness of entrepreneurship in the Adriatic Ionian region and catalyse the matchmaking process between business angels and entrepreneurs;
- set up a publicity programme, including publications and events as well as contacts with relevant third parties serving to raise awareness of and to guide public opinion in the Adriatic Ionian region in matters relating to entrepreneurship and business angel activities;
- facilitate the provision of a common platform starting from already established tools through which the angel community, academics and start-up companies can obtain relevant market and business information;
- collect basic information on different funding sources available to support project ideas, establish new partnerships and strengthen future cooperation and implementation to improve both investment awareness and readiness amongst innovative SMEs.

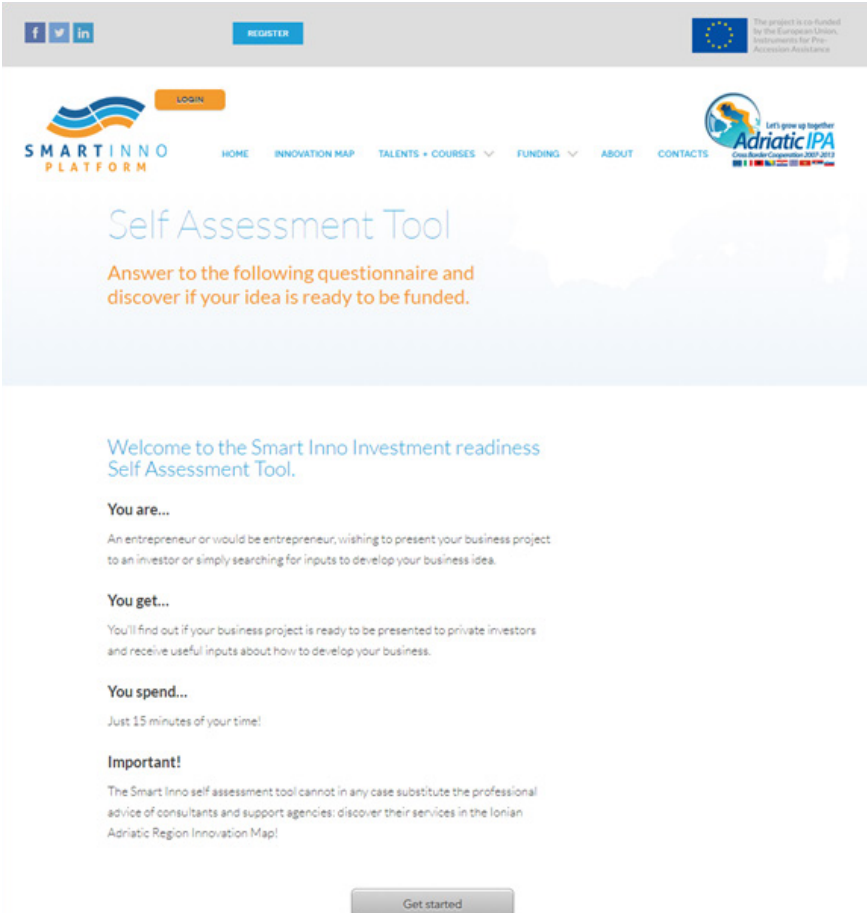
Governance

The instrument was set up by the 18 partners of the SMART INNO project, coming from 8 Adriatic Countries (Italy, Albania, Bosnia-Herzegovina, Croatia, Greece, Montenegro, Serbia and Slovenia). The Network operated through the SMART INNO Platform and evaluated business plans as well as business ideas uploaded through the website. Then, AI BAN members evaluated business ideas and development plans, implementing alternative cross-border co-investment facilities and considering also new trends in fundraising (crowdfunding, P2P lending, etc.).

There were three types of platform users:

1. Innovative SMEs and startups from the countries involved in the SMART INNO project;
2. SMART INNO project partners;
3. AI BAN members.

Startups and innovative SMEs could benefit from the information and the facilities provided through the platform. Upon registration, they could evaluate their own business plan through an online self-assessment tool, before submitting it to the AI BAN. Companies could also browse through different BANs and matchmaking instruments, linked in the platform, and subscribe to selected online and offline courses and events.



The screenshot shows the 'Self Assessment Tool' interface on the SMART INNO PLATFORM. At the top, there are social media icons (Facebook, Twitter, LinkedIn), a 'REGISTER' button, and a European Union logo with text: 'The project is co-funded by the European Union. Instruments for Preparation Assistance'. Below this is a navigation bar with the SMART INNO PLATFORM logo, a 'LOGIN' button, and links for HOME, INNOVATION MAP, TALENTS + COURSES, FUNDING, ABOUT, and CONTACTS. A logo for 'Adriatic IPA' is also present. The main heading is 'Self Assessment Tool' with a subtext: 'Answer to the following questionnaire and discover if your idea is ready to be funded.' Below this, a welcome message reads: 'Welcome to the Smart Inno Investment readiness Self Assessment Tool.' The form contains several sections: 'You are...' (An entrepreneur or would be entrepreneur, wishing to present your business project to an investor or simply searching for inputs to develop your business idea.), 'You get...' (You'll find out if your business project is ready to be presented to private investors and receive useful inputs about how to develop your business.), 'You spend...' (Just 15 minutes of your time!), and 'Important!' (The Smart Inno self assessment tool cannot in any case substitute the professional advice of consultants and support agencies: discover their services in the Ionian Adriatic Region Innovation Map). At the bottom, there is a 'Get started' button.

