



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

Task 1: Financial engineering

Slovenia

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Directorate-General Regional Policy**

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List of abbreviations

- EEN Expert Evaluation Network
- EIF European Investment Fund
- FEI Financial Engineering Instrument
- NSRF National Strategic Reference Framework
- OP Operational Programme
- OP SRDP Operational Programme Strengthening Regional Development Potentials
- PAEFI Public Agency for Promotion of Entrepreneurship and Foreign
Investment
- PFEI Programme on financial engineering instruments
- PVCCs Private venture capital companies
- SEF Slovene Enterprise Fund
- SID Bank Slovenian Export and Development Bank Inc.
- VC Venture capital

Executive summary

Slovenia started to use the Financial Engineering Instruments (FEIs) in the period 2004-2006 (activity Provision of guarantees for investment credits raised by banks), but amounts spent were very small compared to the FEIs implemented in the period 2007-2013.

Slovene SMEs still face problems when accessing financing for development investments in the earlier setting up stages of an enterprise as well as in the stages of development and growth. This is due to an underdeveloped capital market, lack of venture capital, scarce direct foreign investments, unsuitable banking instruments for early stages and expansion of enterprises, and lack of state subsidies. The situation is worse than in the majority of EU countries.

In the first years (2008, 2009), the Slovenian Enterprise Fund (SEF) offered loan guarantees with interest rate subsidies and non-repayable grants (non-repayable grants for investment in new technical equipment for SMEs), but a significant change occurred in 2010 when the majority of grants targeted to SMEs were replaced by FEIs.

Two FEIs have been implemented in the period 2007-2013: loan guarantees with interest rate subsidies and capital investment to Private Venture Capital Companies (PVCCs) operating in Slovenia. Both FEIs have been implemented by the Slovene Enterprise Fund (SEF). They are targeted to SMEs and with EUR 111 million represent 6.5% of all Operational Programme Strengthening Regional Development Potentials (OP SRDP) and 5.7% of all ERDF resources.

A guarantee fund for bank loans with interest rate subsidies has been implemented successfully and no major problems in implementation have been identified. 910 applications for long-term loan guarantees were approved to the amount of EUR 158 million until the May 2012.

In 2009, the Programme on Financial Engineering Instruments (PFEI – PIFI in Slovenian) for micro, small and medium-sized companies for the period 2009-2013 was approved. SEF took on the role of a holding fund, and including equity financing instruments (venture capital) and debt financing instruments (guarantees, guarantees with subsidized interest rates, loans and mezzanine capital). Guarantee fund for bank loans with interest rate subsidies (Product P1) became part of the PFEI.

Seven venture capital companies were supported until the end of 2011. There are still uncertainties in the legal, administrative and tax spheres at national as well as EU level. Equity financing is facing various problems in implementation, including lack of institutional investors, negative impacts of the financial crisis (lack of private funds), lack of experience in managing PVCCs and lack of exit possibilities. The cooperation between the public and private sector is not always sound due to insufficient knowledge concerning venture capital on the public side, extensive reporting and expectations of positive effects in the short term. VC takes a relative long time to select projects (due diligence), therefore the final assessment need to be postponed until the end of the instrument (August 2015) and significant effects in the short term should not be expected.

The implementation of FEIs supported by ERDF has been positive in Slovenia due to the high demand for loan guarantees with interest rate subsidy, efficient implementation and development of the venture capital market. Consequently, we propose to strengthen the use of FEIs in the next programming period (continuation of existing FEIs) adding additional FEIs such

as Loan Guarantees for Technological Projects. The combination of different funds (ERDF, ESF) and different forms of support (loans and non-repayable grants) could improve the effectiveness of Cohesion policy interventions; however the administrative burden accompanying such combination should be kept to a minimum.

1. Use of financial engineering instruments

“In relative terms, support for entrepreneurship in Slovenia, especially SMEs, is one of the highest among the Member States, and stands at 17.6% of Fund allocations for Slovenia (or EUR 722 million)¹, but the use of non-refundable grants still prevails.

