



D.T2.4.5 - FINALISATION OF THE INNOVATIVE FINANCIAL INSTRUMENT IN EMILIA-ROMAGNA REGION

**WP : T2 Implementation of the instruments,
testing and transferability actions**

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1 Executive summary

Financial Instruments represent a different way to use the resources of the Regional Operational Programme in order to achieve its objectives in the wider context of regional policies.

The present study can be considered as a tool that supports the Managing Authority (MA) in defining its choices for the definition of Financial Instruments after the 2014-2020 programming period.

The study is focused on the support of green economy interventions in favour of companies of any size and ESCo (Energy Service Company), in the specific theme of the promotion of the **low carbon economy in the territories and in the production system**, to support the investments of companies aimed at energy efficiency, the production of energy from renewable sources and the construction of technological systems that allow the reduction of the use of energy carriers produced from traditional sources.

The territory of Emilia Romagna is particularly energy-intensive: in 2012, in fact, per capita energy consumption amounted to about 2.9 tons of oil equivalent (toe), against a national average of 2 toe. In sectoral terms, gross final consumption in 2012 is fairly evenly divided between civil (38%), industry (30%) and transport (27%).

This energy consumption has seen a sharp drop from 2012 to 2015, thanks to the policies implemented by the policy maker, the measures taken by companies and above all because of the economic crisis that has seen companies drastically reduce their production. Since 2016, with the new growth of the economy, the level of climate-altering emissions has increased again by about 5% per year.

This energy variable, in an increasingly integrated and competitive world, represents for the production sector an important lever for determining competitiveness: very often, especially for SMEs that cannot leverage other variables such as economies of scale and scope, the possibility to remain competitive necessarily passes through the creation of conditions that favour the reduction of energy costs of production processes. This is all the more true if we consider the strong disadvantage of the high energy costs existing in Italy, which are 20-30% higher for an SME than the European average.

It follows that, even if entrepreneurs are not always aware of this, it becomes a priority to promote process and product innovations that allow to reduce the energy bill of companies. At the same time, it is appropriate to encourage the development of technological solutions that can support the production chain of advanced green goods and services.

To support these policies, the Emilia Romagna region has implemented a series of incentive actions over the period 2014-2020, in Axis 4 of the ERDF ROP, with the aim of supporting **investments to support the transition to a low carbon economy in all sectors**. Within this Axis, it was possible to activate Financial Instruments, for an amount of approximately 10 million Euros, to support investments by companies aimed at energy efficiency, the production of energy from renewable sources and the construction of technological systems that allow the reduction of energy consumption from traditional sources.

This, after analysing the general characteristics and needs at sector level through a survey of supply and demand for financial instruments at the level of a specific industry sector.

It has therefore been highlighted that, on the financial supply side, in the area of interest of the present analysis, there are multiple instruments, both private and public (the latter operating at European, national or regional level), each of which has characteristics that, today, can be critical for most of the regional entrepreneurial fabric.



The bank credit market, which has been in crisis since 2008, has generally strongly reduced disbursements, with some exceptions represented by financially very strong companies (usually large companies) and sectors, such as renewable energy, which until a few years ago were characterised by particularly advantageous public incentive instruments. While the availability of credit is still a problem today, particularly for SMEs, the cost of credit has fallen sharply in recent years, no longer representing a major problem, even though the rate differential between large and small enterprises has widened.

The guarantee system, which is generally very strong and well-structured in Italy, has represented a very valid instrument in this period of crisis to partially contain the reduction in the supply of credit. The increase in recent years in the activities of the regional "confidi" to support small businesses has also led to a certain saturation of the capacity of these operators to intervene, only partly replaced by the Central Guarantee Fund, which has in fact, in Emilia Romagna, increased the percentage of funding coverage. Unlike the guarantee instrument, the equity market in Italy is very limited, particularly when compared to the Anglo-Saxon world. While the number of operators in general is small, very few are those operating in the initial capital area (seed capital and start-ups) and, very often, their interests are focused on specific market segments (ICT, biotechnology, etc.), strongly neglecting support to more traditional companies.

Public instruments have very different characteristics (equity, debt, guarantees, interest rate subsidies) and, being disbursed according to public procedures, they determine a strong selection (especially those with European management) and allocation times that sometimes are not compatible with the investment needs of companies.

Despite the wide and diversified offer of existing finance (private and public), it can be stated that, due to market failures (real market, very strict project evaluation and selection criteria, information asymmetries, mismatching in timing of disbursement, business culture, misalignments in planning, governance, etc.), there is a **large supply need** in the area of interest of this study.

The study shows a potential excess of demand compared to the existing supply very high and certainly able to absorb the resources allocated to the Financial Instruments, if properly structured and managed.

The Financial Instruments, in addition to being able to cover the financial needs of companies positioned in critical and today very large market segments, compared to the "grant" instrument, allow to create a strong added value thanks to the **characteristic of being revolving** and, therefore, reusable and the ability to attract additional capital to be used for similar purposes.

The additional resources that can be attracted by the Financial Instruments, favouring the **generation of a high leverage**, can be identified in particular in the private resources, both of the future managers and of the estimated industrial and financial operators. The leverage that can be activated can generate a multiplier of up to 20x, depending on the instrument that is created and the market and project conditions.

Industry sector is responsible for more than 30% of energy consumption but, differently from housing sector, energy efficiency investments with a payback period of longer than 2-3 years typically are not implemented based on the financial case alone, even though there is a promising investment opportunity and there are investors willing to invest in longer-term investments.

There is need for financial related solutions, including new financial models and instruments that address SMEs (balance sheet financing, guarantees and other vehicles), financial facilities and vehicles that can manage different streams of financing and efficiency products and services eligible for public clean energy funding.

Based on the guarantee solution of FIRECE Interreg CE project and on the analysis on innovative financial instruments such as Energy Performance Contract and lending / equity crowdinvesting, it will be possible



to stimulate a debate on the efficiency of those instruments in order to face the unwillingness to invest in Energy Efficiency in the industrial sector (especially SMEs).

According to the context found, the study suggests the establishment of two revolving funds and a technical assistance unit:

(a) **Loan fund:** its objective is to encourage enterprises to invest in industrial research programmes (TRL 7 and later), in the growth of SMEs operating in the S3 sectors, in energy efficiency processes in enterprises (including SMEs) and in self-production of energy from renewable sources in order to increase their competitiveness. It may be managed by a financial intermediary or, in general, by an entity with experience in business credit. Beneficiaries are enterprises (including SMEs and start-ups), area companies, production area managers and ESCOs. The instrument that can be used is that of loans in all their forms (short, medium, long term, with repayments based on predefined amortization plans or linked to the performance of companies - including microcredit), with an incentive in terms of interest rates. The financial instrument could be divided into two sub-funds: i) microcredit sub-fund, for loans up to 25,000 euros; ii) mixed sub-fund, for loans over 25,000 euros. The initial public funding of this fund could be € 26.6 million, and with a multiplier of 2x it could activate loans of about € 53 million. Subsequently, the MA could consider whether to further finance the fund up to a total endowment of €50/60 million;

b) **Guarantee fund:** its objective is to support the access to credit, through guarantee interventions, of companies in order to support their diversification, growth and internationalization paths. It can be managed by a person with experience in the management of guarantee instruments with knowledge of the local entrepreneurial fabric. Beneficiaries are SMEs, including ESCOs, individually or in partnership, professionals and their associations. The instrument that can be activated is the guarantee instrument, also in complementarity with actions promoted at Community (COSME) and national level (Central Guarantee Fund). The fund can have a size of around €35 million and, considering a credit coverage rate of 50%, could activate resources of €70 million;

c) **Technical Assistance Unit:** this must be considered as an instrument to support the other two, with the aim of helping enterprises in the conceptual development and structuring of projects, in the identification of the most suitable financial instruments (public or private) to meet the needs arising from investment programmes, in the preparation of the documentation necessary to access the Financial Instruments, in the identification and support to the resolution of some critical issues of individual projects (p. e. creating critical mass by aggregating different projects, development of energy audits, cost-benefit analysis, financial analysis, etc.), in the reporting of the aid obtained. Technical assistance to final recipients can be provided by a technical assistance unit (in the form of man-days of assistance) or in the form of a non-repayable ceiling granted to final recipients of projects eligible for funding to cover part of the expenses incurred for the activities described above (e.g. identification of financial instruments, preparation of business plans, resolution of certain critical issues). The total value of technical assistance is estimated at around €10 million (between 4% and 10% of the total value of the investments supported).

However, it is useful to underline that, in order **to maximize the effectiveness of these instruments, a close connection is necessary** both between the various institutions operating in the sector (e.g. central authorities, regional departments) and between the MA and the entities managing the Financial Instruments. In fact, it is important to avoid the overlapping of the interventions and the inconsistencies between the actions of the different administrations that, in the past, have fuelled displacement phenomena (e.g. between interventions planned at local and national level), and have not allowed the



achievement of economies of scale or simply critical masses of intervention necessary to ensure the sustainability of some projects.

This close institutional link would require a **structured organizational coordination**, which could take the form of a control room for the governance of Financial Instruments, which would permanently coordinate the different institutions involved in the implementation of Financial Instruments and also offer a structured link between institutions and operators.



2 Context

2.1 Demand-side analysis

The industrial activity in the Region saw a continuous growth since 2015, slowing down in the last two years but still with a lively pace. Production increased by 1.8 percent, involving all company size classes but less intensely for smaller companies. In the second half of 2019, the capital accumulation process slowed down, being affected by the weakness of the economic situation as well as the uncertainty over the renewal of tax incentives, reintroduced only in April. Investments are slightly down compared to 2018 and are expected to remain stable for 2019 and 2020.

With regards to economic and financial conditions, in 2018 the income results remained positive for a large number of companies: the balance between the share of companies in profit and those in loss increased compared to the previous year. The financial liquidity index also improved and the demand for loans grew in moderate measure.

For what concerns the energy requirement, the industrial sector has shown a tendency to reduce total consumption by 47% from 2002 up to 2015, while, starting from 2016, the trend in energy consumption recorded a trend reversal, with a growth of + 10% in two years. Analyzing in detail the consumption of the production activities heating sector, 72% is covered by thermal energy, while 28% by electricity.

