BUSINESS DEVELOPMENT BANKS AND FUNDS IN EUROPE: SELECTED EXAMPLES

BRIEFING TO SCOTTISH GOVERNMENT IN THE CONTEXT OF THE SCOTTISH BUSINESS BANK PROPOSAL

Prepared by Rona Michie and Fiona Wishlade

March 2014

European Policies Research Centre
University of Strathclyde
40 George Street
Glasgow G1 1QE
United Kingdom

Tel: +44 (0) 141 548 3672
Fax: +44 (0) 141 548 4898

Email: eprc@strath.ac.uk

THE | UK Entrepreneurial University of the Year 2013/14
UK University of the Year 2012/13

The place of useful learning

EPRC and EPRC research interests

The European Policies Research Centre (EPRC) is an independent research institute in the School of Government & Public Policy at the University of Strathclyde in Glasgow. Its extensive research portfolio consists of five main programmes:

- regional development and regional policy in Europe
- EU Cohesion policy
- European territorial cooperation
- EU Competition policy, State aid and subsidy discipline
- financial instruments in economic development policy

EPRC's research portfolio spans all the countries of Western, Central and Eastern Europe, involving research at European, national and regional scales.

EPRC research on financial instruments

Reflecting the growing interest in financial instruments, over the past four years EPRC has developed a programme of research and knowledge exchange on financial instrument design and implementation in different policy contexts. Funded by the European Investment Bank, European Parliament and various national and regional government authorities, these include:

- comparative studies of financial instruments in 2007-13 EU Cohesion policy programmes in selected EU regions
- assessing the role of financial instruments in business development in disadvantaged regions in Europe
- 'stocktaking' the current and future applications of financial instruments in the EU
- a study of the design of financial instruments, focusing on the advantages and disadvantages of various types of instrument in different institutional and policy environments.

Recent EPRC publications on financial instruments

Some, but not all commissioned EPRC reports are published. The following EPRC reports related to financial instruments are available online:

Financial Engineering Instruments in Cohesion policy, by Rona Michie, Fiona Wishlade and Kaisa Granqvist (EPRC) with Metis GmbH, Report to the European Parliament (2013): http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/495870/IPOL-REGI_ET%282013%29495870_EN.pdf

Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period, by Rona Michie and Kaisa Granqvist (EPRC) with Mazars and Ecorys, Report to the European Investment Bank (2013): http://ec.europa.eu/regional_policy/thefunds/instruments/doc/fls_stocktaking_final.pdf

Access to finance in Europe's disadvantaged regions: Can 'new' financial instruments fill the gap? by Colin Mason, Rona Michie and Fiona Wishlade, EoRPA Regional Research Consortium Paper 12/6 (2012): http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_12_Public/EoRPA%20Paper%2012-6%20Financial%20Instruments.pdf

Between Scylla and Charybdis. Navigating Financial Engineering Instruments through Structural Funds and State Aid Requirements, by Rona Michie and Fiona Wishlade, IQ-Net Thematic Paper 29(2), (2011): http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports%28Public%29/ThematicPaper29%282%29Final.pdf

For further information

To find out more about EPRC, to see "what's new" at the Centre and a full list of publications and research activities, see: http://www.eprc.strath.ac.uk/eprc

For more about EPRC work on financial instruments, contact:

Rona.michie@strath.ac.uk or Fiona.wishlade@strath.ac.uk

http://www.eprc.strath.ac.uk/eprc/research_financial_instruments.php

CONTENTS

BUSINESS DEVELOPMENT BANKS AND FUNDS IN EUROPE: SELECTED EXAMPLES

1. INTRODUCTION

The aim of this briefing is to provide a broad overview of some of the structures and funds which have been put in place to support economic development in Europe. Some of these take the form of funds, others are either new or longstanding institutions; some are small in scale and reach, while others are substantial and operate internationally. Although the examples are disparate in many respects, a common theme is their role in the promotion of business development, especially SME development, through the use of repayable financial instruments. The selection of initiatives has been based on a combination of examples in which Scottish Government explicitly expressed an interest and further suggestions from EPRC.

The research for this briefing paper was undertaken by EPRC in January and February 2015. The report was prepared by Rona Michie and Fiona Wishlade with Timothée Lehuraux. The paper and the fiches are the product of desk research with country specific inputs provided by the following EPRC research staff.

- Dr Sara Davies (Germany)
- Dr Martin Ferry (Poland)
- Timothée Lehuraux (France)
- Dr Carlos Mendez (Portugal, Spain)
- Rona Michie (United Kingdom)
- Stephen Miller (Denmark, Ireland)
- Dr Arno van der Zwet (Netherlands)
- Heidi Vironen (Finland and Sweden)

This paper begins with a brief comparative overview of the key features of the examples under study. This is followed by a ‘fiche’ on each example, providing structured information according to a common format. The examples included are as follows:

- The Danish Growth Fund (DGF)
- The *Land* banks, the *Land* business development banks (DE)
- KfW (DE)
- Finnvera (FI)
- BPI France (FR)
- The Strategic Banking Corporation of Ireland – SBCI (IE)
- The Innovation Fund SME+ (NL)
- The State Development Bank of Poland - BGK (PL)
- The Official Credit Institute - ICO (ES)
- *Industrifonden* (SE)
- The British Business Bank (UK)
- Finance Wales (UK)

2. OVERVIEW

This overview is in three parts. The first focuses on structures, governance and rationale; the second considers the forms of intervention provided and some indications of the scale of the different initiatives; the third part summarises the extent to which the initiatives considered use EU funds.

2.1 Structures, governance and rationale

The initiatives under consideration here differ widely in **structure and function**. Three broad groups can be identified:

- **Investment funds** with a remit essentially limited to SME development – Innovation SME+ (NL), *Vaekstfonden* (DK) and *Industrifonden* (SE) fall into this category
- **Public financial institutions** which operate more than one fund (or funds of funds) and often collaborate with other organisations, but whose focus remains on business development, especially SMEs – Finnvera (FI), *Land* business banks (DE), Bpi (FR), Strategic Banking Corporation of Ireland (IE), Finance Wales and British Business Bank (UK)
- **Public banks** whose operations are on a more significant scale and extend into areas beyond SME development into infrastructure, lending to local authorities and potentially international operations – KfW (DE), BGK (PL), ICO (ES), *Land* banks (DE).

The examples in this report also vary considerably in the length of time they have been in operation (although this is not straightforward to compare). Some institutions are of very long standing – for instance, the German *Land* banks were created in the late 19th century and the French *Caisse des dépôts et consignations* (CDC), which owns 50 percent of the present day Bpi can be traced back to 1816. However, these organisations have undergone substantial reforms in response to changing economic and regulatory circumstances. Other initiatives are more recent, notably the SBCI (IE) and indeed the Bpi (FR), which is the product of a number of mergers and reorganisations through the years.

Origins– date of creation of current organisation

	Date of creation (current organization)
Land Banks (DE)	19th century
Land Business Development Banks (DE)	19th century
BGK (PL)	1924
KfW	1948
ICO (ES)	1971
Industrifonden (SE)	1979
Vaekstfonden (DK)	1992
Finnvera (FI)	1999
Finance Wales (UK)	1999
BPI France (FR)	2012
British Business Bank (UK)	2012
SBCI (IE)	2014
SME+ (NL)	2014

Among the organisations with a long history, the original rationale is often rooted in major historical crises – for instance, the need to safeguard public funds following the collapse of the Napoleonic empire lay behind the CDC, which in turn owns half of the newly-created Bpi, or support for post-war reconstruction in the case of the KfW. Organisations which have been created more recently tend to be more focused on business development (ie. infrastructure or local authority lending is not part of their remit), and some have been born directly out of concerns with issues of access to finance – notably SBCI (IE), which was a direct response to the financial crisis in Ireland.

Original Rationale	Institutions
Infrastructure financing: Post-war reconstruction / support to local authorities - Management of Marshall Fund - local authority debts - Napoleonic defeats	 KfW, BGK *Land* banks CDC (forerunner of the BPI)
Reorganisation of public financial support services for improved efficiency; access to finance, response to credit shortage	*Vaekstfonden*, ICO, BPI, Finnvera, SME+, British Business Bank SBCI, *Industrifonden*, Finance Wales

In terms of *current* objectives, three main objectives can be identified:

- Access to finance
- Implementation of government measures or programmes
- Support for exports and internationalisation

Institutions	DE										UK	
	Land Banks	Land Business Development Banks	KfW	*Vaekstfonden* (DK)	ICO (ES)	Finnvera (FI)	BPI France (FR)	SBCI (IE)	SME+ (NL)	BGK (PL)	*Industrifonden* (SE)	British Business Bank	Finance Wales
Access to finance – especially SMEs	■	■	■	■	■	■	■	■	■	■	■	■	■
Implementation of government measures and programmes	■	■			■	■				■			
Support for exports and international competitiveness			■		■	■	■			■			

All are exclusively (or almost entirely) publicly owned. Detailed governance arrangements vary between organisations, notably the extent of government involvement and the relationship with relevant ministries; it is worth noting that this relationship can change over time as institutions become more embedded (e.g. the British Business Bank was initially set up in as a ‘programme’ run directly by the Department for Business, Innovation and Skills; once State aid clearance was granted, the

programme was transferred to the British Business Bank, which now operates as a Government-owned financial institution). Some institutions/funds remain directly run by a national ministry (e.g. *Vaekstfonden*, Finnvera, *Industriefonden*) while others operate as independent legal entities with State-appointed board members (the German *Land* banks and *Land* business development banks).

The **geographical remit** and organisation varies. Some (the *Land* banks and Finance Wales) have an explicitly subnational remit. Others are nationwide in scope, but with a strong regional representation (Bpi, BGK). Last it is worth noting that some have an explicit export-oriented remit among their activities (Finnvera, KfW, Bpi).

In terms of funding, while all the institutions covered were first endowed with capital by the State when founded, most resort to domestic and international market financing by issuing bonds. Only six still benefit directly from public capital (*Vaekstfonden* – partially, Finnvera, SME+, BGK, British Business Bank, Finance Wales).

Most institutions only operate indirectly through private actors (*Land* banks and *Land* business development banks, SBCI, British Business Bank), **or combine both indirect and restricted direct funding** (to public bodies only: KfW; mostly alongside the private sector: ICO, BPI, *Industrifonden*; SME+). *Vaekstfonden*, BGK and Finnvera provide funding directly (although *Vaekstfonden* and the BGK sometimes look for partnerships with private banks).

2.2 Scale

In terms of instruments and targets, **the unanimous focus is on SME development**, mostly at early stages of development (from seed funding to growth) and export support. All of the financial institutions provide loans (maturity usually longer than average, at favourable rates of interest), fewer provide both loans and guarantees, and fewer still are involved in the provision of equity finance. Only three of the bodies offer grants (KfW, BPI, SBCI), and several provide non-financial support in the form of technical assistance (KfW, Finnvera, BPI and *Industrifonden*).

In terms of scale, the most prominent bodies are several of the *Land* Banks (up to €274 billion of assets by the end of 2013) and the *Land* business development banks (up to €145 billion). At the other end of the scale, *Vaekstfonden* (DK) amounts to c. €360 million.

Financial scale

Institutions (Countries)	Capitalization (€ billion)	Member State	Population (million)	GDP (€ billion)
***Land* Banks (DE)** ***Land* Business Development Banks (DE)** **KfW (DE)**	from 17 to 274 (2013) from 1 to 145 72.5 (2013)	Germany	82.0	2,737
***Vaekstfonden* (DK)**	0.36	Denmark	5.6	249
ICO (ES)	from 53 (2008) to 102 (2013)	Spain	46.7	1,023
BPI France (FR) Bpi Financement Bpi Participations	51.5 (end of 2013) 34.7 16.8	France	65.6	2,060
SBCI (IE)	0.8 (October 2014)	Ireland	4.6	164
SME+ (NL)	0.5 (2012 - 2015)	Netherlands	16.8	603
BGK (PL)	2 (2014)	Poland	38.5	390
***Industrifonden* (SE)**	0.408	Sweden	9.6	421
British Business Bank (UK)	5 (to 2018+)	United Kingdom	63.9	1,899
Scotland			**5.3**	**180**

Note: IE: set to increase by €5 billion over the next five years. GDP figures 2013.
Source: Eurostat and Quarterly National Accounts

2.3 Use of European funding

In recent years, EU funding has become a more important source of funds for Member States' initiatives supporting SME development. The European Commission has been a keen proponent of the use of Cohesion policy funds to co-finance financial instruments under Member States' and regions' Structural Funds programmes as an alternative to grant support, and in the 2007-13 programme period, over 900 financial instruments were co-financed, at both national and regional levels.

How Structural Funds can be used to co-finance SME development is set out in key documents called Operational Programmes (OPs), which are negotiated and agreed with the European Commission; OPs covering the 2014-20 period have recently been drawn up and are at different stages of approval among the EU28. The OPs govern how Structural Funds can be spent on SME support via financial instruments (and traditional grant funding), and before any funds can be committed to financial instruments, an *ex ante* assessment must be carried out. The *ex ante* assessment for financial instruments must be done before the Structural Funds managing authority decides to make programme contributions to a financial instrument, and should include the following elements:

- an analysis of market failures and investment needs
- an assessment of the value added of the financial instrument under consideration, their consistency with other interventions, State aid implications and proportionality
- estimates of the potential leverage effect and the potential need for preferential remuneration of counterpart investors
- an assessment of lessons learned from past practice
- an examination of implementation options

- a specification of the expected results and how the instrument is expected to contribute to the specific objectives set out in the relevant priority
- scope for the *ex ante* assessment to be reviewed and updated in line with changes in market conditions.