Slovenia started to use the FEIs in the period 2004-2006 as part of Measure 1.3. “Improving the support environment for entrepreneurship”², but amounts spent were very small compared to the FEIs implemented for the period 2007-2013, when Cohesion policy allocations to Slovenia have increased significantly. FEIs are part of the OP SRDP co-financed by ERDF (OP SRDP - Priority axis “Encouraging competitive potential of enterprises and research excellence: Intervention Promotion of entrepreneurship”). The measures are targeted to SMEs and include FEIs and non-repayable grants for investment in new technical equipment. Promotion of entrepreneurship measures are implemented by the SEF³ and with EUR 167 million represent 10.2% of the total OP SRDP and 9.8% of the total ERDF resources. Only two FEIs have been implemented: loan guarantees with interest rate subsidies and capital investment to private venture capital companies (hereinafter: PVCCs) operating in Slovenia. Since October 2009 both FEIs are part of the Programme of Financial Engineering Instruments for SMEs’ (PFEI). They are targeted to SMEs and with approximately EUR 111 million represent 6.5% of total OP SRDP and 5.7% of total ERDF resources. In the first years (2008, 2009) SEF offered non-repayable grants (non-repayable grants for investment in new technical equipment for SMEs) and loan guarantees with interest rate subsidies. The main goals of non-repayable grants for investment in new technical equipment for SMEs were: technological restructuring and modernisation of SMEs, growth of value added per employee, and increase in the number of employees. SMEs were usually not innovative in the past and innovation support was usually focused on large companies and research organisations. More than 550 projects were awarded in the years 2008 and 2009 and almost EUR 84 million were allocated⁴. A significant change occurred in 2010 when the majority of grants targeted to SMEs were replaced by FEIs.

2. Rationale for using financial engineering instruments

Micro, small and medium-sized enterprises represent the core of a successful economy in Slovenia and are a very important factor in its growth. SMEs still face problems when accessing financing for development investments in the early stages of the life cycle of enterprises as well as in the stages of development and growth. The reasons for this are: an underdeveloped capital market, in particular a lack of Venture Capital (VC), limited direct foreign investments, unsuitable banking instruments to support the setting up and growth of enterprises, and lack of state subsidies. Therefore, during the preparation of National Strategic Reference Framework (NSRF) and OP SRDP the Slovene Government decided that a part of the Cohesion policy funds

¹http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/negotiation/country_sl_en.pdf

² Single Programming Document Slovenia 2004-2006. Ljubljana: Government Office for Local Self-government and Regional Policy, 2003.

³ http://www.podjetniskisklad.si/index.php?option=com_content&view=article&id=81&Itemid=104

⁴ Expert Evaluation Network delivering Policy Analysis on the Performance of Cohesion Policy 2007-2013: Task 1: Policy Paper on Innovation. Ljubljana: Institute for Economic Research, 2010. p. 9.

in Slovenia should be allocated to support investments of SMEs by means of different financing sources such as VC funds, debt sources and grants⁵.

The financial and economic crisis was reflected in the slow growth of SMEs and in the low number of innovative and high-tech companies in Slovenia. The main problem of high-tech companies is access to finance⁶. The situation is worse than in the majority of EU countries. "Access to finance is the second most pressing problem facing EU SMEs, after finding customers. It is cited by around one in seven business managers (alongside competition) and it is the most pressing problem in Greece (mentioned by 30%), Slovenia and Estonia"⁷.

The most important resource for investments of SMEs in Slovenia is still debt finance, most frequently in the form of bank loans. In 1990s Slovene banks had limited capacities to support SMEs with an appropriate supply of capital and in the absence of stronger equity financing SMEs mostly criticise different aspects of bank credits, including: the high price for bank loans, difficulties with guarantees, and cumbersome procedures not really adapted to SMEs⁸. The situation has improved in the last ten years, but banks require high collateralisation due to the current economic and financial crisis. For this reason and the severe system of credit rating scores, bank loans remain inappropriate and inaccessible for SMEs. "SME interest rates declined from 6.7% (2008) to 6% (2010), but the interest rate spread for SMEs and large enterprises grew. Large enterprises enjoyed better credit terms"⁹. The situation is still deteriorating and there is a mismatch between supply-for-funds and demand-for-funds (SME financing gap).

In the context of the JEREMIE initiative, in 2008 the European Investment Fund (hereafter: EIF) carried out a draft evaluation on the access to finance for micro, small and medium-sized enterprises in Slovenia, which are critical for growth and employment in Europe. It has identified major gaps between potential demand in the coming years and existing supply of main financial instruments facilitating access to finance for SMEs; these gaps hamper their creation and development. EIF has identified major market failures in access to finance for SMEs in Slovenia justifying the use of public support measures according to EU State Aid rules¹⁰:

- Low provision of micro finance;
- Low provision of SME domestic credit and guarantee activities for further growth and expansion;
- Low VC activities compared to GDP and other Central European EU MS;
- Low existence of business angel networks.

