



# Final remarks and conclusions

**Bruno Robino**, Head of *fi-compass*, European Investment Bank



 #ficompass



# Success factors and hurdles in implementation of ESIF FIs



## Success factors:

- Ex-ante assessment and market testing,
- Dimension,
- Eligibility criteria,
- Financial intermediary selection,
- Leadership and governance,
- Complementarity,
- Communication and middle office,
- Timing.



# Ex-ante assessment and market testing



- The ex-ante assessment provides **preliminary / framework information**.
- A thorough **market test is key** for a successful implementation of an FI:
  - a) does a market gap actually exist? i.e. demand for credit not matched by the offer due to low liquidity/risk appetite of FInt.
  - b) are the FInt. actually operating on the reference market ready to increase the offer once supported by the envisioned financial instruments?
  - c) are FInt. and beneficiaries ready to the cultural shift implied by an FI?
  - d) how critical is the “blending” of grants and FIs?
- Methodology:
  - direct contact with FInt.,
  - presentation of the instrument; analysis of existing portfolios,
  - benchmarking with different instruments/sectors with similar beneficiaries.



# Dimension



- Two key aspects for the implementation of a financial instrument:
  - **enough resources** for the financial intermediaries **to have incentives in deploying** the instrument and for the process to be efficient given the “costs” implied,
  - linked to the first, but often calling for gradual/limited resources, the **market absorption capacity** of the instrument.
- Often the **geographical scope** of an instrument is also a key feature, with financial intermediaries less interested in instruments with limited scope and different conditions/rules in different regions of the same country.



# Eligibility criteria



- A financial instrument requires the full engagement and understanding of its features by one or more financial intermediaries.
- In particular, eligibility criteria and admissible costs are to be verified by the financial intermediary.
- Therefore it is important that **eligibility criteria** and **eligible costs** are defined in a **clear** and easy way (possibly simpler than for grants).
- Financial instruments are not suitable to support all the measures of an OP.



# Financial intermediary selection



- An FI is successful if and only if FInt. fully deploy it and increase the credit offer to the beneficiaries.
  - The **FInt.** is technically the beneficiary of the OP and needs to be **selected in accordance to the Guidance** on the selection of bodies implementing financial instruments.
  - The **FInt.** is **responsible** for the **selection** of the final beneficiaries (**SMEs**), based on banking practices AND is responsible for the eligibility of the operation (beneficiary, costs). If the operation is not eligible according to the OP, the FInt. cannot benefit of the public support (guarantee or funding).
  - The **FInt.** is **responsible** for the **reporting** of the instruments and is **subject to controls and auditing** by the managing authority.
- The **benefit** of the public support to the financial instrument **must be transferred** to the final beneficiary.

SMEs have to pay lower interests on the loans and/or have to provide less collateral/own guarantees.



# Leadership / governance



- Full **involvement** of the **MA** in the definition and implementation of the instrument is very important.
- **Quick and effective decisions** often need to be taken in order to **adapt the investment strategy** to the market condition.
- Strategic decisions to be taken by the MA on:
  - The manager of the financial instrument,
  - The investment strategy,
  - The financial intermediaries that will deploy the instrument.



# Complementarity



- FIs have to be implemented in a market where many different public and private opportunities are offered to the same beneficiaries.
- Different dimension of consistency/complementarity:
  - Between FIs and grants,
  - Among different FIs at local/regional/national level,
  - Other sources of financing.
- **Complementarity** needs to be **addressed** in the **ex-ante assessment** and to be monitored throughout the implementation period.





# Communication and middle office



- **Involvement** of the different **stakeholders** is key. Starting with the ex-ante assessment and during the implementation, an **open dialogue** with the **potential final recipients** through their associations and with the banking/financial actors is important to take the right decisions on the financial instruments.
- Communication to final recipients is important for the uptake.
- Deploying a FI requires **specific knowledge** of ESIF rules (both for the MAs and the FIInt.):
  - Treasury / Cash-flow,
  - Monitoring / Reporting / Audit.



# Timing



- **Implementing an FI** – from the ex-ante assessment to the selection of the financial intermediary – **requires time.**
- Market **conditions** can **change fast.**
- Different stages during a programming period can provide for different incentives/opportunities (e.g. in 2007-2013 many financial instruments have been seen as a mean to accelerate expenditure).
- Milestones:
  - 1) Inclusion in the OP of the relevant provisions for FIs / ex-ante assessment;
  - 2) Decision on how to manage the FI (art. 38.4 CPR);
  - 3) Selection of the manager;
  - 4) Definition of the investment strategy / funding agreement;
  - 5) Selection of the financial intermediaries.



# Key success factors



- Should be **market driven**: Importance of ex-ante assessment and of market tests.
- Keep It Simple and Smart (**KISS**):  
right balance between policy objectives and real market absorption capacity.
- **Alignment of interests**:  
Managing authority, (FoF), financial intermediary, final recipient.
- Constructive **collaboration** vs “not my problem” attitude,
- Appropriate **governance** structure,
- Get a “good” **fund manager**,
- Flexible **investment strategy**,
- Financial intermediaries **as the champions** of the instrument,
- **Technical assistance** to prepare projects.



