

# FIN-URB-ACT

## Thematic Paper X

Cities and Managing Authorities – A Pathway to Partnership



**Cities and Managing Authorities a Pathway to Partnership**

FIN-URB-ACT meeting work group on Managing Authorities  
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**Rome and the Region of Lazio.***General situation:*

In order to explain the particular relation between Lazio and the city of Rome some geographical facts need to be drawn. The region of Lazio is located in the centre of Italy and ranks on the second place in Italy for the contribution to the national GDP and ranks with a total share of 5.6 million on the third place. The total population comprises 5.6 million inhabitants, thereof the city of Rome has a share of 4 million inhabitants followed by the province of Latina with 537.000, Frosinone 495.000, Viterbo 310.000 and Rieti with 155.000 inhabitants. In comparison to North-Rhine Westphalia that was discussed during the last session several cities with the same size are polycentric distributed over the entire region. In the case of Lazio, the city of Rome forms the clear centre in economy, functionality, culture and population. By contrast all further cities in Lazio corporate a high gradual quantifying gap within the regional structure of functionality.

*Overview of the functional system:*

The Lazio Regional Management and Control System is divided into the institutional department, the territory department and the economic and employment department. Thereby, the juncture of the Managing Authority together with the Certifying Authority for the administration of the money for the ERDF funds is the economic and employment department. However, the audit authority is docked to the institutional department of Lazio.

**The Managing Authority:**

- ensures that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and national rules.
- Verifies that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules.
- Ensures that there is a system for recording and stores in computerised form accounting records for each operation under the operational programme
- Ensures that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules
- Ensures that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification
- Guides the work on the monitoring committee and provides it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals
- Draws up and after approval by the monitoring committee, submits to the Commission the annual and final reports on implementation
- Provides the Commission with information to allow it to appraise major projects

### *Lazio Region and the EU Programmes:*

The Lazio Region manages EU structural funds and is directly and indirectly involved in numerous European projects. The entire budget amounts 743.5 million Euros and is based on the four main issues:

- Research, innovation and strengthening the productive base.
- Environment and risk prevention.
- Accessibility and transport.
- Technical assistance.

### *Rome Municipality and Lazio Region cooperation*

Within FIN-URB-ACT the Municipality of Rome is foreseen to create a particular partnership agreement between the Municipality and the Managing Authority (Lazio Region) following the one to one approach, which is one possible model discussed within the FIN-URB-ACT project. The way to achieve this objective is more open than with other Partners within the Network. The approach can act as model that can be applied with other Regions, with a similar structure of cities and functional centres.

#### *The following precondition is already given in the case of Rome:*

In order to achieve the main objectives of the Operational Programmes, Lazio Region considers to essentially strengthen the cooperation with municipalities in particularly with the Municipality of Rome. The fact that Rome itself has already a share of three-quarters of the entire GDP of the Region mainly pushes the MA be part of two URBACT II projects (FIN-URB-ACT and Active Age). The foreseen co-operation aims at developing a coordinated action in order to support self-employment, micro-enterprises and start-up businesses and built a network with all main public and private organisations engaged in supporting SMEs. In order to foster the cooperation between the two administrative bodies, several results have been already achieved. First, the institutional relationship has been enhanced and also a stronger relationship on an operational basis was implemented. Within FIN-URB-ACT different action have been implemented (e.g. the Managing Authority became member of the ULSG, a common training day the Municipality of Rome and Experts of ERDF common calendar of meetings). Thus the institutional and operational relationship could be enhanced.

Furthermore the Municipality of Rome and the Lazio Region taking commonly part of URBACT II project "Common-Sense project". The purpose of this project is to stimulate the use and effectiveness of European resources in the cities in order to get a better implementation of an integrated and a sustainable urban development. Within the foreseen actions, Common Sense wants to make better use of the European funding which is available for the cities.

On July the 23<sup>rd</sup> 2009, the Lazio Region has organised and held a seminar on the Territorial Co-operation Programme URBACT II, for the dissemination of the experiences and best practises, with the contribution and the participation of members of the City of Rome.

## Lowland and Upland Scotland Programme 2007 – 2013

Gordon McLaren, Chief Executive, ESEP Ltd (Managing Agent)

### The Scottish Context:

#### *2007-2013 Programmes: ERDF Priority 2 - Enterprise Growth in Scotland*

Support for financial engineering instruments was identified as a significant area for spending under Priority 2 of the ERDF programme. The comprehensive aim of the priority is to improve enterprise formation and growth rates by enhancing the enterprise support environment, particularly with regards to access to finance and entrepreneurship. Particularly the provision of risk capital has shown itself to be a sustainable financial instrument for supporting the creation and growth of the SME base in Scotland. Eligible activities thus include e.g. risk-capital funding for the region as a whole, where such schemes can demonstrate market gaps and build on the experience of past schemes, investment funding for early stage and start-up new enterprises or initiatives that raise the capacity, skills and readiness of enterprises to assess their funding needs, manage new funding and general investor readiness.

