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|  | January 2017 |



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| **Extension of the Investment Plan for Europe****Bpifrance Projects and Proposals** |

More than a year after the European Fund for Strategic Investments (EFSI) was set up, Bpifrance applauds the initial results of the Investment Plan for Europe (IPE), as regards the SME window in particular.

In June 2016, 185 contracts were signed in 26 European countries for a total of €2 billion committed (60% of the Plan’s SME budget); €50 billion of private investment was raised (2/3 of the target of €75 billion) and 141,000 businesses received support[[1]](#footnote-1).

Faced with substantial market demand, in June 2016 the European Commission announced its intention of transferring up to €500 million from the infrastructure window to SME window instruments. Bpifrance warmly welcomes this decision.

The investment plan has produced three main favourable effects in the SME window:

* Faster deployment of existing European guarantee and equity financial instruments, such as InnovFin and COSME – a procedure called “frontloading”;
* Development within the EIB of an attitude of greater readiness to take risks (particularly the introduction of asymmetrical financing plans);
* The preparation of new European risk funding programmes (guarantees for unsecured loans, the equity platform, etc.).

The background situation remains unchanged: the EU is confronted with a cumulative productive investment deficit built up since 2008. So it is essential to face up to the challenges of productivity and quality of investment.

In this respect, Bpifrance is happy about the role given to National Promotional Institutions (NPIs) in implementing the IPE. It is crucial to find ways of making European financing programmes dovetail better with those of national operators.

Of the announced €8 billion of the French contribution to the Juncker Plan (€2.1 billion of it for businesses), Bpifrance has already contributed €1.8 billion in financing and investment[[2]](#footnote-2).

At a time of official discussions on a possible extension of the investment plan beyond 2018, in this note Bpifrance sets out (1) the EFSI projects it has undertaken and (2) some proposals on the future of the IPE.

# projects undertaken

Bpifrance’s delivery process takes three main forms: financing, equity and securitisation.

* **Financing**
	1. **InnovFin SMEG 1 agreement: loans for innovative SMEs and small mid-caps guaranteed by the EIF**

InnovFin agreement: under the agreement signed with the EIF on **12 May 2015**, Bpifrance received a guarantee from the EIF covering a portfolio of **€420 million** in loans to be distributed over two years via two products:

* The Innovation Loan (PI EIF): €320 million 50% guaranteed by the EIF; unsecured loans financing expenditure on intangibles by innovative SMEs and small mid-caps (<500 employees). Financing tickets up to €5 million.
* The Seed Capital Loan (PAI EIF): €100 million 40% guaranteed by the EIF to boost the financial structure of young businesses accessing new equity. Financing tickets of up to €500,000.

In February 2016, eight months after the programme was launched, over 50% of the total financing had been allocated and over 700 businesses had already received the benefit of these loans (target = 1,245 recipient businesses). The programme was fully committed in September 2016.

* 1. **InnovFin SMEG 2 agreement: loans for innovative SMEs and small mid-caps guaranteed by the EIF**

Because of the pace of production, a new guarantee contract with the EIF covering the same products (PI EIF and PAI EIF) for a further portfolio of €420 million was approved by the EIF Board of Directors on 11 April 2016 and was signed in October 2016. Thanks to this new contract, an additional **1,245 SMEs** and small mid-caps should be able to benefit from these two loan programmes, bringing the total number of recipients up to **2,500 businesses.**

**NB:** discussions are ongoing between Bpifrance and EIB for med/long-term loans to innovative mid-caps guaranteed by the EIB, in the framework of InnovFin program.

* 1. **“Creative Industries” SME Loan**

At the beginning of 2017, a new Bpifrance loan is becoming available for SMEs in the creative industries sector, under the wing of the EIF’s new “Cultural and Creative Sector Guarantee Facility” (CCS). The programme has funding of €30 million, with €21 million of it guaranteed by the EIF. The agreement has been approved by the EIF Board and should be signed at the beginning of 2017.

**Please note**: The “EFSI” classification of this project is still uncertain. The CCS guarantee is currently in the pilot phase and will only receive EFSI funding after that.

* **Equity**
	1. **Co-investments with the EIF in French investment funds**
* **Background:** Of the €5 billion in European funding of the Juncker Plan SME window, €2.5 billion were contributed by the EIB to the EIF via an increase in the RCR (Risk Capital Resources) mandate, the main EIF equity mandate. These funds are in particular used for purposes of co-investment with Bpifrance in French venture capital and private equity funds, under the co-investment agreement signed in December 2014.
* **Results**: In 2015, Bpifrance and the EIF jointly invested **€580 million** in seven French investment funds (**€302 million** by Bpifrance and **€277 million** from the EIF out of the RCR mandate).

It should be noted that Bpifrance may also occasionally co-invest alongside the EIB, particularly in funds targeting infrastructure projects in the field of renewable energies, for example the Capenergie 3 fund in July 2015 (€15 million Bpifrance, €50 million EIB).

* 1. **EIB support for the *Société de projets industriels* (SPI) fund**
* **Background**: Formed in 2015 and now with €700 million in PIA programme (French investment in the future initiative) funding, the SPI fund supports new technologies and industries through to the time they go into commercial production. The fund invests as a minority shareholder, matching other funding on identical terms, in tickets of between €10 million and €140 million. The fund has a substantial deal flow, suggesting that it is now too small for market needs.
* **How support is provided**: Management of a parallel fund of €100 million is delegated to Bpifrance, 100% subscribed by the EIB which co-invests alongside the SPI fund.
* **State of progress**: Agreement approved on 12 April 2016 by the EIB Board and signed in August 2016.
* **Securitisation**

**ENSI securitisation platform**

This is a joint initiative between the EIF and the European development banks, launched on 12 July 2016 to stimulate securitisation of SME debts. It is intended to help originator banks wanting to securitise their SME debts to access all the participant development banks (KfW, CDP, BBB, ICO, SPGM, MDB and the EIF) through one single entity, their national development bank or the EIF, by filing a single application. The initiative also makes it possible to have one single due diligence process per transaction, common to all participant banks. Bpifrance is to act as guarantor for French transactions.

