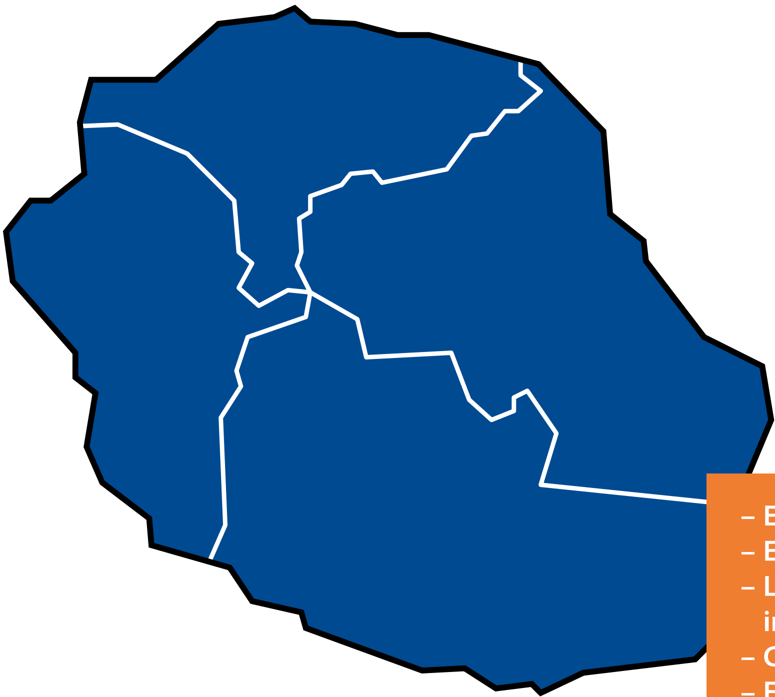

- ERDF
- EUR 50 million
- Loan and equity investments
- Competitiveness of SMEs
- France

... supporting the transformation of the regional economy with financial instruments ...

La Financière Région Réunion

Financial instruments to support SMEs, France

Case Study

European Commission

European Investment Bank
The EU bank

DISCLAIMER

Abbreviations

Abbreviation	Full name
CPR	Common Provisions Regulation
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
FRR	La Financière Région Réunion
GBER	General Block Exemption Regulation
ICT	Information and Communications Technology
PV	Photovoltaic
SME	Small and Medium-sized Enterprise

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1. La Financière Région Réunion

1.1 Executive Summary

The 'La Financière Région Réunion' (FRR) fund of funds has been set up in the La Réunion region of France with resources from the European Regional Development Fund (ERDF) with a mandate to implement and manage two financial instruments to support small and medium sized enterprises (SMEs), including micro-enterprises[1].

The region has established under separate financial intermediaries a **loan fund of EUR 62 million** (including private co-financing) and an **equity fund with EUR 10 million** to co-invest alongside private investors. The main features of the financial instruments are shown in Table 1 below.

Table 1: Main characteristics of La Financière Région Réunion

Funding source
EUR 50 million total resources: EUR 24 million ERDF from the Réunion Conseil Régional 2014-2020 Operational Programme; and EUR 26 million La Réunion own resources..

Type of financial products
Fund of funds with two underlying financial instruments – a risk sharing loan fund and a co-investment equity fund.

Financial size
Loan instrument - EUR 62 million (EUR 37.2 million from the fund of funds, EUR 24.8 million from financial intermediary).
Equity fund – of at least EUR 20 million (EUR 10.0 million from the fund of funds to be co-invested alongside private investors providing at least EUR 10.0 millions).

Thematic focus
Enhancing the competitiveness of small and medium-sized enterprises (Thematic Objective 3).

Timing
From 2018 to 2023.

Partners involved
Conseil Régional de La Réunion acting as managing authority.
Banque Française Commerciale Océan Indien (financial intermediary selected to implement the loan instrument).
Apicap (financial intermediary selected to implement the equity instrument).
European Investment Fund (fund of funds manager).

The ex-ante assessment commissioned by the managing authority estimated the **financing gap for SMEs** in La Réunion of EUR 90 million per annum. To address this challenge, the 'La Financière Région Réunion' fund of funds was set up to manage the two financial instruments that were designed to meet the specific financing needs of businesses in the region.

1 Micro-enterprise is defined in the EU recommendation 2003/361 as being an enterprise that employs fewer than 10 persons and whose annual turnover and/or balance sheet total does not exceed EUR 2 million.

The design and implementation of the financial instruments was undertaken with the support of the **European Investment Fund (EIF)** who were entrusted to manage the fund of funds. Following a competitive selection process, **Banque Française Commerciale Océan Indien (BFC OI)**, a bank based in La Réunion, was appointed to manage the loan fund and **Apicap**, a Paris based fund manager established in La Réunion and very active in the island, was appointed to manage the equity fund.

The region has committed EUR 50 million made up of EUR 24 million ERDF resources and EUR 26 million of the region's own resources.

The financial instruments were **launched in 2018** and after the initial 18 months of operation, over 250 businesses have benefited from the instrument with approximately EUR 22 million being committed to final recipients. The fund of funds is organised under an Investment Board, which includes key senior officials from the region. The work to set up the fund of funds has enabled a **dedicated team within the managing authority** to significantly develop its skills to work with financial instruments. Given this enhanced capacity within the region, combined with the promising initial results of the La Financière Région Réunion fund of funds, the region is considering how the use of financial instruments can be extended in the future, to allow more sustainable financing of other sectors supported by ESI Funds.

1.2 What is interesting about La Financière Région Réunion

The managing authority entrusted the **European Investment Fund (EIF)** to manage the fund of funds on its behalf. The EIF selected the financial intermediaries for the loan and equity funds through a **competitive selection process**, following a call for expressions of interest.