Figure 1: Self-assessment tool for the evaluation of business plans

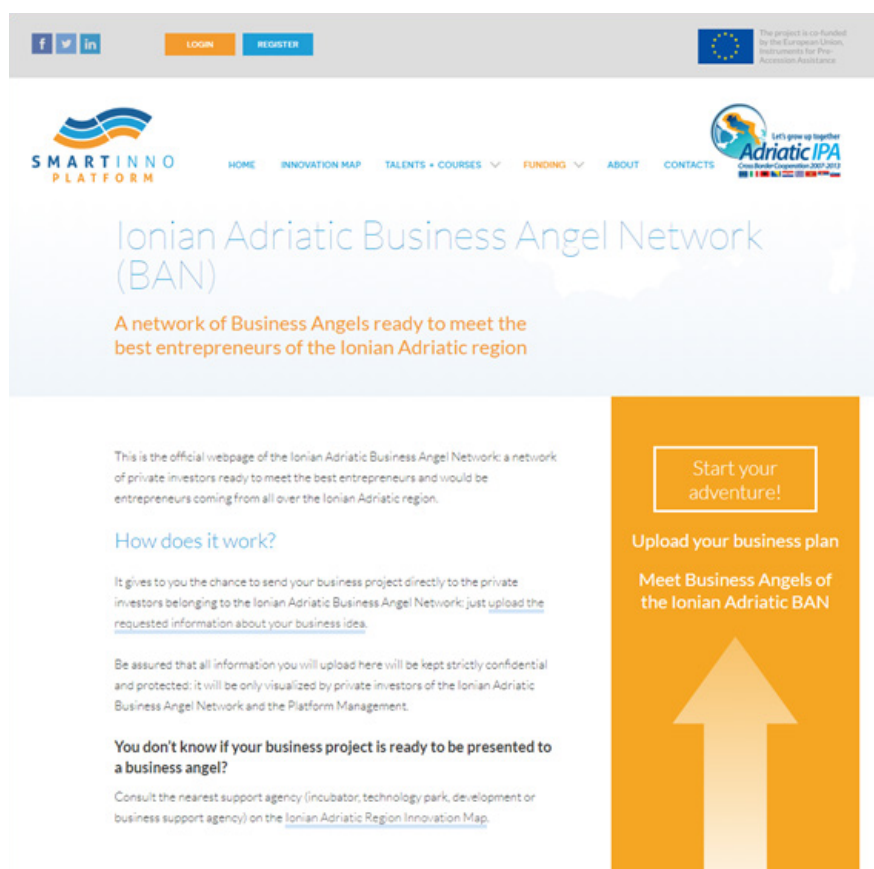


Figure 2: Business Plan submission page

Project partners were platform administrators and community facilitators. They had together the responsibility to:

- upload training courses on the pertinent website page;
- upload events on the pertinent website page;
- check (approve or reject) new entries in the innovation map;
- check (approve or reject) new Business Plans uploaded in the Ionian Adriatic BAN section.

To ensure a standard approach across the different regions, it was developed guidelines about how to assess a new platform member registration and about how to give a first evaluation to the submitted business plans. All the business plans submitted through the platform, once approved by the project partners, were made available to AI BAN members in a private section of the platform.

Finally, AI BAN members, who were granted private access to the SMART INNO platform, could analyze all the business plans submitted and get in touch with the entrepreneurs for further information and funding opportunities.

IMPLEMENTATION

SMART INNO Platform was launched in 2015 and provided support to SMEs and startups from the Adriatic-Ionian area. It helped beneficiaries, through different kinds of financial instruments and services, to develop and improve their business. The final aim of the platform, especially through

the AI BAN, was to promote SMEs' research and innovation capacity, their competitiveness and sustainable growth. The platform was online from July 2015 to July 2020.

Financial products and terms

SMART INNO Platform did not configure as a financial product itself, but it provided information and support on various financial products, namely: crowdfunding, microcredit, and capital investment (through AI BAN).

All financial products considered were available in the wide Adriatic area and accessible by potential beneficiaries through the platform. The most important instrument developed was certainly the AI BAN, which provided startups and SMEs from the Adriatic-Ionian area with the possibility of transnational capital investments. In particular, the platform allowed target enterprises to submit their business development plans to a wide transnational network of Business Angels and eventually benefit from foreign BAs feedback and capital investments.

Final recipients targeted

The final recipients targeted were primarily innovative startups and SMEs, with headquarters or operations offices in the Adriatic Ionian area.

In order to promote and widen the network created, the platform also targeted stakeholders from the Adriatic-Ionian innovation ecosystem, such as:

- Business Support Organizations;
- Science and Technology Parks;
- Incubators;
- Development Agencies;
- Co-working spaces;
- Universities;
- Research Centres;
- Consultants/Mentors;
- Clusters.

Both innovative startups and the innovation ecosystem subjects were inscribed in an interactive innovation map published on the platform to promote mutual visibility.

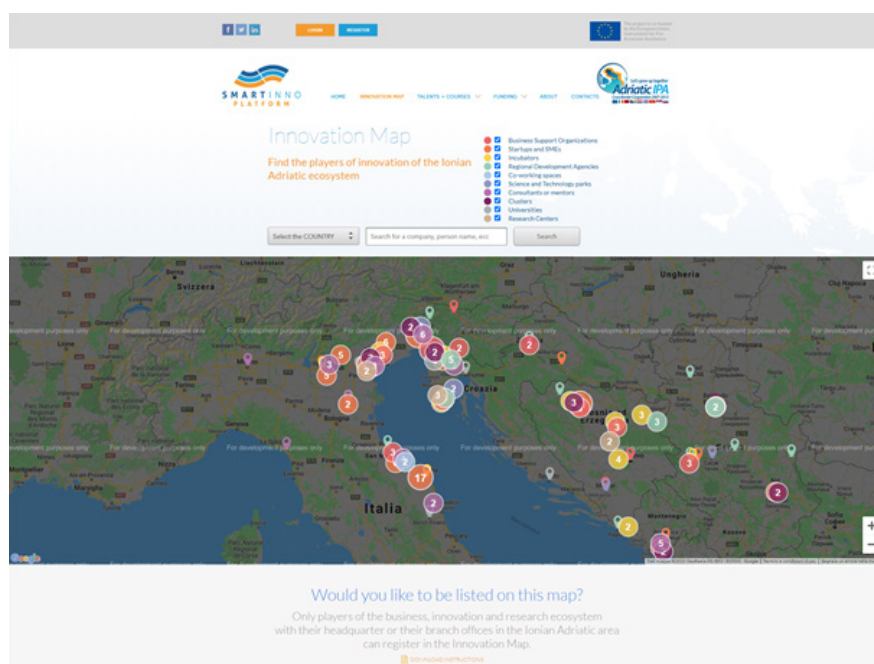


Figure 3: Innovation map

Achievements

The implementation of the platform provided monitoring and fostered RDI capacity in SMEs. Moreover, it allowed an increase in competitiveness thanks to the support to SMEs' sustainable growth through the use of financial instruments and coaching schemes. All the activities were focused on improving investment readiness with an emphasis on cross-border cooperation across the Adriatic area.

