AGRI Financial Instruments – The FOSTER Occitanie Experience

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Context - Occitanie

- Occitanie Region was created 1st January 2016, by the merging of Languedoc-Roussillon (transition region) + Midi-Pyrénées (competitive region)
- 5.7 million inhabitants, Population growth +52,000 per year
- GDP Eur 162 bn
- Twice the area of Belgium with large cities: Toulouse and Montpellier
- Dynamic and competitive ecosystem: 430,000 SME
  - 1st in creation of new companies: +60,000 per year
  - High technology industry: information technology, aerospace industry, healthcare…), headquarter of Airbus, ATR
  - Traditional: agriculture and forestry, tourism, crafts
- First employer: agriculture & agrifood industry
- 50% of territory is cultivated
- 262 agricultural products under quality label

Occitanie : the European California

- Research and innovation : 1st region in France.
- 1st rate for GDP invested in R&D: 3.7%
- 247,000 students at 35 institutions for higher education
- 30,000 researchers
- 8 clusters, including Aerospace Valley and AgriSudOuest Innovation

But also
- 140,000 farmers and agrifood industry
- 1st for organic products
- 123,000 employees in craft enterprises
- 110,000 working in tourism
- 85,000 working in aerospace
Context – European funds

EUR 3bn directly managed by the Occitanie Region (Managing Authority) for:

• **2 Operational Programmes ERDF/ESF** (for the former territories of Languedoc-Roussillon and Midi-Pyrénées)

• **1 Operational Program ERDF** over the Pyrénées (mountain range)

• **2 Rural Development Programmes EAFRD** (for the former territories of Languedoc-Roussillon and Midi-Pyrénées): EUR 2.1bn

Operational Programs focusing on:

• Supporting and fostering innovative projects

• Supporting SMEs

But also:

• **1 European Maritime and Fisheries Fund programme**

• **Interreg POCTEFA and Interreg Sudoe**
2014-2020 – The FOSTER project

- The region **pioneered the use of financial instruments** to support – in a sustainable and revolving fashion – productive investments.

- On the basis of positive past experience (2007-2013 JEREMIE Experience) and after ex-ante assessments, Occitanie Region decided to set-up new FI for 2014-2020

- **FOSTER TPE-PME EUR 153m** public funds until 2023, a new generation of Fund-of-Funds aiming to address the market failure highlighted in the ex-ante assessment by facilitating access to finance for final recipients in cooperation with selected financial intermediaries active in the region.
2014-2020 – The FOSTER project

Financial Intermediaries selected through a Call for Expression of Interest

Region + ERDF + EAFRD: [EUR 153m]

Fund of Funds
Steering committee: Region/EIF

Seed loan instrument
Minimum EU leverage of 4x EUR 24m available for SMEs

Guarantee instrument for SMEs
LR EUR [35]m - MP EUR [40]m
Minimum EU leverage of [14-20]x EUR 800m available for SMEs

Co-investment instrument
Leverage according to life-cycle phase of the SME EUR 120m

Guarantee instrument for agriculture
Minimum EU leverage of [10]x EUR 125m à 140m
Available for SMEs

EUR 1bn invested in 6,000 SMEs in Occitanie.

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The FOSTER Agri First Loss Portfolio Guarantee

- **Portfolio of new Agri loans:** EUR 135m (EUR 45m – 75m LR; EUR 36m – 60m MP)
- **Leverage:** [3x – 5x]
- **Public resources from FOSTER FoF:** EUR 27m
- **Guarantee rate:** [80%]
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- **Transfer of benefits:** Financial Intermediary has to pass the advantage onto SMEs (20 to 40 bps lower interest rate, lower collateral requirements);
- **Eligible investments:** Finance tangible and intangible investments as well as working capital;
- **Thematic objectives:**
  - Primary production (vegetal and livestock);
  - Development, processing and marketing of agricultural products as well as the creation and development of non-agricultural activities in rural areas and forestry technologies both by farmers and agricultural holdings as well as agri-SME
Implementation timeline
Foster LR  December 2014 – December 2017

- December 2014: ERDF/ESF Operational Programs approved by EC
- EIF carried out the ex-ante assessment
- April 2015: ex-ante assessment completed
- Proposed investment strategy completed
- May-October 2015: Negotiation of the funding Agreement
- August 2015: EAFRD programs approved by EC

- November 2015: Signature of the funding agreement: EIF appointed FoF Manager
- December 2015: Regional elections
- 1st January 2016: Creation of Occitanie Region
- January-June 2016: Design of the financial instruments and market testing
- June-September 2016: Call for Expression of Interest
- October-December 2016: selection process of financial intermediaries

- December 2016: Operational agreement for First Loss Portfolio Guarantees signed with BPS and CELR
- December 2016: Operational agreement for Seed loan instrument for innovative SMEs signed with CREALIA
- January 2017: Operational agreement for First Loss Portfolio Guarantees signed with BPS for Agriculture
- January-March 2017: Financial intermediary employee information and training
- December 2017: Operational agreement for the Co-Investment instrument signed with IRDI-SORIDEC
- 2017-2023: disbursement to final recipients...

