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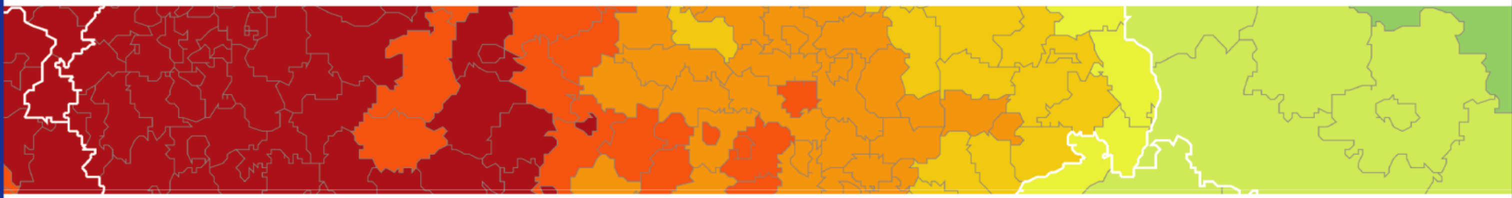

# Financial Instruments and Territorial Cohesion

Lombardy Guarantee Fund – ROP ERDF 2007-2013
Lombardy Region

**Case Study Report**

30/08/2019

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# Financial Instruments and Territorial Cohesion

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# Abbreviations

| | |
|---|---|
| BP | Business Plan |
| EU | European Union |
| FI | Financial Instrument |
| MA | Managing Authority |
| MIL | Made in Lombardy Guarantee Fund |
| NUTS | Nomenclature of Territorial Units for Statistics |
| ROP ERDF 2007-2013 | Regional Operational Programme Objective "Regional Competitiveness and Employment " ERDF 2007-2013. Region of Lombardy. |
| SMEs | Small and medium-sized enterprises |
| SWOT | Strengths, Weaknesses, Opportunities, Threats |

# Abstract

A consequence of the financial and economic crisis was that SMEs found it difficult to access credit. The FI "Made in Lombardy" Guarantee Fund (MIL), co-funded by the ROP ERDF 2007-2013, was set up in October 2008 to improve the overall rating of the credit portfolio of companies and ameliorate the financial conditions to improve access to the capital market, supporting the sectors of greatest economic and regional importance. It was designed for micro companies, SMEs and large companies in the manufacturing sector with operational headquarters in Lombardy. The MA entrusted implementation of the fund to the regional financial agency Finlombarda, which selected the financial intermediary.

An initial €33 million was transferred to the fund, guaranteeing a coverage of €500 million with an expected leverage effect of 15. In terms of coverage, while Finlombarda's financial commitment was €100 million, the financial intermediary assumed a total commitment in the amount of €400 million.

However, the FI was discontinued before the end of the programming period and final OP resources used amounted to €9.6 million. A total of 116 projects (out of which 50 percent were medium-sized enterprises, 29 percent small enterprises and 20 percent large enterprises) benefited from the MIL guarantee fund. The confirmed multiplier effect was 11.5, evidence of the high levels of investment induced. The FI also helped grow the culture of participation in the credit system and improved capacity building for both the enterprises and the MA. In terms of its territorial dimension, the FI's distribution in Lombardy showed a concentration of beneficiaries in those territories where there is greater economic development and, specifically, where the largest number of companies in the manufacturing sector are based.

# 1 Background

## 1.1 Economic and regional context

The region of Lombardy (northern Italy) covers almost 8 percent of the national territory and is divided into 12 provinces and 1,516 municipalities. It has a varied morphology with the presence of flat (about 47.1 percent of the territory), hilly (12.4 percent) and mountainous territories (40.4 percent). With its more than ten million residents (slightly over 10 million as of 1 January 2018), Lombardy is the most populous region in Italy, home to 16.6 percent of the national population.[1]

Lombardy is Italy's most important region in terms of economics, contributing roughly a fifth of the national gross domestic product. The region's GDP per capita in 2016 was €37,000 compared to the Italian average of €28,000. The regional unemployment rate was 6.4 percent in 2017.

Lombardy's economy is characterised by an extensive variety of industries and considerable sub-regional diversity in the economic activities of companies. A total of 36 percent of Lombardy's industrial enterprises are based in the province of Milan. The provinces of Varese, Como, Lecco, Monza and Brianza, and Bergamo have a strong manufacturing sector. Lodi and Brescia are characterised both by manufacturing and agriculture, whereas the agricultural sector dominates in the provinces of Sondrio, Cremona, Pavia and Mantova.

## 1.2 Summary background to the FI

The effects of the economic crisis were first felt in the Lombardy region in 2008 and were aggravated in 2009. Industrial production and exports fell; credit institutions experienced liquidity problems and adopted a more rigorous assessment of risk and stricter credit requirements. Consequently, the financial and economic crisis made it more difficult for businesses, particularly SMEs, to gain access to credit.

The Lombardy region launched a package of actions in October 2008 that were designed to contain the adverse effects of the crisis. The so-called "pachetto anticrisi" was aimed at facilitating access to credit and supporting business investments, particularly those in innovation and research, which were believed to have positive effects on potential competitive businesses and could leverage economic recovery.

