



State of play of Financial Instruments in the ERDF 2014-2020 programmes

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Background

- Whilst the UK has significant experience of setting up and implementing a variety of financial instruments, a new type of structure was developed with EIB Group and implemented in the 2007-2013 period.
- Secured EIB lending to the regional structure to boost the critical mass of capital alongside allocated ERDF funding.
- These 'leveraged' JEREMIE Holding Funds were implemented in Wales, the North West, the North East and the Yorkshire & Humberside region.
- Evaluations of the JEREMIE funds and lessons learnt have helped in the ex-ante assessments and proposed structure of FIs for 2014-20.



Progress in the set-up and design of FIs in 2014-20

- England MA looking to support FIs on ERDF programmes
- EIB study in support of the ex-ante assessment for the deployment of EU resources - structured as 2 stage process:
- **Block 1 – Market Analysis**
 - National, regional and local context
 - Demand and supply of finance to start-up and SMEs
 - Lessons learnt for delivery and management
- **Block 2 - Proposed Investment Strategy**
 - Proposed Investment Strategy
 - Lessons learnt – past experience
 - Value added of the FIs



Main Challenges

- **Timescale in establishing FIs** – avoid a gap in funding between programming periods.
- **Maintaining existing Fund of Funds** - platform for FIs to manage the funds flexibly and to address reinvestment.
- **State Aid rules** – new GBER implications for ERDF backed FIs.
- **Match Funding** – attract additional independent private investment at either the level of the financial intermediaries or the eligible undertakings.
- **Revenue Funding** - required to develop, set-up and meet the holding fund costs and management fees of these funds.
- **ERDF draw down** - new concept of tranching of ESIF payments presents an additional operational aspect to the implementation of FIs.



Proposed Investment Strategy – North West, England

- Establish Fund of Fund Structure – total fund size circa £140m
- Secure EIB loan facility to match ERDF
- Portfolio of 5 funds:
 - Venture Capital Fund 1 (Early Stage Focus)
 - Venture Capital Fund 2 (Later Stage Focus)
 - Loan Fund 1 (Smaller Loans)
 - Loan Fund 2 (Larger Loans)
 - Microloan Fund
- Diversified investment strategy
- Predictable reflows from the underlying financial instruments in order to service the debt element
- Management fees and similar costs need to be covered by sources of funding outside of the structure



Delivery of FI's

- **Need for flexibility** – FoF provides flexibility to move resources between sub funds in response to changes in market need and opportunity.
- **Brand identity** – benefits of developing a strong brand and co-ordinated marketing for public sector backed finance.
- **Procuring Fund Managers** – securing FM's who have the appropriate expertise and will deliver high quality fund management services.
- **Performance Monitoring** – measurable, relevant and specific performance indicators for FIs, covering investment, financial and economic performance – relevant to debt and equity instruments.



Summary

Experience of designing, implementing and closing ERDF backed SME finance FIs in the UK has provided a range of important lessons.

In summary, the key points are:

- **Clear on the purpose of the proposed FI**, including the mix of finance and economic development goals
- **Understand the needs of the market** and the manner in which this varies between different types of SMEs
- **Use the experience and resources** of a wide range of partners nationally, regionally and locally
- **Evidence based** – example: advantages of the fund of funds model given the current policy emphasis on more efficient and effective delivery
- **Be realistic** about project development and delivery, including not underestimating the complexity of SME finance projects
- **Taking decisions** about FI design and delivery, be aware of the cost and performance implications of these decisions
- **Ensure a performance management culture** which can drive performance and reward it in an appropriate way.



Thank you

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