Therefore, the Slovene Government decided to coordinate SME oriented financial measures in order to provide financial resources for enterprises in the seed and start-up stage, where

⁵ OP Strengthening Regional Development Potentials. Ljubljana: Government Office for Local Self-government and Regional Policy, 2007, p. 68.

⁶ Raškovič Matevž, Pustovrh Aleš: Analiza stanja in potreb visokotehnoških podjetij v Sloveniji, 10/2010 - anketa slovenskih visokotehnoških podjetij. Ljubljana: COBIK, 2010. p. 3.

⁷ SMEs' Access to Finance: Survey 2011. Brussels: European Commission, 2011. p. 6.

⁸ Vadnjal Jaka, Letonja Marina: Commercial Banks and SMEs: Case of Slovenia. Ljubljana: GEA College of Entrepreneurship, 2003, p. 203.

⁹ Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard, 2012, p. 127.

¹⁰ Executive Summaries of Evaluations Studies on SME Access to Finance in EU Member States/Regions carried out by EIF in the Context of the JEREMIE: Initiative from 2006 to 2008. EIF, 2009, p. 93.

Slovenia has a considerable deficit¹¹. While the existing measures for financing the start-up and initial running of businesses with grants have proved effective, it is now essential to strengthen the instruments that will stimulate financial institutions and private organizations to invest in seed capital. Access to equity financing is especially important¹². In 2009, the PFEI for micro, small and medium-sized companies for the period 2009-2013 was approved for a total value of EUR 35 million. However, due to the high interest expressed by SMEs these funds were increased by EUR 13.8 million in 2010 and by EUR 7.7 million in 2011. SEF took on the role of a holding fund, including equity financing instruments (VC) and debt financing instruments (guarantees, guarantees with subsidized interest rates, loans and mezzanine capital). Equity financing instruments invest in promising, innovative and fast-growing SMEs. In a later phase, VC intermediaries will also provide support with mezzanine capital.

The advantages of the holding fund model are:

- Reduction of the financial gap for SMEs (there is lack of equity financing and specialized debt financing for fast-growing SMEs),
- Financial support through qualified financial intermediaries,
- Multiplication of public funds,
- Development of VC market,
- Support of larger projects and investments (due to the combination of different resources),
- Orientation towards innovative enterprises,
- Expected positive results of supported SMEs (high value added, new jobs).

Due to the significant development gaps identified in strategic documents, spill-over effects in particular policy areas (innovation support, efficient use of energy, tourism) and the negative effects of the economic crisis (decreasing investments, decreasing business R&D expenditures, credit crunch) non-refundable grants were used until 2010. Non-refundable grants were used especially in support of R&D projects. The evaluation of publicly supported business R&D projects in the years 2005-2007¹³ has concluded that for every euro publicly supported companies increased their income by EUR 6.7 and their value added by EUR 3.9. Nevertheless, in recent years more innovative approaches have been used to support cooperation between public R&D institutions, universities and the business sector, and to focus on technological priorities (centres of excellence, competitiveness centres, development centres of the Slovene economy).

Due to the lack of public funds (cuts in public finances, most OP SRDP funds had been committed in the years 2007-2010¹⁴) the use of FEIs has increased. These instruments allow a multiplication and a revolving of public funds and attract private finance. According to the opinion of respondents, the relative costs involved in using FEIs are comparable to the costs of

¹¹ Slovenian exit strategy 2010-2013. Ljubljana: Government of the Republic of Slovenia, 2010. p. 20.

¹² Slovenian national reform programme 2011-2012. Ljubljana: Government Office for Development and European Affairs, 2011, p. 31.

¹³ Bučar Maja et al.: Učinkovitost ukrepov Ministrstva za visoko šolstvo, znanost in tehnologijo za spodbujanje inovacij in tehnološkega razvoja v slovenskih podjetjih v letih 2005-2007, 2010.

¹⁴ According to the data available at the end of 2010, financial absorption of the OP 'Strengthening Regional Development Potentials' was even better than originally planned.

using non-refundable grants (little evidence), however it is important to distinguish between different types of FEIs.

