



**Expert evaluation network
delivering policy analysis on the
performance of Cohesion policy 2007-2013
Year 2 – 2012**

Task 1: Financial engineering

France

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**A report to the European Commission
Directorate-General Regional Policy**

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List of abbreviations

- ARF Association des Régions françaises (Association of French regions)
- BFR Besoins en fonds de roulement (Need of working capital)
- CDC Caisse des Dépôts et Consignations (Deposit and consignment group)
- DATAR Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale (Interministerial Delegation for Spatial Planning and regional attractiveness)
- EEN Expert Evaluation Network
- ERDF European Regional Development Fund
- ETI Entreprise de taille intermédiaire (Medium-size enterprises)
- FCPR Fonds commun de placement à risque (Mutual risk funds)
- FEI Financial Engineering Instrument
- FNA Fonds national d'amorçage (National seed fund)
- FSI Fonds stratégique d'Investissement (Strategic Investment Fund)
- LBO Leverage buy-outs
- MA Managing Authorities
- OP Operational Programme
- OSEO National Innovation Agency
- PACA Provence-Alpes-Côte-d'Azur
- SCR Société de capital risque (Capital risk institution)
- SRI Stratégie régionale d'innovation (Regional innovation strategy)
- VC Venture Capital

Executive summary

The two public financial institutions that play a key role at national level with respect to Financial Engineering Instruments (FEIs) are: National Innovation Agency (OSEO) for debt and guarantee and deposit and consignment group (*Caisse des Dépôts et Consignations - CDC*) Enterprises for equity. OSEO works in partnership with Regions and uses ERDF. CDC manages the national Seed Capital Fund and the Strategic Investment Fund (FSI), and plays a central role in “FSI-Regions”, a ‘decentralised’ instrument of FSI; it plans to be involved in the implementation of Structural Funds in the next programming period.

At the end of December 2011, there were 178 operations of financial engineering resulting from the 2007-2013 Operational Programmes (OPs) amounting to a committed total of EUR 313.46 million, of which EUR 118.69 million funded by ERDF; debt and guarantee (including soft loans) amount to EUR 159.27 million (50.8%), of which 54.11 million ERDF-funded; equity amount to EUR 154.18 million (49.2%), of which EUR 64.57 million ERDF-funded. Three regions have signed a JEREMIE agreement: Auvergne, Languedoc-Roussillon and Provence-Alpes-Côte-d’Azur (PACA). Half of the regions are using loans, in particular *prêts d’honneur*; 10 have set up an equity instrument; 8 have set up a guarantee fund.

There are major market gaps explicitly identified in the OPs concerning risk capital in relation to the creation of innovative enterprises, in particular in the early stages; general aversion to risk in the banking system; sometimes (Languedoc-Roussillon, Auvergne) equity, and problems related to the exit of early investors. On the whole, according to Managing Authorities (MAs) and regional authorities, debt instruments are mainly used to create a leverage effect allowing new entrepreneurs access to bank loans; equity and guarantee instruments are mainly used to support the creation and transfer of innovative businesses.

According to the Interministerial Delegation for Spatial Planning and Regional Attractiveness (*Délégation interministérielle à l’aménagement du territoire et à l’attractivité régionale - DATAR*), the monitoring of the FEI interventions and the follow up of the end beneficiaries has so far been poorly organised. However, there is a real concern among regional authorities on how to improve the organisation of this follow up and assess the use of ERDF funding in FEI in coherence with the OP objectives.

Regional authorities are on the whole satisfied with the two case studies (Languedoc-Roussillon, Centre). The ERDF contribution has allowed for a larger number of *prêts d’honneur* and an increased level of guarantee (acceptance of a higher risk level). In Languedoc-Roussillon, JEREMIE has provided a ‘territorial embedment’ of FEIs.

The main problems linked to the use of ERDF for FEIs regard the absence of an appropriate legal framework, difficulties in understanding the applicable regulations (national/EU), and the ‘cultural gap’ between regional and managing authorities on the one hand, and financial operators/intermediaries on the other. The two first problems will be addressed by DATAR for the next programming period.

1. Use of financial engineering instruments

At national level, the two major public financial institutions which play a key role today are OSEO and CDC Entreprises.

