

- ERDF and EAFRD
- EUR 156.1 million
- Loan, equity and guarantee financial instruments
- Multi-sector SMEs

... using a fund of funds to manage the investment of public funds in a transparent way...

FOSTER TPE-PME-AGRI

a new generation multi-sector fund of funds, Occitanie, France

Case Study



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Abbreviations

Abbreviation	Full name
CPR	Common Provision Regulation
EAFRD	European Agriculture Fund for Rural Development
EC	European Commission
EFSI	European Fund for Strategic Development
EIB	European Investment Bank
ERDF	European Regional Development Fund
ESIF or ESI Funds	European Structural and Investment Funds
EU	European Union
FA	Funding Agreement
FLPG	First Loss Portfolio Guarantee
FOSTER TPE-PME-AGRI (or FOSTER)	Fonds Occitanie de Soutien Territorial aux Entreprises Régionales
FRSL	Funded Risk Sharing Loan
GGE	Gross Grant Equivalent
MA	Managing authority
OP	Operational Programme
RDP	Rural Development Programme
SME	Small and medium sized enterprises



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1. FOSTER TPE-PME-AGRI – a new generation multi-sector fund of funds

1.1 Executive summary

The 'FOSTER TPE-PME-AGRI' ('Fonds Occitanie de Soutien Territorial aux Entreprises Régionales') fund-of-funds (FOSTER) has been set up in the Occitanie/Pyrénées-Méditerranée region (the Region) of France with resources from the European Structural and Investment Funds (ESIF) and public and private co-investment.

FOSTER is the largest fund of funds in France, with contributions of EUR 156.1 million from the Region, the European Regional Development Fund (ERDF), the European Agricultural Fund for Rural Development (EAFRD), and the European Investment Fund (EIF).

The main objective of the FOSTER financing tools is to address the market failure highlighted in the ex-ante assessment by **facilitating access to finance for small and medium sized enterprises (SMEs)** in cooperation with financial intermediaries active in the region.

The main features of the FOSTER fund of funds are shown in Table 1 below.

The fund of funds, which has been set up under the ESIF programming period 2014-2020, is managed on behalf of the managing authority by the EIF. The EIF has also supported the managing authority in designing and setting up the investment strategy, selecting the financial intermediaries and implementing all the financial instruments.



The instrument was set up with **the objective of supporting over 7 000 final recipients** through investments totalling more than **EUR 1 billion**.

As outlined in Table 1, FOSTER includes four different financial products, aiming to support the full spectrum of final recipients (i.e. regional micro and small enterprises) throughout all stages of their life cycle:

- **Loans** for innovative small and medium-sized enterprises (SMEs);
- First Loss Portfolio **Guarantees** (FLPG), supporting SMEs;
- A similar FLPG targeting final recipients in the **agricultural sector**; and
- An **equity** co-investment instrument to support SMEs with high growth potential.

As at end of September 2020, more than 5 230 businesses have been financed catalysing a total of EUR 715 million of investments in the 13 départements/provinces of Occitanie. Final recipients have benefited from innovative bank financing tools that have helped them boost their core activities, increase their competitiveness and create and/or maintain nearly 19 000 jobs.

Table 1: Main characteristics of the FOSTER fund of funds

Funding sources

EUR 156.1 million total resources (as of August 2020) made up of: EUR 73.0 million from the ERDF operational programmes, 'Regional programme Midi-Pyrénées et Garonne 2014-2020' and 'Regional programme Languedoc-Roussillon 2014-2020'; EUR 16.2 million from the EAFRD rural development programmes, RDP (Regional) Midi-Pyrénées 2014-2020 and 'RDP (Regional) Languedoc-Roussillon 2014-2020'; EUR 59.4 million from the Occitanie/Pyrénées-Méditerranée region ; and EUR 7.5 million from the EIF.

Type of financial products

Fund-of-funds with four underlying financial instruments – a seed loan instrument, a guarantee instrument for SMEs, a co-investment instrument and a guarantee instrument for agriculture.

Financial size

Seed loan instrument – EUR 6 million (minimum co-investment of 4x EUR 24 million available for SMEs).
Guarantee instrument for SMEs – EUR 75 million (minimum co-investment of 14-20x EUR 800 million available for SMEs).

Guarantee instrument for agriculture – EUR 27 million (minimum co-investment of 10x EUR 125-150 million available for SMEs).

Equity co-investment instrument – EUR 45 million (leverage of co-investment according to life-cycle phase of SME, approximately EUR 120 million).

Thematic focus

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

EAFRD: Multiple Thematic Objectives.

Timing

From 2014 to 2023.

Partners involved

Managing authority

Occitanie/Pyrénées-Méditerranée region.

Fund of funds manager

European Investment Fund.

Financial intermediaries

Occitanie East: CRÉALIA Occitanie Est, Banque Populaire du Sud (BPS), Caisse d'Épargne Languedoc-Roussillon (CELR), IRDI-SORIDEC Gestion.

Occitanie West: CRÉALIA Occitanie Ouest, Banque Populaire Occitane (BPOC), Caisse d'Épargne de Midi-Pyrénées (CEMP), IRDI-SORIDEC Gestion, M Capital Partners and Crédit Agricole.

1.2 Key takeaways about the FOSTER fund of funds

In the Occitanie/Pyrénées-Méditerranée region, **FOSTER manages both Cohesion policy and Rural Development resources**, ERDF and EAFRD respectively, through a fund of funds structure. In designing and setting up the fund of funds, the managing authority has established a structure that provides them with a **simple tool to manage the investment of public funds in a transparent way**.

The design and set-up of FOSTER generates synergies drawing on shared expertise, best practices, lessons learnt, and achieves economies of scale and scope by sharing financial designs and governance structure.



An important factor in the development of FOSTER was the **success of financial instruments** to support SMEs **set up in the 2007-2013 programming period under the JEREMIE** Languedoc-Roussillon initiative.

The fund of funds manager, the EIF has selected through a **transparent and competitive procedure** the financial intermediaries for the different loan, guarantee and equity products. The different instruments established under FOSTER– from the seed loan instrument to the guarantee and equity instruments – were designed to provide **financial support tailored** to businesses of **different sizes** (micro, small and medium enterprises) **life cycle phase** as well as **sectors**.

The Region has continued to play an **active role to promote the financing tools** following the appointment of the EIF to manage the fund of funds on its behalf . This reflects the importance of financial instruments in the long-term economic strategy of Occitanie/Pyrénées-Méditerranée and the Region's strong track-record with generating a high leverage effect with EU funds.

Move in Med

Intermediaries: CRÉALIA Occitanie and IRDI-SORIDEC Gestion

Investment: Innovation seed loan (amount confidential) followed by an equity investment of EUR 170 000

A pioneer in healthcare management, Move in Med offers integrated solutions including strategic support and digital tools to streamline the care pathways of patients with chronic diseases. With more than ten years of experience in the field, working closely with patients and healthcare providers, Move in Med currently supports more than twenty teams, health care institutions and facilities in the deployment of city-hospital coordination systems as well as efficient and affordable intergenerational housing.

FOSTER has reinforced Move in Med's capital, providing the necessary funds to upgrade and further develop its collaborative web platform for care pathway coordination, called INU, strengthened the start-up's Consulting and R&D teams and enabled it to stay ahead of the competition.



move in med

Impulse et Orchestre les parcours de soins
Define and Conduct care pathway



2. Design of the FOSTER fund of funds

2.1 Context - the Occitanie/Pyrénées-Méditerranée region

The **merger of the former Languedoc-Roussillon and Midi-Pyrénées regions**, that formally took place on 1st January 2016 resulted in the creation of the Occitanie/Pyrénées-Méditerranée region, one of the largest regions in France. Toulouse is the capital of the region.

The region is surrounded by three French regions: Nouvelle Aquitaine, Auvergne-Rhône-Alpes and Provence-Alpes-Côte-d'Azur. It has a coastline on the Mediterranean Sea and shares a border with Spain. In 2019, Occitanie had a population of about 5.90 million, which represented 8.8% of the French population. The regional area is 72 724 km² and population density is 81.1 inhabitants per km²¹. Occitanie is one of **the leading regions in France in the field of research & development and innovation**. The main areas of innovation and sector strengths are: aeronautics, space, healthcare and ICT around the city of Toulouse and across the wider region, agriculture and agri-food is a major employer.

The creation of the Occitanie/ Pyrénées-Méditerranée region

The 2014-2020 ESIF Operational Programmes of the former regions of Languedoc-Roussillon and Midi-Pyrénées were managed independently by two separate managing authorities. As ESIF funds were allocated to the former regions before the territorial reorganisation of 2016, their respective geographical coverage and eligibility was limited to the area of the former regions.

Since the merger of 2016, the new Occitanie/Pyrénées-Méditerranée region has been responsible for managing the ESI Funds under both Operational Programmes (OPs) but had to manage the programmes separately. So OPs, Rural Development Plans (RDPs), ex-ante assessments, proposed investment strategies, financial intermediary selection process and structure within the fund of funds remained distinct.

To simplify presentation of the case study, wherever possible the arrangements across the two regions have been presented as a part of a single programme.

In 2019, the unemployment rate in the region of 8.4%² was slightly below the national average of 8.5%. The same applies for the per capita income, which in 2019 was below the national average, especially in the Languedoc-Roussillon region that is designated as a 'transition' region for the purposes of EU Cohesion policy. On the other hand, the Occitanie/Pyrénées-Méditerranée region benefits from promising characteristics when it comes to economic activity. It is the top French region in terms of creating new enterprises and has the highest rate of GDP (EUR 165 billion) invested in research and development (3.7%). The region's economy is characterised by a very high number of SMEs, and in particular very small businesses: 97% of companies have less than 10 employees, versus 96.2% at the national level³.

The Operational Programmes for the region focus on **supporting innovative projects and SMEs** across all sectors. This is supported by the Rural Development Programmes which similarly recognise the importance of SMEs in the agriculture and agri-food industries.