The financial instruments deployed by the fund of funds have been designed to reflect the specific market failure in the region. The loan fund is **a funded product** that uses the ERDF and region's resources to secure access to debt financing for SMEs and micro-enterprises at lower interest rates than were available in the market.

Alongside the loan fund, an **equity fund has been developed to mobilise private sector equity** investment in the region's businesses. The ERDF resources are used by the selected fund manager to co-invest alongside other investors in local SMEs.

2. Design and set up

2.1 Context

La Réunion is an island in the Indian Ocean, an overseas department and region of France and part of the European Union's outermost regions. Situated approximately 900 kilometres east of Madagascar, as of January 2019, it had a population of 866 506. Its administrative capital is Saint Denis. The **Réunionese economy is primarily services based, with a growing tourism sector,** with other key sectors including industrial and agri-businesses, focused on the production and processing of sugar cane and fisheries. The region also has a number of **social cohesion challenges** associated with its remoteness and recent growth in its population. In 2016, La Réunion's GDP per capita was EUR 22 337, as compared to GDP per capita on mainland France of EUR 33 300 and its unemployment rate was 23%[2].

The transformation of the economy of the region, which started several years before the creation of La Financière Région Réunion, required the strengthening of the private sector. To do this, the lack of access of Réunionese businesses to bank financing and other forms of capital had to be addressed. Under the region's Operational Programme, 37% of the resources are dedicated to the development of the competitiveness of the economy. As part of the strategy to support La Réunion businesses, the managing authority committed EUR 24 million of ERDF and added EUR 6 million of its own resources to create a fund of EUR 30 million to be used for financial instruments in the 2014-2020 programme period. To ensure the fund reached a critical mass, the region also committed a further EUR 20 million to the fund.

2.2 Ex-ante assessment

The managing authority commissioned an ex-ante assessment in accordance with Article 37(2) of the Common Provisions Regulation. The ex-ante assessment was delivered in October 2015. Its conclusions included:

- La Réunion has approximately **50 000 SMEs** of which approximately 50% are in the services sector, 25% in trade, 14% in agribusiness and 11% in construction.
- Micro-enterprises dominate operating mostly in tourism, transport, food and construction.
- Micro-enterprises account for around 30% of all jobs, other SMEs 35% and larger businesses 20%.
- The survival rate of start-up businesses is significantly below the national average at 53% against 61%.

Further, the ex-ante assessment found in relation to the financing of businesses, that micro-enterprises, small businesses and start-ups **had limited access to both equity and loan financing**. As a result, the ex-ante assessment identified a significant financing gap for SMEs that could be addressed by financial instruments, which was estimated to be in the region of **EUR 90 million per annum**.

The ex-ante also highlighted the need to support local enterprises in developing their businesses through **advisory and mentoring services** to help develop their expansion into new territories, supporting export activities as well as to provide better understanding of the different financing options.

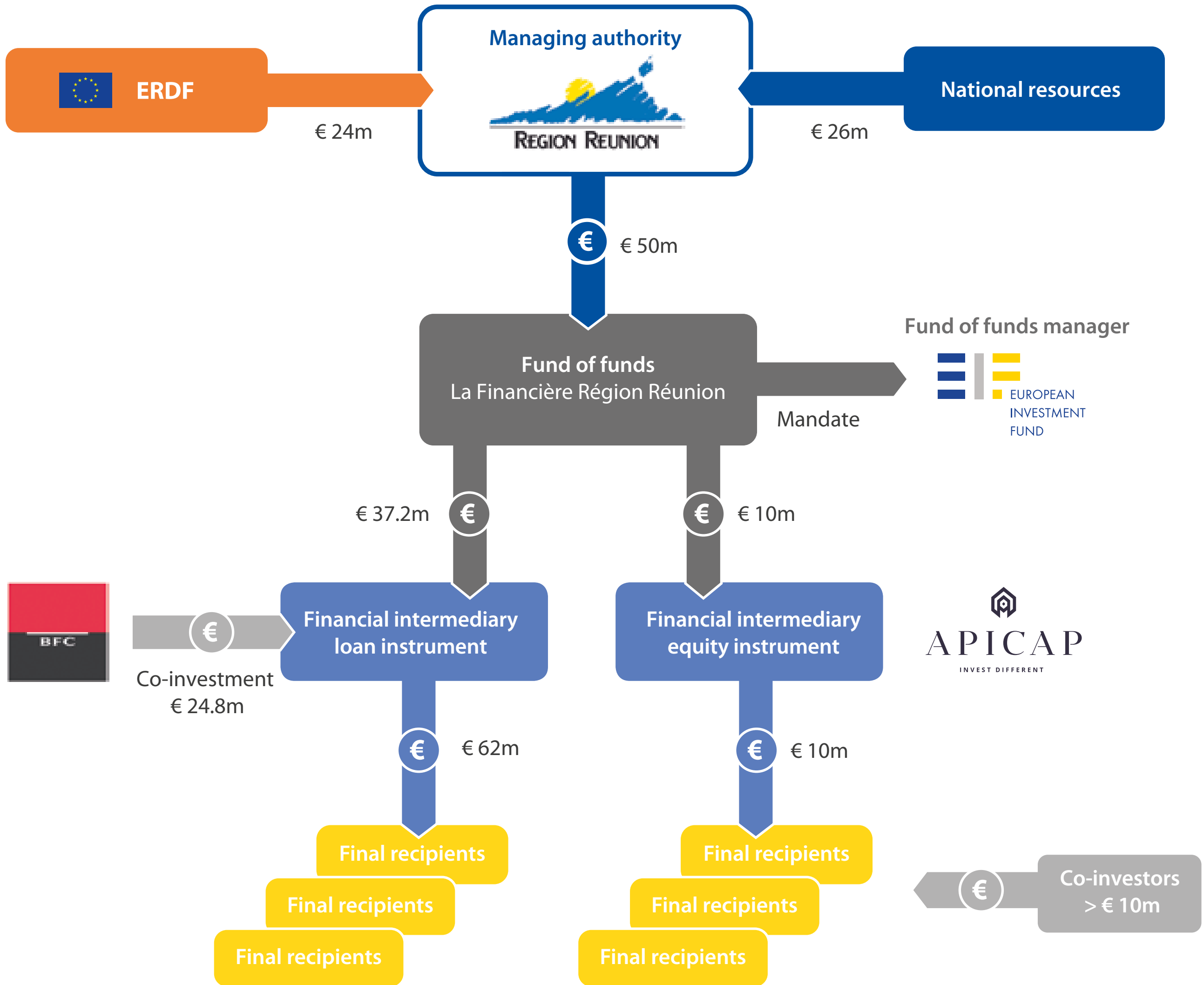
2 EUROSTAT 2016 data.