Several of the financial institutions covered by this report manage EU funds or use EU co-funding for their financial instruments:

- The *Land* Banks and the *Land* business development banks use EU Cohesion policy funds to co-finance some of their financial instruments.
- *Vaekstfonden* has been involved in delivering European Investment Fund support regarding access to finance.
- The ICO managed an EU-funded JEREMIE fund in 2007-13, offering guarantees on RTDI projects.
- Finnvera used EU funding to offer interest subsidies on loans in 2007-13, as well as co-investments in venture capital instruments.
- The BPI and SME+ Fund of Funds have signed cooperation agreements with the EIB over coordinated commitments on investments.
- The BGK has cooperated with the EIB on venture capital investments through the Polish Growth Fund of Funds, and has been a holding fund manager for EU-funded JESSICA and JEREMIE initiatives. It has also served as a paying authority for Structural Funds.
- Finance Wales manages the 2007-13 EU-funded JEREMIE Fund in Wales.

3. DANISH GROWTH FUND (DGF)

3.1 Summary

The Danish Growth Fund (*Vækstfonden*) is Denmark's main state investment fund. Established in 1992, it invests equity and provides loans and guarantees for small as well as medium-sized enterprises in collaboration with private partners and Danish financial institutions. The following fiche provides an overview of the main characteristics of the Danish Growth Fund (DGF).

3.2 Type of institution

The DGF is a public investment fund, backed by the Danish Government.

3.3 History and background

The DGF was originally established in 1992 with the statutory purpose of '[promoting] innovation and development of the business sector in order to achieve a higher socioeconomic return.'[1] It has undergone several developments since then. As outlined in the 2014 Evaluation of the Danish Growth Fund:

> 'In 2001, DGF refocused its original strategy to making equity investments in order to be able to finance a larger number of companies. The 2010 evaluation of DGF focused on these activities. In 2009, the Danish Government increased DGF's activities more than tenfold with the addition of debt financing through the loan-guarantee scheme.'[2]

Following the financial crisis, Danish state funding was significantly reduced to schemes such as the Get-started-loans and *Vaekstkaution* (Guarantees – see section 3.8). Therefore the DGF had to become more market-oriented. The introduction of subordinated loans with a higher rate of interest was a direct result of this.[3] In 2013, the DGF replaced the Danish Council for Strategic Research, the Danish National Advanced Technology Foundation and the Danish Council for Technology and Innovation.

3.4 Organisational structure and ownership

Denmark's Ministry for Economic and Business Affairs is ultimately responsible for overseeing the operation of the DGF. The DGF is governed by an independent board of directors (five board members plus a chairman), appointed by the Minister of Business and Growth, and each serving on the board for a set term. It also has a CEO, who is not subject to a time-limited term.

The DGF receives funding from several sources. The main source is state funding in the form of capital contributions from the Ministry for Economic and Business Affairs. However funding is also provided from:

[1] Executive order implementing the Vækstfonden Act (Consolidated Act no. 549 of 01/07/2002)

[2] DAMVAD (2014) Evaluation of the Danish Growth Fund; Evaluation of activities, 2010–2012

[3] OECD (2014) Financing SMEs and Entrepreneurs 2014 An OECD Scoreboard: An OECD Scoreboard, OECD Publishing, p.128

- Loans taken in connection with the '*Vækstlån'* product (ordinary loans) and green investments.
- Loans taken to finance the Danish Growth Fund's capital contribution to the Dansk *Vækstkapital* initiative.[4]

3.5 Regulatory context

The DGF is governed by, and was set up to deliver, an independent legal act – the *Vækstfonden* Act (Consolidated Act no. 549 of 01/07/2002).[5]

The Act consolidated and updated previous legal acts concerned with business finance. Specifically, it allowed the provision of finance to SMEs for high-risk development projects concerned with either 1) the research and development of products, processes or services, and/or 2) market development.

3.6 Objectives and remit

The mission of the DGF is to 'contribute to the growth of economically viable yet uncertain small and medium-sized enterprises'.[6] It supports delivery of the 2012 Danish Innovation Strategy.[7] More generally, it serves to mitigate market failure in the provision of finance to business, and to increase the socioeconomic returns of investment.

As part of the Danish growth and innovation ecosystem, the DGF cooperates with other investment funds, private investors, institutional investors and other financial institutions, innovation incubators, regional innovation offices, Accelerace and CONNECT Denmark.

Whilst the DGF is not core-funded through EU funds, it has been involved in delivering European Investment Fund (EIF) support. Under the Competitiveness and Innovation Programme (CIP) programme in March 2014, €126 million was allocated for the DGF to deliver subordinated loans to SMEs. Up to €2.7 million was also drawn down under an agreement with the European Progress Microfinance Facility managed by the EIF, to provide finance to micro-entrepreneurs. The DGF was the first institution in Denmark to receive support under these facilities.[8]

There is no information indicating that the DGF operates in direct partnership with commercial banks as part of its normal operation, though it has done so to deliver the Progress Microfinance funding outlined above.

3.7 Geographical scope

The DGF operates nationally, with no regionally differentiated provision of services.

[4] http://www.vf.dk/om-vaekstfonden/formaal-og-strategi.aspx

[5] https://www.retsinformation.dk/forms/r0710.aspx?id=25948

[6] http://www.vf.dk/om-vaekstfonden/formaal-og-strategi.aspx

[7] The Danish Government (December 2012) Denmark – a nation of solutions; Enhanced cooperation and improved frameworks for innovation in enterprises, Ministry of Science, Innovation and Higher Education, Copenhagen

[8] EIF (2014) First Progress Microfinance and CIP agreements in Denmark bring over EUR 120m of loans for businesses, online [http://www.eif.org/what_we_do/microfinance/news/2014/Vaekstfonden.htm]

3.8 Forms of intervention

The DGF undertakes both direct and indirect venture activities. Through DGF Ventures, DGF invests directly in a number of companies, thereby holding a stake in these firms and taking responsibility for active co-ownership. Through DGF Funds, funds are allocated to private sector VC providers who then disburse the money to end-user firms.

These distinctions are not made clear on the website to prospective business applicants. Instead DGF promotes a differentiated set of equity and debt-based activities, under eight areas:

- Subordinated loans – for well-established SMEs with insufficient equity to secure bank loans. Equity is not required, but the DGF subordinated loan has a higher interest rate to reflect this.
- Loans – greater than DKK 2 million, for established firms
- Loans for entrepreneurs – for younger firms with difficulties obtaining finance from other sources
- Agricultural Development Loans – for younger farmers (under the age of 40) looking to purchase agricultural property
- Guarantees – a guarantee for up to 75% of financing up to DKK 2 million
- Venture capital from the DGF – equity investment for firms with high growth potential
- Venture capital from the private sector – the DGF operates with a number of private sector ‘business partners’, i.e. the private equity providers through which DGF provides indirect venture capital. Eight business partners are listed on the website: Accelerace, *Erhversinvest*, Excalibur, *Industri Invest Syd*, NES Partners, Nordic Biotech, NorthCap Partners and Northzone.

3.9 Scale

The DGF is a major provider of business finance in Denmark, particularly since it replaced the Danish Council for Strategic Research, the Danish National Advanced Technology Foundation and the Danish Council for Technology and Innovation in 2013. Since 1992, The Danish Growth Fund has together with private investors co-financed growth in more than 5,000 Danish companies with a total commitment of more than DKK 12 billion.[9] Capitalisation has grown since inception. Since 1992 DGF equity has increased from an initial DKK 2 billion to DKK 2.7 billion (€ 360 million to £260 million). Liquid assets including stocks and bonds amounted to DKK 653.2 million.

3.10 Sources

DAMVAD (2014) Evaluation of the Danish Growth Fund; Evaluation of activities, 2010–2012, online http://www.vf.dk/~/media/files/analyser/evalueringer%20og%20effektanalyser/evaluering%202014.pdf

European Investment Fund (2014) First Progress Microfinance and CIP agreements in Denmark bring over EUR 120m of loans for businesses, online: http://www.eif.org/what_we_do/microfinance/news/2014/Vaekstfonden.htm

[9] http://www.vf.dk/om-vaekstfonden/formaal-og-strategi.aspx

The Danish Government (December 2012) *Denmark – a nation of solutions; Enhanced cooperation and improved frameworks for innovation in enterprises*, Ministry of Science, Innovation and Higher Education, Copenhagen

Minister of Economic and Business Affairs (2002) *Bekendtgørelse af lov om VækstFonden,* Consolidation Act No. 549 of 01/07/2002, online https://www.retsinformation.dk/forms/r0710.aspx?id=25948

OECD (2014) *Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard*, OECD Publishing, online: http://www.oecd.org/cfe/smes/financing-smes-scoreboard-2014.htm

Vaekstfonden (2014) - http://www.vf.dk/

4. GERMANY: *LAND* BANKS AND *LAND* BUSINESS DEVELOPMENT BANKS

4.1 Summary

Germany has eight *Land* Banks and 17 *Land* Business Development Banks. The ownership structure, specific objectives and forms of intervention of the banks varies between *Länder* or regions. However, most *Land* Banks (which act as bankers and lenders to the *Länder* and local authorities) are owned by the relevant *Land* government and associations of local savings banks, while most Land Business Development Banks (which provide funding to SMEs and for infrastructure and other projects) are fully owned by the *Land* government or *Land* Bank. The *Land* Banks and *Land* Business Development Banks are seen to have a role in complementing purely market-based activities in situations where a free market approach may generate sub-optimal outcomes, and the specific policy tasks of each bank are set out in *Land* legislation. The banks are managed on commercial principles but their boards of directors are typically made up of *Land* government ministers, members of the *Land* parliament, civil servants and bank employees.

4.2 Type of institution

Publicly-owned regional banks.

4.3 History and background

The first regional public banks in Germany were set up in the first half of the 19th century and provided loans to local authorities to repay debts and invest in infrastructure. The *Land* Banks played an important role in the reconstruction of Germany after World War II, by lending funds to the *Länder* for investment in infrastructure and economic development. The *Land* Banks have since undergone various reforms, mergers and changes in ownership, being affected, for example, by European Commission concerns over market competition, as well as by the financial crisis of 2008.

4.4 Organisational structure and ownership

Both types of regional bank are owned either fully or in large part by public entities, although the specific allocation of shares varies between the individual banks.

- The main owners of the eight *Land* Banks are typically the relevant *Land* government and associations of local savings banks (*Sparkassen*). Other shareholders may include city authorities and other public banks or funds.
- Many of the 17 *Land* Business Development Banks are fully owned by the relevant *Land* (or by the *Land* Bank or a *Land* economic development agency), although the Saarland's business development bank is also partly owned by a number of commercial banks.

The banks are managed on commercial principles but their boards of directors are typically made up of *Land* government ministers, members of the *Land* parliament, civil servants and bank employees.

The banks may obtain funding on the capital market and also draw on public funding sources at *Land*, federal and EU levels, often with a view to providing specific services, programmes or funding opportunities.

4.5 Regulatory context

The banks are usually regulated by a specific *Land* law, and are also subject to broader banking rules and regulations. They are also audited by the relevant federal or *Land* court of auditors, in accordance with the relevant federal or *Land* budget laws (and also, when they manage EU funding, may be audited by the European Court of Auditors).

The European Commission and the German federal government reached an agreement in 2002 which recognised the role of Germany's public business development banks and set out conditions for ensuring that their activities are in accordance with EU competition law (e.g. explicit definition of their tasks, provision of services on a non-discriminatory basis, respect for State aid laws in relation to their clients).

4.6 Objectives and remit

The *Land* Banks and *Land* Business Development Banks are seen to have a role in complementing purely market-based activities in situations where a free market approach may generate sub-optimal outcomes. The specific policy tasks of the individual *Land* Banks and *Land* Business Development Banks are set out in *Land* legislation and vary between *Länder*; however, in general:

- The *Land* Banks undertake banking functions for the *Land* and local authorities within their respective geographical areas, and provide loans to public authorities. Some of the *Land* Banks may also provide loans for SME development and for infrastructure projects.
- The 17 *Land* Business Development Banks provide loans and other types of funding to SMEs and to projects relating to agriculture, infrastructure, housing, urban development and climate protection.

The *Land* Banks and *Land* Business Development Banks have various links with commercial banking structures. In particular, associations of local savings banks and sometimes commercial banks are among the shareholders of most *Land* Banks. Moreover, the *Land* Business Development Banks largely operate in cooperation with local commercial, savings or cooperative banks (see 4.8 below).

The *Land* Banks and *Land* Business Development Banks often draw on EU funding (e.g. from Cohesion policy) to deliver certain programmes (alongside funding obtained from domestic public sources and from capital markets).

4.7 Geographical scope

The *Land* Banks and *Land* Business Development Banks operate within specific regions:

- Each of the eight *Land* Banks covers between one and three *Länder*;
- Each of the 17 *Land* Business Development Banks covers a single *Land* (with two banks operating in Bavaria).

In addition, there are two national public banks:

- KfW banking group, which provides funding for domestic and international economic and business development projects;

- *Landwirtschaftliche Rentenbank*, which provides loans to banks in the EU which in turn provide funding for agriculture, related sectors and rural areas.

4.8 Forms of intervention

The *Land* Business Development Banks fund a number of instruments which support SME development, with the precise portfolio of instruments varying between banks. They may offer loans, guarantees and venture capital support.

The main mechanism through which the *Land* Business Development Banks support SMEs involves cooperation with commercial banks. Thus a firm applies for a loan from their usual commercial bank, which checks the applicant's creditworthiness and then applies to the Business Development Bank for a loan – i.e. it is the commercial bank which directly provides the loan to the firm.

A second mechanism may be used in the case of local savings banks (*Sparkassen*) or cooperative banks, as associations of these banks are often among the shareholders of the *Land* Banks. In this case, the firm applies for a loan from their usual savings or cooperative bank, which then forwards the loan application to their respective *Land* Bank or cooperative central bank, which assesses the application and then, if appropriate, sends the application on to the *Land* Business Development Bank.

4.9 Scale

The scale of the banks varies, largely due to the wide variation in the size of the individual *Länder* (or areas covered):

- In 2013, the financial assets of the *Land* Banks ranged from €17 billion (Saarland) to €274 billion (Baden-Württemberg), while the number of employees varied from 520 (Saarland) to 11,308 (Baden-Württemberg).
- In 2013, the financial assets of the *Land* Business Development Banks ranged from € one billion (Bremen) to €145 billion (North-Rhine Westphalia), while the number of employees varied from 54 (Bremen) to 1,256 (North-Rhine Westphalia).