- 2017-2023: Monitoring, Reporting, Auditing
- December 2023: End of eligibility period
- Revolving
- December 2023: End of eligibility period
- Revolving
Implementation timeline – Foster MP
June 2016 – October 2018 - Significant time reduction

June 2016 – November 2016
EIF carried out the ex-ante assessment

November 2016:
ex-Ante assessment completed

December 2016:
Proposed investment strategy completed

3 January 2017: ERDF
June 2017: EAFRD
Signature of the funding agreement: EIF appointed FoF Manager

February-April 2017:
Call for Expression of Interest published by EIF

May-October 2017:
selection process carried out by EIF for the selection of financial intermediaries

July-October 2017:
EAFRD FLPG Call for Expression of Interest published by EIF

28 November 2017
Operational agreement for First Loss Portfolio Guarantees signed with CEMP

19 December 2017
Operational agreement for First Loss Portfolio Guarantees signed with BPO

November-January 2018: Call for Expression of Interest published by EIF for Risq Sharing loans

October 2018:
Operational agreement for a Co-Investment instrument signed with IRDI-SORIDEC

October 2018:
Operational agreement for the seed loan instrument signed with CREALIA

October 2018:
Operational agreement for a Co-Investment instrument signed with M. Capital

2018-2023:
disbursement to final recipients

2018-2023:
Monitoring, Reporting, Auditing

3 June 2019
Operational agreement for First Loss Portfolio Guarantees signed with CA

December 2023:
End of eligibility period

3 June 2019
Operational agreement for First Loss Portfolio Guarantees signed with CA

3 June 2019
Operational agreement for First Loss Portfolio Guarantees signed with CA

December 2023:
End of eligibility period

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A smooth ramp-up driven by small-size transactions
Young and micro firms are amongst the main beneficiaries

Transactions by Business Segment

- Micro (< 10 employees): 157
- Small (< 50 employees): 38
- Medium (< 150 employees): 5
- Large (< 250 employees):
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 and 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: cross effect of public and private investment (EUR 153m generate more than EUR 1000m in the real economy = size of the OP);

- Final Recipients see the true value of the Instrument by getting access to finance at much better conditions: lower interest rate, lower collateral requirements;

- Partner Financial Intermediaries are keen to deploy such instruments since risk is very well covered by the EIF: increase investment capacity with risk reduction.
Key messages: Why to choose to work with EIF

• Strong experience with market assessment
• Excellent knowledge of financial & EU regulation
• Significant experience in managing Structural Funds, Excellent track record (i.e. JEREMIE)
• Avoid conflict of interest
• Transparency of management and selection process
• Range of financial instruments Guarantee + Risk Sharing Loan + Equity (in line with market needs)
• Ability to negotiate with financial intermediaries to provide the best for Final Recipients
• Ability to ensure Monitoring, Reporting & treasury management of the FoF
• Safe: EIF is rated AAA
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...).
• Ensure a transparent and competitive selection process of financial intermediaries
• Timing is very important. The process takes time (ex-ante, market testing, financing agreement, selection process, negotiating conditions, risk analysis for guarantees, ...)
• Permanent dialogue between FoF manager and financial intermediaries
• EIF works in full cooperation with the MA steering committee (COPIL) to pursue a clear Investment Strategy and to implement FIs
• Very good collaboration with the EIF colleagues that I would like to thank very much for their great work
FOSTER Video

https://www.youtube.com/watch?v=7xlo8BRZVQo
Pictures of the project

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• Région Occitanie :  https://www.laregion.fr/FOSTER-TPE-PME
• FEI :  http://www.eif.org/what_we_do/resources/foster/index.htm
• BPS :  https://www.sud.banquepopulaire.fr/portailinternet/Catalogue/Produits/Pages/foster.aspx
• Banque Populaire Occitane :
  • https://www.occitane.banquepopulaire.fr/portailinternet/Catalogue/Produits/Pages/Prets-Foster-TPE-PME-BPOC.aspx
• Région Occitanie : Vidéo relative à l’accompagne d’un agriculteur : FOSTER
  • https://www.youtube.com/watch?v=7xlo8BRZVQo

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