

**Financial Instruments for Innovation**

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**Financial Instruments in Innovation and Competitiveness  
Policy: Challenges for Less Developed / Outermost Regions,  
with focus on Região Autónoma da Madeira**

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# ACKNOWLEDGMENTS / DISCLAIMER

This presentation is based on our consultancy to ANI, under the project INNOVA-FI, Interreg Europe.

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- On-going consultancy to Secretaria Regional das Finanças, Governo Regional da Madeira, dynamisation of the use of financial instruments in Região Autónoma da Madeira.

The opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the entities above named.

Mário Rui Silva



# SUMMARY

1. Financial Instruments in the Framework of Innovation and Competitiveness Policy
2. Portuguese System of Financial Instruments
3. Madeira's Economic and Innovative Context
4. Assessment and Challenges for the Use of Financial Instruments in Madeira

# 1. FINANCIAL INSTRUMENTS IN THE FRAMEWORK OF INNOVATION AND COMPETITIVENESS POLICY

## “New” Financial Instruments used in EU policies in favour of firms

- Conventional financial instruments: Provided by private financial intermediaries (loans, venture capital for expansion of consolidated firms, capitalization through stock exchange markets, private equity...).
- New Financial Instruments: With some degree of public support and intervention, they aim to address market failures and gaps of the private supply and are linked to public policies goals (mainly innovation and competitiveness).

# 1. FINANCIAL INSTRUMENTS IN THE FRAMEWORK OF INNOVATION AND COMPETITIVENESS POLICY

## Two families of financial instruments

Venture Capital: Public intervention operates through gathering financial resources and through the creation of Capital Funds that will support firms capitalisation, using as intermediaries venture capital companies and business angels. Often includes also a publicly controlled venture capital company.

Lines of Credit: Public intervention operates through gathering financial resources and through the organization of loan guarantee schemes (guarantee and counterguarantee). Firms have access to these lines of credit through commercial banks but will benefit from total or partial exemption of the guarantee costs and, even, from bonification or exemption of interests.

# 1. FINANCIAL INSTRUMENTS IN THE FRAMEWORK OF INNOVATION AND COMPETITIVENESS POLICY

## Relevance of “new” financial instruments (and why is EC pushing for an extended utilisation)

- Address sub-optimal investment situations and market failures, such as lack of access to finance for Startups and SMEs
- Countercyclical role during periods of economic and financial crisis
- Serving as a public policy instrument, by defining thematic goals at European, national or regional levels
- Leverage effect on EU investment funds, by co-investing with the EIB Group (the EIB and the EIF), promotional banks and private investors at subsequent financing stages
- Maximise the value added and complementarity of EU policy instruments

