



Opportunities offered by the 2014-20 legal and policy framework

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ESIF financial instruments

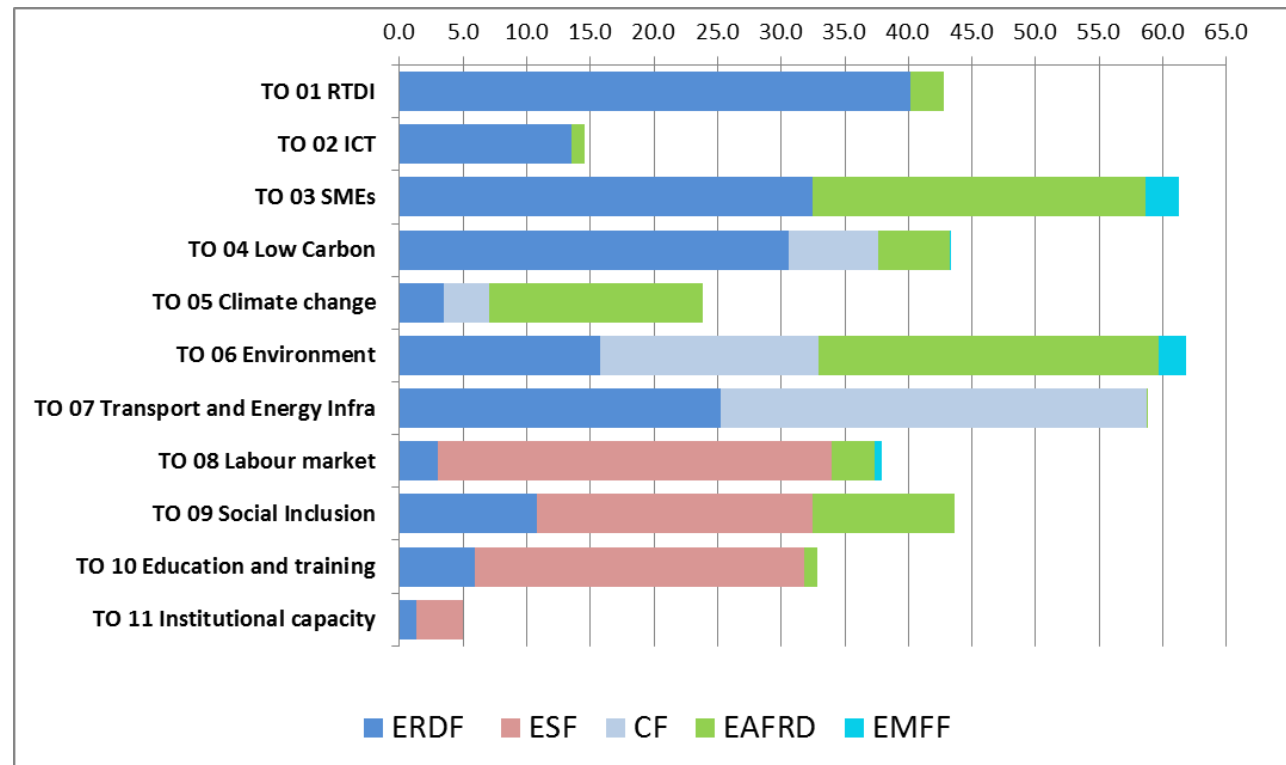
**Opportunities offered
by the 2014-2020 framework**