The regional energy plan of Emilia-Romagna¹ indicates three objectives for 2030: 40% reduction in greenhouse gas emissions compared to the 1990 value, 27% gross final consumption met by renewable sources and energy efficiency leading to a reduction 27% of trend consumption by 2030, which translates into an energy intensity target value in the industry of 52,6 toe per million euro in 2030. On the basis of the available monitoring data^{2, 3}, the situation for the industrial sector is summarized as follows: the targets of the REP require a reduction to 2030 of the energy intensity for the industry by 48% compared to the 2014 value and considering a linear improvement in energy efficiency, this means an average annual saving of about 115.4 ktoe.

If we consider an average investment cost of € 4,000 / saved toe, corresponding to an investment with a payback period of about 5-6 years, the investments required to meet the objectives of the plan would amount to € 461,600,000 / year and overall to 2030 at around 7 billion and 386 million. If we instead consider operations with shorter payback time, 3 years, we can assume an investment cost of around 2,500 € / saved toe, which would lead to investments of 288.500.000 € / year and 4 billion 600 million until 2030.

2.2 Supply-side analysis

The banking system is the main subject to which the Italian and even regional production systems are directed to meet their capital requirements. As regards the availability of credit, in 2018 a reduction in the average spread was detected, thanks to the operations conducted by the European Central Bank, with a minimum increase in the quantity offered, but also an increase in costs: overall the trend was one of slight tightening of credit conditions.

The Italian system of guarantees is based on two components: a public one, represented in particular by the Guarantee Fund for SMEs and a private one, made up of collective guarantee consortia (so-called

¹ [Emilia-Romagna Region: Regional Energy Plan 2030](#)

² [1st Annual Report on REP monitoring - July 2018](#)

³ [ENEA - Annual Energy Efficiency Report-2019](#)



"confidi") created by business associations. The two systems find an integration through the instrument of the counter-guarantee that the public subject can provide to individuals, and that has been significantly strengthened by the Government and widely used in recent years characterized by the economic crisis. For practical reasons (greater difficulty in accessing credit) and for structure, smaller companies make more use of the support of this tool.

The **Central Guarantee Fund** is financed by the Ministry of Economic Development and has also used the European resources of the national and interregional operational programs. The guarantee of the Central Fund can be activated only against loans granted by banks, leasing companies and other financial intermediaries in favour of companies and professionals and can be requested either by the financial intermediary or by the "confidi" which requests a counter-guarantee to support of the first guarantee granted directly to the SME. Micro-enterprises or SMEs registered in the Business Register and professionals registered with professional associations or members of professional associations registered in the specific list of the Ministry can be guaranteed. The Central Guarantee Fund also manages a line of guarantees dedicated to innovative start-ups for which the business plan is evaluated. The Central Fund, in addition to granting direct guarantees on loans granted by banks which, benefiting from the guarantee of the state, can weigh the loan with a zero coefficient, also plays a role of counter-guarantee in favour of the regional trusts.

The **National Fund for Energy Efficiency (FNEE)** is a revolving fund whose purpose is to support the financing of energy efficiency measures implemented through ESCOs, the public administration, through public-private partnerships and project companies or purpose-built companies. The Fund is a Financial Instrument aimed at encouraging the interventions for the energy requalification of Public Administration buildings and for the reduction of energy consumption in the sectors of industry and services.

The FNEE aims to finance projects in the fields of: energy efficiency of buildings owned by the Public Administration; construction of networks for district heating and tele-cooling; energy efficiency of public services and infrastructures, including public lighting; energy efficiency of entire buildings intended for residential use, including public housing; energy efficiency and reduction of energy consumption in the industrial and service sectors.

The **Italian White Certificates (WhC)** is an Energy Efficiency Obligation (EEO) scheme in which the electricity and gas distributors with more than 50,000 clients are obliged to reach increasing annual energy efficiency targets. The obliged distributors can buy them from voluntary parties or obtain them directly. Voluntary parties are non-obliged distributors, ESCOs, organizations with an energy management expert (UNI CEI 11339 certified) or with an ISO 50001 energy management system. A very large number of energy efficiency projects in almost all sectors is allowed, with particular emphasis on the industrial sector. The exchange of white certificates between obliged and voluntary parties takes place on a dedicated platform managed by GME (owned by GSE, Gestore Servizi Energia) or with bilateral agreements over the counter.

The WhC scheme can thus work as an incentive for the voluntary parties, even if the WhC price can vary over time and there are no guarantees about WhC sales (no minimum price, no withdrawal if WhC are not sold to obliged parties). Each certificate corresponds to one ton of oil equivalent (toe) of annual energy savings. Actions that received a national incentive (e.g. tax credit) are not eligible for the WhC scheme. White certificates cannot be combined with other forms of national incentive, but can be combined with revolving funds.



3 Analysis of the gap between demand and supply

The Financial Instruments are mechanisms that provide for the repayment of loans disbursed within a given deadline. The analysis of the difference between demand and supply of financing derives from market failures that can refer to critical issues in credit instruments and similar mechanisms, such as equity instruments, and on credit support instruments, such as guarantees or sharing in the payment of interest on loans.

An in-depth analysis of demand side and supply side can be found reading the FIRECE Project document D.T2.1.2⁴, realised specifically as a support tool for this study.

3.1 Market failures

An analysis at the level of economic sectors shows that credit has been reduced in recent years, with average annual drops between 3 and 6%. The growth in new lending has mitigated these declines, but still remains insufficient to compensate for outstanding loan repayments. The decline in credit remained more pronounced than in the other productive sectors in the construction sector, which continues to be burdened by the sector's difficulties.

The credit trend has been differentiated according to the riskiness of the companies, highlighting an increasing in the credit for companies deemed safe, while it decreased significantly for vulnerable and risky companies. This differentiation highlighted a strong difference between demand and supply of credit in Emilia-Romagna, which was accentuated during these years of economic crisis. Following the introduction of liquidity into the European banking system by the European Central Bank, the availability of financial resources and interest rates no longer represent a significant criticality for the market. The main factors that cause this strong imbalance can instead be identified as:

- information asymmetries: there is a clear difficulty for companies to properly communicate their projects and banks to adequately assess the advantages of the proposed interventions
- market prospects: there is still no clear positive view on the evolution of the economy, on the part of the banks that, therefore, evaluate new investment projects with a high degree of risk
- the increase in bank bad debts in recent years: the increase in bank balance sheets from a point of view of bad debts push credit companies to a more careful selection of projects, concentrating disbursements on solid companies and rejecting requests from weaker companies

As regards more specifically to investments in energy efficiency, we note that:

- capital markets are not used to investing in energy efficiency and are unable to accurately assign the price of risk
- the lack of funding, particularly for SMEs and start-ups, adds to the consideration of the high level of risk of investments in energy efficiency, such as to require high levels of interest rates or a high level of subsidized loans.
- the reduced size of projects causes difficulties to place the projects on the market (especially for SME's and start ups): overcoming this failure requires standardized contracts or the possibility of merging multiple projects with different risk profiles and dimensions to create an attractive financial perspective. This approach may require significant financing of technical assistance

⁴ D.T2.1.2 - Preparation of PA 1: CE Ex-Ante Assessment Analysis report



- high transaction costs can be caused by long administrative procedures required for project approval

3.2 Sub-optimal investment situations

Energy efficiency projects, even if with a positive IRR (Internal Rate of Return), are usually not attractive for private financing due to: long payback times, inadequate risk management, high technology costs against low energy carrier costs.

These not attractive projects should move for tools of innovative finance that apply specifically for riskier projects, but which, like in return, require a more meaningful control over the company. There is no adequate business and financial culture. Very often, there is not the ability to analyze and manage Financial Instruments other than classic bank credit because of a low competence within companies;

ESCOs themselves are not adequately capitalized and insufficiently equipped in terms of technical skills. Usually their track record is still too limited for access to bank credit.

3.3 Previous experiences and lessons learned

From the analysis of some similar experiences, at regional, national and European level, it was possible to draw some indications, both as best practices and as errors made, which allowed to define a correct investment strategy for the Financial Instruments in Emilia Romagna. These "lessons learned", in addition to being useful for the continuation of this work, will be a useful support for the Managing Authority also in the phase of defining the details of the Financial Instruments.

Among the lessons learned, it is useful to highlight the following:

- it is very important to make a careful planning of the activities that must be carried out and, therefore, of the resources required, both for the manager of public resources and for the manager of the Financial Instrument. The possible adaptation of the existing institutional structure, the development of programme manuals, the training of staff dedicated to control, are all necessary elements to guarantee the effectiveness and efficiency of the Instruments activated;
- it is necessary to coordinate the strategies of the Financial Instruments with those of the other existing public support instruments, in particular at regional and national level (e.g. for research and innovation projects, the possibility of offering non-repayable incentives only to projects that have yet to develop research activities could be considered, while those that are in a market approach phase can be supported through Financial Instruments). The absence of such programming could lead to uncertainties for potential beneficiaries, undermining both programmes (grant and funding);
- it is necessary to put in place technical assistance programmes for potential beneficiaries, both to support them in identifying the most optimal financial solution for their needs, but also to overcome cultural resistance linked to the need to abandon purely capital-based financial assistance instruments. Such instruments could also play a role in assisting beneficiaries to speed up authorisation procedures by the public sector and support reporting, as well as offering business support services, such as networking, co-working, temporary management, useful in particular for new entrepreneurs;
- business support programmes should start with clear strategies and existing and immediately available funding. Uncertainties about beneficiaries and sectors of intervention, operational rules, and the actual availability of funds undermine the credibility of support and, therefore, may lead to failure;
- in order to respond to the different needs existing on the territory, and therefore reach a very wide range of possible beneficiaries, even more effectively, it is useful to offer a diversified range



of instruments (e.g. debt, equity, guarantees). Often, in fact, different instruments, suitably combined, can guarantee greater overall results than if they were used individually. The availability of diversified and innovative instruments also makes it possible to increase the financial culture of companies;

- it is necessary to bear in mind the continuous and increasingly rapid evolution of the environment in which companies operate (demand, supply, technological innovation, interest rate trends, changes in inflation, etc.). Having to design products that have medium/long term durations, it is therefore necessary to introduce mechanisms that adapt automatically and rapidly to the main changes in the market (e.g. not giving fixed reference thresholds on interest rates, but varying according to market benchmarks);
- particular attention must be paid to the selection of the managers of the Financial Instruments, who must demonstrate, in particular, that they know and know how to manage the products offered by the Financial Instrument, that they understand and are integrated in the area of operation of the Instrument, that they already have a pipeline of possible operations on which to apply the Instrument, that they can implement effective marketing activities to promote the Instrument;
- in order to broaden the range of stakeholders interested in the management of the Financial Instrument, thus enabling a better selection, it is advisable to provide for a medium/large financial endowment of the same, to define appropriate management costs and timescales for the instrument, to guarantee an effective collaboration between the financial intermediary and the MA;
- last but not least, it is the definition of the procedures for access to the Financial Instruments. If the reference target is very wide, both in terms of possible disbursements (from thousands to millions of euros) and type of beneficiaries (start-ups, family businesses, SMEs, large enterprises), even within the same Financial Instruments it is useful to provide for differentiated procedures, simpler and faster for those of small amounts, more structured for those of medium/large size.



