

- ERDF
- EUR 95 million
- Loans + soft support
- SME support
- Liège province, Belgium

*... bringing together public, semi-public and private regional and local actors...*

# Loan fund INNODEM2 Belgium

Case Study



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The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

## Abbreviations

Abbreviation	Full name
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
EU	European Union
GBER	General Block Exemption Regulation <sup>1</sup>
NSRF	National Strategic Reference Framework
OP	Operational Programme
SME	Small and medium-sized enterprise
SOWALFIN	Société Wallonne de Financement et de Garantie des Petites et Moyennes Entreprises

<sup>1</sup> 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 Text with EEA relevance (OJ L 187, 26.6.2014, p. 1).



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# 1 Summary

In this short document we describe how the Belgian INNODEM2 loan fund, co-financed by the European Regional Development Fund (ERDF), addressed creditor risk aversion towards small and medium-sized enterprises (SMEs) in the Liège province by using advantageous loans to support diversification and innovation. INNODEM2 loans were coupled with free advisory services like legal advice, accounting, communication, training and networking, which increase the success rate of the SMEs. INNODEM2 helped companies like Procoplast improve their production processes when commercial banks would only provide high-interest and high-collateral loans. Through an INNODEM2 loan, Procoplast more than doubled its turnover and doubled its workforce, employing around 80 permanent and 10 temporary workers.

This case is particularly interesting because of its governance arrangements, bringing together public, semi-public and private regional and local actors to achieve the same objective. This collaboration is based on a previous similar financial instrument and is envisaged to continue under a new instrument in the 2014-2020 programming period. INNODEM2 funded 134 companies, helping the province of Liège diversify away from heavy industry towards more knowledge-intensive sectors.

INNODEM2 encountered several challenges during its implementation. These included interest rate fluctuations and delays in disbursing funds due to administrative constraints. A key advantage was the vast experience of both the intermediate body (SOWALFIN) and the fund manager (MeusInvest) with European Union (EU)-co-funded financial instruments and with the specific development needs of the area.

Building on this positive experience, the Walloon managing authority is likely to continue supporting SMEs through EU-funded risk capital instruments in the 2014-2020 period. A new fund, INNODEM3 is envisaged for the beginning of 2016. This shows that an instrument that successfully addressed an identified market gap, can continue to address it through re-investing the repaid funds. The managing authority can supplement the initial efforts with new instruments broadening and fine-tuning the scope of activities, moving now towards the third funding period.



## Loan fund INNODEM2, Belgium

### THE FINANCIAL INSTRUMENT

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#### Funding source

European Regional Development Fund (ERDF), Wallonia Operational Programme (OP) 'Regional Competitiveness and Employment' 2007-2013

#### Type of financial products

Loan combined with free advisory services

#### Financial size

EUR 94.69 million from OP (EUR 37.88 million from ERDF and EUR 49.05 million from regional public funding) and private resources (EUR 7.76 million from the financial intermediary)

#### Thematic focus

SME support

#### Timing

October 2008 to June 2016

#### Partners involved

Government of the Walloon region, Department of coordination of structural funds (managing authority)

SOWALFIN (intermediate body)

MeusInvest (financial intermediary)

INNODEM2 (separate entity within MeusInvest)

### ACHIEVEMENTS

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#### Absorption rate

100% of OP resources: ERDF and regional funding (at January 2016)

#### EU leverage

2.5 times<sup>2</sup>

#### Leverage of public resources

1.1 times<sup>3</sup>

#### Re-investment

Re-investment is expected to start in 2016

#### Main results

134 companies assisted

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- 2 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 94.69 million, divided by the total amount of ERDF allocation to this financial instrument, i.e. EUR 37.88 million. It does not include the reuse of resources returned to the instrument.
- 3 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 94.69 million, divided by the total amount of public resources allocated to this financial instrument, i.e. EUR 86.93 million. It does not include the reuse of resources returned to the instrument.



## 2 Objectives

INNODEM2 tackles economic development problems in the province of Liège, which includes Liège city and its surroundings. It lies in southeast Belgium and is part of Wallonia, the predominantly French-speaking part of the country. The region has important urban areas, notably Liège, but is predominantly rural. In 2004, it had a per capita gross domestic product that was 94.1% that of the EU25<sup>4</sup> average and an unemployment rate of 13.3% (much higher than the EU average and the third-highest in Wallonia).

The province's problems are typical for Wallonia, whose economy traditionally relied on heavy industry which has been in decline since the 1970s, but which has prevented it from rapidly shifting to modern sectors. Wallonia has been trying to diversify towards modern, more dynamic sectors like renewable energy since 1994. For over a decade, its development strategy has been based on clusters of competitiveness, such as partnerships of firms, public/private training/research centres, and business, relying on SMEs and their interaction with universities and research centres to increase innovation. The main research hubs are in Charleroi, Nivelles and Liège, together accounting for 80% of all regional patents in 2003.

The province's needs were addressed in Wallonia's two ERDF 2007-2013 OPs. One of these, the 'Regional Competitiveness and Employment' OP, set up the INNODEM2 fund, is presented in this case study.

