ERDF

# Financiere Region Réunion

**Youssouf Cadjee**, Chargé de mission – Ingénierie financière, Direction des Affaires Économiques, Region La Réunion, France

**Jean-Pierre Legras**, Directeur des Affaires Economique et du Tourisme, Region La Réunion, France

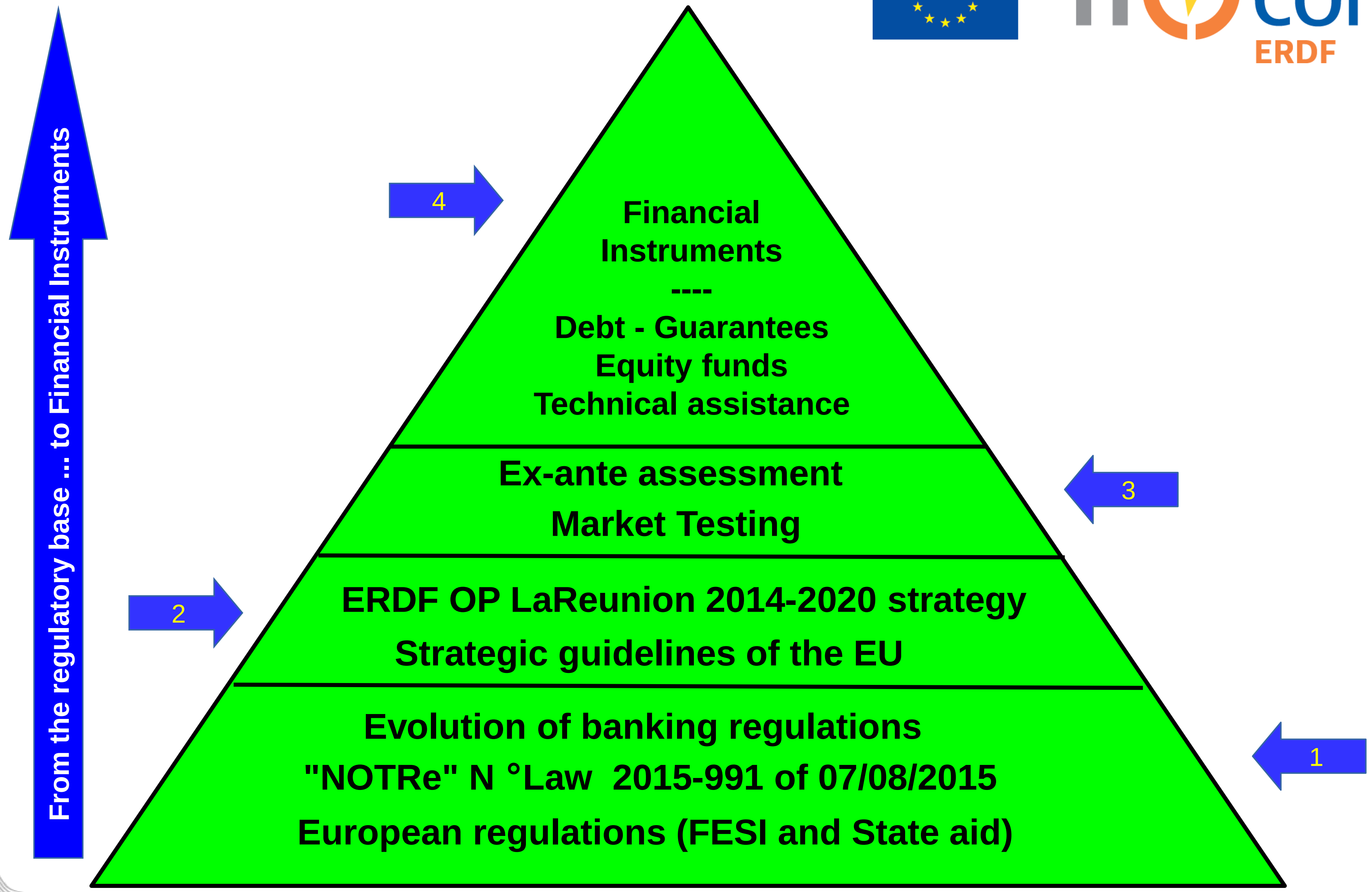
#ficompass

European Investment Bank
The EU bank

European Commission

# SUMMARY

# 1 - Context of the construction of Financial Instruments



## 2a - 2014-2020 ERDF operational programme "La Réunion"

**The competitiveness of the Reunionese economy**

- Invest in growth drivers
- Improve access to ICT
- Improve the competitiveness of companies