**Key features and Commission guidance
Kuopio, 12 September 2017**

ESI Funds working together to deliver investment in 14-20

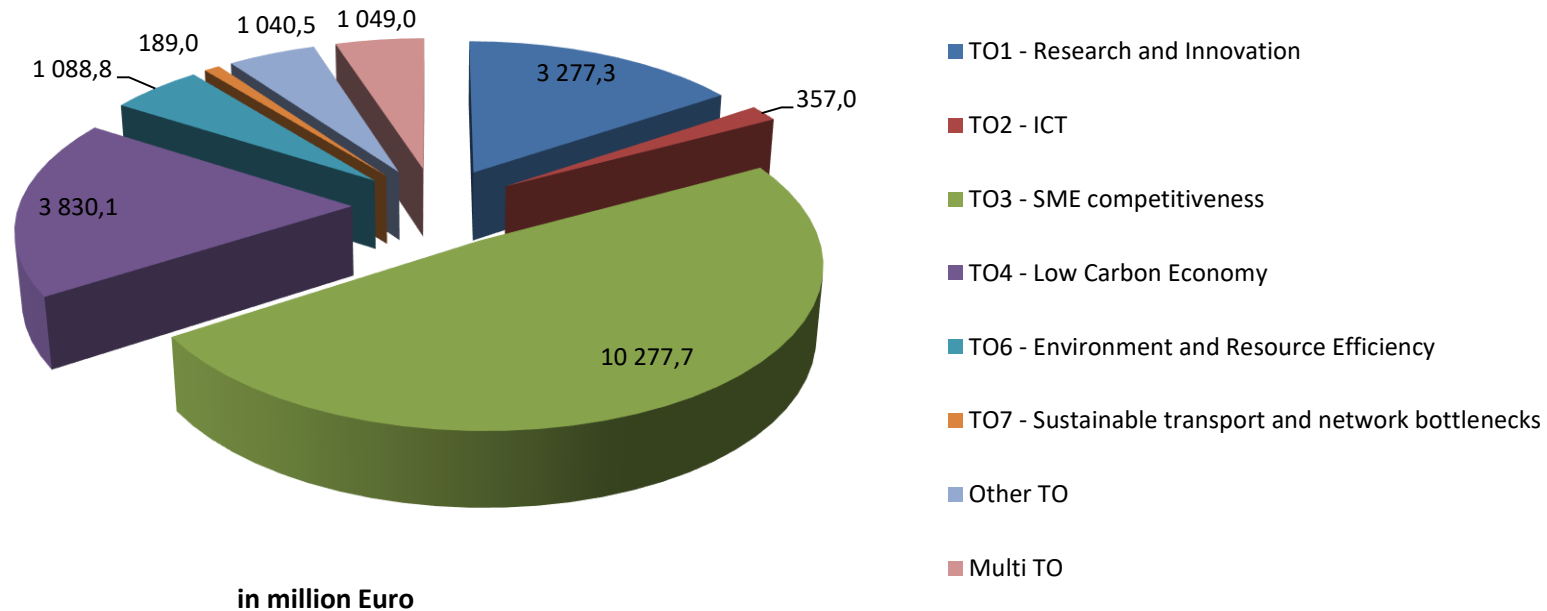


Breakdown of ESI Funds by thematic objective



Financial instruments 2014-20, by TO

€ 20 billion planned allocations to FI for ERDF,
ESF and CF by Thematic Objective





ESI Funds key features

- **Delivery** through multi-annual programmes at national or at regional level
- Obligation of **national co-financing**
- **Form of support:** traditional grants with more and more emphasis on the use of **financial instruments**
- Implemented by Member States (managing authority) and their regions under **shared management** (Commission has no role in selection or implementation of projects)
- ESI Funds have geographical and sectorial **eligibility** criteria as stipulated in the regulations, programmes and national eligibility rules

2014-2020 framework (1)

- Performance oriented legal framework to **promote the use** of financial instruments (FI)
- Main **advantages** of FI:
 - Improve access to private sector resources and expertise to deliver public policy objectives
 - Better quality of projects as the investment must be repaid
 - A move from 'grant dependency' culture
 - Represent efficiency gains due the revolving nature meaning that funds stay in the programme area for future use

2014-2020 framework (2)

- Financial instruments are a **delivery mode – not an objective**
- **Not all projects (investments) can be supported with FI.** The activity must be generating income/revenue/cost savings in order to ensure repayment of investment
- **Decision** to deliver OP/RDP support through FI is with the **managing authority (MA)**

2014-2020 framework

Key features (1)

- **Single comprehensive legal framework** for all ESI Funds (common interpretation/guidance)
 - **CPR title IV on FIs** (9 extensive articles and annexes), **DA/IA**,
 - **FI definitions:** operation, beneficiary, final recipient, financial instrument, escrow account, fund of funds
 - **State aid** (frequent references in title IV, compliance required for MA/FoF/FI and final recipient)
- **Wider scope:** Expansion to **all thematic objectives & priorities** foreseen by ESIF OPs/RDPs (ERDF, ESF, Cohesion Fund, EAFRD, EMFF).

2014-2020 framework

Key features (2)

- **Ex-ante assessment to be carried out** before programme contribution to FI operation under the ESIF
- **Incentives regarding EU co-financing rates**
- **Phased payments to FIs**
- **More detailed rules concerning**
 - eligible expenditure at closure,
 - the (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)

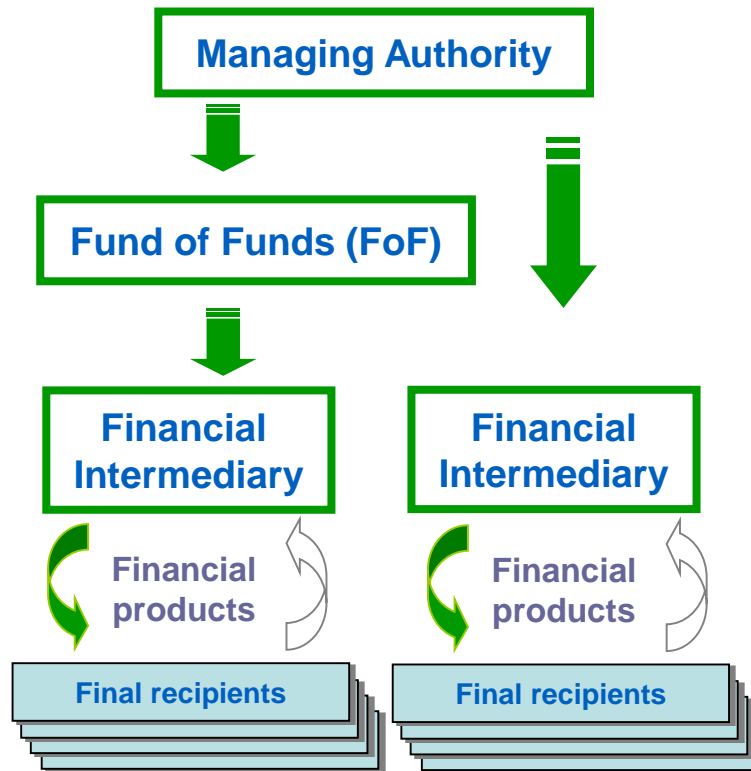
2014-2020 framework

Key features (3)

