



EC guidance Combination of support (including ESIF/EFSI)

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ESI Funds Guidance Presentation 3

Combination of support (including ESIF/EFSI)

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DISCLAIMER

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WHY?

Why is combination needed?

- Combination of different sources of funding - bringing more resources and ensuring bigger impact
- Combination of different forms of support (mainly grant and FI) - addressing correctly the needs of the final recipient (projects with elements not generating revenues may require partial grant support)

WHAT?

Projects supported by ESIF normally contain a national co-financing part: either as part of programme (within same operation) or outside programme (not captured by CPR rules)

It is possible to use ESIF FIs together with ESIF grants

It is also possible to use ESIF FIs together with other EU funds.

Three terms are currently used:

- Combination [CPR 37]
- Blending [does not exist in CPR terminology!]
- Contribution to EU level instrument [CPR 38, 39]

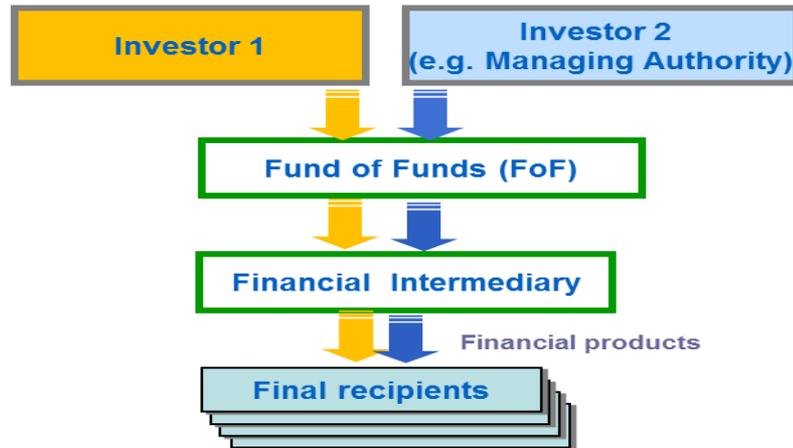
Combination

- used in CPR but not defined
- covers a broad concept
- may imply bringing together different sources of funding supported by the budget of the Union
- may involve using different forms of support
- may take place at different levels: fund of funds, financial intermediary or even final recipients
- distinct rules apply*
- originating funding is distinct (we may have the same rules but still distinct flow and reporting needed)

Relevant Articles: 65(11), 37(7)(8)(9)

- If ESIF support comes via FI - 37(8)(9)
- If ESIF support via grant - 65(11)

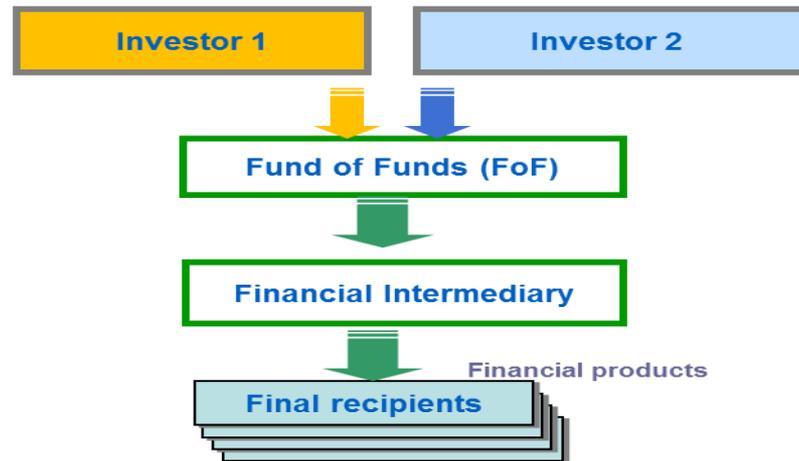
Combination of resources



Blending

- not defined and not used in CPR context
- **"blending"** is frequently used within financial sector to describe the process where different resources are mixed (blended) within a single mechanism or scheme and then subsequently used in financial products.
- single set of rules applies
- distinction and traceability not possible -two sources of funding become a single homogenous funding stream

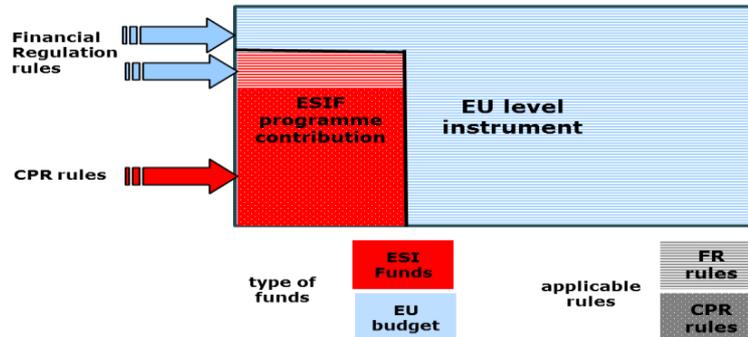
Blending of resources



Contribution to EU level instruments

- used in CPR context (implementation under Article 38(1)(a))
- only used in relation to financial instruments
- not possible without an instrument set up at Union level and governed by Financial Regulation
- separate set of rules, BUT for certain elements single set of rules applies,
- separate compartments of funds
- SME Initiative under Article 39 is an example

Legal construction of instruments under Article 38(1)(a)



WHAT ABOUT EFSI?

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. in energy efficiency investments in insulation of buildings can be 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.