1 Eurostat, 2019

2 Eurostat, 2019

3 Eurostat, 2019

2.2 European funds in the region and the JEREMIE experience

FOSTER builds on the successful implementation of the JEREMIE initiative⁴ in Languedoc-Roussillon implemented until end 2015, which deployed **EUR 30 million of public resources (ERDF and Region's own resources) to mobilise over EUR 170 million of finance for SMEs**. Through the financial instruments established under the JEREMIE initiative in Languedoc-Roussillon, more than 1 400 small businesses operating in the region benefitted from JEREMIE loans or equity investments. The **success of the scheme helped create the environment** for the delivery of the more ambitious FOSTER fund of funds, building capacity within public and private institutions in the region to work with financial instruments and developing a robust investment pipeline.

The implementation of the JEREMIE loan, equity and guarantee financial instruments was initially challenging, particularly in the set-up phase, given its innovative nature at regional/national level. Key issues that needed to be resolved included finding the right balance between market practice and EU regulations, the drafting of the legal documentation and development of the operating rules of the co-financing model.

The initiative attained numerous notable achievements. Several successful exits from portfolio companies supported by the equity co-investment instruments were secured, enabling the JEREMIE Holding Fund (HF) to obtain additional funding for reinvestment. Secondly, the reimbursement rate of the loans to start-ups by the funded risk sharing loan product managed by CRÉALIA has been relatively high, allowing the financial intermediary to be refinanced three times. Further, not all the resources committed to cover defaults under the guarantee instrument were utilised, thereby allowing their re-deployment. Overall, **approximately 50% of the initial commitment** to the JEREMIE financial instruments in Languedoc-Roussillon **has been returned to the Holding Fund** and onward to the managing authority for reinvestment. These positive results, along with the challenges that were addressed during the implementation, allowed a number of lessons learned to be taken forward into the design and implementation of the FOSTER fund of funds.

SAS JEREMIE Languedoc-Roussillon



For further information on the equity fund set up by the JEREMIE HF in Languedoc Roussillon, please see the separate *fi-compass* case study⁵

2.3 Ex-ante assessment

Based on the experience of the JEREMIE initiative, the managing authority determined to use financial instruments as a key tool for supporting the development of SMEs and the financing ecosystem in the region. The use of financial instruments provided a robust basis for developing strong partnerships with local partners with the capacity and experience to deliver the strategic objectives of the managing authority in relation to supporting the competitiveness of the region's SMEs.

⁴ The JEREMIE initiative ('Joint European Resources for Micro to Medium Enterprises') offers EU Member States, through their national or regional managing authorities, the opportunity to use part of their European Union (EU) Structural Funds to finance small and medium-sized enterprises (SMEs) by means of equity, loans or guarantees, through a revolving Holding Fund acting as an umbrella fund. This initiative was developed by the European Commission and the European Investment Fund jointly.

⁵ <https://www.fi-compass.eu/publication/case-studies/case-study-erdf-languedoc-roussillon>

Separate ex-ante assessments were carried out for the former regions of Languedoc-Roussillon (April 2015⁶) and Midi-Pyrénées (January 2017⁷). Following the success of the JEREMIE HF's underlying instruments in Languedoc-Roussillon, the former region moved quickly in 2014/2015 to implement successor financial instruments, including, for the first time, EAFRD resources in support of the agriculture/agri-food sectors. Following the creation of the new region, the decision was taken to expand the operation into the former Midi-Pyrénées region, with a separate ex-ante being commissioned to complement the initial study.

To address the market failure identified for SME financing, both ex-ante assessments underlined the importance of:

- Enhancing the impact of existing and future financial instruments through better information for SMEs on their existence, scope and implementation modalities, as well as a better understanding of the benefits and opportunities offered by certain financial products (guarantee products, equity, subsidised loans);
- Aligning and harmonising the design, implementation and management of existing financial instruments in the two former regions (Languedoc-Roussillon and Midi-Pyrénées), as well as those to be newly designed and implemented;
- Accompanying and supporting the process of bringing together those involved in financing and supporting SMEs in the two former regions (Languedoc-Roussillon and Midi-Pyrénées);
- Improving SMEs' access to bank financing by developing a dedicated guarantee product or by strengthening existing guarantee funds for all SMEs (whatever their size, stage of development and/or sector). The instrument should reduce the collateral required by financial intermediaries for financing new equipment and should be developed in parallel with technical assistance for the SMEs;
- Improving access to bank finance for SMEs in the agri-food sector by developing a dedicated guarantee product or strengthening and/or repositioning existing guarantee funds;
- Improving access to equity, quasi-equity and equity loan finance for different profiles of SMEs ((i) young innovative SMEs in their seed, pre-seed and/or start-up phase, (ii) non-innovative micro-enterprises, (iii) innovative 'ex-start up' enterprises) by developing dedicated investment tools or repositioning existing investment funds or instruments; and
- Improving access to finance for renewable energy production projects (all sectors) through a financial instrument combining an equity contribution and the provision of subsidies dedicated to structuring upstream projects.

2.4 The FOSTER fund of funds and investment windows

2.4.1 The FOSTER fund of funds

Based on the ex-ante assessments⁸, the managing authority resolved to set up the FOSTER fund of funds **to manage the financial instruments** to support multi-sector SMEs. The overall design of the fund of funds is shown in Figure 1 below.

6 EIF and PwC (2015), 'Accès des PME au financement Analyse du marché en Languedoc-Roussillon'.

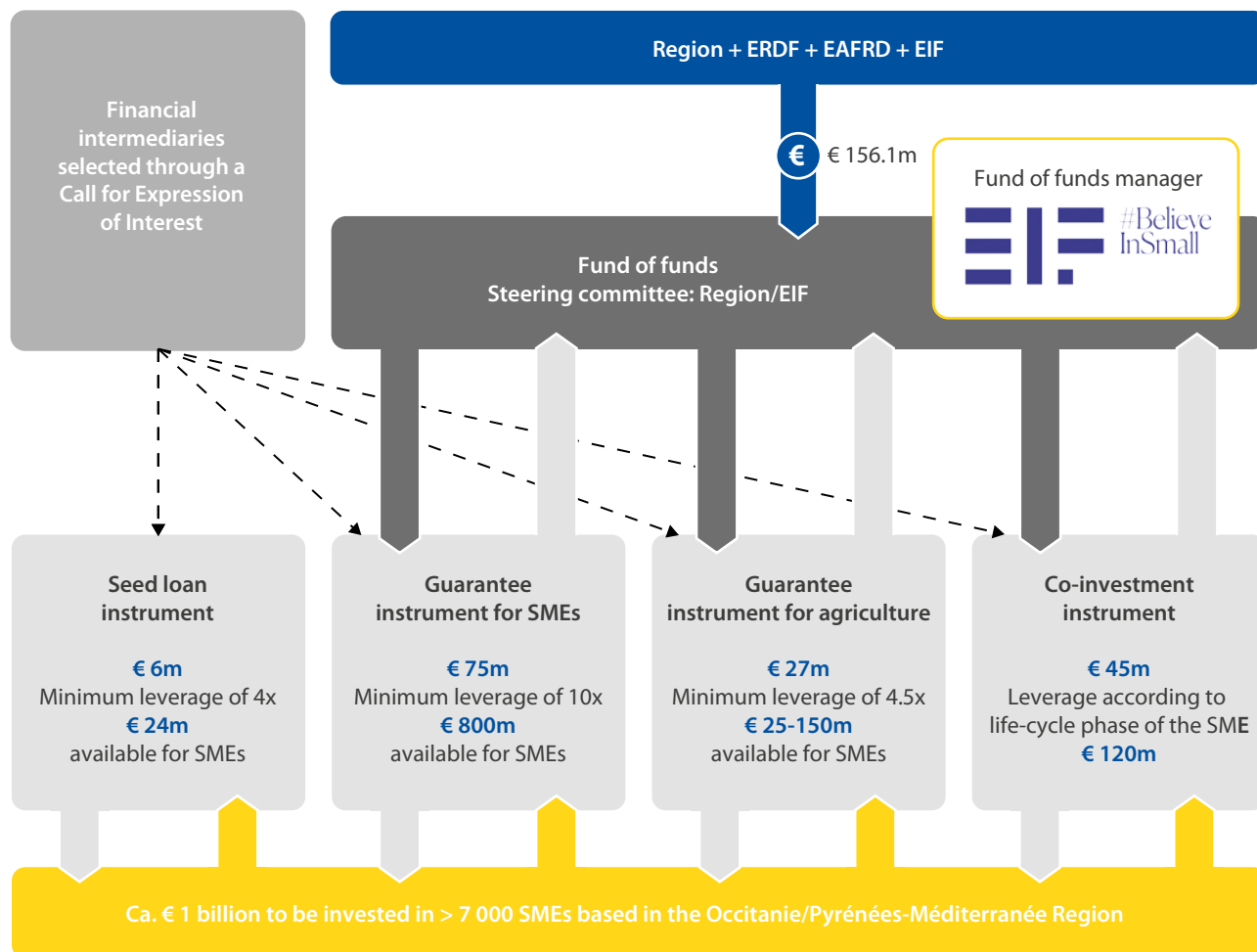
7 EIB and PwC (2017), 'Evaluer l'opportunité de recourir à des instruments financiers sur le territoire de l'ex Midi- Pyrénées - Etude en soutien à l'évaluation ex-ante dédiée aux instruments financiers du Programme Opérationnel FEDER-FSE Midi-Pyrénées et Garonne 2014-2020 et du Programme de Développement Rural régional Midi-Pyrénées FEADER 2014-2020'.

8 Ch. 2.2 Ex-ante assessment



The fund of funds is responsible for the implementation of four different financial instruments comprising: a seed loan instrument (Funded Risk Sharing Products for innovative SMEs), two First Loss Portfolio Guarantees (FLPGs) for SMEs and agricultural final recipients respectively, and an equity fund for SMEs with high growth potential. The design reflected the **recommendations of the ex-ante assessments** to ensure that the financial instruments were **capable of supporting SMEs at all stages of the business life-cycle**.