INNODEM2 is one of four EU-supported funds implemented in Wallonia during the 2007-2013 period. Two other regional loan funds focusing on other Wallonian provinces, Namur Invest and Luxembourg Developpement, as well as a guarantee and microcredit fund were launched under the same OP. These addressed the market gap caused by banks favouring consumer loans rather than more risky loans for productive activities and increased the supply of microcredit. In 2007, only 400 microcredits were granted in Wallonia, while around 14 000 tax numbers are created annually. The financial instruments contributed to OP targets in terms of 'jobs created' and 'firms created'. SMEs in Wallonia have several other financial support schemes. Since 2004, provinces could offer grants to firms for economic expansion. In addition, the intermediate body (SOWALFIN) and nine public-private funds in the region provide publicly funded products like loans, guarantees and equity to SMEs. The vast majority of these target SMEs in general. However INNODEM2 specifically

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4 EU25 refers to the 25 Member States which composed the EU prior to the accession of Romania and Bulgaria in 2007, and of Croatia in 2013.

targets knowledge-based companies and especially start-ups, contributing to the regional diversification efforts of Wallonia.

Wallonia has consistently helped firms obtain financing for job creation, human capital development, innovation promotion and balanced regional development since the 2000-2006 period. Financial instruments have been used as tools to help firms obtain financing since the 1994-2000 period.

### **Procoplast: objectives**

Procoplast is a Belgian medium-sized enterprise founded in 1989 in Eupen. It specialises in manufacturing sophisticated finished parts with injection moulding and in technical part assembly using automated production lines. Their products are sold to major players in the automotive and utility industries.

The company wanted to improve the automated lines to modernise the manufacturing process. Procoplast is keen on keeping up with the latest technology because they aim to provide quality products. More automation means less defects and more testing opportunities.





## 3 Design and set-up

INNODEM2 is based on a similar instrument implemented through the same intermediate body and financial intermediary as in the 2000-2006 period. It relies on these actors' knowledge of local needs and on their ability to bring in additional financing. INNODEM2 only covers part of the investment needs, with the rest covered by co-investment from the private sector.

### 3.1 Preceding events

During the 2000-2006 period, the managing authority decided to set up a financial instrument through an intermediate body (SOWALFIN) and using MeusInvest as financial intermediary. The INNODEM fund was then set up within MeusInvest with a capital of EUR 29.39 million, of which EUR 14.69 million was from ERDF. This fund supported the creation of new activities and the development of existing SMEs in Liège province through low-interest loans, equity and quasi-equity products. Up to July 2008, INNODEM invested EUR 118.12 million for around 90 projects in 79 SMEs, of which 21 were newly formed, and resulted in the creation of 456 new jobs.

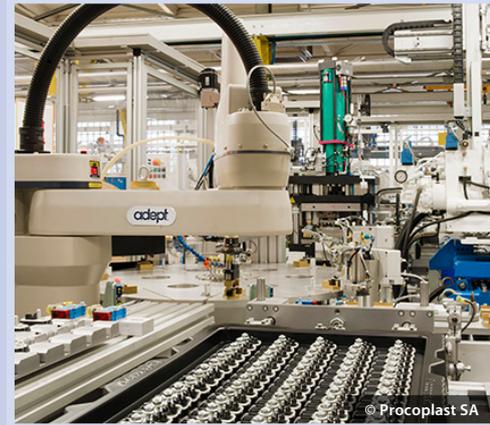
Building on this positive experience, the managing authority decided to set up a similar financial instrument in the 2007-2013 programming period: INNODEM2. The fund offers fixed interest, unsecured and subordinated loans. These target SMEs. The financial products can help finance, for instance, the start-up costs of newly created SMEs or help existing SMEs with a focus on innovation to diversify their activities.

In 2007, an ex-ante study was integrated into the OP. An additional study confirmed the need to continue providing financing for SMEs. The allocation was decided by considering the needs of the intervention area (Liège province) compared to the ERDF allocation for the whole region.

Building on positive experience from the 2000-2006 programming period, it was decided to use a similar financial instrument. The intention was to continue using the previous mechanism by adapting it to the new EU regulations, particularly State aid rules. A new entity, INNODEM2, was created for this purpose within MeusInvest. The use of an intermediate body is justified by its competence in managing publicly funded financial instruments, its network of partners and financial intermediaries, and especially due to its detailed knowledge of the region's needs.

### Procoplast: financing gap

During the recent financial crisis, Procoplast sought to modernise its automated lines and was looking for financing. In 2010 the company was not performing at its best due to external circumstances. Its usual lenders became reluctant to provide loans or had unrealistic demands in terms of collateral or interest rates. Such conditions would have been fatal for the SME, so traditional bank financing was not a viable option.



*“Classical financing sources such as banks did not allow us to develop our enterprise as we wanted.”*

*“Certain banks refused our loan requests, others had unthinkable interest rate and collateral conditions.”*

*Geoffroy Boonen, CEO Procoplast*

## 3.2 Funding and partners

The main partners in INNODEM2 are the **managing authority**, the government of the Walloon region, the **intermediate body**, SOWALFIN, and the **financial intermediary**, MeusInvest. The Walloon government invested in the capital of INNODEM2.