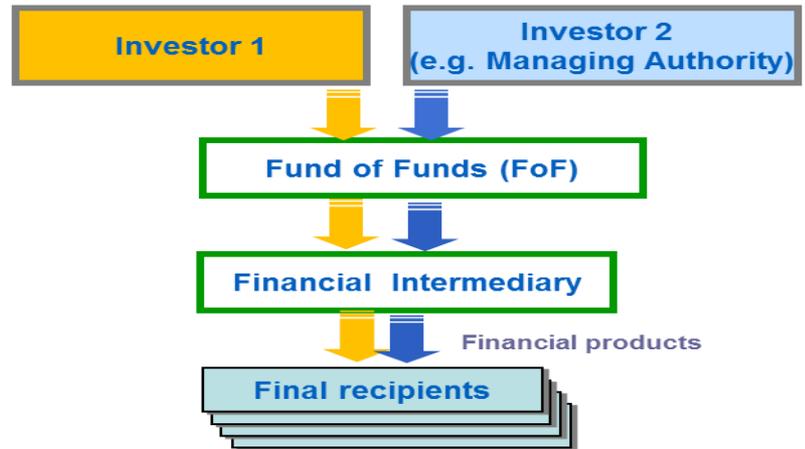
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Combination of resources

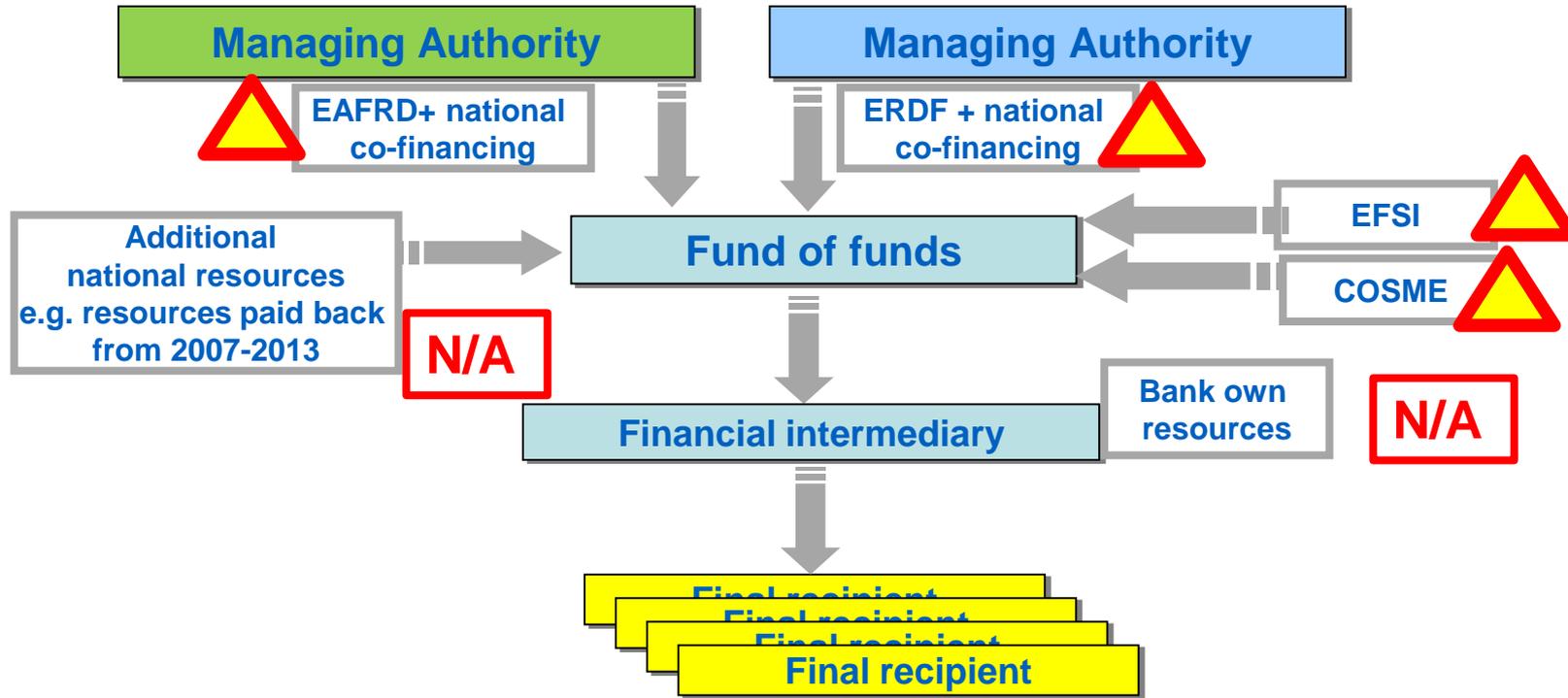


COMBINATION: HOW?

2014-2020 Legal framework – Combination of different forms of EU support

- **Two types of "combination"**, as provided for in 2007-2013, continue. However, the legal framework in 2014-2020 contains explicit provisions - CPR 37(7)(8)(9)
- The two types of combination are foreseen also in Financial Regulation:
 - Combination of a grant and a FI within the **financial instrument operation**
 - Combination **at the level of final recipient within two operations**

Applicability of rules



NB: Resources paid back and bank own resources are not covered to the extent that they are not used to provide national co-financing for 14-20.

