



## Case Study

## Topic 02: Financial Instruments

# Slovenia



EUROPEAN UNION  
Cohesion Fund  
Operational Programme Technical Assistance



MINISTRY  
OF REGIONAL  
DEVELOPMENT CZ



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## Table of contents

List of abbreviations .....	2
Executive summary.....	3
1. Basic characteristics of the ESIF system .....	4
2. Simplified scheme of the implementation structure .....	5
3. Answers to the evaluation questions .....	6
3.1. What are the most used FI implementation structures? What bodies or actors are involved in the FI implementation? What are the risks and benefits of these implementation structures? Is there a central coordinating body that coordinates only the FI implementation? Are the FI part of the coordinated investment policy of a given country? What is the role of the national development banks? .....	6
3.2. In which areas are FI primarily used? Are there areas supported exclusively by FI? .....	12
3.3. What are examples of good or bad practice using FI? What are the success factors or barriers to the success of using FI? How to ensure attractiveness of FI? How is attractiveness of FI ensured in relation to EFSI and community programs?.....	12
3.4. How to set up the FI most effectively to avoid unnecessary administrative burdens on the actors of the implementation structure or the beneficiaries and the use of FI was transparent? .....	14
4. Project activity review .....	15

## List of abbreviations

<b>AECM</b>	European Association of Guarantee Institutions
<b>EFSI</b>	European Fund for Strategic Investments
<b>ESCO</b>	Energy Service Company
<b>ESIF</b>	European Structural and Investment Funds
<b>FI</b>	Financial Instruments
<b>IB</b>	Intermediate Body
<b>MA</b>	Managing Authority
<b>SME</b>	Small and Medium Enterprise
<b>SEF</b>	Slovene Enterprise Fund

# Slovenia

## Financial instruments

The implementation structure of financial instruments is relatively simple. The Fund Manager is the Slovenian National Development Bank of SID Bank, the financial intermediaries are the state Slovene Enterprise Fund (which has extensive experience in the implementation of financial instruments from the previous programming period) and two commercial banks.

ESIF-supported financial instruments are divided into four thematic areas, namely to support small and medium-sized enterprises, research support, development and innovation, urban development support and energy efficiency support .

Positive aspects	Negative aspects
<ul style="list-style-type: none"><li>▶ Simple implementation structure with one fund manager and a clear portfolio of financial instruments</li><li>▶ Inclusion of National Development Bank and an effort to concentrate financial instruments at a single place</li><li>▶ Sufficiently attractive setting of financial instruments</li></ul>	<ul style="list-style-type: none"><li>▶ Significant delays in implementation of financial instruments due to lengthy preparation</li><li>▶ Excessive administrative burden</li><li>▶ Insufficient involvement of commercial banks as financial intermediaries</li><li>▶ The use of financial instruments by public institutions is included in the public debt according to EUROSTAT rules</li></ul>

### Key aspects of the financial instruments

# 1

#### Clear portfolio of FI

The used financial instruments are loans, micro-loans, portfolio guarantees and equity capital fund.

# 2

#### Administrative burden

The procedures are full of controls and reporting, which reduces the attractiveness of the FI. For final beneficiaries, the use of FI should be similarly demanding as the use of conventional commercial bank products.

# 3

#### Delay in FI implementation

The ex-ante evaluation of the FI was prepared in 2015, but the decision on the form of the implementation structure fell only in mid-2017. The rest of 2017 was dedicated to the preparation of a contract with SID Bank, year 2018 to the preparation of individual FIs and the search for suitable financial intermediaries.

# 4

#### Involvement of commercial banks

There are troubles with getting enough financial intermediaries for portfolio guarantees and equity funds from the private sphere. The future goal is, therefore, to increase the involvement of the private sector.