**The intermediate body** (SOWALFIN) was selected due to its experience in managing similar instruments and its technical capabilities and knowledge of investment needs. It is a public company set up in 2002 by the Walloon government to facilitate SME access to finance and to coordinate Wallonia’s financial instruments for SMEs. It has several subsidiaries: SOCAMUT for personal and microloans, SOWACCESS for merger information, SOFINEX for export-related finance and NOVALLIA for innovative investments. SOWALFIN can also act as a financial intermediary, and does so in several EU-financed financial instruments, such as microloans and guarantees (through SOCAMUT).

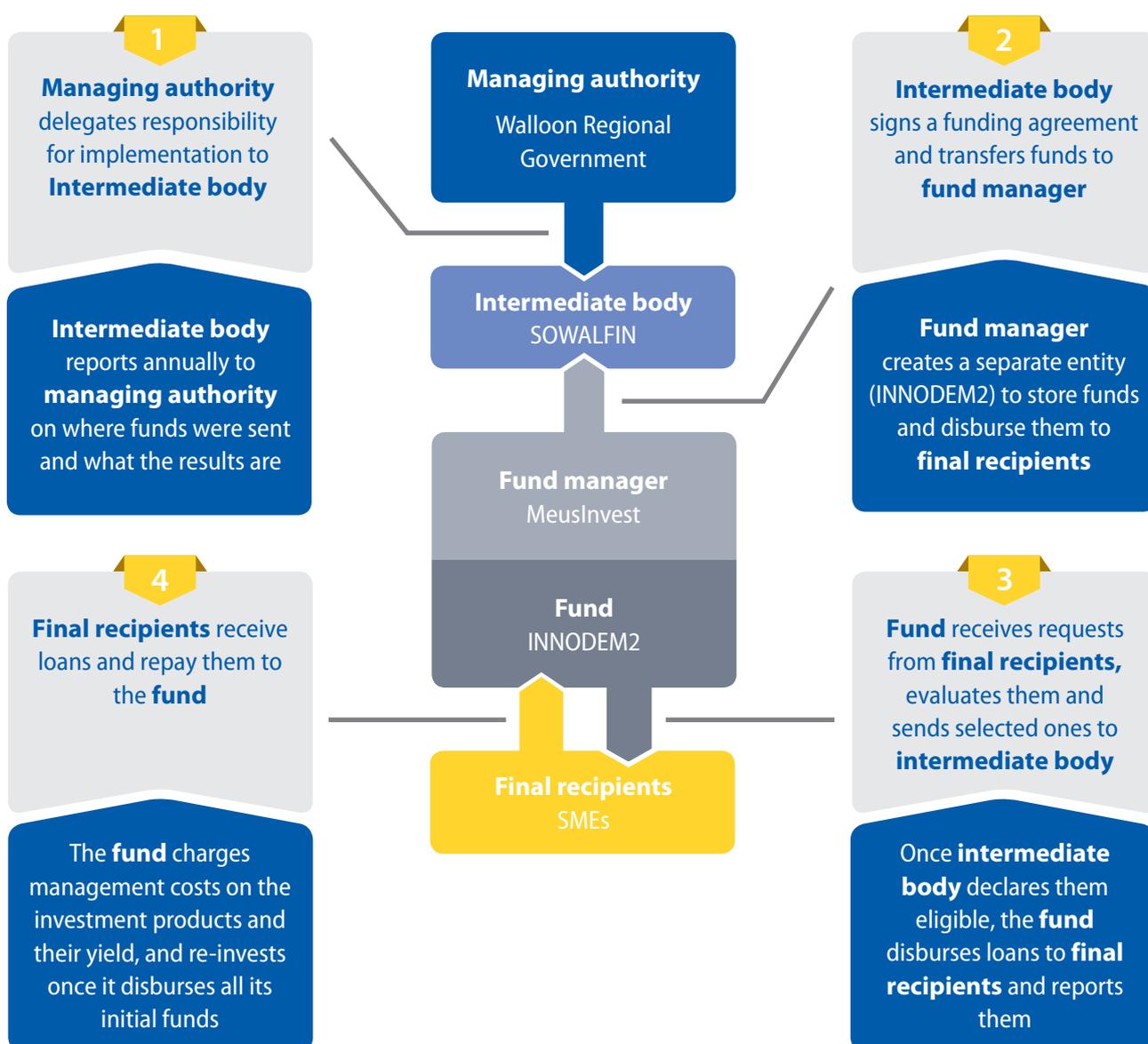
The intermediate body signed a funding agreement with the financial intermediary (MeusInvest). It also signed one with INNODEM2, specifying their obligations when using the funds. The funding agreements contained rules and policies already decided in the programming documents, so there was little negotiation on rules related to the OP arrangements. Nevertheless, the intermediate body was



consulted when these programming documents were drafted by the managing authority, in order to ensure that implementation was feasible.

**The financial intermediary**, MeusInvest was selected due to its knowledge of local SME needs and its administrative capacity to interact with SMEs and process their applications. For this instrument, the financial intermediary created a separate entity within its organisation, INNODEM2, whose capital includes 40% ERDF funds.

Figure 1: Organisational structure of the financial instrument



The financial intermediary finances projects in line with regional development strategies and had experience of promoting regional growth policies. As a whole, the financial intermediary is 41.67% owned by the Walloon government and the rest by banks, insurance companies and private cooperatives.