4 Added value

4.1 Added value of financial instruments proposed

In the previous chapter, the existence of market failures and sub-optimal investment conditions emerged. Specially structured Financial Instruments could help to overcome or limit some of the causes of these failures.

In general, the Financial Instruments are implemented within the operational programmes of the EIF Funds for support investments that are financially sustainable but do not find adequate sources of financing in the market due to sub-optimal investment conditions.

The general benefits arising from the adoption of the Financial Instruments, and which cannot be traced in others forms of support, such as grants, can be grouped into the following categories:

- multiplier effect on EIF Funds: the ability of Financial Instruments to combine different forms of public and private financial resources in support of public policy objectives and the ability to ensure a revolving flow of financial means for strategic investments, fostering long-term sustainable investments and strengthening the Union's growth potential;
- possibility to combine Financial Instruments with non-repayable resources: where elements of an investment do not generate financial returns in line with the degree of risk of the project, it may be justified to combine Financial Instruments with grants, to the extent permitted by existing State aid rules, so that projects are economically sustainable;
- support to final beneficiaries: possibility of allocating part of the resources allocated to the Financial Instruments to provide non-repayable technical assistance to final beneficiaries for activities related to the operation of the Financial Instruments with a view to optimising the final allocation of resources also by speeding up spending by the managers of the Financial Instruments;
- possibility to contribute to the Financial Instrument with additional resources;
- containment of moral hazard and empowerment of the final beneficiaries in the use of public resources, since funds must be reimbursed;
- interventions with lower aid intensities than the non-repayable grant and entail a weakening of the distortive effect on the markets.

4.2 Added value for the Promotion of low carbon economy's thematic

Considering a real market that has difficulties in generating new projects that highlight the self-sustainability of investments due to the lack of funds for energy audits and that disadvantages access to financial benefits for smaller projects, technical assistance for supporting energy audits that favours market development and reduces the level of project risk and the definition of a simplified financing channel for projects below a certain size threshold can be considered.

The use of Financial Debt Instruments can reduce the exposure of financial investors, containing the overall cost of financing and allowing longer durations of financing than at present, compatible with the payback time of energy efficiency measures.

The Financial Instrument to be adopted could also address the creation of standard contracts and management models that face the great diversity of project characteristics that prevents a standardization of assessment and the absence of a contract that adequately allocates risks between the company and ESCo.

Among the issues that would find an added value in the implementation of an ad hoc financial instrument are the enterprise and financial culture. Reducing the interference in the company in innovative financial instruments and the development of successful cases in the use of the financial instrument, to be shared



and disseminated, would lead companies to assess more favourably the potential energy savings resulting from investments in energy efficiency that are often not considered "core" for the company.

Finally, concentrating resources on two specific lines, i.e. guarantees for investments with too long payback time and Financial Instruments for projects with cash flow for investments that can be easily repaid, would reduce the misalignment of governance and therefore the risk of overlap between grants and other financial instruments.

4.3 Interventions implementable to promote low carbon economy

In this paragraph are represented in a schematic way the types of intervention and financial products that could be provided by a Financial Instrument to remedy market failures and the sub-optimal investment conditions presented in the previous chapter. These elements will then be elaborated within the chapter on investment strategy.

Interventions that could be implemented by a Financial Instrument to promote low carbon economy for the territory and the productive system⁵:

- Equity / Mezzanine capitals for ESCos
- Loans for enterprises (included ESCos)
- Guarantee fund for enterprises and ESCos
- Technical assistance

From an analysis of the existing Financial Instruments the combination of loans and training is successful. Providing training on the different aspects of business development improves the entrepreneurial and management skills of the final beneficiaries, increasing the chances of job creation and reducing the likelihood of default and failure by the beneficiaries.

⁵ PwC elaboration



5 Innovative financial instruments (Energy Performance Contract and Crowdfunding)

5.1 The Energy Performance Contract

The EPC contract has been introduced for the first time in the EU legislation with Directive 2006/32/EC and **identifies, designs and implements the energy efficiency intervention of a building in order to achieve an energy savings** calculated in kWh with a consequent saving of expenditure on the customer's energy bill. Each Member State is obliged to transpose the directive into the State legislation framework and can adapt it in order to better define the requirements that the contractual agreement must fulfill in order to be considered an Energy Performance Contract.

5.1.1 The Italian legal framework of the EPC contract

The Energy Performance Contract was at first introduced into the Italian legislation framework with the Legislative Decree 115/2008. Following the publication of Directive 2012/27/EU, transposed in Italy with Legislative Decree 102/2014, the definition of EPC has been amended as follows:

"Contractual agreements between the beneficiary and the supplier of an energy efficiency improvement measure, verified and monitored throughout the duration of the contract, where the investments (works, supplies or services) made are paid according to the level of efficiency improvement contractually established or other agreed energy performance criteria, such as the financial savings".

In an EPC contract, bilateral contractual relationships among the following two parties are normally established:

- The supplier (preferably an ESCo) who anticipates the costs of the efficiency measures, or assumes the direct burden of finding them;
- The beneficiary (customer) who pays a fee and which can be identified in the Public Administration or in a private entity.

Annex 8 of Legislative Decree 102/2014 identifies in the following elements as the minimum requirements that characterize the EPC contract:

- (a) A clear and transparent list of efficiency measures to be applied or results to be achieved in terms of efficiency;
- (b) The guaranteed savings to be achieved by applying the measures provided for in the contract;
- (c) The duration and key aspects of the contract and the arrangements and time limits laid down;
- (d) A clear and transparent list of the obligations incumbent on each party to the contract;
- (e) Reference date(s) for determining the savings made;
- (f) A clear and transparent list of the stages of implementation of a measure or package of measures; and, where applicable, of the related costs;
- (g) The obligation to fully implement the measures provided for in the contract and the documentation of all the changes made during the course of the project;
- (h) Provisions governing the inclusion of equivalent requirements in any procurement concessions to third parties;
- (i) A clear and transparent indication of the financial implications of the project and the proportion of participation of the two parties in the savings made (e.g. remuneration of the service providers);
- (j) Clear and transparent provisions for the quantification and verification of guaranteed savings achieved, quality controls and guarantees;



(k) Provisions clarifying the procedure for managing changes in framework conditions that affect the content and results of the contract (e.g.: energy price change, intensity of building use)

(l) Details of the obligations of each Contracting Party and the penalties in the event of default.

From the technical point of view there is a very clear legislation that defines the contours and which derives from European directives (Directive 2012/27/EU), while from the legal point of view there is still a lack of transposition of national legislation and this especially in the public sector leads to confusion and application of different models.

It would therefore be useful to quickly complete the framework of the EPC contract in all its aspects, so as to make this valuable tool increasingly usable.

5.2 EPC tendering

The purpose of an EPC contract tender is to improve the energy efficiency and quality of the service with the aim to achieve a **substantial energy savings and a compliance with the highest safety standards of the installations**. The bilateral contract to be proposed is a mixed contract for services and works. In particular, are required the supply of energy, the annual consumption control, the maintenance and operation of heating systems and hot water production in order to maintain the comfort conditions in the buildings in compliance with the current national regulations related to the rational use of energy, safety and environmental protection.

For all buildings is required, as a primary objective, the energy retrofit of the buildings according with the energy audit and feasibility studies developed by the beneficiary or a third party selected by him and attached to the tender, to be carried out by a limited time from the date of signature of the work delivery report.

The contract will equal to a number of years, which will be counted from the date of signature of the delivery report, determined taking into account costs and revenues for the supplier (usually, between 7 and 10 years).

The EPC tender has to include the following documents:

- Special Tender Specifications and their annexes: the document defines the objective of the contract, the duration, the yearly fee and how it is calculated, responsibilities, guarantee and penalties (business plan of the investment as well);
- Tender notice, a document defining the procurement process and the characteristics of the tender (included buildings energy audits and feasibility studies);

The contract has to be awarded to the best tender identified on the basis of a series of evaluation criteria and sub-criteria, including economical, design and quality offer.

The main challenge is to **develop a financial business plan that takes into account the different incentives and funding available**, in order to be profitable for the beneficiary and for the supplier as well. This challenge requires a competence that small enterprises (and municipalities) have struggle to reach when moving alone.

5.3 Crowdfunding: a suitable tool for funding hardly bankable enterprises

Since its first appearance on the European market in 2009, crowdfunding has increasingly become a reliable financial mechanism that has allowed business ventures as well as non-profit organisation to raise funds to achieve their goals and implement specific initiatives. Furthermore, the intrinsic flexibility of



crowdfunding⁶ has enabled both profit and non-profit organisations across the spectrum of different business sectors to approach and benefit from this innovative way of financing.

5.4 The lending and equity crowdfunding investment structures

Even if crowdfunding is often presented as a unified industry, there are several differences among crowdfunding models and platforms. The definition provided by the Joint Research Center of the European Commission identifies the main elements that are common to all those operators and actors that move within the crowdfunding industry, and summarises them as follows:

“Crowdfunding can be defined as an open call for the collecting of resources (funds, money, tangible goods, time) from the population at large through an Internet platform. In return for their contributions, the crowd can receive a number of tangibles or intangibles, which depend on the type of crowdfunding”⁷.