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## 1. Basic characteristics of the ESIF system

Number of operational programs (OP/ROP)	Number of territorial units (NUTS1/NUTS2/NUTS3)
3 (3/0)	1/2/12

Total allocation planned (according to the programming period and according to the fund)

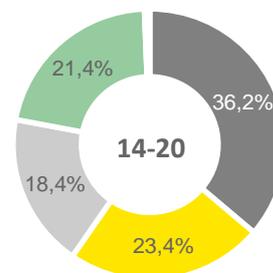
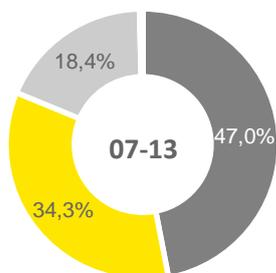
*Total allocation (mil. EUR)*

14-20: 3 912



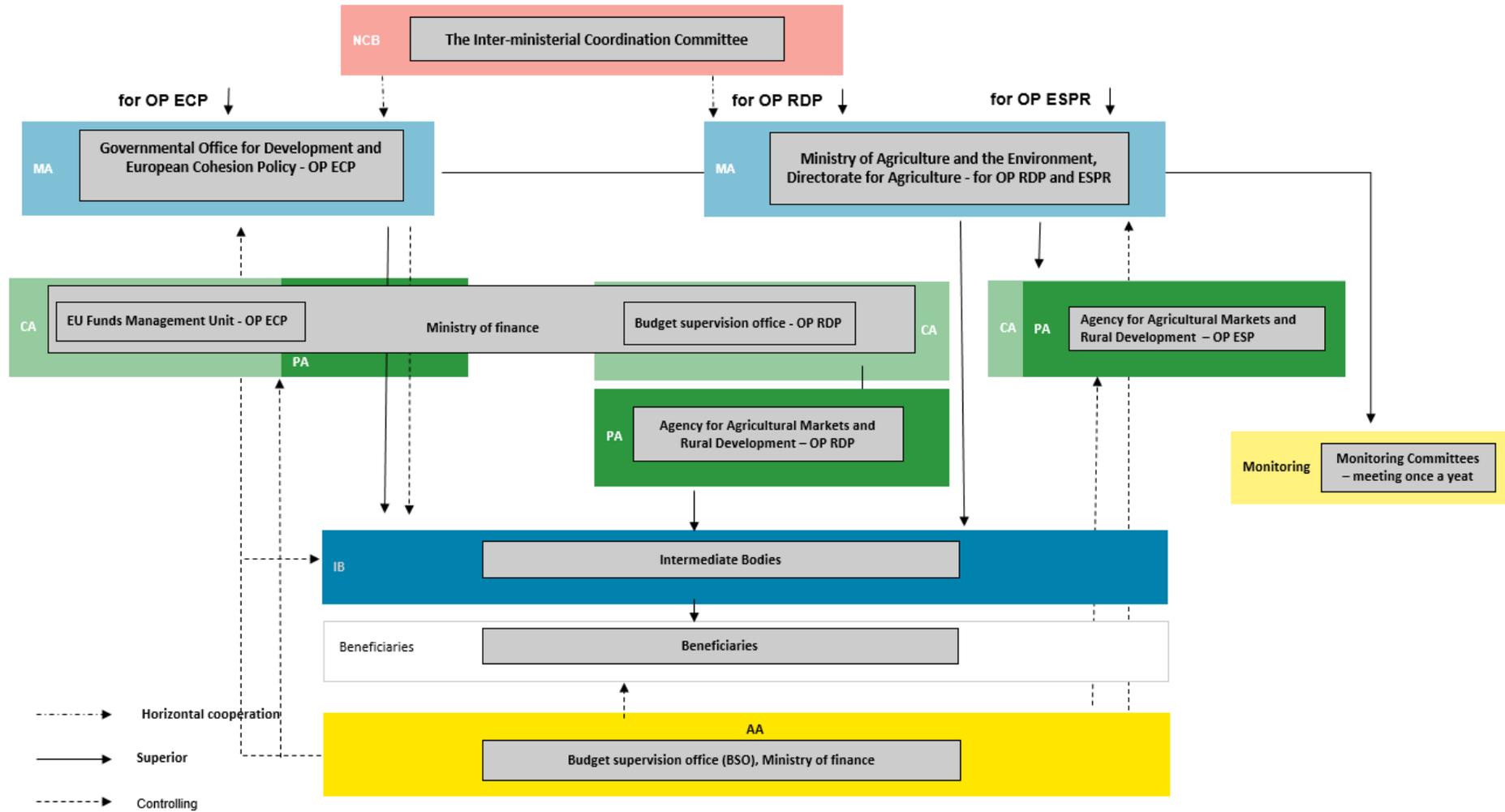
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- ERDF
- CF
- ESF
- EAFRD
- EMFF



