Financial Instruments supported by the European Structural and Investment (ESI) Funds in 2014-2020

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Financial instruments and IFI Relations
Directorate-General for Regional and Urban Policy

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Financial instruments in Regional Policy 2007-2013

- **ERDF support through financial instruments is present in the last three programming periods (since 1994)**
- **In 1994-1999 and 2000-2006 FIs were used only in limited extension (few MSs, limited resources)**
- **In 2007-2013 major expansion of FIs in number, variety, scope and amounts paid to them** (data as at the end of 2012):
  - Some 870 FIs set-up covering support to enterprises (debt, equity), urban regeneration and energy efficiency;
  - More than EUR 17 billion of programme resources committed and EUR 12,5 billion effectively paid to FIs under more than170 Operational Programmes in 25 MS;
  - **However: only some EUR 4.6 billion reached final recipients, some EUR 7.9 billion still remaining in holding funds and specific funds.**

Financial instruments in Regional Policy 2007-2013

Challenges with regard to design & implementation

- Delays in delivering funds to final recipients: FIs represent a new approach to CP support, requiring new skills, partnerships and capacities
- Limited availability of reporting & monitoring data
- Shortcomings in the financial or market gap assessment - rationale for FI deployment
- Over allocation of resources to financial instruments
- Potential for achieving better leverage effects
- Legal and administrative framework not detailed enough from the outset (COCOF Guidance, audit methodology)

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Financial instruments 2014-2020: Introduction

Loans, guarantees and equity will be supported by all ESI Funds under the common rules of the CPR.

The use of financial instruments instead of grants to:

- *finance projects which generate income or savings and*
- *which can pay back the whole or part of the resources invested*
- *results in availability of revolving resources for successive cycles of investment, leveraging of additional private capital, as well as improved project quality and financial discipline.*

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European Commission

Financial instruments 2014-2020: Introduction

➲ To encourage and increase the use of financial instruments in the 2014-2020 programming period, the new regulations:

- offer greater flexibility to EU Member States and regions in terms of target sectors and implementation structures;
- provide a stable implementation framework, founded on a clear and detailed set of rules, building on existing guidance and experiences on the ground;
- capture synergies between financial instruments and other forms of support, such as grants;
- ensure compatibility with financial instruments set up and implemented at EU level under direct management rules.

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European Commission

Financial instruments 2014-2020: Key novelties

- **Wider scope:**
  - Common provisions cover all five ESI Funds: ERDF, ESF, Cohesion Fund, EAFRD and EMFF
  - Expansion to all thematic objectives & priorities foreseen by ESIF OPs
- **More implementation options for Managing Authorities:**
  - Traditional implementation: MA sets up a FI at national, regional, transnational or cross-border level
    - Taylor made instruments (same as 2007-2013)
    - Standardised "Off-the-Shelf" instruments
  - MA can contribute OP allocations to EU level instrument
  - MA can implement loans or guarantees directly (or through IB) without formal set-up of a fund

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Financial instruments 2014-2020: Key novelties

- **Ex-ante assessment to be carried out** before launch of FI operation under the ESIF

  - ✓ Analysis of market failures, suboptimal investment situations and investment needs
  - ✓ Assessment of value added of the FI, consistency with other public forms of intervention, state aids, proportionality, measures to minimise market distortion
  - ✓ Estimate of additional public and private resources (expected leverage effect), assessment of need for, and level of, preferential remuneration
  - ✓ Assessment of lessons learned and how are this applied
  - ✓ Proposed investment strategy, implementation options, financial products, final recipients, combination with grants
  - ✓ Expected results and how FI will contribute to achievement of specific objectives & results
  - ✓ Provisions for review of ex-ante assessment

    - Can be performed in stages but must be completed before decision to make OP contribution to a FI
    - Needs to cover each new or existing FI, but work can be combined in one ex-ante assessment if more than one FI to be launched at same time
    - Must be submitted to the PMC for information and must be published

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Financial instruments 2014-2020: Key novelties