Figure 1: Schematic representation of the overall fund of funds FOSTER TPE-PME-AGRI



The total commitment of ESIF and national resources has been increased from the original amounts allocated to the fund of funds by the Region in 2014 in order to respond to the rapid absorption and subsequent demand for additional investments. Table 2 highlights the changes in allocation of resources during the period 2014-2020. This was facilitated by the fund of funds structure of FOSTER which has allowed the managing authority to respond flexibly in order to meet the needs of local entrepreneurs.

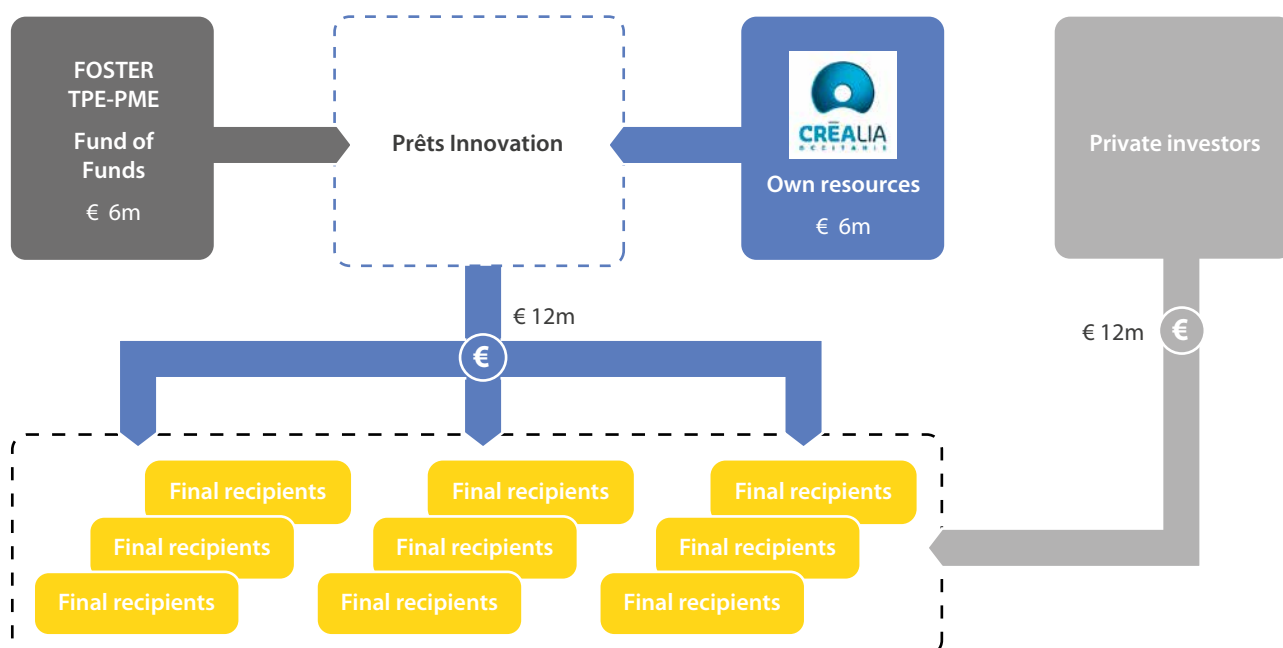
Table 2: Public funds allocated to FOSTER TPE-PME-AGRI – initial vs. current resources budgeted

Origin of public funding	2014 EUR million	2020 EUR million
Occitanie/Pyrénées-Méditerranée region	42.80	59.40
ERDF	55.20	73.00
EAFRD	9.00	16.20
EIF	0.00	7.50
Total	107.00	156.10

2.4.2 Seed loan instrument

The Seed loan instrument is a funded risk sharing loan product established with EUR 6 million of FOSTER resources committed by the fund of funds and the same amount of co-investment committed by the financial intermediary CRÉALIA creating a financial instrument with a total size of EUR 12 million. Additional investment to the companies through investors crowded-in should secure further co-investment of a minimum of EUR 12 million, thus mobilising a total investment volume of at least EUR 24 million.

Figure 2: the FOSTER Seed loan instrument

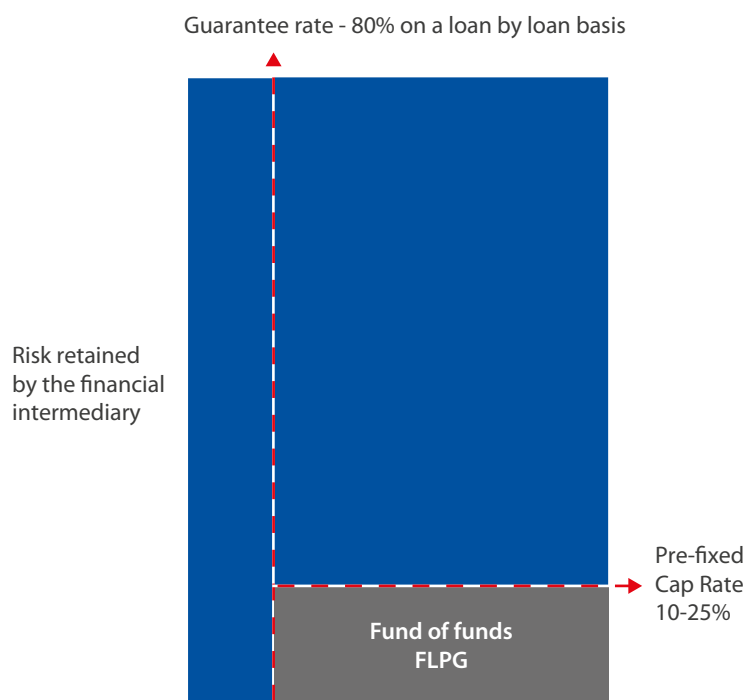


The target final recipients are innovative SMEs, based in the Occitanie region seeking to strengthen their financial structure to support their development.

2.4.3 Guarantee instrument for SMEs (ERDF)

A total of EUR 78.1 million of ERDF and co-investment by the Occitanie region was committed by the fund of funds to the **First Loss Portfolio Guarantee** instrument to provide **risk protection to selected banks** with the objective to support the creation of a portfolio of eligible loans to SMEs. A leverage rate of approximately 10x is anticipated resulting in approximately EUR 758 million of financing being mobilised to support SMEs access to finance.

Figure 3: the FOSTER First Loss Portfolio Guarantee



The main objectives of the FOSTER ERDF guarantee financial instrument are:

- Facilitating access to credit for financing tangible and intangible investments and working capital requirements;
- Promoting better access to finance for risky projects or for new companies without a credit track-record;
- Easing the conditions and requirements in case of insufficient collateral, compared to the standard requirements of financial intermediaries;
- Accelerating the bank's decision when originating the loan to the entrepreneurs and therefore reducing the time to market;
- Supporting the entrepreneurs for the full amount of his/her business plan, avoiding a shortage of financing when entrepreneur decides to carry out his/her project; and
- Reducing interest rates.

The Investment Strategy recommends to target SMEs operating in the Occitanie region, through the start-up, growth and development phases, for which bank financing may require enhanced guarantee coverage.

2.4.4 Guarantee instrument for agriculture (FOSTER EAFRD)

The fund of funds has committed EUR 27 million made up of EAFRD resources and the Region's co-investment through FOSTER to support a guarantee instrument for agriculture with the aim of securing a minimum leverage of five. This should, in turn, ensure up to EUR 125-150 million of loan finance available for SMEs in the agriculture and agri-food sectors.



Financial instruments for rural development 2014-2020, Occitanie/Pyrénées-Méditerranée

This case study⁹ features a financial instrument from France's Occitanie/Pyrénées-Méditerranée region that uses the European Agricultural Fund for Rural Development (EAFRD). It is implemented through the FOSTER fund of funds which aims at improving access to finance for final recipients through a First Loss Portfolio Guarantee product supporting the agricultural, food and forestry sectors.

Funding of EUR 27 million is expected to support more than 500 final recipients. The financial instrument provides risk protection to financial intermediaries, which in turn can offer better access to finance for rural development investments. This promotes the development, processing and marketing of agricultural products as well as the creation and development of non-agricultural activities in rural areas and forestry technologies.

The guarantee instrument for agriculture is a **First Loss Portfolio Guarantee** which aims to increase access to finance for agricultural holdings and SMEs. The EAFRD guarantee financial instrument is deployed on substantially the same terms and conditions as the guarantee instrument for SMEs under ERDF outlined above. In addition to the different scope and objectives of the AGRI guarantee, the main difference between the two instruments is that the EAFRD cap rate is higher than that of the ERDF instrument. More detailed information about the FLPG for agriculture implemented under the EAFRD in the region can be found in the *fi-compass* case study 'Financial instruments for rural development 2014-2020 Occitanie/Pyrénées-Méditerranée, France'.