## 2. Simplified scheme of the implementation structure

Scheme no. 1: Simplified scheme of the implementation structure



### 3. Answers to the evaluation questions

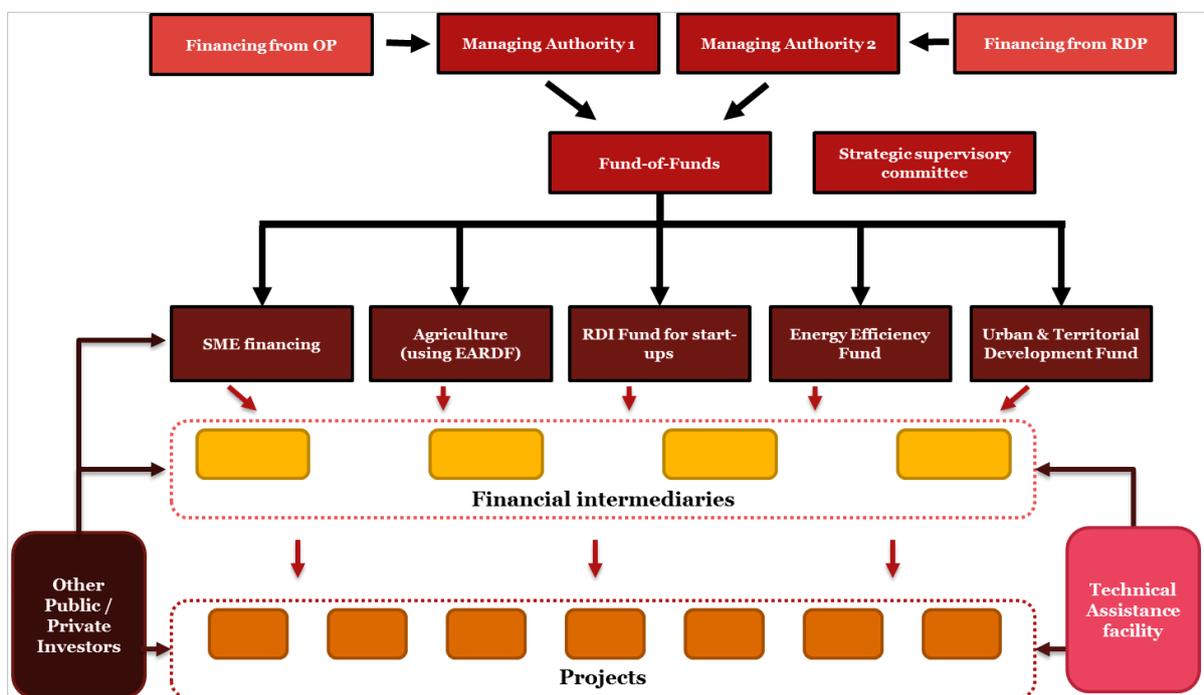
- 3.1. What are the most used FI implementation structures? What bodies or actors are involved in the FI implementation? What are the risks and benefits of these implementation structures? Is there a central coordinating body that coordinates only the FI implementation? Are the FI part of the coordinated investment policy of a given country? What is the role of the national development banks?

Slovenia has had experience with the implementation of the financial instruments from the European Structural and Innovation Funds in the previous programming period 2007 - 2013, for the current period 2014-2020, the allocation for financial instruments has increased considerably.

Financial instruments represent a change in the paradigm in development policy and funding and have been designed to make Slovenia use revolving financial support more rather than traditional grant funding. Projects supported by financial instruments generate cash flows that ensure the repayment of financial resources to the fund, these resources can be further unblocked for reinvestment into other projects.

Implementation of financial instruments has, however, accumulated a considerable delay from the outset. The ex-ante evaluation of financial instruments, which was aimed inter alia at assessing the need for financial instruments, identifying market gaps and proposing the form of financial instruments, was finalized by the end of 2015. Further delays were caused by the consideration of possible implementation structure of financial instruments.