**37 %**

**Transport infrastructure**

- Road infrastructure and TCSP
- Ports
- Airports

**23 %**

**Sustainable management of resources and risks**

- ENR production, energy efficiency and sustainable mobility
- Prevention and risk management,
- Rational management of water resources, biodiversity and waste
- Valorization of heritage

**28 %**

**Public Infrastructure services**

- Health and social infrastructure
- Revitalization of cities and towns
- Infrastructure for education/training

**10 %**

# 2b - Funds available within TO3

| | ERDF (TO3) | Own Funds of the Region | Total |
|---|---|---|---|
| (3a) Creation | 5.000.000 € | 1.250.000 € | **6.250.000 €** |
| (3d) Development | 19.000.000 € | 4.750.000 € | **23.750.000 €** |
| **Total** | **24.000.000 €** | **6.000.000 €** | **30.000.000 €** |

- Conclusions of the ex-ante assessment were presented and validated in October 2015 by the Monitoring Committee.
- 2016 and H1 of 2017 were dedicated to the identification (with the support of the EIF) of the most appropriate implementation model (Fund of Funds).
- A market testing was conducted by the EIF with potential intermediaries to ensure the relevance of the instruments and to calibrate them according to demand.
- The selection criteria were presented and validated in October 2017 by the CNS Monitoring Committee.
- Final Seletion documentation was prepared and the Call for Expression of Interest planned for December 2017.