4.10 Sources

Association of German Public Banks (*Bundesverband Öffentlicher Banken Deutschlands*, VÖB): http://www.voeb.de/de/startseite

VÖB (2014) *Promotional banks in Germany: Acting in the public interest*, Berlin, http://www.voeb.de/de/publikationen/fachpublikationen/publikation-foerderbanken-englisch.pdf

VÖB (2014) *Jahresbericht 2014* (annual report), Berlin, http://www.voeb.de/de/publikationen/jahresbericht-2014.html

5. GERMANY: KREDITANSTALT FÜR WIEDERAUFBAU - KFW BANKING GROUP

5.1 Summary

The KfW (Credit Institute for Reconstruction) is a public bank established shortly after World War II. It was initially established to support post-war restructuring, but is now involved in a wide range of activities – including exporting and support for SMEs and operates internationally as well as through Germany. Although initially established with public funds, the KfW now raises most of its capital on commercial markets.

Due to the top credit standing of the KfW Banking Group and the additional security provided by the direct guarantee of the Federal Republic, all three financial rating agencies - Fitch Ratings, Standard & Poor's and Moody's - have assigned a triple-A rating to KfW.

5.2 Type of institution

KfW is a public bank, and is formally a public law institution (*Anstalt des öffentlichen Rechts*).

5.3 History and background

A law establishing the KfW was published on 18 November 1948 and operations started on 2 January 1949, with the aim of supporting post-war reconstruction by providing loans for investment in housing and business stock. It expanded into export financing in 1950 and into SME support in 1952.

5.4 Organisational structure and ownership

KfW operates as an independent entity on a commercial basis. However, its goals are set in federal law and target the provision of public goods.

KfW has two key governing bodies. The Executive Board is made up of senior staff, including the chief executive, and is responsible for conducting the KfW's business, administering its assets in accordance with public laws, and implementing resolutions taken by the second body, namely the Board of Supervisory Directors. This second body is made up of: the Federal Minister of Finance and the Federal Minister for Economic Affairs and Energy (who alternate the roles of chair and deputy chair on an annual basis), five other specified federal ministers, seven members appointed by each of the two federal houses of parliament; one representative each of the mortgage banks, the savings banks, the cooperative banks, the commercial banks, and a credit institution prominent in the field of business credit; two representatives of industry and one representative each of the municipalities, agriculture, the crafts, trade, and the housing industry; and four representatives of the trade unions.

The nominal capital of KfW is provided by the Federal Republic (80 percent) and the *Länder* (20 percent). Originally, KfW was funded with public resources and Marshall Plan funds. However, KfW now raises over 90% of its funding on capital markets, with a small percentage of its funding received from the federal government for reducing interest rates on certain types of loan (e.g. for energy efficiency projects).

The Federal Republic guarantees the loans and debt securities issued by KfW, as well as fixed forward transactions or options entered into by KfW, and credits extended to third parties and guaranteed by KfW.

KfW has a number of subsidiaries, notably:

- KfW IPEX-Bank, which provides project and corporate finance and offers trade and export finance in Germany and abroad, and conducts all KfW activities that are carried out on commercial terms;
- *Deutsche Investitions- und Entwicklungsgesellschaft* (DEG), which promotes private-sector initiatives in developing and transition countries;
- *Technologie-Beteiligungs-Gesellschaft* (tbg), which focuses on previous commitments relating to start-up and SME financing (whereas all new activities in this field are undertaken within KfW rather than by a subsidiary);
- *Finanzierungs- und Beratungsgesellschaft* (FuB), which undertakes activities relating to the former German Democratic Republic (GDR);
- *Deutsche Energie-Agentur* (dena), which promotes efficient and environmentally friendly production and the use of renewable energies.

5.5 Regulatory context

The legal basis for the KfW is the Law concerning the *Kreditanstalt für Wiederaufbau* and the KfW bylaws.

The Federal Ministry of Finance, in consultation with the Federal Ministry for Economic Affairs and Energy, supervises KfW and ensures that it operates in accordance with laws, bylaws, other regulations, including the Banking Act, the Supervision of Financial Conglomerates Act, relevant sectoral regulations, and EU regulations.

5.6 Objectives and remit

The Law concerning the KfW sets out the tasks of the KfW in terms of:

1. Promotional tasks, notably financing, in pursuit of a State mandate in the following areas:

- small and medium-sized enterprises, liberal professions, and business start-ups,
- risk capital,
- housing,
- environmental protection,
- infrastructure,
- technical progress and innovations,
- internationally agreed promotional programmes,
- development cooperation,
- other promotional areas specifically stated in laws, regulations, or published guidelines on public economic policy that are assigned to KfW by the Federal Republic or by a *Land*.

2. Granting loans and other forms of financing to sub-national public authorities and special-purpose associations under public law.

3. Financing measures with purely social goals and for the promotion of education;

5.7 Geographical scope

Domestically, the KfW operates throughout Germany but offers particularly favourable loan schemes for municipal investment in infrastructure in structurally weak areas. These range from investments in infrastructure - including the development of industrial parks, road construction and sewerage networks - to investments in building refurbishment to improve energy efficiency and in the expansion of renewable energies

The KfW, it also operates internationally and has 80 offices and representations around the world.

5.8 Forms of intervention

In most cases, KfW loans are distributed through savings banks, cooperative banks and commercial banks, which assess the loan applicant and their plan, before deciding whether to fund the project and apply for a KfW loan. KfW can facilitate the granting of a loan by assuming part of the liability. In a limited number of cases, KfW directly provides grants, notably for energy-saving investments in houses. In addition, KfW provides loans directly to public borrowers such as local authorities.

The focal points of its work include:

- Promotion of small and medium-sized companies and of start-ups
- Programmes for the energy-efficient refurbishment of residential buildings
- Support of measures to protect the environment
- Educational finance for retail customers
- Funding programmes for municipalities and regional development banks
- Export and project financing
- Promotion of developing and transition countries

In Germany, KfW provides support to:

- private individuals, through student and apprenticeship loans, and by closing financial gaps when individuals obtain mortgages or loans from commercial banks for house purchases or renovations (especially to upgrade energy efficiency);
- enterprises, through long-term investment loans, as well as working capital loans to SMEs (especially to improve energy efficiency, with these loans part-subsidised by the federal government’s budget); loans to enterprises are generally granted through commercial banks, with the KfW reducing the costs to the commercial bank and sometimes taking on some of its risk;
- local authorities, enterprises owned by local authorities, and local non-profit organisations, through long-term loans, at favourable interest rates, for capital expenditure, and with particularly favourable loan schemes for municipal investment in infrastructure in structurally weak areas.

The KfW is also active in the areas of export and project finance and overseas development. In addition, KfW supports the Federal Government in the performance of special tasks such as the privatisation of Deutsche Telekom and Deutsche Post and KfW Group grants global loans to partner

banks in Europe that enable them to extend medium and long-term investment loans to small and medium-sized enterprises (SMEs) and to municipalities with a focus on environmental and climate protection.

5.9 Scale

In 2013 (latest data), Kfw Banking Group had 5,374 employees in 2013 and a balance sheet of €464.8 billion. KfW Group committed a total of €72.5 billion in funding in 2013, with the majority of funds allocated to small and medium-sized businesses and to environmental and climate protection.

5.10 Other relevant information

5.11 Sources

https://www.kfw.de/kfw.de-2.html

https://www.kfw.de/KfW-Group/Service/Download-Center/The-Bank-(EN)/

https://www.kfw.de/PDF/Download-Center/Konzernthemen/KfW-im-%C3%9Cberblick/GP_2014_deutsch_112014_final-2.pdf

https://www.kfw.de/PDF/Download-Center/Konzernthemen/KfW-im-%C3%9Cberblick/KfW-an-overview.pdf

https://www.kfw.de/PDF/Download-Center/Finanzpublikationen/PDF-Dokumente-Berichte-etc./1_Gesch%C3%A4ftsberichte/Gesch%C3%A4ftsbericht_2013-2.pdf

6. FINLAND: FINNVERA

6.1 Summary

Finnvera is a state-owned specialised financing company which was set up in 1999. Under the governance of the Ministry of Employment and the Economy, Finnvera's statutory tasks are to promote and develop the operations of firms, in particular SMEs; to promote exports and internationalisation of businesses; and to promote the government's regional policy goals. Finnvera provides loans, guarantees and venture capital investments, as well as funds for export credits.

6.2 Type of institution

Finnvera is a state-owned specialised financing company. It aims to supplement the financial markets by providing businesses with loans, guarantees, venture capital investments and export guarantees. Finnvera is also the official Export Credit Agency of Finland.

6.3 History and background

Finnvera was set up in 1999 through the merger of Kera Corporation (*Kera Oyj*) and the Finnish Guarantee Board (*Suomen Valtiontakuukeskus*). Kera Corporation provided loans and guarantees for domestic business activities while the Finnish Guarantee Board was responsible for export credit services. The merger in 1999 took place in order to reorganise the administration of publicly supported special financing, to improve the efficiency and effectiveness of the State's special financing and to streamline the State's corporate governance.[10]

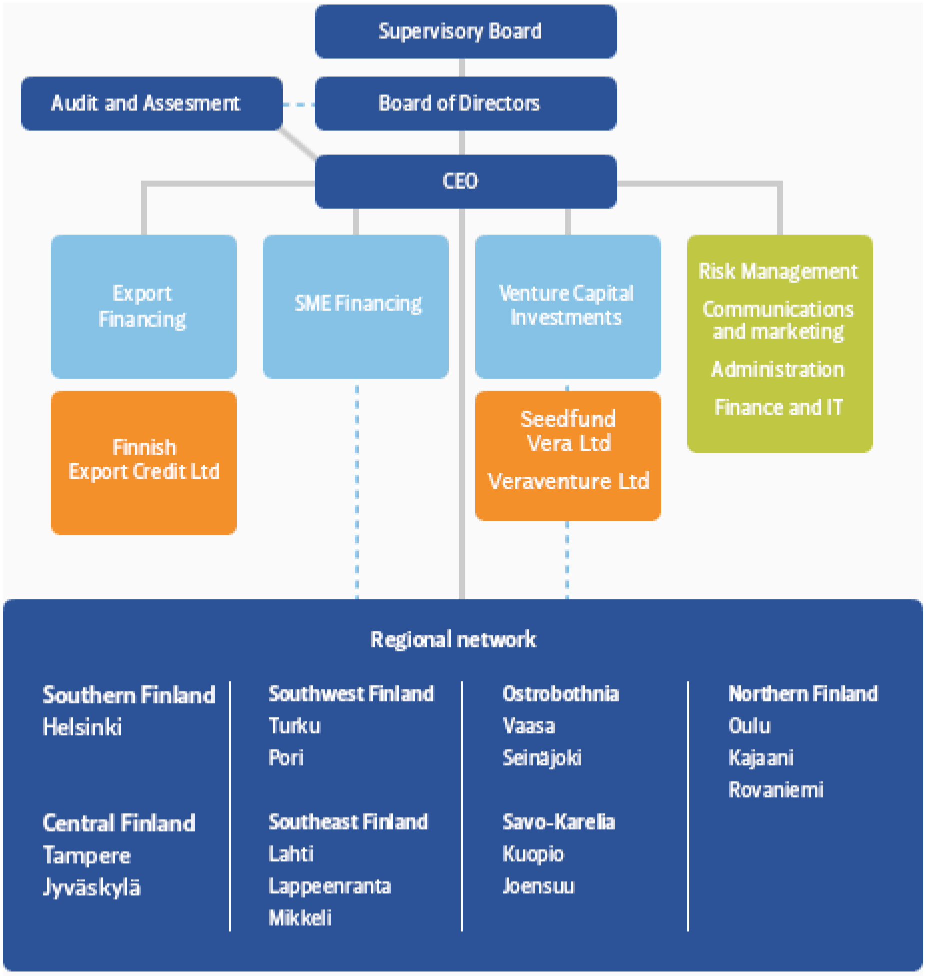
6.4 Organisational structure and ownership

Finnvera is a public limited company entirely owned by the State of Finland and administered and governed by the Ministry of Employment and the Economy. Finnvera enables 'total financial solutions', consisting of Finnvera Group's own products, as well as other public and private sources.

Finnvera is expected to be economically self-sufficient (i.e. in the long run, it must be able to cover its own operating costs and credit and guarantee losses with the income from commercial activities). The State currently covers c. 50 percent of Finnvera's domestic credit losses. Other losses and operational costs are to be covered by profits. Finnvera borrows on domestic financial markets to fund its activities. However, the State is directly responsible for the domestic guarantees and export credit guarantees granted by Finnvera.[11]

[10] Heinonen J. and Smallridge D. (2004) Finnvera Plc: An International Evaluation, An evaluation commissioned by the Ministry of Trade and Industry.
[11] Ministry of Employment and the Economy (2012) Evaluation of Finnvera Plc, Final Report, Publications of the Ministry of Employment and the Economy 28/2012.

Figure 1: Finnvera organisational structure



Source: http://www.finnvera.fi/eng/Finnvera/Finnvera-in-brief/Organisation

6.5 Regulatory context

Finnvera is a public limited company entirely owned by the State of Finland and administered and governed by the Ministry of Employment and the Economy.

Finnvera's activities are steered by specific legislation,[12] the government's commitments and annual ownership and industrial policy goals set by the Ministry of Employment and the Economy. In addition Finnvera and its subsidiaries are subject to the Companies Act (624/2006); other administrative provisions and EU, OECD and WTO regulations apply to the company. However, the Credit Institution Act (121/2002) does not apply to Finnvera.[13]

[12] Act on the establishment of Finnvera (442/1998), Act on State-owned special financing company (443/1998), Act on Finnvera's operations (445/1998), Act on the State Guarantee Fund (444/1998), Act on export credit guarantees (422/2001), Act on ship guarantees (573/1972), Act on state guarantee to secure basic raw material service (651/1985), Act on state guarantees and export credits on investments promoting protection of the environment (609/1970).
[13] Ministry of Employment and the Economy (2012) Evaluation of Finnvera Plc, Final Report, Publications of the Ministry of Employment and the Economy 28/2012.