OSEO proposes an innovation support mechanism through grants which are refundable in case of success (zero interest rate, no need for collaterals) and soft loans (zero interest rate). It also supports innovative projects of medium-size enterprises (*Enterprises de taille intermédiaire - ETI*), partly through refundable grants. In addition to these instruments, OSEO recently created venture loans for innovative enterprises, mezzanine loans (for funding immaterial investment) and an instrument aimed at supporting the internationalisation of enterprises (guarantees for investments related to the creation of a subsidiary in a foreign country). OSEO also frequently cooperates with the Regions, in particular to establish guarantee funds which benefit from ERDF support¹.

CDC Entreprises is responsible for carrying out the missions of public interest of the CDC Group, i.e. providing equity to 'Growth SMEs' and favouring the development of ETI. It manages the investment of the CDC Group mainly through the FSI, with OSEO as a minor partner. It plays a central role in FSI-Regions, a 'decentralised' instrument of FSI. It also manages a national seed fund on behalf of the State (*Fonds national d'amorçage - FNA*) which supports seed- and Venture-Capital (VC) funds investing in start-ups. CDC has so far not been involved in the implementation of the Cohesion policy, but is considering (and seems eager) to be involved for the next programming period 2014-2020.

At regional level, FEIs were used during the programming period 2000-2006, mainly through agreements with OSEO (the national innovation agency) for refundable grants and the funding of regional guarantee and equity funds.

There is thus certain continuity between the previous and the present programming period. The interest for FEIs has clearly increased in the French regions as the crisis became more critical and tighter public budgets were imposed and the JEREMIE opportunity created new expectations.

2.1 Global panorama at December 2011

At December 2011, 178 operations of financial engineering from the 2007-2013 OPs amounted to a committed total of EUR 313.46 million, of which EUR 118.69 million funded by ERDF² and distributed as follows:

- Debt and guarantee (including soft loans): EUR 159.27 million (50.8%), of which EUR 54.11 million ERDF-funded;
- Equity (direct investment in companies, venture-capital funds): EUR 154.18 million (49.2%), of which EUR 64.57 million ERDF-funded.

While the total distribution of resources are more or less equally balanced between debt and equity operations, the ERDF funding favours equity operations which are considered as the most "risky".

¹ E.g.: OSEO-Fonds de garantie Aquitaine.

² Bilan au 12/12/2011 des opérations d'ingénierie financière financées par les programmes opérationnels régionaux FEDER 2007-2013.

The commitment of French OP resources to FEIs is concentrated on eight regions which together committed 65% of their total OP resources to them: Corse (13%), Lorraine (10%), Languedoc-Roussillon (10%), Auvergne (8%), Aquitaine (6%), Centre (6%), Martinique (6%), Nord-Pas-de-Calais (6%). Considering ERDF funding alone, eight regions again, although with some differences with respect to the previous list, account for 68% of ERDF funding committed to FEIs within the OPs: Auvergne (15%), Corse (14%), Languedoc-Roussillon (13%), Martinique (9%), Lorraine (6%), Basse-Normandie (6%), Poitou-Charentes (5%), Centre (5%).

If we now consider the proportion of OPs funding committed to FEIs by each region:

- the percentage of total OPs funding committed to FEIs is equal or superior to 3% in 10 regions: Corse (16%); Basse-Normandie (5%); Auvergne, Languedoc-Roussillon, Limousin and Lorraine (4% each); Alsace, Bourgogne, Centre and Martinique (3% each);
- the percentage of ERDF funding alone is equal or superior to 3% in 9 regions: Corse (16%); Auvergne (11%); Languedoc-Roussillon (9%); Basse-Normandie (7%); Alsace (6%); Centre, Lorraine, Martinique and Poitou-Charentes (4% each); Ile de France (3%).

Not surprisingly, the two regions which have signed a JEREMIE agreement, i.e. Auvergne and Languedoc-Roussillon, are on both lists. Apart from these two regions, five regions appear to have integrated financial engineering in their strategy to a significant degree: Corse, Centre, Lorraine, Basse-Normandie and Martinique.