Below, the main results of the platform in terms of supported enterprises:

- 7.567 contacts by SMEs, startups, investors, researchers, stakeholders and policy makers;
- 806 SMEs and startups registered in the Platform to receive support for their business plans;
- 499 SMEs and startups involved in mentoring and coaching activities through dedicated workshops.

In addition, 24 Business Angels from 4 Countries (Croatia, Greece, Italy, and Serbia) expressed interest in the AI BAN and undersigned a MOU. With the implementation of the platform, 10 Business Angels also subscribed to the Memorandum of Cooperation (MOC) for the creation of the Adriatic Ionian Business Angels Association. The MOC aimed to raise trust among Adriatic Ionian BAs as well as among BAN managers operating in the region, for example through the participation of investors and involved stakeholders to pitching events involving startups from the whole region.

OUTLOOK

The case study presented is not a financial instrument, but it shows an example of an innovative transnational activity that took place in a region where startups and innovative SMEs needed

basic support, instead of advanced financial engineering opportunities. The Adriatic-Ionian macro region, at the time of realization of the project, was lagging behind EU regions average in terms of opportunities of early-stage financing, and startups required basic information and support. They needed to find partners for their projects, information on how to start a new enterprise and on how to fund it. They also needed support to know if their business project was ready to be implemented and who to contact in order to have professional support.

In 2015, when the SMART INNO Platform was created, it constituted an innovative example of a useful instrument that promoted activities on the equity market, which was still in the first phases of development. It helped to spread the culture of angel investing in the whole macro-region to promote cross-border investments in startups and SMEs of the Ionian Adriatic area. It also contributed to raise awareness on self-entrepreneurship in the region and catalyze the matchmaking process between business angels and entrepreneurs about activities in and from the region. The platform helped to tackle all the needs of Adriatic-Ionian enterprises.

Initiatives, such as the establishment of international BANs, are supportive of single business Angels and national BANs. The implementation of the SMART INNO Platform stimulated capital investors to operate beyond national borders, supporting startups and SMEs from different countries, both economically and at a consultancy level. Transnational BANs allow Business Angels to access more numerous and better deals, increase returns, benefit from diversified expertise, have an easy channel to startups and entrepreneurs and syndicate with each other.

This translates into benefits for supported enterprises, such as flexible and lower-risk financing, guidance and mentorship, credibility and networking, ideas and growth opportunities.

Key Policy Recommendations



The implementation of the SMART INNO Platform and the AI BAN is an example of a cross border collaboration focused on encouraging the actions of private investors pushed by a consortium of public and private institutions that recognized a common weakness to be better-tackled thanks to a transnational initiative. Although limited, the success of the transnational BAN is due to the participation of the private sector as investors, as a key feature of the EFSI, considering that investors could co-finance projects on a risk-sharing basis with EIB covered by EFSI.

A key success factor in environments similar to the Adriatic-Ionian region is applying to EU co-financing measures (i.e. EIF Co-investment Fund, ERDF Funds) combined with BA's investments, as well as to identify financial opportunities for international calls to maximize the support in early-stage investments.

The example of SMART INNO could be repeated, in particular in areas where private investments in innovative startups are not a consolidated practice. In such areas, the policymakers in charge of designing public intervention could use EU funds to promote private equity investments through co-financing measures. Moreover, working in transregional frameworks with different maturity levels is a key accelerator factor to improve the performance of the weaker areas, thanks to peer learning.

A lesson learned from the experience of SMART INNO is that the success of the platform could have been improved by receiving full support from institutional policymakers and stakeholders (i.e.: regional administration, local administration, etc.).

Finally, the limited success of the SMART INNO Platform is due to the fact that, after the conclusion of the project, it was neglected and not updated because of funds and ownership in the project aftermath. This is quite common in EU funded projects and proper contingency measures should be implemented at a programme level to ensure sustainability at least to the most promising and transferable project outputs.

Baltic Innovation Fund (BIF) and Baltic Innovation Fund 2 (BIF 2)



BALTIC INNOVATION FUND (BIF) AND BALTIC INNOVATION FUND 2 (BIF 2)

FUNDING SOURCE

National funds and EIF resources

TYPE OF FINANCIAL PRODUCTS

Equity or quasi-equity

Financial size

The size of the Baltic Innovation Fund (BIF) is EUR 130 million. UAB Investicijų ir verslo garantijos (INVEGA) invested 20 per cent of the total BIF size from INVEGA Fund (reflows from previous 2007–2013 European Structural Funds programming period). Latvian and Estonian counterparts, namely, ALTUM (Latvia) and KredEx (Estonia) also contributed 20 per cent each, and the European Investment Fund (EIF) invested the remaining 40 per cent portion of the total amount of funds available at BIF. In addition, the selected underlying fund managers brought in financing from private investors, which would result in the total amount available for investments into the Baltic companies to over EUR 522 million.

The total size of the Baltic Innovation Fund 2 (BIF2) will amount to €156m. INVEGA will be investing 16.67% (€26m) of the total size of BIF 2 from INVEGA Fund. The respective national promotional institutions in Latvia and Estonia, i.e. ALTUM (Latvia) and KredEx (Estonia) will also contribute 16.67% (€26m) each, and EIF will be investing the remaining

50% of the funds (€78m). In addition, the selected underlying fund managers will have to bring in financing from private investors, which would result in the total amount available for investments into the Baltic companies to over EUR 300 million.

Thematic focus

Micro, small and medium-sized enterprises (SMEs) and Small MidCaps

Timing

BIF – 2013-2029

BIF2 – 2019-2036

Partners involved

INVEGA, KredEx, ALTUM and EIF and private equity funds

Absorption rate

TBD

EU leverage

TBD

Main results

TBD

SUMMARY

This case study describes two 'fund of funds' created in the Baltic region and launched by the EIF in co-operation with the Baltic national promotional institutions (Baltic Investors) – INVEGA (Lithuania), KredEx (Estonia) and ALTUM (Latvia).

BIF and BIF2 are excellent illustrations of the three Baltic States acting together, enabling to make small capital markets together more attractive for investors and creating further financing possibilities for enterprises.