Apart from SEF, other public financial institutions offer products for financing operations, investments, exports and development activities of enterprises: the Slovenian Export and Development Bank Inc. (SID Bank), the Eco Fund – Slovenian Environmental Public Fund, the Housing Fund of the Republic of Slovenia and the Slovenian Regional Development Fund.

3. The effectiveness of financial engineering instruments: selected examples

FEIs have been implemented in Slovenia without focusing on a particular sector. There are only two FEIs available, co-financed by ERDF in the period 2007-2013 and implemented by the SEF:

- 1) The guarantee fund for bank loans with interest rate subsidies implemented in the period 2009-2010. The value of the operation amounted to EUR 66.2 million, that of the guarantee fund to EUR 42.6 million and for interest rate subsidies to EUR 24.2 million (EUR 5.6 million from the ERDF, the rest from the national budget). Since 2011 a Guarantee fund for bank loans with interest rate subsidy has been implemented as part of PFEI 2009 – 2013.
- 2) The programme of FEIs for SMEs in the Republic of Slovenia 2009 – 2013 (PFEI). Value of the operation: EUR 48.8 million.

The Slovene Enterprise Fund is a central public financial institution of the Republic of Slovenia set up to improve access to finance during different stages of the life cycle of micro enterprises and SMEs. SEF also cooperates closely with other domestic and international financial institutions, such as commercial banks, the SID Bank, the European Investment Fund and the European Mutual Guarantee Association. The Slovene Government plays a decisive role in the supervisory board, approves all strategic documents of the SEF, and approves the nomination of the director of the SEF. Therefore, the Managing Authority and Intermediate Body have direct/indirect overview/influence over the way the funds set up by financial engineering means are allocated and over the firms or organisations which receive support.

The modus operandi and the objectives of FEIs that are part of Cohesion policy and those operated on a private level are difficult to compare as both instruments are different:

- The FEI Guarantee fund for bank loans with interest rate subsidies is implemented in close cooperation with business banks. Nevertheless, the SEF is trying to achieve broader objectives than business banks (credit additionality, technology and knowledge spill over, increases in value added per employee and employment).
- In the case of PFEI 2009 – 2013, commercial criteria are used. Selected PVCCs are in charge of further investing the funds in SMEs potentially suitable for equity forms of financing.

Guarantee fund for bank loans with subsidy of interest rate

Guarantee fund for bank loans with interest rate subsidies (Product P1) was implemented in the years 2009-2010 when four public tenders were announced. 910 applications for long-term loan guarantees were approved to the amount of EUR 158 million until the May 2012. The aims of the instrument were to encourage enterprises to implement operations enabling their competitive launch on the market, the improvement of their market position, the expansion of

their activity, and the improvement of their current assets in today's difficult economic context. The Fund's guarantee provides a further opportunity to take out loans for those enterprises that have insufficient guarantees to collateralize a bank loan, or for enterprises wishing to release a part of their guarantees for a new investment cycle. Advantages of the loan are the lower interest rate, loan maturity, and the possibility of a grace period in loan repayment. The instrument was implemented in the following steps: first SEF provided a guarantee to the commercial bank when approving a loan to SMEs, and in the second phase it subsidized the interest rate of that particular loan. The enterprise first applied with its investment project to the commercial bank and if the financing was approved, it submitted the application to the SEF for a guarantee and an interest rate subsidy. The end effect of the measure was more affordable financing of investment projects for SMEs. Assessment of applications is based on quantitative criteria (such as the number of new jobs created, the increase in value added per employee, export orientation, and other) and qualitative criteria based on the business plan and the capacity of the applicant to carry out his project considering qualitative factors, such as his/her qualifications, experience, skills and reputation among others.

SEF offered:

- 1) Guarantees for bank loans intended for financing development & expansion investments.
- 2) Micro guarantees were intended as collateral for bank loans for working capital. The main aim was to solve minor liquidity problems and ensure smooth current operations in SMEs.
- 3) Guarantees for loans targeted to businesses no older than 42 months. The main aim was to promote the growth and development of new enterprises.