The size of Scotland's cities necessitates economies of scale for risk capital. In this respect the European Commission encourages the development of support at a national or sub-national level.

### Background

The initial situation within the past decades in Scotland was a significant market failing in regard to the development of the SME sector. The rate of new company starts was lower in Scotland than anywhere else in the UK. Many potential entrepreneurs were put off by worries over raising the necessary finance and concerns existed that many new ventures failed due to under-capitalisation.

As one reason for the emerging equity gap was the restructuring of Local Banks during the last decades. In 1975 the savings banks movement concentrated in regional banks under a holding company. They expected to become more competitive with commercial banks and offered wide range of services to personal and corporate customers. It followed a consolidation. Until there, was just one bank (TSB Bank Scotland PLC) which was sold to the public in 1986. The share capital from TSB was acquired by Lloyds Bank in 1995 to form Lloyds TSB Scotland.

Besides, there was a demutualisation of 10 building societies of the UK in 1989-2000. They either became a bank or were acquired by a larger bank. By 2008 every building society that floated on the stock market in the wave of demutualisation of the 1980s and 1990s had either been sold to a conventional bank, or been nationalised. Thus, the traditional community service of the old mutual society no longer applies.

Following the Lisbon Strategy an increase for availability of risk capital is highly needed, as the limited availability of finance is an obstacle to setting up and developing business in Europe. The company financing in Europe is currently too lending based and not enough risk capital based. There is still an insufficient mobilisation of capital.

#### *Added Value of the Equity Risk Capital:*

Smart money (which means investment capital, knowledge and time) has a high added value, regarding entrepreneurial experience, mentoring skills, contacts and access to more cash. Additionally many factor influenced the equity gap for start up in Scotland. On the demand side primarily reasons where an insufficient concept development, poor proposal presentation,

management inexperience. Also on the supply side there is a lack prerequisite like inaccessibility of finance providers, inadequate investment skills, insufficient knowledge of new technologies and high transaction costs. Even on the support side major knowledge and skills gaps emerged.

This led to the following circle:

equity gap → knowledge gap → skills gap → equity gap

Mr McLaren stated that, in 2002 and 2003, business angel investment in Scotland was more than twice the level of early stage in UK average. They are an essential part of the financing food chain and from public policy perspective they need to be well integrated with other sources of financing.

*Different Funds to support SMEs in Scotland:*

In order to tackle the emerging deficits in equity access for SME different measures have been implemented in Scotland. Therefore, three different funds with different investment levels have been set by Scottish Enterprise in order to overcome outlined equity gaps:

| <b>Fund</b>                          | <b>Funding range</b>  |
|--------------------------------------|-----------------------|
| A) Scottish Seed Fund (SSF)          | £20,000 to £100,000   |
| B) Scottish Co-Investment Fund (SCI) | £100,000 - £1 million |
| C) Scottish Venture Fund (SVF)       | £500,000 - £2 million |

**A) Scottish Seed Fund**

Scottish Enterprise introduced the Scottish Seed Fund (SSF) to improve the availability of finance for start-up and young growing companies in Scotland. The SSF can invest between £20,000 and £100,000 on an equity basis in early stage businesses that meet the SSF criteria and are keen to grow. Priority will be given to businesses demonstrating high-growth potential in terms of launching new products, entering new markets and increasing employment.

The SSF will invest in start-ups and early stage companies at the end phase of product development and/or commercialization. When deciding whether to invest, detailed due diligence will be carried out by Scottish Enterprise. In addition, different criteria for the eligibility will be like the nature, age and stage of the business, management skill, potential for innovation and growth, availability of other funding and how the funding will be used

**B) Scottish Co-investment Fund**

The Scottish Co-investment Fund (SCF) is a £72 million equity investment fund established by Scottish Enterprise, partly funded by the European Regional Development Fund, to invest from £100,000 to £1 million in company finance deals of up to £2 million.

Unlike a standard venture capital (VC) fund or a business angel, the SCF does not find and negotiate investment deals on its own; instead it forms contractual partnerships with active VC fund

managers, business angels and business angel syndicates from the private sector (the SCF partner).

Importantly only SCF partners can access this fund. The SCF partner finds the opportunity, negotiates the terms of the deal and offers to invest its own equity cash. If the opportunity needs more money than the SCF partner can provide, it can call on the SCF to co-invest alongside on equal terms. The SCF partner determines how much the SCF can invest in any new deal; however, the SCF cannot invest more than the SCF Partner, additionally the public money cannot account for more than 50 per cent of the total risk capital funding in a deal.