BIF and BIF 2 aim to build a balanced portfolio of growth and later stage equity funds with an investment focus on the Baltic States, having regard to their investment focus, vintage year and an appropriately diversified number of underlying investments, which provide, directly or indirectly, equity and/or hybrid debt/equity investments or other forms of risk financing to portfolio enterprises. In addition, BIF and BIF 2 may pursue co-investment opportunities alongside business angels, investment funds, family offices or institutional investors into portfolio enterprises.

The Baltic Investors entrusted the EIF with the mandate to manage BIF and BIF2. EIF, acting as fiduciary for the Baltic Investors in its own name and for the benefit of all investors of BIF and BIF2, manages BIF and BIF2 at its sole discretion following the principles and procedures laid down in the agreement signed between the Baltic Investors and EIF and in particular in the investment guidelines of BIF and BIF2.

BIF and BIF2 invest in micro, small and medium-sized enterprises as well as Small MidCaps with high growth potential operating in the Baltic region and outside the Baltic region. They can apply to the selected equity fund managers directly.

Objectives

BIF and BIF2 are financing solutions that have been missing from the Baltic market. BIF and BIF2 are excellent illustrations of the three Baltic States acting together, enabling to make small capital markets together more attractive for investors and creating further financing possibilities for enterprises. Close cooperation with EIF, as an experienced and well-known investor, ensures that the best market standards are followed giving additional assurance to possible private and institutional investors. Without such cooperation, it would be very difficult to attract venture capital and private capital investments of comparable size.

BIF and BIF2 have the following general objectives:

- Increase the levels of equity investments made particularly in SMEs and Small MidCaps across the Baltic States, while providing the necessary flexibility for making investments across a wider region outside the Baltic States;
- Establish and develop a sound market-based risk financing infrastructure in the Baltic

States;

- Generating positive returns to the Investors;
- Attracting foreign investors and investment managers to the Baltic States;
- Creating attractive market entry terms for investors, e.g. pension funds and other institutional investors.

The Baltic Innovation Funds will increase the accessibility of private equity for SMEs with high growth potential and operating in the Baltic region. The creation of 'fund of funds' will contribute towards further regional private equity, and venture capital market development will strengthen the partnership and cooperation between the Baltic States and EIF. This initiative will have a positive impact not only on the further development of the Lithuanian venture capital ecosystem but certainly will stimulate the growth of employment and economic competitiveness of the Baltic States.

DESIGN AND SET-UP

Funding and Partners

BIF will invest EUR 130 million into private equity and venture capital funds focused on the Baltic States through a 'fund of funds' process to further develop equity investment into SMEs and Small MidCaps to boost growth.

The BIF management agreement was signed in 2012 in Vilnius by EIF and representatives from three Baltic States. EIF is investing EUR 52 million alongside investments of EUR 26 million each from the national promotional institutions – INVEGA in Lithuania, ALTUM in Latvia and KredEx in Estonia.

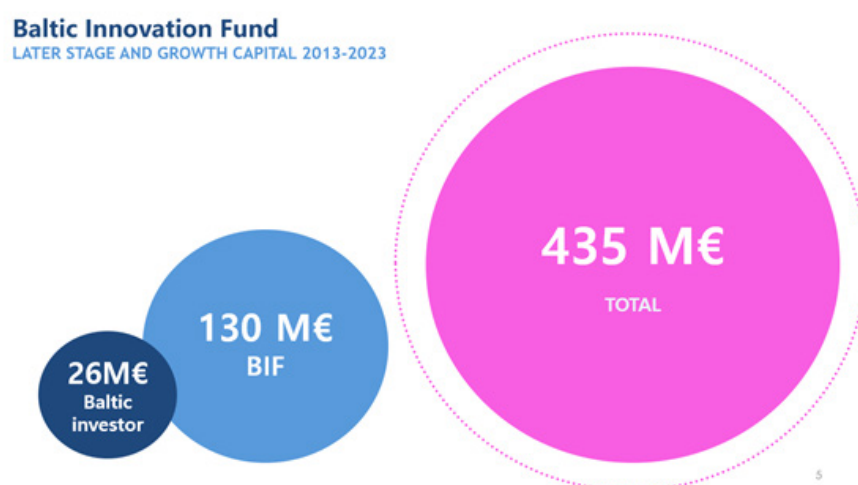



Figure 1. Baltic Innovation Funds (source: EIF)

The funds benefitting from BIF and currently investing in the Baltic market are:

	BPM Mezzanine Fund	EUR 70m
	Livonia Partners Fund	EUR 73m
	Karma Ventures Fund	EUR 70m
	BaltCap Growth Fund	EUR 40m
	INVL Baltic Sea Growth Fund	EUR 165m
	Change Ventures Fund II	EUR 21m

The funds benefitting from BIF and currently investing in the Baltic market are:

	BaltCap Growth Fund	EUR 82m
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As of 31 March 2020, BIF resources supported funds with the financing of EUR 522m. Of this, close to EUR 240m has already been invested in the companies.

BIF2 is a EUR 156m 'fund of funds' that is building on the success of its predecessor initiative, BIF.

BIF2 continues to sustain investments into private equity and venture capital funds focused on the Baltic States over 5 years – following its signature in July 2019 – to boost equity investments into SMEs and Small MidCaps with high growth potential.



Figure 2. BIF2 (source: EIF)

BIF 2 aims to build a balanced portfolio of growth and later stage equity funds with an investment focus on the Baltic States. Co-investment opportunities may be also considered.

EIF, as manager of BIF 2, openly considers the following investment opportunities:

- Investments into venture capital and private equity funds (including hybrid debt-equity funds) with proven experience and insight into the Baltic market;
- Co-investments alongside investment funds, family offices, business angels or institutional investors into early to growth phase SMEs. BIF2 co-invests with selected investors, who are domiciled in the Baltic States, or provides for a relationship with the Baltic ecosystem, or considers investments into the Baltic States.

Investment strategy

General Investment Criteria of BIF and BIF2

The purpose of BIF and BIF2 is to build a balanced portfolio of growth and later stage investment funds, having regard to their investment focus, vintage year and an appropriately diversified number of underlying investments, which provide, directly or indirectly, equity and/or hybrid debt/equity investments or other forms of risk financing to SMEs. In addition, BIF and BIF2 may pursue co-investment opportunities alongside business angels, investment funds, family offices or institutional investors into portfolio enterprises.