[1] National Institute of Statistics (Italy). Accessible at https://www.istat.it/

## 1.3 Scope and objectives of the FI

Among the different interventions proposed by the regional administration, the “Made in Lombardy” Guarantee Fund (MIL), co-funded by the ROP ERDF 2007-2013, was set up.

The mission of this FI was to improve, in an anti-cyclical role, the overall rating of the credit portfolio of companies and ameliorate financial conditions to improve access to the capital market, supporting the sectors of greatest economic and regional importance – interventions aimed at strengthening companies’ technological, productive and financial capacity. MIL was designed for micro companies, SMEs and large companies in the manufacturing sector with operational headquarters in Lombardy.

## 1.4 Operational issues

The regional administration (hereinafter the “MA”) entrusted the implementation of the MIL guarantee fund to the regional financial body Finlombarda, which in due course selected a financial intermediary by means of an open tender. The financial intermediary was expected to implement activities related to the building of the “Made in Lombardy” loan portfolio and to deliver resources in favour of the final recipients.

The MIL guarantee fund, with an initial maximum financial allocation of €35 million, was designed to issue guarantees in the interest of Lombard manufacturing enterprises for newly unsecured loans and hybrid (mezzanine) loans granted by the financial intermediary. The principal amount of a loan varied from €200,000 to 2 million and it covered at least 60 percent of the investment plan. The duration of the loan ranged from 36 months to 10 years. Finally, the guarantee provided risk coverage on a loan-by-loan basis within the limit of 80 percent of the amount granted.

The MIL initiative was accompanied by a grant in the form of voucher. It was intended to support the potential final recipients during the preparation process in order to streamline their investment plans.

## 1.5 Implementation issues

After verifying that conditions for awarding in-house entities were fulfilled, the MA set up the MIL guarantee fund and selected Finlombarda as the fund manager in October 2008. Finlombarda subsequently published a call for tenders aimed at credit entities that could offer adequate territorial presence to undertake the initiative, as well as fulfilling selective technical criteria.

The call for tenders resulted in the selection of the temporary partnership between Banca Nazionale del Lavoro S.p.A. and Artigiancassa S.p.a. in May 2009 as the MIL financial intermediary. The role of the financial intermediary was threefold: a) construction of the "Made in Lombardy" portfolio; b) granting and activating the regional guarantees based on the MIL guarantee fund; c) disinvestment of credit. Ancillary services were also performed, such as the promotion of the MIL initiative and the review of applications (together with the fund manager).

## 1.6 Scale and budget

The MIL guarantee fund was initially set up for a maximum endowment of €35 million. Following the selection procedure of the financial intermediary, €33 million were finally transferred to the fund, guaranteeing a coverage of €500 million, with an expected leverage effect of around 15. In terms of coverage, while Finlombarda's financial commitment was €100 million, the financial intermediary assumed a total commitment in the amount of €400 million.

Throughout the programming period, the endowment of the MIL guarantee fund was subjected to two redeterminations. Consequently, funds amounting to €23 million were released to another Financial Instrument and as a result the certified amount of the MIL guarantee fund was ultimately €9.6 million. The resource distribution was as follows: €3.8 million corresponding to the EU co-funding, with €5.8 million corresponding to national co-funding.

A total of 116 projects benefited from the MIL guarantee fund by the end of the programme. Guarantees amounting to €95 million were granted and committed with respect to a total amount of disbursed loans equal to €111 million, for a confirmed multiplier effect of 11.5.

## 1.7 Existing evaluation results

Regarding the implementation of the MIL guarantee fund, the evaluation and annual reports issued during the implementation of the ROP ERDF 2007-2013 praised the regional administration's decision to keep the measures activated and reported the good performance of the FI in terms of financed projects and amounts disbursed: in 2010, for instance, 74 projects were already approved, investments of c€87 million were triggered with €76.3 million in loans, for which c€61 million of guarantees were granted, notwithstanding the negative impact of the macroeconomic situation.

A further analysis was carried out in 2013 through the setup of a focus group of final recipients of the MIL guarantee fund. Their opinions were satisfactory and emphasised the positive effects of the Financial Instrument. Nevertheless, taking into consideration the shifting conditions of the credit market the MIL guarantee fund was discontinued to align the value of the guarantee fund to the loaned debt and more than 60 percent of its capacity was released in favour of other Financial Instruments.

The final evaluation stressed the leverage ratio for the MIL guarantee fund as an interesting result, but also pointed out that the initial predictions in 2008 were far from being achieved.

Additionally, it emphasised the high number of non-eligible applications (164 out of 331), resulting in a negative effect on both the fund manager and financial intermediary (by absorbing their time and resources) and enterprises (by creating a lack of confidence and discouraging them from applying to other similar Financial Instruments).

# 2 Main results and findings

## 2.1 Impact of the Financial Instrument

The final impact of the Financial Instrument shall be analysed by measuring the accomplishment of the goals established when the initiative was launched.