2.3 The fund of funds

After finalisation of the ex-ante assessment, the managing authority resolved to set up **FRR** as a fund of funds to manage the financial instruments to be established to support SMEs through debt and equity financing. In September 2017, the region entrusted implementation tasks to the EIF to act as its fund of funds manager with responsibility for implementing the financial instruments.

The overall design of the FRR is shown in Figure 1.

Figure 1: Design of La Financière Région Réunion



The ex-ante assessment identified severe credit constraints in the Réunionese economy, owing to a concentrated and narrow market across various financing-stages. Therefore, the managing authority decided to deploy EUR 50 million total resources to develop **two financial products.** It committed **EUR 37.2 million to set up a loan instrument** to enhance access to credit for all SMEs at reduced interest rates **and a further EUR 10 million into an equity instrument** to specifically support innovating firms with start-up and seed capital. The balance of the resources was allocated for operational costs and contingencies.

The loan fund will seek to mobilise an additional EUR 24.8 million of private investment as part of the operation, resulting in a leverage rate of 1.7. The equity fund, for its part, will aim to contribute between 5-20% of a company's equity requirement alongside other private sector investors who are expected to commit, on a deal-by-deal basis, an additional aggregate amount of at least EUR 10 million.

2.4 Capacity building

In addition to the setup of the financial instruments, the region established a capacity building programme which has aimed to **raise awareness of financial instruments** and to **support SMEs to access the finance**. The hub of the capacity building programme is **the region's website** which hosts information in an accessible format including written material and video content. A number of **mini-events** have been held for SMEs to support their development through workshops and the sharing of good practice.

AGONOV

Engineering and 3D printing micro-enterprise

Intermediary: BFC OI, *i*-RUN.

Investment: EUR 83 941 loan for five years.

This Reunionese innovative micro-enterprise focuses on iron and stainless steel engineering, tailor-made production, and 3D printing-based additive manufacturing. The firm now produces domestically critical items that were previously imported.

Thanks to BFC OI financing, AGONOV could further develop its facilities and acquire machinery and equipment. The company expects to hire three additional employees in the short term.

3. Selection of financial intermediaries

3.1 Market testing

Prior to commencing the selection process, the EIF conducted on behalf of the managing authority, a **market testing exercise** in February and March 2017 through a standard questionnaire that was sent to the key market actors including potential financial intermediaries and experts. The purpose of the exercise was to engage with potential financial intermediaries to assess the potential of the market, to ensure the **relevance of the proposed financial instruments** and to **calibrate their key terms** according to demand. The questionnaire was followed up by open discussions with interested parties who would be encouraged to express their views on the proposed financial instrument operations.

This process allowed the **fine-tuning** of the financial instrument structure and identified the challenge to local businesses of the high-interest rates for SMEs finance in La Réunion. This led to the 'funded risk sharing loan' fund, in which the ERDF and national co-financing is combined at the level of the financial intermediary with private resources and invested to final recipients, being identified as the most appropriate response to local market needs.

3.2 Selection process

The selection was managed by the EIF, in consultation with the managing authority. The timetable for the process is shown in Table 2.

Table 2: Timetable for selection procedure

Time period	Action taken
September 2017	Launch of Call for Expressions of Interest
November 2017	Deadline for submission of proposals (equity)
December 2017	Deadline for submission of proposals (debt instrument)
February 2018	Completion of first stage evaluation
March 2018	End of due diligence
April 2018	Approval by EIF Board of Directors
June 2018	Signature of operational agreement – loan fund
July 2018	Launch of loan fund
November 2018	Signature of operational agreement – equity fund
November 2018	Launch of equity fund

The selection process is described in Figure 2.

Figure 2: Summary of selection process

SUMMARY OF THE SELECTION PROCESS

Following the receipt of the Expression of Interest, the EIF evaluated the proposals in accordance with the selection process as described below.

Formal Evaluation Criteria

The EIF evaluated whether the Expression of Interest had been duly signed, sent on time, by post and / or e-mail and prepared in accordance with the provisions of the Call and if all the necessary requests, information and supporting documents were present. Expressions of Interest that did not comply with the formal evaluation criteria were rejected.

Qualitative assessment

The EIF conducted a qualitative assessment of the bidders' proposals based on the main criteria below:

- Evaluation of the proposed investment strategy. The credibility / robustness and coherence of the proposal in relation to the market situation;
- Proposal for improving the financing offer to SMEs including micro-enterprises (for example, reduction of interest rates, reduction of the level of collateral required, etc.) compared to normal / standard conditions offered to SMEs;
- Capacity to target SMEs in the region which have been carrying out their activities for less than seven years (with a specific focus on less than three years) after being created;
- Management fees proposed in relation to the management of the instrument;
- Evaluation of the team profile;
- Assessment of the team's ability to finance start-up and development investments using EU funding (ERDF for example);
- Team experience and track record; and
- Assessment of the legal structure and of its independence in decision-making process.