*Scheme no. 2: Expected implementation structure of financial instruments according to the ex-ante evaluation*



Sourcej: *Ex-ante assessment of Financial Instruments in Slovenia, Final report, 27 November 2015*

The main actor in the previous programming period was the Slovene Enterprise Fund (SEF), however there is the National Development Bank - SID Bank, in Slovenia and, like in other European countries, the bank wanted to be involved in the implementation of the ESIF financial instruments. The SID Bank had to convince the Ministry of the Economy (as an Intermediate Body, also led by the Financial Instruments Steering Committee, which also includes other ministries) and other bodies.

The SID Bank was eventually approached by the Ministry of Economy in July 2017 and managed to negotiate a form of agreement between the two actors within five months. The agreement was signed in November 2017, and the SID Bank hold under this contract (and based on in-house assignment) the position of fund manager



#### SID Bank (Slovenska izvozna in razvojna banka)<sup>1</sup>

The SID Bank (the Slovenian Development Bank), based in Ljubljana, is a promotional development and export bank in the sole ownership of the Republic of Slovenia. Through banking and insurance services it promotes sustainable development and improves the competitiveness of the Slovenian economy.

The SID Bank was established in 1992 as Slovene Export Corporation (Slovene Export Association) to provide insurance and export financing to Slovenian companies. At the end of 2006, the company acquired a Slovene Bank license and was transformed into a specialized export and development bank. In 2008, the General Meeting of Shareholders adopted a decree on the transfer of shares of minority shareholders to the majority shareholder (Republic of Slovenia). The Republic of Slovenia thus became the sole shareholder of the SID Bank, fulfilling the condition of the Slovenian Export and Development Bank Act, which was adopted on 23 May 2008 by the National Assembly.

The SID Bank provides its customers with a wide range of services to promote competitiveness in international business cooperation. The SID Bank operations are based on a clear strategy and business model resulting from long-term development documents of the European Union and the Republic of Slovenia. The Republic of Slovenia provides long-term stable operations for the SID Bank to carry out its transactions and activities in order to monitor the long-term development trends of the Republic of Slovenia and the European Union.

The SID Bank's Mission: *We develop, provide, and support long-term financial services designed to complement financial markets for increased competitiveness of the economy, job creation and sustainable development of Slovenia.*

As a national promotional and export bank, the SID Bank complements commercial banks with long-term funds and other financial instruments to fill gaps in the market. Financing is available to small and medium-sized businesses, internationalization of operations by Slovenian companies as well as development, environmental, regional, infrastructure and other projects that strengthen the Slovenian economy.

The SID Bank provides all financial services to generate direct or indirect added value for users of such services in accordance with the purpose and objectives of individual transactions without seeking to achieve maximum profit. In the exercise of its activities, competition on other financial institutions does not constitute competition in the market. In order to achieve the objective of non-competes, the SID Bank also applies the principle of equal access or non-discrimination to all users of the SID Bank's financial services and the transparency of the services provided, compliance of operations and operating results.

The SID Bank receives most of its money through loans in international financial markets on its own account with the guarantee of the Republic of Slovenia. The possibility of this type of loan provides the Slovenian economy with the opportunity to obtain competitive funds that directly or indirectly support development and penetration into foreign markets.

As a National Export Credit Agency, the SID Bank provides export and investment insurance in the name and on behalf of the Republic of Slovenia, reducing the risk of Slovenian companies operating on foreign markets.

<sup>1</sup> <https://www.sid.si/en/about/about-sid-bank>



## Slovene Enterprise Fund (Slovenski Podjetniški Sklad)<sup>2</sup>

The Slovene Enterprise Fund (SEF, the Slovenian Business Fund) based in Maribor is set up to improve access to finance for various development - corporate investment by micro, small and medium-sized enterprises (SMEs) including SME start-up funds and microfinance.

The Fund provides an appropriate financial solution for development every year - entrepreneurial projects in the Slovenian business sector through financial engineering, which is largely based on financial instruments with repayable funds (loans, loan guarantees, subsidized interest rates, venture capital), which makes it possible to combine financial means of various financial institutions (financial leverage). Appropriate sources of funding are to ensure that State aid is distributed at all stages of the development life cycle; from the founding of companies to the stage of further growth and development.

In order to achieve set objectives, the SEF works closely with other domestic and international financial institutions, such as commercial banks, the European Investment Fund (EIF) and the European Mutual Guarantee Association (AECM).