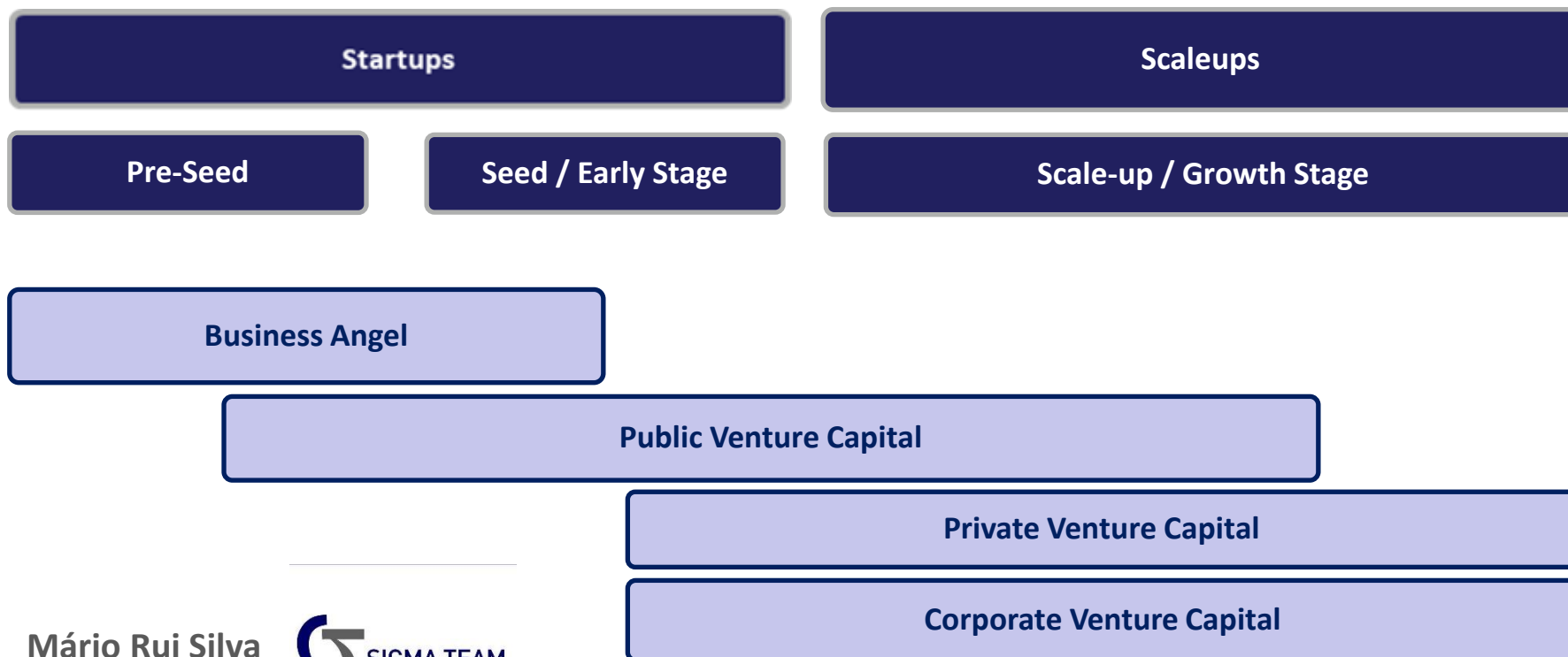
# 1. FINANCIAL INSTRUMENTS IN THE FRAMEWORK OF INNOVATION AND COMPETITIVENESS POLICY

**Complementarity and specificity of policy instruments addressed to support firms innovative activities (R&D, productive transformation, internationalization...): Some topics**

- Fiscal instruments are not effective for early stages
- European subventions apply to projects while financial instruments apply to firms
- Non reimbursable subventions are the most effective instrument when knowledge spill overs are high
- In very early stages (pre-seed, seed), venture capital is the best way to solve the lack of own capital
- Coupling subventions with credit lines (guaranteed and with no interest) will enhance investments of productive transformation
- Under the rules of ESFI, some internationalization investments cannot be supported by subventions

