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Case study
Enhancing the competitiveness
of SMEs: Financial Instruments
in Thuringia

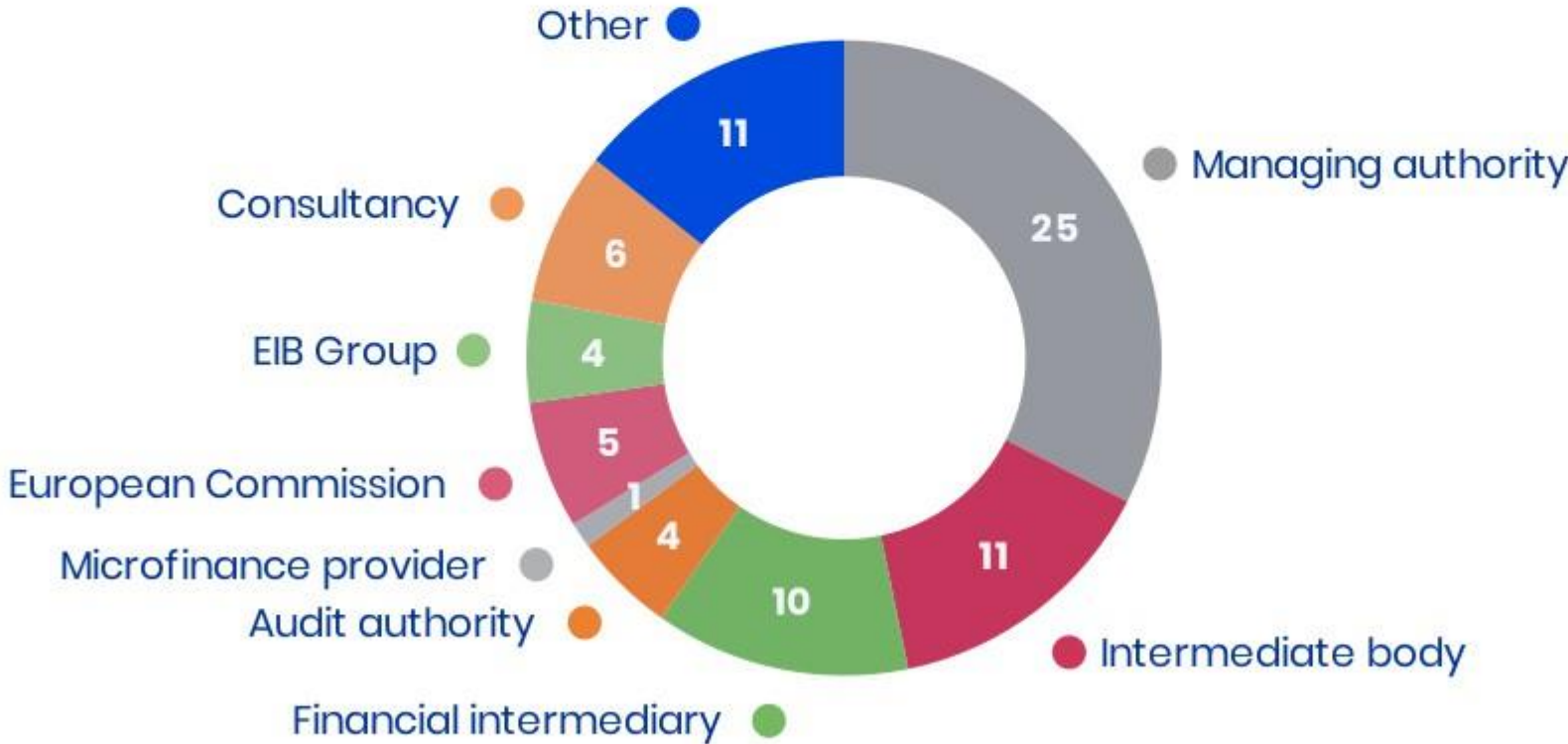
Brussels, Wednesday, 29 November 2017



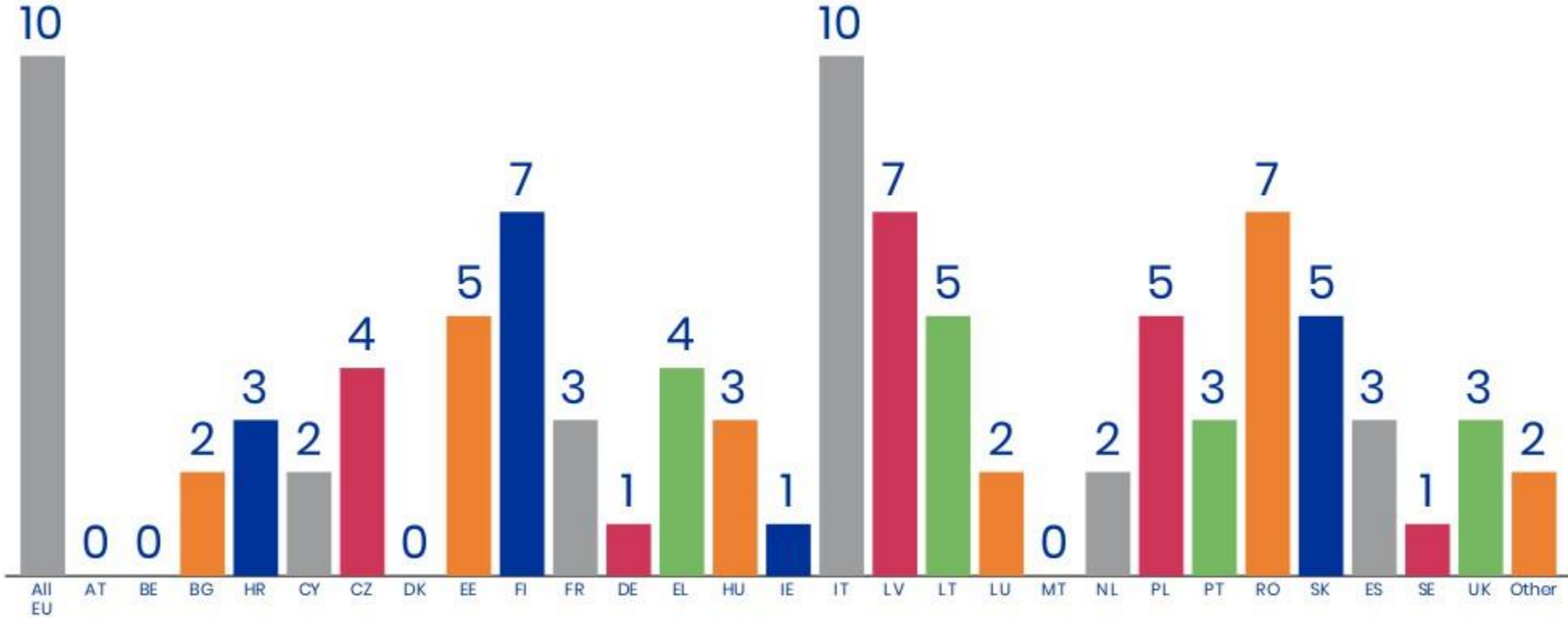
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Tell us which type of organisation you represent



