



A Spanish pilot to use ESF contribution to EaSI under article 38.1(a)

Guadalupe de la Mata, Resident Representative for Spain and Portugal, European Investment Fund



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Agenda



- **ESF-EaSI contribution case study: Preliminary findings from Spain (Comunidad de Madrid)**

- **Potential ESIF contributions to EU Level instruments:**
 - Legal basis and scope**
 - Advantages of the combination; and**
 - Lessons learned**





**Spanish Pilot: Comunidad
de Madrid EaSI window**

ESF and EaSI Comunidad de Madrid *Background*



- Comunidad de Madrid has earmarked **EUR 25m** in its **ESF Operational Programme** to set up a financial instrument to respond to the social deterioration that has taken place in the Region of Madrid due to the financial and economic crisis.
- **Comunidad de Madrid** has decided to use them to make a contribution to EaSI under article 38.1 (a) of the CPR. This would avoid national contribution (as per art 120.7 CPR).
- **Ex ante:** Proving a finance gap of approximately EUR 700-750m for the sector (microfinance and social entrepreneurship combined);
 - Proposing an investment strategy aligned with the EaSI guarantee instrument.
- **EaSI Guarantee Product tested in Spain:** Spain is the EU member state where the EaSI Guarantee Instrument has been most used, with 6 transactions signed with 4 intermediaries, 3 in the field of microfinance and 3 focusing on social entrepreneurship.
- **Replicability:** The operation will represent a pilot that should easily be replicated within other Spanish Regions and in other EU member states.



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Potential ESIF contributions to EU Level instruments

Legal basis, advantages and
lessons learned



Possibility to combine ESIF with EU level instruments

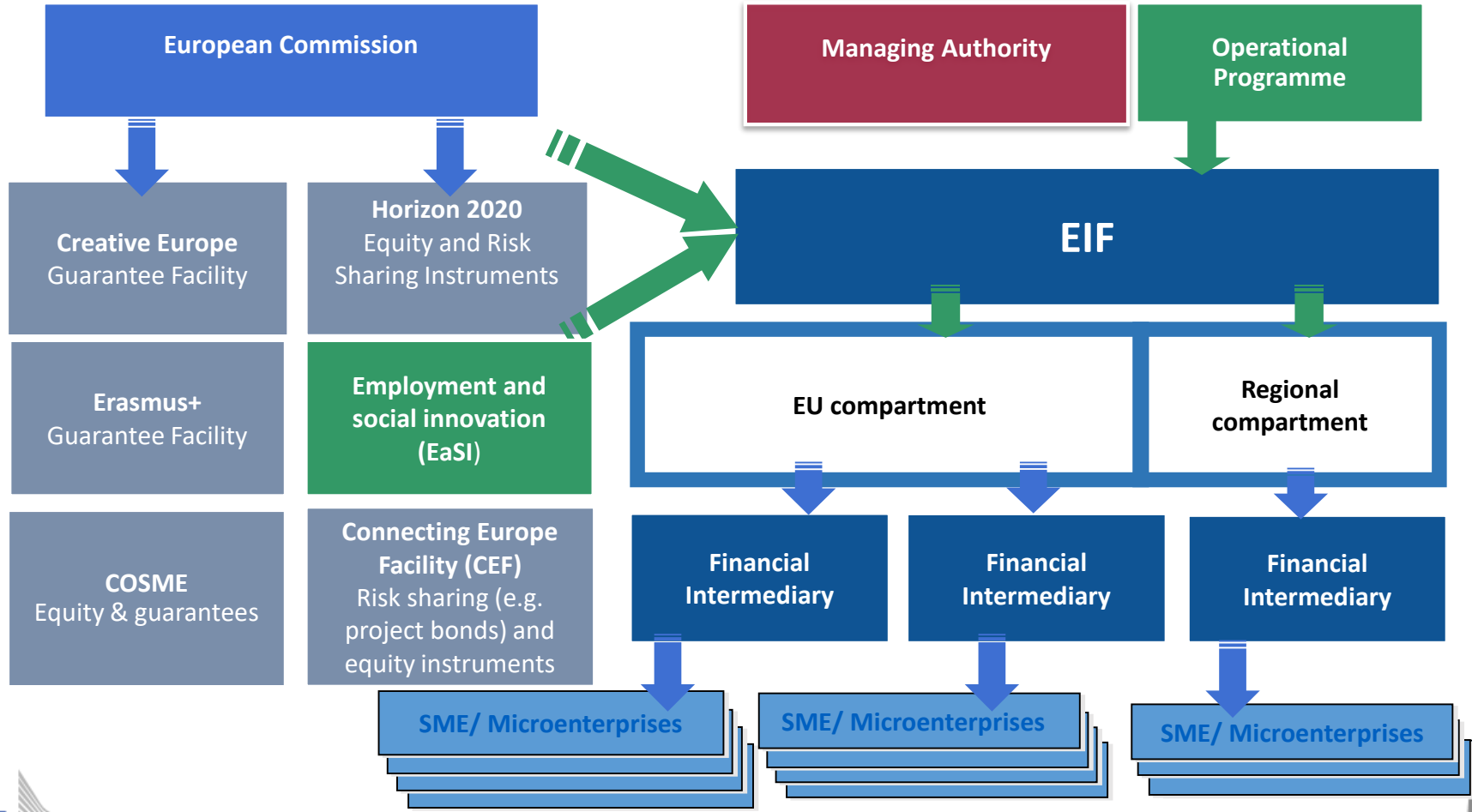
The possibility to make contributions from ESIF programmes to EU level instruments established and managed in line with the Financial Regulation (title VIII, Articles 139-140) is a novelty for 2014-2020 and is included in **Article 38.1(a) of the Regulation (EU) 1303/2013 (CPR)**.