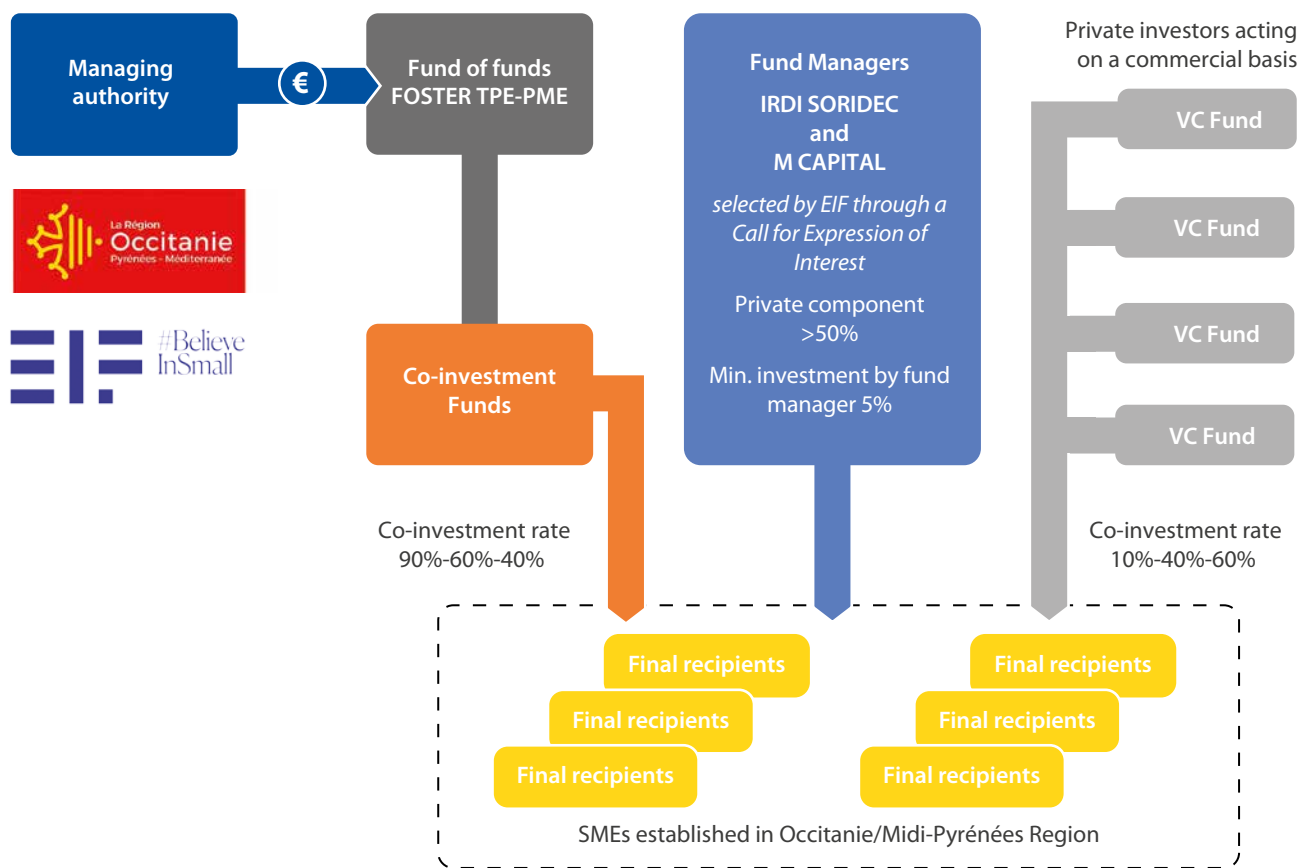
2.4.5 Co-investment instrument

In order to support equity investment in high growth SMEs, the fund of funds has committed EUR 45 million to the co-investment financial instrument. Although the co-investment rates vary according to the life-cycle phase of the SME, it is anticipated that up to EUR 120 million will be generated through private co-investment.

⁹ <https://www.fi-compass.eu/publication/case-studies/case-study-financial-instruments-rural-development-2014-2020>



Figure 4: Design and set-up of the equity co-investment instrument



The co-investment financial instrument aims to carry out short/medium-term capital injections to support the seed and early development phases of SMEs. The main objective of the instrument is the strengthening of equity capital available in the region, primarily for innovative start-ups with high growth potential.

2.5 Selection of financial intermediaries

Management of the FOSTER fund of funds was entrusted to the EIF, with the funding agreement signed in November 2015 and in June 2017 for Languedoc-Roussillon and Midi-Pyrénées, respectively. In line with the Regulation¹⁰, the selection process of the financial intermediaries **started with the Call for Expression of Interests** – one for each financial instrument launched, respectively in June 2016 for Languedoc-Roussillon and in February 2017 for Midi-Pyrénées. The EIF prepared the Call documentation, which was first approved by the Steering Committee of the fund of funds and, thereafter, published.

¹⁰ According to Article 38(4) of the CPR, the body implementing financial instruments 'shall ensure compliance with applicable law, including rules covering the ESI Funds, State aid, public procurement and relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud'. According to Article 38(5) of the same regulation, 'financial intermediaries shall be selected on the basis of open, transparent, proportionate and non-discriminatory procedures, avoiding conflicts of interest'.

Following the conclusion of the selection process carried out by the EIF, the financial intermediaries described below were appointed.

2.5.1 Seed loan instrument

CRÉALIA Occitanie



CRÉALIA is considered a key player in the financing system for innovative projects in the Occitanie region. **The Region is one of the institutional partners of the seed fund CRÉALIA:** its mission is to finance the creation and sustainability of innovative enterprises through targeted loans provided at zero interest rate. Financed projects are of various types, including the development of prototypes and beta versions, filing of patents, market feasibility studies and exploitation of results stemming from research and development projects.

Chaired by business leaders specialised in financing seed innovation, CRÉALIA invests in the riskiest phase of development of the business, where resources to finance such type of ventures are difficult to find. The seed fund is supported by public partners (Occitanie region, Caisse des Dépôts, EU) and by the private sector (managers, lawyers, bankers, chartered accountants, etc.). Since 2018, the operational team has been part of the Region's AD'OCC Economic Development Agency.

2.5.2 ERDF Guarantee instruments

Banques Populaires – Banque Populaire du Sud (BPS) and Banque Populaire Occitane (BPOC)



Created by and for entrepreneurs, the Banques Populaires today form the fourth largest banking group in France. The group comprises thirteen regional Banques Populaires and two banks with national coverage, Crédit Coopératif and CASDEN Banque Populaire. From their origins, the Banques Populaires have maintained a banking activity marked by the regional dimension. This regional anchoring is reinforced by the fact that the senior managers of the Banques Populaires maintain close relations with local socio-professional organisations and consular bodies. In

addition, the majority of the clients are individuals with membership status reflecting the bank's mutual structure. As Banques Populaires is **the leading bank for SMEs and craftsmen**, it has a leading position in the provision of loans for business start-ups. The Banques Populaires' spirit is a commitment to serving the personal and professional projects of its customers and members, and to supporting them over the long term.



Caisse d'Épargne Languedoc-Roussillon (CELR) and Caisse d'Épargne de Midi-Pyrénées (CEMP)



Created in 1818, Caisse d'Épargne is a community bank and part of the same group as the Banques Populaires. Committed to regional needs, the 15 regional Caisses d'Épargne are involved, on a daily basis, in their customers' projects and provide them with customised solutions. Acting as a regional and cooperative bank and insurer, Caisse d'Épargne is a bank at the service of the **economic and social development of its territory**, committed to the values of proximity, responsibility and solidarity. In 2019,

Caisse d'Épargne de Midi-Pyrénées injected nearly EUR 800 million into the regional economy, among which EUR 223 million is targeted to SMEs, ensuring its role as a leading credit institution for all markets. The Caisse d'Épargne Languedoc-Roussillon's retail banking loan commitments in 2019 amounted to EUR 1 967.6 million, enabling regional companies and professionals to develop their business, local authorities to improve their public services and economic and social players to develop actions promoting solidarity. Caisse d'Épargne is a 'modern' bank, offering high quality human resources and digital technology to its clients (e.g. branch renovation, digital equipment and digital innovations). It is also a bank distinguished by a sustainable and proactive Corporate and Social Responsibility policy.

2.5.3 EAFRD Guarantee instruments

Banques Populaires – Banque Populaire du Sud (BPS) and Banque Populaire Occitane (BPOC)

The Banques Populaires that have implemented the ERDF guarantee instrument have taken on a similar role under the EAFRD financial instrument. More detailed information about Banques Populaires can be found in 2.5.2 ERDF Guarantee instruments.

Crédit agricole : Caisse Régionale Sud Méditerranée, Caisse Régionale Toulouse 31, Caisse Régionale Nord Midi-Pyrénées, Caisse Régionale Pyrénées-Gascogne



Crédit Agricole, formerly known as the 'Green Bank' because of **its original activity serving the agricultural world**, is the largest network of cooperative and mutual banks in the world. In

France, Crédit Agricole is made up of the 39 regional branches, among which Caisse Régionale Sud Méditerranée, Caisse Régionale Toulouse 31, Caisse Régionale Nord Midi-Pyrénées, Caisse Régionale Pyrénées-Gascogne. The Group has developed a unique model of Universal Retail Banking, based on the complementary nature of its activities. As a result, its local presence, based on a regional base and a territorial network covering rural areas, urban centres and major metropolitan areas, offer all its customers, according to their needs, a full range of banking and non-banking products and services, developed with specialised business lines that are leaders in their field, in France and abroad. As a cooperative and mutualist bank, Crédit Agricole supports the economy, entrepreneurship and innovation in France and abroad, is committed to social and environmental issues, supporting progress and change.

2.5.4 Co-investment instruments

IRDI-SORIDEC Gestion



Pioneer of regional private equity, with more than 35 years of experience, IRDI SORIDEC Gestion is currently managing several venture capital funds, namely IRDI, SORIDEC and SORIDEC 2, MPCROISSANCE, JEREMIE LR, IRDInov and Irdinov2, IRDI-B and AELIS. IRDI-B is a co-investment fund set-up with Région Occitanie and EIB. In 2015, the management company IRDI SORIDEC Gestion was created to bring together two regional private equity players - IRDI and SORIDEC - and to carry out investments into new development projects, including Inn'Vest PME: the ERDF venture capital fund of the Occitanie region. The mission of IRDI SORIDEC Gestion is to **participate in the economic growth and job creation of the Occitanie region**. IRDI SORIDEC Gestion currently manages more than EUR 337 million and supports regional SMEs in the creation, development and/or transmission phase.