Investment decisions taken by EIF, acting as a manager of BIF and BIF2, shall primarily be based on its own quality and added value parameters related to the investment opportunities that arise during the investment period.

Indicatively, BIF and BIF2 are targeting investments into between six (6) and eight (8) investment funds, each with an indicative average between EUR 10,000,000 (ten million euro) and EUR 25,000,000 (twenty-five million euro) per investment fund.

Co-investments into co-investment vehicles are indicatively limited to an overall amount

equal to 10% (ten percent) of the aggregate commitments of BIF and BIF2. Co-investments would be potentially pursued selectively with a clear aim to bring an international investor to invest in the Baltic States.

Eligible Investments

The investments shall be made into the following entities to ultimately invest in eligible investees:

(i) *venture capital or private equity funds* (including hybrid debt-equity funds) in any form performing later stage venture, growth and/or later stage equity investments, hybrid debt/equity investments or other forms of risk finance and that are either (i) managed by established, first time or emerging teams

or (ii) *international funds with an investment focus* on the Baltic region and a team, existing or to be established in a Baltic State, and/or (ii) *co-investment vehicles* in any form performing growth and/or later stage equity investments, hybrid debt/equity investments or other forms of risk finance that are established for the purpose of coinvesting into one or more portfolio enterprises alongside investment funds, family offices, business angels or institutional investors which are either domiciled in the Baltic States, or provide for a relationship with the Baltic ecosystem, or are considering investments into the Baltic States.

BIF and BIF2 will always invest on a strict *pari passu* basis, and BIF's or BIF2's total commitment at a (wet) closing of an investment fund shall be limited to a maximum of 50% of the total commitments in the relevant investment fund.

BIF and BIF2 do not invest more than 20% of their aggregate commitments at the time of such investment into one single investment fund, and not more than 10% of its aggregate commitments at the time of such investment into one single co-investment vehicle.

Portfolio Enterprises

EIF, acting as the manager of BIF and BIF2, shall ensure that in respect of the overall portfolio of BIF and BIF2:

(i) the aggregate amount invested by all investment funds and co-investment vehicles into SMEs shall be an amount equal to at least 1.4 in the case of BIF and 1.5 times in the case of BIF2 the aggregate amount drawn down from the total commitment hereunder for investments by the investment funds and co-investment vehicles; and

(ii) the aggregate amount invested by the investment funds and co-investment vehicles (taking into account the amount invested by the relevant co-investors) into SMEs and Small MidCaps shall be an amount equal to at least two (2) times the aggregate amount drawn down from the total commitment hereunder for investments by the investment funds and co-investment vehicles.

Geographic Focus

One of the clear objectives of BIF and BIF2 is to increase the levels of equity investment made into eligible investees having a significant share of business activity in the Baltic States. For this purpose, at least 50% of the invested capital of each of the investment funds and the co-investment vehicles will be invested into eligible investees established and/or operating in any of the Baltic States.

Governance

The Baltic Investors (INVEGA, KredEx and ALTUM) entrusted EIF with the mandate to manage BIF and BIF2. EIF, acting as fiduciary for the Baltic Investors in its name and the benefit of all investors of BIF and BIF2, manages BIF and BIF2 at its sole discretion by the principles and procedures laid down in the agreement signed between the Baltic Investors and EIF and in particular in the investment guidelines of BIF and BIF2.

IMPLEMENTATION / ACHIEVEMENTS

Financial products and terms & Final recipients targeted

BIF and BIF2 invest in micro, small and medium-sized enterprises as well as Small MidCaps with high growth potential operating in the Baltic region and outside the Baltic region. They can apply to the selected equity fund managers directly.

The financing provides an opportunity of development for enterprises with great growth potential and for innovative enterprises in which traditional investors do not want to invest due to high risk factors.

The amount of equity investments financed by BIF and BIF2 in one enterprise can be from EUR 3 million to EUR 15 million.

Achievements

In this chapter, the results of BIF are presented. As of the end of Q1 2020, there were 50 investments in 7 countries and 10 sectors, 3 exists.

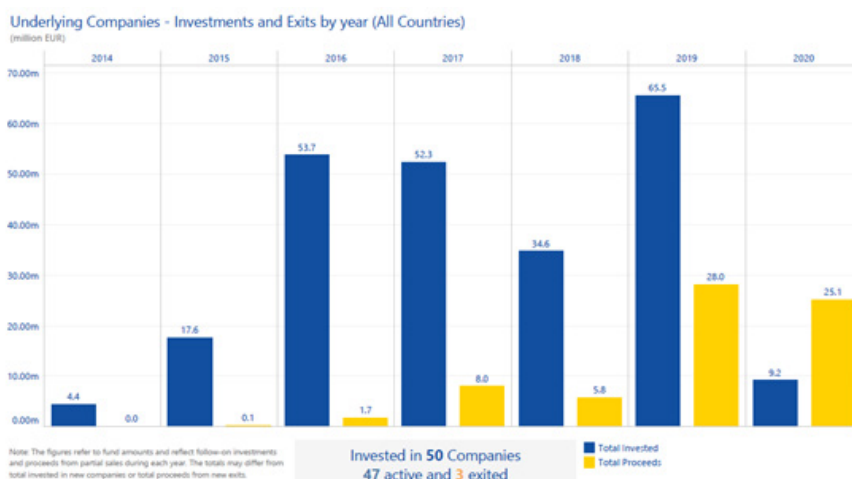


Figure 3. BIF: Underlying Companies (source: EIF)

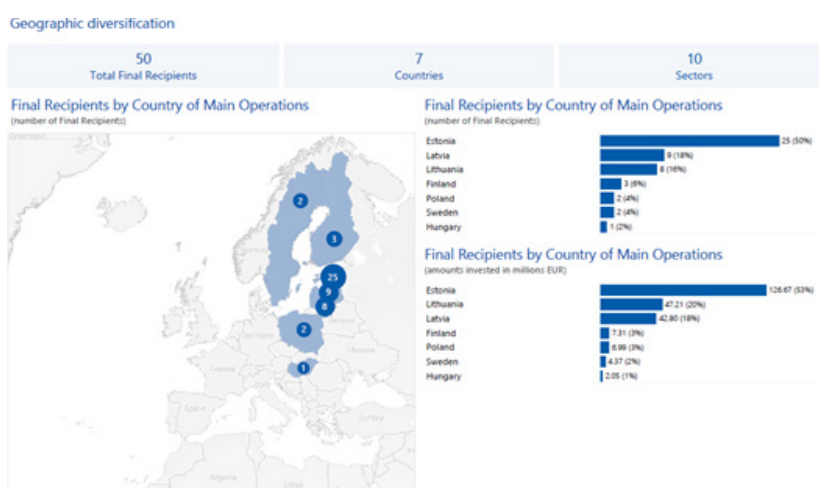


Figure 4. BIF: Geographic diversification (source: EIF)

