



EAFRD Guarantee Fund in the Occitanie region, France

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Context - Occitania



- **Region created 1st January 2016**, the result of the merging of Languedoc-Roussillon (Transition region) + Midi-Pyrénées (Competitive region)
- **5.7 million inhabitants**
- **GDP Eur 152 bn**
- **1st in creation of new companies**: +52 000 per year
- 12% unemployment rate (above the French average)
- **8 million tourists** per year
- **Population growth** +52 000 per year
- Twice the area of Belgium with large cities
 - Toulouse and Montpellier
- **50% of territory used for agriculture**
- **First employer: agriculture & agrifood industry !!**



- Among French regions:
- 5th in population
 - 4th most touristic
 - 3rd most farms
 - 2nd in territory
 - 1st rate for GDP invested in R&D: 3,7%
 - 1st for organic products



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Context – SMEs in the region



Various types of companies in the region:

- new technologies and innovation (digital, aerospace industry, healthcare...)
- traditional (agriculture and forestry, tourism, crafts)
- Headquarter of worldwide companies: Airbus, ATR

Almost 500 000 SMEs of which

- more than 95% micro companies
- more than 20% agriculture related

Operational Programs focusing on:

- Supporting and fostering innovative projects
- Supporting SMEs



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Research and Innovation: 1st region in France

- 247 000 students at 35 institutions for higher education
- 30 000 researchers
- 15 clusters, including Aerospace Valley and AgriSudOuest Innovation

But also

- 140 000 farmers
- 123 000 craft enterprises
- 110 000 working in tourism
- 85 000 working in aerospace



Context – European funds

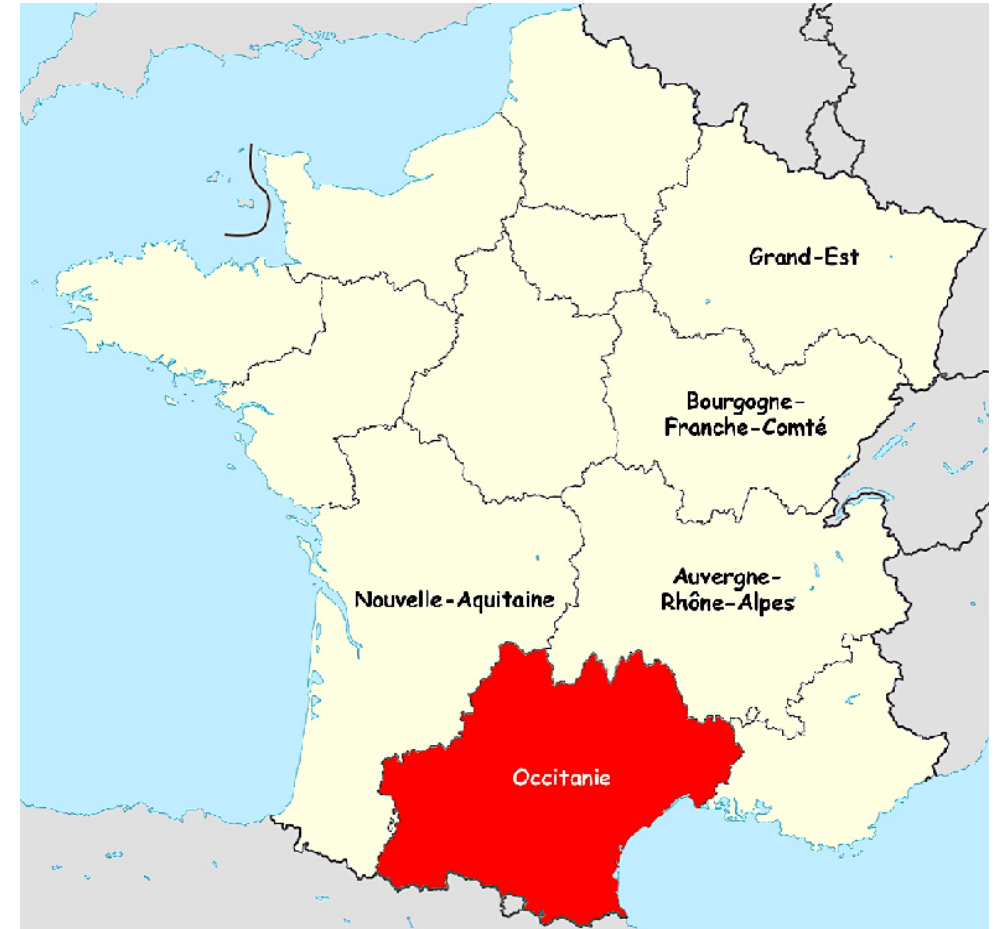


EUR 2.8 bn directly managed by the Region Occitanie (Managing Authority) for:

- **2 Operational Programs ERDF/ESF** (for the former territories of Languedoc-Roussillon and Midi-Pyrénées)
- **1 Operational Program ERDF** over the Pyrénées (mountain range)
- **2 Rural Development Programs EAFRD** (for the former territories of Languedoc-Roussillon and Midi-Pyrénées): EUR 1,9 bn
- **EUR 506m for Innovation and SMEs**
- **EUR 143m for Financial Instruments**

But also

- 1 European Maritime and Fisheries Fund programme
- Interreg POCTEFA et Sudoe



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Context – IF experience



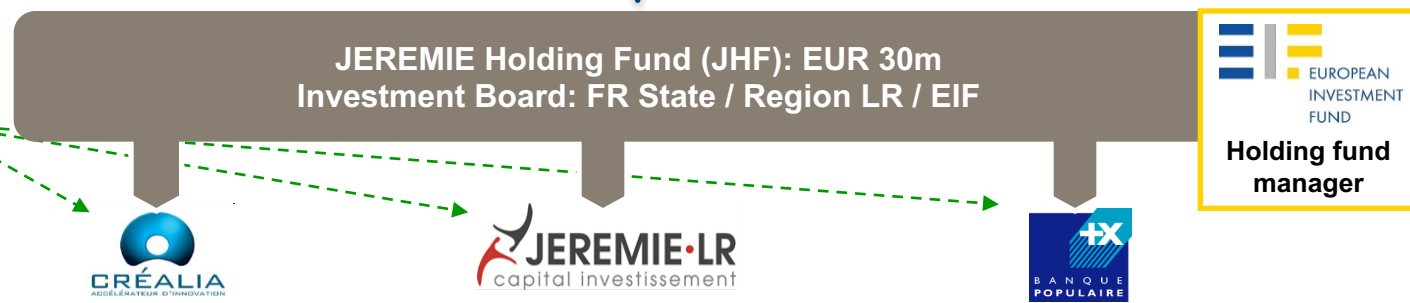
Long experience with Financial Instruments in Occitanie:

- Two venture capital companies created in early 80s IRDI and SORIDEC
- Nowadays merged in one Equity management company - EUR 300m of assets
- **2007-2013:** Midi-Pyrénées ERDF Operational Program
- → long experience with guarantee funds and seed loans instruments using ERDF
- **2007-2013:** Languedoc-Roussillon ERDF Operational Program
- → JEREMIE funds EUR 30m (EUR 15m ERDF + EUR 15m Region)



Context – 2007-2013

JEREMIE Experiment



Financial Intermediaries selected through a Call for Expression of Interest



[EUR 175m] invested in 1 358 SMEs / 15 417 Jobs created or maintained

Experience and lessons learned

- A long process
- Alignment of interest
- Risk sharing private-public
- Transparent selection procedure to select financial intermediaries
- Win-win:
 - MA: achieve OP objectives, leverage, revolving
 - Intermediary: risk-reduction, broader business opportunities
 - SME: preferential access to finance

a positive experience 2007-2013



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2014-2020 – Next step The FOSTER project



On the basis of positive past experience and after ex-ante assessments, Region Occitanie decided to increase the size of FI for 2014-2020:

EUR 143 m in a new TPE-PME Fund of Funds: The FOSTER project

Focus on ex-ante assessments:

- A global approach of SME needs covering all sectors, including agriculture & agrifood industry
- Region OCCITANIE chose EIB Group:
 - strong experience with market assessment;
 - FI implementation;
 - and knowledge of EU regulations.