6.6 Objectives and remit

Finnvera is a state-owned specialised financing company. Its mandate is set in legislation. Specifically, it is tasked with:

- promoting and developing operations in enterprises, in particular SMEs;
- promoting exports and internationalisation of enterprises; and
- promoting the realisation of government's regional policy goals.

In the past Finnvera has used EU funds. For instance, the European Regional Development Fund was used in 2007-13 to fund interest subsidies and guarantee provisions.[14] In 2014-20, Finnvera's loan products are no longer offered in the context of the implementation of ESIF programmes. Similarly, Finnvera's venture capital investment activities are no longer co-funded through ESIF.[15]

6.7 Geographical scope

Finnvera operates nationally with 15 offices located across seven regions (see diagram earlier). In addition, its subsidiary, Veraventure Ltd., is responsible for regional venture capital activities.

6.8 Forms of intervention

Finnvera provides financing for the start-up, growth and internationalisation of enterprises and guarantees against risks arising from exports. The financing takes place through the provision of loans, guarantees, venture capital investments and export financing services. Within the Finnvera Group, venture capital investments are carried out by Finnvera's subsidiaries, Veraventure Ltd and Seed Fund Vera Ltd. Furthermore, Finnish Export Credit Ltd, another subsidiary of Finnvera, administers the interest equalisation system for officially supported export credits and domestic ship financing in accordance with the OECD Arrangement.[16]

6.9 Scale

There are a number of actors supporting Finnish companies, particularly SMEs, under the supervision of the Ministry of Employment and the Economy. Finnvera is one of these organisations.

Figure 2: Funding provided by Finnvera (€m)

	2014	2013	2012	2011	2010
SME funding	815	757	853	977	914
Export guarantees, special guarantees	4,989	3,398	5,351	3,796	2,379

Source: http://www.finnvera.fi/Finnvera/Toiminta/Rahoitustoiminta

6.10 Other relevant information

According to the latest Government decision of 30 December 2014, in 2015-2017, Finnvera may also provide funding to larger firms – those with annual turnover of up to €300 million. Prior to 30

[14] https://www.tem.fi/yritykset/rahoitus/lainat_takaukset_ja_viennin_rahoitus
[15] http://www.keskisuomi.fi/filebank/23747-Rahoituksen_haku_ja_maksatus_PP.pdf (accessed 28 January 2015).
[16] http://www.finnvera.fi/eng/Finnvera/Operations/Financing

December 2014, Finnvera had only been able to provide financing to larger firms in the eligible support areas (designated regional aid areas). The background to the Government decision is the perception of an anomaly in funding opportunities. Specifically, the existence of a number of public funding sources for SMEs, but much more limited funding opportunities for those above the SME definition. Growth-oriented companies may quickly fall outside the SME definition, although in international context they are still considered as small firms. Similarly, for instance, firms establishing abroad can easily exceed the 250 person limit.[17]

6.11 Sources

www.finnvera.fi

Ministry of Employment and the Economy (2012) Evaluation of Finnvera Plc, Final Report, Publications of the Ministry of Employment and the Economy 28/2012.

Heinonen J. and Smallridge D. (2004) Finnvera Plc: An International Evaluation, commissioned by the Ministry of Trade and Industry.

[17] http://www.finnvera.fi/Finnvera/Uutiset/(newsid)/3640 (accessed 12 January 2015)

7. FRANCE: BANQUE PUBLIQUE D'INVESTISSEMENT - BPI FRANCE

7.1 Summary

BPI France is a business development bank established in 2012 through the merger of a number of existing business support funds and organisations in France. BPI France is not a bank as such (it has no banking licence) but operates a number of financial instruments, principally targeted at SMEs. It operates nationally and has strong regional presence.

7.2 Type of institution

Bpi France is not a bank, but a financial company, which provides banking instruments and manages funds.

7.3 History and background

Bpi France was provided for in specific legislation in 2012.[18] It brought together under a single banner a number of existing actors involved in investment activities and financial instruments, such as Oseo, CDC Entreprises and earlier structures such as CEPME, Sofaris and ANVAR. It was modelled on the KfW, the German government-owned development bank.

It has four main objectives:

- to maintain and even increase countercyclical support for business finance and investment against a background of credit scarcity
- to develop a new growth strategy based on innovation and international competitiveness, through long-term investments
- to facilitate and business access to support through a single contact per region
- to create a partnership involving several public actors (State, *Caisse des dépôts et consignations*, CDC (a public financial institution), regional authorities) around a coordinated strategy.

7.4 Organisational structure and ownership

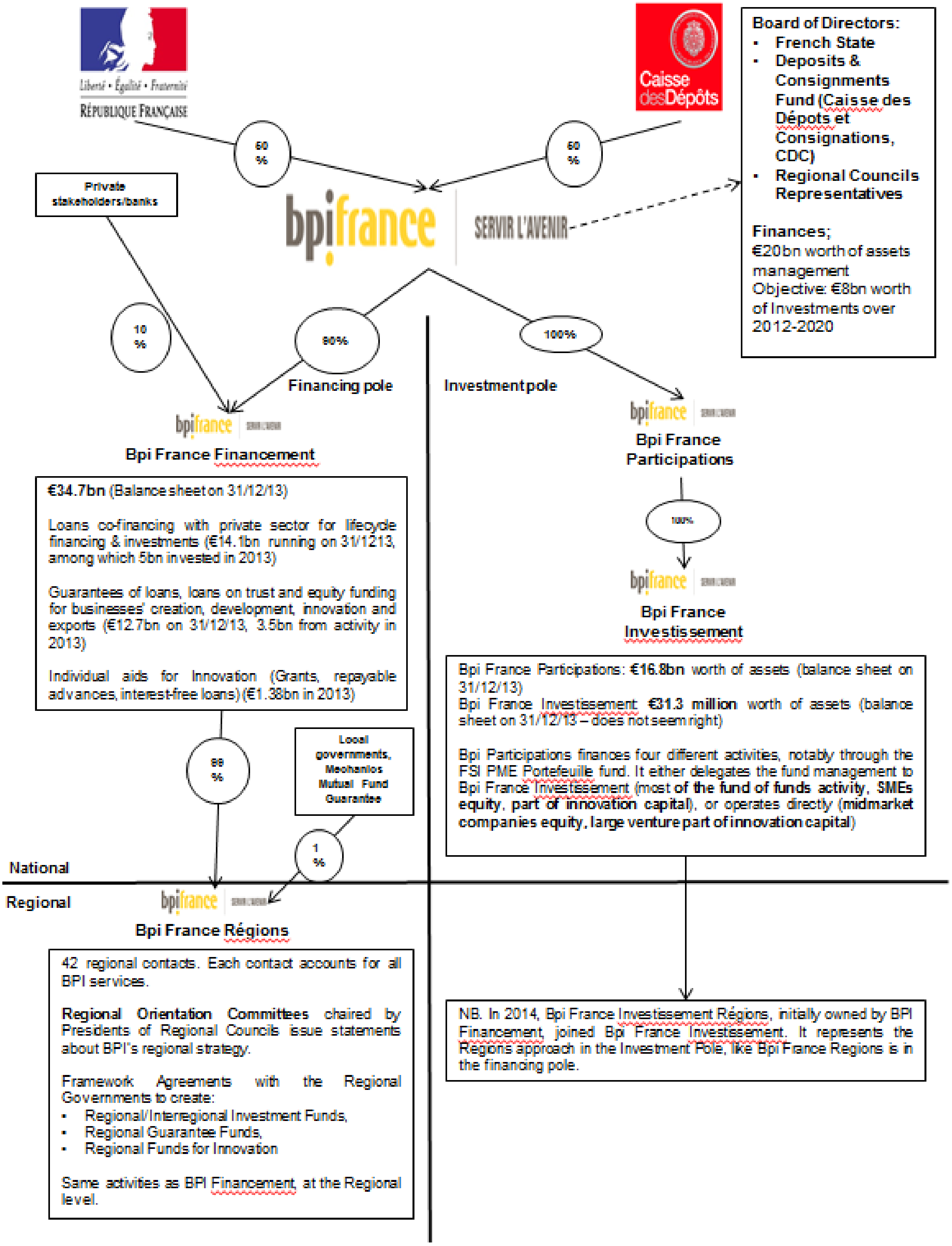
Bpi France is jointly owned by the French State and the CDC. It has two subsidiary structures, with separate legal identities (see Figure 3). The CDC is a public financial institution dating back to the early 19th century. It has a mandate "to respond to needs the market can't meet alone" (CDC website), and is involved in two types of (mostly long-term) investments:

- financial investments in real estate, capital projects, infrastructure and financial services such as insurance
- public-interest investments: SME support, social housing, infrastructure.

The CDC is funded by returns on its own investments, and taxes on regulated savings accounts revenue.

[18] LOI n° 2012-1559 du 31 décembre 2012 relative à la création de la Banque publique d'investissement

Figure 3: Bpi France fund management structures



Source: EPRC

7.5 Regulatory context

Bpi was created by the law of 31 December 2012 regarding the creation of the Public Investment Bank.[19]

Bpi France Directeur-Général, Nicolas Durfourcq, was appointed by a decree of the President of the French Republic,[20] on the proposal the Council of Ministers (presided over by the French President) and with the endorsement of National Assembly and the Senate. He is the president of the Executive Committee, which regroups the executive directors from various Bpi sectoral divisions.[21]

The board of directors sets quantitative objectives regarding return on investment and risk-taking. Decisions involving the State's financial commitments cannot be taken without the State representatives' consent. It is chaired by the Directeur-Général of the CDC and includes:[22]

- senior representatives of the stakeholders (four for the State, four for the CDC, including the DG),
- two representatives of the Regional Councils,
- three people chosen for recognized skills in the fields of economics, finance and sustainable development, including the Directeur-Général of Bpi France
- two staff representatives
- the President of the National Orientation Committee (see below), who has no voting rights.

(NB. gender parity has to be respected).

The National Orientation Committee issues non-binding statements on Bpi's strategy. It brings together the Presidents of the Regional Councils (NB. each region also has its own Orientation Committee), State representatives, employees and employers unions' representatives. It is chaired by the President of the Association of French Regions.

Bpi *France Investissement* operates under the control of the Financial Markets Authority (*Autorité des Marchés Financiers – AMF*).

As a credit body, Bpi *France Financement* has to abide by the banking regulation and State aid rules, and operates under the control of the French Prudential Supervisory Authority (Autorité de Controle de Prudentiel – ACP).

7.6 Objectives and remit

Bpi France's economic objective is to pursue a growth strategy based on innovation and international competitiveness (mainly through SMEs), using its public status to promote long-term investments.

[19] Law of 31 December 2012 regarding the creation of the public investment bank. http://www.legifrance.gouv.fr/affichTexte.do;jsessionid=?cidTexte=JORFTEXT000026871127&dateTexte=&oldAction=rechJO&categorieLien=id

[20] Decree of the President of the French Republic of 8 February 2013, appointing the Directeur-Général http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000027042109

[21] http://www.bpifrance.fr/Bpifrance/Notre-organisation

[22] http://www.legifrance.gouv.fr/affichTexteArticle.do;jsessionid=95C9162A8B47417339F79D316C8ABCA0.tpdjo06v_2?cidTexte=JORFTEXT000000810872&idArticle=LEGIARTI000026898531

In terms of ongoing cooperation with the European Investment Bank:

- **In September 2013**, Bpi France and the European Investment Bank (EIB) signed a financing contract due to which Bpi France will have access to up to €750 million of credits and up to €200 million of guarantee for investments in SMEs and midmarket companies targeting the stage between the end of R&D step and the beginning of the product life cycle step.
- **In October 2014**, as the European Investment Fund (EIB) launched a capital increase, Bpi France became the biggest shareholder (owning 2.3% of the fund's capital) with the German public development bank KfW.
- **In December 2014**, Bpi France and the EIB signed an agreement by which both institutions commit to investing between €400m and €500m over the next four years in French investment capital funds targeting SMEs and midmarket companies.

7.7 Geographical scope

Bpi operates nationally and pursues both a national and a regional strategy. Both Bpi France *Financement* and Bpi France *Investissement* have dedicated operations at the regional level, specifically, national investment programs and Framework Agreements with the Regional Councils to create regional/interregional investment funds, regional guarantee funds, and regional funds for innovation.

Bpi France claims 90 percent of its investment decision are taken locally. There are 42 regional contact points.

7.8 Forms of intervention

Various financial instruments (grants, loans, repayable advances, guarantee, equity) are available to firms of all sizes (although most are aimed at SMEs), at all stages of development (seed capital, risk capital, growth and expansion capital, lifecycle support, export support, restructuring), in order to support a range of activities (although mostly aimed at innovation).[23]

Bpi France's support can be direct (in such cases, minor and alongside private banks, private national and regional funds – 500 direct interventions, 90 regional funds) or indirect (investments in partner funds and funds of funds).

It operates mostly in France and Europe, as well as in other areas when partnerships are deemed beneficial to French economic interests.

Bpi France Investment does not invest in certain sectors (real estate, banks and insurance companies, infrastructure financing structures, media).