*Table 2-1: MIL guarantee fund performance*

| | |
|---|---|
| Programme resources | €9.6 million |
| Total number of applications | 331 |
| Projects financed | 116 |
| Guarantees committed | €95 million |
| Loans disbursed | €111 million |
| Leverage effect | 11.50 |
| Investments activated | €129 million |

*Source: Final implementation and evaluation reports by ROP FESR 2007-2013.*

As for the key output indicators established in the ROP FESR 2007-2013[2], the measurable results of the MIL guarantee fund are the following:

*Table 2-2. Output indicators*

| **Ouput indicators** | | **Objective** | **Achieved by MIL** |
|---|---|---|---|
| Priority axis level | *Total investments activated* | €450 million | €129 million |
| Operative objective level | *Number of subjects financed by financial engineering instruments*<br>• *Micro*<br>• *Small*<br>• *Medium*<br>• *Large* | 130 | 116 (*)[3]<br>• Small: 56<br>• Medium: 35<br>• Large: 23 |

*Source: Final implementation and evaluation reports by ROP FESR 2007-2013.*

[2] The FI was embedded in the ROP FESR 2007-2013 as follows:

- Priority Axis 1 Innovation and knowledge economy
- Specific objective: Promote, support research and innovation for the competitiveness of Lombard companies, through the enhancement of the Lombard knowledge system
- Operative Objective: Support for collaborative and innovative growth and access to corporate credit
- Intervention: Support for the growth of the competitive capacity of Lombard companies

[3] Specific figures for the MIL guarantee fund were not disclosed in the Final Implementation Report. Figures have been obtained by using data from the 2013 Evaluation report of the ROP FESR 2007-2013 in which information regarding the distribution among forms of enterprise wasincluded.

The 2013 Evaluation Report took into account 130 enterprises as final beneficiaries of the FI, whereas 116 were the final beneficiaries according to the Final Implementation Report. For the purposes of the study, we have used the applicable percentages related to the distribution among forms of enterprises that were reported in the 2013 Evaluation Report

In addition, regarding the measurement of the non-financial externalities of the FI, the following matrix serves to systemise the FI's degree of contribution to the given dimension of the EU 2020 strategy – EU 2020 indicators laid out in the Commission Communication on Europe 2020 – as well as the contribution to territorial (urban/regional) development and stakeholder involvement.

*Table 2-3. Comprehensive FI Assessment Matrix*

| **FI / Non-financial externalities** | **Smart growth** | | | **Sustainable growth** | | | **Inclusive growth** | | | **Urban/Regional development** | **Stakeholder involvement** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Innovation | Education, training and lifelong learning | Digital society | Competitiveness | Climate change | Clean energy | Employment | Skills | Poverty | Efficiency and effectiveness in cohesion policy | PPP & knowledge-sharing | Administrative capacity in setting up and managing FIs |
| | Impact of FI on R&D investment intensity | Impact of FI on all levels of education and training | Impact of FI on uptake of ICT and development of digital economy | Impact of FI on regional competitiveness, with special emphasis on industry | Impact of FI on climate change adaptation and mitigation | Impact of FI on reduction of GHGs and uptake of renewable energies | Impact of FI on employment growth | Impact on FI on market-oriented skills | Impact of FI on number of citizens living below poverty line | | | |
| Made in Lombardy | | | | | | | | | | | | |

*Source: own elaboration*

| | |
|---|---|
| | Significant non-financial externality |
| | Possible non-financial externality |
| | No non-financial externality |

The projects financed under the MIL triggered investments equal to 16.7 percent of the total investments activated on Axis 1 of ROP FESR 2007-2013 (€774.5 million). Given the final contribution of the ROP to this FI, the figures confirm the extent to which instruments based on guarantees can potentially generate a significant leverage effect on public resources.

That said, the initial projections were the allocation of €33 million to the fund and the size of the target portfolio was €500 million, thus matching a leverage effect of 15. Nevertheless, as the fund manager interviewee stressed, several aspects should be taken into account when analysing the final results: 1) it was the first time the regional administration (together with the fund manager) managed a Financial Instrument of such a size; 2) the focus of the investment programmes was on competitive development investments (innovation, research) which were not among the risk preferences of the banks since they were more risk averse; 3) the net outcome was clearly positive. Consequently, as it was noted, it should be said the FI was an actual success despite failing to meet the initial expectations.

Regarding the typology of final recipients, the FI was conceived to benefit manufacturing sector SMEs and large enterprises. As data shows, 116 companies were ultimately supported, of which 50 percent were medium-sized enterprises, 29 percent small enterprises and 20 percent large enterprises[4]. The latter were eligible under certain conditions set out in the ROP which were aimed, in short, at either committing to integrate their business at the local level or collaborating with other SMEs. Therefore, it seems that SMEs were more willing to participate in this initiative.

One of the FI goals was the financing of innovative and competitive development investments within companies. As some of the final recipients expressed, the MIL guarantee fund allowed them to undertake some productive measures: development of new processes and products, reduction of production times, improvement of staff skills and increasing their network relationships with customers and suppliers were some of the FI qualitative outcomes that enterprises might not have achieved if they were not capable of implementing their investment plans.

## 2.2 Value-added of the Financial Instrument

The levels of investment induced were already cited as very high. Additionally, the regional administration’s decision to take actions in favour of the industrial sector, given that lower credit availability would have had a more negative impact on the Lombardy economy, was also emphasised as an element of success. In doing so, the FI notably influenced the possibility for enterprises to have medium-to long-term financing for their investments.