## 2c - Financial Instruments set-up

fi compass
ERDF

**Two-step approach:**

**(i) a contingent loan from the EIB-EFSI to the Region, then**

**(ii) (ii) a contribution from the Region to the FoF [same for the repayments]**

EIB (EFSI-IIW)
**EUR [20] m**

Region + ERDF

**Fund of Funds**
**Investment committee**

**EIF**
**Mandate manager**
**Fund of Funds**

**Risk Sharing Loan instrument targeting SMEs**

**EUR[40]m**
**With leverage [1,7] min, ie. EUR[67]m for SMEs**

**Co-investment instrument**

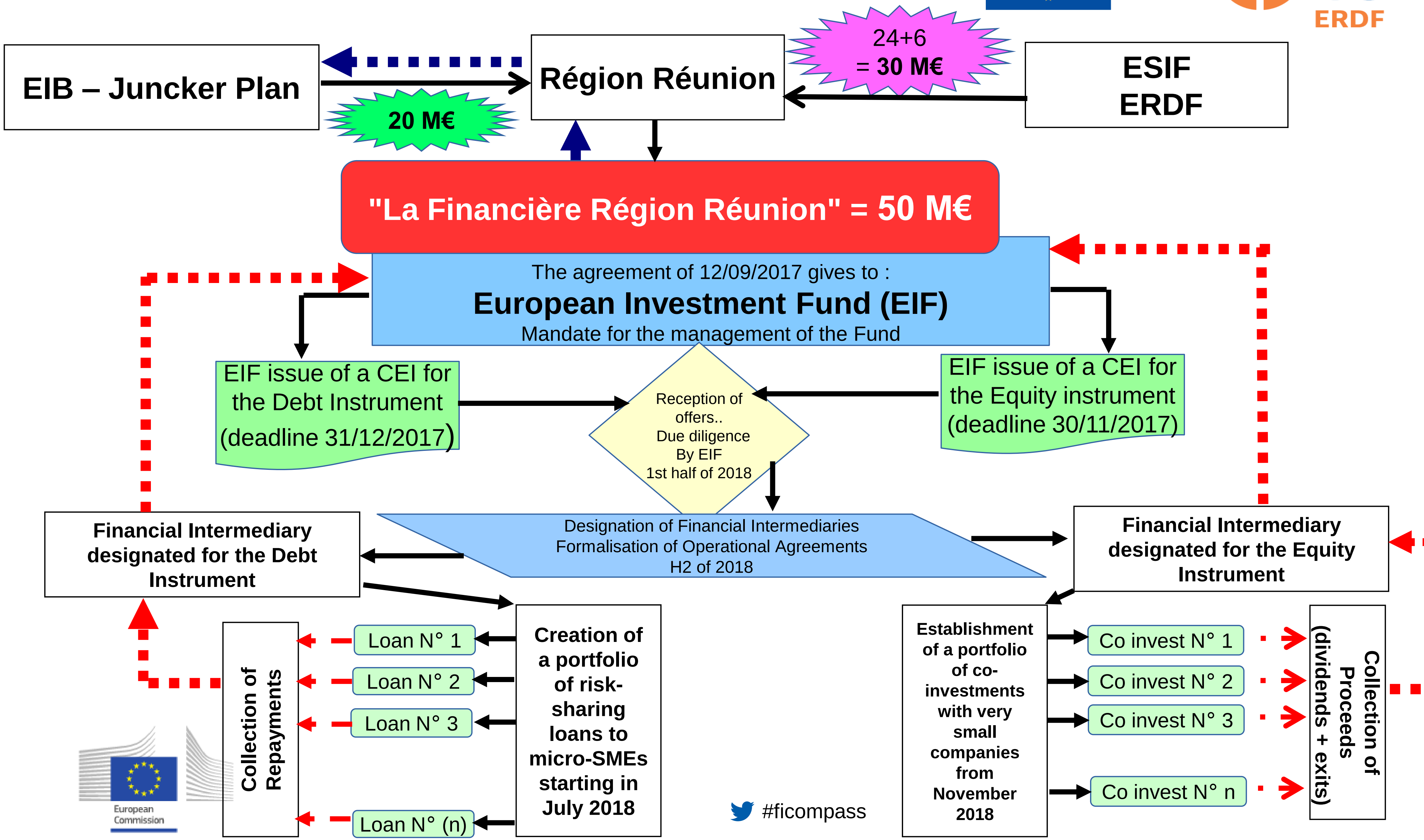
**EUR[10]m**
**with a leverage effect according to the life cycle phase of the SME**

**[EUR 100m] in SMEs**
Région Reunion.

- **Establishment of a fund of funds** within the meaning of Article 2.27 of the Common Provisional Regulations (CPR);
- The **Region** **entrusts implementation tasks for the set-up of the FIs to the EIF** under Article 38.4.b.i of the CPR;
- The **EIF becomes the Fund Manager** **of the FoF** with the strategic objective of setting up two underlying financial instruments to finance the small and medium-sized enterprises in the Region.
- Creation of a **fund of funds of a strategic size of EUR 50m** allowing a real impact in the Reunion Region.
- A tailor-made fund of funds, whose underlying instruments are **complementary** (Debt + Equity) and adapted to the needs of local entrepreneurs.

**One or more Financial Intermediaries selected by instrument following the publication of Calls for Expression of Interest by EIF**

## 2d - The flow mechanism




YC

# 3 - Main steps

Ex ante Assessment

7 Oct 2015

→ Comfort letter from Region
Nov. 2016

→ Design of financial Instruments

→ Market Testing

Feb. – March 2017

→ Signing of funding agreement with EIF
12 Sept. 2017

→ Preparation / approval of the CoEI by the committee
20 Sept. 2017

→ Publication / End CoEI
Sept 2017 – Dec. 2017

→ Eligibility verification and EIF shortlist of candidates
Jan – March 2018

→ Due diligence by EIF
26 Feb. 2018
24/26 May 2018

→ Approval by the EIF Board of Directors

→ Signature of the operational agreement:
EIF/BFCOI 16/06/2018
EIF/Apicap : 06/11/2018