Which Member State does your organisation cover (or collaborate with)?





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Enhancing the competitiveness of SMEs: Financial Instruments in Thuringia

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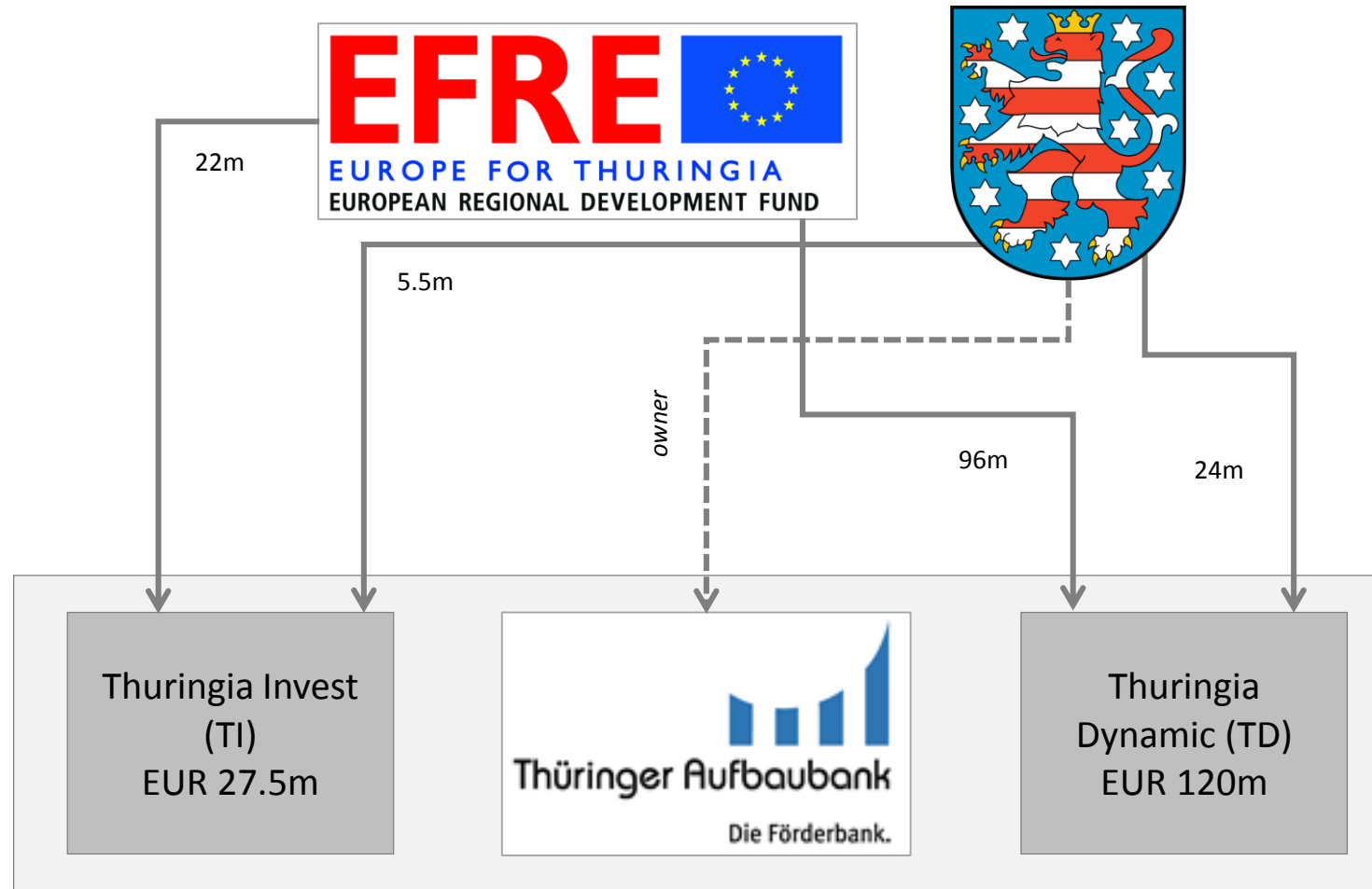


