



**Financial instruments for  
enhancing SME competitiveness  
Supporting RD&I  
The FOSTER Project**

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La Région Occitanie, France



 #ficompass





# THE FOSTER PROJECT

Financial instruments for enhancing  
SME competitiveness



Financial Instruments Supporting RD&I

Brussels, 5 December 2018



Region created 1st January 2016, the result of the merging of Languedoc-Roussillon (Transition region) + Midi-Pyrénées (Competitive region)

- 5.8 million inhabitants
- GDP EUR 162 bn
- 1st in creation of new companies : +62,000 per year
- 10.6% unemployment rate (above the French average)
- 8 million tourists per year
- Population growth + 52,000 per year
- Twice the area of Belgium with large cities Toulouse and Montpellier
- 50% of territory used for agriculture
- First employer: agriculture & agrifood industry



#### Among French regions:

- 5<sup>th</sup> in population
- 4<sup>th</sup> most touristic
- 3<sup>rd</sup> most farms
- 2<sup>nd</sup> in territory
- 1<sup>st</sup> rate for GDP invested in R&D: 3,8%
- 1<sup>st</sup> for organic products

Various types of companies in the region:

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

Almost 500,000 SMEs of which

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

Operational Programs focusing on:

- Supporting and fostering innovative projects
- Supporting SMEs

Research and Innovation :  
1<sup>st</sup> region in France

- **1<sup>st</sup> rate for GDP invested in R&D: 3.8%**
- 247,000 students
- 35 institutions for higher education
- 30,000 researchers
- 15 clusters, including Aerospace Valley, IOT Valley and AgriSudOuest Innovation

But also

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

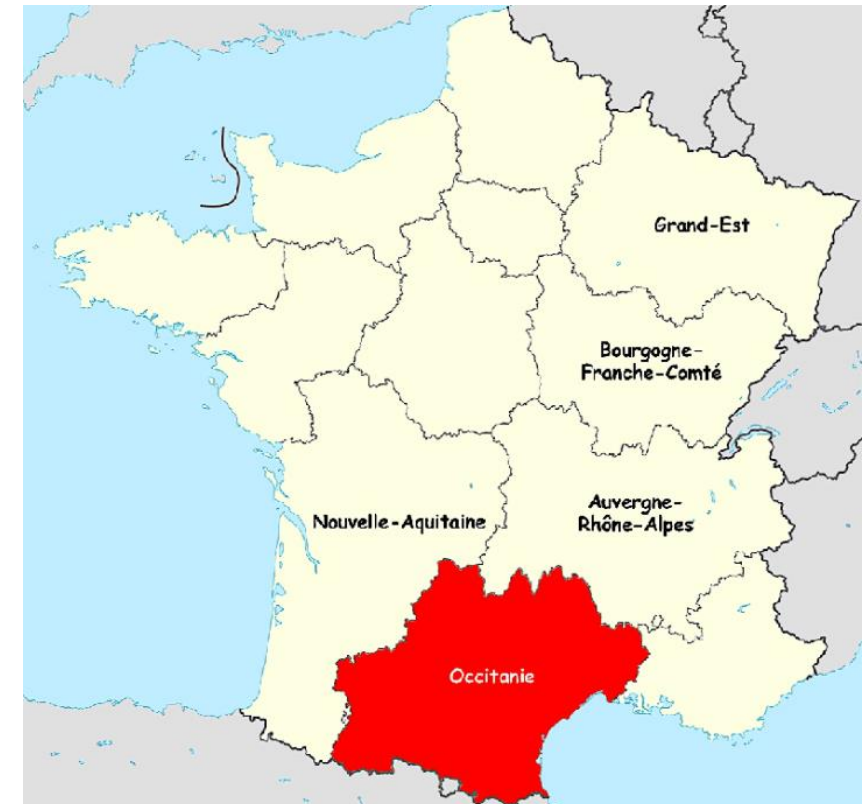
# Context – EUR 3 bn of European funds Region Occitanie (Managing Authority)