Taking the elements included in the JRC definition as common to the entire crowdfunding industry (internet-based mechanism, small economic contributions to specific projects/initiatives from a large crowd of people, presence of tangible or intangible benefits for each contributor), for the scope of this study two models have been identified as most relevant: equity crowdfunding and lending crowdfunding.

5.4.1 Lending

The structure of this crowdfunding model is similar to every typical lending scenario: individuals lend money to a company (peer-to-business lending) or to an individual (peer-to-peer lending) with the expectation that the money will be repaid with interest. The peer-to-business model is a relevant one for positive cash-flow companies (mostly SMEs) that can credibly assure lenders of being able to pay back the loan. Lending crowdfunding is the leading model in terms of volumes in Europe, and the average amount raised by single projects ranges between 50.000 - 2.5 million EUR⁸.

The due diligence conducted by lending platforms on each project (assessment and preparation phase) is quite extensive and analyses the credit history, as well as the track record of the business proposing the project. Once the project is assessed, the interest rate of the loan is determined by the risk of the investment: the riskier the business, the higher the interest rate. In lending-based crowdfunding campaigns the relation between investors and project owner (business seeking to raise funds on the platform) extends per definition beyond the duration of the campaign. Once the funding round is successfully closed, the investor will remain tied to the project for a longer – yet clearly defined – time period, at the end of which the initial investment will be entirely repaid, together with the financial return determined by the interest rate. Most lending crowdfunding platforms adopt a model where the initial capital, and a percentage of the total interest, are repaid on a monthly basis, as to gradually reduce investors’ capital exposure to risk of defaults.

5.4.2 Equity

This model is best suited for – but not limited to – companies (start-ups or scale-ups) with strong business plans. It works by the sale of shares in a business or revenue share to a number of individuals (investors) in return for capital. In addition to institutional and professional investors, this type of crowdfunding allows

⁶ Main crowdfunding models can be identified in equity, lending, rewards and donation, but a significant – although not exhaustive - number of sub-models and applications is presented in the Cambridge Center for Alternative Finance Report 2019

⁷ Understanding Crowdfunding and its Regulations. How can Crowdfunding help ICT Innovation?, Garry A Gabison, Joint Research Center, Luxembourg: Publications Office of the European Union, 2015

⁸ ECN industry data, collected through a survey of ECN Platform and gold Members (<https://eurocrowd.org/directory-of-members/>)



individuals to become retail investors and therefore co-owners of the business by lowering the entry tickets to the investment (as low as EUR 250, depending on the project/platform). Among the crowdfunding models, it is the one with the highest degree of risk, as co-ownership in the company normally might entail a complete loss of the invested capital, as well as participation in the company's profits. For this reason, the average amounts raised by individual projects through equity crowdfunding range between EUR 100.000 – 600.000.

The assessment and preparation phase in the equity model foresees the reception of resolution on a capital increase, approved by the Board of Directors of the company proposing the project. As the pre-money evaluation of a company determines the price of the shares sold through the crowdfunding campaign, platforms might further require evidence⁹ from companies to support pre-evaluations that seem unreasonable. As in lending-based crowdfunding campaigns, the relation between investors and project owner (businesses seeking funds on the platform) extends per definition beyond the duration of the campaign but doesn't foresee a clearly defined end for such relation. Investors will see their commitment to the company (and vice versa) when an exit opportunity is provided and accepted, or when they decide to sell their shares in the company to a different investor. A major obstacle that investors in equity crowdfunding deals must face at the moment is the illiquidity of the market, due to the absence of a regulated secondary market – i.e. shares of the company acquired through an equity crowdfunding campaign are difficult to be sold at a later stage as there is no common marketplace, therefore limiting the possibility of investors of recovering their capital (and possibly an additional amount due to profit sharing) if needed.

5.5 Financial investors in crowdfunding

As mentioned in the JRC definition, both crowdfunding models allow investments to a wide number of people, which fall under different categories of investors. At present, each Member State can define the requirements that each investor must fulfill in order to be included in one of the relevant categories, and therefore to which obligations and benefits each category is subject to. Such categories have been established prior to the emergence of crowdfunding as an investment tool, and are linked to different investors' protection rules and limits on the overall percentage of wealth that investors can dedicate to financial operations. In the traditional financial system, financial operations are generally delegated to **professionals** and/or **institutional investors** (Venture Capital funds, business angels, brokers, banking institutions, etc.), who would either invest their own wealth for profit, or manage individuals' savings as to increase their value over time. The appearance of crowdfunding on the European investment landscape has given a new and more prominent role to the category of **retail investors**, which include all those "small savers" that can now make their own investment decisions, supported by a different set of investor protection rules and incentivised by the opportunity of investing very small amounts of their savings.

5.6 The legal/policy framework of crowdfunding in Italy

The regulatory framework for crowdfunding in Europe has been characterised, since its early days, from a high degree of fragmentation among national regulations, which has hindered greatly the further development of the crowdfunding industry to date. Fortunately, recent developments at the European level have led to the approval of the European Crowdfunding Service Providers Regulation (ECSP)¹⁰, proposed by the European Commission in order to, among other objectives, enable cross-border

⁹ Such evidence can include, but is not limited to, proof of the market size, financial performance and background of the company's team.

¹⁰ European Commission, Proposal for a Regulation of The European Parliament and of The Council on European Crowdfunding Service Providers (ECSP) for Business, COM(2018) 113 final 2018/0048 (COD), March 2018



transactions and operations of crowdfunding platforms within the Single European Market, and to provide a somehow standardised set of minimal investor protection rules across the European Union.¹¹ The implementation of ECSP across all Member States will represent a major step in the development of the crowdfunding industry and will amplify benefits and opportunities for all parties involved, but such implementation will only become effective in the years to come. For the scope of this study and in order to provide concrete reference to stakeholders and interested parties in the adoption of a crowdfunding mechanism, the focus will be on the overview of the current Italian regulatory framework for crowdfunding.

By publishing the 2013 regulation on equity crowdfunding¹², Italy was the first country in Europe to recognise the role of crowdfunding as a separate financial mechanism and to encompass its specificities and needs in a separate piece of regulation. The opportunity to raise funds through an equity crowdfunding campaign was initially restricted to Italian innovative startups and SMEs, which would in turn enable investors to benefit from fiscal incentives up to 30% of the amount invested in each specific deal.

Later amendments and evolutions in the Italian equity crowdfunding regulation, informed by market trends based on transaction volumes and positive impacts on access to finance for startups and SMEs, have led the Italian regulator CONSOB to open up the possibility of raising funds through a crowdfunding campaign also to those start-ups and SMEs that would not qualify as *innovative* as per the existing definition in Italy.¹³ Such development has not only fostered the development of the crowdfunding industry in the country, but grants the possibility of including crowdfunding into the social housing building retrofit funding context.

Lending crowdfunding, on the other hand, has not been granted a dedicated regulation by Italian authorities, and has instead been regulated by extending the applicability of existing regulations as to encompass also Peer-to-Peer and Peer-to-Business lending activities.¹⁴, ¹⁵ The reason behind this choice is to be found in the structure of lending crowdfunding, which can be more easily redirected to the general scheme of loans operations, and has so far not compelled the main Italian banking authority (Bank of Italy) to discipline it in an entirely different manner.

In 2019, further updates to the Italian equity crowdfunding regulation have been implemented as to reduce the uncertainties linked to the illiquidity of equity crowdfunding. In this perspective, CONSOB has included in the current regulation the possibilities, for equity crowdfunding platforms, to provide their investors with a separate section of the website in which they can trade shares acquired through crowdfunding campaigns offered through the same crowdfunding platform.¹⁶ This evolution must be read not only as a natural development of a growing market, but also as an effort to further promote the uptake of this alternative financing tool by offering investors the opportunity of trading their shares at any given moment, in a sort of secondary market for equity crowdfunding.

¹¹ For further information on ECSP and its implications for crowdfunding platforms, businesses and investors, please see *Support for – and Proposed Improvements to – the European Commission Proposal for a Regulation on European Crowdfunding Service Providers (ECSP) for business*, European Crowdfunding Network, July 2018; *Position Paper of the European Crowdfunding Network*, European Crowdfunding Network, October 2018; and *Position Paper of the European Crowdfunding Network, Triologue Stage*, European Crowdfunding Network, October 2019

¹² Law Decree No. 179 of 18 October 2012, passed into Law No. 221 of 13 December 2012 as further amended.

¹³ CONSOB, Legge di Stabilità 2017 (Legge 232/2016)

¹⁴ Bank of Italy defines lending crowdfunding as *social lending*, (Decree 584/2016)

¹⁵ Bank of Italy (resolution 584/2016): recognition of social lending activity (P2P and P2B)

¹⁶ Legge di Bilancio per il 2019 (Legge 145/2018), as reported by the *4° report italiano sul CrowdInvesting*, Osservatorio Entrepreneurship & Finance, Politecnico di Milano, July 2019



5.6.1 Crowdfunding and Renewable Energy Sources

The crowdfunding - renewable energy duo is appreciated by the investment community as it **allows them to invest capital and secure a return** thanks to energy production.

The crowdfunding model is attracting a number of important companies in the renewable energy market, which, in addition to taking advantage of the yield from energy production plants, can also gain in competitiveness thanks to the possibility of managing a larger number of plants or diversified in sources, so as to amortize the operating costs per single plant, without forgetting the **added value that comes from the increased visibility** - and the rating - of their company on the national and international scene.

Many entrepreneurs have relied on crowdfunding to finance their investments in renewable energy, especially in the European context. At the Italian level there has been a strong increase in recent years; just to mention a few names that appear on the Italian and regional markets, we can indicate:

- Solar-Konzept Italia, a company of the solar-konzept group specialized in the construction and management of photovoltaic plants, which is launching a crowdfunding project thanks to which citizens will be able to co-finance the construction of photovoltaic plants in Puglia, after having already successfully built 5 in Germany and 1 in the Netherlands;
- Fenice Invest S.p.A., a holding company of Emilia-Romagna specialized in investments in renewable energy plants of small to medium size, which is proposing new investments in order to obtain margins thanks to the quantity of plants under management.



6 Additional public and private resources that the Financial Instrument can collect

Public structural funds in the form of Financial Instruments can be a useful tool to catalyse additional resources to specific projects, thus multiplying the effects of the resources allocated under EIS funds.