Basic principles – ESIF programme

- ESIF programme contains both ESIF and national co-financing
- Eligible expenditure for ESIF is defined in article 65(2) CPR:
It's the expenditure declared to the EC and which allows the reimbursement of ESI Funds to the Member States depending on the co-financing rate established at the level of each axis of an ESIF programme
 - **Eligible expenditure * co-financing rate = ESIF support**
 - **ESIF + national co-financing = Eligible expenditure of ESIF programme**
- National co-financing cannot come from EU budget (see also CPR Article 65(11))
- EIB financing under EFSI is treated as EU budget support (*the fact that it is EIB financing does not matter as long as EU guarantee covers this financing*)

Combination within one operation (1)

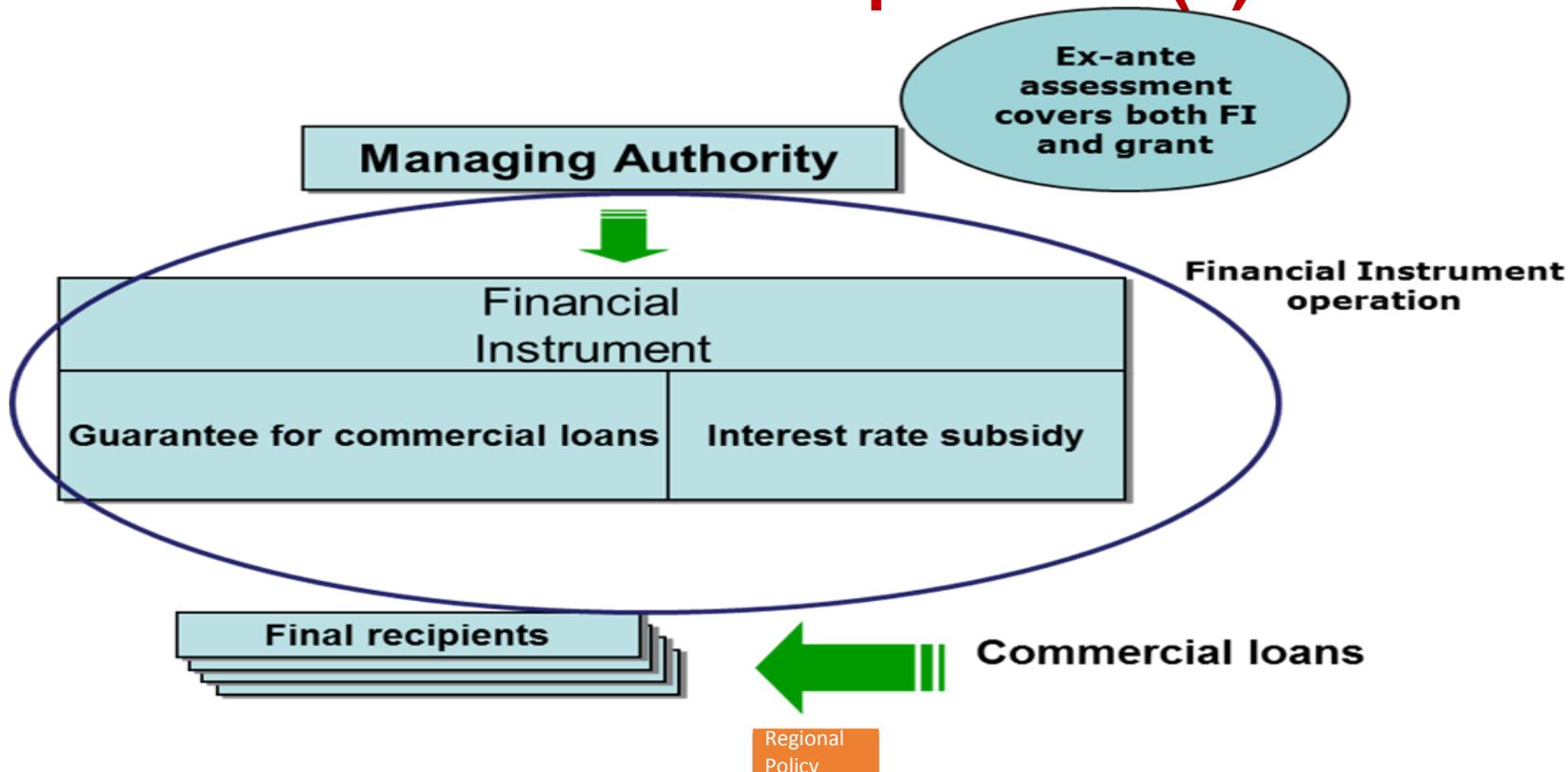
Combination of a grant and a FI within **one operation** (financial instrument operation)

1. Grant is 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 by the final recipient.
2. Grant and FI constitute a single operation, which:
 - falls under the provisions of title IV (financial instruments rules, but exception for VAT!)
 - Is financed from the same priority axis (and the same ESI Fund)