One region only had not planned any financial engineering operation in its OP: Bretagne. At December 2011, five regions had not yet committed any funding to an operation of financial engineering: Bretagne, Guyane, Haute-Normandie, Pays de la Loire, PACA. With the exception of Bretagne, the four other regions had planned measures in the field of financial engineering (Guyane: venture-capital; Haute-Normandie: FEI supporting creation and development of enterprises and business transfer³; Pays de la Loire: seed- and venture-capital through JEREMIE, soft loans and guarantee fund; PACA: reimbursable grants).

2.2 Typology of FEIs:

In February 2011, DATAR launched a survey of the use of FEIs in the ERDF OPs 2007-2013⁴ through a questionnaire sent to the Managing Authorities (*Secrétariat général aux affaires régionales*⁵) in the 26 *Préfectures de Région*. DATAR received 21 answers to the questionnaire, but none from Corse and Martinique, 2 regions for which FEI could *a priori* be considered as important, since they were among those which had committed a significant amount of both their total OP and ERDF funding; Guadeloupe, PACA and Pays de la Loire did not reply either.

The survey was focused on:

- the number and types of FEI operations (VC, debt, guarantee) and the respective amounts of funding in the regions;
- FEI objectives and management;

³ Hereafter the term 'business transfer' refers to any type of '*transmission*' of a company (buy-outs, acquisitions, etc.).

⁴ Analyse des réponses à l'enquête menée par la DATAR auprès des Autorités de gestion sur les instruments d'ingénierie financière mis en place dans le cadre des PO 2007-2013. Synthèse & Pistes d'action, 2011.

⁵ General Secretariat for Regional Affairs (SGAR).

- the difficulties encountered and the needs of Managing Authorities for technical assistance (technical, legal) in the setting up and monitoring of FEI.

The results of the survey offer a more detailed picture of three types of FEI: debt, equity, and guarantee.

a) Debt:

Half of the French regions are using loans to support their businesses. Debt is the FEI that is the most widely known and commonly used by the regions; at the same time, it is considered the less complex to set up.

90% of the regions have set up “*prêts d’honneur*” (very soft loans with a zero interest rate) directed at business creation or business transfer. The average amount is EUR 10,000. Using “*prêts d’honneur*” is all the easier since a number of finance organisations are specialised in this type of FEI (*Plateformes d’Initiative locale, Réseau Entreprendre, France Active, ADIE, etc.*), and thus 96% of the funding of soft loans is channelled through the funding of these organisations. It is interesting to note that very often a bank – frequently the public bank CDC (*Caisse des Dépôts et Consignations*) – is a co-funding body in the financial rounds set up by these organisations.

In most regions priority is given to the support of innovative businesses rather than to ‘classical’ business transfer.

b) Equity:

By Spring 2011, 10 regions out of 21 had set up an equity instrument.

In the French legal system, 2 types of legal figures can be used: the mutual risk funds (*Fonds commun de placement à risque - FCPR*) and the capital risk company (*Société de capital risque - SCR*). The FCPR is the most commonly used, because it benefits from a tax reimbursement and is easier to set up. However, as a FCPR is not a legal entity, funds have to be managed by an existing fund managing company.

Business creation and business transfer are the most supported phases in the lifecycle of a company. The average investment in a company ranges from EUR 150,000 – EUR 1 million. As for debt, priority is given to innovative businesses.

Co-investors are generally banks, other investment funds, and again the public financial institution CDC.

c) Guarantee:

Eight regions have set up a guarantee fund, but in most cases, it was done through the funding of an existing fund, with a recognised expertise in the management of this type of FEI (in general OSEO, a public financial institution).

Guarantee funds, as equity funds, mainly support the phases of creation and transfer of businesses.

2. Rationale for using financial engineering instruments

The recent debate among French regions concerning FEIs within the forum provided by the association of French regions (*Association des Régions françaises -ARF*) came to the conclusion that the French regional authorities consider FEIs as useful instruments of support to

competitiveness and innovation for various reasons (sustainability of public funding, recycling of public money). However, the ARF deems it “necessary to keep a certain level of flexibility concerning the selection of modalities and instruments aimed at supporting businesses”. More precisely, “it considers that the choice between non-refundable grants and the use of FEIs belongs to regional authorities”, and that “a complete range of public instruments has to be available for addressing the constraints, expectations and needs of businesses”⁶. The French regions have thus a rather careful approach to FEIs; their main concern is that an increased use of FEIs in the next programming period may lead to a reduction of non-refundable grants.