[4] Servizio di valutazione del POR Competitività 2007-2013 della Regione Lombardia. Rapporto di Valutazione Intermedia (2013)

Be that as it may, the fund manager interviewee also underscored that the success of this FI should not merely be measured in terms of investment activation, but also on the shift in culture perception. The FI prompted an increase in the culture of participation in the credit system. Not only was the FI intended to reduce the cost of access to bank credit for enterprises, it also provided additional tools to enhance the position of enterprises versus the banking institutions.

The initiative contained an important element that purported to improve the capacity building of enterprises, especially those with lower financial culture. The FI offered additional tools for developing a BP, which in turn could be subjected to a supplementary grant (in the form of a voucher) to partially cover (75 percent) the costs of counselling services. This implies that the initiative was mainly focused on supporting enterprises: it aimed to increase their financial competences by drafting more robust investment projects.

The improvement of capacity building was not only limited to enterprises. The MA has also improved their understanding of the benefits of FIs and strengthened their competences during the implementation of this FI. Even the fund manager identified certain lessons learned after the implementation of the MIL guarantee fund.

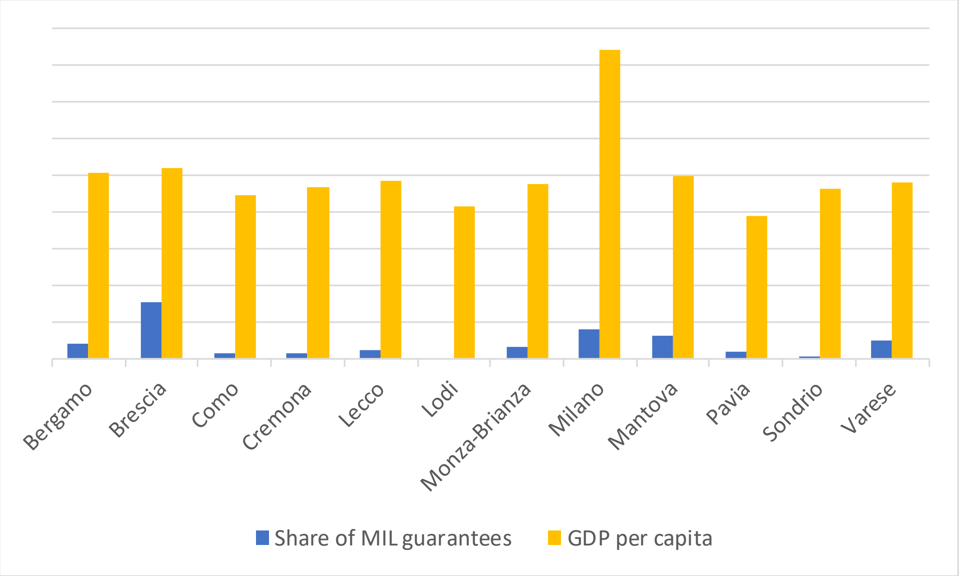
For instance, the design of the MIL guarantee fund only envisaged the selection of a single financial intermediary that could offer certain geographical distribution and better facilitation of the FI. Nevertheless, as the interviewee noted, it turned out that one major reason behind the decision to discontinue the FI before the end of the programming period was the financial intermediary prioritising other commercial preferences over the promotion of the MIL guarantee fund. Aspects regarding the simplification of rules and the burden of additional controls may have had an impact, but the fact that the financial climate evolved, and that other tailor-made financial products that were more profitable could be offered, dissuaded them from backing the FI. So much so that some of the final recipients' observed that the financial intermediary's approach was not very proactive when demanding additional information.

All in all, in terms of the design of the new FIs in the 2014-2020 programming period, the selection of financial intermediaries is no longer restricted to one main player; the new AL VIA guarantee fund is being facilitated by different credit banks that have come to an agreement with fund manager Finlombarda.

## 2.3 Territorial dimensions of the Financial Instrument

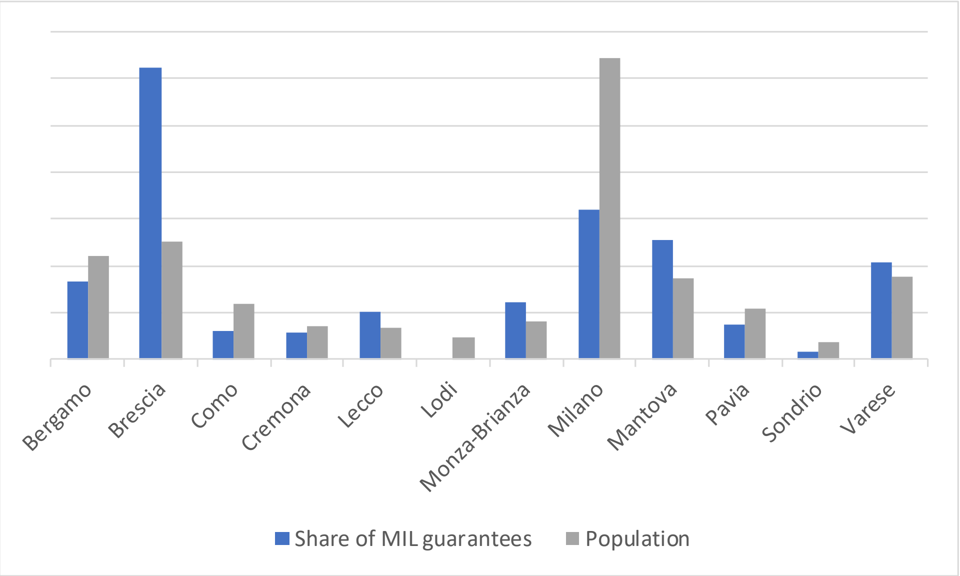
The following charts are intended to shed light on determining whether the implementation of the MIL guarantee fund was intrinsically affected by the economic and territorial characteristics of the Lombardy region.[5]