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Implementation IB / MA level

– *Financial instruments established*



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STRATEGIC CONTEXT



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Strategic context

– *Background*



Introduction of the region (1/2)

- Thuringia in Central Germany
- Part of former German Democratic Republic
- 2.2m inhabitants
- Capital: Erfurt (210,000 inhabitants)
- Important east-west strip of cities from Gera to Eisenach
- Small cities and rural areas dominate



Strategic context

– Background



Introduction of the region (2/2)

- GDP per capita (2015): EUR 26,400 (DE: EUR 37,100; 14th out of 16 German states)
- Purchasing Power Standard (per capita): 85 % (DE: 100 %)
- Unemployment rate (February 2017): 6.9 % (DE: 6.3 %)
- Comparatively high share of small and medium sized enterprises (SMEs)
- Transition Region under Cohesion Policy



Strategic context

– *Specificity of the TO*



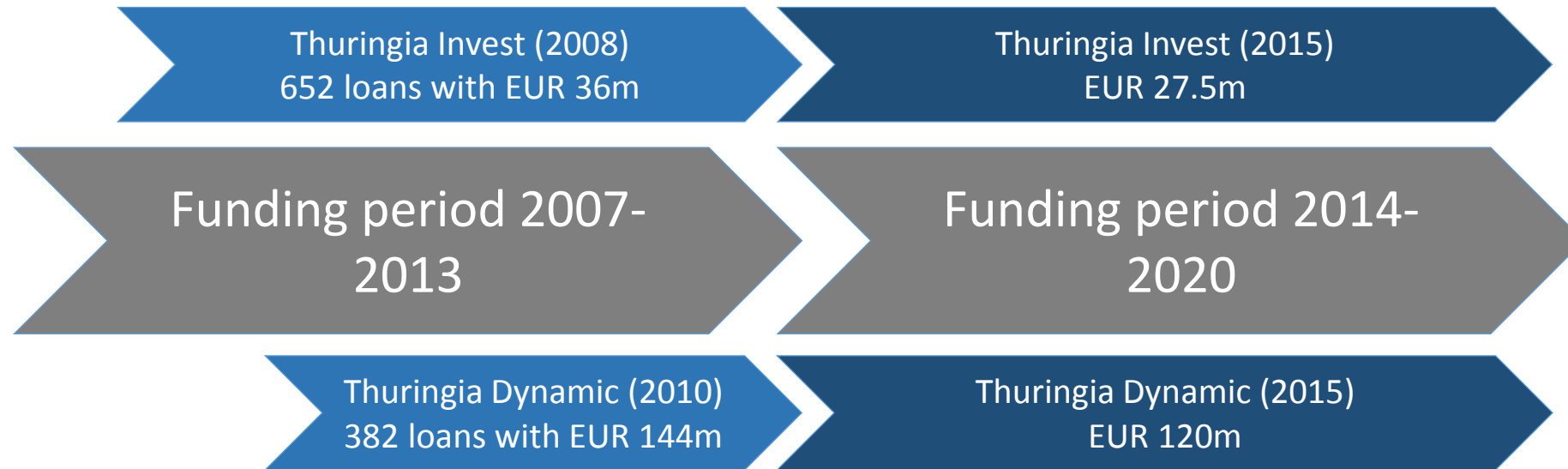
Context of the Operational Programme 2014-2020

- Financial instruments with 80% ERDF co-financing
- IP 3d ‘Supporting the capacity of SME to grow and innovate’:
 - EUR 147.5m for
 - SME, persons in liberal professions and new entrepreneurs



Strategic context

– Timeline



* ERDF funding was already allocated to other measures in 2010 and 2011, so that the new instruments had to be set up without ERDF funding.

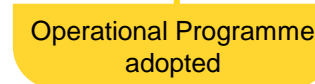
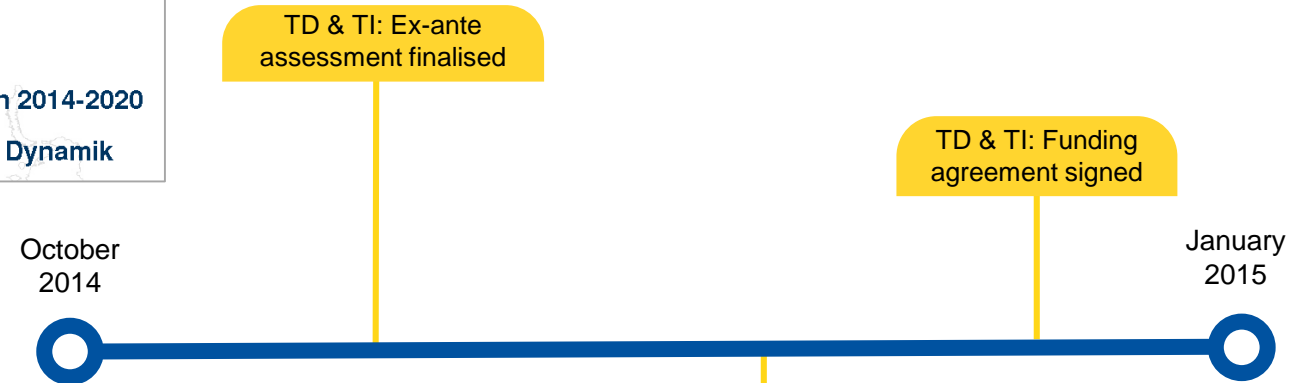


