fi compass CF

advancing with ESIF financial instruments

The Cohesion Fund

Financial instruments

European Commission

European Investment Bank
The EU bank

Financial instruments co-funded by the Cohesion Fund are a sustainable and efficient way to invest in strengthening the economic, social and territorial cohesion of the European Union. They can support a broad range of trans-European transport networks and projects related to energy or transport that benefit the environment, with the potential for funds to be reused for further investments

The Cohesion Fund (CF), one of the European Structural and Investment Funds, encourages investments in priority trans-European transport networks and investments related to energy or transport that benefit the environment in terms of energy efficiency, use of renewable energy, developing transport and supporting intermodal transport.

The CF has an overall budget of €63 billion for 2014-2020. This support is provided to Member States whose Gross National Income per inhabitant is less than 90 % of the EU average. For the 2014-2020 period, the Cohesion Fund is available in Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.

In 2007-13, financial instruments were not used under the Cohesion Fund. However, recognising the advantages of support through financial instruments, this way of providing support is now possible under the CF.

Financial instruments

- are expected to be repaid;
- are revolving, i.e. with funds repaid being used again in the same area;
- are suitable for financially viable projects, i.e. those which are expected to generate enough income or savings to pay back the support received;
- are designed to attract co-investment from other sources, including private investment, to increase the amount of funds available, especially in sectors/areas where there are problems with access to finance;
- can take the form of loans, guarantees or equity;
- can also support supply-side development, by contributing to development of the market;
- may be used in a complementary way with grants; and
- may be managed by national or regional banks, international organisations such as the European Investment Bank or the European Investment Fund, by financial intermediaries, and (for loans and guarantees only) by managing authorities.

Financial instruments can be co-funded by the Cohesion Fund to **support the investment priorities outlined in the CF operational programmes** of EU Member States. Financial instruments can be used in most areas covered, provided that they address **an identified market gap**, i.e. areas where banks are unwilling to lend and/or where the private sector is unwilling to invest.

Financial instruments can thus contribute to the achievement of the following objectives of the CF:

- promoting the production, distribution and use of energy derived from renewable sources;
- supporting energy efficiency and smart energy management;
- investing in the waste sector and water sector;
- improving the urban environment, including decontamination of brownfield sites;
- supporting a multimodal Single European Transport Area;
- developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems in order to promote sustainable regional and local mobility;
- developing and upgrading comprehensive, high quality rail, river and sea transport, intermodal transport systems and their interoperability.

A **broad range of CF-supported financial instruments** can be implemented.

- **Loans**, which may be available where none are offered commercially (e.g. from banks), or may be on better terms (e.g. with lower interest rates, longer repayment periods, or fewer collateral requirements). For instance, long-term loans could fund investment to improve railway infrastructure and reduce journey times or to upgrade inland waterways and increase the capacity of river transportation.

- **Guarantees**, where assurance is given to a lender that their capital will be repaid if a borrower defaults on a loan. This can unlock access to commercial loans for investments which lenders might otherwise consider too risky. For example, an energy service company (ESCO - an organisation specialised in energy solutions and innovative financing methods) could be used to replace street lighting to lower electricity consumption, phase out environmentally harmful technologies and reduce maintenance costs.

- **Equity**, where capital is invested in return for total or partial ownership of a firm or investment vehicle; the equity investor may assume some management control and may share the profits. The return depends on the growth and profitability of the business and is earned when the investor sells its share of the business ("exits") to another investor or through an initial public offering (IPO). Equity is most likely to be relevant for higher risk activities, such as construction projects or operations (like tunnels or bridges) where costs are partly covered by tolls.

Financial instruments may also be offered in combination with grants. It is often necessary to improve the investment readiness of projects as a pre-requisite for attracting investment funds. Advisory and other support can be grant-aided through the CF.

Financial instruments co-funded by the CF can contribute to the long-term development of Member States covered by the Cohesion Fund by supporting projects in areas where levels of investment have often been suboptimal and stimulating the development of commercially-viable projects thus opening up new market opportunities. They can also create opportunities for investors and financial intermediaries. Access to finance has typically been more costly and difficult in less developed Member States. However, some projects can become more attractive investments due to public sector backed financial instruments and related risk-sharing.

For more information

For more information on financial instruments and regional policy:
http://ec.europa.eu/regional_policy/en/funding/financial-instruments/

http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/financial_instruments_en.pdf

For a reference guide for managing authorities on financial instruments in ESIF programmes:
ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

For information on the ex-ante assessment methodology for financial instruments:
http://ec.europa.eu/regional_policy/en/funding/financial-instruments/

For the 'fi-compass' website, the platform for advisory services on financial instruments under the ESIF:
http://www.fi-compass.eu/

For the European Structural and Investment Funds legislation:
http://ec.europa.eu/regional_policy/index.cfm/en/information/legislation/regulations/

For more information on the Cohesion Fund Regulation:
http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1300

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