Recipient firms can receive free non-financial support from the financial intermediary. The instrument already anticipated the need to cover non-financial support in its project application. No private investors apart from MeusInvest were involved at fund-level.

The EUR 74.81 million funding for the financial instrument (INNODEM2) was increased by an additional EUR 17.38 million in 2013. At that time, the Walloon government increased the total amount allocated to financial instruments, including for the two other loan funds in Namur and Luxembourg provinces, from EUR 111 million to EUR 136 million. In addition, in December 2015, the funding was increased again, by EUR 2.5 million, of which EUR 1 million from ERDF and EUR 1.5 million in regional funding.

In the INNODEM2 financial instrument, one euro of ERDF resources was matched by an extra EUR 1.5 in public (regional resources) and private (financial intermediary resources) at fund level. As a result, one euro of EU funds led to EUR 2.5 being lent to SMEs. At fund level, the leverage effect of ERDF funds is therefore 2.5, as illustrated in Table 1 below.

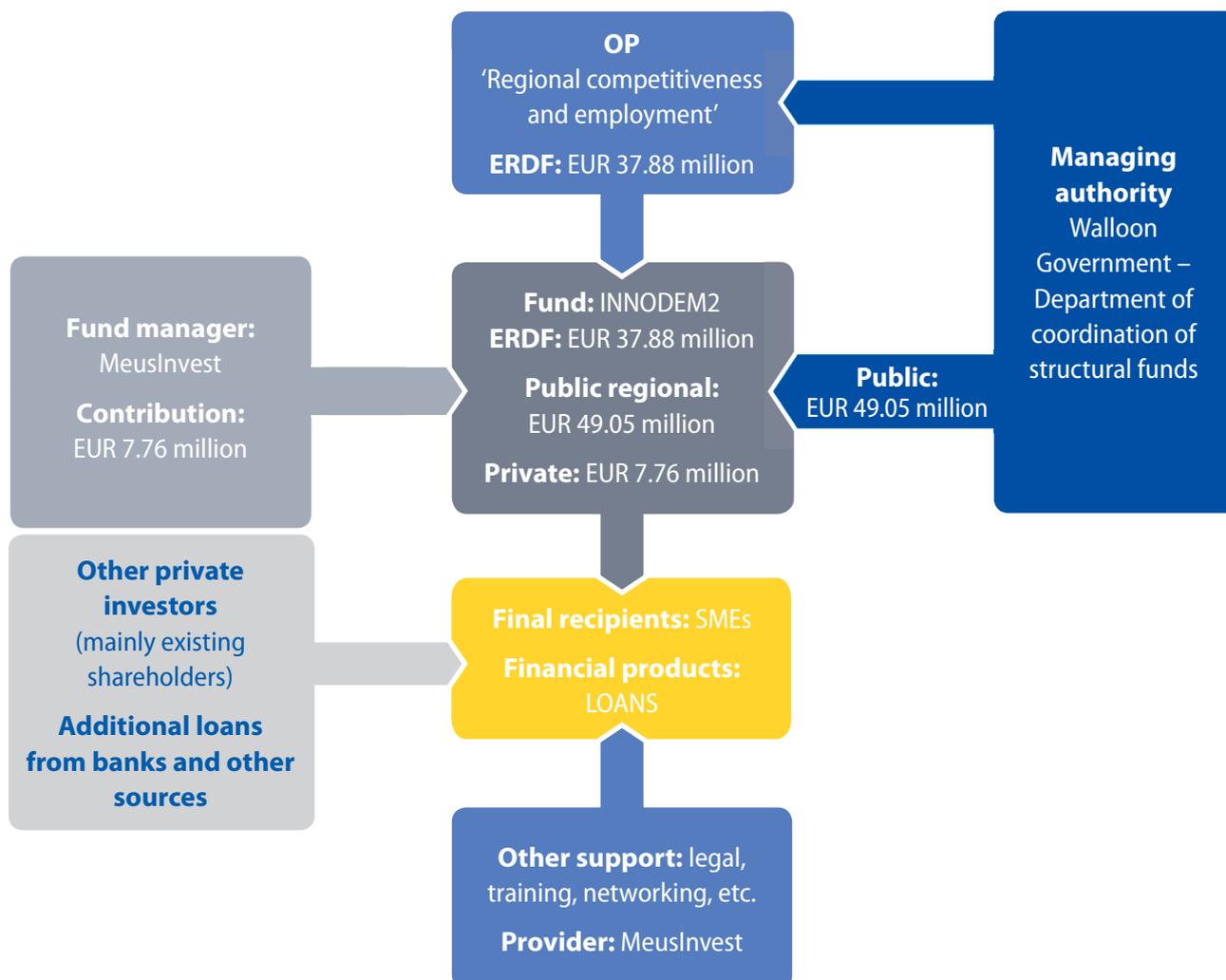
Table 1: The funding sources for INNODEM2 after its increases in 2013 and 2015

Funding sources	EUR million	ERDF leverage (cumulated)
ERDF	37.88	1.0
Public – regional	49.05	2.3
Private (financial intermediary)	7.76	2.5
TOTAL	94.69	2.5



The funding structure is illustrated below, showing the origin of resources reaching final recipients:

Figure 2: Flow of funding throughout the financial instrument



### 3.3 Investment strategy

INNODEM2 invests in SMEs with less than 250 employees and at most EUR 50 million turnover or a balance sheet of EUR 43 million. The loans aim to increase diversification and innovation in the province. This both helps existing firms diversify and supports new ones. The investment strategy also considers the non-financial needs of SMEs and MeusInvest provides free additional services like legal advice, accounting, communication, training and networking. The costs for these are included in the management of the financial instrument.