In addition to the regional resources made available by the region under the Operational Programme, there are additional resources that can be channelled to the Financial Instruments. These can be classified according to the level at which they are allocated and according to the entity that contributes them.

From the first point of view, co-investment can take place:

- at the level of the Financial Instrument;
- at the level of a single project;

While, as far as the second aspect is concerned, we can distinguish:

- private resources;
- public resources.

Among the **main public entities** that can co-invest in Financial Instruments is possible to identify:

- European Commission;
- Transnational organisations (EBI, EFI);
- Ministers (with direct resources and through National Operative Programs)
- Other public bodies or public purpose entities

All these operators can allocate part of their budget to the Financial Instrument or to the project. The contribution of resources by these operators directly to the Financial Instrument has several advantages:

- allows to create a higher financial critical mass on the Financial Instrument by favouring economies of scale and increasing the impact of the instrument;
- avoids the duplication of evaluation commissions which, in addition to entailing high management costs, could also lower the quality level of evaluations;
- prevents the duplication of similar or uncoordinated investment programmes which, at times, could compete with each other.

At the level of the **private individual**, however, it is possible to distinguish:

- the manager of public resources: it is the specialised entity to which public resources are entrusted. In the Financial Instruments it is useful to request, also to ensure an alignment interests in project evaluation processes, a direct co-investment in the Financial Instrument, usually with a leverage between 1.2x and 2x. The manager then invests at the level of Financial Instrument, but could co-invest additional resources also at project level, maybe with other tools he handled;
- industrial operator: is the proposer of the project. Also in this case, in order to increase the effectiveness of the investments, the Financial Instrument should be invested only in those projects where the same promoter risks his own capital. Depending on the characteristics of the projects, the sectors and the level of aid to be offered, the contribution of financial resources by the industrial operator, which will be at the individual project level, should not fall below 10-20%;
- financial operator: in this case we can distinguish two different subjects:
 - credit institution: it intervenes directly on projects with financing that may have different characteristics (in terms of duration, technical instrument, required guarantees, etc.) and degrees of seniority. Depending on the characteristics and riskiness of the project, the leverage can vary between 50 and 80%;
 - financial investor: is an individual (e.g. Business Angel) or structured (e.g. investment fund) who intervenes in the project by providing resources in the form of pure equity, mezzanine, or debt (usually by structuring bonds).



6.1 Potential leverages

The additional resources that can be attracted by the Financial Instruments, identified in a particular way in the private resources, can activate a leverage that can also generate a multiplier of 20x (depending on the instrument that is created and the market and project conditions)¹⁷.

Equity Financial Instrument: If we assume a contribution of public funds to an equity instrument of €5 million, it is possible to ask the manager to co-invest an additional €5 million, thus creating a €10 million fund. The fund will be able to invest in companies by acquiring minority holdings, i.e. a maximum of 49.9%. This means that with €10 million you can create companies that have about 20 million equity. Considering that banks can finance companies with a 20:80 leverage (20% equity and 80% debt), the total value of the debt that can be activated could be 100 million euro. Therefore, with 5 million euros of public resources, investments of 100 million euros could be activated, with a 20x lever.

Debt Financial Instrument: Assuming a contribution of public funds to a debt instrument of EUR 5 million, it is possible to demand to the manager to co-invest an additional €5/10 million, thus creating a €10/15 million fund. The fund will be able to finance 100% of companies' needs with a 20:80 leverage (20% equity and 80% debt). This means that the total value of eligible investments could be EUR 50/75 million. Therefore, with 5 million euros of public resources could be activated investments of 50/75 million euros, with a leverage of 10/15x.

Guarantee Financial Instrument: If a contribution of public funds to a guarantee instrument of EUR 5 million is assumed, the fund could guarantee financing amounting to 50-80%. This means that the total value of the financing that can be activated could be between €6.25 and 10 million. If we consider that banks finance with a leverage of 20:80 (20% equity and 80% debt), the total investments that can be activated could be between 31.25 and 50 million euros. Therefore, with 5 million euros of public resources, without requiring additional resources from the managers, investments could be activated equal to 31.25/50 mln euro, with a lever of 6.25/10x.

Additional resources can be acquired from the public sector. In particular, the specific case can refer to:

- **repayments resulting from existing Financial Instruments:** during the seven-year period 2014-20 the redemptions of the loans made by the Financial Instruments managed during the period of programming 2007-2013, sums that can be used to feed the Instruments Structured financials in the present programming cycle. Considering that the maximum duration of loans provided for in the two Financial Instruments operating in the Emilia Romagna Region is 7 years, it is assumed that during this seven-year period all loans will have to be repaid. Considering the management costs and assuming a default rate of about 10%, it is possible to estimate additional resources to be contributed to the new Financial Instruments of around EUR 17 million;
- **resources made available by other public entities or for public purposes** (provinces, CCIAAA, foundations). Local actors could decide to co-finance the Financial Instruments entrusting professional operators with the management of their resources and benefiting from economies of scale that could be created (e.g. the province of Reggio Emilia has funded the RE UP project which has supported business start-ups);
- **European resources.** The managers of the selected Financial Instruments could still have access to Community resources (e.g. COSME programme) to have additional financial resources available from use in coordination with the Financial Instruments under management. For example, access

¹⁷ The levers determined in these examples are to be considered as maximum values. In determining the possible impacts of the Financial Instruments, much smaller levers should be hypothesised as a precautionary measure



to Equity Facility for Growth of the COSME programme could go to support a Financial Instrument of debt created by the region, or access to the *Loan Guarantee Facility* could increase the resources made available by the region in a guarantee fund.

6.2 Combination of Financial Instruments and subsidies

Structural and Investment Funds (SIE) can be used to provide support in the form of grants, prizes, repayable assistance and Financial Instruments or a combination between them.

As described in Art. 66 of CPR – Ex-ante assessment, different forms of aid can be combined; it may therefore be possible to combine Financial Instruments with grants, to the extent permitted by the existing State aid rules. In particular, the combined use of the two types of intervention may be justified in cases where an investment financed by a loan instrument does not allow its repayment or adequate remuneration and therefore requires capital support.

The combination of support provided through grants (capital grants), interest rate subsidies (interest rate subsidies) and guarantee fee subsidies, including technical support, and Financial Instruments may take place in the same operation or in two different operations (Art. 37 of the CPR).

It is important to note that, according to the European Commission's guidance document on the possibility of combining Financial Instruments and aid in two different operations, such a combination can take place:

- by the same body (beneficiary of the Financial Instrument and intermediate body in the case of grants). In this case the Management Authority (MA) enters into a financing agreement and an agreement for the disbursement of Financial Instruments and grants by the same entity;
- to the same body, such as enterprise (final beneficiary of the Financial Instrument and beneficiary of grants);
- for the same project and/or also for the same eligible costs (e.g. machinery). In this case, the same costs cannot be declared twice to the Commission.



7 Evaluation of comparable instruments on a Regional, National and International level

Previous programming has seen frequent use of financial engineering instruments within the thematic areas analysed in this study.

In order to consolidate past experience, at regional, national and Community level, a brief excursus of the most significant projects in terms of the use of similar instruments, selected mainly on the basis of their relevance to the Emilia-Romagna territorial context, is proposed below.

The selected initiatives have been grouped according to the type of implementation (regional, national and Community experiences), and for each of them a detailed analysis of the instrument has been carried out, proposing, on the basis of the experiences of the evaluator, suggestions for future programming.

7.1.1 Experiences at Regional level

Fondo Energia (Regione Emilia Romagna)

The Emilia Romagna Fondo Energia, or rather the "Rotative Fund of subsidised finance for the green economy", was created with the aim of increasing investments by companies to improve energy efficiency and the development of renewable sources through the production or self-consumption, as well as the use and/or production of technologies that allow the reduction of energy consumption from traditional sources.

A further aim of the fund is to promote the emergence of new companies operating in the field of green economy, encouraging intangible investments aimed at the energy efficiency of processes and/or reducing the energy cost incorporated in products.

The fund provides subsidised loans with a maximum duration of seven years with public funding of up to 70% remunerated at an interest rate of 0% and private funding of up to 30% remunerated as before. The amounts range from a minimum of 20,000 euros to a maximum of 1 million euros.

During the last ERDF ROP programme (2014 - 2020), the Fondo Energia 2.0 has made it possible to grant funding for energy refurbishment for a total of 51 million euros, of which 34 M€ of regional loan, 15 M€ of external financing and 2 M€ of non-refundable funding for energy audits and feasibility studies. The management of the fund costed about 300,000 euros. The instrument has been judged particularly effective in mobilising private resources for productive initiatives, which on the one hand produce significant effects on the environment, and on the other hand lead to greater efficiency in the production processes of the beneficiary companies.

However, a number of elements have emerged that could make it necessary to introduce corrective measures to the instrument. In particular:

- consider the possibility of more leverage on ESCos;
- consider reducing public funding, or provide a form of interest rather than capital subsidies;
- consider introducing forms of capital rather than debt support, e.g. equity or quasi-equity loans for low capitalised companies, in particular in support of ESCos, and for substantial projects (EUR 2-3 million);
- consider raising the funding threshold so that funding can be granted to projects with higher amounts;
- set the maximum interest rate for private funding in line with market developments, and therefore not linked to a fixed rate;



- differentiate the documentation required for the granting of funding according to the size of the project;
- support the procedures for the granting of the necessary authorizations, which can sometimes represent an obstacle that can ultimately lead to renunciation by the beneficiaries;
- Considering the interventions of the latest energy accounts, the projects financed should be more energy efficient than RES energy production.

In addition, it is useful to mention the following recommendations:

- it is important to give a signal of no change in the facilitation conditions over the years in order to avoid possible bad moods among the beneficiaries and expectations of an increase in the facilitation contribution;
- it is important to maintain the instrument active for a long period, to put the enterprises in the condition to prepare for the call and apply for it before its closing;
- it is important to increase the pool of banks involved in the initiative;
- it is important to accompany companies in energy efficiency measures (which is not the *core business*), providing non-refundable financing for energy audits to encourage them.

StartER – Regione Emilia Romagna

The StartER Fund is a revolving fund of facilitated finance with private partnerships aimed at fostering the development and growth of companies.

