



ESF contribution to EaSI under article 38.1(a)

Guadalupe de la Mata, European Investment Fund



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Agenda



- Potential ESIF contributions to EU Level instruments: legal basis and scope
- ESF-EaSI contribution case study: Preliminary findings from Spain (Comunidad de Madrid)
 - Advantages of the combination; and
 - Lessons learned



Potential ESIF contributions to EU Level instruments

Introduction

Legal basis: Article 38.1(a) of the Regulation (EU) 1303/2013 (CPR)



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)**.

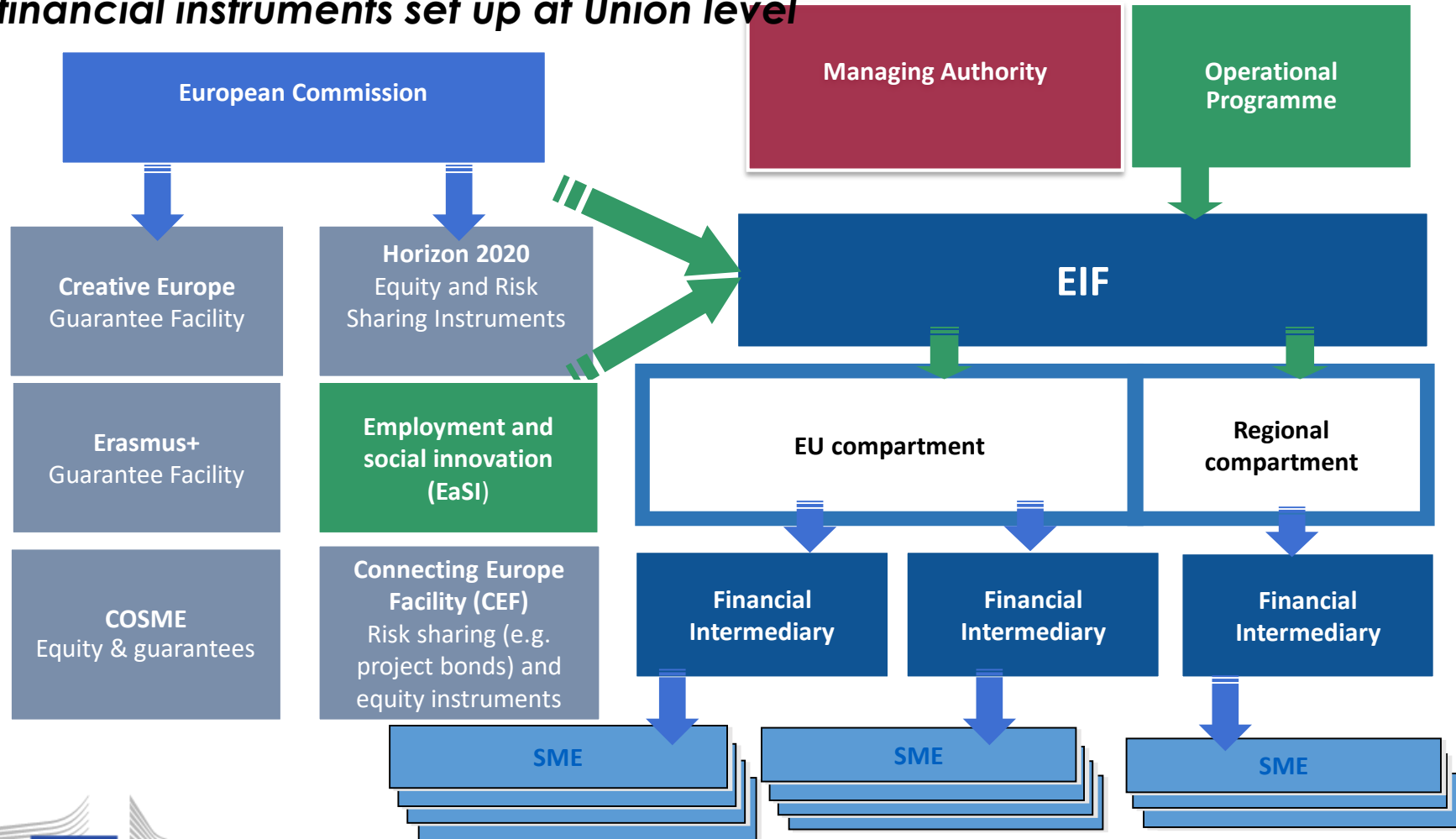
Managing authorities may provide a financial contribution via the 2 following options:

- **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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Example: 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 contribute to EaSI under the article 38.1 (a) of the CPR and avoid the national contribution (as per art 120.7 CPR).
- **Ex ante finalised:**
 - 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.