As to the 2007-2013 programming period, the reasons for preferring FEIs to other grants is not clearly explained in the OPs. Only one OP (Limousin) mentions that using FEI saves public money. (Incidentally, a few regions have funded FEIs to prevent a loss of ERDF funding through de-commitments).

Globally, most OPs focus more on the general objective of supporting the creation, development and transfer of businesses than on justifying in detail their reasons for using FEIs.

Most OPs claim that, to support creation, development and transfer of business all types of FEI should be used (debt, guarantee, and equity). This may require strengthening already existing FEIs (e.g.: Basse-Normandie, Languedoc-Roussillon, Midi-Pyrénées) or creating new ones where there are none (e.g.: Auvergne). A dozen OPs contemplate the use of JEREMIE to acquire a coherent range of instruments.

However, about a third of the OPs provide some elements and a few give detailed arguments, concerning the rationale for using FEI. Curiously, three of the regions which have significantly integrated financial engineering in their strategy (see above §2), Corse, Basse-Normandie and Centre, do not develop arguments in favour of FEI in their OP.

First of all, a link is generally established between support to innovation – innovative projects, innovative enterprises – and the need for FEI (e.g.: Picardie⁷, Poitou-Charentes), even if this link is less explicit when OPs address the issue of business transfer. Moreover, a distinction can be made between what the OPs identify as structural problems encountered by SMEs and what they identify as market gaps. Structural problems concerning SMEs are identified as the lack or insufficiency of equity and working capital. The lack or insufficiency of equity is considered a main cause of failure of young innovative enterprises and a major barrier to creation (e.g.: Lorraine). It is also often presented (e.g.: Rhône-Alpes) as one of the reasons why French SMEs (in particular innovative ones) find it difficult to grow and turn into bigger companies (French ETI or German *Mittelstand*)⁸.

Market gaps explicitly identified by the OPs:

- risk capital in relation to the creation of innovative enterprises, in particular in the early stages (proof of concept, seed, or gap between ‘love money’ and ‘classical’ VC): ‘time to market’ has to be taken into account;

⁶ Interview with ARF (Pascal Gruselle and Erwan Salmon), April 2012. See: Avis sur les propositions de la Commission Européenne relatives à la future politique de cohésion, 16 Dec. 2011, p. 4.

⁷ In OP Picardie, specific attention is paid to R&D projects coming from the pôles de compétitivité (innovation-driven clusters).

⁸ This is also stressed in the Livre Blanc du capital investissement (AFIC, April 2012).

- general aversion to risk in the banking system;
- sometimes (Languedoc-Roussillon, Auvergne): equity investment (2nd and 3rd rounds of fund investment);
- the OP Ile de France uses a highly technical approach in the development stage: improved exit conditions for business angels (as seed investors) when a 'classical' VC fund invests in the first development stage of a company (in order to prevent the 'dilution' of the shares of early investors).

All Objective 1 regions mention the lack of equity and the difficult access of SMEs (in general and innovative ones in particular) to 'classical' bank loans.

Not surprisingly, the Auvergne and Languedoc-Roussillon OPs provide the most detailed analysis of market gaps, as the two regions interacted very early with EIF to set up a JEREMIE 'process' and signed an agreement. In its later version, which also includes the JEREMIE dimension, OP Languedoc-Roussillon also mentions the context of crisis and the risk of a credit shortage.

In 2009, all French regions had to carry out regional innovation strategies (*Stratégie régionale d'innovation -SRI*), following a proposal of the European Commission and with the support of the French government. The SRI⁹ diagnosis complained about the inappropriateness of existing FEIs which were unable to support the early stages of innovative projects (proof of concept, 1st funding round) and highlighted a more general need for equity agents¹⁰.