The Fund intervenes by granting loans for 80% of the financial needs, while the remaining 20% is decided by credit institutions. The part of the financing granted from the Fund's resources is provided at an annual interest rate of 0.0%.

The eligible loans have a maximum duration of 7 years, are granted under a de minimis regime and are between €25,000 and €300,000 and, in total, must not exceed 85% of the investment financed.

In view of its possible reshaping, the StartER fund should be modified by further specifying the types of companies and projects that can be supported, thus qualifying more interventions that should have a high innovative content. In addition, the following elements should be assessed:

- the possibility of reducing public funding, or providing for it to take the form of interest rate subsidies rather than funding;
- the possibility of introducing forms of support for capital rather than debt, by introducing e.g. equity or quasi-equity loans for low capitalised companies, for larger size (2-3 million euro), or with long returns over time;
- anchor the maximum interest rate of private funding to market trends, and therefore not define it more firmly;
- to differentiate the documentation required to grant the financing according to the type of project, taking particular account of its size;
- to be able to provide, for very small projects (e.g. up to €50,000), a total public contribution, without private co-investment;
- also provide for micro-credit interventions.

In addition, it is important to make the following recommendations:

- is important to give a signal of no change in the facilitation conditions over the years in order to avoid possible bad moods among the beneficiaries and expectations of an increase in the subsidy;
- is important to increase the pool of banks involved in the initiative.

JESSICA (Regione Sardegna)



It is an initiative developed in collaboration with the European Commission, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) in order to improve the allocation and use of European Regional Development Fund resources for urban development, while also encouraging the aggregation of other types of sources. JESSICA makes it possible to use Structural Funds earmarked for urban development in a "revolving" manner, going beyond the approach hitherto used in the management of Community Funds (non-repayable).

The Fund, with a contribution of 70 million euros, consists of two Urban Development Funds (UDF), which aim in particular to support: energy efficiency and urban development.

The investment strategy of the JESSICA Sardegna Holding Fund is implemented through the following financial products:

- direct loans (debt *senior*, *junior* and mezzanine);
- investments in risk capital (*equity*).

Considering the positive experience recorded with the JESSICA instrument in Sardinia and the results achieved by the instrument, the positive influence of the governance structure and in particular of the performance incentive system of the managing entity, in which part of the remuneration is linked to the achievement of thresholds for disbursement to final beneficiaries, can be underlined. Moreover, the choice of financial intermediaries well rooted in the territory and the effective collaboration between financial intermediary and MA are among the elements that have determined the good performance of the instrument.

7.1.2 Experiences at National level

POIN Energia: renewables and energy saving

The POIN Energy, is the instrument through which it was chosen to implement the provisions of the National Strategic Framework and has as main objectives to increase the share of energy consumed from renewable sources and improve energy efficiency, promoting local development opportunities.

The areas of intervention of the programme are:

- design and construction of integrated models, such as supply chain models, both in relation to the production of energy from renewable sources and in relation to energy saving, particularly in areas with a strong environmental vocation;
- adaptation of the network infrastructure necessary to guarantee the transport of energy produced from renewable sources;
- consolidation, growth and dissemination of information and know-how that can enable informed decisions to be taken by administrations and the public.

The financial products provided are capital loans and subsidised loans.

The experience of POIN Energia teaches that the achievement of the targets in the field of renewable energy and energy saving in the light of the commitments made at national and international level, can not only result from the expansion of an incentive system. It is necessary to address some nodes that are of a specific nature (infrastructural network shortcomings) or the constraints arising from the context of lesser development that characterizes the territories in question (for example, the major difficulties related to the organization and implementation of supply chain interventions; the intrinsic weakness of the business fabric; the lack of a qualified offer in the field of energy services). These obstacles condition the activation of the interventions, and limit the deployment of the effects.



It is also interesting to note that during the implementation of the POIN, the parts of the text that bound the credit risk mitigation interventions only to financial operations aimed at productive investments were removed, thus extending the operation of financial engineering instruments also to activities that managers consider potentially profitable, as well as to interventions on the working capital of beneficiary companies.

7.1.3 Experiences at International level

Slovak Energy Efficiency and Renewable Energy Finance Facility

The Slovak Energy Efficiency and Renewable Energy Finance Facility (SlovSEFF) was created to support energy efficiency investments in industry, housing and renewable energy production. The financial products provided consisted of loans of between €20,000 and €2.5 million, as well as capital financing of between 7.5% and 20% of the loan value and free technical assistance. This is a joint initiative between the EBRD and the Slovak Government.

The combination of loans with grants for technical assistance was a major factor in the success of the initiative. The technical assistance included in the initiative is financed by grants and is therefore free of charge. Beneficiaries are entitled to receive incentives calculated as a percentage of the amount of the loans, based on an independent evaluation carried out by a consultant.

The SLOVSEFF model has proven to be an effective "*one-stop-shop*" model for beneficiaries, providing an integrated package of loans, grants and technical assistance.

7.1.4 Conclusions on lessons learned

From the analysis of the lessons learned above, several elements emerged that the MA should consider for the design of the Financial Instruments. In particular:

- the choice to use a revolving financial engineering instrument is rewarding in terms of sustainability. In fact, in general, returns, net of revocations and waivers, make it possible to refinance funds and/or open new notices;
- the combination of loans and training is successful. Providing training on the various aspects of business development improves the entrepreneurial and management skills of the final recipients, increasing the chances of creating jobs and reducing the likelihood of default and failure by the beneficiaries;
- it would be desirable to offer beneficiaries a counselling and mentoring service that allows companies to benefit from support services (from application to start-up) and accompaniment for the first year of activity, in order to ensure a more effective use of financial resources;
- it is reasonable that, during the application submission of the application by the beneficiaries, the person in charge of the support and mentoring service should be different from the fund manager;
- in order to reach the widest possible pool of beneficiaries, it is important to give emphasis to communication activities, both on the results and the opportunities offered by the Funds;
- the obligation to self-consume the energy produced with the equipment financed by the Fund can affect negatively the quality of the projects and reduce therefore the contribution to achieving the objectives of the EPR;
- it is necessary to pay attention, when defining a Financial Instrument, to the possible difficulties of coordinating the different grants provided for the same object (e.g. self-entrepreneurship and self-employment) at regional, national and EU level;
- it is necessary to give stability over time to the facilitation interventions, a prerequisite for an organization of intermediaries and for an awareness of the opportunities available to the final beneficiaries. The discontinuity of facilitations is an element that, by not allowing the planning of the interventions to be promoted, undermines a prerequisite for the effectiveness of public intervention.



8 Investment strategy

The Investment Strategy is the result of a comparison between the available implementation methods provided by art. 37 (2) of Regulation n. 1303/2013 and the peculiarities of the Emilia-Romagna market context, in light of the successful experiences gained in the management of financial instruments at regional level (e.g. Starter Funds and Energy) and the lessons learned at European level.

8.1 Available implementing measures

The investment strategy have to ensure that the option chosen for the implementation of the Financial Instrument is the most appropriate for national/regional situations, in accordance with art. 38 of Regulation n. 1303/2013.

The above mentioned Art. 38, paragraph 4, provides that, for new Financial Instruments set up at national level and specifically designed to achieve the specific objectives defined within the relevant priorities, the MA may:

a) invest in the capital of new or existing legal entities, including those financed by other funds EIS, responsible for the implementation of Financial Instruments consistent with the objectives of the respective EIS funds, who will carry out execution tasks;

(b) entrust implementation tasks to:

- the EIB;
- to international financial institutions in which a Member State has a participation or to financial institutions established in a Member State pursuing objectives of interest under the control of a public authority;
- to a body (or bodies) governed by public or private law.

(c) to assume directly implementing tasks, in the case of Financial Instruments constituted exclusively from loans or guarantees.

In scenarios (a) and (b), the MA shall have the choice between a Fund of Funds and a Direct Fund. It should be noted that one governance structure does not exclude the other, and therefore the MA may also assess the implementation of more than one structure.

8.2 Implementation methods

Among the implementation choices made for the establishment of the Fund(s), the MA could entrust the management tasks of the Fund(s) to one or more specialised dedicated bodies, create a joint financial instrument between more than one regional operational programme (e.g. ROP ERDF and ESF or EAFRD) or even two or more regions.

In any case, the specialised body will have to demonstrate adequate economic, financial and technical capacity to carry out the delegated functions. In addition, the minimum requirements specified in the Delegated Regulation on Financial Instruments, will have to be met:

- authorisation to carry out implementation functions relevant under EU and national laws;
- ability to implement the Financial Instrument, including an organisational and governance structure that provides sufficient guarantees to the MA; o existence of an efficient and effective internal control system;
- set of an accounting system capable of providing accurate, complete and reliable information in a timely manner;



- willingness to be audited by the control bodies of the Member State, the Commission and the European Court of Auditors

In addition, in selecting the manager of the Financial Instrument to be implemented, the MA should carefully consider the experience gained in implementing similar Financial Instruments, the skills and experience of the members of the dedicated team, its operational and financial capacity, its effective presence on the territory and its consistency, knowledge of local financial needs, flexibility and use of creative approaches, understanding of political criticalities and ability to create ad hoc solutions.

Moreover, it should be remembered that the distribution to different institutional levels of delegations and resources covering the different areas of intervention of the Structural Funds within the Financial Instruments requires close cooperation between the various administrations.

It is therefore useful to underline how a **close institutional connection** is necessary to avoid the overlapping of interventions and the inconsistencies between the actions of the different administrations that, in the past, have fuelled displacement phenomena (e.g. between interventions planned at local and national level), and have not allowed the achievement of economies of scale or simply critical masses of intervention necessary to ensure the sustainability of some projects.

This close institutional link would require a **structured organizational coordination**, which could take the form of a control room for the governance of Financial Instruments, which would permanently coordinate the different institutions involved in the implementation of Financial Instruments (Managing Authorities, control, auditing, supervisory bodies and authorities) and also offer a structured link between institutions and operators (individual operators - the most involved - and their respective associations of the various segments of the financial market).

As also written above, among the possible control booth models that can be activated, the MA could also evaluate the setting up a Fund of Funds that can act as a link between resources from two or more programmes regional operational programmes in Emilia Romagna (e.g. ERDF, ESF or EAFRD) or by linking resources from operational programmes of two or more regions.