- 2 Operational Programmes ERDF/ESF (for the former territories of Languedoc-Roussillon and Midi-Pyrénées): EUR 856 m
- 1 Operational Programme ERDF over the Pyrénées (mountain range): EUR 25 m
- 2 Rural Development Programmes EAFRD (for the former territories of Languedoc-Roussillon and Midi-Pyrénées): EUR 2.1 bn

But also

- 1 European Maritime and Fisheries Fund programme
- Interreg POCTEFA, Sudoe, MED

The FOSTER Project  
EUR 143m  
for Financial Instruments





# Context – Long experience with Financial Instruments in Occitanie



Financial instruments = Tools included in the Region's economic strategy

Two venture capital companies created in early 80s IRDI and SORIDEC

Nowadays merged in one Equity management company - EUR 300 m of assets including for RD&I

- AELIS : Venture capital : EUR 36.6 m
- IRDINOV2 : Early stage : EUR 34.1 m

2007-2013: ERDF Operational Program

JEREMIE funds EUR 30 m (EUR 15 m ERDF + EUR 15 m Region)

**EUR 175m** invested in 1,358 SMEs – **15,417** Jobs created or maintained

# IRDI-SORIDEC RDI funds

 AELIS Innovation

- Creation : 1<sup>st</sup> December 2017
- Initial closing : Fund size of the investment vehicle: EUR 36.6 m
- Purpose: Seed and innovative Start-up IT, healthcare, green-Tech
- Stage of intervention: Small enterprises (up to expansion); Medium enterprises (seed + start-up)
- Maturity of the fund: 12 years
- Sectors: All sectors (except the non eligible ones). Specific attention to innovative and technology SMEs with a high potential
- Investment period: 31/12/2023
- Investment : EUR 0.3 to 3.5 m

 IRDINOVA2  
capital amorceage

- Creation : 1st January 2018
- Initial closing : Fund size of the investment vehicle: EUR 34.1 m
- Purpose: Seed, deep tech Start-up and spin-off of public laboratories
- Stage of intervention: Small enterprises (up to expansion); Medium enterprises (seed + start-up)
- Maturity of the fund: 12 years
- Sectors: All sectors (except the non eligible ones). Specific attention to innovative and technology SMEs with a high potential
- Investment period: 31/12/2023
- Investment : EUR 0.3 to 3.5 m