The SEF was established in 1992 when the Statute for a Small Business Development Fund based on the Small Business Development Act was adopted. In 2000, the fund was transformed into the Public Finance Fund and registered in the Commercial Register. The Slovene Enterprise Fund, which is the legal successor of the Small Business Development Fund or the Public Finance Fund, was founded in 2004 with the adoption of the Act on the Supporting Environment for Entrepreneurship and the Act establishing the Fund. The law governing a supportive business environment provides the legal basis and possibilities for implementing different financial instruments and other detailed SEF activities.

The SEF offers financial products in the form of:

- ▶ Support for start-ups in initial period.
- ▶ Seed Fund (convertible bonds and capital investments) for convergence and market expansion
- ▶ Venture Capital (or mezzanine capital) for rapid global growth.
- ▶ Microcredit (direct SEF credits) for specific target groups.
- ▶ Guarantees for bank loans with interest rate subsidies for current operations and further growth.

Financial incentives are divided according to **the life cycle of the business**:

1. Product development.
2. Entry into the market.
3. Global growth.
4. Further growth.

Financial incentives are designed to finance various business development activities such as: business start-up, self-development and innovation, rapid global growth, women's businesses, socially useful products and services, creative industry, intergenerational property transfer, business model reengineering and much more.

<sup>2</sup> <https://podjetniskisklad.si/en/about-us/who-we-are>

As a National Export Credit Agency, the SID Bank provides export and investment insurance in the name and on behalf of the Republic of Slovenia, reducing the risk of Slovenian companies operating on foreign markets.

The ex-ante evaluation of financial instruments was followed by the Ključni elementi finančnih instrumentov v programskem obdobju 2014–2020 (Key Elements of Financial Instruments in the 2014-2020 programming period), which sets the basic form and the thematic focus of the financial instruments. This document was approved in June 2017 and on its basis negotiations with the SID Bank (which could not directly affect the basic form of financial instruments) could begin. Based on this document, the SID Bank developed a more detailed plan and investment strategy of individual financial instruments.

According to the agreement, it is also stipulated that the fund manager (the SID Bank) is tasked with selecting Intermediate Bodies (banks, savings banks, public funds, etc.) to enable final beneficiaries to access financial products.

Final beneficiaries, i.e. small and medium-sized enterprises, municipalities, ESCO companies (in the field of energy renovation), public institutions and individuals, will or may have access to financial support on affordable terms for the following types of investments:

- ▶ the start-up phase and the starting phase of business growth,
- ▶ growth and expansion of businesses (expansion of business services and activities, penetration into new markets, etc.),
- ▶ research and development projects and investment related to research and development,
- ▶ energy renovation of public buildings,
- ▶ investments in brownfield regeneration in urban areas

From the point of view of the implementation structure, the ESIF financial instruments are divided into four thematic areas (see also answer to question 3.2), namely to support small and medium-sized enterprises (SMEs), support for research, development and innovation, support for urban development and promotion of energy efficiency.

Three micro-loans, portfolio guarantees and the Equity Fund are planned in the area of SME support.

- ▶ **Micro-loans:** This tool is aimed at micro and small businesses or start-ups. Loans are in the size of 5– 25 thousand EUR for projects lasting no more than two years, with a maturity of two to five years, without collateral.

A public tender was opened for selection of financial intermediaries, but only one bank, Primorska hranilnica Vipava, participated and became eventually an Intermediate Body. A further financial intermediary became the state Slovene Enterprise Fund (based on an in-house assignment that was used for all instruments where the SEF is a financial intermediary).

This instrument is already on offer and functional and first applicants are signing up for financing.

- ▶ **Portfolio guarantees:** This tool is not yet implemented, it is still under preparation and should be finalized and launched in June 2019. The reason is that other similar tools are currently in place for portfolio guarantees, but will end in the first half of 2019 and this instrument financed by the ESIF should follow up on them. This tool will be implemented by the SID Bank itself, the recipients will be individual banks.
- ▶ **The Equity Fund:** This tool is also still in preparation, its finalization is expected in March 2019. The tool is aimed at supporting start-ups, or to be used as seed capital. The financial intermediary will be the Slovene Enterprise Fund.