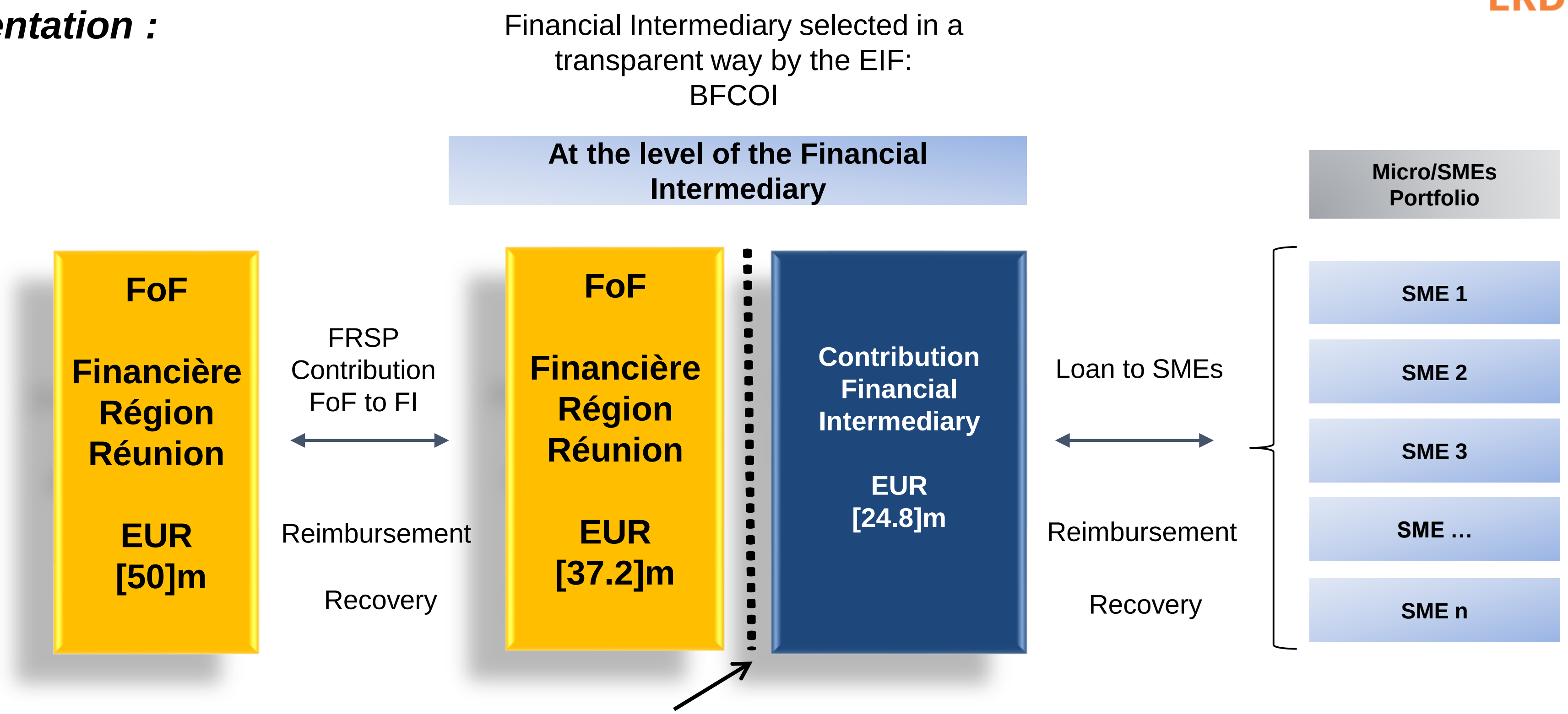
→ FI Implementation
Loan product: July 2018
Equity product: Nov. 2018

→ Reporting
Audit

→ Re use of funds

# 4a - Risk Sharing Loan Mechanism

***Schematic representation :***




**ESIF Leverage = Total amount available for Loans / ESIF contribution**

**Risk sharing rate: 60%**

**Reduction of the interest rate applied to micro-businesses is based on the risk sharing rate**

YC

# 4b - Features of the Loan Instrument

- Eligible non listed SMEs that:
  - have their head office, a headquarters or a significant operating site in the Region; and
  - do not operate in any market; or
  - operate in any market for less than 7 years after their first commercial sale;

- It aims to facilitate access to bank financing for a large number of micro-enterprises on preferential terms by lowering the interest rates charged by players in the Region:
  - 1.25% for loans < 5 years
  - 1.50% for loans > 5 years
  - 50% discount on application fees
  - 3 months grace period
  - Revised warranties

  Preferred target group: companies in the creation phase, new investment project

- These results are obtained by a 60% contribution from the Regional Fund to the loan portfolio set up by the financial intermediary.