*Figure 2-1: GDP per capita and territorial distribution of the MIL guarantee fund*




*Source: Own elaboration.*

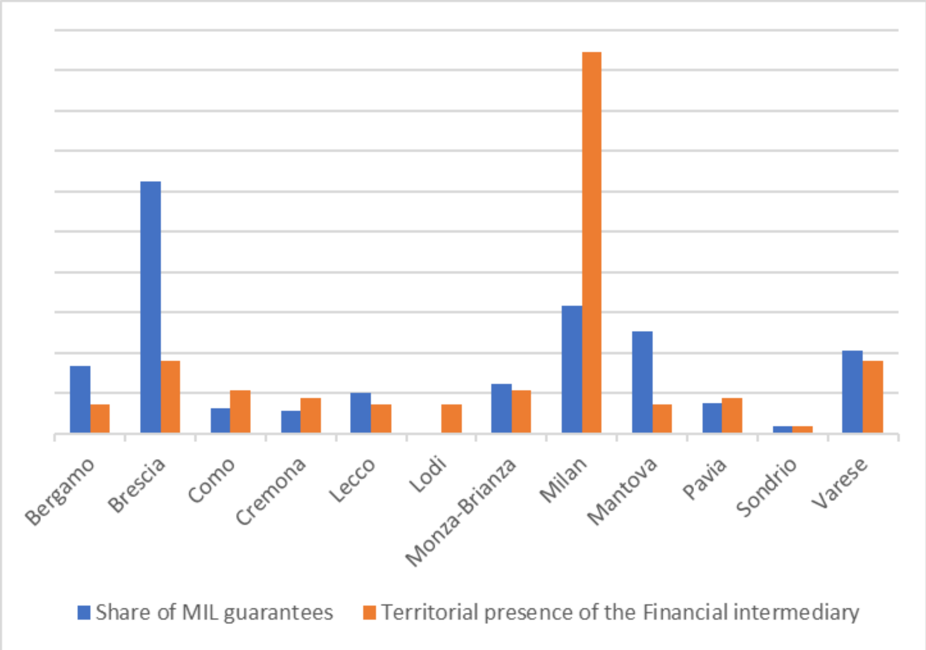
*Figure 2-2: Territorial distribution of the MIL guarantee fund and population levels in the Lombardy region*




*Source: Own elaboration.*

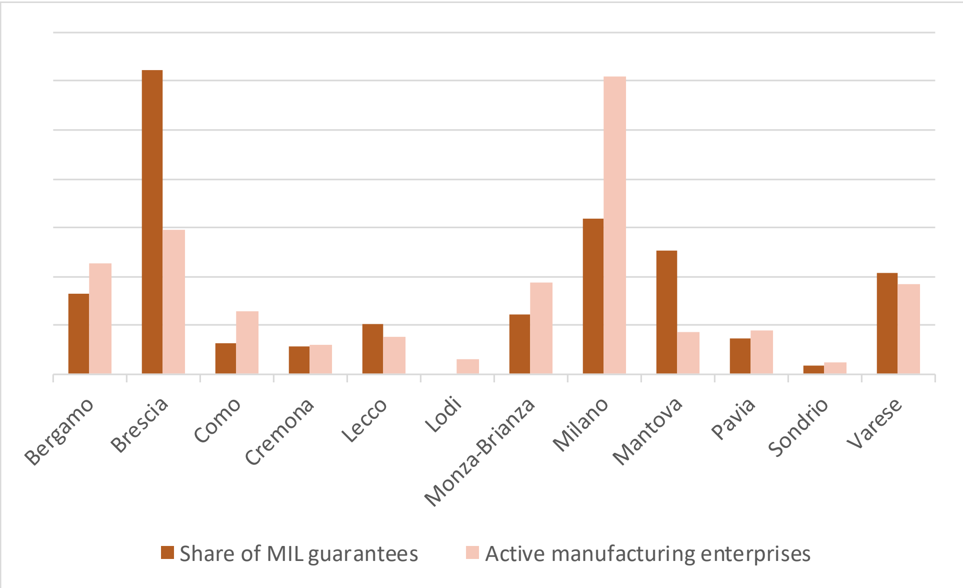
[5] Charts were elaborated according to the data obtained from the National Institute of Statistics (Italy) (Data as of 31/12/2017) and the results obtained in the Final Implementation Report ROP ERDF 2007€2013. Available at https://www.istat.it/

*Figure 2-3: Territorial distribution of the MIL guarantee fund and territorial presence of the financial intermediary*




*Source: Own elaboration.*

*Figure 2-4: Territorial distribution of the MIL guarantee fund and distribution of manufacturing enterprises*[6]




*Source: Own elaboration*

[6] Data was retrieved by identifying active enterprises with "Codice ATECO C Attività manifatturiere".