Beside the relatively limited analysis carried out in the OPs, the already cited DATAR survey of the MA (Feb. 2011) indicates that, "in a context of tight national budgets, FEIs are expected to allow for a 'reconstitution' of public funding (recycling or revolving) and to increase their leverage effect, while favouring the development of public-private partnerships focused on 'flagship projects'¹¹ (support to SMEs, urban development, energy efficiency and renewable energies)".

With respect to the different types of FEI, the MAs consider that:

- debt instruments are mainly useful as they have a leverage effect that allows business creators access to 'classical' banking (less for funding the first investment);
- equity instruments are mainly used to support the creation and transfer of innovative businesses (in general through co-investment);
- guarantee instruments are mainly used for business creation and business transfer.

The specialised literature globally confirms the need for seed money in France: the small number of early direct investors is reducing the potential for the creation and profitability of start-ups and spin-offs, and the opportunities of ulterior valorisation of these enterprises¹². The same literature also indicates that there is a demand for addressing the following market gaps¹³:

⁹ Synthèse des stratégies régionales d'innovation des régions françaises, DATAR, janvier 2012.

¹⁰ Interviews with CDC representatives.

¹¹ Projets structurants.

¹² See the two Notes d'analyse of the Centre d'Analyse Stratégique (Prime Minister Office): "Business Angels et capital-risque en France: les enjeux fiscaux" (Sept. 2011) and « Renforcer l'amorçage » (Feb. 2012).

¹³ AFIC, Note « Venture Loan », AFIC, 2008.

- micro-enterprises encounter difficulties in accessing ‘classical’ banking finance for their development since they cannot offer sufficient collateral (moreover, they cannot ensure the liquidity of equity, which is thus ‘crushed’ during the later rounds of VC (i.e. the problem identified by the OP Ile de France));
- SMEs with a ‘moderate’ rate of growth are not eligible to equity / VC instruments;
- SMEs funded by equity (mainly VC) which want to strengthen their investment capacity are not yet in eligible for bank loans and do not want to further dilute their shareholders’ shares.

If the first market gap is well identified and generally addressed by the existing instruments in the French regions, the others may require more sophisticated instruments, such as “venture loans” (quasi-equity) which are sufficiently developed.

To conclude this chapter, it is interesting to observe the use of FEIs in the ‘poles of competitiveness’ (innovation-driven clusters)¹⁴. There is a growing awareness, among the poles, of the necessity to market the innovations coming from the poles more effectively and efficiently. Accordingly, growing attention is being paid to the role that FEI can play in this process¹⁵. There are some examples of very positive actions, e.g. the pole Arve Industries (metal cutting, mechanical engineering, mechatronics) which, to the benefit of their member-SMEs, have developed a wide range of FEI including soft loans, quasi-equity and a specific equity fund (Arve Industries Capital)¹⁶.

3. The effectiveness of financial engineering instruments: selected examples

The monitoring of the FEI interventions and the follow up of the end beneficiaries – businesses – have so far been poorly organised, even according DATAR. However, there is a real concern among regional authorities on how to improve the organisation of this follow up and assess the use of ERDF funding in FEI in coherence with the OP objectives. Currently, most agreements between the MA and the financial intermediaries (operators) only require an annual implementation report (amount of funding spent or invested, type of beneficiary businesses).

One thing is certain: funds supported by ERDF already existed before 2007, but most of the 2009 SRI emphasized the need to develop FEI further, in particular equity / seed, which seems to demonstrate that the effectiveness of these instruments was limited or partial.

Two examples of implementation of FEI have been selected: the first one is in one of the 3 regions which have set up a JEREMIE holding fund, Languedoc-Roussillon, and the other in a region which has not, but is very active in the field of FEI.

Languedoc-Roussillon

Languedoc-Roussillon started to develop a policy in favour of FEI (instead of grants) in 2004 and was prepared to make a specific effort in the field of equity.

The JEREMIE mechanism, with a total of EUR 30 million (EUR 15 million ERDF, EUR 15 million Region) is developing in 3 strands:

¹⁴ Evaluation of the national policy of the *Pôles de compétitivité*, BearingPoint/Technopolis ITD/Erbyn: work in progress (Report due by the end of May 2012).

¹⁵ 9^{ème} Carrefour Européen des clusters, Nantes, November 2011.