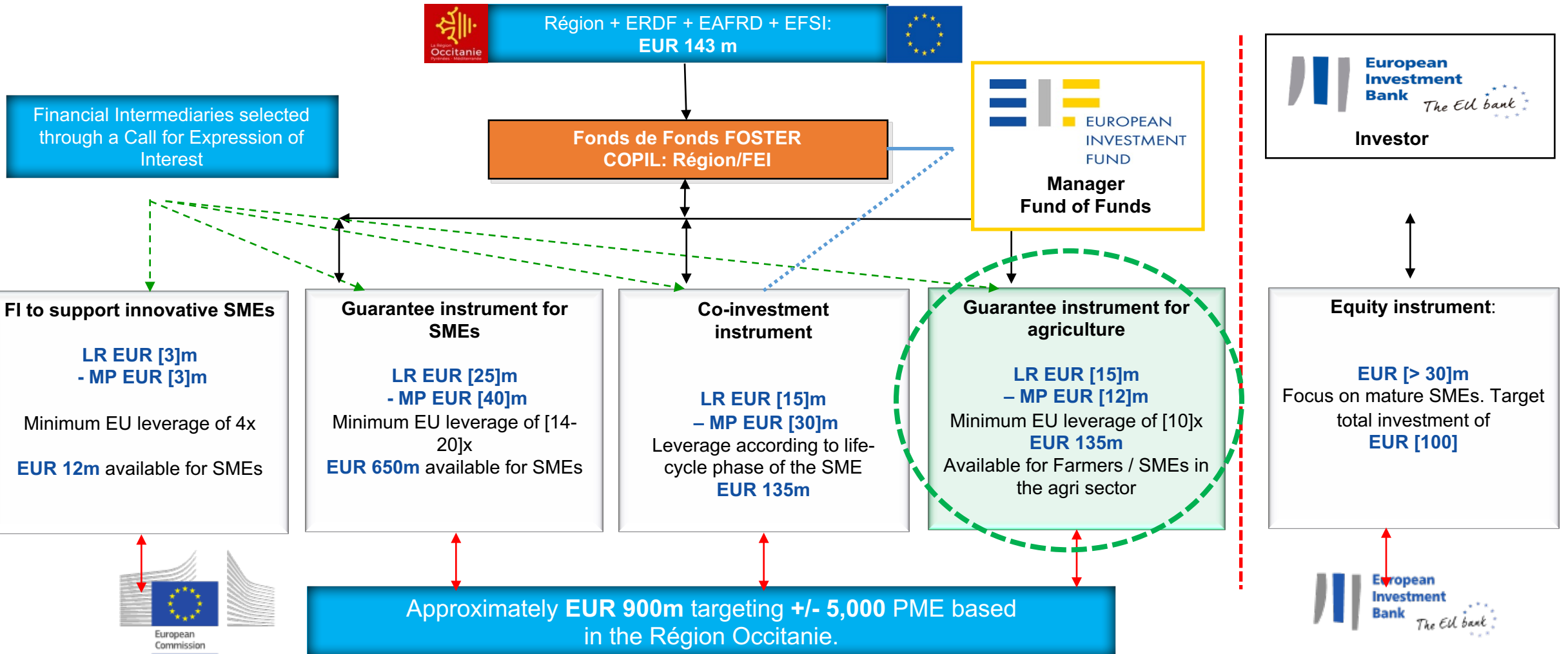


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2014-2020 – Next step

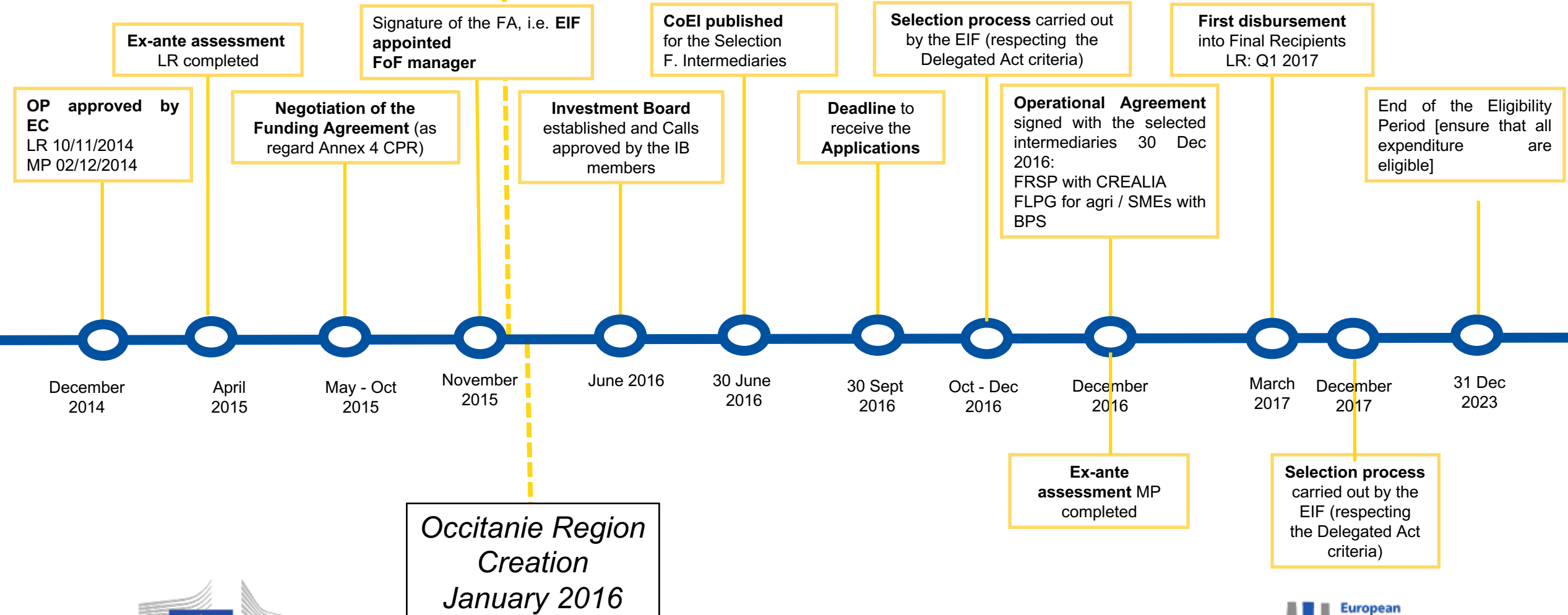
The FOSTER FoF project



Timeline



*Regional Elections
December 2015*



*Occitanie Region
Creation
January 2016*



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Key messages from MA



- Financial Instruments: **a new tool for public administrations** to finance economy & boost private sector [*particularly interesting in the context of scarcity of resources + complementary to Grant + EUR 900m in the real economy = size of the OP*];
- Financial instruments **shall provide advantage to final recipients**: SMEs (e.g. lower interest rate, lower collateral requirements, increased investment capacity, increase the risk capacity of intermediaries) that can only happen via a transparent and competitive selection process;
- **Risk reduction for financial intermediaries**;
- **Partnership with an EU institution (like EIF)** in order to deal with private sectors (e.g. banks, venture capital companies...).



Key messages from MA



▪ Why the MA has chosen to work with EIF:

- Significant experience in managing Structural Funds; and
- Excellent track record (i.e. JEREMIE);
- Transparency of management and selection process;
- Range of financial instruments Guarantee + Risk Sharing Loan + Equity (in line with market needs);
- Avoid conflict of interest;
- Safe: EIF is rated AAA;
- Ability to negotiate with banks to provide the best for Final Recipients and ensures Reporting & treasury management of the FoF.



Key messages from MA



▪ Why the MA has chosen to work with EIF:

- Work in full cooperation with the steering committee (COFIL) to establish a clear Investment Strategy;
- Close cooperation with the MA to implement FIs (especially for the agriculture pilot project);