- **Annual reporting by MAs**
 - MA to report on FI operations annually on a more comprehensive set of data, Commission to publish annual summary report on the basis of data received

- **Implementation options**
 - 1) Traditional implementation possible: MA sets up a FI at national, regional, transnational or cross-border level
 - Tailor-made instruments
 - Standardised “off-the-shelf” instruments
 - 2) MA can contribute OP/RDP allocation to EU level instrument
 - 3) MA can implement loans or guarantees directly (or through intermediate body) without formal set-up of a fund

2014-2020 framework Implementation options



Traditional implementation:

- **MA sets up a FI** at national, regional, transnational or cross-border level
- FI can be implemented with **FoFs and without FoFs**
- MA can: invest in capital of legal entity or entrust implementation

Novelty:

- **Off-the-shelf instruments** with standard conditions to facilitate the set-up phase (State aid compliant from the onset)

"Off-the-shelf" instruments

- Referred to in Article 38(3)(a)
- Contain standard terms and conditions of a particular instrument
- Are optional
- Adopted as Annex to Regulation (No 964/2014)– available in all EU languages
- 3 "off the shelf" instruments adopted in 2014, 2 adopted in 2016

2014-2020 framework "Off-the-shelf"

Three for SMEs

1. Loan for SMEs based on a portfolio risk sharing loan model (Risk Sharing Loan) (Annex II of 2014/964/EU) .
2. Guarantee for SMEs (partial first loss portfolio, capped guarantee) (Annex III of 2014/964/EU).
3. Equity fund for SMEs and start-up companies.

One for energy efficiency/renewable energies and one for urban development

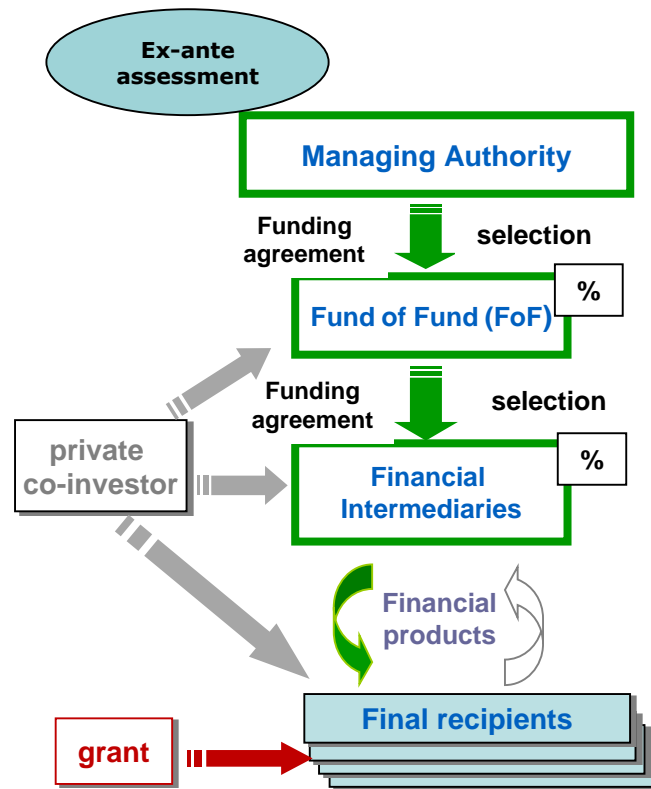
3. Renovation Loan based on a Risk sharing loan model (RS Loan) (Annex IV of 2014/964/EU).
4. Urban Development Fund.

2014-2020 Commission guidance

➤ Guidance notes

- complementary to short guide for MA
- covering all issues relevant to MA/fund managers
- developed systematically
- designed to be "living" documents (section on Q&A)

FIs life cycle - guidance



1. Ex-ante assessment
2. MA decision to set up FI (implementation option)
3. Selection of a body implementing FI
4. Signature of funding agreement
5. ESIF programme contribution (payments)
6. Implementation, e.g.
 - Investments in final recipients (eligibility)
 - Management costs and fees
 - Treasury management
 - Preferential remuneration of private investor
 - Combination grant + FI
 - State aid
 - ...
7. Reporting and monitoring
8. Winding up

Guidance notes: state of play

(notes in today's presentation are marked in bold)

Finalised

- Short guide for MA
- Glossary
- **Ex-ante assessment**
- Working capital
- **Payments**
- Management costs and fees
- Preferential remuneration of private investor
- **Combination of support**
- Selection of bodies implementing FIs
- **ESIF/EFSI complementarities (brochure)**
- Treasury management
- State aid in ESIF FIs