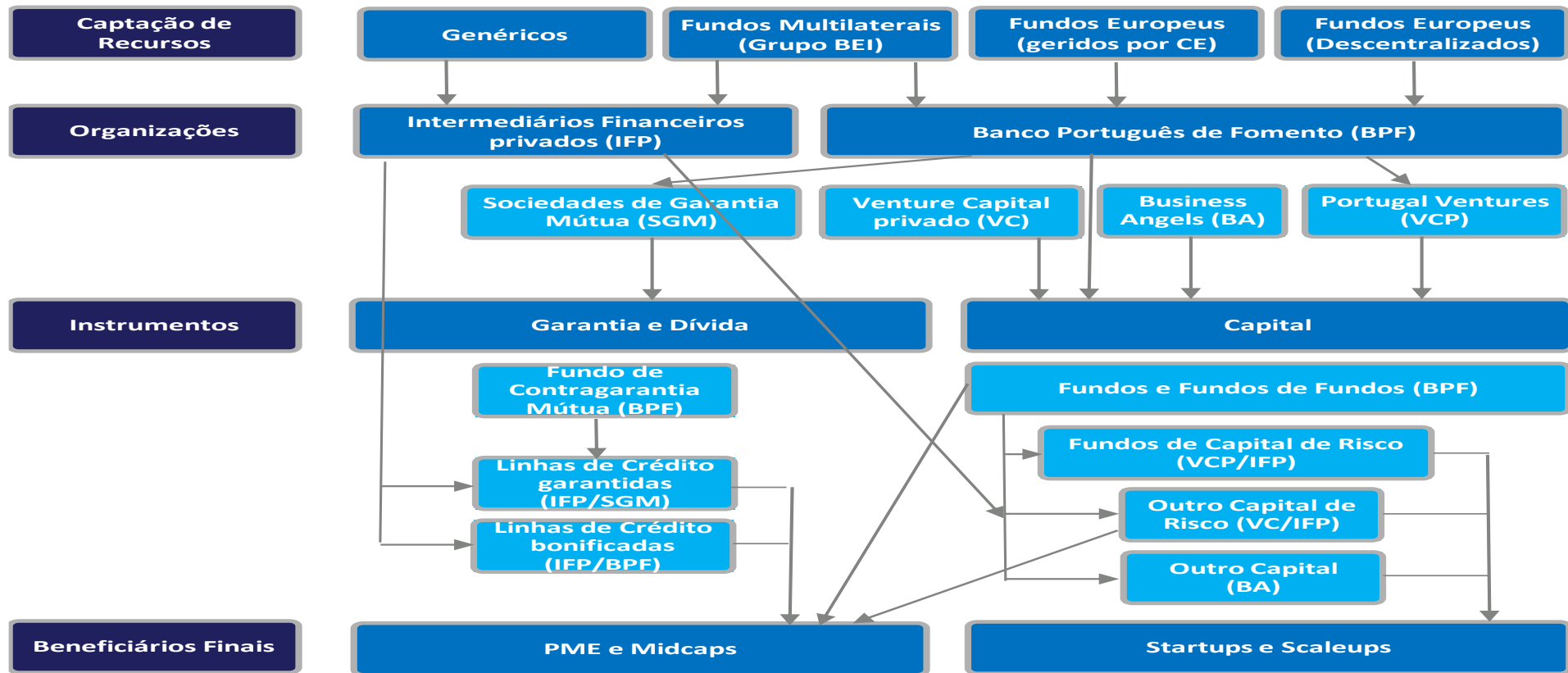
# 1. FINANCIAL INSTRUMENTS IN THE FRAMEWORK OF INNOVATION AND COMPETITIVENESS POLICY

## Instrumentos de Capitalização versus Estágios Novas Empresas





## 2. PORTUGUESE SYSTEM OF FINANCIAL INSTRUMENTS



Fonte: Elaboração própria

### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

#### Economic Context

- Intermediate-low development level in European context
- Increased costs (small Island, outermost region)
- Small dimension of regional market
- Strong specialisation in Tourism

|                               | Região Autónoma da Madeira | Portugal   |
|-------------------------------|----------------------------|------------|
| PIB per capita (€, PPC), 2019 | 24.266                     | 25.222     |
| PIB per capita (EU=100), 2019 | 75,8                       | 78,8       |
| Population, 2021              | 251.060                    | 10.347.892 |
| Firms (nº), 2019              | 28.661                     | 1.318.330  |

### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

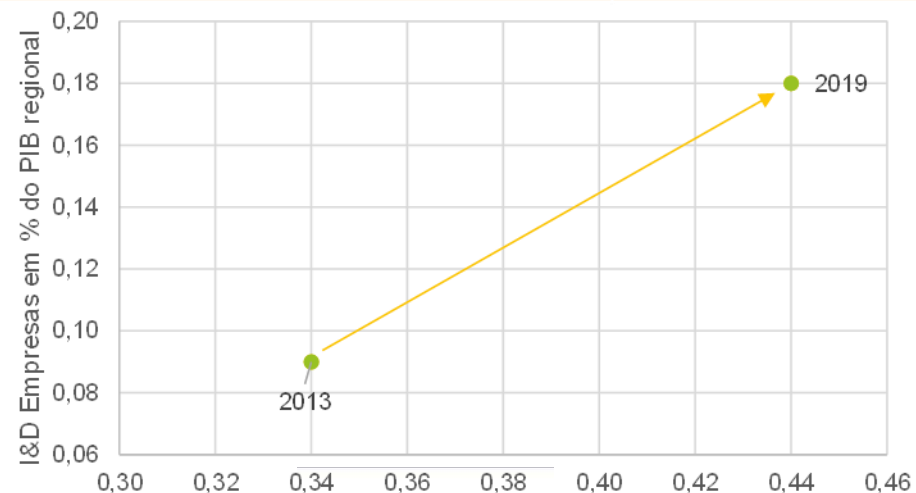
#### Regional Innovation System

- Innovation System still needs to grow and structuring actions (low own technological effort)
- However, good recente evolution (2013 – 2019):
  - GERD / GDP: From 0,34% to 0,44%
  - BERD / GERD: From 26,9% to 41,2%
- Specific pattern in national framework (stronger relevance of the State sector)

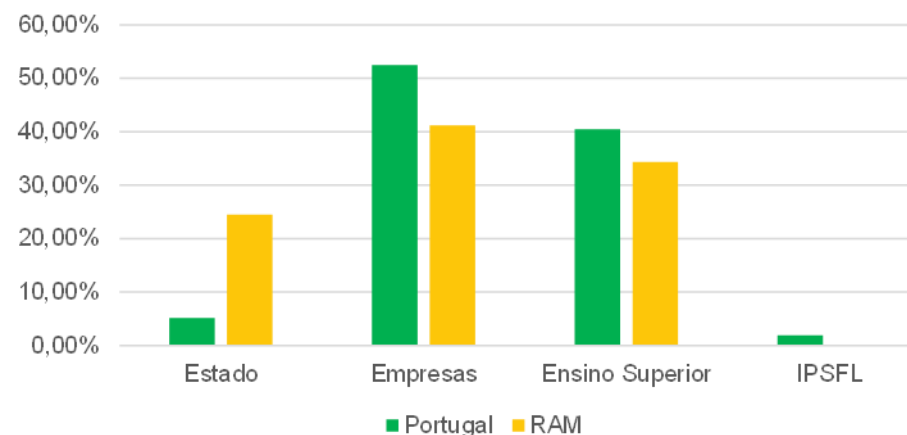
### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

#### Regional Innovation System

|   | Região Autónoma da Madeira                          | Portugal                         |
|---|---|----------------------------------|
| Despesa em I&D / PIB (%), 2019                                    | 0,44  | 1,40                             |
| Regional Innovation Scoreboard 2021 (dados de 2020 ou anteriores) | Emerging Innovator +<br>RII = 53,6<br>Rank EU = 204 | Moderate Innovator<br>RII = 80,2 |



Repartição percentual da despesa em I&D por setor de execução



### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

#### Challenges for current programming period (2021-2027)

- Smart Specialisation (in fact, smart diversification)
  - Six strategic areas:
    - Tourism
    - Sea Resources and Technologies
    - Digital Technologies and Economy 4.0
    - Circular Economy, Energy Transition, Climate Action and Biodiversity
    - Agriculture, Food and Bioeconomy
    - Health and Well-Being

### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

#### Challenges for current programming period (2021-2027)

- Smart Specialisation (diversification)
  - Transformative activities and Entrepreneurial Discovery Process based on two logics:
    - Opportunities generated by tourism and public services (backward and technological linkages)
    - Opportunities generated by increased technological effort, with a strong public push (forward linkages)

### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

#### Challenges for current programming period (2021-2027)

- Increased public R&D (University of Madeira, ARDITI), looking for critical mass (selected anchor projects, national and international cooperation)
- Strong support to business R&D and to collaborative R&D schemes
- New entrepreneurship (sea technologies, digital technologies, biotechnologies, tourism advanced services...)

### 3. MADEIRA'S ECONOMIC AND INNOVATIVE CONTEXT

#### Challenges for current programming period (2021-2027)

- Public investment will be supported by regional budget (also national budget in higher education) and subventions (Regional Operational Programme, PRR, centrally managed Programmes)
- Business R&D will have its main support in subventions (Regional Operational Programme, Horizon Europe,...)
- Capitalisation instruments should have an increased expression in supporting start-ups (and, then, scaleups), together with subventions
- Credit lines and guarantee schemes, together with subventions, will mainly apply to consolidated SME and midcaps, for growth, innovation and internationalisation projects.



## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

- The programming period 2014-2020 was the first one to have financial instruments with public support financed by European Structural and Investment Funds, for innovation policy.
- Regional Operational Program (Madeira 14-20) has open 7 calls, having selected IFD / BPF for 7 operations in order to create financial instruments funds:
  - Capitalisation (1 for R&D, 1 for entrepreneurship, 1 for internationalisation, 1 for innovation)
  - Credit Lines (3 for the counterguarantee fund, in order to support credit lines)

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

Very different current execution at the IFD / BPF level (backward operationalization):

|                                   | Investment |           | FEDER     |           |
|-----------------------------------|------------|-----------|-----------|-----------|
|                                   | Approved   | Execution | Approved  | Execution |
| 4 Capitalisation Funds Operations | 2,867 M€   | 0,000 M€  | 2,437 M€  | 0,000 M€  |
| 3 Couterguarantee Fund Operations | 17,511 M€  | 12,031 M€ | 14,884 M€ | 10,226 M€ |

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

### Forward Operationalization

#### Capitalisation

- 1 call to select Business Angels, 3 business angels vehicles were selected
- No information about their participation in startups capital shares
  
- 1 call to select Venture Capital, 2 venture capital companies were selected
- One of them Portugal Ventures has launched a call (only at the beginning of 2022) for Madeira startups; good demand, on going negotiations.

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

### Forward Operationalization

#### Credit Lines

- 5 credit lines with public support opened for Madeira firms, in the last 5 years
- Madeira firms had also access to some national credit lines, namely tourism funds
- High demand for credit lines has been verified
- Good practice in Portugal / Madeira: One credit line was associated to subventions for innovative investments, allowing to finance the reimbursable part of the incentive.

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

### Some conclusions

- The scheme in place for credit lines with public support (guarantee costs, interest bonification) has shown to be effective and adequate to firms needs.
- One important feature, to be continued, is to use credit lines has a complement of subventions (financing the reimbursable part of the incentive).

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

### Some conclusions

- For capitalization instruments, the access of potential final beneficiaries (mainly startups) was near zero.
- Operationalization occurred in a very late stage of the programming period 2014-2020.
  - For the current programming period, operationalization should begun as soon as possible.
- There are gaps both from the supply and demand side

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

### Gaps from the supply side

- Global scheme at national level was still in construction; lack of awareness of specificities of outermost regions
  - To deep coordination between Regional Government (MA of the Operational Program; IDE) and the national promotional bank (Banco Português de Fomento); on going.
  - (note: EU outermost regions have not critical mass to implement regional promotional banks)
- Increased proactivity of public venture capital
  - To cover market failures in financing startups in concept stage and early stages
  - To deep coordination between Regional Government (IDE) and the national public venture capital (Portugal Ventures); on going.
- More challenging: To attract private VC and BA; on going.

## 4. ASSESSMENT AND CHALLENGES FOR THE USE OF FINANCIAL INSTRUMENTS IN MADEIRA

### Gaps from the demand side

- Lack of awareness and of information about capitalization instruments
- Lack of proactivity of regional ecosystem
  - In both cases:
    - To deep network relationships between regional entities of the entrepreneurial ecosystem (MA OP, CRI, UMa, ARDITI, IDE) and between them and VC and BA
    - To focus on technology intensive activities in priority areas of the S3 Madeira: marine technologies, digital technologies, biotechnologies, advanced tourism services
- There is some trade off between subventions and capital instruments, because subvention rates for R&D projects and, even, for investment projects, in less developed and outermost regions, are quite high. However:
  - VC and BA finance firms, not projects, and cover some expenditures that cannot be eligible for subventions
  - VC and BA bring more than financial resources (know how, national and international relations, ...)



Thank you for your attention!  
Questions are welcomed.

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Mário Rui Silva