M Capital Partners



With EUR 500 million of assets under management and a portfolio of over 160 SMEs, M Capital Partners is a **leading Private Equity firm in the French Small-cap market**. Since 2015, M Capital is actively growing its venture capital portfolio (Seed – Series A and B) and runs the ERDF venture capital fund of the Occitanie region. M Capital also runs a loan instrument set-up with EIB and Région Occitanie dedicated to the tourism sector. In 2018, affiliated companies employed over 11 200 people and generated more than EUR 2 billion in turnover. M Capital Partners has offices in Paris, Toulouse, Bordeaux, Nice, and Lyon.

2.6 Timetable for set-up and implementation

The table below provides the timeline of the key set-up and implementation steps of the FOSTER fund of funds in the Occitanie region. A parallel analysis of the two former regions of Languedoc-Roussillon and Midi-Pyrénées is carried out since the set-up of the instrument started before the official establishment of the Occitanie region and has different milestones in the abovementioned regions.



Table 3: Set-up and implementation timeline of FOSTER

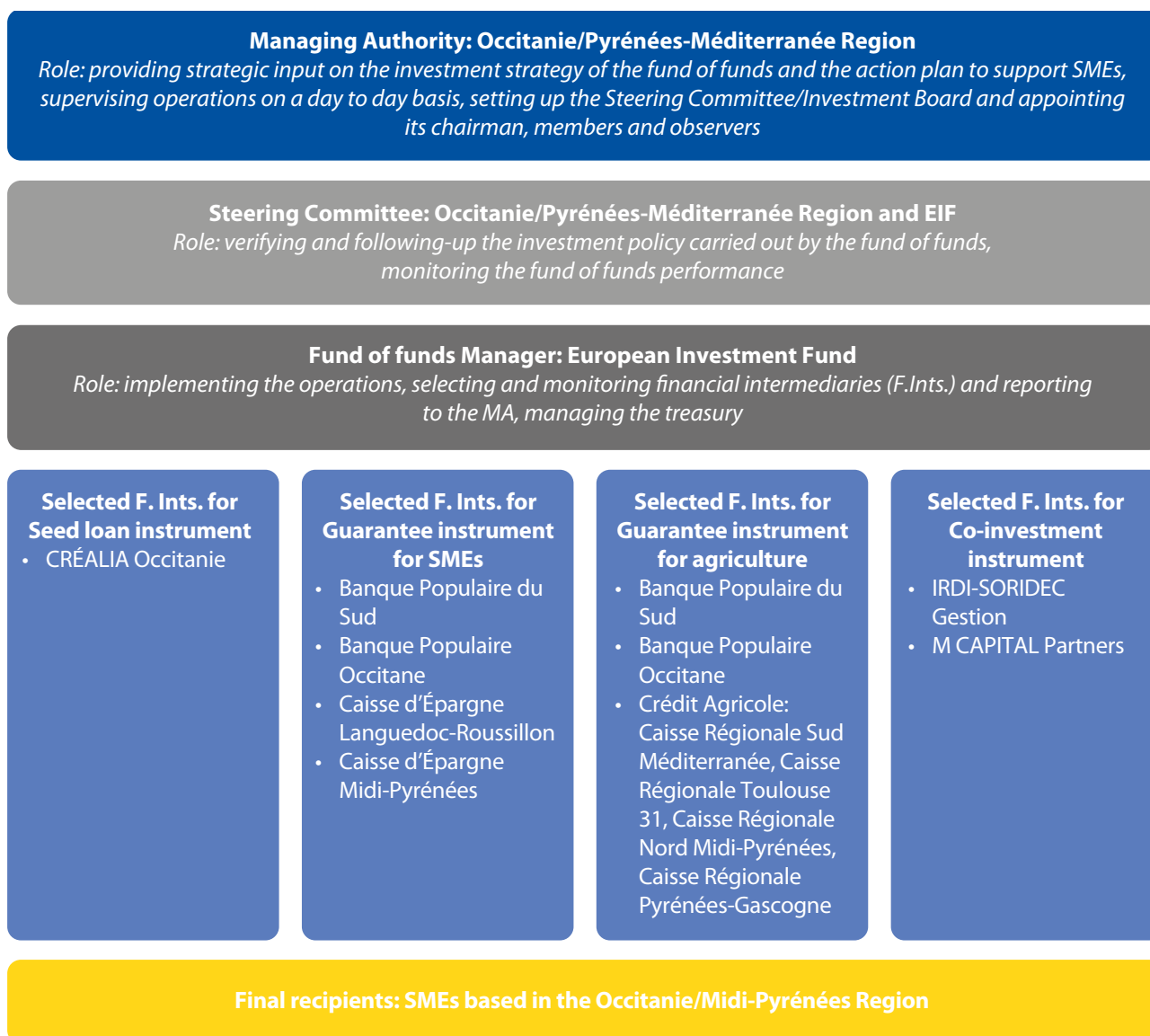
Time period	Actions taken	
	Former Languedoc-Roussillon	Former Midi-Pyrénées
December 2014	ERDF/ESF Operational Programs approved by the EC	
April 2015	Ex-ante assessment completed	
August 2015	EAFRD Programme approved by EC	
November 2015	FoF Proposed investment strategy agreed Signature of the Funding Agreement, entrusting EIF as FoF Manager	
1 st January 2016	Creation of the Occitanie/Pyrénées-Méditerranée region	
January-June 2016	Design of the financial instruments and market testing	
June-Sept 2016	Calls for Expression of Interest published	
November 2016		Ex-ante assessment completed
Oct-Dec 2016	Selection of financial intermediaries	
December 2016	Operational agreements for FLPG instrument signed with BPS and CELR Operational agreement for Seed loan instrument signed with CRÉALIA	FoF Proposed investment strategy agreed
January 2017		Signature of the ERDF Funding Agreement, entrusting EIF as FoF Manager
February-April 2017		Calls for Expression of Interest published
May-October 2017		Selection of ERDF financial intermediaries
June 2017		Signature of the EAFRD Funding Agreement, entrusting EIF as FoF Manager
July-October 2017		Call for Expression of Interest for EAFRD FLPG instrument published
November 2017		Operational agreement for FLPG instrument signed with CEMP
December 2017		Operational agreement for FLPG instrument signed with BPO
December 2017	Operational agreement for Co-Investment instrument signed with IRDI-SORIDEC	
October 2018		Operational agreements for Co-Investment instruments signed with IRDI-SORIDEC and M. Capital Operational agreement for Seed Loan instrument signed with CRÉALIA
June 2019		Operational agreement for FLPG instrument signed with Crédit Agricole
December 2023	End of eligibility period	

3. Set-up of the FOSTER fund of funds

3.1 Governance structure

The overall governance of the fund of funds is shown in Figure 5.

Figure 5: Governance of the FOSTER fund of funds



FOSTER is supervised by the managing authority mainly through two different units, one responsible for the ERDF component and one for the EAFRD resources. Additional staff from the Region may be involved to deal with technical aspects of the instrument, in particular the EU affairs unit.

The Steering Committee has been set up to deal with **high-level matters** and take the most important decisions concerning the fund of funds, such as the design of the underlying instruments, the endorsement of the Calls for Expression of Interest, as well as having been involved in the selection of the financial intermediaries.



The Steering Committee expresses the position of the Region. It is responsible for assessing the **progress of the Investment Strategy** of the fund of funds set out in the funding agreement signed between the managing authority and the EIF.

The managing authority **entrusted responsibility to EIF to act as the fund of funds manager** of FOSTER building on the successful collaboration with the EIB Group during the previous programming period. By entrusting the EIF to act as a manager of FOSTER, the managing authority **avoided potential conflicts of interest** and secured the **benefit of the specialist expertise** within the EIF team.

The EIF was responsible for the selection of financial intermediaries, in accordance with the fundamental principles including equal treatment, non-discrimination, confidentiality and transparency. To ensure the respect of these principles, the EIF launched a number of Calls for expression of interests, carried out **due diligence on the proposals** received, structured and negotiated the operational agreements. It continues to monitor on an ongoing basis the operations with the selected financial intermediaries.

The **financial intermediaries are required to provide quarterly reports** to the EIF on both the financial performance of the financial instruments and on the achievements of non-financial targets related to the ERDF Operational Programme, such as jobs created and retained. These reports form the basis of the EIF's monitoring and reporting to the managing authority, which are submitted approval to the Steering Committee.

In addition, once a year, a **meeting is organised** between the MA and the EIF with **all the financial intermediaries**. Typically, this meeting takes place in December to enable a concrete overview on the actions implemented during the year and to provide the managing authority with clear feedback from the market (i.e. the financial intermediaries). This annual meeting also provides all parties with the opportunity to build a shared understanding of the situation and to set the objectives for the following period.

3.2 State aid

In order to ensure State aid compliance is embedded in the design of the financial instruments, the Funding Agreement between the managing authority and the EIF sets out the terms concerning State aid. Different provisions are envisioned for debt instruments and for the equity instrument.

3.2.1 Debt instruments

The Funded Risk Sharing Loan (FRSL) and First Loss Portfolio Guarantee (FLPG) instruments have been **set-up under the de minimis regulation**¹¹. The average loan size for the products is estimated to be in the region of EUR 50 000 for the FRSL instrument and approximately EUR 140 000 for loans made under the FLPG instruments. Under the *de minimis* rules, small state aid amounts are exempted from state aid control as they are deemed to have no impact on competition and trade in the EU's internal market. The maximum amount of support is EUR 200 000 for each undertaking over a 3-year period.

11 http://ec.europa.eu/competition/state_aid/legislation/de_minimis_regulation_en.pdf

Gross grant equivalent (GGE)

In order to apply the *de minimis* regulation to financial instrument loans it is necessary to calculate the gross grant equivalent (GGE) to the final recipient of the preferential loan.

The GGE reflects the financial benefit received by the SME through the support by the financial instrument

Article 4 of the *de minimis* regulation sets out methods for the calculation of the GGE for different types of aid including grants, loans and guarantees.

With the agreement of the Region, the EIF provides to each financial intermediary a comprehensive calculation of financing granted to final recipients under the FOSTER loan and guarantee products.