- Time needed to set-up the instrument: For MP [Signature of the FA (Region-EIF) in January 2017 and Signature of the Operational Agreements with Intermediaries in November 2017];
- Novelty for the MA: Financing Agri with EAFRD + using Juncker Plan resources to increase the leverage “**Doing more with less**”.





Implementation of FOSTER TPE-PME EAFRD



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The context



Financial Instrument in agriculture, agrifood and forestry sectors?

- Financial instruments = Tools included in the Region's economical strategy (with repayable advances for working capital, tangible and intangible equipment) a strong SME's need with a lack of private sector;
- Use of long term instrument, with the possibility to reinvest + A high leverage effect: crossed effect of public and private investment;
- Since 2013, Region wanted to start to switch from "grant type of support" to a more revolving approach;
- A pilot project initiated in Languedoc-Roussillon RDP since 2014 and thereafter duplicated in Midi-Pyrénées RDP as of 2016.



The Process



- Assessment of the Demand
- Accompanying the maturation of the actors
- Fix targets

- OT writing
- Define modalities and resources
- Set up a Management agreement with payment authority

- OT transposition and application of targets with financial intermediary
- Stay focus and keep pragmatic
- Adjustment/amendment in real time



The Process



- First step: process applied to Languedoc-Roussillon RDP
 - Pilot project: set up the process (more questions than answers!)
 - 1st in Europe, with EIF, very closed and constructive collaboration
 - Though from the beginning of the RDP conception, RDP was built for FI

- Second step: process applied to Midi-Pyrénées RDP, in a different context
 - Significant time reduction: “just to apply” the process
 - But, a RDP not really build up for FI and less resources at this stage of the programming.