Due diligence

During the due diligence stage the ability of each bidder to act as a financial intermediary was evaluated in detail. This included:

- An assessment of their ability to implement the respective financial instrument in the region and generate quality deal-flow;
- The appropriateness of their investment / exit strategy;
- The experience and expertise of the dedicated team;
- Their 'track record' (which is evaluated in greater detail during the due diligence phase);
- Their commitment and investment capacity;
- Their experience with the implementation of similar instrument; and
- Ability to comply with reporting requirements.

The due diligence phase included an on-site visit. The due diligence process did not include legal negotiation.

Selection

Based on the results of qualitative assessment and on the outcome of the due diligence process, EIF identified the preferred bidders which were recommended to the EIF Board of Directors for appointment as financial intermediaries for the financial instruments.

Following conclusion of the selection process, the following financial intermediaries were appointed:

APICAP is a venture capital and private equity investor based in Paris. It was established in 2001 and invests on behalf of both private and institutional investors. Having had a presence in La Réunion for several years, it established a permanent office in the region in 2017 with a dedicated team to implement the underlying instrument known as ***ESSOR PME La Réunion***.

Banque Française Commerciale Océan Indien (BFC OI) is a commercial bank jointly owned by Société Genérale and the Mauritius Commercial Bank. Its headquarters are in Saint Denis, the capital of La Réunion. With 97 000 customers, 400 employees and 29 branches it is the third largest bank in the region's banking market. Under FRR, BFC OI has launched a dedicated commercial offer known as ***i-RUN by BFC OI***.

Gaïa Photovoltaique

Commercialisation, installation, and maintenance of solar kits

Intermediary: APICAP, Essor PME La Réunion.

Investment: EUR 800 000 equity investment, including EUR 480 006 from Essor PME La Réunion (financing provided in May 2019).

This Reunion based SME is focused on providing self-consumption solutions for households alongside large-scale Photovoltaic (PV) systems for local companies.

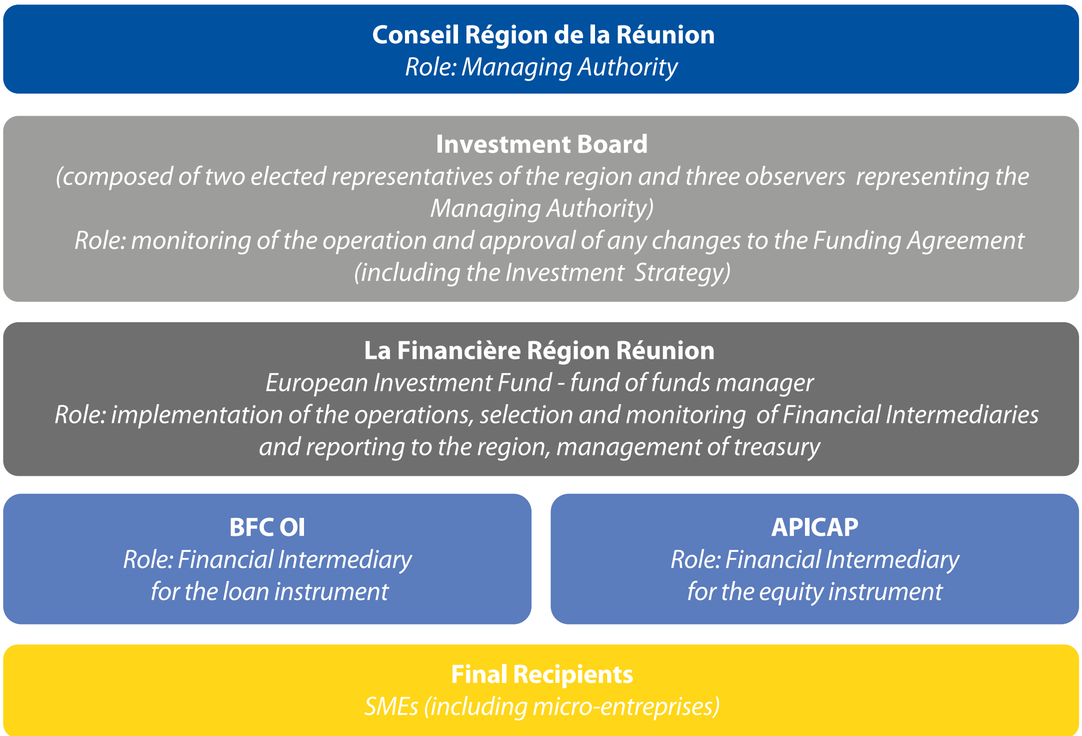
Thanks to APICAP, Gaïa will improve its IT system, strengthen its team, and launch an intense marketing and communication campaign.

4. Funding and governance

4.1 Governance of the FRR

The overall governance of the fund is shown in Figure 3.

Figure 3: Governance of the operation



The managing authority supervises the operations on a day to day basis through its dedicated management team that is located in its Directorate of Economic and Financial Affairs. This team was set up to deliver the project through the **recruitment of a small number of finance professionals**. The establishment of this team of four individuals is an important step for the managing authority to secure the necessary capacity to follow the developments of financial instruments. Engagement between the managing authority and the EIF is maintained at a high level throughout the implementation process.

The formal monitoring of the operation is undertaken by the **Investment Board** which is made up of two elected representatives of the region who act as board members and three observers representing the managing authority. Acting as the fund of funds manager, the EIF submits information on the state of play of the implementation on a regular basis to the Investment Board members, as well as providing an annual progress report. The Investment Board represents the region and has the responsibility to approve the Calls for Expressions of Interest, the annual progress reports, oversee the monitoring and audit of the funds and to approve proposals to amend the Investment Strategy of the fund of funds.

4.2 The loan financial instrument – *i*-RUN *by* BFC

The financial intermediary, Banque Française Commerciale Océan Indien (BFC OI) has launched the financial instrument under the brand '*i*-RUN *by* BFC'.