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	Governance	6
2	Eligibility criteria (clear and aligned with EaSI)	Coherence and complementarity	7
3	Choosing the right instrument (alignment with EaSI Guarantee)	Communication	8
4	The importance of ex-ante assessment and market test during the design phase	Reporting and Monitoring	9
5	Financial intermediaries will have a key role	Timing	10



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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.
- The **managing authority is ultimately responsible for this operation** and the rules for payments and reporting are the same as for options (1) and (2).



2 Eligibility criteria: clear and adequate definition & alignment with EaSI definition



Microfinance

Financial Institutions

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

Micro-borrowers

Borrowers / Final Recipients

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

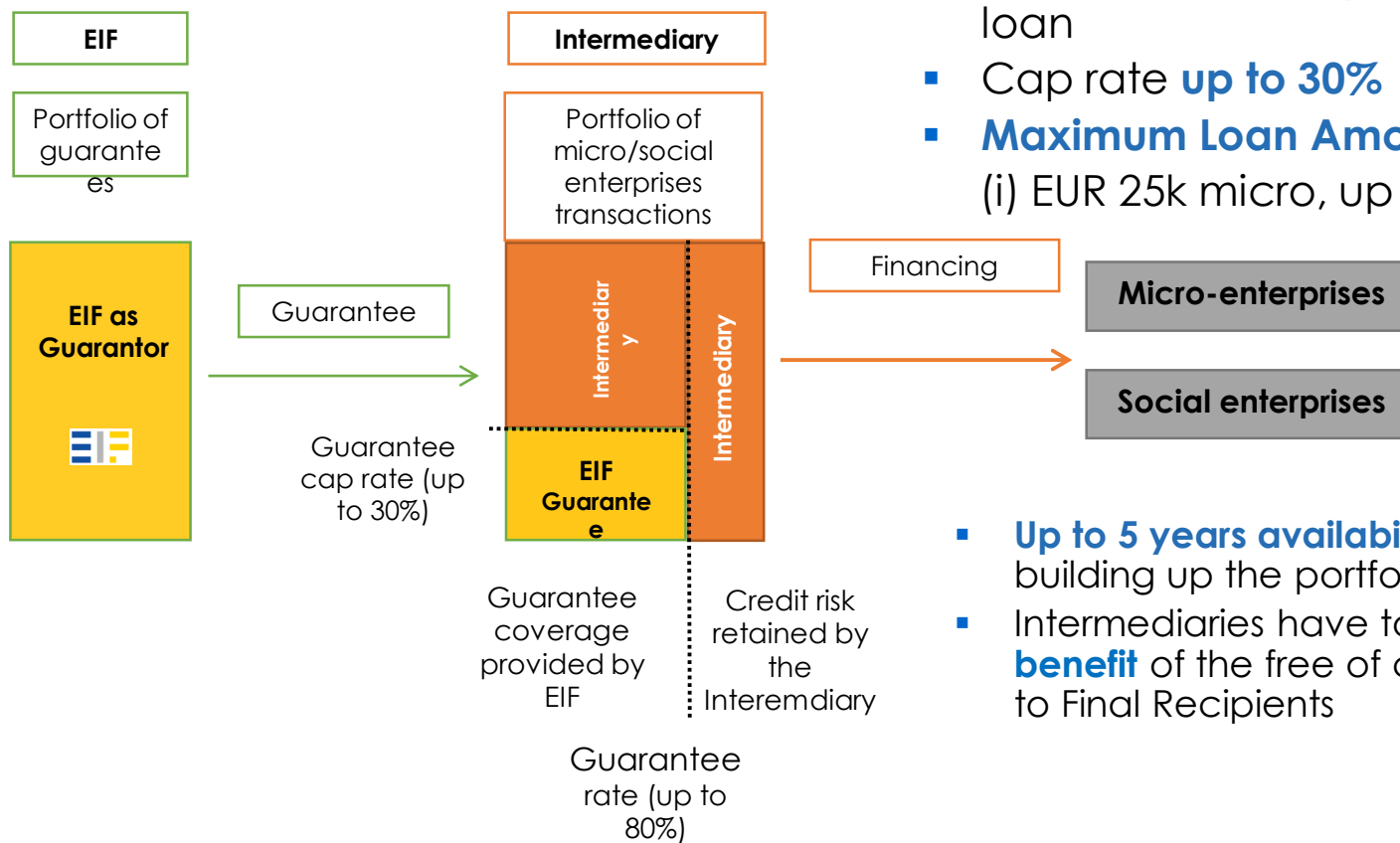
Entities with either an annual turnover not exceeding EUR 30 million, or an annual balance sheet total not exceeding EUR 30 million