Table 1: Product P1: description

	Guarantees for New Business	Micro - Guarantees	Development Guarantees
Purpose of investments (eligible costs without VAT)	<ul style="list-style-type: none"> • Tangible investment costs, • Intangible investment costs, • Working capital. 	Working capital	<ul style="list-style-type: none"> • Tangible investment costs, • Intangible investment costs, • Working capital.
Beneficiaries	Micro, small and medium-sized enterprises, registered less than 42 months, and having paid out salaries for at least 4 months.	Micro, small and medium-sized enterprises.	Micro, small and medium-sized enterprises.
Maximum loan amount	EUR 1.5 million, of which max. amount of loan for working capital financing equals EUR 0.2 million.	EUR 0.2 million.	EUR 1.5 million, of which max. amount of loan for working capital financing equals EUR 0.2 million.
Interest rate on the bank loan	6-month EURIBOR + 0.5% ¹⁵ .	6-month EURIBOR + 0.5%.	6-month EURIBOR + 0.5%.

¹⁵ SEF is subsidizing the difference between the market interest rate and the interest rate defined in the public tender.

	Guarantees for New Business	Micro - Guarantees	Development Guarantees
Guarantee amount	Guarantees amounting to 80% of the loan principal without interest shall be approved for eligible costs of investments related to the purchasing of new technological equipment, and for enterprises with the status of a new enterprise.	Guarantee amounting to 60% of loan principal without interest.	<ul style="list-style-type: none"> Guarantees amounting to 80% of the loan principal without interest shall be approved for eligible investment costs related to the purchasing of new technological equipment. Guarantees amounting to 60% of the loan principal without interest shall be approved for all other eligible costs.
Repayment period	<ul style="list-style-type: none"> Repayment period for a loan intended 100% for working capital shall be 1.5 to 3 years, Repayment period for a loan intended for financing operations fully or partially without working capital shall be 1.5 to 10 years. 	Repayment period for a loan intended 100% for working capital shall be 1.5 to 3 years.	Repayment period for a loan intended for financing operations fully or partially without working capital shall be 1.5 to 10 years.
Insurance	<ul style="list-style-type: none"> Insurance of credit is carried out by the bank in compliance with its contract terms 		

Source: *Financial Encouragements 2010-2013*.

Performance of Product P1 is assessed according to the following indicators.

Table 2: Effects of intervention

Indicator		2015 target
Number of supported projects for SMEs	Output	730
Investment induced – cumulative (EUR million)	Result	250
Number of gross jobs created	Result	150
Increase in value added per employee in companies receiving financial support (at least 24 months after project completion at the end of the financial year compared to the 31. December of the year of the project start)	Impact	3%

Indicators proposed are in line with other EU countries. Total number of approved applications was 910 until the May 2012. Pro forma investment value of the approved projects amounted almost EUR 390 million, the amount of loans approved was EUR 250 million and the amount of approved guarantees stood at EUR 158 million. The values of indicators will be available by the closure of the programme (2015). Nevertheless, the economic crisis influenced the behaviour of the business sector, especially as regards the number of gross jobs created and increase in value added.

Since October 2009 Guarantee fund for bank loans with interest rate subsidies (Product P1) is part of the Programme of Financial Engineering Instruments for SMEs' (PFEI).

Programme of financial engineering instruments for SMEs in the Republic of Slovenia 2009 – 2013 (PFEI)

The Programme of Financial Engineering Instruments for SMEs' was introduced in October 2009, updated in April 2010, and is still ongoing. The aim of the PFEI is to reduce the financial gap for SMEs and offer debt financing (through guarantees, counter-guarantees and credits) and equity financing (by supporting VC companies to invest in innovative and high-growth companies), all managed through a holding fund (SEF). Since 2010, some of the guarantees, that had already been used as measures before, have been implemented under the PFEI. By offering a complete range of financial instruments (debt and equity financing), more efficient support can be provided to SMEs seeking funds for investment projects (compared to the previous grant system), thereby encouraging their investments and subsequent growth of value added. Supporting the establishment of VC companies is expected to lead to the development of the VC market.

The aim of the PFEI is to reduce the financial gap for SMEs and includes equity and debt financial instruments managed through a holding fund. The holding fund supports VC companies to invest in promising, innovative and high-growth companies by matching their funds. Two more public tenders for guarantees for bank loans with interest rate subsidies were announced in 2011 (20 applications approved) and 2012 (public tender is still open). The debt financing instruments are implemented in accordance with the Programme of Measures for Promoting Entrepreneurship and Competitiveness for the period 2007-2013 – de minimis (notification number M002-5715334-2007/1) is the reference framework for these instruments.