Baltic Innovation Fund – Interim impact assessment, as of 31/12/2019

46 Portfolio Companies			
Jobs supported	Turnover	Exports	Taxes
8,171	EUR 738 _m	EUR 225 _m	EUR 87 _m

⇒ +72% average increase* in headcount (since respective investment to end-2019)

⇒ +102% average increase* in turnover levels (since respective investment date to 31.12.2019)

*Using simple average as a calculation methodology

Figure 5. BIF – Interim impact assessment (source: EIF)

KEY TAKEAWAYS

BIF and BIF2 are excellent illustrations of the three Baltic States acting together, enabling to make small capital markets together more attractive for investors and creating further financing possibilities for enterprises. Close cooperation with EIF as an experienced and well-known investor ensures that the best market standards are followed giving additional assurance to possible private and institutional investors. Without such cooperation, it would be very difficult to attract equity investments of comparable size.

This long-term partnership between the three Baltic States and EIF was the first initiative of such kind at the EU level. It is extremely important that the efforts of individual countries in the Baltic region in increasing the accessibility of private equity and venture capital for high-growth SMEs were well coordinated by EIF and effectively leveraged with additional private funds.

Portfolio Guarantees for SMEs in the field of Research, Development and Innovation



PORTFOLIO GUARANTEES FOR SMES IN THE FIELD OF RESEARCH, DEVELOPMENT AND INNOVATION

FUNDING SOURCE

European Cohesion Policy Fund

TYPE OF FINANCIAL PRODUCTS

Portfolio Guarantees for SMEs in the field of Research, Development and Innovation

Financial size

EUR 18, 88 million of ERDF resources

Thematic focus

Research, Development and Innovation

Timing

2020 – 2023

Partners involved

SID Bank, commercial banks and saving banks

Re-investment

This financial instrument should generate at least for 30 million EUR of loans and credits.

Main results

The main aim of the financial instrument is to raise the capacity of the SMEs in the field of research, development and innovation in both cohesion regions (the West Cohesion Region should be allocated 1/3 of available resources and the East cohesion region 1/3). It is expected that SMEs will use this type of instrument to secure their financial flow for investments in new technologies, boosting existing innovation potential and improvement of already existing products.

SUMMARY

This case study explains how appropriate financial instruments can boost the research, development and innovation potential of SMEs through using the European Regional Development Fund (ERDF) in the 2014–2020 programming period.

Close to 19 million EUR of ERDF funds were made available to set up a new financial instrument for SMEs, namely the portfolio guarantees for RDI. Field studies among SMEs have shown the need for such an instrument since companies need favourable loans to accelerate their investment into research facilities and infrastructures, improve technological processes and boost innovation potential. The needs of SMEs must comply with the specific objectives of the Operative Programme for the period 2014–2020 as well as with the Slovenian Smart Specialization Strategy (S4). The financial instrument is offered through a savings bank to get closer to final recipients. It is estimated that a total of over 30 million EUR loans will be generated in the period from 2021 until the end of 2023. The core of the instrument is to cover 62, 5% of loss at the individual loan level. The guarantor is SID Bank as the intermediary body for this financial instrument. The individual loan value is limited to a minimum of 10.000 EUR and a maximum of 10 million EUR.

Objectives

The latest European Innovation Index has shown that Slovenia significantly slipped in ranking as is now in the group of moderate innovators after many years of being in the group of strong innovators. This happened even though that investment into research and development has been increasing since 2018. Research and development are still mainly financed by businesses, but the state can significantly contribute in changing this trend¹ by designing and offering targeted financial instruments to help SMEs fund their research, development and innovation potential. SID Bank, being one the most important intermediary bodies of the ERDF, is an important source in detecting economic challenges and providing adequate financial solutions through designing the financial instruments. The portfolio guarantees for SMEs are intended for companies that wish to increase their innovation potential, technological development and advancement, improve already existing technologies and introduce new production processes. This financial instrument was set up taking into consideration the needs of targeted final recipients as well as the recommendations of commercial banks and savings banks that were expected to provide loans to the final recipients. The objective of this financial instrument is to secure the loans taken by companies for the above-mentioned purposes.

¹ Institute for Macro-economic Development (2020). Development report 2020. Available at: https://www.umar.gov.si/fileadmin/user_upload/razvoj_slovenije/2020/angleski/Development_report_2020.pdf.

DESIGN AND SET-UP

Funding and Partners

SID Bank acts as the financial intermediary providing the guarantee, while the selected (through a transparent public process) savings bank provides loans to the final recipients. SID Bank has concluded two unfunded risk-participation agreements with the selected savings bank, one for the East Slovenian Cohesion Region (37,3 % of individual guarantee quota) and one for the West Slovenian Cohesion Region (62,7 % of individual guarantee quota). The savings bank receives the guarantee quota in three instalments.

Investment strategy

Each financial institution had an opportunity to apply for this financial instrument, based on the afore defined criteria. Financial institutions had to submit applications for a guaranteed quota for the total available amount foreseen for this financial instrument (i.e. 18.880.000 EUR) or just for part of this amount. When applying for this financial instrument, the financial institutions had to fulfil certain criteria, which were defined in the open call.

IMPLEMENTATION / ACHIEVEMENTS

Funding and Partners

SID Bank, as the financial intermediary of the guarantee financial instrument, assures a partial coverage of loss (62,5 %) for loans to eligible final beneficiaries, which favourably affects the level of interest rates and particularly the value of collateral demanded by the financial institution. The selected financial institution is able to use the portfolio guarantees only for loans that will be approved for financing of investments and related operating expenses (to reinforce the company's activities in the field of RDI). Within the agreement with the selected financial institution, the milestones for the placements of loans to the final recipients are defined along with other mutual commitments and obligations.