The investment strategy supports activities under priority axis two of the ERDF OP 'Regional Competitiveness and Employment', namely to support innovation. It thus directly funds 'SME Research & Development & Innovation' projects and young innovative SMEs. The fund also seeks synergies with priority axes one



and three, allowing firms to receive grants for investing in development projects alongside the loans granted by INNODEM2. This is done in compliance with State aid requirements, notably the rule concerning the maximum accumulation of aid that would not distort competition.

INNODEM2's investment strategy contains different types of products: fixed-interest loans, unsecured loans and subordinated loans (see Section 4.2 for more details). The products address the different thematic objectives of the OP: supporting enterprises, stimulating innovation and promoting sustainable energy.

- **Regional investment and employment**, co-finances tangible and intangible assets such as creating or extending a facility, diversifying production, significantly changing a production process or buying patents. Conditions differ depending on the area: zone one includes the cities of Liège and Verviers and their surroundings, and zone two covers the rest of Liège province. For instance, SMEs in zone one can finance up to 75% of project costs, while SMEs in zone two can receive up to 100%.
- **Support for newly-created small enterprises** in zone one, assists newly-created firms with start-up costs like legal and administrative fees, operational leasing or energy costs.
- **Research, development and innovation** finances projects like research, technical feasibility studies or purchasing intellectual property rights. This objective also helps SMEs who use over 15% of their expenses for research and development.
- **Support for young innovative enterprises** finances all expenses of a young firm up to 100% of their costs. Such firms should be small (under 50 full time employees or turnover of less than EUR 10 million), less than six years old and spending 15% or more of their working capital on research, development and innovation.

The instrument's investment strategy often only covers partial financing of projects in order to promote a greater involvement of the private sector. This private financing largely comes from existing shareholders and founders, as well as from banks. Certain interventions can bring a combination of different financial products to best meet SME needs.



### 3.4 Governance

The managing authority delegated its supervisory responsibility to the intermediate body, SOWALFIN. It represents the managing authority as a shareholder of INNODEM2, where it owns 40% of shares, equal to the ERDF funding involved. The financial intermediary, MeusInvest, owns the other 60% of INNODEM2, of which 20% are without voting rights. The intermediate body is responsible for implementing the region's economic policies, for ensuring they are respected by the financial intermediary and other actors, for reporting annually to the Walloon government on the activities of all nine public-private investment funds in Wallonia (referred to as 'Invests') and for coordinating and facilitating interaction between the stakeholders. In addition, it ensures compliance with General Block Exemption Regulation (GBER) requirements and calculates, where necessary, gross grant equivalents.

The financial intermediary is responsible for investing the OP resources. For this, it created a separate entity within its organisation, the INNODEM2 fund. The fund has its own legal status and dedicated organisation separated from the financial intermediary, which provides it with office space.

The financial instrument is managed directly by INNODEM2, which covers the costs of managing and handling loan applications through a centralised administrative system. The financial intermediary does not require management fees for its services. However, management costs for the use of offices, material, administrative services and personnel are limited to 2% of the funds administered per year, and are retained from revenues generated by the fund.

INNODEM2 reports to the intermediate body, which then aggregates data from other investments and sends it to the managing authority. The results are also available on the financial intermediary's website and in annual implementation reports released by the managing authority (see Figure 1).

The main governance body within INNODEM2 is the steering and investment committee, made up of the president of the administration council, who leads the meetings, and seven administrators. The general director of the financial intermediary also participates with voting rights. The committee is responsible for evaluating and deciding on investments, overseeing the day-to-day activities of the fund and handling disputes.

Table 2: Design and implementation of the financial instrument

Time period	Action taken
February 2007	Drafting of the National Strategic Reference Framework of Belgium, where studies are mentioned indicating the need for SME financing
2007	Analysis of SME financing opportunities as part of the OP, and an economic study concerning the Walloon SME financing situation
December 2007	Drafting of the 'Regional Competitiveness and Employment' OP
June 2008	Approval of the scope and budget of the intervention by the Walloon government
September 2008	Submission of the project for financing
October 2008	Creation of the separate entity INNODEM2 and allocation of funds from the government to the intermediate body (SOWALFIN), which paid the funds to the financial intermediary (MeusInvest) on signing a funding agreement
2009	The first investments of INNODEM2
October 2008 – June 2016	Usage period of the funds by INNODEM2
2016	The start of the re-investment period. The investment criteria may change
Winding-up	There is no date set for winding up the instrument. This will be carried out according to the financing agreement – funds will return to shareholders, to the financial intermediary and to the managing authority, which is obliged to re-use them for financing SMEs in the same areas.

The loans are granted directly by INNODEM2, with no involvement from banks. In addition to finance, the financial intermediary also offers final recipients free advisory services like training, legal and accounting advice, publicity and networking.