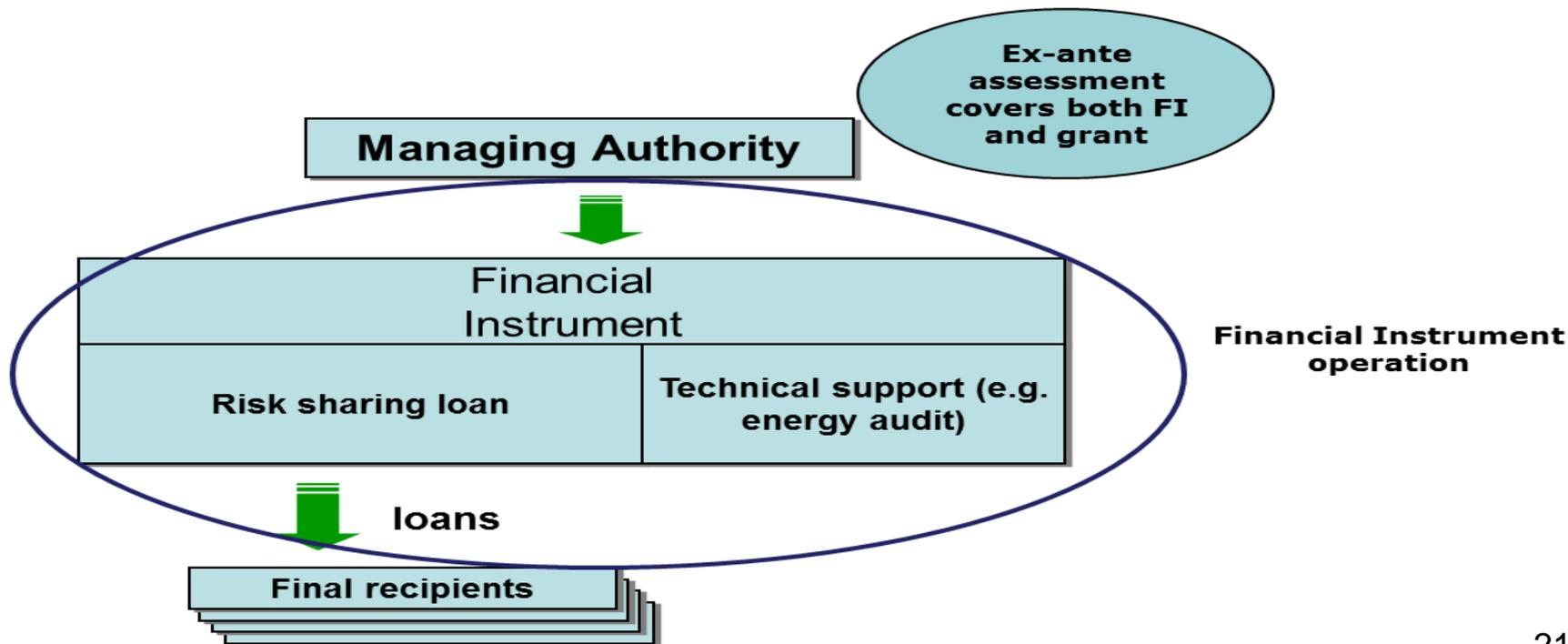
Combination within one operation (2)

3. A contribution from MA to FI operation (covering both a FI and a grant) is justified and estimated in the ex-ante assessment.
4. Compliance with State aid rules is needed.
5. For each form of support separate records have to be maintained.

Combination within one operation (3)



Combination within one operation (4)



Combination within two operations (1)

The objective is to provide a possibility to finance projects partially viable (requiring grant component):

➤ **It can take place with different sources of funding**

e.g. a loan under EFSI and a grant from ESIF programme are given to the same project »» bringing more resources and ensuring bigger impact

➤ **It can take place within the same source of funding**

e.g. a grant and a loan from the same ESIF programme given to the same enterprise

Combination within two operations (2)

Combination of a grant (or other type of support) with a FI within **two operations**

1. Combination of support takes place at the level of final recipients ("beneficiary" in case of grants). The same body (enterprise) receives support from a grant and from an FI. Combination can cover the same investment or even the same expenditure item.
2. Combination results in **two separate operations with distinct eligible expenditure (the same expenditure cannot be declared twice to the Commission!)**.
3. The sum of all forms of support \leq total amount of the expenditure item concerned.

Combination within two operations (3)

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 grant operations.

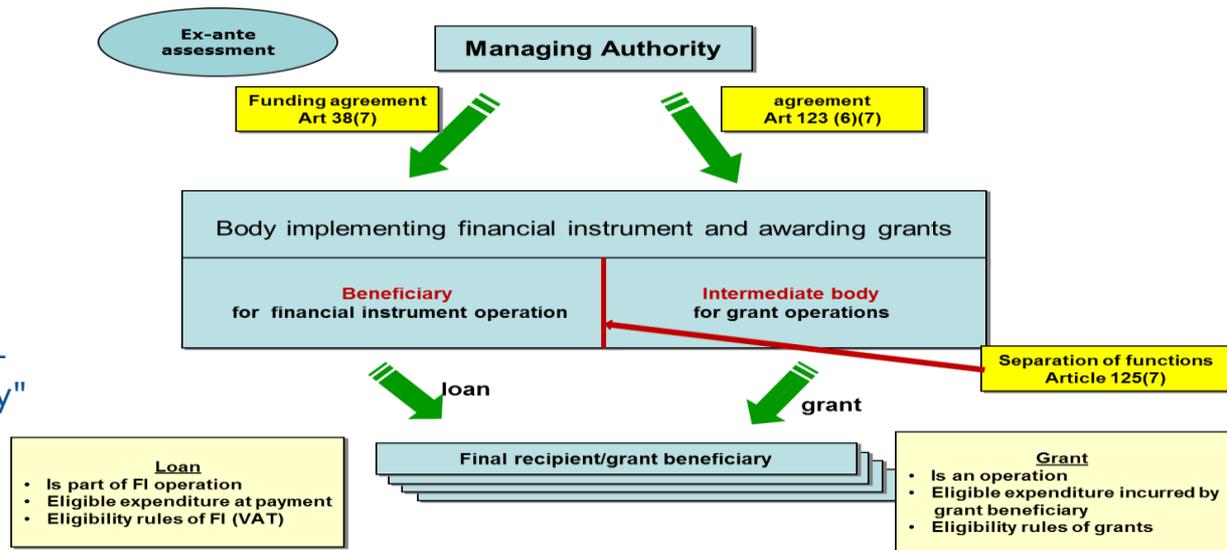
Combination within two operations (4)

Combination at the level of final recipient within two operations by the same body

In **combination within two operations** loan and grant can be given:

- **by the same body** (it will be "beneficiary" for FI and "intermediate body" in case of grant)
- **to the same body** (e.g. enterprise)- ("final recipient" for FI and "beneficiary" for grant)
- **for the same project** or even expenditure item (e.g. machinery)

!!! **NOT for the same eligible expenditure** (the same expenditure cannot be declared twice to COM) !!!