The needs identified for farmers, forestry and food industry sectors

- Mainly a single financial institution,
- No or very little knowledge of financial instruments,
- Low diversity of funding and a strong preference for loan,
- A need for funding both for working capital and for the acquisition of equipment,
- Loans limited to corporate contributions constraining the development

=> Focusing FI on OT 411 (agricultural holdings), 421 (farm processing), 422 (agrifood industry), 642 (forest activities) et 86 (processing forest products)

Objectives

- For the final recipient: Strong demand to access to finance at better condition, i.e. lower interest rates, reduction of the collateral requirements, speed up the local decision process, reduce administration fees
- Alignment of interest between private and public
- Share the risk between private and public investment
- For MA: leverage effect (EUR 1 Région, EUR 1,7 EAFRD and EUR 13 of loan)

2015-2016
RDP redaction and financial
agreement:
how?



- **May 2014–May 2015:** common ex ante study to assess the demand of the market
- **June 2015:** results
- **August 2015:** RDP approbation (EC)
- **20 November 2015:** Funding Agreement between Region – FEI
- **14 April 2016:** investment strategy finalised and terms of the financial instrument
 - **guarantee type of instrument (First Loss Portfolio) financing tangible and intangible investments as well as working capital**
 - **Initial contribution EUR 15 M: EUR 9,5 M EAFRD / EUR 5,5 M Région**
 - **expected leverage around 4/5 for a portfolio of EUR 60/75 M of loans**
- **November 2015 – April 2016:** discussion with Payment Agency (ASP) and French Ministry of Agriculture (management agreement ; monitoring and reporting system (OSIRIS))





- **June 2016:**
 - Call for Expression of Interest was proposed to the Investment Board of the FoF
 - To select financial intermediaries
 - To define selection criteria

- **Autumn 2016:** Selection of one financial intermediary (Banque Populaire du Sud) + Negotiation of the terms and conditions.

- **January 2017:** Operational agreement signed between EIF and BPS

- **February /March 2017:** FOSTER is on the market + BPS carried out internal training + set up the communication strategy + set up the reporting processes, etc.

- **First loans** guaranteed reached Final Recipients [a long journey for the first pilot project significantly reduced for Midi-Pyrénées]



Expected effects of this Pilot Project

- **Strong Guarantee: Free of charge / at first demand / payable within 90 days**
- **Loans from EUR 25 000 to EUR 900 000**
- **Only new loans** (no debt restructuring)
- **Maximal loan period: 10 years**
- **Focus on some risked targets** (40% on more risked final recipients, 40% maximum on EUR 600 000 loans; 25% maximum on start up)

- **Maximum public aid rate 40%**

- **500 à 800 final recipients**

2015-2016
RDP redaction and financial
agreement:
how?



The Funding Agreement MA - EIF

- **Contains**
 - Entrust EIF as fund manager
 - Set up the fund of funds + define the Investment strategy + Design the underlying Financial Instrument + Carry out the Selection process + Follow the transaction + Report to the Region (EC)
 - Management fees (max 10%, in line with EU regulation)
- **Only legal commitment to engage EAFRD and Region resources**
- **Defines all terms needed by EIF to write the call of interest**



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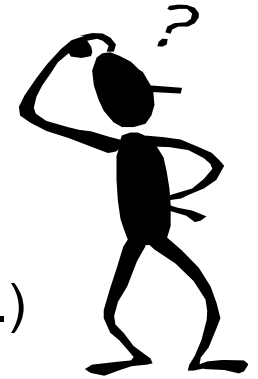




What you have to think about?

- **About FI implementation**

- Which complementarity between FI and grant?
- Possibility to cumulate FI and grant?
- How to cumulate EAFRD FI with other resources (e.g. CMO for wine, fruits..)



- **If you allow to cumulate FI and grants,**

- Reporting and crossed controls with grants instruction

- **Payment processing with payment agency**



- Since 2014 lots of meetings and training of **economical actors to explain FOSTER**
- Strong partnership with **EIF** to build the instrument:
 - Lots of particularities of EAFRD (versus EFRD)
 - EIF financial specialist / Region EAFRD and local economy specialist
- A lot of work with **Payment Agency (ASP)**:
 - New management system
 - New public aid conception
- Duplication to other Region easier with a strong experience of Financial Instruments

2018....

Next step?



- **Duplication in process for Midi-Pyrénées RDP:**
 - RDP update done (introduction of FI in 4 OT)
 - Ex ante assessment carried out during 2016,
 - Funding Agreement signed in June 2017,
 - Call launched in July 2017 with a deadline on 15 October 2017,
 - Transparent selection process (according to EU regulation)
 - Disbursement to Final Recipients will start first quarter 2018

- **Next steps?**
 - Waiting for Omnibus to have some simplifications, for e.g. in terms of eligibility criteria
 - Thinking about new funds (wine fund, land fund)



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Thank you for your attention!



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