



Innova-FI

Interreg Europe



European Union
European Regional
Development Fund

REPORT EXCHANGE OF EXPERIENCE 01

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EXCHANGE OF EXPERIENCE

Within Innova-FI project, each participating partner is responsible for the preparation and implementation of one Exchange of Experience – intraregional learning. As partners are not directly managing the policy instruments for internationalisation, the aim of the exchange of experience meetings is to:

- a) Analyse the situation in the hosting region, i.e. investigate the state-of-play in the territory, strengths and weaknesses;
- b) Deepen the knowledge of the project partners and stakeholders on a concrete topic and get inspired and aware of possibilities for policy change in other domains;
- c) Find synergies with other processes (programs and projects) that are part of the organisational work-load and are linked to financial instruments;

Report Elaboration

The aim of this report is to describe and reflect the exchange of experiences and to gain the insight into the intraregional learning process. The corresponding project partner should elaborate the report after each exchange of experience event and send it to the National Innovation Agency (Lead Partner) and Startup Europe Regions Network (advisor partner). The news should be prepared – by SERN - for the Innova-FI website accordingly.

1. Introduction

The Interreg Europe 'Financial Instruments for Innovation' (Innova-FI) project aims to improve the design and implementation of Financial Instruments as a delivery mode of Structural Funds, so that they best meet and serve the financing needs of innovative and RTDI-driven businesses in all the stages of their start-up and growth. The first Exchange of Experience (EoE) of Innova-FI was hosted by Startup Europe Regions Network (SERN), the advisory partner, in Brussels (Belgium) on the 6th and 7th of November.

The meeting, organised in collaboration with IVACE, focused on the mapping tool 'Financing Innovation'. The partners were invited to provide comments, suggestions, and feedback on its characteristics and tentative indicators to measure the real impact of the tool in order to make sure this tool is a practical guide to apply in each partner region and will provide a cross-thematic relevant classification.

Innova-FI Financial Instrument Mapping tool aims at evaluating how regions are currently using financial instruments for the support of highly innovative businesses. Its matrix made of three axes, (a) type of innovation, (b) type of financial instrument being used and (c) type of sources will allow to make a consistent comparison between regions and facilitated the selection of case studies and best practices in participating regions to present during the study visits.

2. More information About the Session

The main topic of this intraregional meeting was to discuss the substance of financial support via financial instruments and tools. During the first Exchange of Experience (EoE), each regional partner presented the stay-of-the-play of the financial support in their own regions and two of their main challenges:

- The difficulties to access finance for innovative SMEs;
- The need to make the most effective use of structural funds, including ESIF;

The objective of this first Exchange of Experience was to acquire inputs and insights from the partners in order to improve the Financing Innovative tool. To achieve this, IVACE presented the almost final version of the tool 'Financing innovation' and open the debate to the partners on the tool characteristics and tentative indicators to measure the real impact of the tool.

Following the agenda, the Exchange of Experience (EoE) began with a learning workshop introducing the measures for financial instruments and the situation of financial support for innovative SMEs by each partner and the respective stakeholders: ANI, KEPa, IVACE, Friuli Innovazione, GODC, and INVEGA. All the speakers followed the same presentation template (structure mentioned below) in order to better understand the comparison within each organisation and to identify the best practices.

- 1) Introduction to the context of economic innovation and its state-of-play in their field of action. This was done by a SWOT analysis, presenting the strengths and the weakness as well as the market failures.
- 2) Overview and Objectives of the Regional Policy instrument. An overview of the policy instruments chosen for the Innova-FI project and the measures and procedures (current and foreseen) taken in order to reach the objectives established.

- 3) Implementation of the measures applied relevant for financial instruments and Innova-FI project. If applicable, the link to RIS3 was conveyed.
- 4) Monitoring and Results. Evaluation of the implemented measure with a special focus on the outcome of the selected measure.

Furthermore, two guest people have been invited for the second day of the EoE. Mr. Adam Abdulwahab (DG REGIO, Unit B3. Financial Instruments and International Financial Institutions Relations) underlined the advantages of **Innovation Support and ESIF Financial Instruments**. He presented their success story and concrete results of financial instruments in the Cohesion Policy. He explained the advantages of the ESIF FIs. He highlighted also the role of financial instruments in the ESIF and within the cohesion policy. The combination funding was also approached. Afterwards, Cllr Flo Clucas, Spokesperson on local finances for CEMR, Cheltenham Council, Former Deputy Leader Liverpool City Council has presented **Liverpool's experiences of financial instruments for urban regeneration: benefits & lessons learnt**. She highlighted the complementary role of financial instruments, stressing that those should not replace structural and investment funds. She concluded her session by stressing the need for FI's to be better tailored and flexible to fit the specific needs of local and regional governments. To conclude these two days, the Innova-FI Steering Group meeting took place with all the partners in order to collect their feedback on the Exchange of Experience, discuss changes in the EoE methodology, elect the Steering Committee and organise the next steps.

Overall, the most discussed topic on this EoE was the design and the implementation of existing instruments policies in order to learn how to better design new financial tools. The debate focused on the exchanges of good practices and lessons learned from each partner to avoid future pitfalls. To build further knowledge and capacity of all stakeholders in order to effectively deliver more and more ESI funding through financial instruments the Innova-FI partners pointed out the importance of the architecture of the instruments.