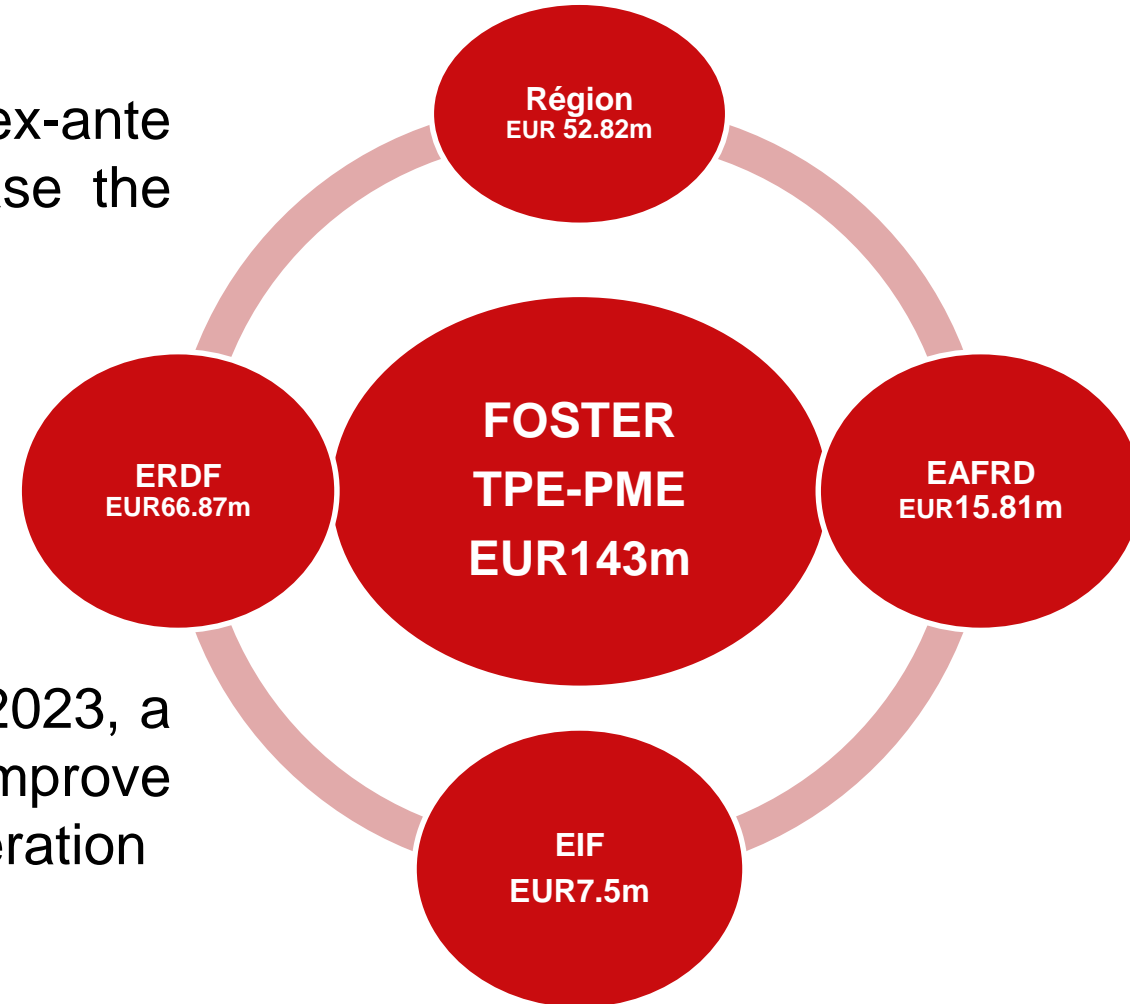
# 2014-2020 – Ex-Ante Assessment

## Next step The FOSTER project

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



**FOSTER TPE-PME EUR 143 m** public funds until 2023, a new generation of Fund-of-Funds aiming to improve access to finance for final recipients, set up in cooperation





Region OCCITANIE chose EIF and EIB Group to carry on the ex-ante assessment

A global approach of SME needs covering all sectors, including agriculture & agrifood industry

## Objectives

- Assessment of the Demand
- Accompanying the maturation of the actors
- Market testing, Fix targets
- For the final recipient : Strong demand to access to finance at better condition, i.e. lower interest rates, reduction of the collateral requirements, speed up the local decision process, reduce administration fees





# 2014-2020 – FOSTER Fund of Funds



Région + ERDF + EAFRD + EFSI : EUR 143 m



Financial Intermediaries selected through a Call for Expression of Interest carried out by EIF

Funds of Funds FOSTER  
COFIL: Région/EIF

EUROPEAN INVESTMENT FUND  
Manager Fund of Funds

Private Investors  
European Investment Bank  
*The EIB bank*

**Seed loan Instrument: to support innovative SMEs**  
LR EUR 3m  
- MP EUR 3m  
Minimum EU leverage of 4x  
EUR 12m available for SMEs

**Guarantee instrument for SMEs**  
LR EUR 25m  
- MP EUR 40m  
Minimum EU leverage of 10x  
EUR 650m available for SMEs

**Co-investment Instrument**  
LR EUR 15m  
- MP EUR 30m  
Leverage according to life-cycle phase of the SME  
EUR 150m

**Guarantee instrument for agriculture**  
LR EUR 15m  
- MP EUR 12m  
Minimum EU leverage of 5x  
EUR 135m  
Available for Farmers / SMEs in the agri sector

**Equity instrument:**  
EUR > 30m  
Focus on mature SMEs.  
Target total investment of EUR 100m

Approximately EUR 1,000m targeting +/- 6,000 SMEs based in the Région Occitanie.