Final recipients targeted

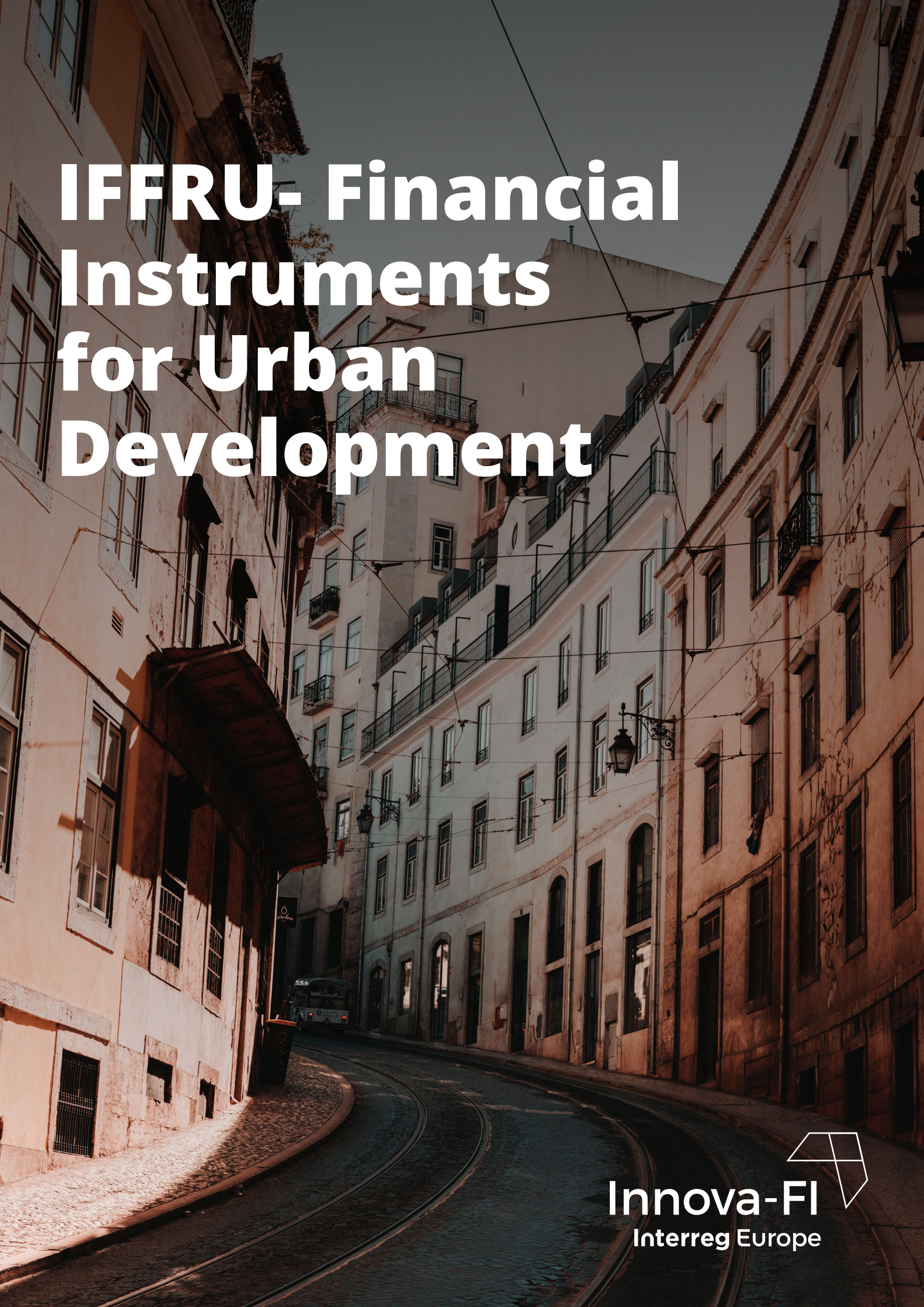
The financial instrument is targeting SMEs with RDI investment needs. These final beneficiaries are able to improve their access to funding through participating financial institutions by applying for loans from 10.000 EUR to 10 million EUR.

Achievements

The guarantee instrument was made available by the selected financial institution at the beginning of March 2021. By the end of the first quarter, no loan agreement was yet signed.

OUTLOOK

This financial instrument is expected to be useful due to its favorable conditions vis-à-vis savings banks (guarantees fulfil the conditions for unfunded credit protection under the CRR) and the final recipients (guarantee free of charge, high coverage). Having banks involved in these types of financial instruments (SID Bank is, in addition to the guarantee instrument for RDI for SME, offering another portfolio guarantee instrument for SME through three banks), we can improve the access to portfolio guarantees for SMEs and solo proprietors since we have found that there is a need for such financing. This gives us further incentive to design similar financial instruments that can help improve the potential of the RDI in Slovenia.



IFFRU- Financial Instruments for Urban Development

IFFRU- FINANCIAL INSTRUMENTS FOR URBAN DEVELOPMENT

FUNDING SOURCE

ERDF, Public funds, Private funds

TYPE OF FINANCIAL PRODUCTS

Loans and guarantees

Financial size

EUR 102 million of ESI Funds resources (ERDF)

Absorption rate

n/a

Thematic focus

Urban development

EU leverage

n/a

Timing

October 2017 - ongoing

Leverage of public resources

n/a

Partners involved

Regional Operational Programs, European Investment Bank, Council of Europe Development Bank-CEB

Re-investment

n/a

Re-investment

This financial instrument should generate at least for 30 million EUR of loans and credits.

Main results

By December 2020, IFFRU had received 556 applications that generated 276 funding contracts with a total value of investment of € 777 million.

SUMMARY

IFFRU 2020 (Instrumento Financeiro para a Reabilitação e Revitalização Urbanas) is a financial instrument that has been established to support urban renewal across the entire Portuguese territory. It uses EUR 102 million of ESI Funds resources to mobilize € 1.4 billion of public and private financing for urban development, intending to generate a total investment of around EUR 2 billion.

IFFRU operates as a Fund of Funds and targets the improvement of buildings that are more than 30 years old, abandoned industrial spaces and units, social housing (including private units within a social housing building) and public space. Typically, the works will improve the general condition of the building and must include interventions to improve its energy efficiency.