- **Better combination of FIs & other forms of support;**

  - In financial instrument: Grant component may cover financing (e.g. state aid compliant subsidy element) or technical support for the benefit of the final recipient
  - At the level of final recipients: Combination is now possible also with assistance from other programmes supported by the EU budget

- **Incentives regarding EU co-financing rates;**

  - EU-level instruments: Up to 100% of the paid support may come from ERDF, ESF and CF; separate priority axis to be foreseen
  - Instruments implemented at national/regional level: ERDF, ESF, CF co-financing rate to increase by 10 percentage points if an entire priority axis is implemented through financial instruments

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Financial instruments 2014-2020: Key novelties

- **Phased contributions to Financial Intermediaries;**
  - MAs to pay programme contributions in at least 4 tranches
  - Subsequent payments from MA to FI to be made on the basis of FI investment rate in relation to programme contributions received
- **More detailed rules concerning (e.g.):**
  - Eligible expenditure at closure,
  - (re)use of interest/other gains and ESIF resources returned during the programming period,
  - The use of interest/other gains and ESIF resources returned after closure (legacy).
- **Annual reporting by MAs.**
  - MA to report to COM on FI operations annually (annex to the annual implementation report); reporting items should be aligned with requirements of the Financial Regulation
  - COM to publish annual summary report on the basis of data received
- **Management Fees:** performance based approach (base remuneration+performance)

Concrete example of a regulation more in line with market practice:

Equity-based instruments (at closure):

- **Capitalized management cost and fees** (paid into an escrow account) due to be paid for a period of **6 years** after the end of the eligibility period will be considered as Eligible expenditure.
- **Eligibility of follow-on investments**, **4 years** after the end of the Eligibility period if the below conditions are respected:
  - Funding agreement (MA or FoF / FI) signed before 31.12.2017;
  - 55% of the programme resources are invested before 31.12.2023;
  - Follow-on investment capped to 20% of the eligible expenditure (less the capital resources and gain).

Financial instruments 2014-2020

EUROPEAN COUNCIL 24/25 OCTOBER 2013 – CONCLUSIONS:

The programming negotiations of the European Structural and Investment Funds (ESIF) should be used to:

- *Significantly increase the overall EU support from these funds to leverage-based financial instruments for SMEs in 2014-2020, while at least doubling support in countries where conditions remain tight.*
- *These instruments should be designed in a way which limits market fragmentation, ensures high leverage effects and quick uptake by the SMEs. This will help concentrate the funds adequately and expand the volume of new loans to SMEs.*

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Financial Instruments 2014-2020

TO CONCLUDE:

✓ **Commission encourages more extensive use of FIs**

✓ **Advantages:**

- **Efficiency gains due to revolving funds (remain in the programme area)**
- **Leverage resources, increase impact of ESIF programmes**
- **Financing provided before investment takes place (dif. from grants)**
- **Better quality of projects (investment must be repaid)**
- **Incentives to use FIs as alternative to grants (move away from "grant dependency" culture)**

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Financial instruments 2014-2020: Next steps

- Finalization of CPR: Trilogue EP/Council/COM concluded October » Adoption CPR November
- Drafting of secondary legislation (envisaged Delegated Act and Implementing Act) on-going; adoption only after adoption of CPR;
- Development of ready-to-use "off-the-shelf" instruments on-going (to be laid down in Implementing Act);
- Concept for a TA platform for financial instruments in cohesion policy 2014-2020 to be developed.

Additional information on financial instruments

Commission Staff Working Document - Financial Instruments in Cohesion Policy
http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/financial/financial_instruments_2012_en.pdf

Factsheet: Financial Instruments in Cohesion Policy 2014-2020
http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/financial_instruments_en.pdf

Panorama Autumn 2012: Using financial instruments to leverage support for regional policy
http://ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/mag43/mag43_en.pdf

Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period
http://ec.europa.eu/regional_policy/thefunds/instruments/doc/fls_stocktaking_final.pdf

Muchas Gracias!

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