# FOSTER Languedoc Roussillon



**FOSTER**  
TPE • PME • AGRI

L'EUROPE S'ENGAGE  
L'OCCITANIE AGIT

Région + ERDF + EAFRD + EIF  
EUR 58 m

Fund of funds  
Steering committee : Région/EIF



EUROPEAN INVESTMENT FUND

**Manager Fund of Funds**



Financial Intermediaries selected through a Call for Expression of Interest carried out by EIF

**Seed loan**  
Instrument to support innovative SMEs  
EUR 3 m  
Leverage minimum x2

*CREALIA Occitanie*

**Guarantee instrument for SMEs**  
EUR 25 m  
Leverage minimum x10

*BPS + CELR*

**Co-Investment Instrument**  
EUR 15 m  
Leverage minimum x5

*IRDI SORIDEC*

**Guarantee instrument for Agriculture**  
EUR 15 m  
Leverage minimum x4

*BPS*





# FOSTER Midi-Pyrénées

**FOSTER**  
TPE • PME • AGRI

L'EUROPE S'ENGAGE  
L'OCCITANIE AGIT



fi **compass**  
ERDF

Région + ERDF + EAFRD + EIF  
EUR 85 m

Fund of funds  
Steering committee : Région/EIF



EUROPEAN INVESTMENT FUND

**Manager Fund of Funds**

Financial Intermediaries selected through a Call for Expression of Interest carried out by EIF

**Seed loan**  
Instrument to support innovative SMEs  
EUR 3 m  
Leverage minimum x2

*CREALIA Occitanie*

**Guarantee instrument for SMEs**  
EUR 40 m  
Leverage minimum x10

*BPO + CELR*

**Co-Investment Instrument**  
EUR 30 m  
Leverage minimum x5

*IRDI SORIDEC - MCapital*

**Guarantee instrument for Agriculture**  
EUR 12 m  
Leverage minimum x4

*BPO*



# Design and set-up –

## 2 Seed loan instruments for innovative SMEs: FOSTER EUR 6m + Private EUR 6m

Transparent and competitive selection of the Financial Intermediary carried out by the EIF.