[23] 2013 Bpi Participations Activity Report, 2013 Bpi Financement Activity Report
file:///C:/Users/srb14227/Downloads/Annual%20Report%202013%20EPIC%20BPI-Groupe.pdf
file:///C:/Users/srb14227/Downloads/Annual%20Report%202013%20Bpifrance%20Financement.pdf

Bpi France activities – Financing + Investing

<table>
<tr><th></th><th>Micro firms</th><th>SMEs</th><th>Mid-caps</th><th>Large Companies</th></tr>
<tr><td rowspan="2">Innovation Aid</td><td colspan="3">grants, interest-free loans, repayable advances
innovation loans to help innovation commercialization
equity investments</td><td rowspan="2"></td></tr>
<tr><td>seed loans to support fundraising</td><td colspan="2"></td></tr>
<tr><td>Guarantees</td><td colspan="2">40% to 60% guarantees to stimulate bank financing of SMEs in high-risk stages: creation, takeover, innovation, international development, cash-flow reinforcement</td><td colspan="2"></td></tr>
<tr><td rowspan="2">Financing</td><td colspan="4"><u>Loans</u>
Property and equipment leasing
Medium and long term loans
Growth loans (no guarantee required) to finance intangibles and lifecycle support
Mezzanine funds
cash-flow reinforcement by pre-financing of tax cuts

<u>Equity investments</u> alongside private national and regional funds (260 partner funds, including 95 regional funds)</td></tr>
<tr><td>Seed capital</td><td colspan="2">buyout capital, growth capital</td><td></td></tr>
<tr><td>Assistance and Financing of Exporting Activities</td><td></td><td colspan="2">partnerships with UBIFRANCE and Coface
development or implantation support
export loans
guarantees
support and pre-financing for specified export costs</td><td></td></tr>
<tr><td>Collaborative Innovation Projects</td><td colspan="3" rowspan="2"></td><td></td></tr>
<tr><td>Capital Stabilization</td><td></td></tr>
</table>

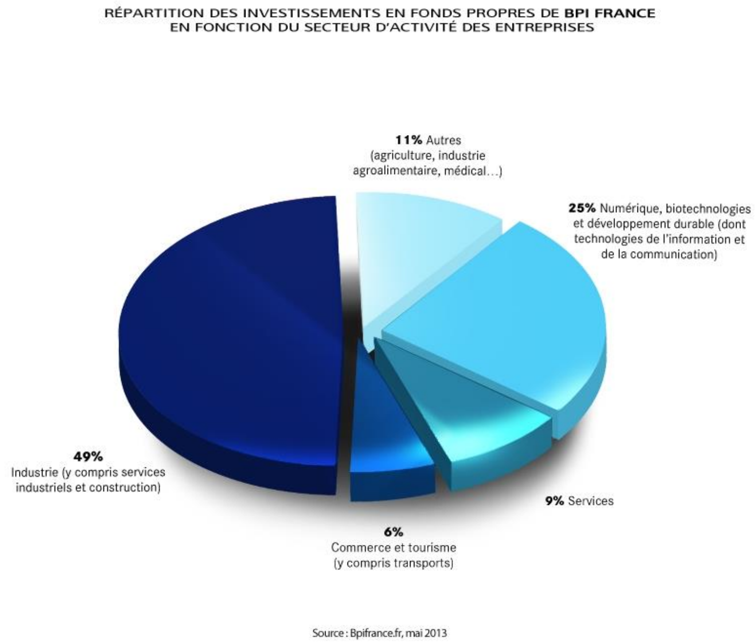
7.9 Scale

Activity	Description of the activity	Funds management (not funding) (+ amounts invested in 2013 - € million)	
		Bpi France Investissement	Bpi France Participations
Fund of funds management	€1.1bn managed (31/12/13) Investments in 2013: 1/3 development 1/3 risk 1/3 seeding capital From seed capital to transmission capital 270 national or regional private funds		?
SMEs equity	€730 million managed (31/12/13) – €119 million invested in 2013*** Growth investment funds, sectorial funds, and regional investment funds (financed by PME Portefeuille, managed by Bpi Investissement) 409 businesses From seeding capital to transmission capital	56 (+62 by Bpi Investissement Régions)	0
Innovation capital	€269 million managed (31/12/13) €72 million investment in 2013*** When needs not satisfied by market conditions 4 Innovation funds, including funds raised under the Investments for Future Programme (Programme d'Investissements d'Avenir – PIA). NB. Some of the innovation investment through fund of funds activity	55 (Bpi Investment Activity Report) 19 (Bpi Participation Activity Report)	53 (Large venture) (both reports say so)
Midmarket and Large Companies Equity	368 million invested in 2013 Stocks in large businesses Funds for Middle-Market Companies, sectorial funds for automotive equipment suppliers (625 million managed?)	1	366

7.10 Other relevant information

Changes were anticipated in 2014. Bpi France Investissement was supposed take over the management of all activities (i.e. adding midmarket companies and large firms to its remit), while Bpi France Participations would assume a holding role.

Figure 4: Distribution of equity investments per sector



7.11 Sources

The doctrine of intervention, presented to the French National Assembly and to the French Senate on May 15, 2013.

8. IRELAND: STRATEGIC BANKING CORPORATION OF IRELAND (SBCI)

8.1 Summary

The Strategic Banking Corporation of Ireland (SBCI) was formally launched in October 2014, in the wake of Ireland's exit from the EU/IMF financial support programme in December 2013. It is a new, strategic SME funding company, aiming to ensure access to flexible funding for Irish SMEs. Its objective is to support sustained SME-led economic performance in Ireland following the recession.

8.2 Type of institution

The SBCI is a private company limited by (State-owned) shares,[24] incorporated in Ireland.

8.3 History and background

The financial crisis highlighted Ireland's lack of a State development bank, and the lack of institutions/structures able to provide financial support to SMEs in times of fiscal hardship. Following discussions between Enda Kelly (Ireland's Taoiseach - Prime Minister - since 2011) and Angela Merkel, it was agreed that that the German promotional bank *Kreditanstalt für Wiederaufbau* (KfW) would help finance the Irish SME sector towards the end of the bailout programme period.

Following this, the Department of Finance and the National Treasury Management Agency worked throughout 2014 to create the necessary mechanisms to establish the SBCI. Building on the initial funding offer from the KfW, the project team added funding from the European Investment Bank (EIB) and the Ireland Strategic Investment Fund, a new fund to which the assets of the National Pensions Reserve Fund were transferred.[25]

The Government approved this approach and the Strategic Banking Corporation of Ireland Act 2014, enabling the establishment of the SBCI, was passed by the Oireachtas (national parliament, including both the lower and upper houses) in July 2014.

8.4 Organisational structure and ownership

The SBCI is a State-owned institution, established as a limited private company. It is based in the National Treasury Management Agency, a State body which 'operates with a commercial remit to provide asset and liability management services to Government'.

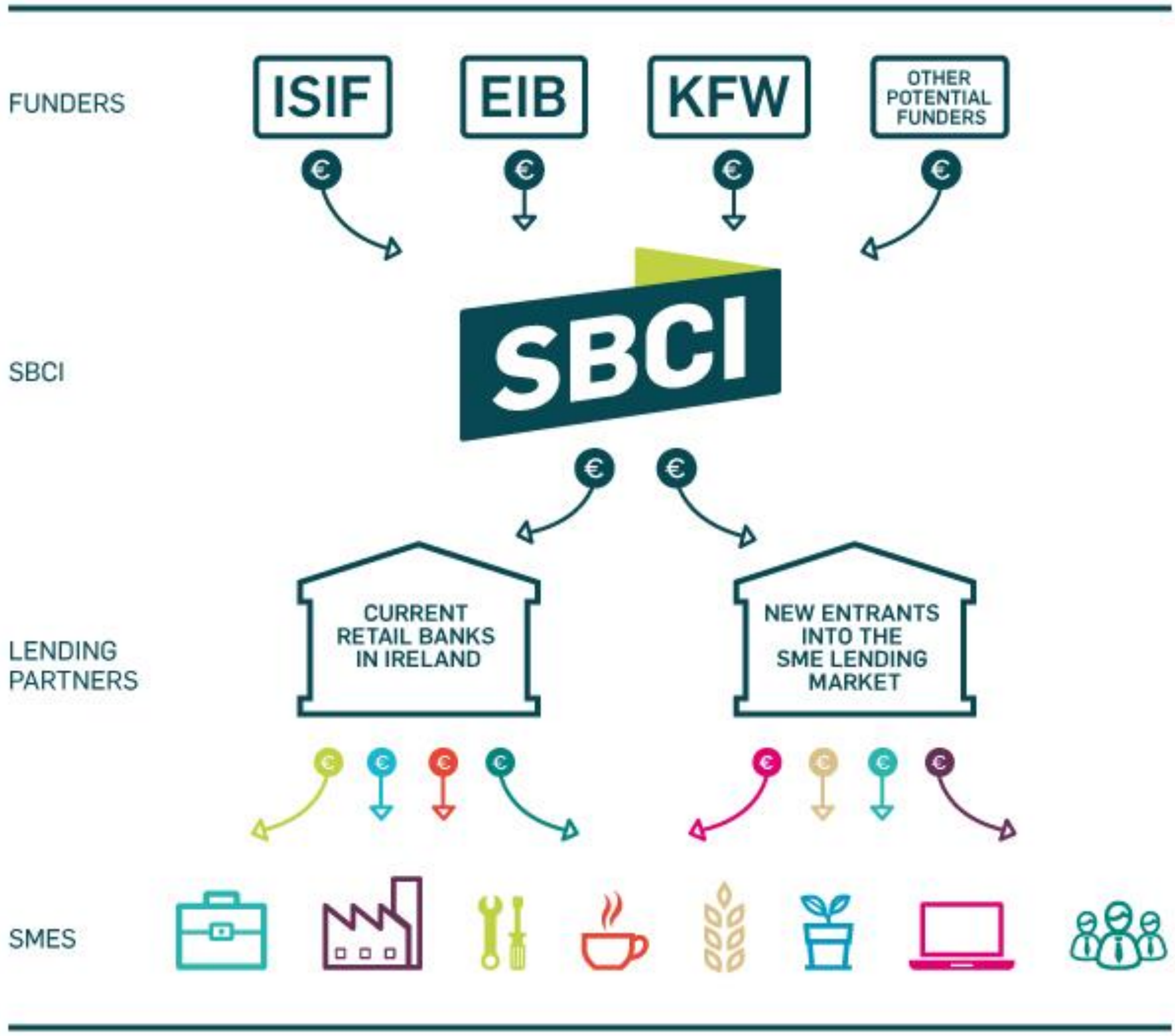
Initial funding partners and their financial contributions are as follows:

- the EIB - €400 million
- Kreditanstalt für Wiederaufbau (KfW) - €150 million

[24] The issued share capital of the SBCI is owned solely by the Minister for Finance – see 'Organisational structure and ownership'.
[25] ISIF is the new name for the National Pensions Reserve Fund, 'facilitating a redeployment of National Pensions Reserve Fund resources on a commercial basis to areas of productive investment in the Irish economy in order to support economic activity and employment'.

- the Ireland Strategic Investment Fund (ISIF) - €350 million. ISIF has also provided €10 million in equity capital to fund SBCI start-up costs.

Figure 5: SBCI operational structure



Source: http://sbci.gov.ie/about-us/what-is-the-sbci

8.5 Regulatory context

The SBCI was created through the Strategic Banking Corporation of Ireland Act 2014. Set up as a private company, the SBCI legal basis is set out in Ireland's various Companies Acts, the first iteration of which was established in 1963. The SBCI is exempt from three provisions of the Companies Acts, as follows:

- section 60 (1) of the Companies Act 1963 (the prohibition on providing financial assistance in connection with a purchase or subscription for shares in the SBCI);
- the presumption in section 26 (6) of the Companies Act 1990 that a sole member of a single member company is a connected person; and

- Part IV of the Companies Act 1990 (the requirement to disclose interests in shares to the SBCI).[26]

Further, 'the SBCI is not authorised or regulated by the Central Bank of Ireland and is not a credit institution within the meaning of the Central Bank Acts'.[27] Governance is provided by a Board of Directors, of which three have so far been appointed for the initial six months of the SBCI's existence. These include representatives of the National Treasury Management Agency, the Department of Finance and the Chief Executive of the SBCI.

The SBCI has adopted a Code of Conduct the objectives of which are to establish a set of ethical principles, promote and maintain confidence and trust in the SBCI, and prevent the development or acceptance of unethical practices.

As an institution based in the National Treasury Management Agency, SBCI human resource and support needs are met through the former. Ireland's Office of the Comptroller and Auditor General (CAG) is responsible for auditing the SBCI.

8.6 Objectives and remit

The SBCI Act 2014 specifies that its purpose with regard to the formation of the SBCI is to: (i) facilitate the provision of credit through on-lending to enterprises (particularly SMEs); and (ii) to make available funding for the provision of credit to enterprises (particularly SMEs).[28]

Establishment of the SCBI can be seen as contributing to the 'Access to Finance for Micro, Small and Medium Enterprises' objective in Ireland's Action Plan for Jobs (APfJ) 2014 strategy; however, no mention of the SBCI was made in the APfJ Third Progress Report released for Q3 2014. It is likely to be covered in the forthcoming APfJ 2015, currently under preparation.

From a market perspective regarding the provision of SME finance in Ireland, there is limited information available as to how the SBCI will relate to existing commercial products, notwithstanding the fact that part of the rationale for its establishment was an identified gap in pre-existing SME finance availability. The use of commercial on-lenders such as retail banks is presumably intended to capitalise on their existing market presence, their expertise in assessing SME finance needs, and their physical assets (i.e. the number and spatial distribution of branches in Ireland). Because the SBCI will receive financial input from the EIB, funds provided to SMEs through the on-lenders must pass on the lower costs of sourcing through the SBCI, in order to avoid contravening State aid regulations.

8.7 Geographical scope

The SBCI will operate nationally.

[26] Strategic Banking Corporation of Ireland Act 2014, Section 22.
[27] http://sbci.gov.ie/disclaimer
[28] Strategic Banking Corporation of Ireland Act 2014, Section 2(b).

8.8 Forms of intervention

The SBCI will not provide direct support to SMEs. Initially, SBCI will source funds externally through its three funders (EIB, KfW and ISIF) and lend them to SMEs through loans via other institutions (on-lenders). On-lenders may be retail banks or other organisations which have the ability to assess loan proposals from SMEs. The SBCI website lists the on-lenders only as 'current retail banks in Ireland' and 'new entrants into the SME lending market' (see Figure 5). More funders are being sought as of 2015, including unspecified development bank(s) in France.

'The SBCI will initially offer long-term working capital and capital investment finance through a number of lending partners, including both bank and non-bank lenders'.[29] The SBCI will aim to provide:

- flexible products with longer maturity and capital repayment flexibility;
- lower cost funding to financial institutions which is passed on to SMEs; and
- market access for new entrants to the SME lending market, creating real competition.

Current publicity material and press releases focus heavily on loan capital as the main method of providing finance to SMEs. SBCI lending models are based largely on those of KfW and will include much longer lending terms for capital investment, and interest holidays of typically around 18 months. The focus is on 'loans of greater duration, with enhanced terms and potentially at a lower cost'.