In the case of the risk sharing loan financial instrument, the financial intermediary calculates the gross grant equivalent (GGE) using software provided by the French Government.

For the FLPG, The GGE is calculated in accordance with Article 4(6)(b) of the *de minimis* regulation which states that aid provided through guarantees shall be classified as *de minimis* aid where the guarantee does not exceed 80 % of the underlying loan; and either

- the guarantee is for
 - an amount of EUR 1 500 000 (or EUR 750 000 for undertakings performing road freight transport); and
 - the duration of the guarantee is five years;

or

- the guarantee is for
 - an amount of EUR 750 000 (or EUR 375 000 for undertakings performing road freight transport); and
 - the duration of the guarantee is ten years;

Where the amount guaranteed is lower than the above amounts, and/or the guarantee is for a period of less than five or ten years respectively, the GGE of that guarantee shall be calculated as a corresponding proportion of the relevant ceiling laid down in Article 3(2) of the *de minimis* regulation of EUR 200 000 (or EUR 100 000 for undertakings performing road freight transport).

Loans within the *de minimis* threshold are, therefore, compliant with the State aid rules at the level of the final recipient. Compliance at **the level of the financial intermediary** is demonstrated by showing that the benefit of the public funding (ESIF and national resources) is **passed on** by the financial intermediaries **to the final recipients**.

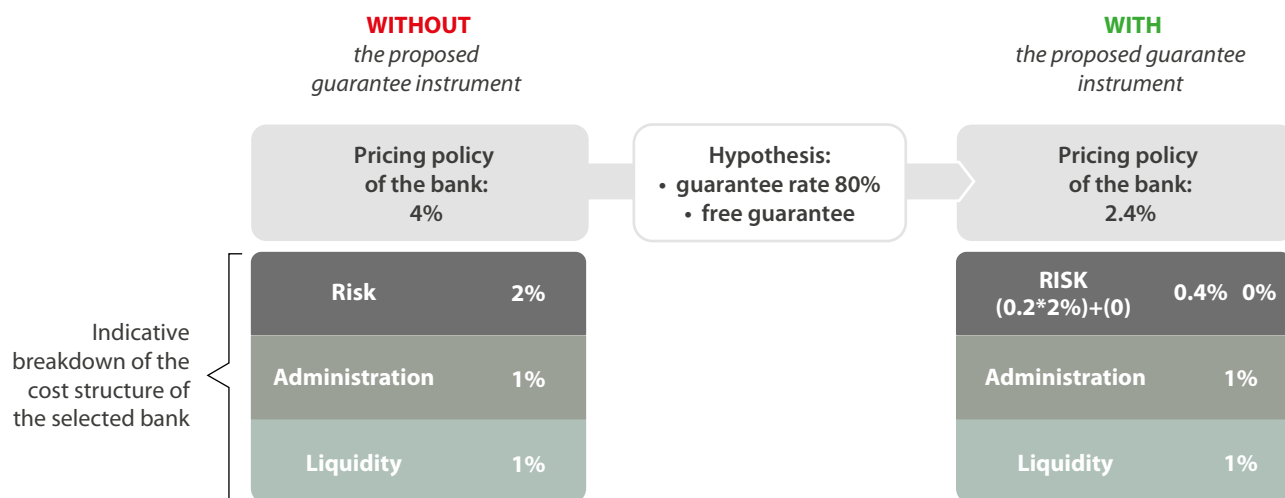
Under the Seed loan financial instrument, managed by CRÉALIA, the ERDF programme resources are contributed at zero cost. Thanks to the transparency of pricing, the financial intermediary can demonstrate the pass on of the benefit to the final recipients.

The benefit of the fund of funds' support through the FLPG products is passed on by the financial intermediaries through a **reduction in interest rates and in collateral requirements**. Under the competitive selection process, the financial intermediaries are required to submit a transparent pricing proposal demonstrating how the guarantee leads to a reduction in interest rates payable, due to the reduction of the risk premium in accordance with the bank's pricing policy.



Figure 6 shows how the guarantee instrument can secure the reduction of interest rates, passing on the benefit of the public support to final recipients.

Figure 6: Guarantee instrument: passing the benefit to final recipients



3.2.2 Equity co-investment instruments

The equity co-investment instruments are set up under the framework of Article 21 – **Risk finance aid** of the General Block Exemption Regulation (GBER)¹². Under this framework, asymmetric sharing of risk and/or reward is permitted to benefit private investors, subject to compliance with a number of requirements

A notable feature of Article 21 GBER is that the level of required private investment depends on the stage of growth of SMEs, ranging from 10% of risk finance aid for undertakings prior to their first commercial sale, to a 60% for investment provided to undertakings that have been operating for more than seven years¹³.

Under FOSTER, financial intermediaries were invited to compete by submitting their best offer on the mix between public and private components in an underlying investment. As a result of the completion, the two retained candidates committed that, for each investment into SMEs that hadn't started commercial sales, the mix between public and private components would be of at least 30% capital of private origin rather than the 10% minimum required by the GBER under Article 21.

Returns on capital invested by the equity financial instruments are distributed in accordance with a **cascade model**. This provides for an asymmetric distribution of the returns once the initial capital contribution and hurdle rate (of at least 5%) have been returned to the investors, including the fund of funds. Once the hurdle has been achieved, the remaining proceeds are distributed between the private investors and fund managers on an 80/20 basis. No additional return is distributed to the fund of funds in relation to the ESIF programme resources.

¹² <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:187:FULL&from=EN>

¹³ Art 21(10) GBER

4. Implementation of FOSTER

4.1 Eligible final recipients

The fund of funds' Investment Strategy defines the eligibility criteria for SMEs to qualify for financing through FOSTER financial instruments. These criteria were mirrored in the Call for Expression of Interests and are also reflected in the Operational Agreements between the EIF and the selected financial intermediaries.

Under the FOSTER ERDF initiative, SMEs in most sectors of the economy based and/or operating in the Occitanie/Pyrénées-Méditerranée region are eligible for financing. Typically target companies fall into three categories as follows:

- highly innovative SMEs which are looking to access debt / quasi equity finance at very good conditions. These SMEs are generally particularly risky and need support rapidly;
- established SMEs (not exclusively innovative) with high potential for development in the region; and
- very small SMEs which are struggling to access to finance, and/or need to access finance at preferential conditions offered by FOSTER.

This **wide target group** enables the managing authority to reinforce competitiveness of a large range of SMEs, active in many sectors of the regional economy while strengthening the region's overall financing ecosystem. Typical final recipients are SMEs in the health, information technology, robotics and services for the environmental and manufacturing sectors.

Non-eligible final recipients include SMEs in difficulties, those located and/or operating outside the territory of Occitanie/Pyrénées-Méditerranée, and those that are part of an excluded sector (i.e. fisheries, aquaculture and other excluded on the basis of State aid rules or EIF policies; production, trade or other activities perceived as illegal, cloning, genetically modified organisms, production and trade of tobacco and alcohol, arms/ammunition, gambling, etc.).

4.2 Products to support businesses

4.2.1 Prêts Innovation – Seed loans for innovative SMEs

The Seed loan for innovative SMEs, managed by CRÉALIA, is branded as 'Prêts Innovation'.

Personal loans are provided to individuals who bear an innovative technology-based project in the seed phase where the risk is the highest, and where the resources to finance equity and intangible investments are difficult to find.

The product offered by CRÉALIA is an **interest-free seed loan with no personal guarantee** from the borrower and an extended grace period for the reimbursement of the capital to accelerate the development of innovation among small businesses in the region.



Thanks to its robust and credible methodology to identify and evaluate prospective applicants, the default rate (including bankruptcies) has, to date, been particularly low within the SMEs supported.

In order to be eligible under this financing scheme,

- Applicants shall be start-ups/innovative SMEs based and operating in the Occitanie region, established not more than three years earlier;
- The project shall be **pre-qualified and incubated by a professional support structure** (e.g. incubators, accelerators of the region) or be a member of the network '**Initiative Occitanie and Réseau Entreprendre**'; and
- The project shall demonstrate real innovation, useful either from a social or technological stand point, requiring tangible or intangible capital expenditure.

The key terms of a 'Prêt Innovation' by CRÉALIA Occitanie loan are shown in Table 4.

Table 4: 'Prêt Innovation' by CRÉALIA Occitanie

Target business	SME: <ul style="list-style-type: none"> • 1st target: seed loan SME with less than 3 years since inception, or individuals with the commitment to set up their SME within the next 6 months following the loan agreement • 2nd target: development, SME that was already supported via a seed loan
Interest rate	0%
Personal guarantees	No personal guarantee required
Total loan amount	Up to EUR 100 000
Eligibility	Assets, working capital (in the framework of an expansion plan)
Maturity period of the loans	6-48 months (including grace period of 12 months)
Risk sharing mechanism	50% FoF, 50% financial intermediary (i.e. CRÉALIA)
State Aid	<i>De minimis</i> regulation

In addition to the direct benefits from the financing mobilised by 'Prêt Innovation', the **reputation and track record of CRÉALIA**, the financial intermediary, brings wider benefits in the innovation sector of the region. The involvement of CRÉALIA in financing innovative enterprises provides significant comfort for private investors planning to support companies in the sector. Companies whose projects are backed by CRÉALIA's interest-free loans are thus **highly likely to receive additional funding** from private banks and other financing entities operating locally.

4.2.2 Preferential loans backed by the First Loss Portfolio Guarantee (FLPG) instrument

The guarantee instruments included in FOSTER are twofold – one under ERDF, one under EAFRD – but the terms and conditions, and overall concept are the same.

The ERDF instrument¹⁴ provides guarantees to selected financial intermediary banks **free of charge** to enable them to build up a portfolio of loans to small businesses at preferential rates. The FLPG product aims to ease access to finance for SMEs operating in various economic sectors. The guarantee provides 80% credit risk coverage on a loan by loan basis for a portfolio of new loans and leases up to a maximum loss (cap rate: 10% - 25%).