EUR 12 m CREALIA  
At the level of the Financial Intermediary

Innovative SMEs



FRSP Contribution  
FoF to F.Int



Capital

Financial  
contribution  
from the  
Financial  
Intermediary  
own resources

EUR  
6 m

Loans to SMEs

Capital

SME

SME

SME

SME

SME

Risk Sharing Rate : 50%



# Design and set-up

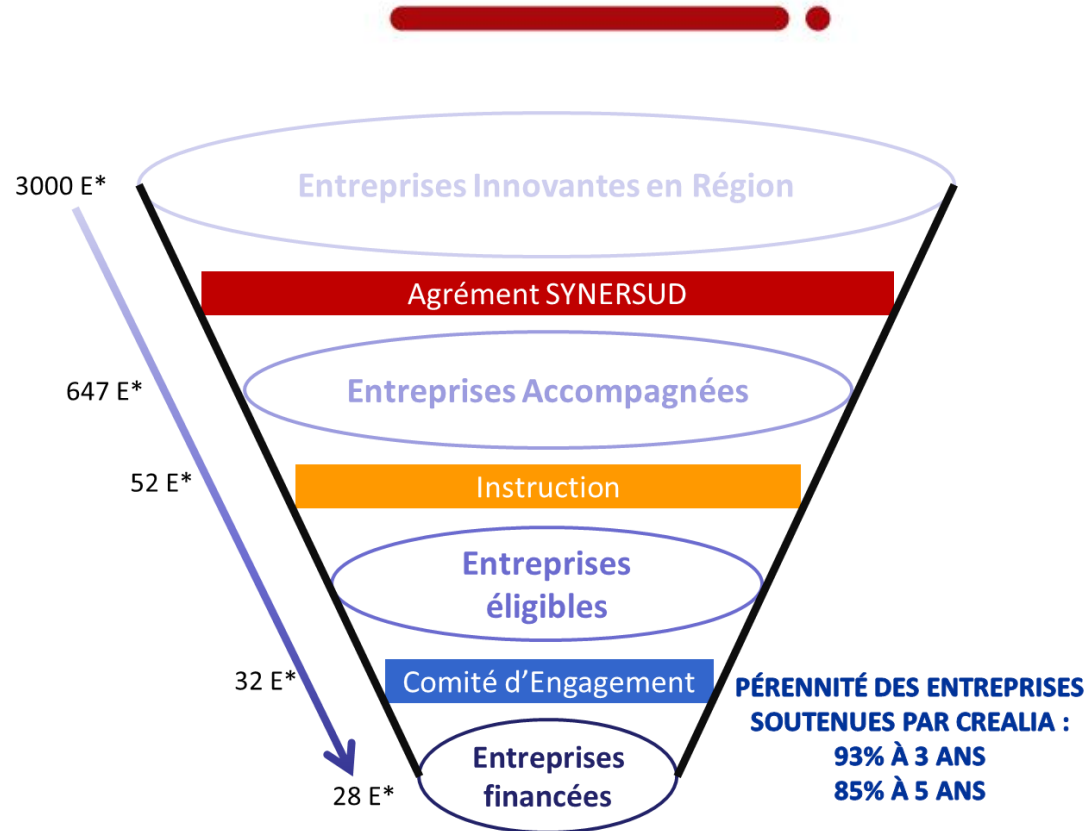


**2 Seed loan instruments for innovative SMEs: FOSTER EUR 6m + Private EUR 6m**



- Fund of Funds contribution: 2 \* EUR 3m
- Purpose: Support innovation in the Occitanie region
- Start-up (Entrepreneurs with the objective to build up their SMEs in the next 6 months)
- Target: SME (1st target: seed loan SME with less than 3 years since inception, or entrepreneurs with the duty to set up their SME in the next 6 months; 2nd target: primo development, SME who was already supported via a seed loan)
- Total amount of the loan: max EUR 100,000 (interest free loan, without personal guarantee required)
- Eligibility: Assets, working capital (in the framework of an expansion plan)
- Availability Period: 36 months
- Maturity of the loans: Min. 6 months, max. 48 months (including the grace period of 12 months)
- State Aid: De-minimis regulation





- First projects are seeded in the SYNERSUD innovation network of incubators, mentors and other forms of business creation support
- Once “mature” the project are assessed and potentially originated by the CREALIA origination committee
- Innovative projects supported by CREALIA increase their chance to leverage further funds from the private sector (banks or private equity funds)
- CREALIA track record evidences that the start-ups supported by CREALIA have a survival rate of more than 85% at 5 years.
- Being selected by EIF (under FOSTER FoF) increase CREALIA fundraising attractiveness. CREALIA private donations have increased and stabilised, due in part to such positive perception by the market.