¹⁶ www.arve-industries.fr

- Seed money through soft loans (*prêts d'honneur*)
- VC
- Guarantee of bank loans for supporting the development of 'growth enterprises'

The governance system is based on a steering committee State-Region. JEREMIE is managed by EIF. The Region preferred EIF to CDC, because EIF is external to the region and helped with the setting up JEREMIE from the very beginning (the regional authorities were of the opinion that CDC's involvement in these types of operations did not make it sufficiently 'unbiased').

After calls for expressions of interest, *prêts d'honneur* are managed by the local branch of *France Initiative Réseau*, a non-profit organisation specialised in this category of FEI, venture capital is managed by the SAS JEREMIE with the regional investment fund SORIDEC as financial intermediary, and guarantee by a regional bank, *Banque Populaire du Sud*.

Seed money supports new entrepreneurs already supported by an incubation organisation (average loans go from EUR 60,000 to a maximum of EUR 100,000). VC is focused on the first round of equity investment (the potential beneficiary enterprises are generally well known to the regional Department for Enterprise Development). Guarantee is a portfolio guarantee (vs. guarantees of individual loans) focused on enterprises operating in sectors that are considered priority sectors by the regional authorities; it is clearly aimed at addressing a market gap; the guarantees cover a portfolio of loans ranging from EUR 25,000 to 1.5 million and are subjected to the *de minimis* rule.

At May 2012, more than 25% of the allocated funds have been spent with respect to *prêts d'honneur* and VC. With respect to guarantee, only 15% of the funds have been delivered to *Banque Populaire du Sud*, since the agreement on guarantee was the last to be signed (Sept. 2011).

Languedoc-Roussillon regional authorities are on the whole satisfied. They hope to develop new innovative FEIs in the future, in particular in the field of 'social innovation' (e.g.: to benefit the ageing population), and to address the needs of enterprises in terms of working capital (*BFR: besoins de fonds de roulement*) following Basel III regulations and their expected impact on bank loans. They consider 'territorial embedment' as the main advantage of the JEREMIE mechanism they have set up, since they have preferred to select locally based financial intermediaries (instead of nationwide or international funds).

However, they point out that they had to deal with two different cultures, their own oriented to regional development and that of the EIF. They also emphasise some possible future difficulties with respect to the lifecycle of funds, reporting, and *ex post* evaluations.

Centre

The regional authorities want FEIs which address market gaps in the sphere of business transfers and LBOs, the lack or insufficiency of equity in businesses – in particular in their starting phase – to ensure growth. At the same time, they are convinced that the availability of FEIs at regional level is a key for maintaining mid-size enterprises (ETI) in the area.

As a consequence, Region Centre has set up the following FEIs with ERDF support:

- Soft loans / *prêts d'honneur* relying on financial intermediaries such as France Initiative Réseau, *Plateforme d'initiative locale*, etc., with a maximum of EUR 10,000; they are

currently thinking of setting up a partnership with CDC and raising the maximum for business transfers to EUR 30,000;

- Guarantee of loans up to EUR 1.3 million for a maximum of 70% for new entrepreneurs (creation or transfer of businesses); OSEO is the financial intermediary nominated following an agreement with the Region within the framework of the *Fonds de garantie regional*.

For soft loans, the ERDF contribution has resulted in a larger number of *prêts d'honneur* and in the future it is expected to facilitate business transfers with a significant leverage effect. For guarantee, it has allowed to increase the guaranteed part of loans with a leverage effect and to support loans that OSEO Garantie alone would not have guaranteed (deemed as too risky).

However, Region Centre has given up the idea of using ERDF as an equity instrument due to the absence of clear rules and legal security, which stopped private financial intermediaries from managing an ERDF supported fund. Another reason was related to the lifecycle of the fund (i.e. if exits should be within the current programming period).

Nevertheless, Region Centre has a regional seed-capital fund managed by SOFIMAC (an interregional equity fund) and funded by CDC, private funding, and the Region itself).