Conflicts of interest are avoided through several measures. First, loan decisions approved by the INNODEM2 steering and investment committee must be approved by the intermediate body, who checks for conformity with all funding agreement provisions. Second, since the financial intermediary owns 60% of the shares in INNODEM2 it has an incentive to fund viable projects. Third, GBER requirements limit the scope of investment depending on sector and type of firm.



### Procoplast: accessing the financial instrument

While still looking for an accessible financing option, Procoplast approached the financial intermediary (MeusInvest), the main public-private investment fund in Liège province. The financial intermediary informed the SME of the opportunities available through INNODEM2. The favourable conditions, compared to the high cost of commercial financing, prompted Procoplast to apply for a loan from INNODEM2.

For Procoplast, the fund manager acted as a 'one-stop-shop', guiding the firm through the application. Geoffroy Boonen, CEO of Procoplast, says the application process was detailed but not overwhelming. The firm submitted their project idea and business plan, which were approved by the INNODEM2 steering and investment committee.



***“The loan application procedure is detailed but not burdensome.”***

*Geoffroy Boonen, CEO Procoplast*

## 4 Implementation

The financial instrument was implemented through different types of loans directly provided to final recipients along with free advisory services. The implementation strategy focuses on the objectives of the ERDF OP. The target group for the instrument, the products provided and the amount of funding have been revised.

### 4.1 State aid

In order to adhere to State aid rules, the financial instrument's design was based on the GBER, which classifies certain types of aid as compatible with the common market. All the interventions under this instrument contain aid mentioned in the GBER and are constrained by limits on amounts, excluded sectors and so forth.

The instrument adheres to State aid rules by requiring recipient firms to adhere to the definition of 'SMEs' as specified in the GBER, and to follow other GBER requirements, such as:

- not being active in sectors excluded by the GBER;
- having or intend to have a location in the intervention area;
- not in financial distress;
- not affected by recovery actions taken by the Commission because previously awarded aid was incompatible with the common market.

Depending on the intervention (see Section 3.3), there are certain State aid requirements. The interest rate is either the minimum of 2% or the European inter-bank offered rate/Interest rate swap level, and loans cannot exceed EUR 3.5 million per firm. In addition, for regional development intervention, aid is expressed in gross grant equivalent and is compliant with the limits approved for Belgium in March 2007, which also established the development areas concerned. For investment and employment interventions, aid is restricted to 20% per project for small firms and 10% for medium-sized ones.

### 4.2 Financial products and terms

INNODEM2 offers the following financial products:

- **fixed-interest loans** backed by collateral,
- **unsecured loans**, with no collateral required from the SME, and
- **subordinated loans**, which in the event of bankruptcy are paid after all other loans.



The maximum period for loan repayments is 20 years. By January 2016, INNODEM2 had offered over EUR 94 million in loans. Once repaid, this money will be re-invested in other SMEs that request funding, as with the previous financial instrument INNODEM. This has not happened so far under INNODEM2, since the vast majority of loans have still to be repaid, but it is expected that funds will revolve from 2016. The fund aims for shorter repayment periods so resources can revolve sooner.

Loan applications are made directly to INNODEM2 or indirectly through the financial intermediary MeusInvest, which redirects them to the managing body of INNODEM2 which analyses the requests and makes a decision. Applications are normally analysed within a week but can take up to three months, for less well-prepared applications. The financial intermediary requires applicants to have a viable business plan. This helps to safeguard funds being repaid and the benefits being shared across the region.