The product offered by *i*-RUN *by* BFC is a loan designed for SMEs. It aims to provide **substantially better lending conditions** to accelerate the development of small businesses in the region.

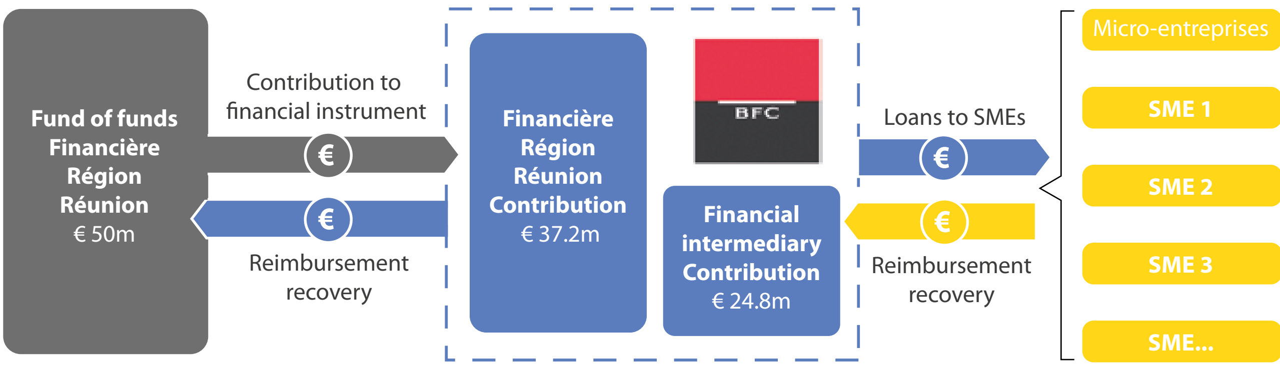
As a regional bank involved in La Réunion's business community, BFC OI uses its **existing network and salesforce to market the products** to local businesses. The product is designed to allow locally-based SMEs to access financing more easily and at better terms. The main features of the products offered by the loan instrument are shown in Table 3 below.

Table 3: Main features of the i-RUN financial instrument

Eligible businesses	SMEs active in the region. The investments supported under ***i***-RUN by BFCOI shall benefit the economic development of the Region
Fixed interest rate	1.25% for loans of less than 5 years; 1.5% for loans over five years
Preferential terms	50% discount on application fees 3 months grace period and Reduced collateral requirements
Average loan amount	EUR 50 000 – EUR 100 000
Average loan period	1 – 10 years
Eligible investments	Investment in tangible and intangible assets as well as working capital

The financial intermediary is aiming at building up a portfolio of new loans with an aggregate amount of EUR 62 million within a period of 48 months from the launch of the financial instrument. The loan fund is a **risk-sharing instrument** which seeks to leverage the FRR contribution of EUR 37.2 million with EUR 24.8 million of resources contributed by the financial intermediary, a risk sharing rate of 60%. Figure 4 below shows the funding structure of the instrument.

Figure 4: Risk sharing loan instrument



The design of the financial instrument took into account the requirements of the General Block Exemption Regulation (GBER)[3] from the outset and this has made the implementation of the financial instrument in a State aid compliant way more straightforward.

State aid – Art 21 General Block Exemption Regulation

The risk sharing loan instrument is implemented within the scope of the Risk Finance Aid provisions set out in Article 21 of the General Block Exemption Regulation (GBER). The contribution from the Fund of funds (made up of ERDF and national co-financing) is made at 0.5% interest rate and combined with private sector financing. The Financial Intermediary charges onto final recipients a fixed interest rate below the market rate. It targets eligible undertakings within the meaning of Art 21 GBER, achieving a private sector contribution of 40% to final recipients.