Forthcoming

- Implementation options
- Eligibility in FIs
- Reporting on FIs



2014-2020 Commission guidance Ex-ante assessment

- **Objective:** evidence based decision making
- **Requirement:** legal obligation and tool to support implementation
- **Completion:** before any programme contribution made to FI
- **Next steps:** submission to the programme monitoring committee and publication
- **Process:** raises awareness and ensures stronger ownership

2014-2020 Commission guidance Phased payments (1)

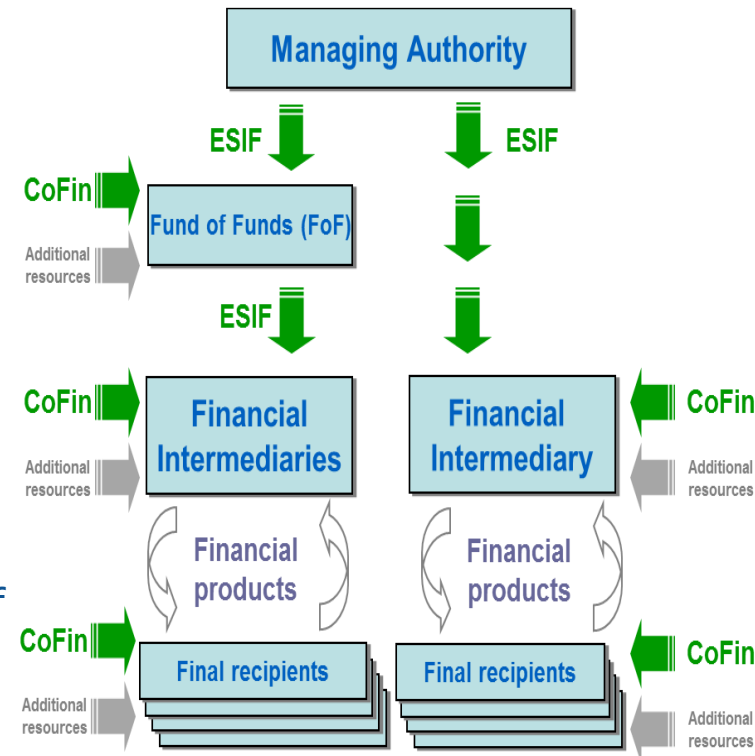
Main concepts:

1. ESIF programme contribution to financial instrument (ESIF contribution and national co-financing)

2. National co-financing at the level of FI operation

- can be different than at PA level,
- can be private/public,
- can come at different levels: MA (e.g. regional budget), FoF (e.g. national resources), financial intermediary (e.g. own resources), or at the level of investment in final recipient (e.g. co-investment by business angel).

!!! Own contribution by final recipient does NOT count as national co-financing



2014-2020 Commission guidance Phased payments (2)

Main changes in relation to 2007-2013 period:

- **phasing of max 25% of committed programme** amount in FA paid,
- **subsequent payments from Commission**
subject to implementation on the ground
(60% second application, 85% subsequent applications)
- **flexibility for national co-financing**

Applicability!

- Formally MS –COM, but ..
- NOT for "SME initiative" and "FI
directly managed by MA"

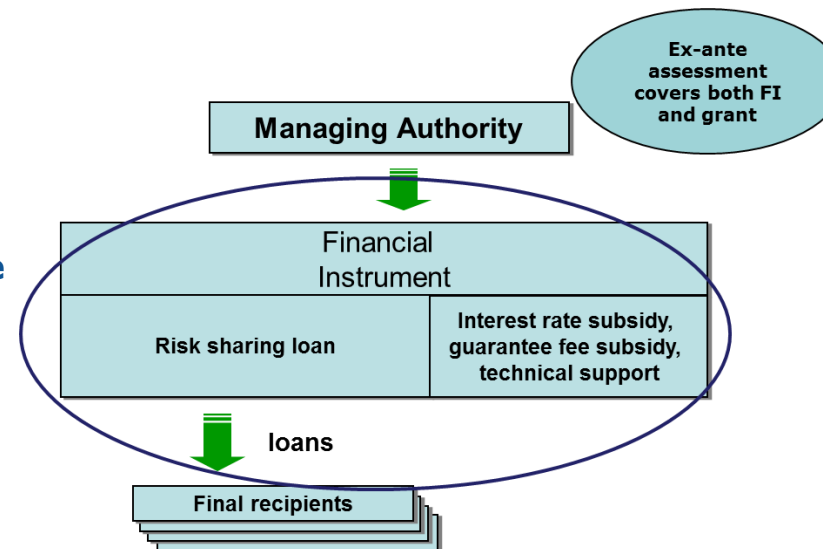
2014-2020 Commission guidance Combination (1)

- **Two types of combination** - the legal framework contains explicit provisions - CPR 37(7)(8)(9)
- The two types of combinations are envisaged also in Financial Regulation:
 - Combination of a grant and a FI within a **financial instrument operation**
 - Combination **at the level of final recipient within two operations**