EaSI eligibility criteria need to be replicated at EaSI Madrid



3

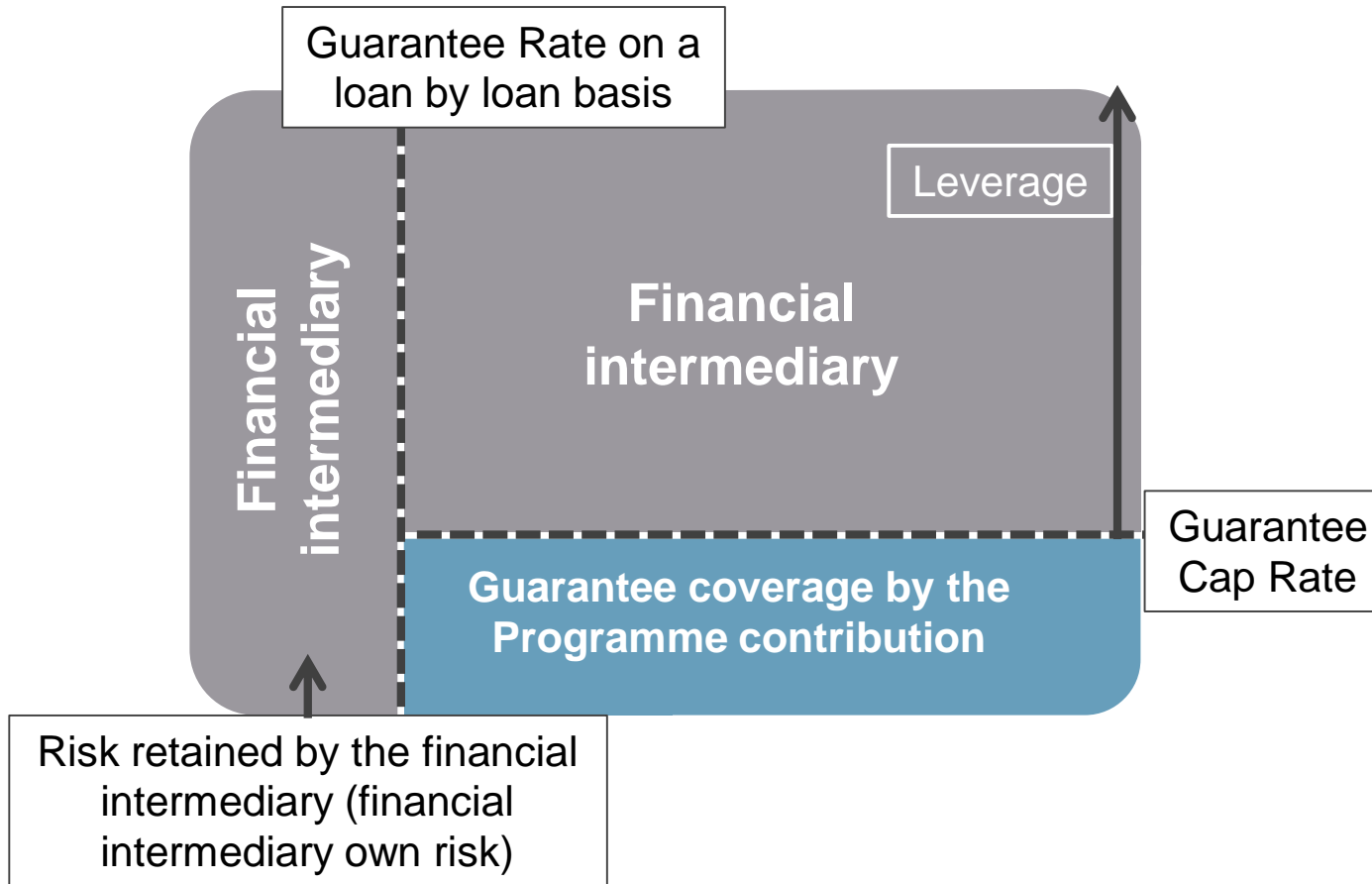
Importance of choosing the right instrument (perfect alignment with EaSI Guarantee instrument)



- 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.



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Main advantages of Guarantee instruments



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

For MA:

- Leverage effect (> than for a loan),
- Alignment of interest (Flnt. “skin in the game”),
- Finance viable investment.

For Banks:

- Flnt. risk coverage means reduce the overall exposure of banks (see e.g. following slide),
- Improves bank reputation (more willing to extend loans to SMEs),
- Sometimes allow banks to get capital relief.

For SMEs:

- Easier access to finance, since Flnt. risk coverage,
- Collateral reduction,
- Interest rate reduction (cost of risk should be reduced) (< than for a loan).



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 and the market test during the design phase



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

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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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

PYMES



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

6

Governance



- Exploring ways to simplify the governance to avoid overlaps and ensure efficiency.
- Through the governance structure the managing authority maintains a certain level of control and is informed of the performance of the financial instrument.
- CPR and ESF regulations in terms of governance are applicable.