8.3 Tasks carried out by the subjects

Based on past experience and lessons learned, the main tasks that the MA and the Entrusted Body can perform in the management and implementation of a Financial Instrument are listed below.

The Managing Authority can:

- define the investment and implementation strategy;
- take all measures necessary for the implementation of the Fund, including those relating to the certification of expenditure;
- decide on the admission of applications for funding on the basis of the investigations submitted by the Entrusted Body.

The Entrusted Body can:

- select recipients through the publication of public notices;
- provide facilities and manage debt collection;
- manage the portfolio of companies benefiting from the Fund's contributions;
- monitor and control the contributions made to the Fund;
- inform the MA and report on the progress of operations;
- reporting direct costs and related expenses for the activities for which it is responsible;



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- provide beneficiaries with assistance services during the implementation phase of the Fund's programme investments, if any.



9 Structure and composition of the financial instrument

9.1 Possible strategies for the structuring of Financial Instruments

On the basis of the results of the gaps detected in the analysis carried out, the MA could decide to structure the Financial Instrument either at the Axis level of the regional ROP ERDF or at the financial product level.

A brief overview of the possible strategies is presented in the following paragraphs.

9.1.1 Financial Instrument structured at Axis level

The structure of the Financial Instrument defined on the basis of the Axes of the ROP ERDF envisages:

- a **Fund for Research** and Innovation, to support investments by companies with reference to industrial research and innovation projects;
- a **Guarantee fund** to support business investments and diversification, growth and internationalization paths ;
- a **Competitiveness and Attractiveness fund** (startup & expansion) to support the creation of new businesses and the growth of small businesses operating in the main production and service sectors in line with the S3 areas;
- an **Energy fund**, to support business investments aimed at energy efficiency, the production of energy from renewable sources and the construction of technological systems that allow the reduction of energy consumption from traditional sources;
- a **Technical Assistance** unit for the beneficiaries.

The following SWOT analysis gathers the main advantages, disadvantages, opportunities and threats associated with this governance structure.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Assignment of tasks to a specialised financial institution; • Increased flexibility of financial products provided (equity, loans, mezzanine, etc.); • Axis-level monitoring that facilitates reporting to the European Commission; • Possibility to create easily synergies between different instruments (e.g. equity and debt). 	<ul style="list-style-type: none"> • More difficulties in finding specialized subjects able to manage financial products with different characteristics; • More difficulties in finding entities specialised in the evaluation of specific projects, such as R&D or EE projects.
Opportunities	Threats
<ul style="list-style-type: none"> • Capacity to involve specialised institutes from a sectoral point of view (e.g. ART-ER for R&D) which can offer support to the final beneficiaries and the fund 	<ul style="list-style-type: none"> • In the event of a lack of coordination between the Financial Instrument and other forms of support (grants) the fund may not use the resources allocated.

9.1.2 Financial instrument structured at financial product level

The structure of the Financial Instrument defined on the basis of the financial products supplied provides for:

- a **Guarantee fund** to support business investments and diversification, growth and internationalisation paths;
- a **Loan Fund** to support business investment in industrial research programmes; to support the growth of SMEs operating in S3 sectors; to support energy efficiency processes (EE) in companies



(including SMEs) and self-production of energy from renewable sources (RES) in order to increase their competitiveness;

- an **Equity fund** to support the creation of new businesses, including innovative ones and the capitalisation of ESCOs;
- a **Technical Assistance** unit to beneficiaries.

The following SWOT analysis gathers the main advantages, disadvantages, opportunities and threats associated with this governance structure.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Assignment of tasks to entities with sector-specific financial expertise (e.g., guarantee trusts, or equity venture capital funds); • In line with the organizational structures of financial intermediaries, not requiring any reorganization and internal training by them; • Ensures that financial intermediaries manage the financial products they know best; 	<ul style="list-style-type: none"> • Lack of flexibility (no "one-stop-approach") between the financial products offered by each fund, which could ultimately hinder the development of certain projects (e.g. those requiring debt or equity); • Fragmented monitoring between axes and consequent reporting to the most difficult Commission; • Higher risks of getting some of the eligible expenditures not admitted (e.g. as a result of errors in the reporting to the commission, more demanding with this structure).
Opportunities	Threats
<ul style="list-style-type: none"> • Possibility to meet an excess of sectoral demand by transferring resources from one axis to another without having to involve different managers; • Increased presence of specialised fund managers 	<ul style="list-style-type: none"> • Possible reduction in the effectiveness of the instruments in case of lack of coordination between funds.

9.1.3 Financial Instrument structured in a multi-purpose way

The Multi-Purpose Structured Financial Instrument provides for a single fund channelling all resources from the strategic axes. This fund could be accompanied by a Technical Assistance unit.

The following SWOT analysis gathers the main advantages, disadvantages, opportunities and threats associated with this governance structure.

Advantages	Disadvantages
<ul style="list-style-type: none"> • The substantial financial provisioning of the multi-purpose fund would allow the financial intermediary to differentiate risk, ultimately reducing management costs. 	<ul style="list-style-type: none"> • The uniqueness of the Financial Instrument could lead to delays or problems if the selected managing entity does not have the necessary expertise.
Opportunities	Threats
<ul style="list-style-type: none"> • The substantial budget of the multi-purpose fund would make it possible to attract a considerable number of financial institutions, including those outside the region. 	<ul style="list-style-type: none"> • The uniqueness of the Financial Instrument could create difficulties in identifying credit institutions with specialisations both at product level (loans, guarantees or equity) and at thematic area level (e.g. energy or R&D).

9.2 Strategy and financial instruments proposed

Based on the previous experiences analysed in chapter 7, and in particular the experience of the Energia and StartER funds in Emilia-Romagna, this chapter presents the strategy and structure proposed for the Financial Instruments in Emilia-Romagna.

In particular, among the three possible structures and compositions of the Financial Instrument proposed (axis, financial product or multi-purpose) it is considered that structuring the Financial Instrument at the



financial product level is the most viable option considering both the Emilia-Romagna context and the following main factors:

- the possibility of entrusting specific financial products to managers with strong sectoral expertise;
- the possibility to create funds of substantial size, allowing the manager to pursue a proper diversification of projects, reducing the overall risk of the invested portfolio;
- the possibility for a loan fund to also offer mezzanine type instruments (equity or subordinated loans, bonds, etc.).

The financial product is the best solution in order to contribute to the Energy Efficiency goals of the Region can be structured as a guarantee fund, a loan fund, an equity fund and technical assistance.

However, it is suggested not to activate a specific equity fund for the following factors:

- - the difficulty of selecting the management unit, given the underdeveloped Italian market;
- - the lack of entrepreneurial culture not yet sufficiently receptive to equity instruments, with the consequent risk of not fully committing resources;
- - the difficulty of guaranteeing an exit strategy with acceptable timescales and conditions for the region;
- - the difficulty of forecasting investment returns, unlike debt instruments with more certain repayment plans;
- - higher management costs;
- - the major difficulties in assessing the investment for State aid purposes;
- - the limited financial size of the public funding of the fund, which would not make the instrument attractive to the managers and does not allow sufficient diversification of investment risk;
- - the fact that similar objectives can be achieved by innovative debt instruments such as mezzanine;
- - the existence of similar alternative instruments (e.g. COSME programme) which could be activated in parallel by the managers of the Financial Instruments, either directly or through agreements with other managers.

In summary, therefore, the proposed financial instrument is composed as follows:

- **Loan Instrument:** has an initial total public funding of EUR 26.6 million to which should be added any additional regional resources, such as microcredit, to support investments made by enterprises in industrial research and innovation projects and for the creation of new enterprises and the mixed sector, for medium-large projects, to support the creation of new enterprises and the growth of small enterprises in investments aimed at energy efficiency, the production of energy from renewable sources and the construction of plants to reduce energy consumption, both directly but also through ESCo.
- **Guarantee Fund:** has a total budget of EUR 35 million to support business investment and diversification, growth and internationalisation through a financing guarantee;
- **Technical assistance** units, with an indicative financial envelope of 10 million euros (between 4% and 10% of the total expected value of the final investment supported). This assistance should be provided in the form of non-repayable financing, in order to incentivise the analyses and therefore the quality of the interventions.

Here follow **some recommendations for the structuring** of Financial Instruments:

- introduce company parameters (indirect industrial cost, sales plan, personnel plan, indirect costs, etc.) on which the company is assessed before the grant is paid;
- differentiate the documentation required to grant the financing according to the type and size of the project;
- extend the number of financial bodies allowed to promote and grant the low-interest loan accessing to the guarantee fund, in order to activate the market in a fair and competitive way;



- include lending crowdfunding among the financial instruments that can be set in motion to finance the intervention and access to the guarantee fund, on a par with other banking instruments;
- prepare clear calls for proposals, adequately planning the appropriate demarcations between projects that can be supported through grants and financial instruments;
- remove the obligation to self-consume the energy produced, as production from renewable sources - to be sold to third parties - also contribute to achieving the energy objectives and could stimulate the use of more diversified technologies than currently;
- foresee a limited number of calls, maximum 3, and lasting 1 year each, in order to give the time to enterprises to prepare for the application;
- adopt sufficient flexibility in the investment strategy that can quickly reflect any changes in the socio-economic-financial context.

9.3 Characteristics of the Financial Instruments proposed

The new loan portfolios to be created by the FIs may be characterised on the basis of what has been agreed between the EIB Group and the Member State in the Funding Agreement, subject to compliance with the eligibility criteria deriving from the regulations applicable to the Structural Funds pursuant to Regulation 1303/2013 and the regulations on State aid.

