

**PROGRAMME: Mezzanine Financing Instrument**

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## 1. SUMMARY OF GOOD PRACTICE

### ▪ Overview & Aims

Launched in 2011, the **Mezzanine Finance Instrument is an experimental pilot instrument set up to address the equity problems in the region.** Operating in the smallest region in Italy, the Aosta Valley region has two main issues; a high proportion (99%) of micro enterprises and a lack of owner collateral and capital, resulting in under-capitalised businesses and a historical culture of entrepreneurs who want to remain autonomous and independent in their business decisions and so do not welcome external advisors/VC fund representatives onto their board.

Designed to overcome these economic and cultural issues the aims of the instrument were:

- **To sustain the set-up of new innovative business start-ups;**
- **To support existing micro/small firms through their business development phase,** i.e. innovative businesses who want to introduce their project to the market. Providing them with access to investment for growth;
- By stimulating the increase of the owner capital, **to improve/reinforce the financial structure of the companies involved,** thereby improving their credit rating and consequently improving their access to additional credit.

### ▪ Key Resources

#### – Programme Partners

The Region Aosta Valley (IT) and the regional public bank of the Aosta Valley Finaosta

#### – Funding: Funding Body & SME Contribution

€1.4M from regional resources allocated to the measure.

#### Eligibility Criteria

Innovative SMEs operating in industrial and manufacturing sectors located in the region. (e.g. development of new products and services/automation)

### ▪ Terms and Conditions

SMEs can apply for up to 100% of the amount of the increase of its own risk capital to which the shareholders are committed. Loans range from €50K to €500K and subject to a low interest rate fixed at a rate meeting de minimis rules and subject to a 5 year repayment period with an optional 1 year, interest only, grace period.

## 2. IMPLEMENTATION

Managed by two technical staff, the operation of the scheme itself is outsourced to the regional public bank. Businesses involved in the scheme are also encouraged to access a wide range of other support activities/initiatives available, from incubators, technology transfer and grants for innovative investments and other R&D activities.

### ▪ Key Steps – How it Works

Considered a hybrid between a loan and an equity instrument, the **Mezzanine Financing Instrument** acts as a financial bridge that can be used to finance a future **anticipated increase of owner capital** to which the SME/shareholders are committed. This must be demonstrated by a formal contractual commitment to increase the owner capital from the entrepreneurs involved.

Stimulating the increase of owner’s capital improves the financial structure of the company and so improves their credit rating, enabling entrepreneurs involved to access additional credit.

#### Key features/benefits of the scheme include:

- ✓ **Access to the expertise and any technical advice needed from the bank** who operate the scheme and who are able to help entrepreneurs prepare their applications and business plans.
- ✓ For those eligible for the scheme, **a loan at a subsidised interest rate** to finance an increase of their owner capital in their business.
- ✓ **Reduced guarantee requirement.** A guarantee requirement of 50%, i.e. rather than the 100% collateral normally required by the bank.
- ✓ **Favourable terms,** lower than normal interest rates with the option for a 1 year grace period.
- ✓ Improved financial structure of businesses involved, **strengthening their financial position** and their business case for investment with other financial institutions, **enabling them to access additional credit and additional loans.**

### ▪ Key Stats – Since 2011

Applicants valued the technical support provided by the bank, viewing the procedure as ‘not difficult at all’ with decisions taking around 60 days and applications costs around €1,000. The Region Aosta Valley managing the revolving Fund paid the public bank operating the scheme a fee equal to 1% per year on the remaining value of each mezzanine loan.

KEY MEASURE	ESTIMATED TOTAL
Applications Submitted	7 (2 in 2013)
Applications Accepted	5 (2 in 2013)
Funding Granted to successful SMEs	€1.4M
New Enterprises Started	2
Jobs Created*	N/A

(\*The mezzanine instrument is not aimed at increasing the number of employees, but at strengthening the financial structure of the company and improving its access to credit).

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### 3. KEY LEARNING POINTS & OPPORTUNITIES

Viewed as successful, the pilot project has granted €1.4M to 7 businesses over 3 years in a small region with a large majority of SMEs (considering the very small size of the regional economy 7 businesses supported are a valuable result). The instrument has helped to address two main barriers to growth; a reduction in the equity gap and testing of a mechanism that enables SMEs to access finance.

#### ▪ **What worked well/Strengths**

- Provision of a significant 3 year budget for granting mezzanine finance
- Availability of expertise/support services from the regional public bank
- Improved financial structure of businesses involved and so their perception as a viable investment proposition with financial institutions
- Improved financial culture and business management of SMEs involved
- Low interest rates
- Scheme designed to specific regional situation in business culture

#### ▪ **Challenges/Weaknesses**

- A poor equity culture, viewed as typical of the Italian SMEs ecosystem
- Relatively low number of applicants. Improved awareness/communications in future schemes
- Uses public money

#### ▪ **Transferability**

- **Opportunities:** The instrument and its methodology are transparent and considered suitable for transfer to other regions; particularly those with a poor equity culture and a reduced capitalisation of SMEs

#### – **Threats:**

(Different) Local legislation and circumstance

Availability of current and future, (i.e. EU 2014-20 funding) for granting mezzanine funds

#### **FURTHER INFORMATION:**

DIFASS You Tube Channel <https://www.youtube.com/watch?v=HykeOpfNIHM>