Combination within two operations (5)

Combination at the level of final recipient within two operations



Eligible expenditure declared to EC:

- Grant operation: 100
- Loan : 100

Total = 200



Eligible expenditure declared to EC:

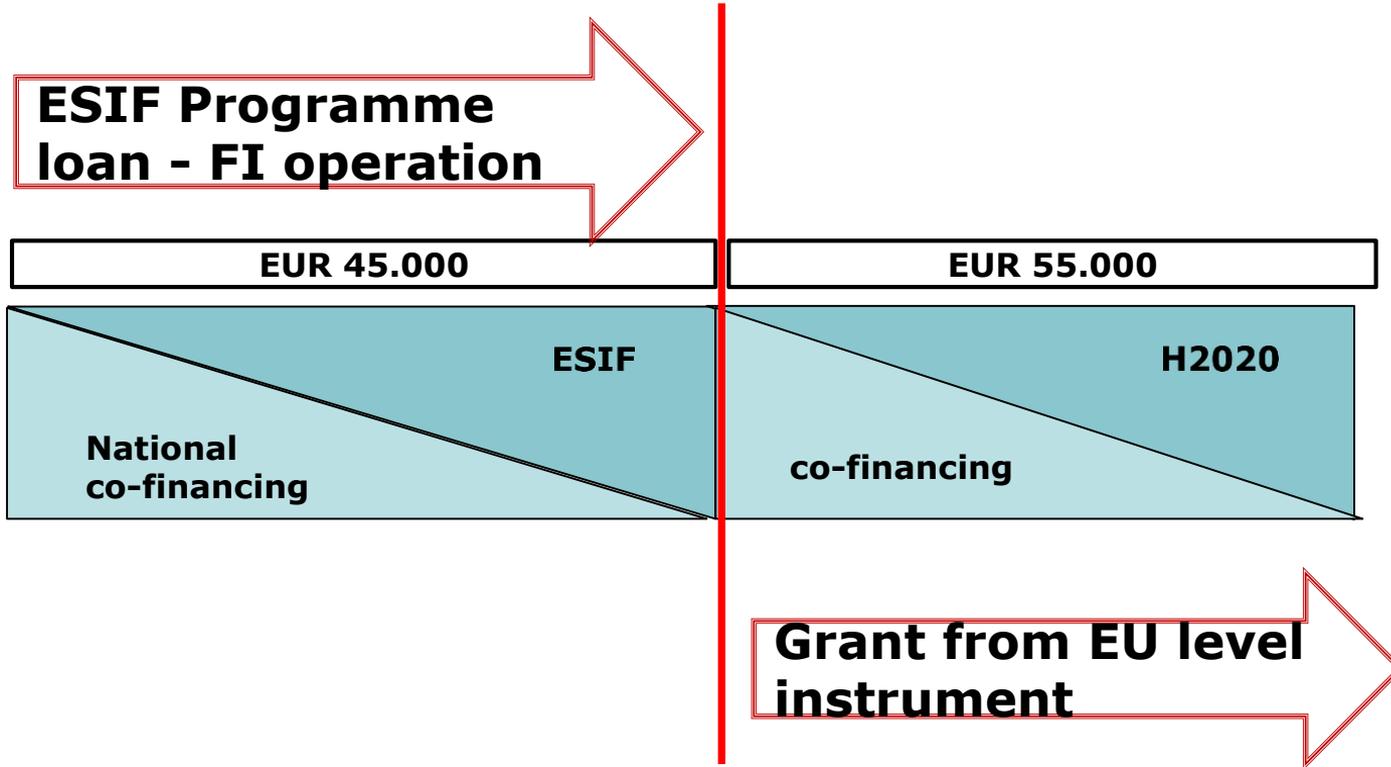