4.3 The co-investment equity financial instrument – Essor PME La Réunion

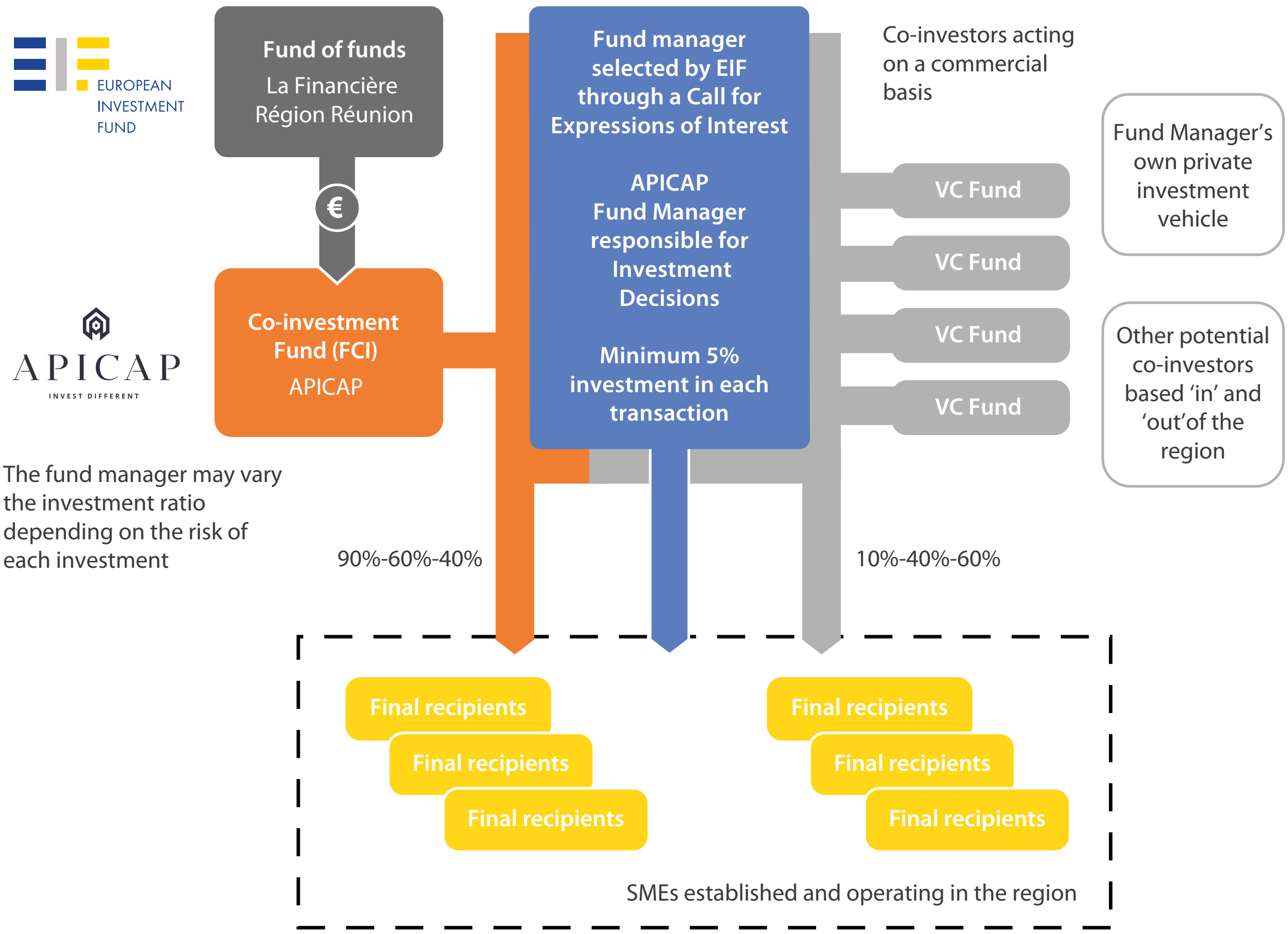
The equity co-investment instrument has been launched by the Financial Intermediary APICAP under the brand 'Essor PME La Réunion'. A dedicated team of three investment managers, under the management of the fund manager's regional director, is based full time in La Réunion. This team is responsible for the identification and appraisal of projects, the investment process and the management of investments and divestments.

In all cases, the fund's investments are carried out in co-investment with one or more private equity investors. The nature and identity of the investors may vary depending on the stage of the development of the business concerned. The instrument also aims to attract new investors who have not previously invested in the region to co-invest in Reunionese SMEs. The fund manager selected is also managing in parallel additional investment vehicles in the region.

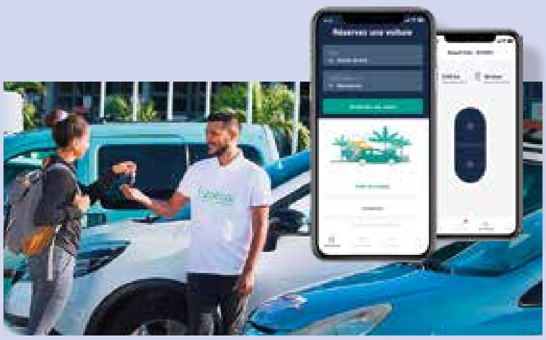
The equity fund is structured as a co-investment instrument. The fund itself is made up of EUR 10 million contributed by the FRR. The fund manager aims to make equity investments into SMEs with a high potential of growth alongside other private investors. The co-investment fund can provide up to 20% of the investment into a single business. Under the terms of the investment agreement with FRR, the Financial Intermediary must co-invest at least 5% of its own resources in the businesses and ensure that in each round of investment at least a portion of the investment is coming from private co-investors. The portion of the private sector may vary according to the phase of development of the targeted SMEs. The structure of the vehicle is shown in Figure 5 below.

3 COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

Figure 5: Co-investment equity fund structure



Zotcar



Digital and collaborative car rental solution

Financial intermediary: APICAP, Essor PME La Réunion.

Investment: EUR 900 000 equity investment, including EUR 540 650 from Essor PME La Réunion (financing provided in June 2019).

This innovative, 100% digital, car rental service is tailored to the Reunionese market and helps respond to rising customer expectations especially during the peak season.

Thanks to APICAP equity financing, Zotcar will strengthen its R&D and operational team, acquire additional equipment as well as step up its targeted communication.

5. Achievements

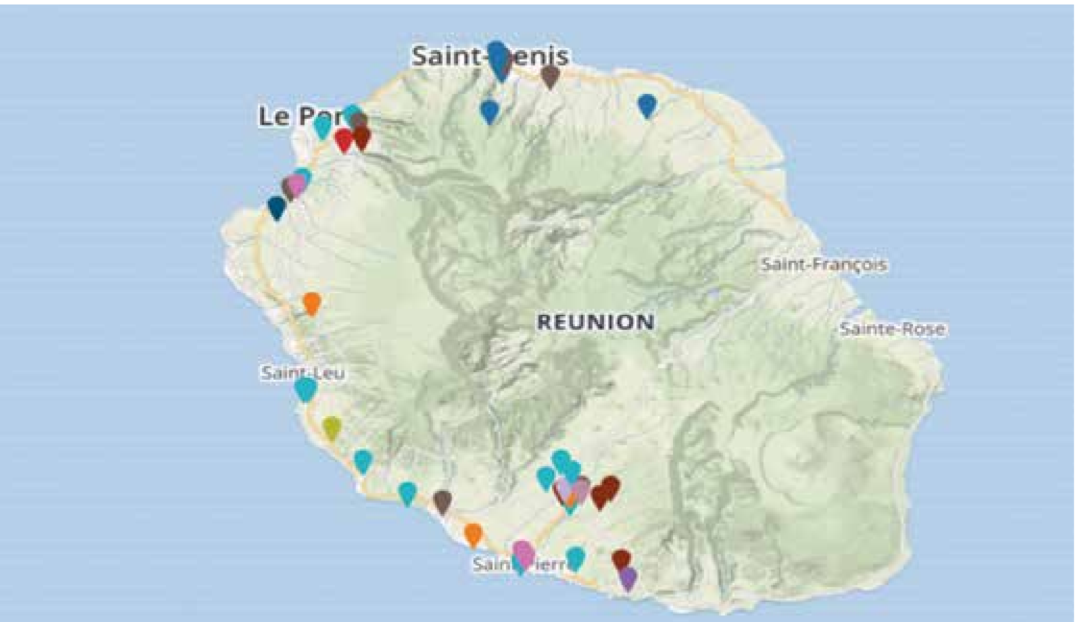
The implementation of the financial instruments has resulted in a number of achievements in the region. At a strategic level, the establishment of the team within the managing authority and the partnership with the EIF has given the **regional authority the capability to design and implement financial instruments**. This has supported the implementation of the FRR fund of funds in the current programming period. This capacity will allow the region to consider developing financial instruments in new sectors, extending the use of more sustainable financing models in the next programming period.