8.9 Scale

Initial SBCI capitalisation was reported as €800 million in October 2014, up from an initially reported €500 million in May 2014. Media reports indicate that capitalisation may increase to €5 billion over the next five years.[30]

Because the SBCI is still developing its product offer as of January 2015, it is not yet possible to provide information on the scale of its operations, such as (for example) the number of loans it will make. However it can be inferred from available information that the SBCI is intended to stand as a major provider of SME finance in Ireland.

8.10 Sources

Department of Jobs, Enterprise and Innovation (2014) Action Plan for Jobs 2014 Third Progress Report http://www.djei.ie/enterprise/apj.htm

Department of Finance (22 May 2014) 'Government announces Strategic Banking Corporation Ireland' http://www.finance.gov.ie/news-centre/press-releases/government-announces-strategic-banking-corporation-ireland

Investment and Pensions Europe (31 October 2014) 'National Pension Reserve Fund provides €350m to Irish SME bank', http://www.ipe.com/news/mandates/national-pension-reserve-fund-provides-350m-to-irish-sme-bank/10004304.fullarticle

[29] http://sbci.gov.ie/for-smes/faqs
[30] Investment and Pensions Europe (31 October 2014) 'National Pension Reserve Fund provides €350m to Irish SME bank'.

Investment and Pensions Europe (24 January 2013) 'Ireland's NPRF considers 'suite of funds' targeting SMEs' http://www.ipe.com/irelands-nprf-considers-suite-of-funds-targeting-smes/49662.article

Irish Strategic Investment Fund page on the National Pensions Reserve Fund website http://www.nprf.ie/ISIF/IrishStrategicInvestmentFund.htm

National Treasury Management website http://www.ntma.ie/

RTE News (22 May 2014) 'New Strategic Banking Corporation of Ireland to help SMEs', http://www.rte.ie/news/business/2014/0522/618954-strategic-banking-corporation-of-ireland/

SBCI website http://sbci.gov.ie/

Strategic Banking Corporation of Ireland Act 2014 (July 2014) http://www.irishstatutebook.ie/2014/en/act/pub/0022/index.html

Strategic Banking Corporation of Ireland Code of Conduct (19 September 2014) http://sbci.gov.ie/wp-content/uploads/2014/10/Code-of-Conduct-for-SBCI-Board-and-Committee-Members.pdf

9. THE NETHERLANDS: INNOVATIEFONDS MKB+

9.1 Summary

Innovation Fund SME+ is a fund managed by the Netherlands Enterprise Agency, which is itself part of the Dutch Ministry of Economic Affairs. The fund provides various forms of repayable support to innovative SMEs.

9.2 Type of institution

Innovation Fund SME+ is a fund rather than a banking structure.

9.3 History and background

The philosophy for the creation of the fund is that the Government no longer wishes to provide complex subsidies for innovation and instead has adopted instruments that support preconditions for successful innovation. As such, the Government has scaled down subsidies and offers loans and risk capital investment aiming to create a favourable fiscal climate and knowledge infrastructure which serves the economy and society.

9.4 Organisational structure and ownership

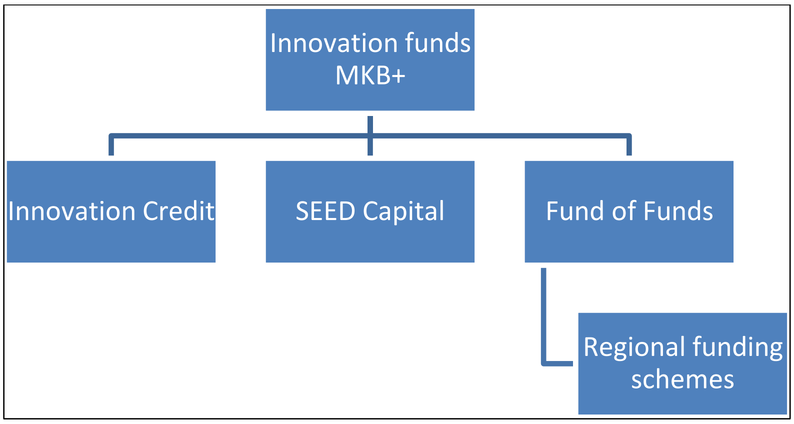
The Innovation Fund SME+ is managed by the ‘Netherlands Enterprise Agency’ which is part of the Ministry of Economic Affairs. The organisation was established in 2014 as part of a merger between Agency NL (*Agentschap NL*) and Instruments Agency (*Dienst Regelingen*).

The Innovation Fund SME+ (*Innovatiefonds MKB+*) has made available €500 million between 2012-15 for the development of new products and technologies. The Fund consists of three schemes (see structure below):

- The Innovation Credit covers those instances where there is not enough finance available for innovation (products, processes and services) in the capital market. The Government will cover 25-50 percent of the development costs up to a maximum of €5 million.
- The SEED Capital scheme is funds for investors in techno-start-ups and creative start-ups to help develop technological and creative knowledge into practical products and services. The scheme improves the risk–return balance for investors and improves the ability of technology and creative start-ups to find finance. The government invests through private investment funds that can range in size between €100,000 and €2.5 million.
- The Fund-of-Funds is aimed at fast growing SMEs. The scheme was launched in January 2013 and has a budget of €150 million. The FoF makes resources available to set up new investment schemes at the regional level which can then be used to support innovative companies. One example is the Dutch Venture Initiative which is a €150 million Fund-of-Funds initiative launched jointly by the EIF and *Participatiemaatschappij Oost Nederland* (“PPM Oost”, a regional venture capital company which is part of the East Netherlands Development Agency) with the support of the Dutch Ministry of Economic Affairs to stimulate equity investments into innovative and/or high-tech early and development stage enterprises in the Netherlands. A condition of participation is that the entrepreneur and investors pay back the funds when the development of the innovative product and or service has been

successful. The revolving fund structure means that in the long run more organisations can be targeted.

Figure 6: Structure of the Innovation Fund SME+



Recently MEZ has announced the creation of a 'Future Fund' (*Toekomstfonds*) which will be financed with €200 million from the SME+ scheme and potential windfalls from gas revenues. €100 million is available as risk capital and €100 million for fundamental applied research.

9.5 Regulatory context

The legal basis for the fund was established on 13 December 2011.[31] The fund is monitored by Ministry of Economic Affairs.

9.6 Objectives and remit

The innovation of products, services and production processes is considered an important source of prosperity to the Dutch economy. Innovation increases the productivity of Dutch firms, improves their competitive position and contributes where possible to finding solutions for social issues.

The fund aims to improve the ability of enterprises to invest in profitable products, services and processes. In terms of financing, the funds are co-financed with private sector funding. The Fund-of-Funds pillar can also include European Investment Fund (EIF) funding.

9.7 Geographical scope

The fund operates nationally but the Fund-of-Funds pillar has a regional orientation.

9.8 Forms of intervention

The first two pillars provide direct SME support. The third pillar provides indirect support through regional funds. Under the first pillar the government provides innovation loans. The second pillar provides risk capital through participation in investment funds.

[31] Staatscourant (2011) Regeling van de Minister van Economische Zaken, Landbouw en Innovatie van 13 december 2011, nr. WJZ/11067701, tot wijziging van de subsidieregeling innoveren en de subsidieregeling starten, groeien en overdragen van ondernemingen ten behoeve van het Innovatiefonds MKB+ https://zoek.officielebekendmakingen.nl/stcrt-2011-23199.html

9.9 Scale

The Innovation Fund SME+ (*Innovatiefonds MKB+*) has made available €500 million between 2012-2015.

9.10 Other relevant information

The Innovation Credit was recently evaluated and the evaluation concluded that the Fund has led to a significant increase in R&D-type spending. Furthermore, recipients of Innovation Credit are more likely to start innovation projects, more likely to succeed, more likely to receive patents and grow than those that applied for, but did not receive support.[32]

9.11 Sources

http://www.rvo.nl/onderwerpen/innovatief-ondernemen/innovatiefinanciering/innovatiefonds-mkb

http://www.rijksoverheid.nl/onderwerpen/ondernemersklimaat-en-innovatie/krediet-voor-investeringen/steun-voor-innovatie-in-het-mkb

[32] Ministerie van Economische Zaken (2013) Aanbieding eindrapport evaluatie Innovatiekrediet & Uitdagerskrediet, http://www.rijksoverheid.nl/bestanden/documenten-en-publicaties/kamerstukken/2013/08/23/aanbieding-eindrapport-evaluatie-innovatiekrediet-uitdagerskrediet-2006-2011/aanbieding-eindrapport-evaluatie-innovatiekrediet-en-uitdagerskrediet-2006-2011.pdf

10. POLAND: BANK GOSPODARSTWA KRAJOWEGO (BGK)

10.1 Summary

The *Bank Gospodarstwa Krajowego* (BGK) is the State development bank of Poland. It is the main partner in the promotion of government-sponsored social welfare and economic programmes implemented to support entrepreneurship and infrastructure, as well as residential investments at national, regional and local levels

10.2 Type of institution

Bank Gospodarstwa Krajowego is the state development bank of Poland. It operates as a profit making institution (although not on EU co-funded initiatives, where it seeks a return on funds only).

10.3 History and background

Bank Gospodarstwa Krajowego is Poland's only state bank. It was established in 1924. In the interwar period, the Bank focused on supporting state and municipal institutions and the defence industry, and on managing industrial companies taken over by the state. The Bank also administered the government's earmarked funds and was the key player in the restructuring of Poland's interwar economy. BGK's operations were suspended in 1948 after World War II, and then resumed in 1989, with BGK as an institution specialising in supporting the government sector. Currently, BGK is the government's primary partner in supporting government-sponsored social welfare and economic programmes, implemented to support entrepreneurship and infrastructure as well as residential investments at national, regional and local levels.

BGK executes tasks entrusted to it by the Government, typically undertaken under special programmes and governed by agreements between the State authority sponsoring particular activities and BGK. As part of this, BGK manages and operates funds established at, entrusted to or transferred to the Bank, including: "credit funds", the Municipal Investment Development Fund (FRIK); the Inland Waterway Fund (FŻŚ); the National Road Fund (KFD); the Railway Fund (FK); the Building Insulation and Repair Fund (FTiR); the Housing Assistance Fund (FD); and the Student Loan Fund (FPiKS). Another important objective of the Bank is to support general government entities (including local and regional governments and municipal companies), undertakings from selected industries and SMEs (through a system of guarantees in cooperation with commercial banks).

10.4 Organisational structure and ownership

BGK is fully owned by the state. It is supervised by the Ministry of Finance. Its sources of funding include: equity, international financial institutions, EU Funds, debt markets, deposits and government funds.

10.5 Regulatory context

BGK's activities are governed by the following acts:

- Act on *Bank Gospodarstwa Krajowego* (14 March 2013 as amended)
- Decree establishing the statute of BGK (11 May 2010)

- Banking Law (29 August 1997)

Its activities are overseen by the National Financial Supervision Authority.

10.6 Objectives and remit

BGK’s mission is supporting social and economic growth in Poland and supporting the public finance sector in the performance of its tasks.

BGK both implements and initiates numerous programmes supporting economic development in Poland. It is the pillar of the Polish Investments Programme, under which it organises long-term funding of investment projects, including investments of strategic importance for the national economy and state interests. It manages export support and infrastructure programmes and operates a system of sureties and guaranties. BGK is involved in the financing of local government entities, utility companies and healthcare institutions and in the implementation of programmes aimed at improving the housing market in Poland. It is a leading institution in the process of public finance consolidation and in the flow of European funds. Currently, BGK actively participates in the implementation of the state's economic objectives. During the economic slowdown, it provided funding for infrastructure investments and thus supported growth in this sector. In collaboration with other financial institutions, BGK improves access to funding for businesses, which translates into lower unemployment and stronger GDP growth.

10.7 Geographical scope

The bank headquarters are located in Warsaw and it has 16 regional branches (and c 1,100 employees). It operates throughout Poland.

10.8 Forms of intervention

BGK supports the SME sector mainly through the provision of guarantees and loans. In 2013, BGK launched a new guarantee programme where it grants to commercial banks portfolio guarantees for working capital and investments loans to SMEs. In 2013, BGK supported more than 38,000 SMEs with guarantees amounting to 6.99 billion PLZ (ca. €1.7 billion). BGK is also responsible for implementating the government’s Export Support Programme. Since 2013, BGK has also managed the pilot programme for young entrepreneurs, granting loans for starting their own enterprises.

BGK co-operates with the European Investment Bank (EIB) Group in supporting SMEs by granting loans to SMEs and municipal companies which are refinanced from the EIB’s global loans, as well as by delivering venture capital/equity financing in co-operation with the European Investment Fund (EIF), with whom BGK established the Polish Growth Fund of Funds (PGFF). The Polish Growth Fund of Funds (*Polski Fundusz-funduszy Wzrostu (PFFW))* is a €90 million Fund of Funds initiative launched in April 2013 by the EIF and BGK to stimulate equity investments into growth-focused enterprises in Poland. At the initial stage, PGFF combined a €30 million commitment from EIF with €60 million from BGK**.**

BGK is a holding fund manager in six Polish regions under the EU JEREMIE initiative. It also implements the EU JESSICA initiative through Urban Development Funds in three regions. It supports innovative SMEs with grants for partial repayment of loans under the Technology Credit Programme.

BGK manages a pilot programme for supporting social enterprises with European Social Fund funds. A BGK subsidiary – the National Capital Fund, a venture capital fund of funds supporting innovative SMEs - is partly financed from EU Structural Funds.

Another focus of BGK's activity is financing infrastructure projects by implementing various government initiatives and managing dedicated infrastructure funds, such as the National Road Fund and the National Railway Fund. Since 2012 BGK has played a key role in the Polish Investment Programme devoted to the infrastructure projects; other areas of BGK's activity include financing municipalities and municipal companies, as well as social housing. From January 2010, BGK has functioned as the Paying Authority for EU Structural Funds in Poland.