- Grant operation: 55
- Loan: 45

Total = 100

Examples



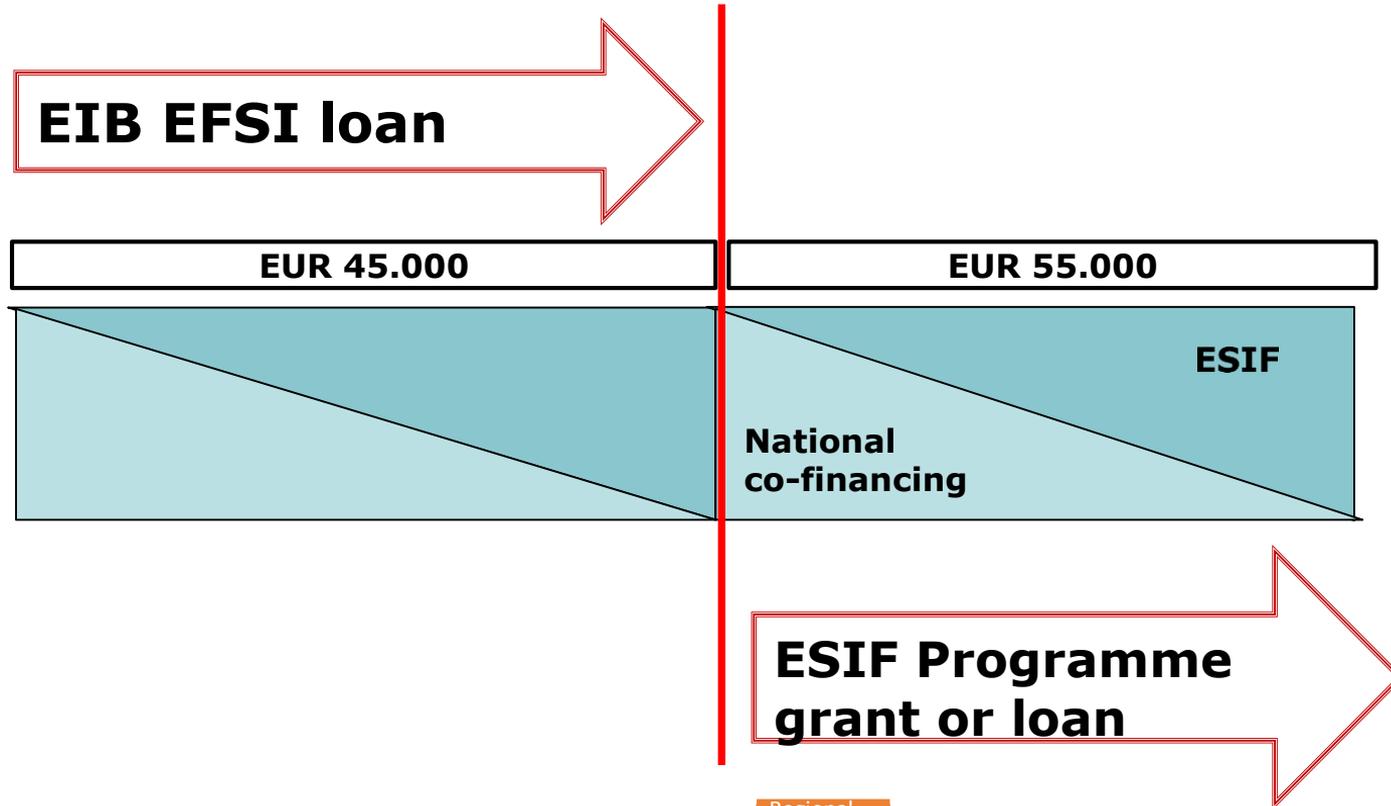
Distinct eligible expenditure!



Examples



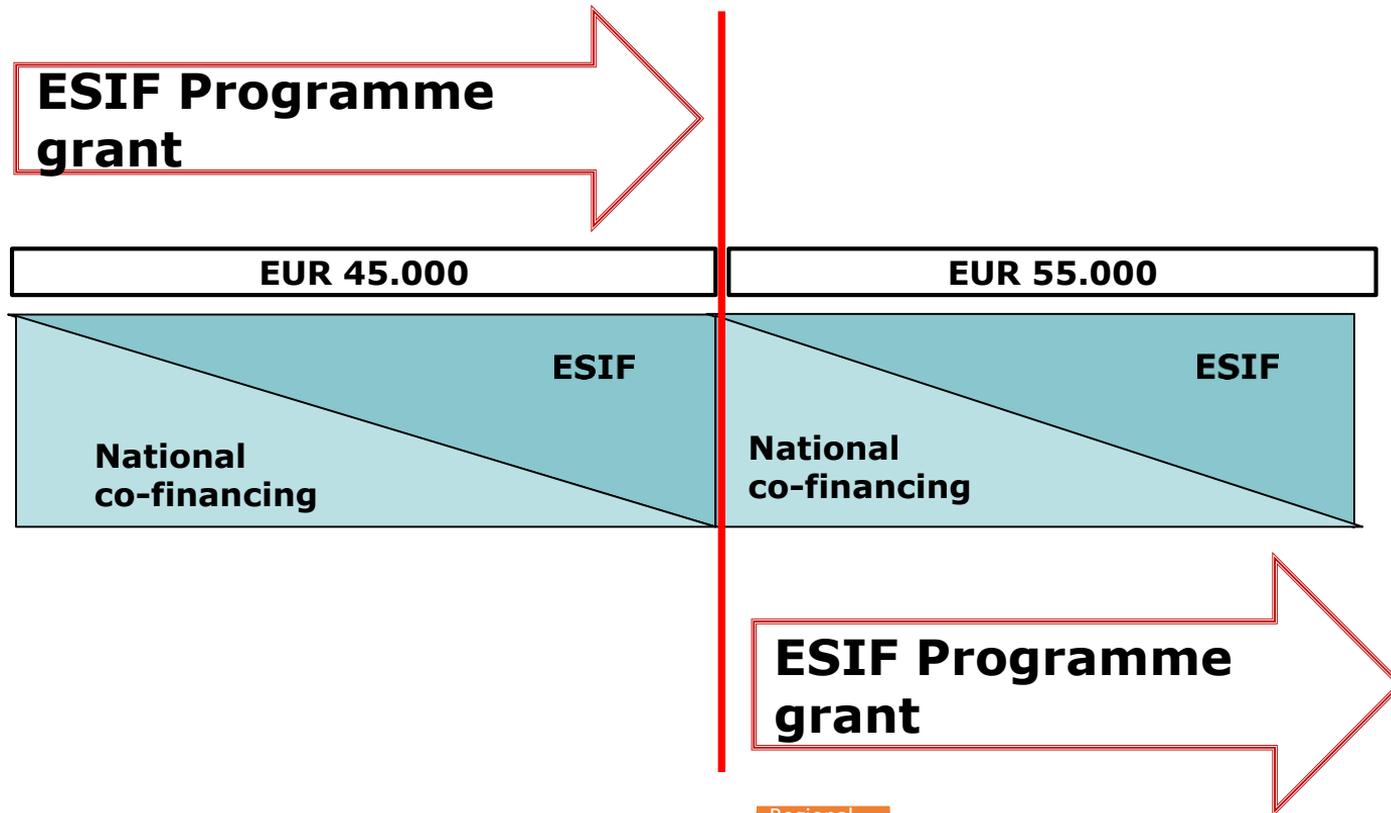
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Examples