2014-2020 Commission guidance Combination (2)

Combination of a grant and a FI within a financial instrument operation

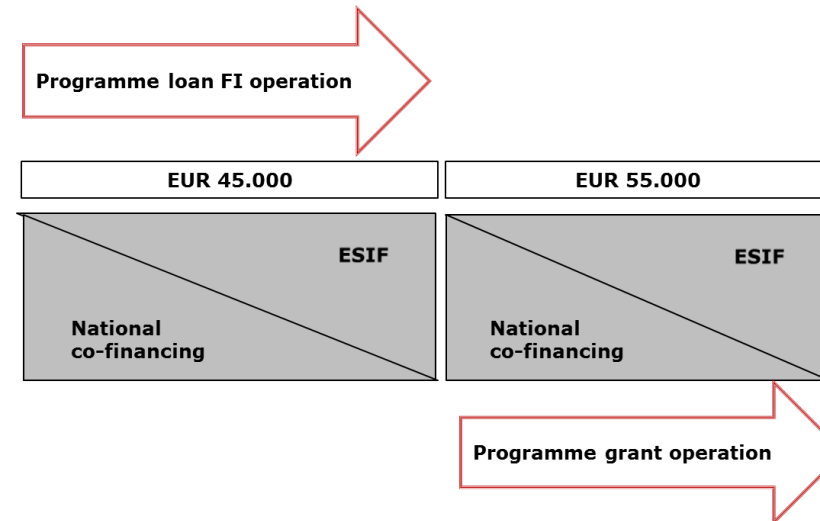
1. Grant is **directly related to financial instrument** targeting the same final recipients (interest rate subsidy, guarantee fee subsidy, technical support). **It is NOT a grant for the investment in final recipient.**
2. Grant and financial instrument constitute a **single FI operation** and is financed from the **same priority axis / measure** (and the same ESI Fund)
3. A contribution from MA to FI operation (covering both a FI and a grant) is justified and estimated in ex-ante assessment.
4. Compliance with State aid rules is needed.
5. For each form of support **separate records** have to be maintained.



2014-2020 Commission guidance Combination (3)

Combination at the level of final recipient within two operations

1. **Combination** of support takes place **at the level of investment**. The same entity receives support from a grant and from a FI. Combination **can cover the same expenditure item**.
2. Combination results in **two separate operations** with distinct eligible expenditure.
3. The **sum of all forms of support \leq total amount of the expenditure** item concerned.
4. State aid rules have to be respected (e.g. on cumulation, on own contribution free from state aid by the beneficiary in regional aid)
5. **Grants cannot be used to reimburse support from FI.**
6. **FI cannot be used to pre-finance the grants.**



ESIF-EFSI complementarity

ESIF FIs are part of the Investment Plan for Europe

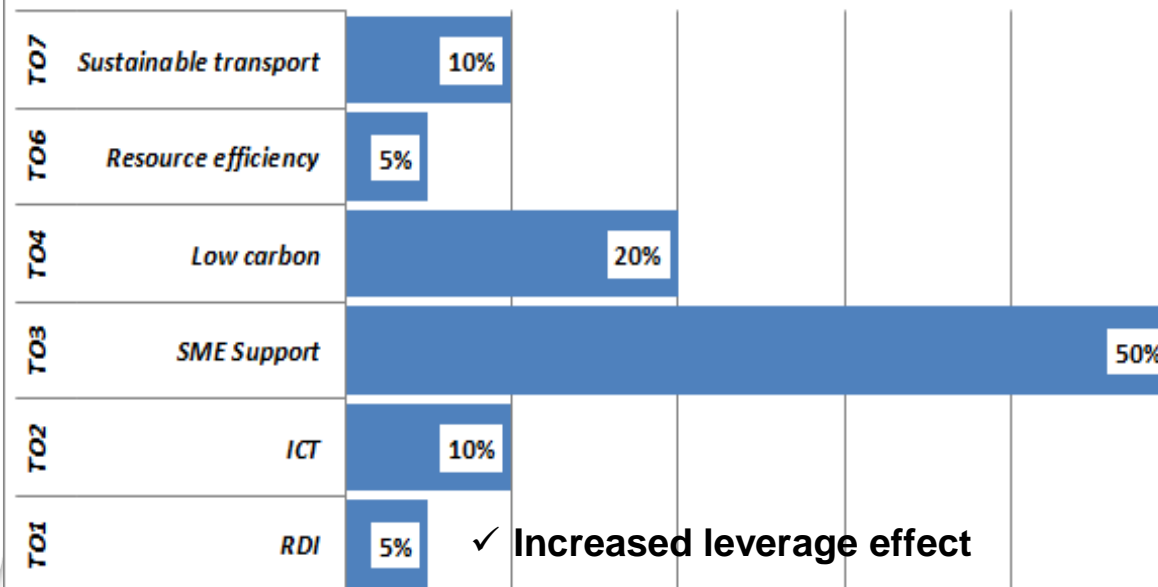
Through loans, guarantees, equity, venture capital, etc.