Based on PFEI, a public tender for capital investments by the Republic of Slovenia in private VC companies was published in 2010. The purpose of the public tender was to develop the VC market in Slovenia and to promote equity investments in micro, small and medium-sized enterprises in the form of VC and mezzanine capital. In this respect, through the SEF, the Republic of Slovenia is trying to increase the number of PVCCs and accelerate the development of SMEs with high-growth potential as well as to achieve a multiplication effect of public resources. The public tender was open to PVCCs that are registered in the Republic of Slovenia and have PVCC status in accordance with the Act on VC companies (Official gazette of the Republic of Slovenia, number 92/07 and 57/09). The maximum capital share of the Republic of Slovenia in PVCCs (share capital and subsequent contributions) is max 49% while 51% should be provided by private investors. The minimum contribution of the Republic of Slovenia to PVCCs is EUR 1 million. Selected PVCCs shall invest at least 70% of their assets in the form of VC investment and mezzanine investments in the target SMEs that are registered in the Republic of Slovenia and max 30% in the target SMEs that are registered outside of the Republic of Slovenia.

Seven VC companies were supported until the end of 2011 (EUR 33.9 million of public funds, which, together with matched private funds, amounted to more than EUR 69 million). The measure to support VC companies through the holding fund has led to an increase in the number of VC companies from one to seven, and, at end of 2011, VC and mezzanine capital were invested in 8 SMEs. Investments are planned in 59 SMEs.

One VPVCC (Sklad poslovnih angelov), the smallest one focused on seed financing, announced liquidation in March 2012.

Performance of equity financing is assessed according to the following indicators.

Table 3: Effects of intervention

Indicator		2009-2015 target
Number of new jobs created in supported companies	Result	9 per company at the exit from investment
Average increase in value added per employee	Impact	8-10%
Number of supported companies	Impact	1 company / EUR 1 million of equity investment

Indicators proposed are in line with those in other EU countries. Due to the early stage of implementation, there is no data available on FEI achievements.

4. Main problems in using financial engineering instruments

Guarantee fund for bank loans with subsidy of interest rate

Established in 1992, the SEF has a long history of providing access to finance for SMEs, including credit guarantees and interest rate subsidies. Provision of guarantees for investment credits raised by banks was part of SPD RS 2004-2006. Therefore, experiences of using a FEI Guarantee fund for bank loans with interest rate subsidies are positive and no major problems in implementation were identified.

Equity financing

Slovenia has no tradition of VC investments and therefore the VC market in Slovenia is underdeveloped¹⁶. It took a long time to develop the instrument. There are still uncertainties in the legal, administrative and tax spheres, at national as well as EU level. Therefore, equity financing is facing different problems in implementation, including: The implementation problems facing equity financing are:

- Lack of institutional investors.
- Insufficient development of VC companies due to the financial crisis.
- Lack of experience in managing PVCCs.
- Lack of exit possibilities.
- Low cooperation between the public and private sectors because of lack of knowledge on venture capital on the public side, and extensive reporting.
- Expectation of positive effects in the short term.

According to the PVCCs representatives and most of the policy makers, the implementation of the instrument is in general developing in a positive direction. It is important to find a balance between public control and independence of PVCCs managers. As the private sector holds a majority in PVCCs, it is in its interest to invest in good companies.

5. Evaluations of financial engineering instruments

Data on achievements are relatively scarce; nevertheless, some observations on the wider effects of the intervention can be made. Due to the limited evaluation evidence and early stage of implementation of PFEI, the following assessment is based on statistical data, outcomes of the programme, and interviews.

¹⁶ Slovenia: Review of the financial system. Paris: OECD, 2011, p. 28.

Guarantee fund for bank loans with subsidy of interest rate

In 2012 an evaluation of measures for supporting entrepreneurship and competitiveness was published¹⁷. The analysis presents a comprehensive evaluation of the policies in the field of entrepreneurship and competitiveness promotion during the period 2004 to 2009. It provides an overview of economic policy measures' development during this period and organises the measures into five groups: i) support through voucher schemes; (ii) grants for R&D and technology investments; (iii) grants for networking, innovation support and development of human resources; (iv) financial engineering instruments (interest rate subsidies and credit guarantees) as well as (v) promotion of internationalisation of enterprises. The business results within five years before and after receiving a subsidy were evaluated using different methods for all enterprises - recipients of subsidies - in the first four groups.

The focus of the analysis was on the impact of subsidies on business results and the dynamics of growth (both national and international), concentrating particularly on the following indicators: growth of sales, employment growth, value added, productivity, increase in average wages, capital intensity, and export growth and intensity. A statistically robust methodology was developed to evaluate the impacts.