The instrument is expected to generate new loans of approximately EUR 800 million, at preferential rates creating significant market impact.

The typical terms of the loans offered by the financial intermediaries of the ERDF guarantee are set out in Table 5. At the end of September 2020, the average loan amount per SMEs ranges between EUR 140 000 and EUR 220 000.

Table 5: Typical loan supported by FLPG under FOSTER-ERDF

Target business	Eligible SMEs based in the Occitanie region
Interest rate	discounted to reflect impact of guarantee
Maximum loan amount	<ul style="list-style-type: none"> • EUR 930 000 (<10 years) • EUR 1 875 000 (<5 years)
Typical average loan amount	EUR 140 000 – 220 000
Maturity period of the loans	12-120 months
Guarantee fee	0%
State Aid	<i>de minimis</i> regulation

Face Verticale

Intermediary: Caisse d'Épargne Midi Pyrénées

Loan: EUR 75 000 loan supported by the FOSTER First Loss Portfolio Guarantee for SMEs

Thanks to the loan provided by Caisse d'Épargne, backed by the FOSTER guarantee, the company was able to finance several structural investments, including the rehabilitation of an industrial water tower, which has been reconverted into a training facility for rope access technicians. Standing a total height of 40 metres, the tower has been designed to be used both outdoors and indoors and enables work at height to be simulated with real-life scenarios. These investments have allowed Face Verticale to become a recognised safety training centre, welcoming an ever increasing number trainees.



¹⁴ For more information on the EAFRD guarantee please see the separate case study: <https://www.fi-compass.eu/publication/case-studies/case-study-financial-instruments-rural-development-2014-2020>



4.2.3 The equity co-investment instrument

The co-investment instrument aims at taking equity stakes in SMEs in the region with a **high growth potential**, investing systematically on a *pari passu* basis with other Venture Capital (VC) funds.

The two financial intermediaries selected have each set up a specific investment vehicle to manage the resources committed by the FOSTER fund of funds.

The maximum total investment in a company is approximately EUR 2 250 000, although a typical investment in a company is in the region of EUR 400 000. The capital is typically used for tangible or intangible investments to acquire equipment, renew machinery, or purchase software and other IT equipment and/or strengthen the SME's human resources. The duration of a typical investment is **between five and seven years** with both IRDI-SORIDEC Gestion and M Capital Partners reserving the rights, under the shareholders agreement, for the negotiation of participation and exit conditions.

Depending on the nature of the projects, the fund manager's investments in the final recipient(s) is in the form of equity and/or quasi-equity. In addition to providing the target companies with investment capital, the equity fund manager plays an important role through securing the necessary rights to **support the management and growth** of the business. Typically the shareholders' agreement will allow the fund manager to follow closely the key decision for the business development of the company.

One advantage of the co-investment instrument is that it can grant access to finance at the **very beginning of the life cycle of the SMEs** and reinforce their equity structure, thus allowing them to access debt products throughout different stages of their development. Furthermore, the duration of the investment is longer compared with that of a typical debt instrument.

Table 6: Equity co-investment instrument managed by IRDI-SORIDEC Gestion and M Capital Partners

Maturity of the fund	10 years
Typical investment size	EUR 400 000
Max investment amount into an SME	Up to 15% of the size of the fund
Eligible business	Businesses operating in any sector (except non-eligible ones), with particular attention to innovation and SMEs with a high growth potential
Investment period	31/12/2023 + follow-up on investments for a specific time period
Stage of intervention	Small enterprises (up to expansion) and medium enterprises (seed and start-up)
Fund distribution according to the cascade principle	FoF is entitled to paid-in capital plus hurdle rate (at least 5%); thereafter, interest split 80/20 is carried out
State Aid	Article 21 GBER

4.3 Communication

One of the main factors contributing to the successful implementation of FOSTER was the **strong commitment to and promotion of financial instruments** within the Occitanie/Pyrénées-Méditerranée regional authority. The Region developed a communication strategy for the fund of funds that complemented the activities of the EIF acting as fund of fund manager and the selected financial intermediaries.

The objective of the **communication campaign was to raise awareness** on the existence of the financial instruments available under FOSTER, their main characteristics and benefits for final recipients. Furthermore, the campaign aimed at building trust with local SMEs for the deployment of the initiative and the maximisation of its impact, as well as advertising the Region's long-term commitment to support businesses at all stages of their development and facilitate access to financing for their projects.

Figure 7: Main logo of the 'Europe in Occitanie' funding initiatives



The communication strategy of the Region, especially the sections dedicated to the initiative on 'Europe-en-Occitanie' website¹⁵, was used by the selected financial intermediaries as part of their communication and promotional campaigns.

Overall, the main communication tools that were deployed by the managing authority and the fund of funds manager can be summarised as follow:

- A FOSTER section with extensive information on the initiative was set up in the Region's website¹⁶ and in the one dedicated to EU funds in the region¹⁷.
- Promotional videos, some also subtitled in English, presenting the available financial instruments and showcasing some success stories and best practices.
- The categorisation of the initiative under the 'L'Europe s'engage, l'Occitanie agit' branding (figure 7).
- Presentation of FOSTER by representatives of the Region and of the EIF as well as the financial intermediaries at events and meetings across the region as well as abroad, organised by many different entities (including 'FI Campus 2018' event in Brussels, organised by the EC in partnership with the EIB)¹⁸.
- Various publications and leaflets about the financial instruments under FOSTER, financial intermediaries and other relevant information for final recipients were produced, mainly in French.
- The selected financial intermediaries have also set up some FOSTER dedicated webpages on their own websites.

¹⁵ <http://www.europe-en-occitanie.eu/>

¹⁶ www.laregion.fr/foster

¹⁷ <http://www.europe-en-occitanie.eu/>

¹⁸ FI Campus 2018: 'What next for ESIF financial instruments? Creating new opportunities under the Omnibus Regulations'

5. Achievements

The implementation of FOSTER has resulted in a number of achievements in the Occitanie/ Pyrénées-Méditerranée region. At a strategic level, the consolidation of management of financial instruments under one single regional authority (in the previous programming period, the Occitanie territory was still divided into Languedoc-Roussillon and Midi-Pyrénées) and the renewed partnership with the EIB Group has strengthened the **capability of the Region to design and implement financial instruments**. This has allowed it to develop financial instruments in new sectors and for new types of businesses.

The managing authority has witnessed a wide array of benefits resulting from the implementation of financial instruments and EU-funded tools, including:

- An effective way for public administrations to finance its local economy and boost private sector productivity and innovation, which is particularly interesting in the context of scarcity of resources;
- A long term instrument, with the possibility to reinvest revolving funds;
- A high leverage effect, yielded by the combined effect of public and private investment;
- The advantage granted to final recipients (i.e. SMEs) that can only happen via a transparent and competitive selection process; and
- The risk reduction provided to financial intermediaries.

With the support of the EIF, the managing authority has been successful in establishing a number of strong partnerships with financial intermediaries with responsibility for the implementation of the financial instruments. This has provided the managing authority with the capacity to invest the public resources, including ERDF and EAFRD finance, in a simple, transparent way to support SMEs in the region.

The implementation of the financial instruments under FOSTER in Occitanie/Pyrénées-Méditerranée started in April 2017. By the end of September 2020, around 5 230 final recipients have been supported under the initiative, for a total amount of approximately EUR 731 million.

Figure 8: Provinces of Occitanie supported by FOSTER ('Number of Final Recipients supported › Jobs maintained or created')

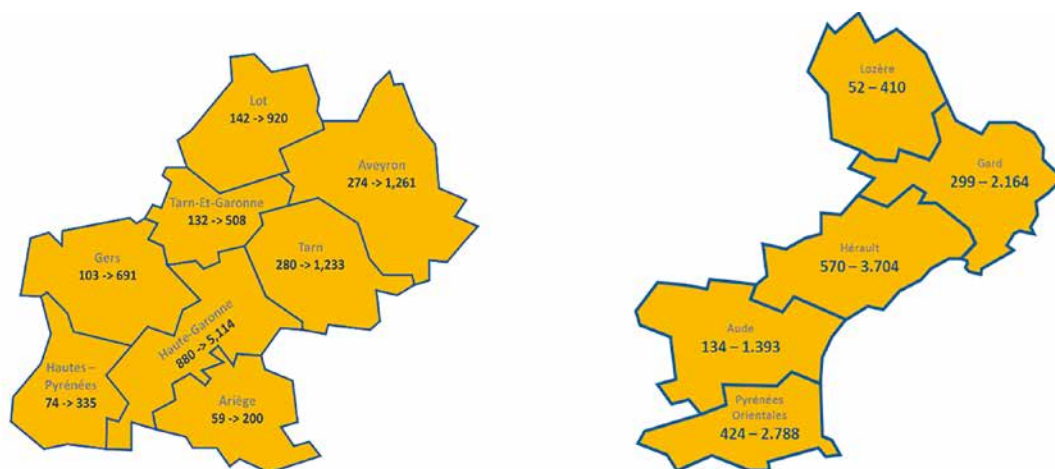
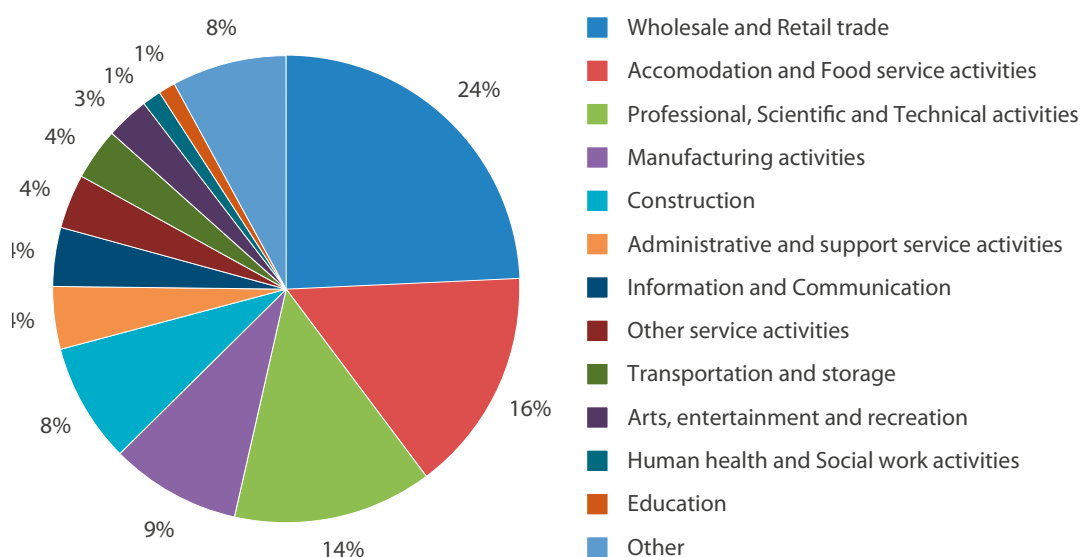