4. Main problems in using financial engineering instruments

The development of FEIs has been hindered by a series of technical and legal difficulties linked to the complexity of setting up these instruments and to the uncertainty of applicable regulations. The best example is JEREMIE: as already indicated, 12 regions considered using it as part of their OPs, but in the end only three set up a JEREMIE fund, Languedoc-Roussillon, PACA and Auvergne; no French region has developed a JESSICA instrument. The ARF specifically mentioned the difficulties encountered by regional authorities in setting up and managing JEREMIE¹⁷.

The 2011 DATAR survey of MA indicates the following barriers or difficulties:

- Legal difficulties (linked to the understanding of regulations):
 - Absence of a legal framework applicable to FEI at the beginning of the programming period – e.g.: uncertainties regarding JEREMIE regulations, rules of eligibility, and costs in case of default of a financial intermediary; no official French document specifying the conditions of intervention in FEIs.
 - Difficulties in understanding the applicable regulations – e.g.: definition of 'business transfer' (*reprise/transmission d'activité*); eligible expenses with respect to guarantee at the closing of the OP etc.
 - Compatibility between national and EU regulations, on the one hand, and the rules and practices of fund managers, on the other – e.g.: gap between the duration of the programming period and the fund lifecycle; length of fund investment which may last beyond the end of the programming period; difficulties of organisations managing the funds in justifying managing costs, in particular human resources costs (man days or hours).

¹⁷ Avis sur les propositions de la Commission Européenne relatives à la future politique de cohésion, 16 Dec. 2011, p. 4.

- Technical difficulties: although all regions signal difficulties at every stage, technical difficulties are mainly concentrated on the preparation/setting up and closing stages, especially the justification of expenses in the latter.

Most regions and MA emphasise that help in tackling the legal and technical difficulties was neither sufficient nor adequate. As a result, there is a demand for technical assistance in the next programming period:

- a demand for general assistance concerning FEIs: types of instruments (including basic issues such as how a fund operates), applicable regulations (including the application of State aid rules);
- more specific demands regarding the key stages of the setting up of a FEI such as: implementing calls for expressions of interest; setting up the fund managing company; elaborating the ERDF agreement, and the legal and regulatory aspects of the use of ERDF in FEI (revolving, closing of funds); eligible expenses.

5. Evaluations of financial engineering instruments

Currently there is no evaluation of FEIs. The evaluations of the OPs 2000-2006, and mid-term evaluations of the OPs 2007-2013 really did not address the topic of FEIs, which has so far been treated as a minor issue in the evaluation process of ERDF OPs.

The only “evaluation” that has been implemented – if it can be considered as an evaluation – is the 2011 survey carried out by DATAR which does not focus on benefits and results achieved, but, as already explained, on the difficulties and barriers encountered in setting up FEI in the 2007-2013 programming period.

6. Concluding remarks

FEIs were operating before the programming period 2007-2013, and ERDF used to fund them, mainly through agreements between OSEO and Regions. However, the perspective opened by JEREMIE has clearly aroused renewed and considerable interest among the French regions, which is reflected in the 2007-2013 OPs.

However, the difficulties identified in using ERDF for funding FEIs, of whatever type, is encouraging DATAR to consider ways and means for facilitating the use of FEIs in the next programming period:

- drafting a circular on FEIs to clarify: the link between national and EU regulations; rules for selecting and contracting operators.
- drafting a practical guide for setting up and managing FEIs;
- providing technical assistance and training through: a national network of experts coordinated by DATAR and a ‘legal platform’ allowing for the exchange of information; access to specialised consultancy services (funded by ERDF allowances for technical assistance);
- organising training sessions for MA, thematic working groups, and training seminars (practical case studies).

DATAR is also contemplating specific *ex ante* evaluations focused on FEIs. The CDC Group is ready to embrace ERDF supported FEIs as soon as a secure legal and regulatory framework is adopted.

ARF emphasises the need to simplify the conception, approval and use of FEIs, and in particular of JEREMIE¹⁸.

¹⁸ Avis sur les propositions de la Commission Européenne relatives à la future politique de Cohesion, 16 Dec. 2011, p. 4.

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- Gisèle Crousier, Région Languedoc-Roussillon, Directrice adjointe, Développement des Entreprises
- Jean-François Forte, CDC, Contrôle de certification
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- Pascal Gruselle, ARF
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