# Design and set-up

6 FPLG First Loss Portfolio Guarantees FOSTER EUR 92 m → EUR 800 m available for SME's



↑  
Leverage  
4x – 12x

→ Cap:  
10% - 25%



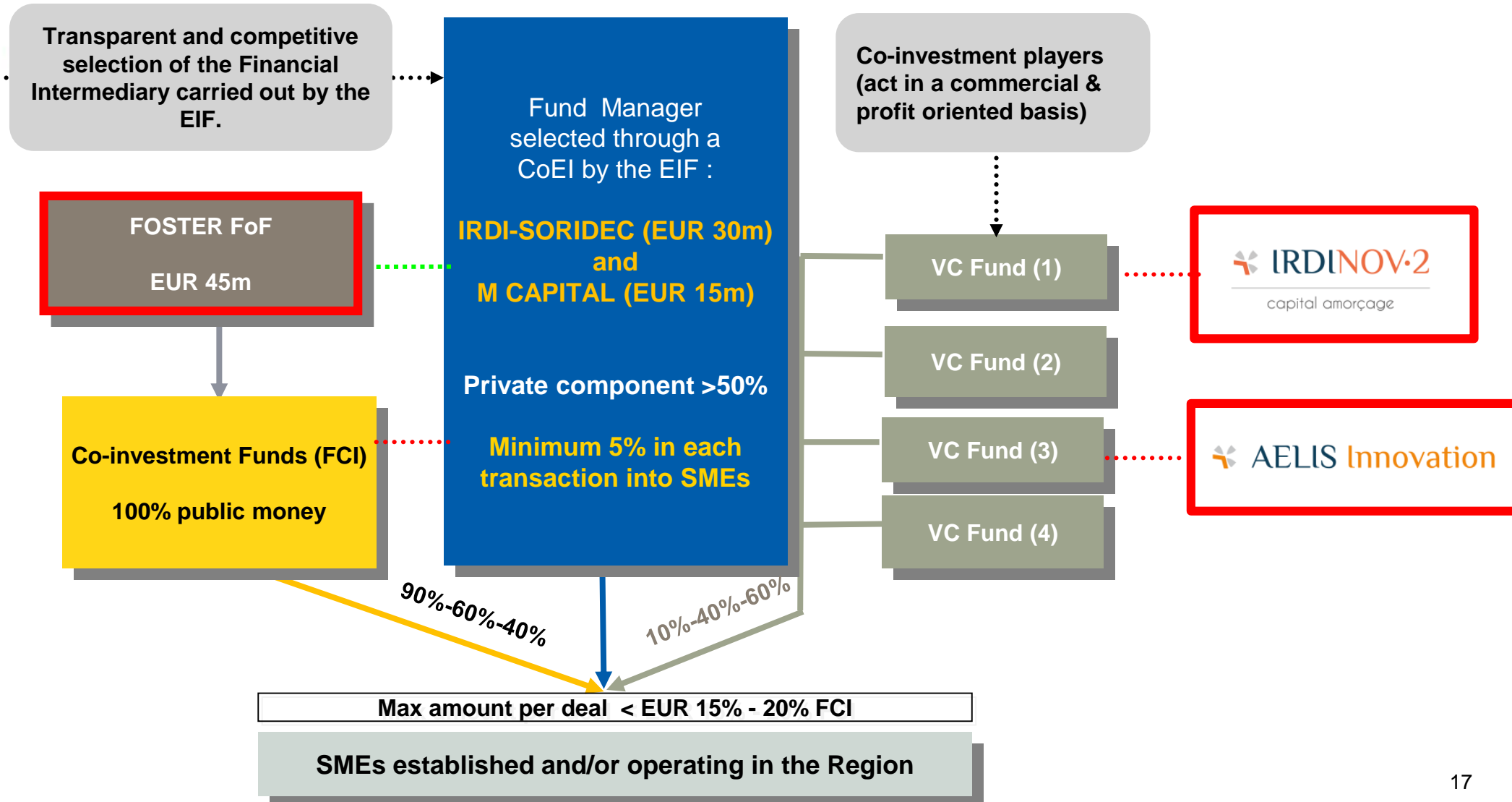
Transparent and competitive selection of the Financial Intermediary (BPS, CELR, BPO, CEMP) carried out by the EIF.

- Same concept: 4 under ERDF (SMEs), 2 under EAFRD (Final Recipients active in the Agri sector)
- Guarantee rate: 80%
- Cap Rate: 10% - 25%
- Structure: Each loan is covered at 80% within the limit of the Cap Rate
- Financial Intermediary has to pass the advantage onto SMEs (20 to 40 bps lower interest rate, lower collateral requirements)
- Finance tangible and intangible investments as well as working capital