Strategic context

– *Timeline*



One ex-ante assessment for both instruments





EX-ANTE ASSESSMENT

Ex-ante assessment

– *The study: TD & TI*



- MA commissioned *Kovalis* (Bremen) and *GEFRA* (Münster)
 - literature and statistics review
 - interviews
- June - November 2014
- Active involvement of representatives from the TAB and the sectoral policy department at the responsible state ministry
 - provision of background information and statistics
 - interviews and focus group to discuss interim results
 - commenting draft ex-ante assessment



Ex-ante assessment

– *The study: TD & TI*



Market failure and financing gap

- Problem: No free access for SME to regular capital market
 - Insufficient equity
 - Lack of collaterals
 - Stricter bank policies
- Market failure excludes SME from regular market
- Annual financing between EUR 100m and EUR 240m
- Annual potential demand between EUR 50m and EUR 75m, based on experience with similar instruments
- Different instruments available to address the gap, however different target groups and characteristics





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DESIGN AND SET-UP



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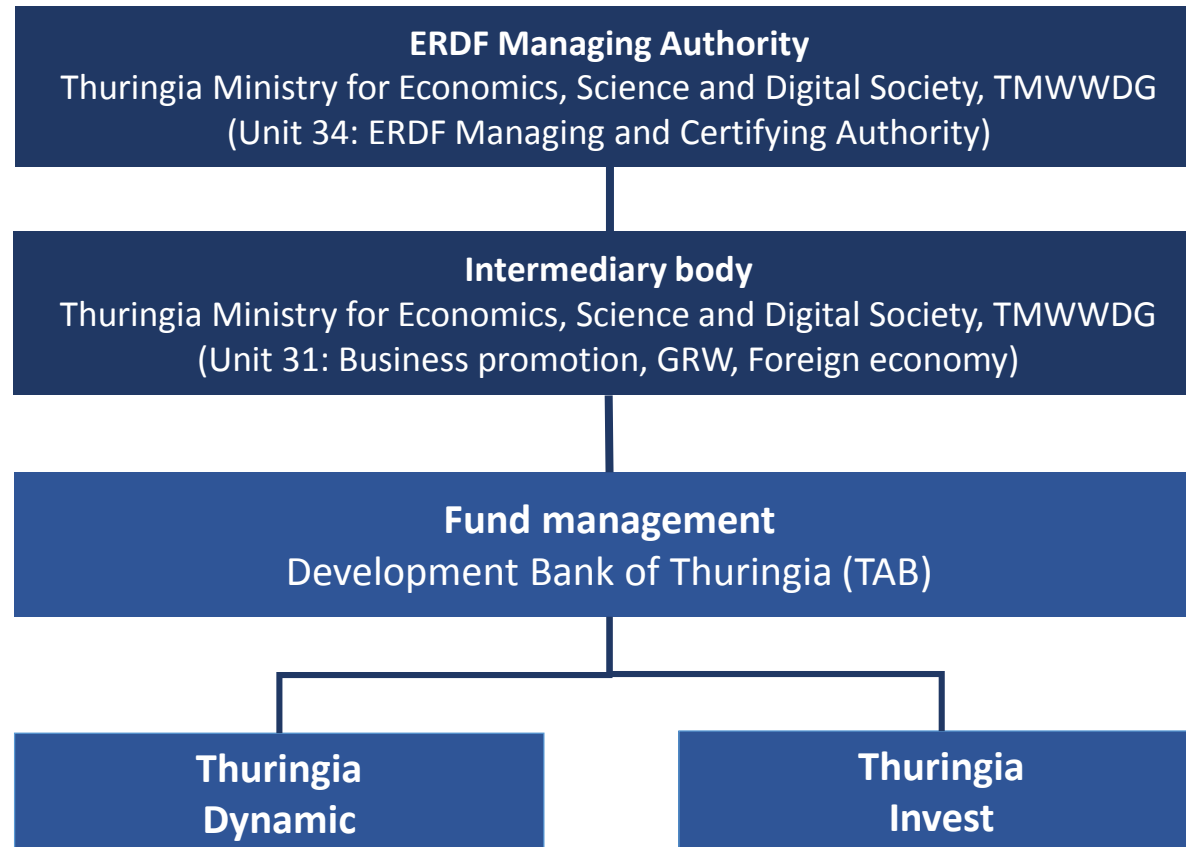


Design and set-up

– *Implementation structure*



Schematic overview



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Design and set-up

– *Selection of bodies
implementing the FI (F. Int.)*



Entity selected - Selection process

- Selection of TAB through in-house procedure
- TAB is the State's own development institution
- Responsible for the implementation of such schemes
- Selection criteria
 - Reliable partner
 - Framework agreement between TAB and ministry
 - Control and steering capabilities for the MA
 - Continuity to reuse re-flows from previous funding period



Design and set-up

– Recommendations and lessons learnt



Adjustments in the design and set-up

	Thuringia Dynamic		Thuringia Invest	
	2007-2013	2014-2020	2007-2013	2014-2020
Maximum loan amount (EUR)	As of June 2010: 2m As of July 2012: 4m	As of April 2015: 4m As of June 2016: 0.5m	0.1m	0.2m
Potential applicants	SME, liberal professions		SME, business-related and creative professions	
		Natural persons: acquisition of company shares		
Release from liability	Optional, 50%		Mandatory, 50%	Optional, 50%