Two types of instruments, such as loans and portfolio guarantees, are planned to **support research, development and innovation.**

- ▶ **Loans:** This tool is targeted at all types of businesses, from SMEs to large businesses. Loans are in the size of 10 thousand - 10 million EUR, with a maturity of three to nine years.

For the selection of financial Intermediate Bodies has been opened public tender. The first 30 million EUR loan (out of a total of EUR 56 million dedicated to R & D and innovation-enhancing loans) was attended by only one commercial bank - Sberbank - which became a financial Intermediate Body. Subsequently, the second competition (for outstanding loans of EUR 26 million) was held, but no commercial bank participated.

The Slovene Enterprise Fund was the other Intermediate Body. This instrument is already on offer and functional, i.e. it already has the first applicants for funding.

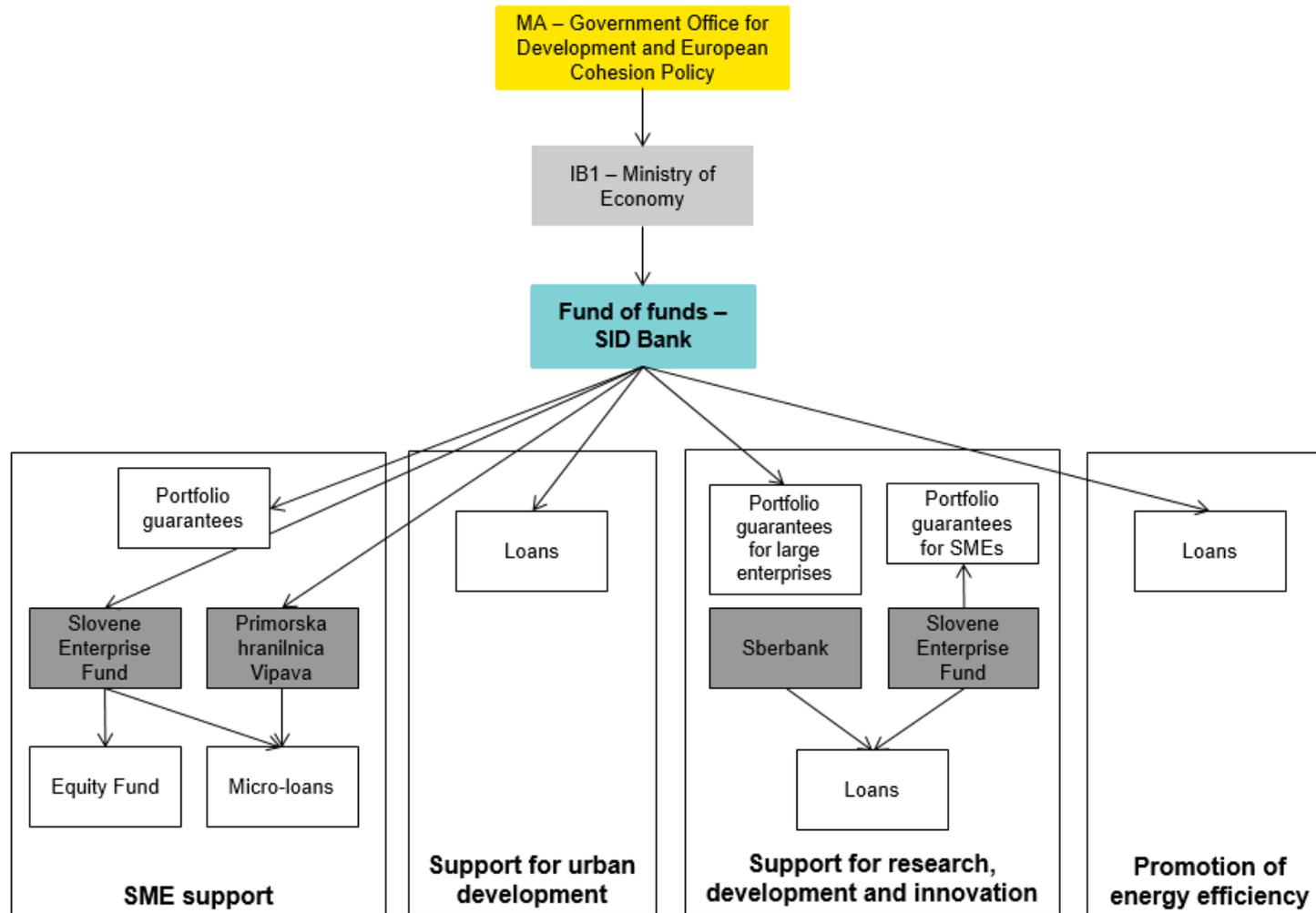
- ▶ **Portfolio guarantees:** As with a similar SME support tool, this tool is not yet implemented, it is still under preparation and should be finalized and launched in June 2019. This tool will be implemented by the SID Bank itself in the case of large enterprises, will be the financial intermediary of the Slovene Enterprise Fund.