# Design and set-up

Equity instrument 3 Co-Investment funds: FOSTER 3 \* EUR 15m





# Design and set-up -

Equity instrument 3 Co-Investment funds: FOSTER 3 \* EUR 15m

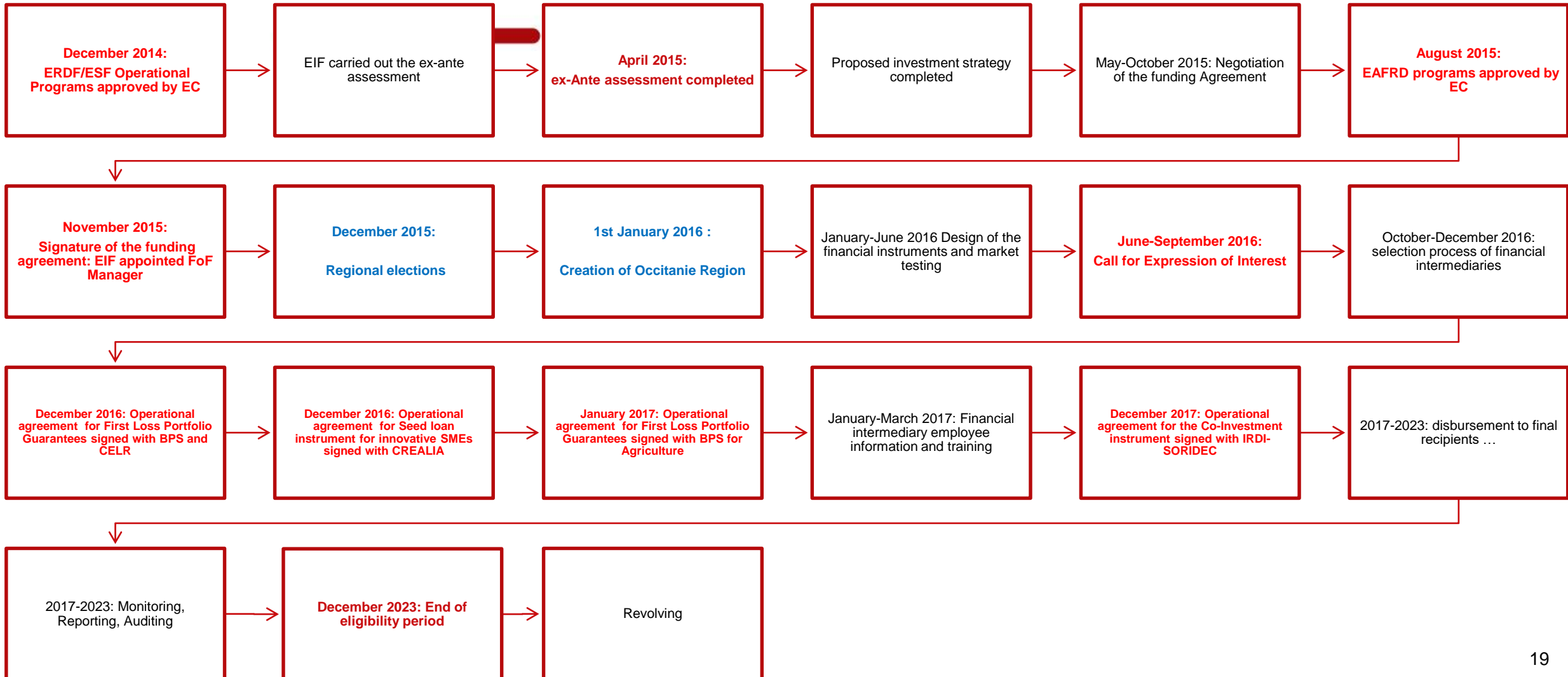


- Fund size of the co-investment vehicle EUR 15 m x 3 = EUR 45 m
- Purpose: Facilitate SMEs with high potential to reinforce their equity
- Maturity of the fund: 10 years
- Max amount for a SME: max 15% of the size of the fund
- Sectors: All sectors (except the non eligible ones). Specific attention to innovative and technology SMEs with a high potential
- Investment period: 31/12/2023 + potentially more according to article 42.3 CPR
- Stage of intervention: Small enterprises (up to expansion); Medium enterprises (seed + start-up)
- Co-investment vehicle + other co-investors act according to the “pari passu” principle
- Two intermediaries selected - IRDI SORIDEC & M/CAPITAL Partners