Managing authorities may provide a financial contribution via the 2 following options:

- **Financial instruments set up at Union level**, managed directly or indirectly by the Commission (through an entrusted body)
- **Financial instruments set up at national, regional, transnational and cross border level**, managed by or under the responsibility of the managing authority.

Article 38.1.a:

Managing authority may provide a financial contribution to financial instruments set up at Union level



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Advantages of the combination



Instrument tested:

- The existing EaSI Guarantee instrument is well tested (across Europe and more specifically in Spain). In Spain 6 transactions with 4 intermediaries have been signed.

Saving time and resources:

- The possibility for the managing authority to **save time and resources on the set-up phase** (selection of financial intermediaries, preparation of funding agreement etc.) as the EU level instrument delivery system is used;
- **The instrument would be managed by an experienced entity (EIF) in microfinance.** EIF already has a team currently implementing EaSI that has wide market knowledge and has tested the absorption.

No co-financing required:

- According to art 120 of the CPR, the ESIF contributions to Union level instruments **do not require the allocation of national match funding** by managing authorities (100% of the paid support comes from EU funds or separate Priority Axes).

Economies of scale:

- **At managing authority level:** for some managing authorities that have small amounts of funds available for financial instruments, it is much more efficient to use the opportunity of contributing to an EU instrument instead of creating a small structure;
- **Economies of scale at EU instrument level:** One **EU level instrument may comprise several compartments**, thus achieving significant critical mass and economies of scale.

Lessons learned applicable to ESF and EaSI contributions



1

Managing authority interest and support is key

2

Eligibility criteria (clear and aligned with EaSI)

3

Choosing the right instrument (alignment with EaSI Guarantee)

4

The importance of ex-ante assessment and market test during the design phase

5

Financial intermediaries will have a key role

6

Reporting and Monitoring

1

Managing authority's support

- Make sure the managing authority is interested and willing to make the contribution.
- **The operational programme (OP)** needs to foresee the contribution (otherwise it needs to be modified):
 - Check that the final recipients eligibility criteria are in line with the OP;
 - The product needs to be the same.
- In the case of Comunidad de Madrid the OP specifically included the option.



PROGRAMA OPERATIVO FSE COMUNIDAD DE MADRID

2014 - 2020

Versión: 17 de julio de 2014



Comunidad de Madrid



UNION EUROPEA
Fondo Social Europeo



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2

Elegibility criteria: clear definition & alignment with EaSI definition



Microfinance

Financial Institutions

Banks, microfinance institutions/providers, credit unions, credit cooperatives, leasing companies, guarantee schemes, guarantee institutions, etc...