The FRR fund of funds has also been successful in **engaging and developing private investment** in the region. The programme of capacity building has raised awareness amongst entrepreneurs in the region of the potential to use ERDF financial instruments to support the growth of their businesses. This has helped shift the mindset of the Réunionese SME community away from a grant-based culture to a more commercial approach to financing.

The establishment of the loan instrument has, by addressing a clear market gap for affordable loans, **demonstrated the existence of the demand of SMEs** (including micro-enterprises) for finance. The financial intermediary BFC OI has committed its own resources both to co-finance investments and to develop the expertise required to meet the ERDF monitoring and reporting requirements. Similarly the equity fund has successfully made its first three investments having secured co-investment from private investors. This has already **boosted the region's financing ecosystem**, demonstrating how ESIF resources can attract new investment into businesses in the region.

In it first 18 months of activity, the two financial instruments have financed over **250 final recipients** with approximately **EUR 22m of financing** being provided, **supporting approximately 500 jobs**.

Figure 6: Geographical distribution of investments at 31 December 2019



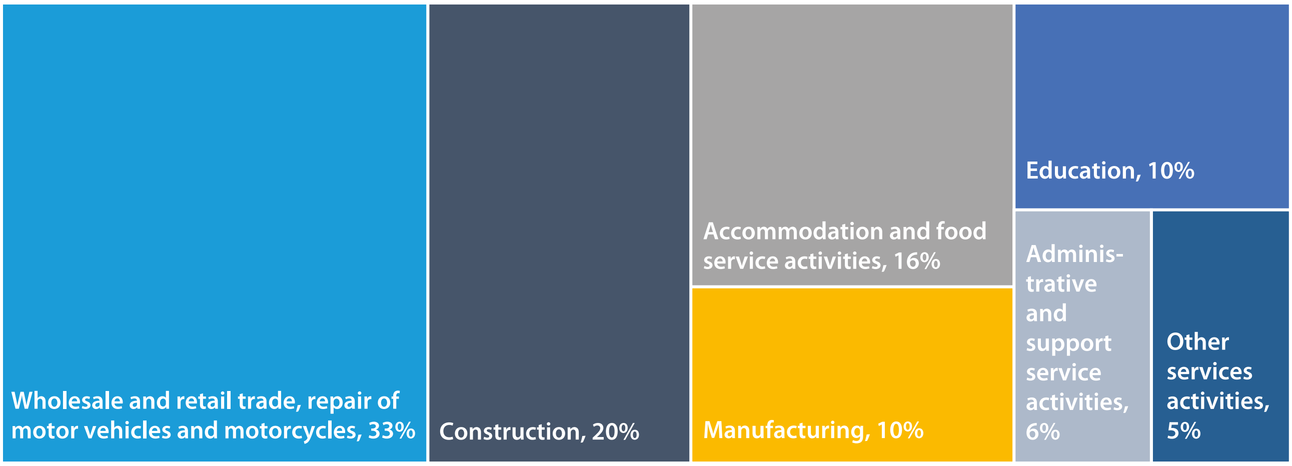
One notable achievement is that the financial instruments are **supporting businesses in all the major urban areas of the region**. The geographical distribution of the loans can be seen in Figure 6.[4]

4 Source: https://www.eif4smes.com/ (as of End of March 2019).

It shows that the investments are located in the major centres, including Saint-Denis, the administrative capital of the region, the main harbour on the island at Le Port and the economic centres of Saint-Pierre and Le Tampon.

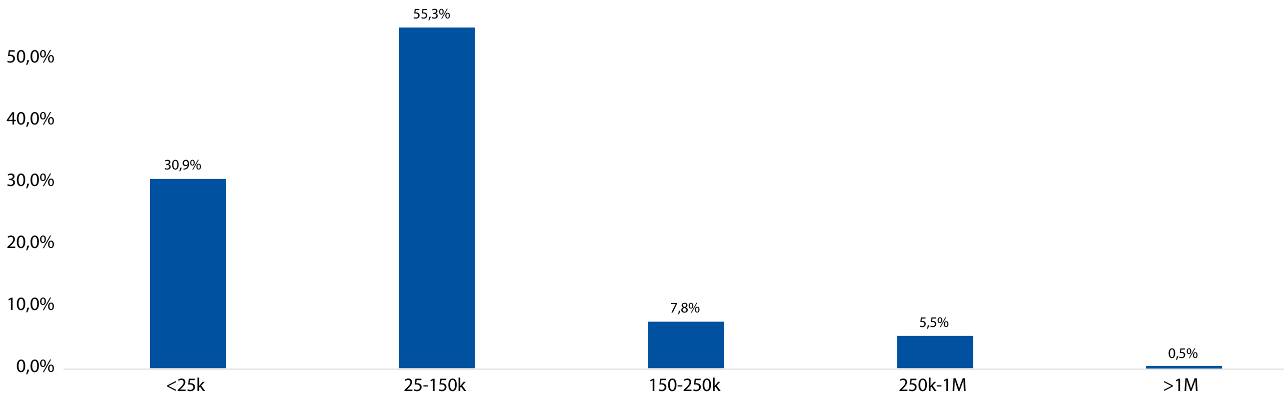
The financial instruments have supported businesses across a **range of different economic sectors**, including the wholesale and retail trade, construction, accommodation and food services. In addition to the more traditional sectors, the financial instruments have also supported businesses active in innovative sectors including Information and Communications Technology (ICT), renewable energy and mobility. Figure 7 shows the relative distribution of investments between the different economic sectors.