2014-2020 What's New?

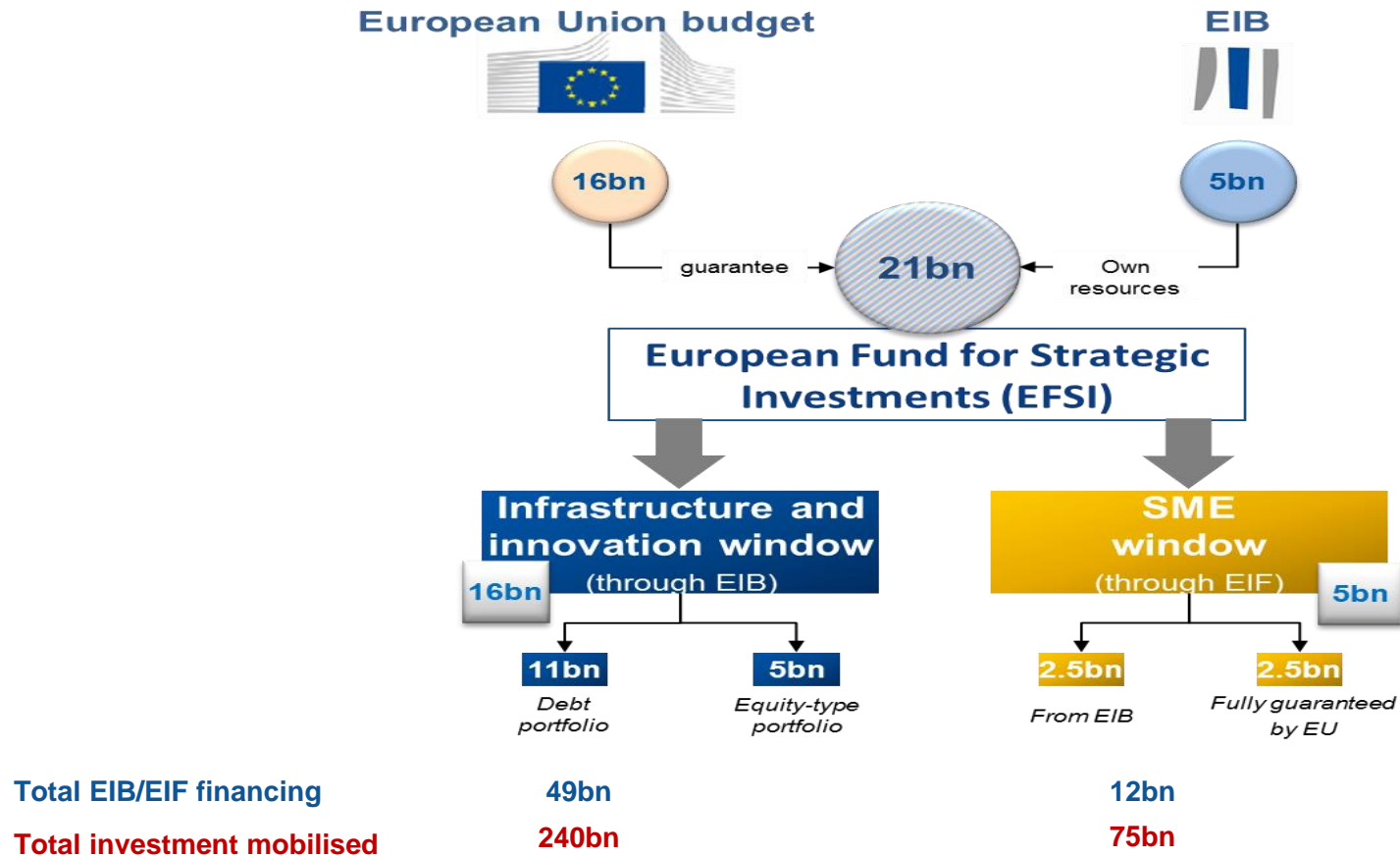
- ✓ Regulation: FI extended to **ALL** thematic objectives and all ESIF funds
- ✓ Additional support: FI Compass - advisory service "Off-the Shelf" Instruments