- Loan amount: average between EUR [50k - 100k] per SME;

- Eligible projects: investments in tangible assets (excluding second-hand equipment) + intangibles as well as the financing of working capital; business transfers between independent parties

- Period of availability of funds / i.e. the period to build the portfolio of EUR [62m]: [36-48] months;

- Maturity of the loans / duration of the loan: majority of the portfolio will have a maturity between [1-10] years,

JPL

## 4c - Mechanism of the co-investment instrument

fi compass ERDF

***Schematic representation :***

**Transparent, competitive selection of the Financial Intermediary carried out by the EIF**

**Financial intermediary selected in a transparent way according to delegated acts**

**Co-investment players (act in a commercial & profit oriented basis)**

**Fund of Fund**
**EUR [10]m**

Decision-making vehicle selected through CoEI by the EIF

Private Participation > 50%

Minimum of 5% in each equity investment

VC. Fund (2)

VC Fund (3)

VC. Fund (4)

VC. Fund (5)

**Co-investment Fund (FCI)**
**100% Public money**

**Investment decisions into SMEs taken by the decision-making vehicle**

**Max amount per operation < EUR 15% - 20 % (FCI)**

SMEs established and operating in the Region
in the creation and / or development phases defined by the regulations

YC

# 4d - Characteristics of the co-investment instrument

- **Unlisted SMEs with their headquaters, a registered office or an operating site in Réunion Region are eligible;**

- **Company's development as part of a credible growth project requires a strengthening of their equity. Operations supported by the Fund must be commercially oriented and targeted at investment and production;**

- **SMEs with high growth potential will be particularly targeted;**

- **The Fund establishes a partnership with private co-investors (participation depending on the stage of development of the SME concerned); it also aims to attract investors who are not yet present in the Region.**

