

WEFO Note on Potential for an ERDF funded Financial Instrument on Business Sites and Premises

Background

As part of the development of the 2014-2020 European Structural and Investment Funds Programmes, WEFO commissioned independent consultants, Regeneris, to undertake an assessment of the potential to use Financial Instruments (such as loan, equity or mezzanine funds) across several areas of the different programmes. This initial research concluded that Financial Instruments were most clearly suited to providing access to finance for SMEs for business competitiveness and research and innovation. As a result a full market assessment was carried out and a Financial Instrument was established in the Wales Business Fund.

This initial research into the viability of Financial Instruments also concluded that more work was needed to determine their feasibility in the areas of renewable energy and energy efficiency and infrastructure, but that there was limited scope to use them in other areas of ERDF or Rural Development Programmes, or in any part of the ESF Programmes.

In early 2016, WEFO commissioned Regeneris to undertake a further assessment of the feasibility of Financial Instruments to support four kinds of infrastructure: research and innovation; marine energy; broadband; and business sites and premises. An initial screening exercise completed by Regeneris concluded that, of these kinds of infrastructure, there is most scope to deliver Financial Instruments to support business sites and premises. This is an eligible activity only in the West Wales and the Valleys ERDF programme. The other areas were unlikely to be viable given the restrictions and objectives of the EU funding programmes and state of the respective markets.

Regeneris then assessed market conditions affecting the supply of business sites and premises in West Wales and the Valleys and determined whether there are any investment needs that are not being met by the market but could be met through a Financial Instrument.

Findings

The report concludes that **a Financial Instrument would not be an appropriate mechanism to support the development of business sites and premises in West Wales and the Valleys.**

Whilst Regeneris found **evidence of market failure, this is mainly due to the viability of potential sites rather than availability of finance.** Site viability issues include low demand for sites (and hence low rental values) and, in some cases, abnormal development costs due to the need for site remediation and other infrastructure developments.

Regeneris consider these viability issues to represent too large an obstacle for a financial instrument to address via repayable finance. They conclude that, in such cases, **there remains a case for grant funding, where social benefits exist to make such schemes viable from a public interest perspective.**

The report also outlines a number of principles for WEFO and beneficiaries to consider when providing grants for business sites and premises, and these remain relevant for other regeneration-type investments:

- The need for a robust evidence base and clear logic model underpinning any grant scheme. This should be clear about the returns to the public sector (e.g. social benefits / spillovers) and the specific objective of the particular scheme;
- The need to carefully consider which delivery mechanism would be most suitable (e.g. feasibility grants or gap funding). This should directly relate to the specific objective of that scheme; and
- The need for robust project appraisal mechanisms. This should explicitly cover the realistic expected benefits and the timescale in which they will be delivered.

WEFO response to Ex Ante Assessment

WEFO accepts the conclusions of the Ex Ante Assessment so will not fund a Financial Instrument for business sites and premises under Specific Objective 4.4 ('To increase employment through investments in prioritised local or regional infrastructure supporting a regional or urban economic strategy') of the ERDF West Wales and the Valleys Programme.

WEFO will therefore consider proposals for grant funding for business sites and premises under Specific Objective 4.4 provided these are consistent with the principles identified above.