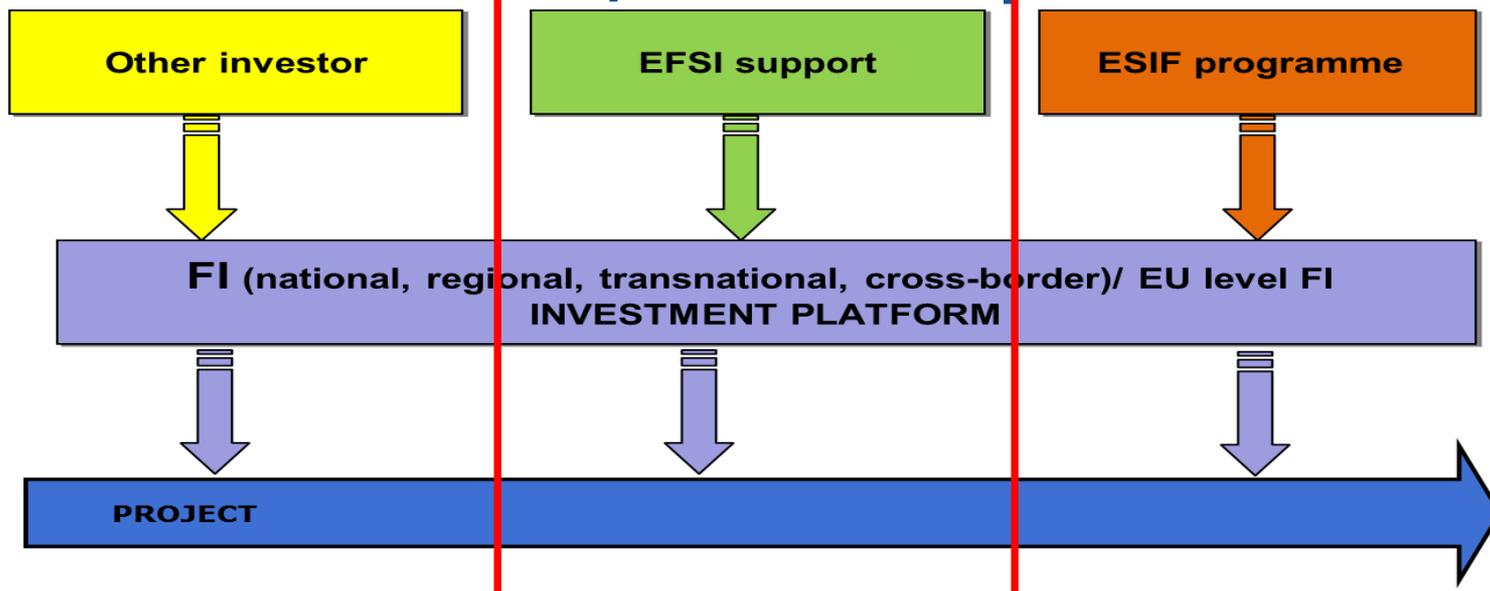


Distinct eligible expenditure!