In the field of energy efficiency, a single instrument, namely loans, is planned. It should be a long-term loan for complete energy renovation of public buildings. This tool is not yet implemented, its launch is expected in March 2019. Beneficiaries should be ESCO companies, local government and possibly other public administration bodies. This tool will be implemented by the SID Bank itself.

Initially, an ESCO equity fund equity instrument was also intended, but the over-complication and complexity of its operation together with the underdeveloped ESCO market eventually led to the decision not to implement such an instrument.

In the area of **urban development support** is also planned only one instrument, namely loans. It should be a long-term loan for territorial self-government projects that develop specific areas. This tool is not yet implemented, its launch is expected in March 2019. The beneficiaries should be only local authorities or cities (municipalities were excluded due to their size). It is a financially small instrument (EUR 5 million) that commercial banks were not interested in, so it will be implemented by the SID Bank itself. Projects to be funded have already been identified, more or less by the bottom-up approach.

Scheme no. 3: The Implementation Structure of Financial Instruments



### 3.2. In which areas are FI primarily used? Are there areas supported exclusively by FI?

Financial instruments are used in the following areas:

- ▶ research, development and innovation support
- ▶ small and medium-sized enterprises support,
- ▶ low-carbon economy, namely the energy efficiency of public buildings support,
- ▶ public infrastructure, specifically urban development support.

None of these areas is supported solely by financial instruments. Initially, the intention was to support SMEs only through financial instruments, but the political decision was eventually different and it also allowed support for SMEs in the form of subsidies. Furthermore, the promotion of energy efficiency was also planned, with the intention of combining financial instruments and subsidies. For legislative reasons, however, this area is not supported yet, although it is still in progress.

A total of EUR 253 million is earmarked for the financial instruments, of which approximately EUR 133 million for support to small and medium-sized enterprises, EUR 90 million for research, development and innovation, EUR 25 million for energy efficiency and EUR 5 million for urban development projects.

### 3.3. What are examples of good or bad practice using FI? What are the success factors or barriers to the success of using FI? How to ensure attractiveness of FI? How is attractiveness of FI ensured in relation to EFSI and community programs?

Due to delays in the preparation and implementation of financial instruments, there is still insufficient experience from the point of view of the actors to evaluate the pros and cons of the chosen approach, or to assess to what extent the chosen approach works.

**The main benefits associated with the implementation of financial instruments** are as follows:

- ▶ The implementation option, which includes a single fund of funds and specific thematic sub-funds, offers a number of benefits, including a unified management structure, economies of scale, increased cost effectiveness.
- ▶ In response to the launch of the first instruments (micro-loans and loans), it seems that SMEs should be sufficiently interested in these tools.
- ▶ Relevant financial instruments were set with very low or even no collateral insurance, which makes them attractive for the beneficiaries. At the same time, however, risk sharing with banks is set up so that it would be advantageous for the banks themselves. From this point of view, detailed planning and risk management by stakeholders are positively evaluated.
- ▶ Communication channels are set up for good co-operation with commercial banks and, in particular, the Slovene Enterprise Fund's Supervisory Board is also a representative of the Banking Association which discusses planned products and financial instruments, including from the point of view of whether these products and tools distort the market.

Major **barriers or problems associated with the implementation of financial instruments** are as follows:

- ▶ The long delay, the ex-ante evaluation of the financial instruments was prepared in 2015 but the decision on the form of the implementation structure (or that the SID Bank would be the fund manager) fell only in mid-2017. The rest of 2017 was devoted to preparing the contract with the SID Bank and the whole of 2018 to the preparation of individual financial instruments and the search for suitable financial intermediaries. In fact, individual instruments will not be available until 2019.