### ***C) Scottish Venture Fund***

The Scottish Venture Fund (SVF) has been set up by Scottish Enterprise in conjunction with the Scottish Government to invest £500,000 to £2 million, along side private sector partners, in company finance deals of between £2 million and £10 million.

The private sector partner brings the investment opportunities to the Scottish Venture Fund. Based on commercial terms, the SVF may match the investment made by the private sector partner in each transaction up to a maximum of £2 million, either on its own or as part of an existing syndicate. Where additional funding is required, the SVF will then be able to utilise its partner network to distribute these opportunities to organisations that have funds to invest, and are looking for a supply of quality deals. The private sector partner will then select the most appropriate organisations to form the investment syndicate for that particular transaction. The private sector partner will structure the terms and conditions of the potential deal and lead the transaction to its completion. The SVF will seek to invest without partiality with the private sector partner and always on commercial terms.

Source:

<http://www.scottish-enterprise.com/investment-opportunities/invest-scottish-business/invest-scottish-venture-fund.aspx>

### *Lending to SMEs*

A federation of Small Business survey in December 2009 showed that 32 % of respondents were charged more over the past year to borrow money. 31% said banks lending more money or more fairly would be key in improving business but the profitability had increased over the past year (21% said). 51% of the respondents would continue to innovate in the next year.

The evaluation of Structural Funds support 2000 – 2006 has shown that the supported Venture Capital Loan Funds addressed areas of continuing market failure. The co-investment model helps to develop the local financial community. Evidence suggests high additionality. Therefore, it's being discussed to introduce a JEREMIE Fund to improve access to finance and risk capital for SME and the development of micro credits. Moreover there is a continuing need to support innovation and university commercialisation, as there a is a need for very early stage seed capital. Due to the low internal interest rate with very high risks of the proto businesses, conventional investors are not interested. Thus, it is essential to create an investment pipeline and quality deal flow.

### *West of Scotland Loan Fund (WSLF)*

WSLF is a unique consortium of twelve west of Scotland Local Authorities working together to provide loan finance to new and existing small to medium sized enterprises within the west of

Scotland. The WSLF is composed by a consortium of the 12 local authorities in the West of Scotland and was incorporated as a company limited by guarantee in June 1996. The fund aims to help businesses which have good commercial proposals but have difficulties in raising finance from normal commercial sources. The fund operates through the network of the Local Authorities, Economic Development units working in partnership with Business Gateway, Scottish Enterprise and professional advisors engaged with SMEs.

The Structural Funds Programmes contribute to economic recovery plans at Scottish, UK and EU level. The provision of loan finance to new and early growth SMEs is running quite successfully. An independent evaluation shows, that in the last 5 years, at the Scottish economy level, businesses supported by the WSLF achieved high impacts to the regional SME sector (€64,3 million increase in turnover, 760 new jobs, 2280 jobs safeguarded, €30 million gross value added). In order to obtain funding, the business must demonstrate a funding gap and the fund will not normally be the sole funder of projects. Loans up to £50.000 are available to existing businesses trading for more than 2 years. Loans up to £30.000 can be arranged for new or existing businesses trading for a shorter period of time. The interest rate is 2% above the Bank Base Rate, fixed for the period of the loan. The maximums repayment period is 7 years although capital holidays usually 6 months may be considered. Loans under £20.000 require no legal security.

*Remarks recommendations on the response to the banking crisis by Gordon McLaren*

The intervention of the public sector within the banking crisis risks the danger of distorting the market. Thus, the question needs to be posed on when should the public sector support withdraw once improvements in financial situations? What are the state aid competition applicants? A prerequisite is an increasing regular market research, in order to reflect changes in market conditions and to involve news players particularly from the private sector. The aim needs to be, so Gordon McLaren stated is the creation of an educated dynamic local investment community. Therefore, it needs to be ensured that programmes of actions and packages of measures and investment vehicles are coherent, market driven and do not overlap. Projects should not be implemented without first ensuring that any other supportive development work has been done. Development must be done in a manner designed to bring the demand and supply sides together in partnership. Skill and knowledge levels need to be developed simultaneously on both, the demand and the supply side.

## URBACT II

**URBACT** is a European exchange and learning programme promoting sustainable urban development.

It enables cities to work together to develop solutions to major urban challenges, reaffirming the key role they play in facing increasingly complex societal challenges. It helps them to develop pragmatic solutions that are new and sustainable, and that integrate economic, social and environmental dimensions. It enables cities to share good practices and lessons learned with all professionals involved in urban policy throughout Europe. URBACT is 181 cities, 29 countries, and 5,000 active participants

[www.urbact.eu/project](http://www.urbact.eu/project)



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