Design and set-up

– *Recommendations and lessons learnt*



Background of adjustments

Thuringia Dynamic

- Reduction of maximum amount due to high demand since 2015
- More eligible groups because ESIF regulations allow for it

Thuringia Invest

- Higher maximum loan amount due to broader scope of eligible investments related to the grant (up to EUR 50k)
- Introduction of optional release from liability to increase the flexibility of the loan instrument

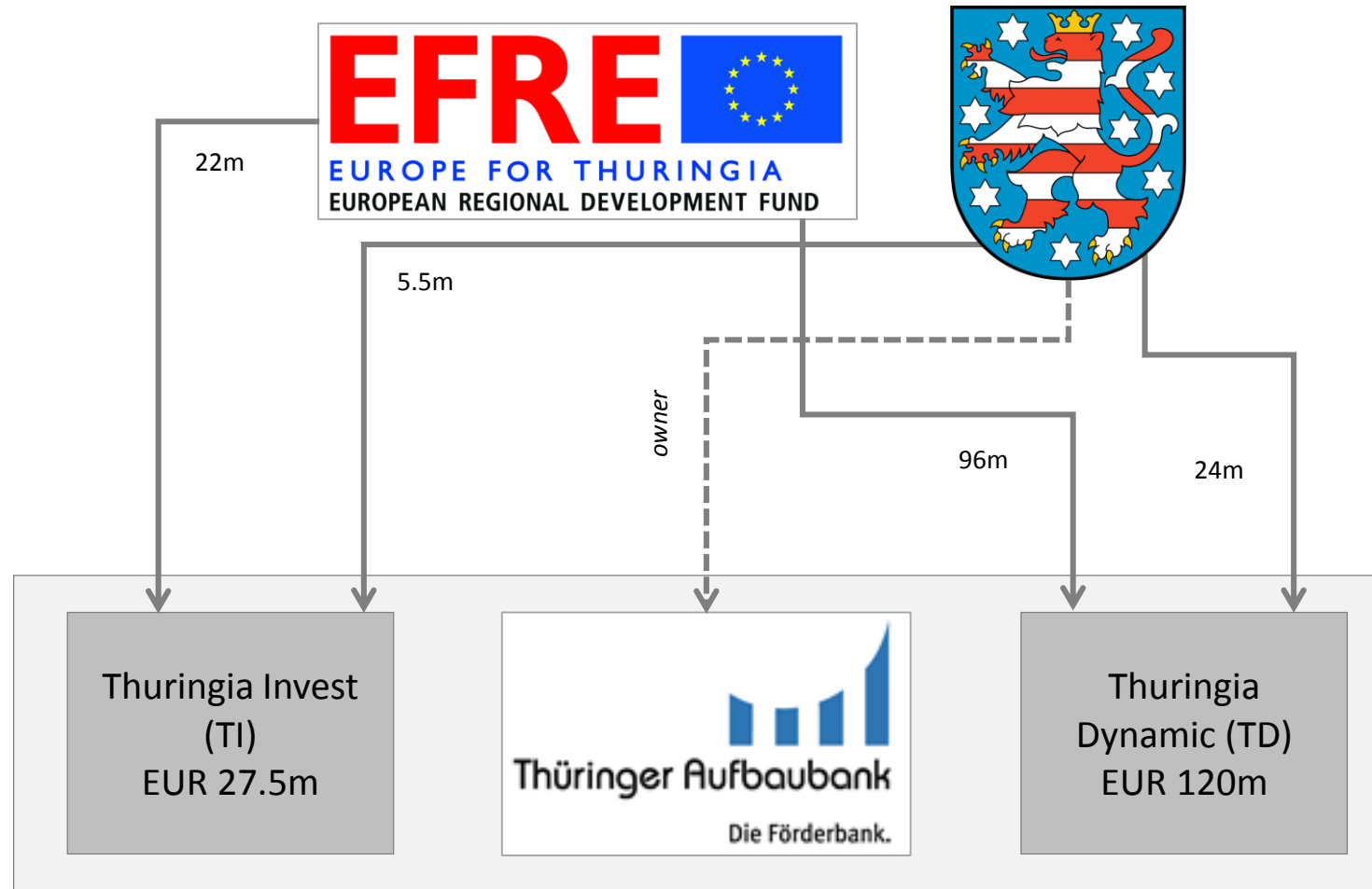




IMPLEMENTATION PER FINANCIAL INSTRUMENT

Implementation IB / MA level

– *Financial instruments established*



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Implementation (per FI or financial intermediary)

– *Financial product from the perspective of the financial intermediary*



Thuringia Dynamic

- EUR 120m for low-interest loans for
 - SME
 - persons in liberal professions and
 - new entrepreneurs

Thuringia Invest

- EUR 27.5m for low-interest loans and EUR 40m for grants for
 - SME and
 - persons in business-related and creative liberal professions
- Loan only available for enterprises that successfully applied for a grant
- Combination of grant and loan in two separate operations delivered through the single body of the TAB



Implementation (per FI or financial intermediary)

– *Financial product from the perspective of the financial intermediary*



Terms and conditions

	Thuringia Dynamic				Thuringia Invest
Individual amount (EUR)	5,000-500,000				5,000-200,000
Loan duration (years)	5	10	15	20	10
Grace period (years)	1	2	2	3	2
Fixed-interest period (years)	5	10	10	10	10

Only available in combination with Grant



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Implementation (per FI or financial intermediary)

– Procedures in place at the financial intermediaries regarding implementation of the FI and providing the product to final recipients



Terms and conditions

Does the potential final recipient...