Borrowers / Final Recipients

Micro-borrowers

Vulnerable persons who have been made redundant or are at risk of becoming so, or have difficulty in entering or re-entering the labour market, or are at risk of social exclusion, or are socially excluded, and **are in a disadvantaged position with regard to access to the conventional credit market and who wish to start up or develop their own micro- enterprises**

Micro-enterprises

Micro-enterprises in both start-up and development phase, especially micro-enterprises which employ persons as referred to in the above mentioned definition of Micro-borrowers

Social entrepreneurship

Financial institutions, guarantee schemes, guarantee institutions, foundations, family offices, social investment funds, etc...

Social Enterprises

Entities with either an annual turnover not exceeding EUR 30 million, or an annual balance sheet total not exceeding EUR 30 million

EaSI eligibility criteria need to be replicated at EaSI Madrid window

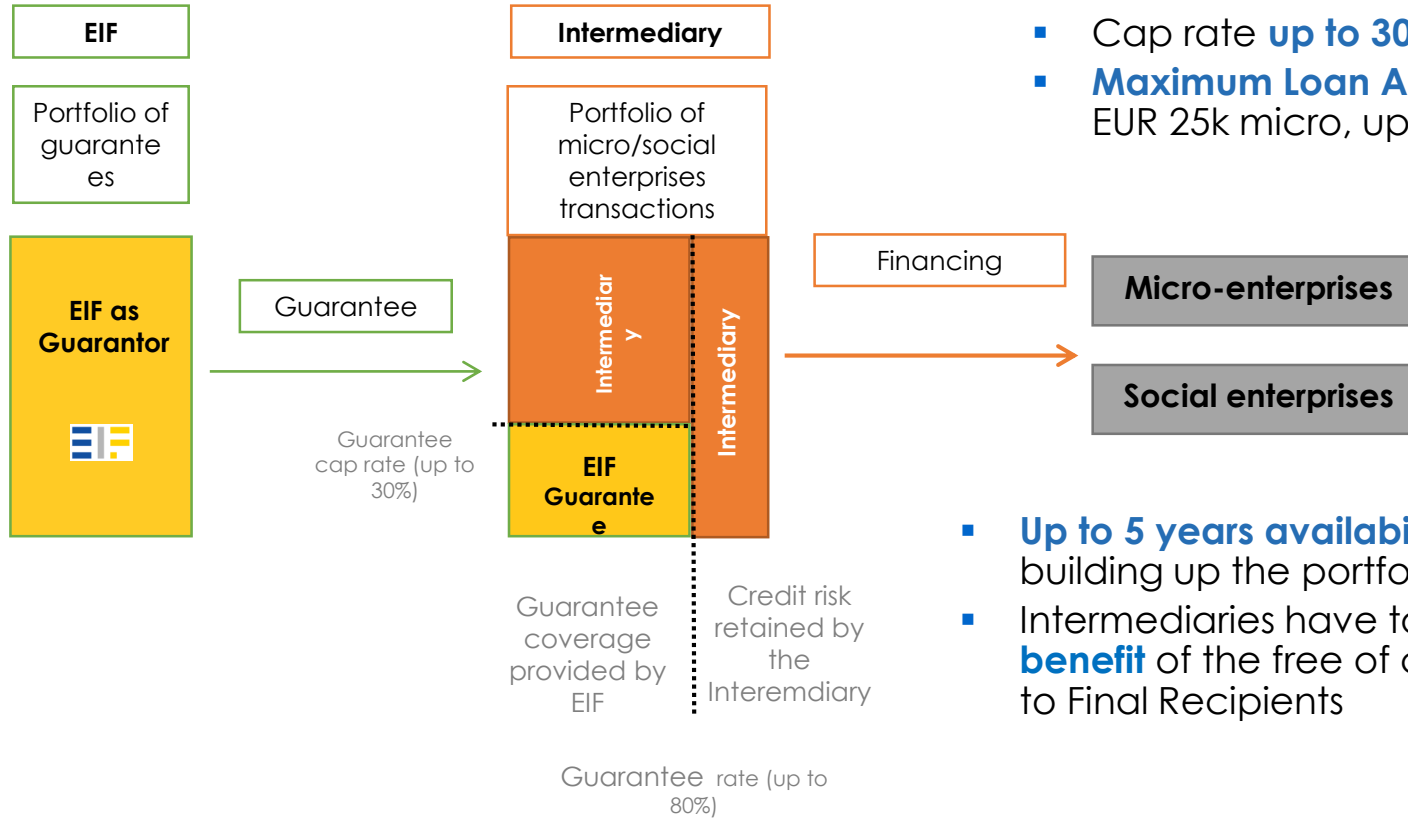


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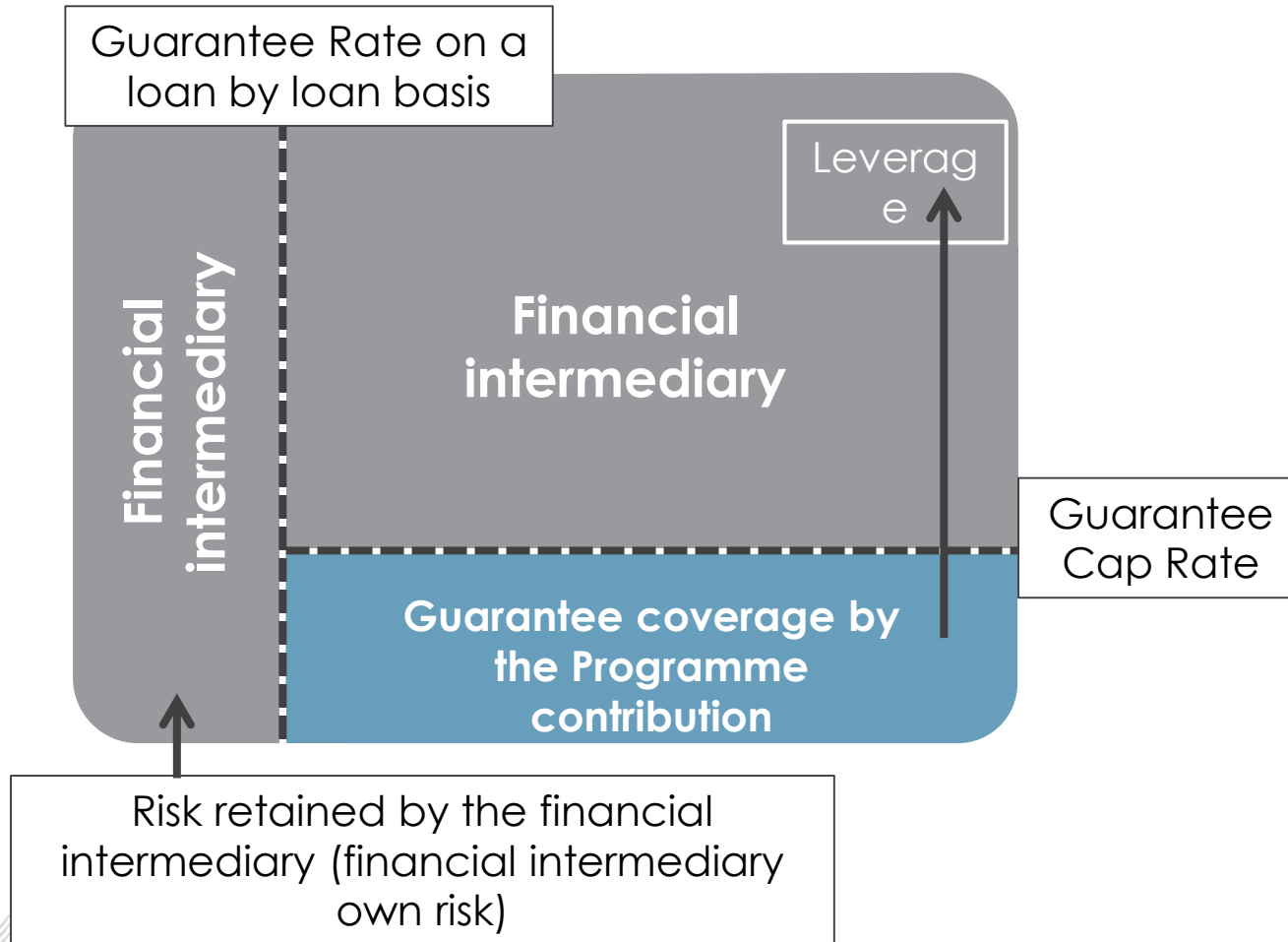
Importance of choosing the right instrument (perfect alignment with EaSI Guarantee instrument)



- Guarantee rate **up to 80%** of the loan–
- Cap rate **up to 30%**
- **Maximum Loan Amount:** up to (i) EUR 25k micro, up to (ii) 500k social

- **Up to 5 years availability period** for building up the portfolio
- Intermediaries have to **transfer the benefit** of the free of charge guarantee to Final Recipients

How does a portfolio guarantee work?