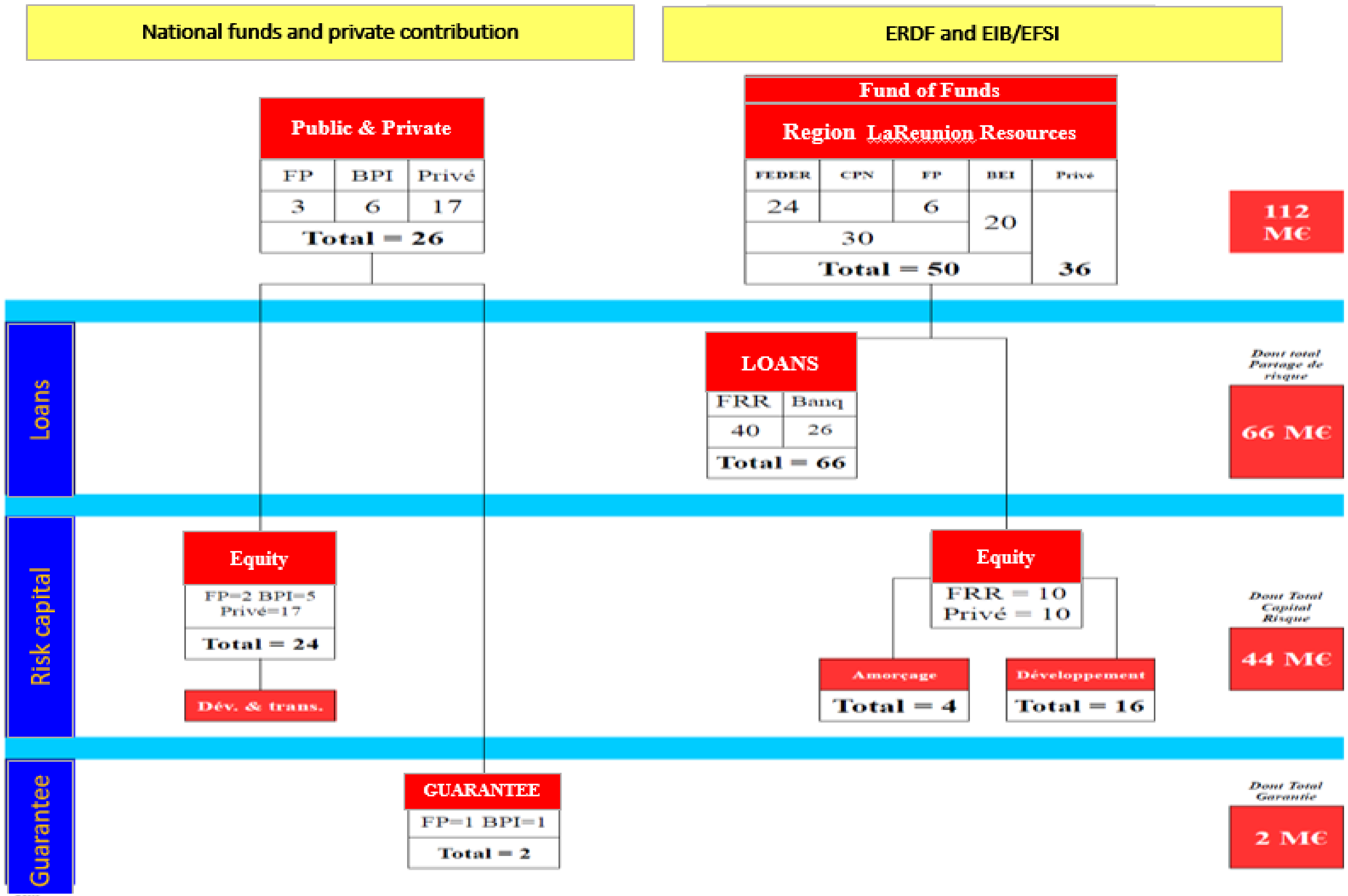
JPL

# 5 - Why Financial Instruments in Reunion Region

| | | | | |
|---|---|---|---|---|
| **From the perspective of the Region** | More efficient use of public resources (from a culture of subsidy to a culture of the sustainability of public funding) | Strengthen the investment and competitiveness of micro-businesses<br><br>Facilitate access to finance generally in line with economic growth | Designed in line with EC Recommendations of (CoEI, Selection, max co-financing rate, etc..) | Alignment of interests between the public and private contributions.<br><br>Visibility of the regional action on the territory |
| **For Financial Intermediary** | Access liquidity on favourable terms (almost free) | Strong visibility in terms of support for SMEs | Access to new customers | Significant risk sharing (60-40 co-funding rate) |
| **For SMEs** | Access financing more easily and on better terms. | Profit transfer: public contribution is at 0.5%. | Provides many opportunities for SMEs that do not necessarily have all the "necessary attention" | First crucial step for its development |

JPL

# 7 - Overall diagram of the Financial Instruments deployed



## 6 - Expected results

| Number SMEs | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|
| 3a – Set-up (ERDF+Region's funds) | 20 | 28 | 37 | | | **85** |
| 3d – Development (ERDF+Region's funds) | 77 | 107 | 140 | | | **324** |
| Establishment & Development (EIB/Juncker) | | | | 170 | 61 | **231** |
| **Total** | **97** | **135** | **177** | **170** | **61** | **640** |

*NB : Indicators are based on average ratios of:*

*- 66 K€ / debt transaction*

*- 188 K€ / equity transaction*

YC

# 8 - Conclusions: Lessons learned

ERDF

•**A strong political** will that translates into a significant financial effort;

•**A dedicated team** (3 people) to implement;

•A team that knows **banking regulations**;

•Timeline for set-up - **at least 2 years**;

•**Regular capacity building** action directed at employers' organisations and small and medium-sized enterprises: the transition from any subsidy to Financial Instruments is not made without turbulence(s);

The close support and **collaboration of the EIF and the EIB** were crucial to the success of the project (e.g. structuring the FoF, proposing financial instruments adapted to the local economic context, selecting intermediaries in a competitive manner, monitoring intermediaries, reporting, etc.).

In the absence of a sovereign wealth fund, it is imperative that the **banking system actively collaborates**.

- Was it relevant to make the ex-ante evaluation mandatory?
- Was it relevant to secure EFSI resources for the FIs?

•Shouldn't we think of a specific instrument for companies with a strategic impact on the territory and a viable investment project and who are in financial difficulties?

JPL


financial instruments
revolving
capacity building
added value
ERDF
funding agreement
ESF
EU guidance
governance
ex-ante assessment
technical support
seminars
leverage
financial intermediaries
microfinance
co-financing
case studies
investments
ESIF
fi-compass
final recipients
business plan
Thank you
thematic objectives
advisory services
guarantees
banks
loans
CF
equity
EAFRD
private investors
life cycle
combination of support
conferences
factsheets
fund of funds
EMFF
investment strategy
managing authorities
manuals