3. Recommendations and Next Steps

For the elaboration of the present report we would like to write about two case stories presented in the EoE (ANI with Portugal's case and Friuli Innovation with a venture capital that did not worked). **Portugal** has progressed significantly in structuring its innovation system and building the foundations for a new and more knowledge intensive growth trajectory. In the process, the innovation system matured asymmetrically with human capital and research institutions adapting faster than the economy. A new breed of companies is necessary as well as, an overhauling of the existing ones. In line with this, there is room for improvement on some areas.

For instance, according to the Global Competitiveness Index (2016/2017) for the area of "Financing through local equity market" Portugal ranks on 100th position. It is one of lowest performing areas in terms of competitiveness in general, which means if Portugal wants to consolidate the innovation system, that has been in terms of economic power slower, the country needs to support firm growth (scaleup) in early stage and expansion, as well as for small enterprises and also the emergence of more knowledge intensive activities (technology entrepreneurship). This implies correcting the diagnosed market failures:

- Shallowness of equity market instruments especially, seed and venture capitals: very small operators, not a lot of money and in ANI representative words "...I would say there are only a couple of enthusiastic people but not really a structure of equity market that can support financial continuity...";
- Higher cost of financing;
- Biased allocation of resources towards less risky activities;

In accordance, Portugal has allocated a significant amount of its national (COMPETE 2020) and regional (e.g. Norte2020) Operational Programmes to the promotion of financial instruments aiming to reduce the market failure observed. The priorities focused on the creation of equity-based financial instruments, fostering the capital market targeted for innovative SMEs (including start-ups) and debt instruments targeted for the support of innovative investment and company growth.

“Financing through local equity market it’s crucial to support the emergency of new a knowledge-intensive activity.”

Alexandre Almeida, ANI

Overall, we can say the results for Portugal are poor. Currently, the Operational Programmes are being reprogrammed and under that reprogramming we can observe a massive reduction of the financial instruments foreseen initially (ex: Norte will reduce them in more than 80% and the same for the other programs such as COMPETE). In terms of equity, the shallowness of the market and low risk bias of operators (Portugal difficulty in handling failure lies also in the cultural aspect) did not allow to overcome constraints and there was also a detachment of the operational implementation from innovation strategy (e.g. RIS3). In terms of Debt and guarantee, the complex governance system introduced excessive transaction costs and imposed over the top conditionalities to access to low cost finance.

The **Autonomous Region of Friuli Venezia Giulia** offers a variety of financial support programmes, catering to the specific needs of the different types of companies and firms, in particular to SMEs. The Regional Support System is able to help any kind of enterprise,

“The Regional Support System is able to help any kind of enterprise, both local SMEs and large national and international corporations...”

Diego Angelini, Autonomous Region Friuli Venezia Giulia

both local SMEs and large national and international corporations which plan new investments in our Region.

The only type of enterprise that cannot completely benefit from the Support System are innovative start-ups, because of their lack of capital, tangible assets and cash flows. This is why in 2017 the Region of Friuli Venezia Giulia tried to establish a Venture Capital Fund of 5 million euros intended to invest in

the capital for innovative start-ups. A tender was issued to find a venture capital firm for managing the VC Fund, however no one applied. To put it simply, the resources provided were too limited against the management costs of such a Fund.

Now the Region is planning to establish a Guarantee Fund (to be financed by the resources initially allocated for the VC Fund) to cover part of the risk in order to stimulate financial operators' investments in local start-ups. With the Guarantee Fund the Region aims at ensuring investments from institutional investors and business angels in case of default since the Guarantee Fund will cover up to 80% of the investment without commission costs. Investments in innovation start-ups involve such high risk that market players are hardly willing to take it on. The situation is even more difficult in Friuli Venezia Giulia Region, where most enterprises are very small. In particular, the Guarantee Fund is intended to support the growth and development phases of innovative start-ups. The beneficiaries of the Guarantee Fund will be identified by call for proposals based on professional skills and experience in venture capital for local start-ups.

Recommendations:

- Portugal still needs to learn a lot about financial instruments and this is what ANI intends from the Innova-FI project and from the partners, i.e. learn how to structure / architect financial instruments; understand where the current instruments stop, and financial instruments begin; how to improve in terms of government setting up instruments and compliance.
- Improve and/or set-up Financial Instruments for the expansion phase (grow-up / scale up) of startups;
- Need for financial instruments dedicated for emergent areas like health;
- To change the economic structure and to become a more knowledge intensive Region, a change of mindset and willingness to be more risk taking needs to occur (specially for countries with an aversion to risk);
- Change the application requirements for bank loans (since there is an interest in reducing the losses);

4. Conclusion

The main conclusion is that each partner and stakeholders took the chance to discuss and learn from each other on the concrete topic of financial instruments in their own regions. With the experience of each partner, the awareness of financial tools and instruments has increased and some synergies with other programs have been created. The use of financial instruments is very important for the use of statistics and monitoring of the implementation in the regions have proofed all the benefits for new or early born companies. The partners also share their experience in what have happened wrong.

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