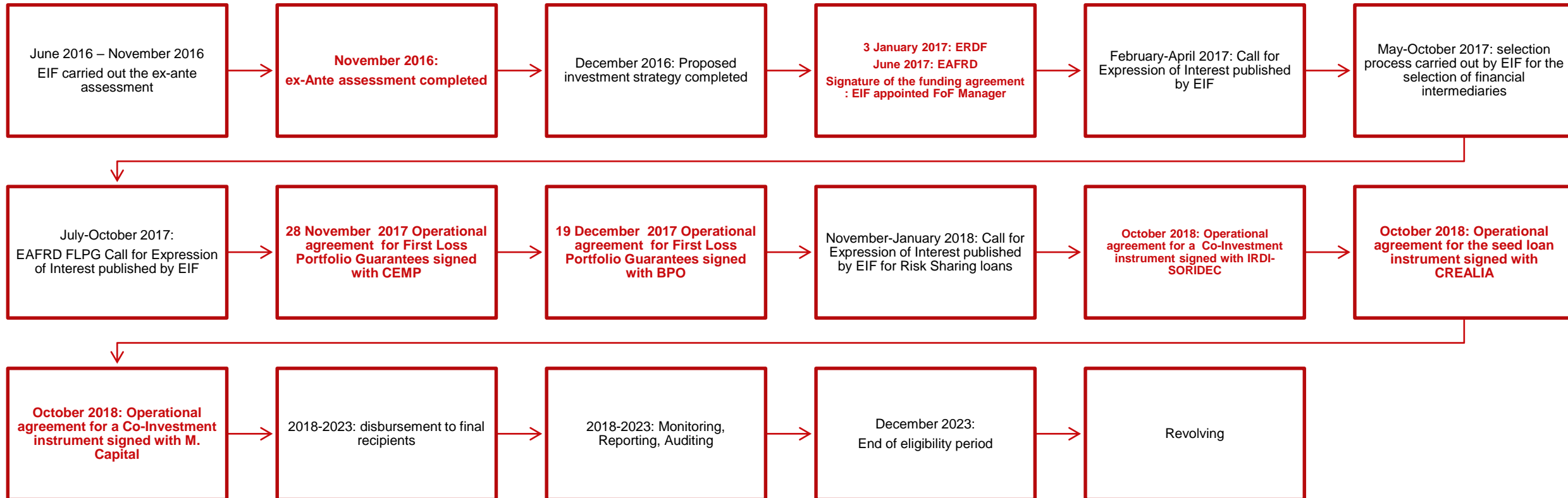


# Implementation timeline Foster LR

## December 2014 – December 2017



## June 2016 – October 2018 - Significant time reduction



# Key messages: Why to choose financial instruments

- Strong political will to implement financial instruments (10% of ERDF – 0.7% of EAFRD) in addition to grants
- a new tool for public administrations to finance economy & boost private sector particularly interesting in the context of scarcity of resources
- a long term instrument, with the possibility to reinvest, revolving of funds
- a high leverage effect: crossed effect of public and private investment (EUR 143m generate approximately EUR 1,000 m in the real economy = size of the OP);
- shall provide advantage to final recipients: SMEs (e.g. lower interest rate, lower collateral requirements, increased investment capacity, increase the risk capacity of intermediaries) that can only happen via a transparent and competitive selection process;
- shall provide risk reduction for financial intermediaries;

# Key messages: Recommendations and lessons learned

- Market testing and ex-ante assessment
- Partnership with an EU institution (like EIF) in order to deal with private sectors (e.g. banks, venture capital companies...).
- EIF works in full cooperation with the MA steering committee (COPIL) to pursue a clear Investment Strategy
- Close cooperation with the MA to implement FIs (especially for the agriculture pilot project)
- Permanent dialogue between FoF manager and financial intermediaries
- Ensure a transparent and competitive selection process
- Timing is very important. The process takes time (ex-ante, market testing, financing agreement, selection process, negotiating conditions, risk analysis for guarantees,...)



# For more information

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<https://www.laregion.fr/foster>

<https://www.velosvertsdulot.com/>

<https://www.youtube.com/watch?v=oJSLp1LGPII&feature=youtu.be>

<https://www.fi-compass.eu/search/site/Occitanie>