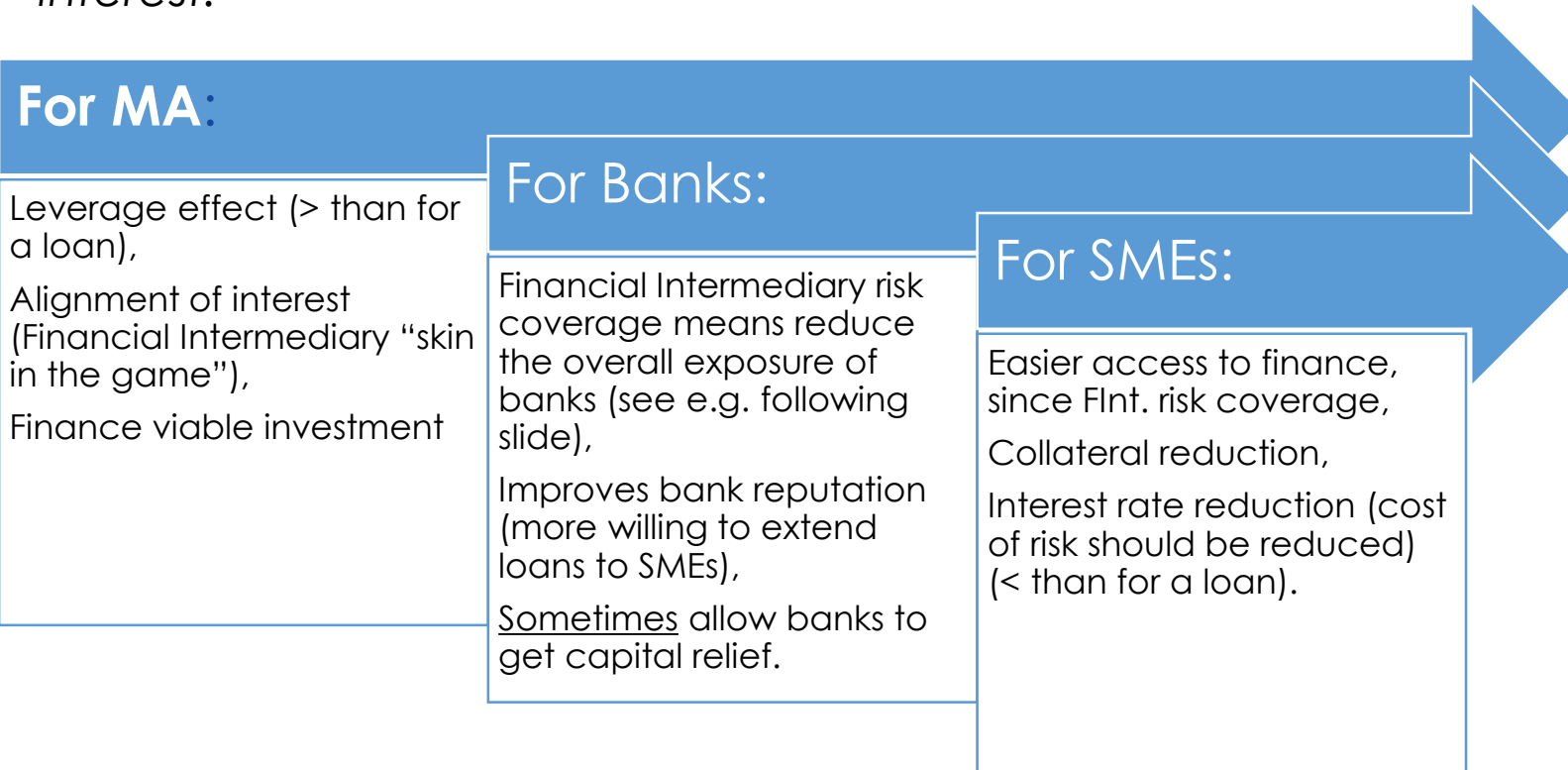
When it is useful:

- High collateral requirements by banks,
- Risk-aversion of banks to finance riskier projects,
- Tightening of lending conditions stemming from regulatory pressure.