# proposals for future developments in the investment plan

## **Modifications to existing programmes**

* Align the EIB and EIF guarantee programmes

The EIB and the EIF manage the InnovFin guarantee programmes for innovative businesses, for mid-caps (>500 employees) and for SMEs and small mid-caps (<500 employees) respectively. The EIB administration rules for pricing guarantees appear excessively complex and intrusive compared to those of the EIF. The pricing arrangements involve sharing margin (cost of risk and remuneration of equity) with financial intermediaries. This model appears less advantageous than the flat rate remuneration model used by the EIF for InnovFin SMEG. It is therefore proposed that EIB practice should be aligned with that of the EIF.

* Extend the types of expenses eligible for the InnovFin programme to include the buy out of private company shares

The InnovFin MCG programme (mid-caps > 500 employees) should accept the purchase of private company shares as an eligible expense, as is the case for the InnovFin SMEG programme for SMEs. Buying out an innovative company certainly entails risks that might act as an obstacle to financing arrangements for passing on the company. A European guarantee would mitigate the risks and encourage banks to lend to acquirers of new businesses. Such a modification to the InnovFin programme could be put in place quickly, since it could be achieved by amending the programme’s terms and conditions.

* Raising the threshold of the COSME programme to €500,000

To extend the scope of the COSME guarantee programme to non-innovative SMEs and to speed up its delivery on the ground, its financing guarantee threshold which is currently restricted to €150,000 per loan per SME could be raised to €500,000. A modification such as this would however require a revision of the legal basis of the programme and therefore an agreement decided upon jointly by the European Parliament and the Council of the EU.

## **Future programmes**

* Additionality principles

The SME/mid-cap window of future IPE programmes should meet the following additionality principles:

## Have a higher risk profile than existing instruments or include new eligibility criteria or expand the scope of existing instruments;

## Act as an incentive for the recipient businesses, for example subsidised interest rates.

* Introduce an ambitious InnovFin programme guaranteeing unsecured loans

As announced by the European Commission and the EIB group, a new InnovFin guarantee programme for unsecured loans should make its appearance by the end of 2016/start of 2017.

This long-awaited programme will help fill a major gap in the market. Businesses often face difficulties in accessing credit to finance their intangible assets and their working capital requirement. An ambitious budget should therefore be proposed for this programme, of a volume equivalent to that of the InnovFin SMEG, which is to say €1 billion in guarantees.

* Give backing to more investment platforms

Investment platforms make it possible to pool the resources of a number of investors, public and private, and therefore produce the greatest leverage effect. They also have the further advantage of encouraging sector or specific theme initiatives.

* Support small technology stocks

The market for small cap stocks, particularly technology stocks, is not very lively since these stocks are subject to often erratic fluctuations, to the detriment of the SMEs present on that market. A more vibrant market would have the added benefit of providing technology companies with a number of alternatives instead of just being bought out by major corporations, often American.

Direct involvement by the EIB group and the NPIs in this area would be clearly contra-cyclical and likely to provide springboards for the development of European technology companies.

* Replicate the IPE in Africa and in developing countries

The financial mechanisms of the Investment Plan for Europe, including InnovFin, COSME, investment platforms and equity funding, have proved they are able to raise private finance, particularly in SMEs, boosting investment. Setting up comparable mechanisms in Africa and developing countries, targeting gaps in local markets and coupled with a strengthening of the capacities of public and private sector players, would maximise the impact of public money allocated to development aid, increase investment in the local economy and help mitigate transitory capital flows.

The European NPIs operating in these markets, such as Bpifrance, the German bank KfW and the Italian bank Cassa Depositi, and the national export support agencies could play a role in this by structuring financing and/or investment vehicles, and could even provide technical support for local financial organisations.

## **Support for businesses**

It is essential that Europe take a more active approach to improving the competitiveness of SMEs. Through the IPE’s European Investment Advisory Hub (EIAH), the EU could set up a financing mechanism to help businesses access advisory services in four fields essential to their growth: strategy; internationalisation; operational efficiency; and the repositioning of their goods and services.

Such a programme could draw inspiration from ‘voucher’ mechanisms for ease of access and fast delivery, via the NPIs. The maximum amount might be €50 thousand per SME, as an interest-free loan or as a grant for the smallest businesses.

This technical support function could also include advice to investors and particularly to the NPIs or private banks; technical support assignments tailored to those banks that want them on how to design their financing programmes.

To conclude, the continuation of the IPE and its effective delivery will depend largely on how it interacts with the NPIs and on their cooperation with the EIB group. The approach taken by the EIB group of almost systematic consultation with NPIs when preparing new programmes is very positive and should continue. Initiatives promoting advice to businesses, if confirmed, would benefit from being decentralised as much as possible to the national level for purposes of efficiency.

1. Sources: EIB [↑](#footnote-ref-1)
2. Financing: total of the portfolio of loans secured by the EIF + direct co-financing alongside the EIB; Investment: total of capital subscribed to funds or businesses [↑](#footnote-ref-2)