The MIL guarantee fund was distributed according to the economic weight of the different provinces in Lombardy (NUTS 3). The case of Brescia is the most remarkable; it ranks second in terms of population and GDP (after Milan) and has the highest uptake of guarantees from the FI by far (31 percent). By contrast, Lodi and Sondrio, the least populated areas in the region, were the two provinces where the FI barely had any impact (Sondrio 0.9 percent and Lodi 0 percent).

Differences in GDP per capita among the Lombardy provinces are moderate if we do not include the province of Milan in this equation. Pavia appears to be the province that performs the least in terms of GDP, but it has benefitted from the FI (3.7 percent) according to the weight of its manufacturing sector in the region (4.5 percent).

With regards to the location of branches of the financial intermediary, it appears that the trend is analogous. The distribution is rather similar to the actual absorption of the FI, except for Mantova and Bergamo, where the distributional presence was low (3.6 percent of all the branches) but the uptake of the FI was notable (12.7 percent and 8.3 percent respectively). Conversely, the FI did seem to perform well in Lodi despite a fair presence of the financial intermediary (3.6 percent).

Therefore, it could be concluded that the effects of low population and degree of remoteness (in terms of the lack of presence of the financial intermediary) negatively affected the uptake of the FI. By comparison, the provinces that perform the best in terms of economic GDP, and in turn are the most agglomerated, had better access to the FI. However, as the fund manager interviewee observed, while access to financing is clearly easy in prosperous areas it might be misleading to understand this as a territorial discrimination. Likewise, by its very nature FIs are present in thriving regions, and it is important to understand the target market of the FI. At this point, it is worth noting that distribution of the FI was proportional with the presence of manufacturing enterprises across the region (see Figure 2-4); enterprises within the manufacturing sector were envisaged as the final recipients of the FI.

## 2.4 Governance dimensions of the Financial Instrument

The setup of the MIL guarantee fund was done in different stages. The fund was primarily created by the MA and Finlombarda was selected as the fund manager (in-house service) which resulted in signing a financing agreement.

Once the MA and the fund manager agreed on an activity plan, the latter initiated an open procedure for selecting a financial intermediary in order to implement the FI. The tasks were shared: the financial intermediary (BNL e Artigiancassa) committed to building a loan portfolio of €500 million in which Finlombarda assumed €100 million of risk. The approval of loan operations was decided by both, whereas the decision to grant the voucher designed to cover the costs associated with the BP was made by the MA. The MIL was configured to guarantee a maximum of 80 percent of the debt to cover the losses of the lender in case the FR did not repay the loan.

The deployment of the initiative was sluggish. Nine months elapsed from the approval of the fund until the initiative was publically launched. In this process, the time consumed in selecting the financial intermediary (7 months) was significant. The major difficulty encountered during this process was pointed out by the fund manager interviewee: to identify a financial entity that would commit to a Financial Instrument of this size (committing to build up a portfolio of €400 million) required time, especially given the macroeconomic environment. It is evident it shortened the actual investment period of the FI, but it seems the trend was comparable to other FIs: the JEREMIE FESR – another FI based on guarantees – took 13 months from its creation until the public notice was announced.

In this context, Finlombarda ensured the management of the guarantee fund and continuous monitoring of its financial implementation. The management costs received by the fund manager amounted to €79,000 and were covered by the interest generated by the fund. The importance of the fund manager when implementing the FI was underscored by the interviewee: regional financial institutions play a key role in the execution of FIs since they combine the best of both worlds: the understanding of regulatory frameworks applicable to banks and the public administration (such as stability and growth pacts; State aid rules).

On the other hand, when launching the initiative, the financial intermediary expressed its sensitivity towards the region’s entrepreneurial system and the role they could play in the recovery of the growth performance. Initially, the FI results were promising (74 projects were approved as of 31/12/2010); however, the financial intermediary gradually set aside the MIL fund guarantee initiative as one of its priorities. Several factors could have influenced this change of perception: their actual benefit from the FI came only from the revenues generated by loan operations and they began by promoting other more profitable financial products that were more stimulating for their commercial branches, as the fund manager interviewee commented.

Finally, regarding the practical implementation of the initiative, the FI established several rules concerning the disbursement of loans. The disbursements were distributed in two tranches (30 percent and 70 percent) and supporting documents justifying the payment of the costs associated to the investment plan were required. Once the fund manager verified their eligibility, the loan disbursement was approved. This process was nonetheless noted as a burden by the FRs, since several documents required were difficult to obtain and the requirement of anticipating the funds was penalising.

## 2.5 Strengths, weaknesses, opportunities and threats (SWOT)

The following strengths, weaknesses, opportunities and threats can be identified:

**Strengths**

- The MIL guarantee fund has proved the significant capacity to leverage the action of the ROP resources. The multiplier ratio of the FI was 11.5 despite being discontinued before the ending of the programming period.
- It provided access to loans in an unfavourable financial environment of limited access to credit. Additionally, the FI was conceived to offer better conditions to final recipients (no guarantee fees or collateral requirements to final recipients) since the lender was assuming less risk in their loan operations.
- It required less initial public support than other funded products (such as loans). Additionally, actual disbursement of the guarantee only took place in cases of a default loans.
- The initiative offered final recipients additional resources (BP tools and vouchers to cover the costs in case of need of external consulting support) that allowed them to increase their financial culture and prepare investment projects with higher potential for being accepted for financing.