9.3.1 Guarantee Fund

OBJECTIVE	To support the access to credit, through guarantee interventions of companies in order to support their diversification, growth and internationalization paths.
MANAGING BODY	Subject specialized in the management of guarantee instruments with knowledge of the local entrepreneurial fabric.
FINAL BENEFICIARIES	SMEs, ESCo including, individually or in association, professionals and their associations.
ACTION OF THE ERDF ROP	Strengthening of the public guarantee system for credit expansion in synergy between the national and regional guarantee systems, favouring forms of rationalisation that also enhance the role of the most efficient and effective trustees.
INTERVENTIONS TO FINANCE	investment projects and paths of diversification, growth and/or internationalization; projects promoted by ESCos for the energy efficiency of SMEs (excluding interventions on public assets).
FINANCING INSTRUMENTS	Guarantee, also in complementarity with actions promoted at Community (COSME) and national level (Central Guarantee Fund). Non-repayable grant to cover the costs of the guarantee Grant for assistance to final recipients.
ACTIVATABLE MULTIPLIER	Assuming guarantees covering 50% credits, it is possible to assume the activation of new credits with a multiplier of 2.5x.
INDICATIVE FINANCIAL ENDOWMENT	35 MEUR, increased by the grant assistance tranche to final recipients and the share for the interest subsidy.

A guarantee only fund brings with it all the advantages and disadvantages of guarantee products. The following table presents the main advantages and disadvantages of guarantee products:

Advantages	Disadvantages
<ul style="list-style-type: none"> • the possibility of access to funding that in other ways they wouldn't be available; 	<ul style="list-style-type: none"> • For some operators, guarantees may be expensive and may not be guaranteed at interest rates below market rates;



<ul style="list-style-type: none"> • in some cases, in the presence of a guarantee, the financing may be available more cost-effectively (since the lender assumes a lower risk and therefore charges a lower interest); • can provide more leverage than debt or equity; • the procedure for authorising State aid is relatively simple, especially if the country involved has a notified and approved formula to calculate the equivalent of the help; • ease of finding experienced managers, even on regional level; • an operator specialized in instrument management can ensure greater effectiveness and efficiency of the instrument. 	<ul style="list-style-type: none"> • for MAs or intermediaries, the "additionality" of the guarantees may be difficult to determine: guarantees may provide cover for bank loans that lenders would have offered anyway.
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9.3.2 Loans Fund

OBJECTIVE	Promoting the creation of new businesses and the growth of SMEs. Promoting energy efficiency (EE) processes in enterprises (including SMEs) and self-production of energy from renewable sources (RES) in order to increase their competitiveness. Encourage business investment in industrial research programmes.
MANAGING BODY	Subject specialized in the management of debt instruments.
FINAL BENEFICIARIES	Enterprises, SMEs, area companies, production area managers and ESCOs.
ACTION OF THE ERDF ROP	Support for the purchase of services for the technological, strategic, organisational and commercial innovation of enterprises; Support for ICT solutions in the production processes of SMEs, consistently with the smart specialisation strategy; Incentives aimed at reducing consumption energy and climate-altering gas emissions of enterprises and of the production areas including the installation of production of energy from renewable sources for self-consumption, giving priority to high-efficiency technologies.
INTERVENTIONS TO FINANCE	support for small businesses' growth by encouraging investment in innovation, organisational development and the development of products and services with energy efficiency potential; encouraging the introduction and effective use of ICT tools in SMEs with particular reference to the energy aspects of the enterprise; promoting interventions aimed at reducing energy consumption and producing energy from renewable sources, favouring those in self-consumption;
FINANCING INSTRUMENTS	Microcredit compartment: financing of up to 25,000 euros; Mixed compartment: Financing of more than 25,000 Euro, non-repayable grant to cover the financing costs (interest subsidy) and grant for assistance to final recipients
ACTIVATABLE MULTIPLIER	For the microcredit instrument, the potential leverage effect is considered to be minimal. While, for the mixed axes it is estimated that, given the above public funding, a leverage effect higher than or equal to 1.25 can be achieved.
INDICATIVE FINANCIAL ENDOWMENT	26,6 MEUR, increased by the tranche for outright grant assistance to final recipients and the tranche for interest rate subsidy.



9.4 Role of Energy Performance Contract

The Energy Performance Contract (EPC) plays a major role in driving investment in the energy field. National and regional investment funds can increase their effectiveness if properly combined with the EPC instrument.

The former Energy Fund of the Emilia Romagna Region, Fondo Energia 2.0, supports with low-interest loans energy requalification interventions directly to local companies, but also to ESCOs that intend to invest locally with the EPC contractual model.

This represents a virtuous mechanism, which **broadens the range of companies interested** in energy requalification and that without a third party financier (ESCO) would not think or could not invest directly.

The EPC opens up new market scenarios, introducing new investors who can use, in addition to investment funds, other national incentive instruments (e.g. the “Conto Termico” or “white certificates”) and also regional ones (various axes of the POR FESR).

It is therefore a **real investment amplifier**, which goes beyond the logic of direct investment thanks to the potential of energy savings and consequently economic achievable; to this potential in economic terms is added a **great effectiveness in terms of energy efficiency**.

The EPC is a contract that in fact defines certain and measurable savings objectives, legally sets terms and conditions, in essence rules that allow the clear and transparent management of the relationship between ESCO and customer even for long periods of time.

However, it is also necessary to underline the complexity of the instrument, which combines technical, legal and administrative aspects, and does not lend itself to improvisation.

From the technical point of view there is a very clear legislation that defines the contours and which derives from European directives (Directive 2012/27/EU), while from the legal point of view there is still a lack of transposition of national legislation and this especially in the public sector leads to confusion and application of different models.

It would therefore be useful to define, within the next regional financial package, the aspects relating to the use of this valuable tool and incentivise its use in accordance to the legal and technical context. The issue connected to the complexity of the instrument should be faced through dedicated technical assistance.

9.5 Role of lending Crowdfunding

Lending crowdfunding is a significant market both at European and Italian level. Actually existing platforms are increasingly hosting energy projects and new emerging platforms have a strong focus on energy efficiency and renewable energies. Lending crowdfunding has proved to generate benefits from different perspectives:

- **financial benefits:** the crowd investor can expect a higher percentage of interest payment, with conditions slightly more attractive than the ones offered by traditional financial institutions. The technology allows a simple user experience and from investors’ side is easier to invest, from one side, and allows also local community to participate in the investment with small amounts and be part of the company's success, on the other side;
- **energy savings:** the company which launch the campaign for and an energy efficiency project will enjoy energy savings without investing own resources. The savings could be initially shared with the ESCO, but eventually will fully accrue to the owner;



- **global benefits:** the crowdfunded energy efficiency projects will help reduce CO₂ emission. Crowdfunding potentially allows to scale up such energy efficiency measures.

This financial tool **works at its best when supported by guarantees** which can reduce lender risks through a 'de-risking' instrument, such as the guarantee instrument already experimented by Emilia-Romagna Region and proposed anew in this studio.

Thanks to the guarantee instrument investors can feel comfortable that dividend and interest payments would be kept up, even if the project defaults. This process would generate a chain that could help attract new investors with interest in financing energy efficiency projects, disseminating good practice and thus attracting other entrepreneurs and SMEs interested in deploying energy efficiency improvements in the company, precluded by traditional financial instruments.

This instrument is going to be an alternative to traditional financial instruments, able to work at full capacity where **other instruments are unable to push themselves** because of bad debts collected in recent years that prevent banks from financing high risk enterprises and SMEs.

This implementation will fuel the **fair competition that was lacking in the previous instrument** and, in addition, the increased visibility of the crowdfunding instrument will increase the spread of the instrument and open it up to new groups of entrepreneurs

9.6 Role of the technical assistance

The European Commission recognises that the *skills gap* has been and still is a limit to the widespread and effective application of the Financial Instruments. In some cases, the *gap* has been so significant that it has required a literacy process among stakeholders to enable dialogue and understanding among all stakeholders.

In order to fill this skills gap and, therefore, to make efficient use of EU funds, it would be appropriate for Emilia Romagna to draw on both the resources of the NOP "Governance and Institutional Capacity" and those of the ERDF and ESF ROPs, which provide specific actions to support stakeholders in the implementation of programmes financed by EU resources.

There are therefore spaces for a **capacity building project dedicated to Financial Instruments** that also involves the financial world and focuses its attention on skills and procedural organizational adjustments for an effective use of public resources.

Technical Assistance should support the final beneficiaries in three main phases:

- **Phase 1 - search for sources of financing:** where technical assistance can act as a control room and orient/inform the final recipient on the other financing opportunities offered in the regional, national and European panorama, helping him/her to complement the financing obtained with other instruments to meet the company's investment needs;
- **Phase 2 - assistance with project structuring and funding request:** where technical assistance supports the final recipient in the conceptual development and structuring of the project (e.g. preparation of the business plan and the access to funding form, development of energy audits and cost-benefit analysis);
- **Phase 3 - reporting and coaching assistance:** where technical assistance supports the final recipient in reporting costs for their eligibility and provides activities aimed at the professional growth of entrepreneurs.

In mobilising this instrument, some guidelines should be taken into account:



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- technical Assistance could be financed by grants and thus be free of charge to the final beneficiary for the first and third project phases and could cover up to a certain percentage of the eligible costs incurred to prepare the project for the second project phase;
 - under Phase 2, only projects that will subsequently be funded by the Financial Instrument will be eligible for Technical Assistance in terms of a capital grant;
 - technical Assistance is expected to generate investment projects worth more than a certain percentage of the cost of Technical Assistance.



10 Arrangements for the review and updating of the study

Market conditions and investment trends may evolve before and during the implementation phase of the Financial Instruments. Consequently, a number of provisions are set out for the revision and updating of the study, should the MA consider that the conclusions no longer represent the actual market conditions.

More in detail, the main drivers that may require an update are:

- lack of accuracy of the proposed targets compared to the observed results;
- inadequate volume of the support scheme compared to observed demand (e.g. a situation where the volume is too low to meet observed demand);
- error in the calculation of the risk assumed by the Financial Instrument: a situation may arise where the risk profile of the Fund is significantly higher than expected, leading the Fund to incur significant losses and thus undermining its revolving nature;
- changes in the regional or national policy context;
- changes in regional or national economic conditions;
- need to include provisions for the closure of the Fund (i.e. exit strategy) if the Fund is not delivering the expected financial results or if the deadline for certification of expenditure is imminent;
- identified market failures have been addressed and therefore there is no longer a need for intervention.

The need for updating and reviewing the ex-ante evaluation could be reported through:

- regular reporting / monitoring of the Financial Instrument;
- ad hoc evaluations foreseen (e.g. mid-term).

Finally, it is important to remember that the MA should intervene, if necessary, to improve the strategic adaptation of the Financial Instruments.