7

Coherence and complementarity with other actions



- Avoid competing with other actions (i.e. subsidies and financing options);
- Additionality with EaSI and with other national and regional interventions;
- Analysis to be done:
 - During the ex-ante assessment;
 - The market test;
 - Throughout the life of the financial instrument.



8

Communication and

marketing is essential for the financial instrument's SUCCESS



- **Final recipients** must be informed about **the EC support** through high visibility – specific contractual clauses;
- **Promotion** from the financial intermediary is expected, through website, case studies, press release;
- **Financial intermediary** should provide **case studies / success stories** of supported micro-entrepreneurs / social enterprises.



9

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.

10

Time is important



- Long and complex process, need to plan and work towards efficiency
- Main milestones
 - Ex-ante assessment
 - Managing authority decision
 - Design and structuring of the instrument
 - Funding agreement
 - Call for Expression of Interest
 - Selection of financial intermediaries
 - Signature of guarantee agreements



Process part 1: call for expression of interest

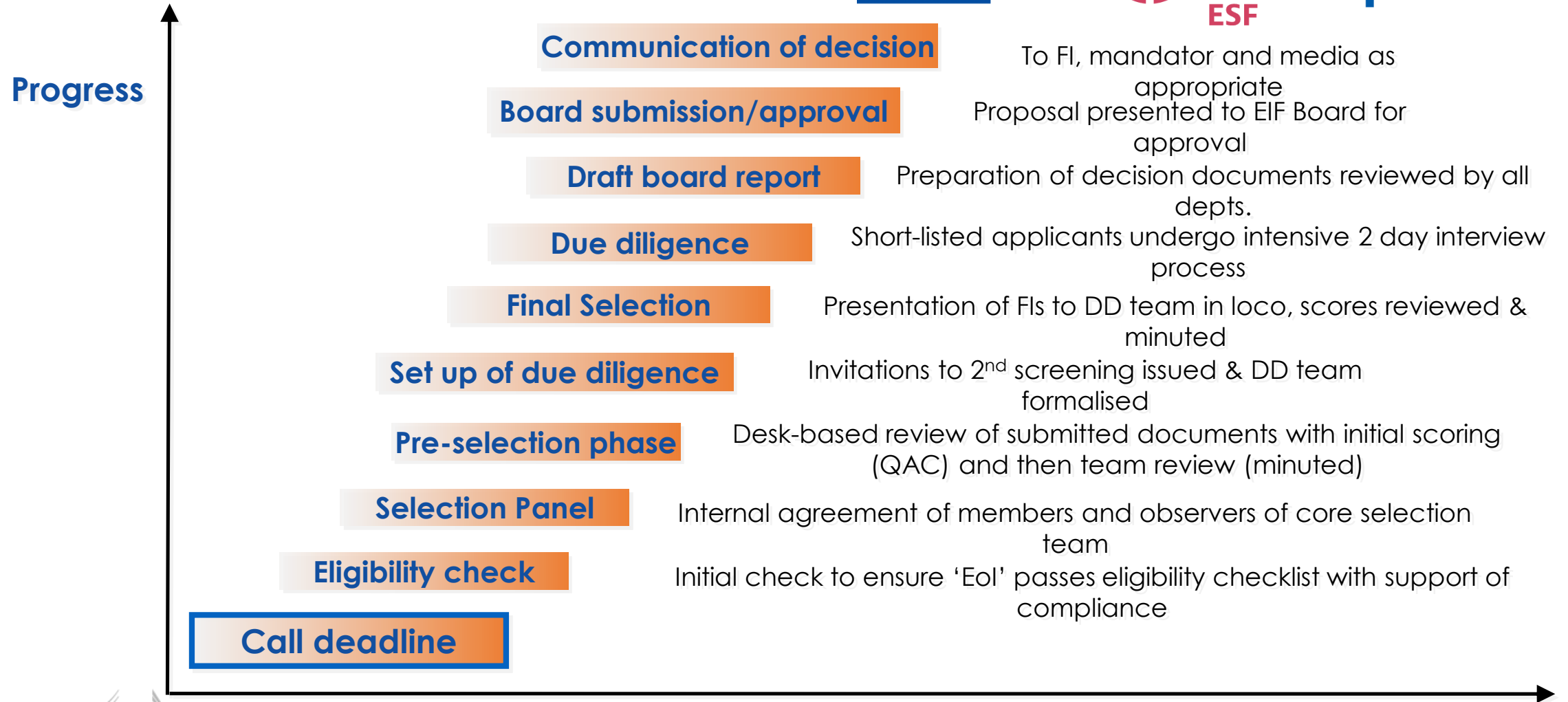


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Process



Process part 2: selection and approval



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Process





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
 investments **fi-compass** case studies 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