10.9 Scale

BGK's capital base has risen rapidly in recent years alongside an expanding portfolio. In 2014, its capital amounted to PLZ 7.5 billion (c. €1.8 billion). By Polish standards, this is considered to be significant and it gives an indication of the bank's growing role. In 2013, BGK committed more than €1.5 billion in new loans, most of them on a medium to long term basis.

10.10 Sources

BGK website (in English): http://www.bgk.com.pl/en

BGK Annual Reports (in English): http://www.bgk.com.pl/annual-report

Kostrzewa, K. (2011) 'State development bank of Poland' presentation on BGK activities (ppt) at Open days Workshop *Public Financial Institutions in Europe* Brussels, 11th October 2011 http://slideplayer.com/slide/743046/

11. SPAIN: INSTITUTE OF OFFICIAL CREDITS - SPAIN

11.1 Summary

The *Instituto de Crédito Oficial* (ICO – Institute of Official Credits) is a State-owned bank attached to the Ministry of Economic Affairs and Competitiveness in Spain. ICO provides loans (through banks) to fund busines investment and liquidity operations inside and outside of Spain. ICO is also responsible for managing the European Regional Development Fund JEREMIE initiative which offers guarantees to companies undertaking RTDI projects. The role of ICO in supporting SME financing has significantly increased since the crisis in 2007. It is currently the source of 11 percent of new lending to Spanish SMEs with maturity longer than one year (compared to 3.5 percent before the crisis).

11.2 Type of institution

ICO is a state-owned bank attached to the Ministry of Economic Affairs and Competitiveness via the State Secretariat for Economy and Enterprise Support.

11.3 History and background

ICO was created in 1971 as the institution responsible for co-ordinating the state-owned banks existing at the time. Its structure and the way it would function were regulated in Law 13/1971, the Official Credit System and Organisation Act.

The 1988 Finance Act (*Ley de Presupuestos Generales del Estado*) amended the legal status of ICO, and the Institute changed from being an independent body to a State-owned company, treated as a credit institution and taking on the name of the official state-owned bank, which at that time was made up of: the *Banco de Crédito Industrial*, *Banco de Crédito Agrícola*, *Banco de Crédito Local* and the *Banco Hipotecario de España*, also holding a major stake of the *Banco Exterior de España* shareholdings. From then on it stopped receiving funding exclusively from the Treasury and started to finance itself mainly from capital markets.

The reform of the state-owned banking sector in May 1991 had two immediate consequences. One of them was the integration of the whole state-owned banking sector into the Spanish banking corporation, *Argentaria*. This started off as a commercial bank, with the aim of gradually being privatised. The second consequence was the maintenance of ICO as a Financial Agency of the State and state-owned bank, independent and separate from the latter. From then on, the Institute began a new phase in its activity, its main goal becoming to boost the real economy, to achieve the purposes established in its Articles of Incorporation, which were approved in 1999.

11.4 Organisational structure and ownership

ICO is a state-owned bank attached to the Ministry of Economic Affairs and Competitiveness via the State Secretariat for Economy and Enterprise Support. As a credit institution, ICO is treated as a State Financial Agency, with its own legal status, assets and treasury, as well as an independent management to carry out its activities. ICO is governed by the financial equilibrium principle, in accordance with its Articles of Incorporation, which were approved in Royal Decree 706/1999. It finances itself on the national and international capital markets. The debts and obligations it enters into with third parties benefit from the explicit, irrevocable, unconditional and direct guarantee of the

Spanish State. The State may contribute to increasing ICO's capital in order to improve its core capital ratio and increase lending capacity.

Apart from the Institute, the ICO Group comprises Axis, a venture capital firm, and *Fundación ICO*. Axis was established in 1986 and was the Spanish first venture capital firm, and currently provides equity instruments to companies to finance their growth. The *Fundación ICO* was created in 1993 to promote culture and art as a not-for-profit, public sector foundation with a national scope and independent assets. ICO also participates as a shareholder in other companies such as the *Compañía Española de Reafianzamiento* (CERSA) and the *Compañía Española de Financiación del Desarrollo* (COFIDES), as well as the European Investment Fund (EIF).

11.5 Regulatory context

ICO has the legal status of a credit institution and is classified as the Government's Financial Agency. It is legally governed by Royal Decree 706/1999 of 30 April. It finances itself on the national and international capital markets. The debts and obligations it enters into with third parties benefit from the explicit, irrevocable, unconditional and direct guarantee of the Spanish State. ICO follows market banking practices under the same rules and regulations as any private bank: International Financial Reporting Standards (IFRS), Basel prudential standards, Bank of Spain circulars and other Spanish and European regulations (on banking, taxation, etc.).

11.6 Objectives and remit

ICO aims to support and foster economic activities which contribute to the growth and the improved distribution of national wealth. To achieve its objectives, ICO has the two-fold function of a State-owned bank and the State Financial Agency.

1. State-owned bank: (a) Second-floor facilities: ICO designs and sets the main characteristics of credit lines, as well as signs the corresponding Collaboration Agreements with the Credit Institutions for them to be sold through their networks. These lines are mainly directed at self-employed people and SMEs. ICO determines the amounts of each line of credit, the purpose of the loans, the interest rates and repayment terms, and provides funds to financial institutions. The latter are in charge of analysing operations, deciding the guarantees that must be provided, deciding on the approval of funding and assuming the risks involved. (b) Direct funding: corporate structured finance for large projects involving productive, public or private investments. Loans are designed to match the applicant company's needs, with a minimum amount of €10 million and long repayment terms. To apply for these loans companies approach ICO directly.

2. The State's Financial Agency: Implementation of economic support measures approved by the Spanish government, and management of public funds (namely, internationalisation aid, development aid, Fund for supplier payments and Fund for regional liquidity).

Distribution of loans is entirely through banks, which all have direct links through their IT systems to ICO's credit lines.

Regarding EU Funds, ICO is responsible for managing the ERDF-JEREMIE Fund initiative, which provides guarantees to companies undertaking RTDI projects qualifying for support from the CDTI (*Centro para el Desarrollo Tecnológico Industrial*) in the framework of the national ERDF OP

Technology Fund 2007-13. The guarantees allow firms to obtain advances providing access to funding from the start of the project.

11.7 Geographical scope

ICO operates nationally across all regions.

11.8 Forms of intervention

ICO instruments include loans, guarantees and venture capital. ICO provides support directly to SMEs (e.g. guarantees) as well as indirectly via banks (loans) and venture capital funds.

11.9 Scale

ICO has doubled its assets from €53 billion at the end of 2008 to €102 billion at the end of the third quarter of 2013.[33] It is now the source of roughly 11 percent of new lending to Spanish SMEs with maturity longer than one year (compared to 3.5 percent before the crisis).

Figure 7: Key figures, € millions

BALANCE SHEET	**2013**	**2014 (to Q3)**
Total assets	102,202.70	91,391
Total loans outsanding (asset)	73,215.80	65,549.30
Total bonds oustanding (liability)	93,637.60	82,740.90
INCOME STATEMENT		
Net interest income	727.3	467.7
Gross income	816.6	494.1
Profit before tax	101.1	79
Net income	71.2	55.3
RATIOS		
Solvency ratio	19.76	22.49
Coverage ratio	131.65	149.99
Efficiency ratio	4.53	5.74
NPL ratio	5.25	6.03
SECOND-FLOOR FACILITIES		
ICO SMEs and Entrepreneurs Facility		11,506.20
ICO-Mutual Guarantee Company Facility		58.2
ICO-International Facility		316.4
ICO-Exporters Facility		3,434.90
Others		13.5
TOTAL		*15,329.20*

Source: https://www.ico.es/web/ico_en/key-figures

[33] Lee P (2014) Spain: ICO fills the gap, euromoney, January 2014.

11.10 Sources

ICO institutional presentation in English, September 2014: https://www.ico.es/documents/15125/15256/Institutional+Presentation+300914/b2f49552-187e-408d-8c94-44ea40b75744

Lee P (2014) Spain: ICO fills the gap, euromoney, January 2014: http://www.euromoney.com/Article/3293623/Spain-ICO-fills-the-gap.html

ICO Annual Report 2013: https://www.ico.es/documents/15125/192874/Annual-Report-13/a89958c3-6c23-4ed7-ade9-abb32dd9450b

García-Vaquero V (2013) Esquemas de Apoyo Financiero a las Pymes en España: http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/13/Jun/Fich/be1306-art4.pdf

12. SWEDEN: INDUSTRIFONDEN

12.1 Summary

Industrifonden (the Swedish Industrial Development Fund), which was established by the Swedish Government in 1979, invests in small and medium-sized growth companies, which are based in Sweden. Industrifonden provides financing to companies in form of equity capital and various types of loans and guarantees. It is an autonomous legal entity now operating as an independent evergreen fund on a commercial basis and receiving no new government funding. The government-appointed board has a full responsibility for the operation of Industrifonden. The board's work is regulated either by a law or by the rules of procedures which are adopted annually by the board.

12.2 Type of institution

Industrifonden is a foundation, which invests in small and medium-sized growth companies.

12.3 History and background

Industrifonden is a foundation established by the Swedish Government in 1979. Industrifonden was founded during the late years of an industrial crisis. The intention was to test a new way of developing industry. In the late 1970s, the Swedish government had spent very large amounts of funding to support various industries including shipbuilding, the textile and clothing industry, and iron and steel. The aim with Industrifonden was to avoid giving support to such mature industries with major conversion problems. At the time Industrifonden was established, it was called the 'fund for industrial development', and it primarily financed large industrial development projects with commercial and technical risks.[34] The fund has gradually evolved to its current form, focusing on small and medium-sized growth firms.

12.4 Organisational structure and ownership

The Swedish Government has invested a total of SEK 1.6 billion into Industrifonden, with the last payment made 20 years ago.[35] Today, Industrifonden is an autonomous legal entity and it does not receive any new government funding, but relies on its own resources.

The board and the chairman are appointed by the Swedish Government. The board has full responsibility for the operation of Industrifonden.

12.5 Regulatory context

The government-appointed board has a full responsibility for the operation of Industrifonden. The board's work is regulated either by a law or by the rules of procedures which are adopted annually by the board. These annual rules of procedures regulate the frequency of the meetings, the main points of the annual meetings and responsibilities between the board and the CEO. The CEO is not a member of the board, but attends the board meetings. The CEO is responsible for the management of the Industrifonden. The government has the right to discharge the board.

[34] Bertil González Guve, J (2003) Att bestämma sig utan grund, Om omdöme och övertygelse i riskkapitalinvesteringar, Field of Flow, http://www.diva-portal.org/smash/get/diva2:9491/FULLTEXT01.pdf
[35] http://8till5.se/2014/11/06/industrifondens-nya-vd-vill-satsa-annu-mer-i-skane/

12.6 Objectives and remit

Industrifonden is one of the leading providers of State equity capital in Sweden.

Industrifonden works on a commercial basis in partnership with entrepreneurs and other investors to generate a return. The approach is long term, and all capital is reinvested in new companies.

12.7 Geographical scope

Industrifonden operates throughout Sweden. The head office is located in Stockholm, but offices are also located in Malmö, Gothenburg and Linköping.

12.8 Forms of intervention

Industrifonden provides financing to companies in form of equity capital and various types of loans and guarantees. For its equity investments, it either invests directly in the company or indirectly through convertibles that are later converted to shares. The firm actively co-invests with other regional venture capital firms. However, Industrifonden can also be the sole investor.[36]

12.9 Scale

There are four state-funded operators in Sweden which provide equity capital to businesses: Almi, Fourier transform AB, Inlandsinnovation AB and the Industrifonden. In addition, there are a number of state-owned regional companies which are jointly owned with county councils or regional actors.[37] Industrifonden is one of the leading providers of state equity capital in Sweden. Their total equity is c. SEK 3.8 billion (c. €408 million), of which SEK 1.7 billion (c. €183 million) is invested in companies.

12.10 Other relevant information

In addition to capital, Industrifonden provides their portfolio companies with technical and business competence support and networking.

12.11 Sources

www.industrifonden.se

Industrifonden (2014) Årsredovisning 2013-14

Riskrevisionen (2014) Statens insatser för riskkapitalförsörjning – I senaste laget, RIR 2014:1

Bertil González Guve, J (2003) Att bestämma sig utan grund, Om omdöme och övertygelse i riskkapitalinvesteringar, Field of Flow http://www.diva-portal.org/smash/get/diva2:9491/FULLTEXT01.pdf

[36] http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=160095

[37] Riskrevisionen (2014) Statens insatser för riskkapitalförsörjning – I senaste laget, RIR 2014:1

13. UK: BRITISH BUSINESS BANK

13.1 Summary

The British Business Bank is a development bank wholly owned by the UK Government. It was set up in 2012 to integrate already existing national programmes supporting SMEs, as well as developing and managing new SME access to finance programmes. A range of instruments are offered via intermediaries. These include equity instruments (including the Aspire Fund, the Angel CoFund, Enterprise Capital Funds and the VC Catalyst Fund) and debt instruments (e.g. Start Up Loans and the Enterprise Finance Guarantee Scheme). The Bank also manages a large portfolio of legacy investments made by Government in venture capital and loan funds which have been funded by a mixture of UK and European funds. The Bank also operates a commercial arm (British Business Investments Ltd).

13.2 Type of institution

British Business Bank plc is a public limited company. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government. However, British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such.