Main advantages of Guarantee instruments



For successful implementation each party has to find its own interest.



4



The importance of the ex-ante assessment and the market test during the design phase

- Ex-ante assessment (article 37.2 CPR):
 - Analysis of market failures, sub-optimal investment situations and investment needs;
 - Investment strategy.
- Market test
 - Useful to assess financial intermediaries appetite for the product;
 - Confirms that the financial instrument responds to the final recipients' needs;
 - Confirms potential market absorption.

The importance of the ex-ante assessment



Ex ante Comunidad de Madrid.
Carried out by PwC through EIB Advisory

Tabla 8. Equivalencia de los colectivos que se pueden acoger al IF del PO FSE

PO FSE	EaSI ¹³	Segmentos propuestos
Personas vulnerables que hayan perdido su trabajo.	Personas en riesgo/exclusión financiera y/o social	Personas en riesgo de exclusión financiera (no social) procedentes de la economía Informal (apartado 2.3.2.1 a) del informe) Personas en riesgo de exclusión social y financiera con potencial de emprender (apartado 2.3.2.1 b) del informe).
Personas vulnerables en riesgo de perder su trabajo.	Las personas vulnerables que han perdido o están en riesgo de perder su trabajo, o que tienen dificultades para incorporarse o reincorporarse al mercado de trabajo, o están en riesgo de exclusión social, o son excluidos socialmente, y están en una posición de desventaja con respecto al acceso al mercado de crédito convencional y que desean crear o desarrollar sus propias microempresas.	
Personas con dificultades para incorporarse al mercado de trabajo.		
Personas en riesgo o situación de exclusión social.		
Personas en posición de desventaja (acceso al mercado de crédito) y que deseen crear sus microempresas.		

El posible uso de Instrumentos Financieros en la Comunidad de Madrid en el periodo de programación 2014-2020

Estudio en apoyo a la evaluación ex-ante para el despliegue de recursos de la UE

Informe final

11 de noviembre de 2016

- Proving a finance gap of approximately EUR 700-750m for the sector (microfinance and social entrepreneurship combined);
- Proposing an investment strategy aligned with the EaSI guarantee instrument.



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The importance of the ex-ante the market test during the design phase



Interviews with various Financial Intermediaries:

To assess the appetite for the product

To confirm the financial instrument responds to the market needs

To confirm the market absorption potential

To assess any potential overlap with similar actions (including subsidies and/or local/national support schemes)

5

Financial intermediaries' key role



- Importance of selecting financial intermediaries with experience in the sector and with the technical expertise to manage the instrument (risk management systems, IT systems, commercial network to reach the targeted final recipients, etc.).
- They are responsible for analysing the eligibility and the risk profile of the final recipient and decide to grant the loan.
- Key in providing the data and reporting.
- Call and selection process tested for different SME profiles and policy objectives.
- Also tested for EaSI (microfinance and social entrepreneurship).

EIF has worked with more than 400 intermediaries across Europe

...and financed more than 1.8 million SMEs since 1994



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Importance of middle and back office (reporting, monitoring and treasury)



- Two areas are key:
 - Monitoring tasks: reporting and audit;
 - Treasury.
- Expertise needed at all levels: Managing Authority, Financial Intermediaries and EIF.
- For the combination it is key to make a first assessment of the reporting and audit requirements according to both EaSI and ESF regulations.
- Important balance between proper reporting and audit and efficiency.





financial instruments
 revolving capacity building
 added value **ERDF** funding agreement
 governance **ESF** EU guidance
 technical support seminars leverage financial intermediaries ex-ante assessment
 co-financing **ESIF** microfinance case studies
 investments **fi-compass** final recipients
 business plan **Thank you** thematic objectives
 advisory services guarantees banks loans **EaSI** equity
 private investors life cycle combination of support
EAFRD conferences factsheets
 fund of funds **EMFF** investment strategy **CF**
 managing authorities manuals