...pass the standard credit assessment of his house bank?

...fulfil the eligibility requirements?



Implementation (per FI or financial intermediary)

– Final recipients



Eligibility rules

Thuringia Dynamic	Thuringia Invest
<ul style="list-style-type: none"> • Small and Medium-sized Enterprises <ul style="list-style-type: none"> • < 250 employees • Annual turnover < EUR 50m • Annual balance sheet < EUR 43m • Located in Thuringia 	
<ul style="list-style-type: none"> • Application via house bank • Investment in tangible fixed and intangible assets 	<ul style="list-style-type: none"> • Application via TAB • Agreement letter of the house bank • Investment of at least EUR 10,000 in tangible fixed and intangible assets • Overall financing is secured • Thuringia Invest Grant
<ul style="list-style-type: none"> • No financial difficulties • Exclusion of specific industries • Measure not started upon application • Measure not finalised upon acceptance 	
<ul style="list-style-type: none"> • Companies with an outstanding recovery order from EU COM 	



Implementation (per FI or financial intermediary)

– *Final recipients*



Terms and conditions



	Thuringia Dynamic	Thuringia Invest
Payout	100%	
Paying interest	Monthly in arrears	
Repayment schedule	Monthly after grace period	
Commission fee	0.25 % per month upon approval on not disbursed loan	-
Unscheduled repayment	Possible, prepayment penalty	Possible, no prepayment penalty
Collaterals	Required (50 % exemption possible, at request)	



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Implementation (per FI or financial intermediary)

– *Final recipients*

Thuringia Invest

New investments in equipment of a plastics company

Requirement: creation of one new job



Investments	
Measurement technology	50,000
Forklift trucks	35,000
Machinery	195,000
<i>Total</i>	<i>280,000</i>

Financing	
Equity capital	50,000
Loan Thuringia Invest	180,000
Grant Thuringia Invest	50,000
<i>Total</i>	<i>280,000</i>



Source: © Thüringer Aufbaubank
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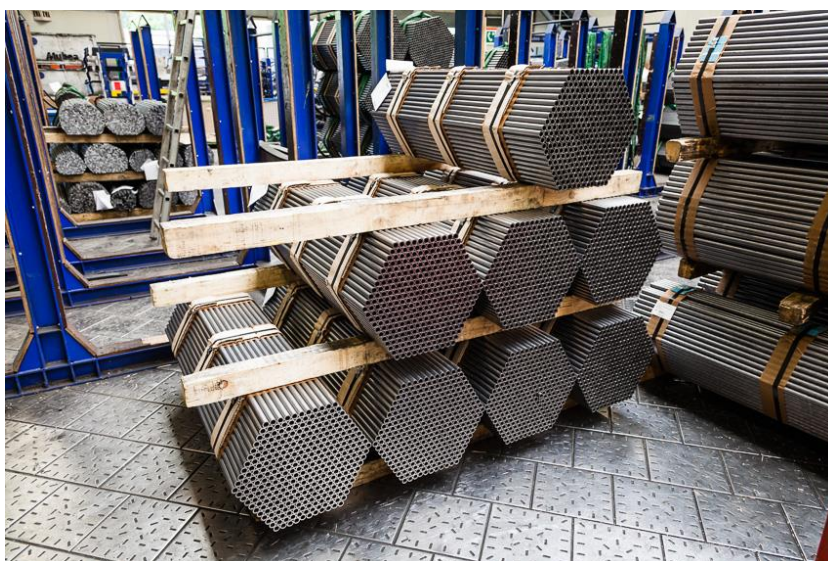
Implementation (per FI or financial intermediary)

– *Final recipients*



Thuringia Dynamic

Investments in new machinery of a company processing metal



Source: © Thüringer Aufbaubank

Investments	
New machinery	600,000
<i>Total</i>	<i>600,000</i>

Financing	
Equity capital	100,000
Thuringia Dynamic	500,000
<i>Total</i>	<i>600,000</i>



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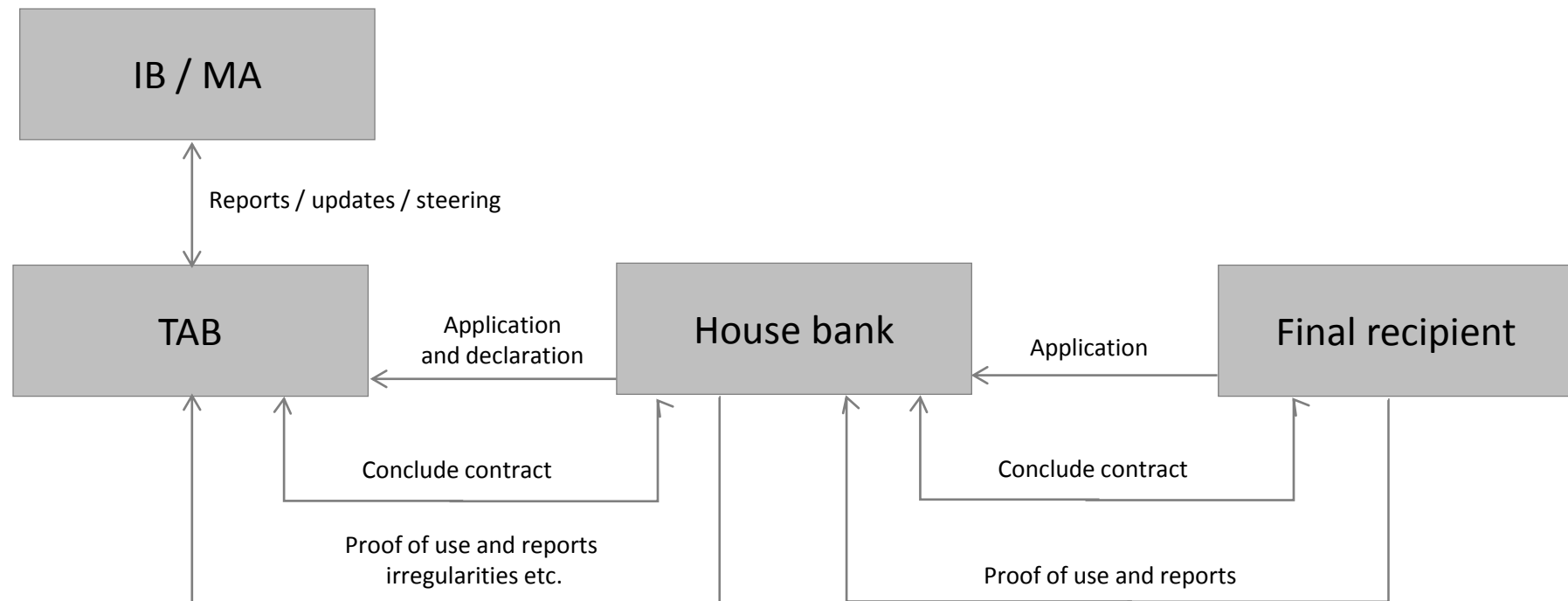