**Weaknesses**

- The MIL initiative did not reach the expected performance results, with the planning of the intervention falling wide of the mark.
- FIs based on guarantees have planning and financial management difficulties. Although financial institutions may carry out appropriate feasibility studies, there will always be a risk of non-performing loans and so it is not possible to foresee when it could be necessary to release the funds committed to the loan coverage.
- Selection of a single financial intermediary has been noted as a weakness since the operational activity was fully dependent on the FI.
- The time required for setting up the FI was high. First applications could only be submitted almost one year after the creation of the fund, which implied a potential loss of absorption during this period. The selection of the financial intermediary should be a priority to avoid excessive times without activity.

**Opportunities**

- While selection of a single financial intermediary has been reported as a weakness in the implementation of this Financial Instrument, it has served as a lesson for the fund manager and the MA during the design and setup of the new FI guarantee that is being implemented in the current ROP ERDF 2014-2020.

- In a context of a persistent negative economic situation, FI such as the MIL guarantee fund were meant to trigger innovation and research for enterprises that were worse off with respect to access to credit due to their investment plans.
- The gap of technical skills and knowledge that the MA might encounter when dealing with FIs is solved with the existence of public bodies (such as Finlombarda) that could offer skills in managing and implementing them. Their importance is increasing and they are currently playing a fundamental role in the delivery of FIs. Likewise, the eventual involvement of the MA alongside these bodies (capacity building) will increase their skills, allowing for better FI planning and monitoring.
- The MIL guarantee fund promoted the sustainability of investments with respect to grants. In addition to the revolving effects, the quality of investments tended to be higher (in this case, external assistance was encouraged in the preparation of the BP) since they are also under scrutiny of the financial intermediary (due diligence processes).

**Threats**

- The MIL guarantee fund was not adapted to shifts in the financial market and was not sufficiently attractive to the financial intermediary, which diverted its attention to other, more profitable financial products.
- The available data shows a large percentage of applications were ineligible (164 out of 331). This resulted in a significant cost for the agents in charge of the management of the FI and additionally implied that the financial environment was in fact affecting the initial predictions of FI effectiveness.
- Some of the final recipients expressed their concerns regarding the administrative burden related to the economic justification of the investments. A potential consequence might be final recipients prioritising other financial products that do not imply as much associated administrative burden, particularly in scenarios with market liquidity.

## 2.6 Typical or flagship projects

The FI was intended for all types of micro companies, SMEs and large enterprises in the manufacturing sector which were planning to activate investments for one of the following purposes: competitive development, research, technological innovation, process and product development, business development and, exceptionally, strengthening of the company’s own resources in the context of restructuring operations.

The financial conditions comprised the financing of both medium – (minimum 36 months) and long-term (maximum 10 years) unsecured loans, also in subordinated or hybrid form (mezzanine), for investments from €200,000 (€500,000 for hybrid loans) to a maximum of €2 million. The risk protection covered by the MIL guarantee was 80 percent of the debt.

Reported projects included investments in the development of a new production process control system; innovative systems for controlling the generation and supply of energy in air conditioning systems; the design of new environmentally friendly detergents; and the launch of new product lines.

## 2.7 Overall assessment

The initiative of the MA to launch a FI during an economic crisis could lead to unexpected results and situations during its implementation.

At first glance, the results obtained by this FI are excellent in terms of leverage and use of ROP resources and could be viewed by the MA as a success. However, the main factor identified that led to the prioritisation of other FIs over this initiative and the allocation of resources remains the excessive dependence on the financial intermediary for the execution of the FI. The technical assistance that they offer is essential to reach the target market, but it is equally important to understand their commercial-led behaviour. Nevertheless, it could be also argued that initial estimations were considered over-optimistic, given the existing economic context.

The distribution of the FI in Lombardy draws a scenario in which those territories where there is greater economic development and, especially, where the largest number of companies in the manufacturing sector are based, were the biggest beneficiaries. Therefore, it seems, on one hand, that the FI reached the main target market (manufacturing sector) and met the initial objectives; on the other, that the FI was more prone to make an impact on thriving regions.

Finally, several comments have been reported regarding the processes connected to the justification of interventions; it merely corroborates the existing difficulties in reconciling the agility desirable in the granting of credit – from the viewpoint of the final recipients – and the legal requirements to submit operations to appropriate monitoring and control processes.

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# List of Annexes

## Annex 1: CS elaboration process

Initially, the objective was to identify one of the three financial instruments designed for the ROP ERDF of the Lombardy region during the 2007-2013 programming period. The choice of the MIL was based mainly on the two aspects covered by the case study: as one of the first guarantee FIs managed by the MA, the results projected (in terms of leverage effect) were noticeable; on the other hand, the possible difficulties experienced that made them discontinue the initiative.

The contact with the fund manager was prioritised because it played a key role in managing the FI. It was also considered that the FM would have more accessible information regarding the results delivered by the FI. The meeting was satisfactory, following the line of the thematic areas offered by the guidelines and intended to respond to the different issues identified during the desk research. As a result, a very valuable opinion was obtained on the implementation of the FI.