The case study follows a less common focus on what concerns financial instruments. It has been a very important initiative in combining urban regeneration with new economic dynamics, mostly associated with tourism.

Objectives

Given the strategic importance of urban spaces for territorial cohesion and competitiveness, IFFRU aims to promote urban qualification and the conversion of deactivated industrial spaces, the creation of new development dynamics that contribute to the settlement of the population and the creation of wealth and employment.

In turn, when carrying out urban rehabilitation operations, complementary actions will be supported that provide greater energy efficiency, either through the adoption of passive systems, the use of more efficient equipment or the production of energy for self-consumption.

In less developed communities, it is also important to promote physical regeneration, associated with initiatives that contribute to economic dynamism and job creation, as fundamental elements for social inclusion and the fight against poverty.

The IFFRU 2020 intends, therefore, to facilitate access to financing by investment promoters in the area of urban rehabilitation, improving financing conditions appropriate to the circumstances and specificities of the projects, and diversifying the offer of funding solutions under more favorable conditions than those available on the market.

IFFRU 2020 is a lever for the sustainability of cities and the improvement of people's quality of life, creating new opportunities for economic and social development in urban centers.

DESIGN AND SET-UP

Funding and Partners

IFRRU 2020 gathers financing from several sources, including ESI Funds from seven Regional Operational Programmes (OPs) - PO Norte, PO Centro, PO Lisboa, PO Alentejo, PO Algarve, PO Açores, PO Madeira - and one Thematic OP (PO SEUR) from Portugal 2020. It also uses finance from the European Investment Bank (EIB), the Council of Europe Development Bank (CEB) and the State Budget (national public contribution). This public funding is used to attract private co-financing through the selected financial intermediaries. This generates a multiplier effect of fourteen for this financial instrument. Further investment at project level, typically by the project promoters, is expected to result in a total amount of investment of €2 billion.

Investment strategy

The investment strategy of the fund of funds targets the improvement of buildings that are more than 30 years old, abandoned industrial spaces and units, social housing (including private units within a social housing building) and public sites. Typically, the works improve the general condition of the building and must include interventions to improve its energy efficiency.

Governance

The IFRRU 2020 fund of funds is a national body established to act on behalf of the eight managing authorities supporting the financial instruments. It operates in a multi-stakeholder environment, which includes the public financiers, the private sector financial intermediaries, specialist ministries and agencies and more than 300 municipalities across Portugal, including those from Madeira and the Azores. The effective management of relationships between a large number of stakeholders is achieved through an information system developed by IFRRU 2020 as part of its management role (and funded from its management fees) to support the sharing of financial and other information.

It is up to each Municipality to define the territory in which the interventions to be supported will take place, in a perspective of focusing support and planning interventions in an articulated way between public and private investments. An institutional collaboration protocol was signed with the National Association of Portuguese Municipalities that provides for the designation of a specific focal point for IFRRU 2020 in each Municipality. The Municipalities are interlocutors of proximity and allow the streamlining of procedures, whether prior opinion or urban licensing, with a process that is accompanied by the focal point and in which the candidate interacts directly with the municipality.

IMPLEMENTATION / ACHIEVEMENTS

The financial instruments were launched in October 2017 following the selection of the financial intermediaries. The financial intermediaries were chosen through a public tender. The design

of the instrument requires that each of the banks offer the IFRRU 2020 products are offered by each of the banks across the entire Portuguese territory (in total more than 1000 offices). This generates more competition and ensures that the final recipients can access finance at the most competitive terms. Another feature of the design is how it has made it simple for promoters to access the funds.

Finance applications are made directly to one of the financial intermediaries through its branch network at any time, without a limit to the number of applications that can be made.

The programme's communication strategy has also been an important factor in its successful implementation. In the first year, more than 100 public presentations of the programme were made all over the country to promote the financial instruments to potential project promoters, municipalities and other stakeholders. An international campaign was also developed, with the help of embassies and the consulates, to promote the potential of IFRRU 2020 to expatriates and investors.

Financial products and terms

IFRRU 2020 support is provided through two types of financial products:

LOANS, made up of public funds and, at least by 50%, of Bank funds:

- with 20 year maturity dates, being the same defined by the Bank in accordance to the project's temporal profitability forecast;
- grace periods equivalent to the estimated investment period (duration of the work) + 6 months, 4 years maximum;
- interest rates below those practiced in the market for investments of the same nature;
- financial coverage – up to 100% of the investment value, depending on the Bank's financing needs and risk analysis, in which case the beneficiary's own resources will not be required;
- collateral - those required by the selected Bank, preferably consisting of a mortgage from the property to be rehabilitated, which may be required as a condition for entering into the financing or during the term of the financing. Negotiated collaterals must be maintained for the term of the loan agreement in an amount at least equal to the debt at every moment.

GUARANTEES, managed by selected intermediaries for this type of product, are intended for projects that do not have sufficient collateral with the objective of making it possible to grant loans that, due to lack of collateral, could not be accessed. IFRRU 2020 supports the project through a guarantee financed with European funds, which can cover up to 70% of the loan. IFRRU 2020 also grants the guarantee fee applicable by Sociedade de Garantia Mútua (SGM) to each of the operations, up to 1%, during the first half of the maturity period of each loan for a maximum period of 10 years.

Final recipients targeted

Any organisation, public or private, can apply to IFRRU 2020. The financial support is given to

fund the following operations:

- Full rehabilitation of buildings with 30 years or more;
- Rehabilitation of abandoned industrial sites and buildings;
- Full rehabilitations of social housing buildings;
- Rehabilitation of private singular fractions inserted in social housing buildings that are the target of full rehabilitation;
- Rehabilitation of public sites.

Achievements

By December 2020, IFFRU had received 556 applications that generated 276 funding contracts with a total value of investment of € 777 million. Projects have been approved for support in 54 different cities demonstrating how the financial instrument is successful at delivering finance to support urban development across a range of different localities and projects. Concerning urban rehabilitation and sustainability goals, the signed contracts will allow

2.139	new residents
1.329	rehabilitated buildings
3.636	new employment
380.263	m ² of rehabilitated public of commercial buildings
32.742	toe reduction of annual primary energy use
24.227	ton reduction of annual CO2 emissions

Source: <https://ifrru.ihru.pt/>

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