Figure 7: Sectoral distribution of investments as at 31 December 2019 showing numbers of SMEs supported



The financial instruments have been particularly successful at targeting micro-enterprises. In the first year of operation, 99% of all businesses supported were micro-enterprises, of which 92% had been trading for less than five years. So far, the support provided to businesses by the risk sharing loan financial instrument has typically been in the form of a loan with an average value of EUR 75 000 and a maturity of about six years. Only one investment has been made with a value in excess of EUR 1 million. Figure 8 shows the distribution of loan sizes across the signed transactions.

Figure 8: Number of transactions per size of investment



Beyond these initial results, the initiative has successfully managed to nurture and bolster the financial ecosystem in La Réunion by expanding the range of financial solutions available to potential final recipients and by substantially improving their financing conditions. As a result, this has already achieved enhanced competitiveness amongst Réunionese businesses by significantly improving access to finance for local entrepreneurs.

6. Lessons learned

6.1 Main success factors

Although there were many factors that contributed to the successful implementation of the financial instruments in La Réunion, three things were particularly important.

6.1.1 Strong commitment at regional authority level

The first factor was the strong commitment to implement financial instruments within the regional authority. At the political level there was both a strong will to introduce the measures and a recognition of the significant effort that would be required to translate the ambition into action on the ground. To achieve this a small team of three/four officers was established within the Directorate of Economic and Financial Affairs. The team had expertise in the structuring of financial instruments, the management of ERDF operations and banking regulations. By establishing a dedicated team with relevant experience, the region secured the necessary capacity to follow project delivery.

6.1.2 Capacity building

Secondly, the managing authority recognised early on in the process that there was a need to support the local businesses with a progressive transition from a grant-based SMEs support programme to financial instruments. By providing regular capacity building sessions for potential final recipients, the managing authority helped raise awareness of the new financial instruments and support entrepreneurs and small businesses to develop proposals for investment. This in turn has supported the initial implementation of the new instruments, ensuring there was an initial deal flow of bankable projects.

6.1.3 Collaboration with key partners

The close support from the EIF during the initial project enabled the managing authority to benefit from their expertise in the structuring of the fund of funds and development of the proposals for the financial instruments to meet the needs of the local market. Further, support provided by the EIF during the selection process has enabled the managing authority to ensure the identification, through the fund of funds, of financial intermediaries with strong local knowledge as well as financial capacity and expertise. The identification of key partners and building of strong partnerships between the different actors is crucial when establishing complex projects such as the FRR and its associated financial instruments.

Bô Marché

Innovative Concept Store

Intermediary: BFC OI, *i*-RUN.

Investment: EUR 68 154 loan for three years.

This new concept store located in a former industrial site proposes an innovative business model focused on women with clothing, beauty, accessories, and delicatessen products mostly manufactured on the island of La Réunion.

Thanks to BFC OI financing, Bô Marché could acquire critical start up inventory.

6.2 Main challenges

A key challenge in this project was the significant time required for the implementation. In total, it took approximately three and a half years from the commissioning of the ex-ante assessment to the initial deployment of the financial instruments. Although some of this time was related to local conditions, such as the initial political decision making process, the requirements of the Common Provisions Regulation (CPR)[5] and associated EU regulations mean that at least one and a half years would be needed by other managing authorities to implement financial instruments from the first decision to proceed to the concrete disbursement into final recipients. The managing authority had anticipated that a necessary period of time would be required and had thus commenced the project as early as practicable during the programming period. Nevertheless, if opportunities to further streamline the different stages of the process were identified this would be a positive step.

6.3 Outlook

After 18 months of operations, the underlying financial instruments are up and running and have produced good results to date with about 250 final recipients reached and approximately EUR 22m committed.

The work to set up the FRR fund of funds has enabled the team within the managing authority to significantly develop its skills to work with financial instruments. Working with the EIB and EIF has resulted in the transfer of skills and know-how in relation to financial instruments and this is expected to continue during the delivery of the operation. This enhanced capacity within the region, together with the initial success of the fund of funds, has enabled the region to begin actively to consider how their use of financial instruments can be extended in the next programming period, to allow more sustainable financing of other sectors supported by its ERDF programme.

The experience with FRR has encouraged the managing authority to explore further use of financial instruments in the future. For example, although it is not eligible under the CPR, the region has identified the need to support strategically important businesses in the region which may be experiencing financial difficulties. Non ESIF financial instruments may be a suitable vehicle for such a support operation although it would not be an eligible action within the ESIF regulatory framework. The managing authority may explore the possibility of using its experience gained through the establishment of FRR to develop an instrument using funding other than ESIF resources to address this issue.

The managing authority's experience has been that the development and commercialisation of the FRR has allowed a smooth deployment of the financial instruments. Ultimately, it is expected that the financial instruments will have a significant impact on the market, supporting access to finance for SMEs (including micro-enterprises) that would not have received credit otherwise.

5 REGULATION (EU) No 1303/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCILof 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

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