Although we could not obtain additional information on FRs or the financial intermediary, the next step was to contact the MA using the contact person identified by the fund manager. At this point, we found certain barriers motivated by the fact that the financial instrument was launched in the previous programming period. The reference contacts of the MA are either retired or about to be and it was not possible to arrange a meeting with them. In addition, we could not reach the MA of the current 2014-2020 programming period, which made it rather challenging to obtain additional opinions on this initiative.

Notwithstanding the above, we were able to carry out an FI analysis by means of the details gathered from the ROP evaluation and implementation reports. It would have been desirable to have access to the data managed by the MA in order to be able to reconcile the results and be able to delve into more aspects of the FI (level of induced investments by region, cases of default, the FRs forms of enterprises, supplementary information on the scope of the BP, etc.).

For all the above reasons, the case study is mainly based on the assessments made from the point of view of the fund manager and the results offered by the reports.

# Annex 2: Flagship projects

| **Optec S.p.A. - Controlled area environment** | |
|---|---|
| Location of the project | Province of Milano, Lombardy |
| Beneficiary name and type | Optec S.p.A.<br>Italian firm specialised in the optical, optoelectronic and optomechanic sector. |
| Brief description of the project | Creation of a controlled area environment, with continuous air flow for the production and assembly of electro-optical systems for use in the medical, laser and space fields. A station for detecting and measuring any pollution residues, an optical bench and accessories was also included.<br>• Beginning of the project: 1 January 2011<br>• End of the project: 30 June 2012 |
| Outcome of FI policy intervention | The achievement of the project results made it possible to improve the company's activities, in particular:<br>• New markets: The markets that require such technologies represent an important percentage in the scientific field (assessed in several tens of millions of euros).<br>• Best efficiency: Efficiency of professional workers was improved around 15%-20%, leading to a reduction of production times of of 15%-20%.<br>• Customers satisfaction: It contributed to the significant reduction of non-compliant customers from the former 12% to the current 2%.<br>• Corporate Image: The investment allowed the company to operate in national and international markets and with key actors such as E.S.A. and A.S.I. |
| Other relevant information | Total cost of investment: €375,000<br>• Plant, machinery, tools and equipment: €165,000<br>• Staff costs: €118,500<br>• Consulting services: €15,000<br>• Costs for raw materials: €7,500<br>• Overheads: €32,000<br>• Plant works: €37,000<br>Loan amount: €334.000<br>• According to the sources, the loan was delivered within the time required to implement the project without causing issues for the company. |
| References | Financial Department - Optec S.p.A. |
| Photographic material |  |

| **Enolgas Bonomi S.p.A. – System for controlling the generation and supply of energy** | |
|---|---|
| Location of the project | Province of Brescia, Lombardy |
| Beneficiary name and type | Enolgas Bonomi S.p.A.<br>Firm specialised in the production of ball valves for gas and water and home automation system design. |
| Brief description of the project | The company pursued a research and development project with the aim of developing know-how and experimenting with integrated solutions, based on WSAN (Wireless Sensors Actuators Networks) and embedded intelligence, in order to control the generation and supply of energy in air-conditioning systems that use fluids. |
| Outcome of FI policy intervention | Through the project, the company was able to implement and increase its product range with accounting and calorie counting systems previously not included in its product list.<br>Regarding the process in obtaining the loan, the company did not meet any particular difficulties. After this experience, the company has continued looking at the Lombardy Region and Finlombarda as support bodies for funding programmes for innovative and development projects. |
| Other relevant information | Total cost of investment: €1 million<br>Loan amount: €552,500<br>Guarantee amount: €442,000 |
| References | Financial Department - Enolgas Bonomi S.p.A. |
| Photographic material | Unavailable |

| **Comerio Ercole S.p.A. – Realization in a semi-industrial scale of a new machine able to implement a new process** | |
|---|---|
| Location of the project | Province of Varese, Lombardy. |
| Beneficiary name and type | Comerio Ercole S.p.A.<br>It is a machinery and plant design and construction company for the textile and plastic industry |
| Brief description of the project | A new machine was created for the processing and recovery the granules from out-of-use tires to obtain slabs that could be used as isolation for public pavement, football pitches, the foundation for stables, antivibration for metros and railways and coatings in general.<br>The results that the beneficiary intended to achieve through the project were:<br>• the creation of a type of innovative plant designed to produce a new product in the form of a slab / panel in continuous mode wound on coils, which can be laid directly on site without any additional labor cost.<br>• implementation of a diversification strategy, through:<br>  • the expansion of the range of machinery and production processes for the rubber sector.<br>  • increasing competitiveness by focusing on new |

| | |
|---|---|
| | customers and new markets.<br>• the possible use of the new machinery for production purposes (on request and after adaptation). |
| Outcome of FI policy intervention | The impacts foreseen by the project were:<br>• An industrial sustainable continuous process.<br>• Cost savings in terms of resources and energy.<br>• Environmentally, the recycled materials will be produced to obtain products that are also recyclable. |
| Other relevant information | Total cost of investment: €1.275 billion<br>Loan amount: €1.275 billion<br>Guarantee amount: €1.020 billion |
| References | 2011 ROP FESR 2007-2013 Annual Implementation Report.<br>Financial Department - Comerio Ercole S.p.A. |
| Photographic material | Unavailable |

**ESPON 2020 – More information**

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