The impacts of subsidies on business results vary from group to group, yet for most measures, the impacts are relatively short-lived, not very significant and appear primarily during the year of subsidy or soon after. The promotion of competitiveness through the analysed measures is thus still in its infancy, since the impact on recipients' business results is relatively weak.

The analysis of financial engineering instruments (interest rate subsidies and credit guarantees) has shown that usually "good" companies were supported, namely those that according to financial indicators were above the Slovene average. We can assume, that due to the SMEs financing gap also "good" SMEs are interested to get public support. Effects were very positive one year after receiving the funds and recipients showed an above-average performance compared to non-recipients in terms of value added (additional EUR 40,000), higher sales (additional EUR 280,000), higher salaries and number of employees (on average additional 2 new employees in 4 years). Nevertheless, the effects were/are very short-lived. Evaluation results are very much in-line with the results of the analysis conducted by SEF which is based on a very good monitoring system.

The financial instruments are becoming increasingly important in Slovenia, especially in the last three years. Due to the negative economic context, they are expected to produce an even greater impact in the future.

Equity financing

While debt financing has been the most important source of European enterprise finance over the past decade, alternative instruments can become a significant factor in providing flexibility and choices that better reflect the needs of enterprises throughout their development. VC is likely to become the most important option for specific knowledge-based and growth-oriented types of SMEs.

¹⁷ Jaklič Andreja et al.: Evalvacija izvajanja politike podjetništva in konkurenčnosti v obdobju 2004-2009 s predlogi novih ukrepov in kazalnikov ter sprememb obstoječih ukrepov in kazalnikov. Ljubljana: Fakulteta za družbene vede. 2012, 249 p.

There is a clear “equity gap” in Slovenia and the establishment of a hybrid VC scheme could have very positive effects, such as the creation and growth of new, high-potential firms. The use of these instruments encourages capacity building through private-public partnerships.

The implementation of the equity financing part of PFEI is at a very early phase, but the instrument could have very positive effects on the VC market in Slovenia and on the performance of supported SMEs. Nevertheless, the interest of SMEs to receive VC investment (8 SMEs supported, 9 SMEs in the pipeline, more than 100 expressed interests) is a good indicator of the appropriateness of the selected instrument (holding fund, hybrid VC companies). VC investment takes a relatively long time to select projects (due diligence), therefore the assessment of the final effect should be postponed until the end of the instrument (August 2015). Detailed evaluation conducted at the end of the instrument may provide recommendations for the future.

6. Concluding remarks

FEIs can play an important role in the achievement of Cohesion policy objectives at national as well as EU level, because they enable public sector resources to be used in a more efficient way by drawing upon commercial practices and actors and by stimulating the participation of private sector capital.

In general, Slovenia’s experience in implementing FEIs supported by ERDF is positive due to the high demand for loan guarantees with interest rate subsidy, efficient implementation and development of the venture capital market. Keeping in mind the effects of the economic crisis (liquidity problems, decreasing incomes), the credit crunch and the negative forecasts for the future (drop in GDP in 2012), debt financing instruments will be very important also in the future. There is excess demand for funding at the moment.

As regards the implementation of the equity financing part of PFEI, due to the early phase of implementation, no effects have been identified until this evaluation, but the instrument already have very positive effects on the VC market in Slovenia and on the performance of supported SMEs (the creation and growth of new, high-potential firms, innovation spill-overs, economic growth, job creation).

We propose to strengthen the use of FEIs in the next programming period (continuation of existing FEIs) adding additional FEIs such as Loan Guarantees for Technological Projects. The combination of different funds (ERDF, ESF) and different forms of support (loans and non-repayable grants) could improve the effectiveness of Cohesion policy interventions; however the administrative burden accompanying such combination should be kept to a minimum.

It should be pointed out that a company’s competitiveness always depends on the combination of enterprise advantages and location advantages. Evaluation of measures for supporting entrepreneurship and competitiveness in the years 2004-2009 have shown that the Slovenian business environment is not fully responsible for the rather small impact of the measures.

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Interviews

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Blaž Kos	Poslovni angeli Slovenije (ex VC company)
PHONE INTERVIEW	
Mateja Tomanič Vidovič Janja Selinšek	Slovene Enterprise Fund (holding fund)

Annex

Annex Figure A: Activities of SEF