- ▶ Although the fund manager (SID Bank) was in the process of preparing the basic framework of financial instruments, its inputs and opinions were not taken into account too much at a time when the implementation structure had not yet been decided.
- ▶ A big problem is that the use of financial instruments by public authorities is included in the state (public) debt, which gives rise to considerable political pressure. The MA has difficult discussions with the Ministry of Finance and the Statistical Office.
- ▶ The FI implementation constraint is excessive administrative difficulty. The procedures are full of controls and reporting, which reduces the attractiveness of the FI itself. For final beneficiaries, the use of FI should be similarly demanding as the use of conventional commercial bank products.
- ▶ Not enough financial intermediaries for portfolio guarantees and equity funds from the private sphere are generally available, it is not commercially interesting and banks do not cover the costs incurred under the given conditions. The future goal is, therefore, to increase the involvement of the private sector.

Specifically:

- ▶ For micro-loans to support SMEs, the maximum project size is 25 thousand EUR is from the point of view of commercial banks too low, even with regard to the costs involved. The SID Bank made and afford to take over most of the risks, but it was still not interesting for commercial banks. That is why the Slovene Enterprise Fund was eventually used as another Intermediate Body besides the private bank Primorska hranilnica Vipava. There was an interest in this instrument, particularly because it is a small bank that targets its products in the SME and micro-loans segment.
- ▶ The problem with the equity fund is the fact that this type of financing is generally not well developed in Slovenia.
- ▶ In case of loans to support research, development and innovation, commercial banks have not been sufficiently interested in the instrument because the banks themselves were satisfied with their existing interest in their existing products in this area. Another problem was the fact that this tool supported by the ESIF, according to commercial banks, is only narrowly focused.
- ▶ In the field of energy efficiency loans, the reason for lack of commercial bankers' interest was the excessive difficulty and level of technical details associated with projects in this area, together with the general reluctance of banks to finance ESCO's companies.
- ▶ In the case of portfolio guarantees, increased communication with commercial banks is required to make this product more interesting for them. Unlike individual guarantees, commercial banks with those portfolios do not have enough experience and do not have a comprehensive idea of how this tool works. Thus, a series of meetings and workshops are held by the SID Bank, where representatives of banks are introduced to this tool.
- ▶ Overlapping with other instruments funded from other sources (e.g. EFSI) is a big challenge, yet everything is not clear and overlaps will probably appear. In the future there will be a willingness to make the SID Bank the coordinator of all FIs.

3.4. How to set up the FI most effectively to avoid unnecessary administrative burdens on the actors of the implementation structure or the beneficiaries and the use of FI was transparent?

The following **conclusions and recommendations** emerged from the interviews:

- ▶ The National Development Bank (SID Bank) should be included from the very beginning of the preparation of the new programming period and the setting of financial instruments. This is also important because the environment and market are changing rapidly and the SID Bank has enough experience and dynamic enough to adapt to changes.
- ▶ The SID Bank will endeavor to involve as many commercial financial intermediaries as possible while persuading them to finance more risky projects (i.e. projects with greater potential) and also to fund beneficiaries with a lower credit rating.
- ▶ Financial tools from national sources are more attractive and work better because they have simpler rules and settings. The ESIF financial instruments should simplify their settings to bring them closer to others.
- ▶ The possibility of combining subsidies and financial instruments has not been reinstated compared to the previous programming period. One of the reasons is the excessive administrative burden, another reason is the low interest rates (the subsidy was used in the past for interest rates).

The support is in case of SMEs also including coaching, mentoring and education (for example, financial education, international trade education, etc., in total education is focused on circa 20 topics).

## 4. Project activity review

### Total number of institutions addressed

- ▶ 3

### List of addressed institutions

- ▶ Government Office for Development and European Cohesion Policy
- ▶ Slovenska izvozna in razvojna banka (SID Bank)
- ▶ Slovenski Podjetniški Sklad (Slovene Enterprise Fund)

### List of relevant materials used

- ▶ Ex-ante assessment of Financial Instruments in Slovenia, Final report, 27. 11. 2015
- ▶ Internetové stránky SID Bank (<https://www.sid.si/en>)
- ▶ Internetové stránky Slovene Enterprise Fund (<https://podjetniskisklad.si/en>)