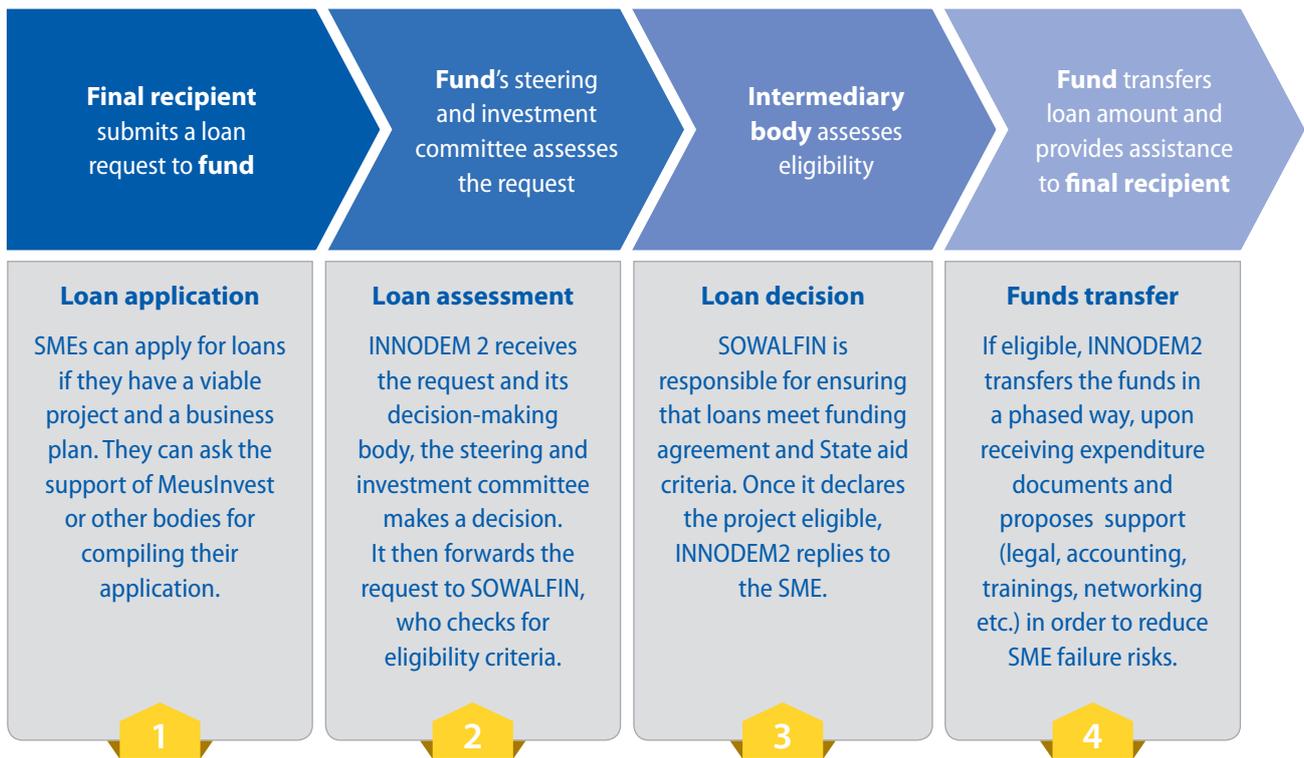
After INNODEM2's appraisal, the intermediate body checks whether the loan complies with the funding agreements and the OP.

Up to July 2015, the average interest rate was 3.76%, and the average maturity was around nine years. The financial intermediary estimates that by the end of 2015, INNODEM2 will have disbursed 100% of the funds. The loans are offered directly by INNODEM2, which acts as a 'one-stop-shop' for all the interactions with final recipients.

Final recipients can take advantage of the synergies between INNODEM2 loans and the other instruments offered by the financial intermediary. For instance, there may be equity investments from the financial intermediary (MeusInvest) in firms taking out loans through INNODEM2.

In addition to the INNODEM2 loans, final recipients can take advantage of advisory and technical support services issued freely by the financial intermediary or commissioned by it from providers such as CIDE SOCRAN, a non-governmental organisation and a European business and innovation centre in the Liège province. The financial intermediary offers training, legal and accounting advice, publicity and networking opportunities. Within the INNODEM2 financial instrument, these services are offered free of charge. The costs are covered by the OP contribution to the instrument.

Figure 3: Process of accessing the financial products



### Procoplast: terms of the investment

Procoplast obtained a loan through INNODEM2 at an acceptable interest rate. The greatest advantage of this loan was the lower level of guarantees needed: Procoplast could only provide its available assets as collateral, which was often a problem for accessing commercial loans at that time. For the INNODEM2 loan, their collateral was sufficient and the firm received financing for their automated lines.

As part of the investment, the financial intermediary asked for a seat on the administration council and then became a minority stakeholder in the firm. This was a symbolic gesture compared to the amount of support they offered.

State aid was not an issue for this investment. The guarantee levels were calculated according to a model provided by the intermediate body, which assessed the collateral needed according to the quality of the project.





### 4.3 Final recipients targeted

INNODEM2 targets SMEs, both existing and newly-formed, that have investment needs related to one of the four intervention missions of the financial instrument, described in Section 3.3. The typical final recipient is an SME with 15 to 50 employees. The fund's investments are across diverse sectors and no single one stands out. The intention of the financial intermediary was to reach as many different sectors as possible. This is in line with the OP strategy of supporting diversification in the province's economic activity.

The managing authority carried out information campaigns promoting the instrument in mass media when they were first implemented. Thereafter, the communication strategy became the responsibility of the financial intermediary, which promotes the instrument along with its other products. It is in the interest of the intermediary to ensure promotion, given that funds which are not used by the end of 2015 must be paid back.

### 4.4 Changes in strategy

In 2007, the initial strategy of the OP was to support spin-off companies. When the fund was negotiated in 2008, however, the stakeholders decided to remove this target group. Furthermore, the instrument was initially expected to also provide equity investments. However, this goal was revised due to constraints related to State aid. The project evolved into a loan fund that focused on countering the adverse effects of the crisis and the consequent restricted bank lending.

Another slight change was decided in May 2013, the Walloon government decided to increase the allocation for INNODEM2 and the two other regional EU-funded financial instruments, raising the capital of INNODEM2 by EUR 17.38 million in December 2013. In December 2015, the funding was again increased by EUR 2.5 million.

The fund can lend multiple times to the same final recipient during the programming period according to the same criteria, as long as these fund a different project or supplement the initial project. At July 2015, INNODEM2 was still in its first-round investment phase, and re-investments are not expected until 100% of the funds have been disbursed (expected in December 2015).