Implementation (per FI or financial intermediary)

– *Flow of monitoring and reporting*



Thuringia Dynamic



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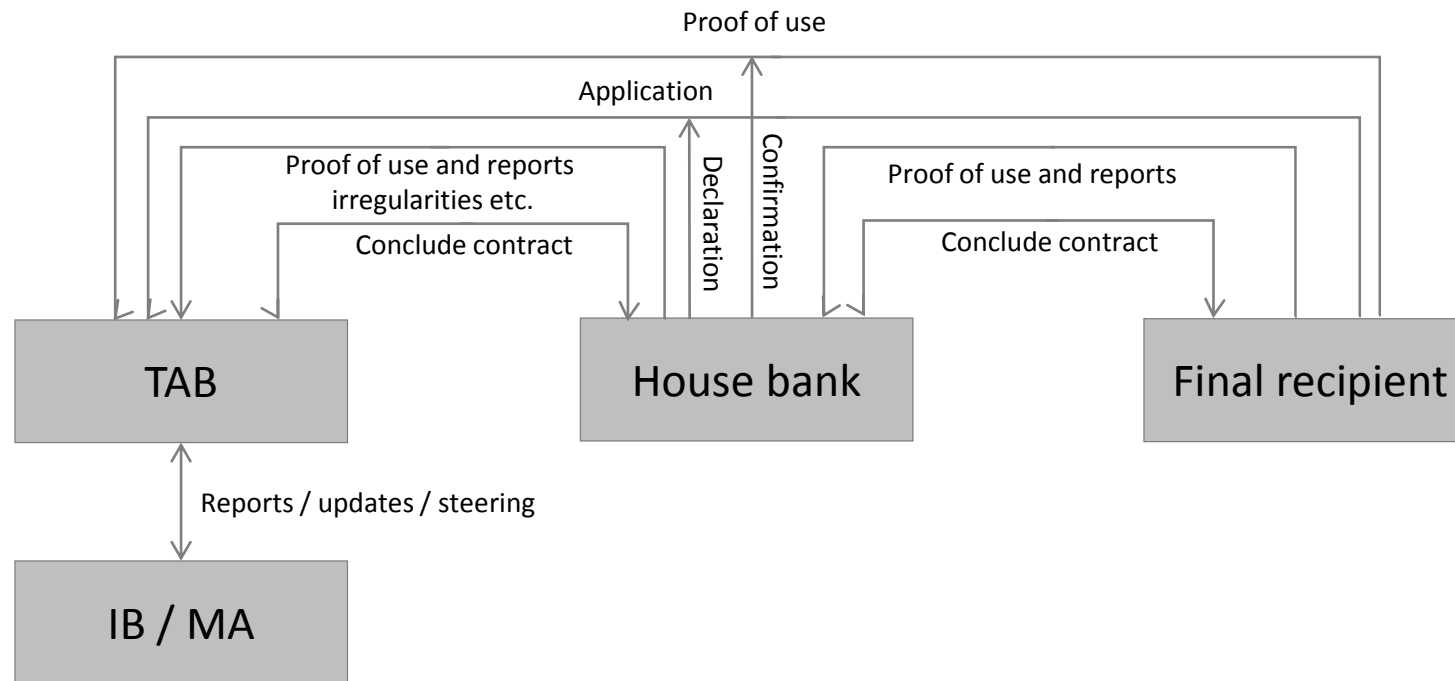


Implementation (per FI or financial intermediary)

– *Flow of monitoring and reporting*



Thuringia Invest



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Implementation (per FI or financial intermediary)

– *State of play, results*



Overview (by September 2017)

		Thuringia Dynamic	Thuringia Invest
Final recipients	Total	185	152
	Of which SME	174	152
	Of which Individuals	11	-
Amount of loans (in EUR)	Committed	85.9m	14.9m
	Paid to recipients	63.7m	11.9m



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Implementation (per FI or financial intermediary)