INDICATIVE TARGETS

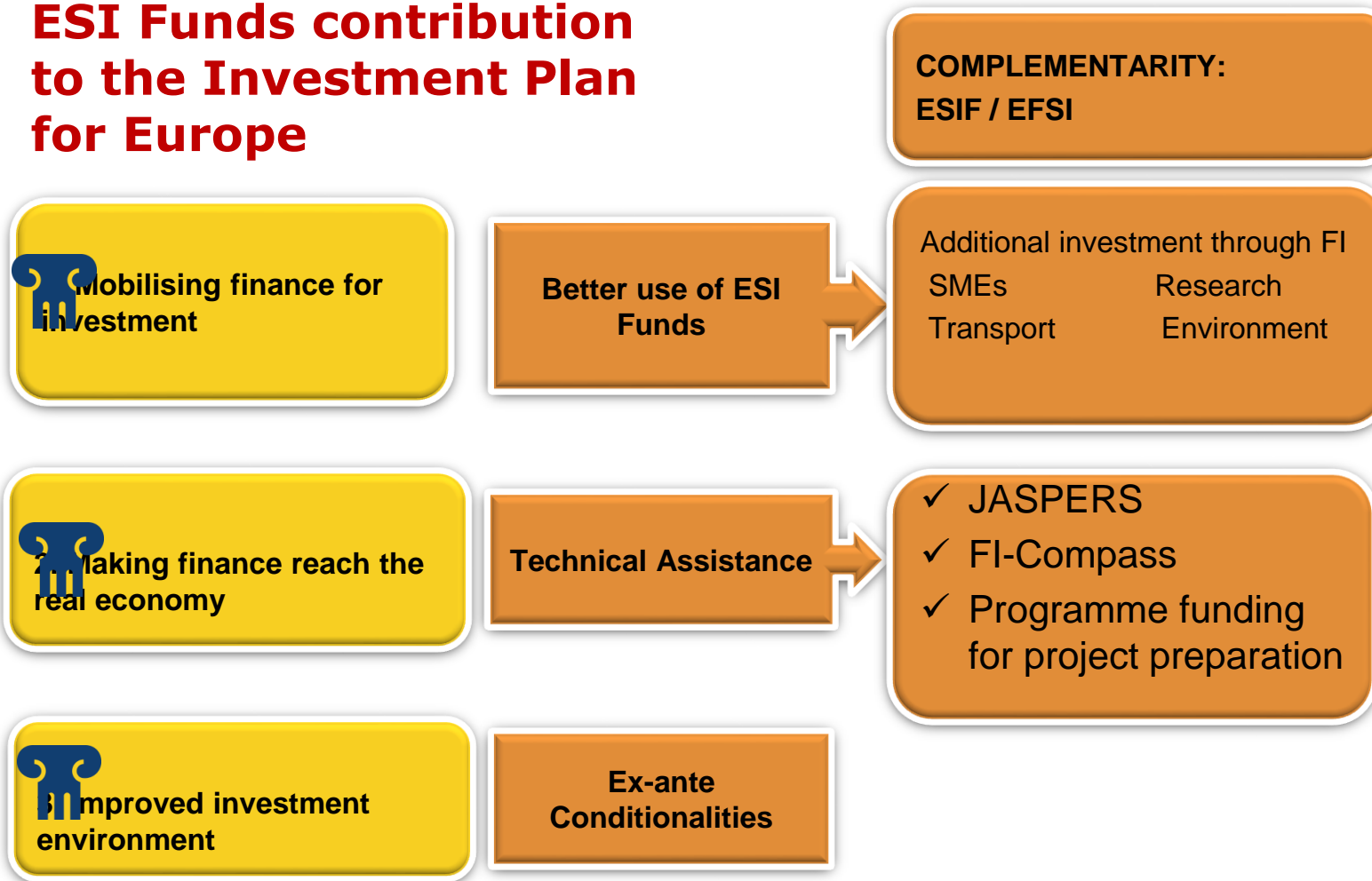
At least an overall doubling of the use of FI



EFSI - structure and investment target



ESI Funds contribution to the Investment Plan for Europe





ESI Funds and EFSI

- Both ESI Funds and EFSI bring significant investment volume into Europe (together around EUR 800 billion)
- ESI Funds and EFSI pursue globally similar objectives in the same sectors (e.g. energy, environment, transport, R&D, innovation, SMEs, human capital)
- They form part of distinct frameworks but can be used in a complementary manner and can be combined



ESI Funds - EFSI complementarities and combination

- ESI Funds and EFSI, when used in a **complementary manner**, provide support to distinct projects which together constitute integrated investment in a specific sector (e.g. energy efficiency investments in insulation of buildings are complementary to investments in boilers).
- Direct **combination** of both funds can take place at project level. In this case both ESI Funds (through grants or through FI) and EFSI will collectively provide part of investment volume to a single project. Another possibility is to combine funds in an investment platform which will then provide financing in the form of financial products (FI) to a number of projects.



Let's recall some **ESI Funds key features...** (see slide 5)