13.3 History and background

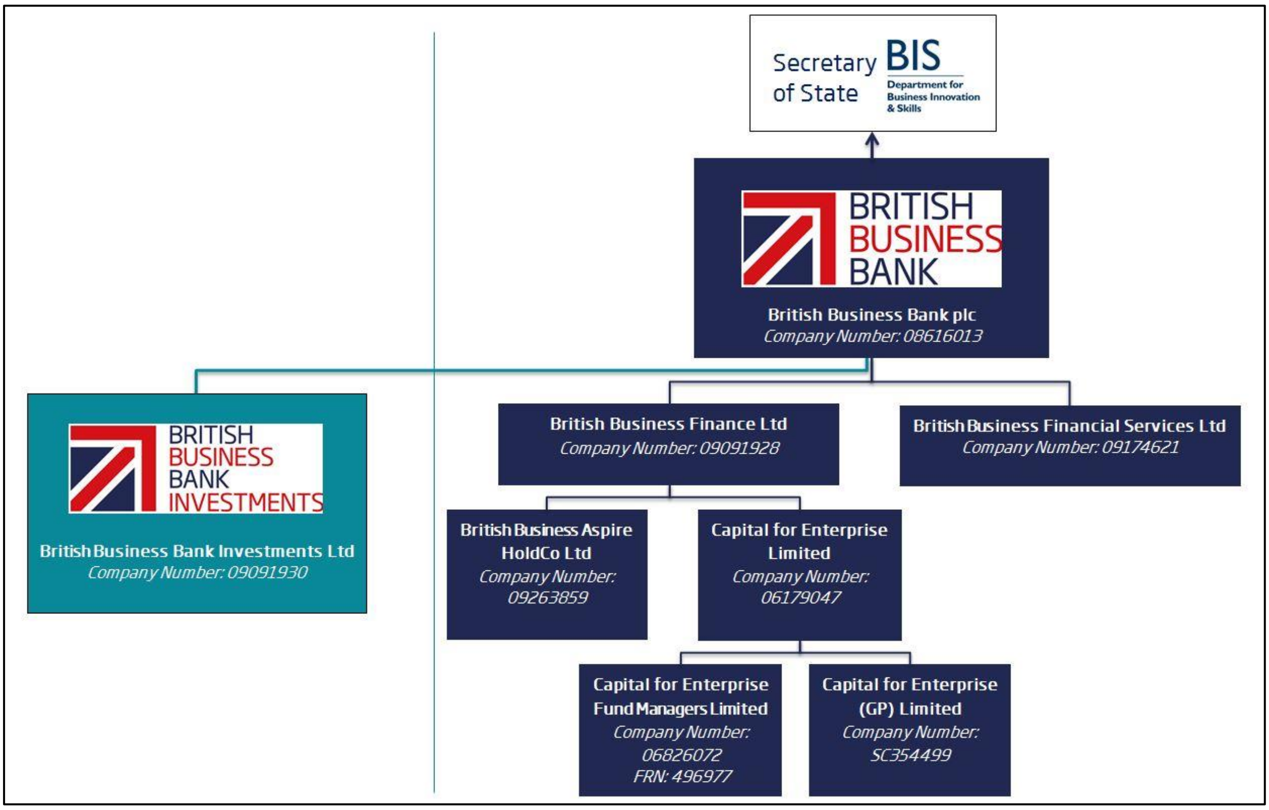
Intended to ensure a more effective deployment of SME support programmes, the British Business Bank was set up to integrate already existing programmes supporting SMEs, as well as developing and managing new SME access to finance programmes. The Bank was initially set up in 2012 as a programme run directly by the Department for Business, Innovation and Skills; once State aid clearance was granted (in October 2014), the programme was transferred to the British Business Bank, which operates as a Government-owned financial institution.

13.4 Organisational structure and ownership

The British Business Bank has three subsidiaries: a Mandated Arm (receiving subsidised funding); a Service Arm (providing advice and services to the UK Government); and a Commercial Arm, British Business Bank Investments Ltd. (funded on a commercial basis). The Bank brings together the management of all Government-supported national access-to-finance programmes for smaller businesses (with the exception of export finance, housing finance and grant programmes) under one management structure. The Bank has a headquarters in Sheffield and a further office in London.

The British Business Bank operates under its own trading name through a number of subsidiaries. One of these, Capital for Enterprise Fund Managers Limited (CfEL), was formerly the main delivery agency for BIS’s financial interventions for SMEs.

Figure 8: British Business Bank Corporate Structure



13.5 Regulatory context

The British Business Bank is not authorised or regulated by the UK's Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). It operates under its own trading name through a number of subsidiaries. One of these, Capital for Enterprise Fund Managers Limited, is authorised and regulated by the FCA.

13.6 Objectives and remit

The British Business Bank has three wholly-owned subsidiaries: a Mandated Arm; a Service Arm; and a Commercial Arm (British Business Bank Investments Ltd.). A recent European Commission decision has declared that the Mandated Arm may receive up to £6 billion (c. €7.6 billion) funding on a non-commercial (subsidised) basis until the end of 2019, to use, within an approved remit, to provide SMEs with access to finance where a market failure is demonstrated, either on commercial terms (through so-called "market conform schemes") or on subsidised, non-market terms. Market conform schemes are schemes which grant funding on conditions that a private market operator could have accepted. The Mandated Arm can grant funding through such market conform schemes within the approved remit without having to seek approval by the Commission, because such financing does not involve any State aid. The introduction of new market conform schemes is subject to a number of safeguards put in place to ensure, for example, that such financing does not crowd out private finance providers, thereby avoiding competition distortions. The Mandated Arm can also operate subsidised schemes involving State aid measures approved by the Commission or deemed compatible under EU State aid rules (e.g. under the Commission's General Block Exemption Regulation (GBER) or the de minimis Regulation) or represent participation in EU financial instruments, such as COSME or Horizon 2020. If the Mandated Arm wishes to implement interventions outside the approved remit, it has to

notify the modification of its remit to the Commission. The Mandated Arm will mostly act indirectly through the use of financial intermediaries or funds already present on the market.

The Service Arm will provide advice and services to the UK Government, and the Commercial Arm will be funded on a commercial basis and will only carry out market conform interventions. The Commercial Arm acts as a subsidiary of the Bank, and is called British Business Bank Investments Ltd. This subsidiary manages the Bank's Investment Programme which makes commercial investments intended to stimulate at least the same amount of investment from the private sector, encouraging new lenders into the market and the growth of smaller lenders.

13.7 Geographical scope

The British Bank operates across the UK; 32 percent of its activity takes place in London and the South East, six percent in Scotland. The Bank works through over 80 finance partners.

13.8 Forms of intervention

All existing Government-supported national access to finance programmes (except export finance and grant programmes) will be managed by the British Business Bank, including investments already made and funding commitments for future investments under these programmes.

A range of instruments are offered via intermediaries. These include equity instruments (including the Aspire Fund, the Angel CoFund, Enterprise Capital Funds and the VC Catalyst Fund) and debt instruments (e.g. Start Up Loans and the Enterprise Finance Guarantee Scheme).

The Bank also manages a large portfolio of legacy investments made by Government in venture capital and loan funds which have been funded by a mixture of UK and European funds, including the three northern English funds supported by EU funding, as well as managing BIS's interests in 90 regional funds.

The Bank also operates a commercial arm (British Business Investments Ltd), whose portfolio includes:

- The Business Finance Partnership (BFP) –was set up to invest in increasing lending to SMEs from sources other than banks. It is delivered through 2 variants – BFP Mid cap and BFP Small Cap.
- The Investment Programme – which addresses long-standing gaps in the finance market for smaller business and promotes greater choice in their supply of lending. The Investment Programme was set up as an open competition to provide support to a range of finance providers. By mid-2014, the Investment Programme had received over 100 applications, with combined requests for funding of £3 billion. The sub-sectors supported to mid-2014 with awards totalling £198 million include debt funds, peer to peer platforms, and lease finance. The Programme builds on a previous Business Finance Partnership programme, and the intention is to transfer £863 million of commitments under the Business Finance Partnership made by HM Treasury to the British Business Bank.
- The VC Catalyst Fund – which invests in commercially viable venture capital funds that might otherwise fail to reach a satisfactory "first close'.

Additional planned programmes include a Wholesale Guarantees and Asset Finance Funding Vehicle.

13.9 Scale

The Bank was set up in 2012 with initial capitalisation from Government of £1 billion; an additional £1.25 billion was added in the 2012 and 2013 Autumn Statements. The current total Government funding allocation totals c.£3.9 billion for deployment over a number of years (2018+). Some of this funding comes from past Spending Review commitments to existing programmes which are moving into the Bank, and some is new funding for Business Bank programmes. By mid-2014, £300 million had been allocated to the Investment Programme, £50 million to the Angel CoFund and £125 million to the VC Catalyst Fund, leaving £775 million for deployment to other planned programmes, including the Wholesale Guarantees and the Asset Finance Funding Vehicle. Some of the Banks legacy funds have been co-financed with European Funds, one of the current funds (Angel CoFund) has been co-funded with the domestic Regional Growth Fund.

13.10 Sources

British Business Bank Investments Ltd. website http://bbbinv.co.uk/

British Business Bank Strategic Plan June 2014

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324051/British-business-bank-stragic-plan.pdf

Letter from DG Competition of the European Commission to UK authorities on the British Business bank and State aid SA.36061 (2014/N) – United Kingdom - The British Business Bank (Brussels, 15.10.2014, C(2014) 7366 final)

http://ec.europa.eu/competition/state_aid/cases/254150/254150_1606001_155_2.pdf

14. UK: FINANCE WALES

14.1 Summary

Finance Wales is a wholly owned subsidiary of the Welsh Government which invests in SMEs in Wales on a commercial basis, manages a number of funds for SMEs on behalf of private and public stakeholders and provides other specialist financial services.

14.2 Type of institution

Finance Wales is a publicly owned company set up to provide finance to SMEs in Wales.

14.3 History and background

Finance Wales was initially set up in 1999 as a joint policy initiative between the Welsh Government, the Confederation of British Industry and the Federation of Small Businesses, partly to address the funding gap for SMEs in Wales and partly in response to the withdrawal of investors such as 3i from Wales. Finance Wales originally reported to the Welsh Development Agency until that body‘s functions were transferred to the Welsh Government in April 2006.

14.4 Organisational structure and ownership

The Welsh Government is the sole shareholder in Finance Wales. Finance Wales is part of the Finance Wales Group, which is comprised of Finance Wales plc and numerous wholly owned subsidiary companies. These include FW Capital and xénos. FW Capital operates as a fund manager from offices in northern England and has managed local funds in the North West and North East of England since 2010. Xénos is the Wales Business Angel network which was formed in 1997, and links businesses with potential sources of advice and finance.

14.5 Regulatory context

Finance Wales has reported to the Minister for Economy, Science and Transport. Performance measures and financial outputs for each fund are agreed with relevant stakeholders and reported monthly to Finance Wales' Board and quarterly to the Welsh Government and other stakeholders such as the European Investment Bank.

Following the recommendations of a 2014 inquiry on Finance Wales, the organisation will be required to present on its performance and annual report and accounts to a relevant committee of the Welsh Assembly for scrutiny each year.

14.6 Objectives and remit

Finance Wales describes itself as 'one of the UK's largest regional SME investment companies'. Finance Wales makes commercial investments in SMEs based in Wales or willing to relocate. They have been managing public and private SME investment funds for over 10 years and currently manage seven funds in Wales (six for businesses):

- The European Regional Development Fund co-financed £150 million Wales JEREMIE Fund launched in 2009 (which also includes a loan from the European Investment Bank)

- The £40 million Wales SME Investment Fund backed by the Welsh Government and Barclays
- The £6 million Wales Micro-business Loan Fund backed by the Welsh Government
- The £10 million Wales Property Development Fund backed by the Welsh Government
- The £20 million Wales Capital Growth Fund backed by the Welsh Government
- The £7.5 million Wales Technology Seed Fund backed by the Welsh Government
- The £170 million Help to Buy - Wales Shared Equity Loan Fund backed by the Welsh Government.

Funds typically operate for a ten-year period, with a five-year investing period and a five-year realisation period.

Finance Wales reviews its strategic objectives annually in consultation with the Welsh Government each year. According to the Annual Report for 2013-24, development work is underway on a potential £60 million Wales Mid-Market Fund for growing medium-sized businesses, to be developed as part of the British Business Bank initiative alongside potential investment from the Welsh Government, Welsh Local Authority Pension Funds and high street banks (expected to be launched in 2015). A new £25 million Management Succession Fund for Welsh SMEs is also under development for 2015.

14.7 Geographical scope

Finance Wales headquarters are based in Cardiff and it has four regional offices.

14.8 Forms of intervention

Finance Wales reviews applications/ business plans on an individual basis, and can offer:

- micro loans
- technology venture investments
- business loans or debt investments
- equity investments, and
- mezzanine investments.

14.9 Scale

Finance Wales manages £200 million of investments in Wales over a series of funds. Fees earned by the group are used to reduce the Grant-in-Aid contribution received each year from the Welsh Government (Grant-in-Aid amounted to £3.2 million in 2013; £2.3 million in 2014).

14.10 Other relevant information

In May 2014, the National Assembly Finance Committee published the report of an inquiry on Finance Wales, which recommended that the Welsh Government should take the opportunity to 'refresh' the purpose of Finance Wales, and clarify the organisation's aims and remit, which 'should set out the balance between its dual roles of achieving a commercial return and contributing to economic development.' The report advised that objectives set for Finance Wales should not be overly prescriptive, but should allow the organisation to 'maintain a flexible structure that can be tailored to managing new funds'.

The report also recommended that that the Welsh Government and Finance Wales review their strategy for communicating with businesses. In response, the Welsh Government announced a pilot scheme in partnership with a number of high street banks, which will seek to put in place a referral mechanism ensuring that businesses that are turned down by the banks are directed to Welsh Government for support and guidance.

14.11 Sources

Finance Wales website:

http://www.financewales.co.uk/

Finance Wales Annual Review 2013-14

http://www.financewales.co.uk/pdf/FWG%20Annual%20Review%20English%20ebook.pdf

Finance Wales plc Report and Financial Statements 2013-2014

http://www.financewales.co.uk/PDF/Finance%20Wales%20plc%20Mar%202014.pdf

National Assembly Finance Committee (May 2014) Finance Wales

http://www.assembly.wales/Laid%20Documents/CR-LD9765%20-%20Report%20of%20the%20Finance%20Committee%20%20-%20Finance%20Wales-30052014-256351/cr-ld9765__e-English.pdf

National Assembly Finance Committee (May 2014) Finance Wales - Written response by the Welsh Government

http://www.assembly.wales/Laid%20Documents/GEN-LD9838%20-%20Written%20Response%20by%20the%20Welsh%20Government%20to%20the%20report%20of%20the%20Finance%20Committee%20on%20Finance%20Wales/GEN-LD9838-e.pdf