– *Challenges, recommendations, lessons learnt*



Thuringia Dynamic

- Combination of low interest rate + no commission fee (in the beginning) led to high demand
- To ensure favourable conditions enterprises hoarded loans
- Limitation of maximum amount (EUR 500k) + introduction of commission fee led to low demand
- Framework conditions may change again
- *How to best react to future changes?*



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MONITORING, CONTROL AND AUDIT SYSTEMS, REPORTING

Monitoring, control and reporting system in place for FIs (IB / MA)

– *Reporting procedures relevant for the IB / MA*



Three information flows from the financial intermediary

What?	When?	Used for?
Information according to Regulation (EU) 821/2014 fed into an electronic system, e.g. <ul style="list-style-type: none"> - Amount of support paid to financial recipients - Committed volume, available fund volume - Performance of the financial instrument, interest and other gains - Leverage effect, contribution to indicators 	monthly <i>Only for EU funded instruments!</i>	<ul style="list-style-type: none"> - Reporting to EU COM - Annual Implementation Report - Other reports that need detailed information
Statistics to technical departments, e.g. <ul style="list-style-type: none"> - Information on the financial instruments and their status; more detailed than above 	monthly	<ul style="list-style-type: none"> - Overview for other involved bodies about applications and approvals
Analysis of the instruments, <ul style="list-style-type: none"> - Detailed overview on the overall situation 	quarterly	<ul style="list-style-type: none"> - Basis for allocating further resources, steering measures etc.
Direct exchange about details if necessary	continuously	<ul style="list-style-type: none"> - Discussing and clarifying immediate uncertainties and irregularities



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OVERALL IMPLEMENTATION

Implementation (overall) - IB / MA

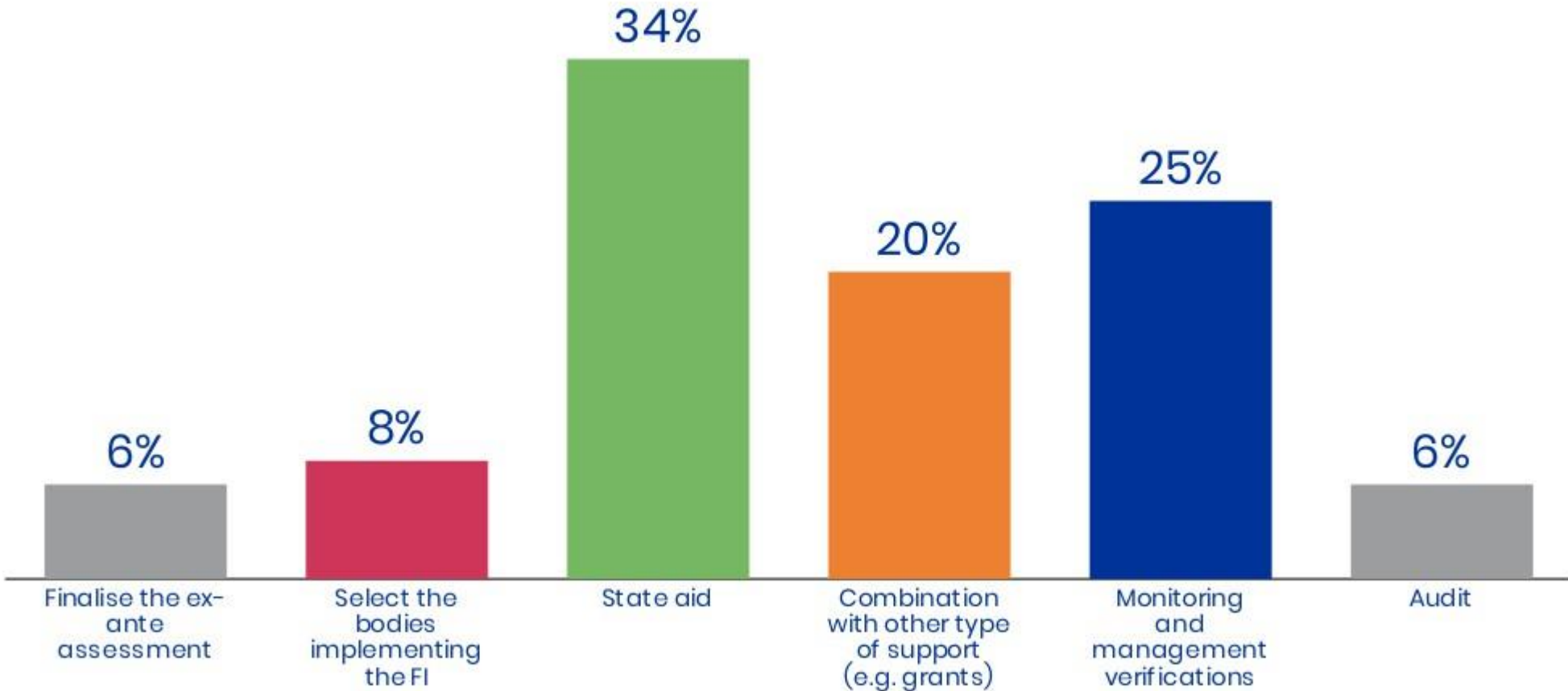
– *Challenges, recommendations, lessons learnt*



- What shall be achieved with the FI?
- What does this mean for the design of the FI?
- Alignment of expectations & experiences
- Continuity important for recipients
- Attractive conditions and adjustments to perspective of the FI
- Minor adjustments can have major effects
- No one-size-fits-all solution - no crystal ball



Main challenge for using financial instruments for SME support



In designing or setting-up your financial instruments were you able to attract additional sources of funding?