- **Delivery** through multi-annual programmes at national or at regional level
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- **Form of support:** traditional grants with more and more emphasis on the use of **financial instruments**
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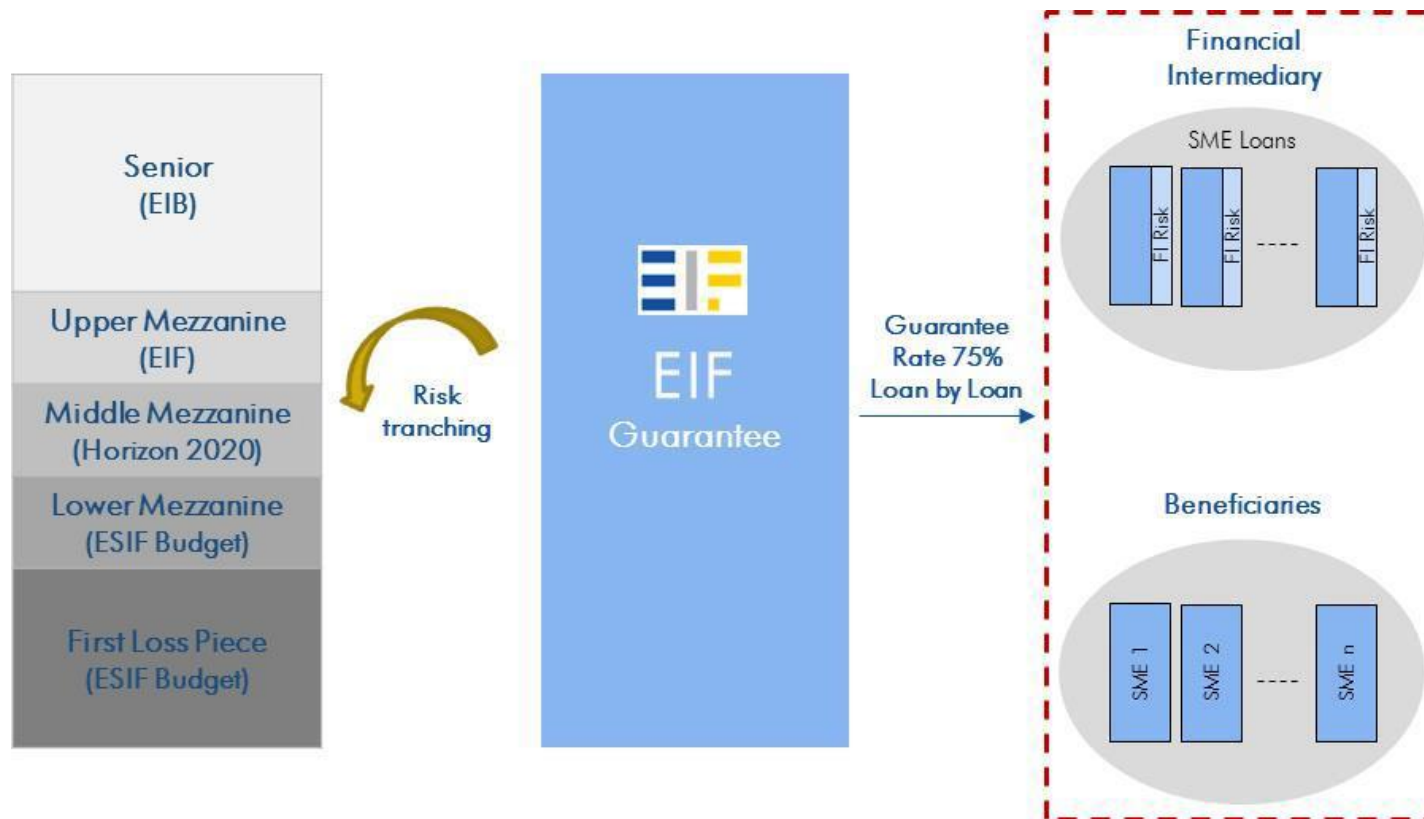


EFSI key features

- EFSI is an important pillar of **Investment plan for Europe**
- EFSI support takes the form of FI products (no grant support)
- EFSI has its own **governance**: Managing Director, Deputy Managing Director, Steering Board (3 EC + 1 EIB) and Investment Committee (independent entity approving the EU guarantee)
- EFSI support is implemented by EIB (projects go through the standard **EIB** due diligence)
- EFSI has **no geographical or sectoral** allocations
- EFSI will support **high risk** profile projects or projects bringing **additionality**

Financial instruments in Finland

Structure of the SME Initiative



SME Initiative: six Member States

<u>MS/SMEI option (1 or 2)</u>	<u>Mandate size</u>
Spain (1)	EUR 800m (ERDF)
Malta (1)	EUR 15m (ERDF)
Bulgaria (1)	EUR 102m (ERDF)
Finland (1)	EUR 40m (ERDF: 20m; national: 20m)
Italy (2)	EUR 202.5m (ERDF: 100m; national: 102.5m)
Romania (1)	EUR 100m (ERDF)



SME Initiative OP

The SME Initiative guarantee instrument for SMEs diversifies financing from the Finnish Structural Funds Programme. Using instruments with high leverage effect compared with traditional direct grants increases the overall impact of EU regional policy.

SME Initiative OP Finland

Finland is contributing EUR 40 million from its European Structural and Investment Funds (ESI Funds) and national budget to this EU initiative

The main objective is to improve availability of funding to SMEs

With the help of the instrument banks committed to the SME Initiative offer financing at improved conditions, for example lower interest rates, longer maturities or lower collateral requirements



SME Initiative OP Finland

These agreements will improve access to finance for around 800 Finnish SMEs, including micro companies and start-ups

Through a risk-sharing mechanism, the EUR 40 million of ESIF and national resources, leveraged with commercial lending, are expected to generate about EUR 400 million of new SME loans at favourable terms

SME Initiative OP Finland

Three banks have already signed guarantee transactions with the EIF

At the end of May (not verified yet): more than EUR 80 million loans committed