Figure 8 shows the distribution of investments under FOSTER financial instruments across the different territories within the region (as at the end of 2019). The results show that whilst FOSTER is very active in urban and dynamic territories such as in the provinces of Hérault or Haute Garonne, approximately 44% of final recipients are located in rural territories where access to finance is often most challenging. Although the implementation of the financial instruments is more significant in the territories with a higher GDP, once the figures are analysed based on the relative wealth of each territory, it can be observed that the least developed territories have received a proportionally higher contribution from FOSTER than the raw data implies.

The **majority of final recipients are micro enterprises**, with a pproximately 88% of FOSTER interventions being directed to them. 62% of supported SMEs are young businesses that have been established within the last 5 years.

Loans guaranteed by FOSTER represent about 10% of the new loans to SMEs originated annually in the Occitaine region. FOSTER backed investments also have a wide sectoral distribution. Specifically, 64 sectors of activity according to the NACE CODE are covered, suggesting that the financial instruments provided by FOSTER are well adapted to most eligible sectors. The sectors that have received the largest share of the finance are wholesale and retail trade, accomodation and catering, as well as professional, scientific and technical activities.

Figure 9: FOSTER transactions by sector



The EIF and the Region expect that applications for finance under the FOSTER financial instruments will continue to grow, with disbursements increasing accordingly throughout the implementation period ending in 2023. As a result, the financing partners (i.e. the Region, ERDF, EAFRD and EIF) have increased the resources allocated to the initiative increasing the initial budget of EUR 107 million to EUR 156 million. In addition, the managing authority is developing **plans to use European resources under the REACT-EU programme** to ensure a smooth transition to the 2021-2027 programming period.



It is evident that the design and set-up of FOSTER has successfully managed to **nurture and bolster the financial ecosystem in Occitanie** by expanding the range of financial solutions available to potential final recipients and by substantially improving their financing conditions. The overarching and diversified range of financial instruments foreseen by the fund of funds – from the seed loan instrument to the guarantee and co-investment instruments – proved successful in providing tailored financial support to regional micro, small and medium enterprises throughout their life cycles. As a result, this has already achieved enhanced competitiveness, sustainability and development potential amongst local SMEs by significantly improving access to finance for local entrepreneurs.

The fund of funds – especially through the equity co-investment instruments – has also been successful in **crowding-in private investment in Occitanie**. The promotional campaign of the Region and individual financial intermediaries has increased awareness amongst entrepreneurs based in the region of the potential to use ERDF and EAFRD financial instruments to support the growth and financial sustainability of their businesses.

Overall, the financial instruments provided by FOSTER is expected to provide added value not only for SMEs in terms of easier access to finance but also for private investors, by providing them with more opportunities to invest and expand their client base. The fund of funds has also enabled the Region to secure greater **diversification of public intervention** and more efficient use of EU funds. Financial intermediaries have also benefited including through securing additional credit risk protection and access to new clients. As a result, FOSTER has boosted the regional financing ecosystem, demonstrating how combined EU resources can attract new investment into businesses in local economies.

Responses to the COVID-19 crisis

FOSTER financial instruments have helped to support the Region's response to the economic and social impact caused by the COVID-19 outbreak. Measures supported by the FOSTER fund of funds and financial intermediaries have included:

- A 'payment holiday' scheme has been implemented, providing flexibility for local entrepreneurs to reimburse their monthly payment, which is thus rescheduled;
- Quasi-equity loans that were already available under FOSTER have provided a concrete response to the needs of local entrepreneurs to limit their level of debt;
- Constant follow up of the financial intermediaries and implementation by EIF of services during lockdown; and
- Considering the possibility for the managing authority to increase the fund of funds amount through REACT-EU, providing additional resources to support SMEs new investments (subject to on-going negotiations).

6. Lessons learned

6.1 Main success factors

Although there are a great many factors that contributed to the successful implementation of FOSTER's financial instruments, four things have been especially important.

Keep It Simple and Smart (KISS) strategy

The 'Keep It Simple and Smart' (KISS) strategy appears to be the most effective way to translate policy objectives into market instruments. This has materialised into a **supportive and detailed ex-ante assessments** for financial instruments, together with an **appropriate market testing exercise**, and a **flexible investment strategy**, proving as key success factors for the design and set-up of FOSTER. These actions have indeed contributed to the fine-tuning and adaption of the financial products provided via the fund of funds to the needs of the markets and target final recipients, in a progressive way with respect to the previous programming period and financial instruments implemented (e.g. the JEREMIE HF).

Financial instruments designed to leverage private investment

FOSTER has enabled the **combination of ERDF and EAFRD** resources with other public resources (i.e. contributions from the Region), while at the same time leveraging private resources to finance the creation and development of SMEs, a key element of the European Union's regional policy.

The use of a fund of funds has enabled the Region to **increase its visibility** and **optimise the range of financing offered to their SMEs**, from interest-free loans to equity co-investment schemes and guarantees.

Strong commitment at regional authority level

The third success factor was the **strong commitment to implement the financial instruments within the managing 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. By establishing a dedicated team with relevant experience, the Region secured the necessary capacity to follow project delivery.

Collaboration with key partners and alignment of interests

The identification of key partners and **building of strong partnerships** between the different actors is essential when establishing complex projects such as the FOSTER fund of funds and its associated financial instruments. The close support from the EIF throughout the design and set up-up phases of the initiative has 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 regional market. Further, support provided by the EIF during the selection process has enabled the managing authority to ensure the identification, through the Calls for Expression of Interest, of financial intermediaries with strong local knowledge as well as financial capacity and expertise. Finally, ensuring that the interests of all parties involved (i.e. the managing authority, fund of funds manager, financial intermediaries and final recipients) are aligned has contributed to the successful implementation of the initiative.

Resilient Innovation

Intermediary: CRÉALIA Occitanie

Seed loan investment: EUR 30 000

Resilient Innovation, created by Jordan Miron, is a Montpellier-based start-up. Its mission is to make the best of research accessible through technology to people with loss of locomotion autonomy who are at risk of falling. Advances in science have made it possible to add years to life; Resilient Innovation's mission is to add life to the years.

Thanks to FOSTER's support via the CRÉALIA seed loan, Resilient Innovation financed its R&D activities on Parkinson's disease. The loan has contributed to the development of the WALK device, which aims to improve walking for millions of people affected by Parkinson's disease, aging or other pathologies, turning a conceptual project into an industrial product.



6.2 Main challenge

The main challenge experienced was the amount of **time required for the design and set-up phases** of the fund of funds. Indeed, the process entailed several phases – including ex-ante assessments, market testing, drafting funding and operational agreements, selection process, negotiating conditions, risk analysis for guarantees – which have proved time consuming. Therefore **it is essential that significant time is given to each phase or activity.**

As described at section 2.6 above, it took some time from the commissioning of the ex-ante assessments to the initial deployment and related first disbursements of the financial instruments under FOSTER. Although some of this time was related to a one-off situation not contingent to the set-up and implementation of the fund of funds, (i.e. the establishment of the Occitanie/Pyrénées-Méditerranée region after the regional election in early 2016) 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.

6.3 Outlook

Since the beginning of its implementation in 2015, FOSTER has been one of **the most important schemes for financial instruments in the region** and, more broadly, in France, having supported more than **5 200 SMEs** and agricultural and forestry holdings, with a leverage effect of **EUR 731 million**. The financial instruments set up under the initiative have crowded-in private financing (e.g. bank financing, private equity, entrepreneurial participation, etc.), generating an additional leverage effect in favour of the regional business ecosystem.

The need to diversify and consolidate the financing of businesses, particularly start-ups and SMEs, and agricultural and forestry holdings, led the Region to adopt a new **'Regional Strategy for Jobs and Growth'** in 2017. As a reference point for economic development and convinced of the need to diversify its means of supporting regional economic development, the Region has been and remains a pioneer in the field of financial instruments.

It has made financial instruments, in partnership with the EIF and a pool of trusted financial institutions including Bpifrance, Banque Populaire, Caisse d'Épargne, Crédit Agricole, SIAGI, IRDI SORIDEC, M Capital Partners, CRÉALIA and France Active, one of its most effective tools for supporting SMEs and agricultural and forestry holdings. Thanks to FOSTER, the Region has become one of the European leaders in financial instruments supporting the financing of businesses, proactively mobilising EU structural funds in this area.

In light of the promising results achieved through the fund of funds during the 2014-2020 programming period, the Occitanie/Pyrénées-Méditerranée region is planning to continue its efforts to support SMEs via financial instruments and public/private partnerships. The **Smart Economy sector presents the highest potential** for an increased uptake of ERDF-supported financial instruments during the 2021-2027 programming period. This will enable the Region to invest increasingly in the portfolio of financial instruments dedicated to SMEs (in particular micro enterprises), SMEs competitiveness and also SMEs with a high rate of innovation either through specific financial instruments or as 'add ons' or sub-windows to more mainstream instruments.