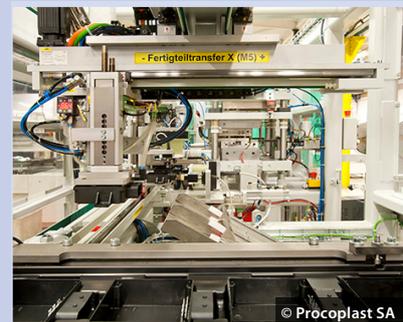
## 5 Achievements

By the end of 2015, INNODEM2 had assisted 134 firms, mostly with 15 to 50 employees, thereby meeting the initial objectives of the fund. INNODEM2 has funded firms in many different economic sectors. INNODEM2 has lent EUR 94.69 million, or 2.75 times more than the ERDF funding of the instrument. The instrument has also allowed final recipients to mobilize additional finance as financing from INNODEM2 helped the firms to reach a state where they could more easily access commercial finance, which would not have been possible without the INNODEM2 support.

There now seems to be more stabilised conditions for bank lending to SMEs. Lending was severely restricted at the onset of the crisis, making the EU-funded loan instruments vital to meet financing demand. The EU-funded financial instruments, the services of the intermediate body and the investment funds as well as the local effect of the microfinance guarantee mechanisms put in place by the European Investment Fund, means the supply of financing is slowly returning to normal.

### Procoplast: achievements

Thanks to the INNODEM2 investment in 2010, Procoplast has managed to more than double its turnover over the past five years to EUR 20.5 million, with a workforce twice the size. Given its success, Procoplast is expanding and building a new factory of nearly 9 000 m<sup>2</sup> in the region. In 2015, it produced over 135 million finished parts.



The company now employs around 80 permanent people and 10 temporary workers. Its projects can now be financed on the commercial market. The chief executive officer is undoubtedly in favour of using financial instruments in the future, stating that it does not make sense to change such a well-functioning method of cooperation.

***“Today, victim of its own success, Procoplast is even building a new factory of almost 9 000 m<sup>2</sup> in the region! In the eyes of the banks, we are becoming more interesting and more desirable.”***

*Geoffroy Boonen, CEO Procoplast*



## 6 Lessons learned

The stakeholders used their experience from the 2000-2006 period to improve the INNODEM2 financial instrument. Their main challenges were related to administrative constraints, worsening market conditions and interpreting State aid requirements. However, the experience and expertise of the intermediate body and the financial intermediary ensured that the funds reached final recipients despite the challenges.

### 6.1 Main challenges

For the financial intermediary, one challenge was the lower commercial interest rate during the programming period. Interest rates were high at the start of the period, which made the INNODEM2 instrument even more attractive for firms. After the liquidity freeze in 2010-2011 which made banks reluctant to lend, commercial interest rates progressively decreased and banks became more willing to take on risk. As commercial interest rates arrived at similar levels to those of INNODEM2 loans, and as banks became less risk-averse, competition made it possible for commercial banks to reduce the finance gap for which INNODEM2 was designed. In addition, companies funded by INNODEM2 tended to get back on track and become profitable (as the example of Procoplast shows), therefore in a short while they did not need additional intervention from INNODEM2, as they became attractive enough for commercial loans. Furthermore, administrative constraints resulted in a delay in disbursing funds to final recipients, since they had to first justify their expenditure.

For the intermediate body, there were initial challenges related to ERDF requirements for financial instruments, which were clarified by subsequent guidance notes. It was also at times difficult to interpret State aid requirements, which resulted in the collection of a large number of documents justifying the investments. State aid requirements also steered the instrument from equity towards loan products. However, SOWALFIN sees a positive development in the current ERDF-related regulations (the ERDF fund-specific regulation as well as the common provisions regulation covering all ESI Funds), which is more detailed and covers many gaps from the previous one.

## 6.2 Main success factors

A positive development described by the financial intermediary (MeusInvest) is that the firms financed by INNODEM2 were soon able to access commercial financing at more attractive rates than before. After the intervention of the financial instruments, these firms could present better loan requests to commercial banks, resulting in lower interest rates, longer repayment periods or lower collateral requirements.

The intermediate body underlines the local expertise of the financial intermediary and of other investment companies, which played an important role, especially in the unfavourable economic context.

As a lesson learned, the intermediate body indicates that State aid requirements were simplified, since the financial instrument of the 2007-2013 period was based on GBER requirements instead of a notification procedure to the European Commission, as with the previous financial instrument, INNODEM. The notification procedure proved to be long and administratively intense, leading to several modifications in the previous instrument's design. The reliance on GBER, even though it steered the instrument away from equity products, expedited implementation.

## 6.3 Outlook

The current ERDF 2014-2020 OP for Wallonia anticipates the use of financial instruments in two streams (as in the two previous periods): risk capital as well as guarantees and microcredit. The financial intermediaries and intermediate bodies should be selected after a mandatory ex-ante assessment. However, the target group is envisaged to remain the same.

For the 2014-2020 programming period, new entities are expected (for the province of Liège, INNODEM3), in order to keep better track of the allocated funds and to facilitate reimbursements and control. INNODEM and INNODEM2 will continue to run as separate entities. The technical documents are largely ready, but negotiations within the government are still needed to decide on the allocations between the different funds. The instruments to be put in place should be decided by the end of 2015.

Given the experience of the two previous programming periods, future financial instruments are expected to rely less on specific State aid regulations such as notifications.

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