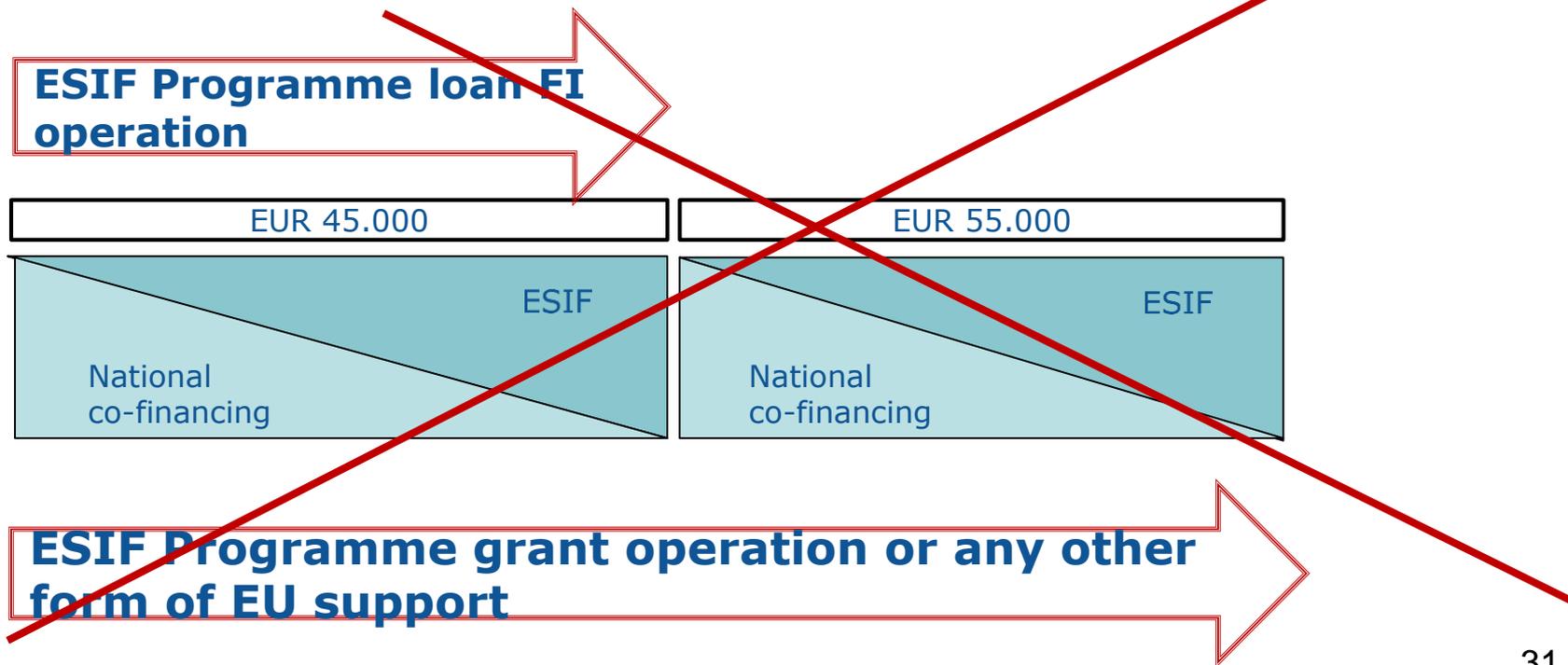


Distinct eligible expenditure!

ESIF and EFSI combination – Financial instrument/investment platform level



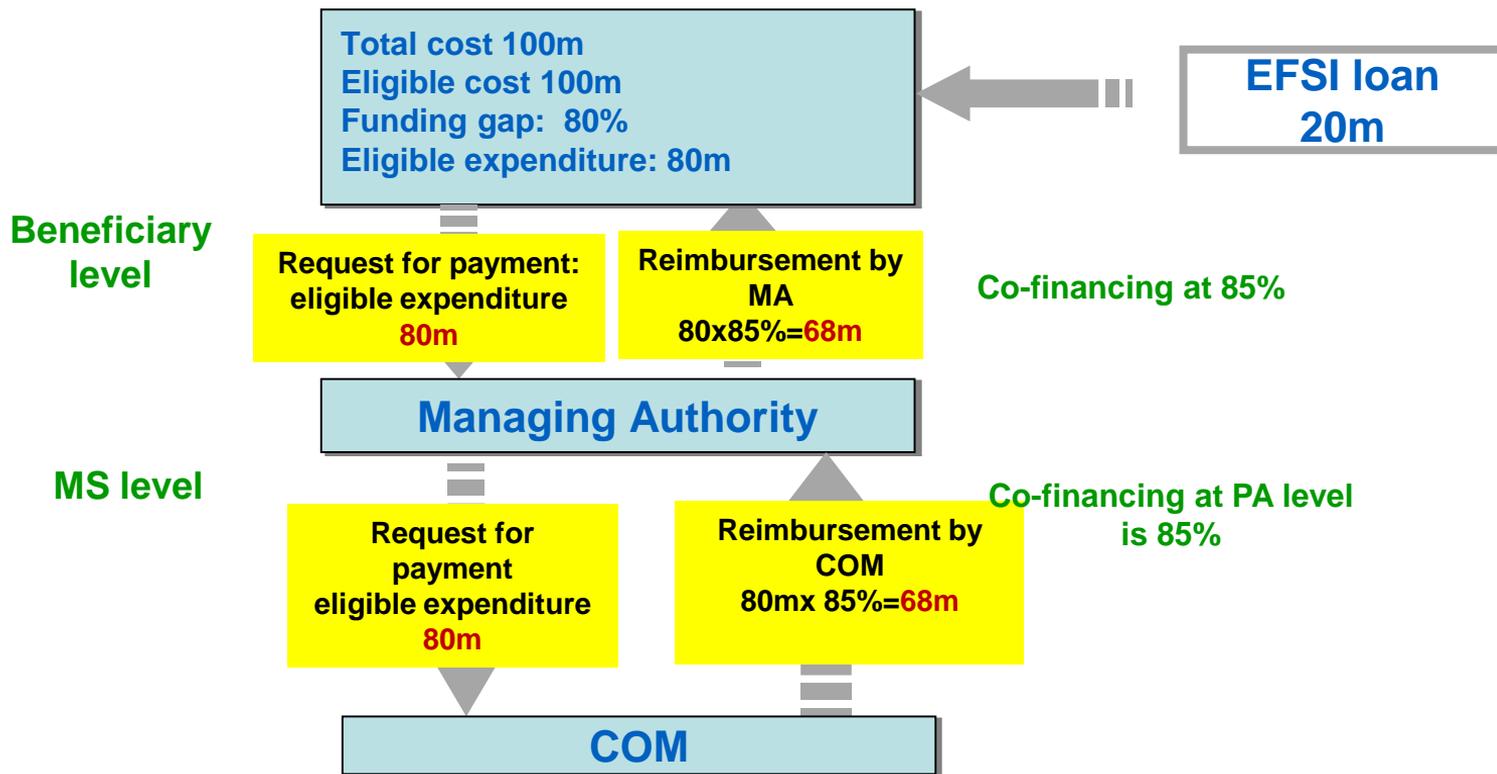
Incorrect combination: Grant and Loan – No Distinct eligible expenditure!



Example of EIB EFSI loan and ESIF programme grant



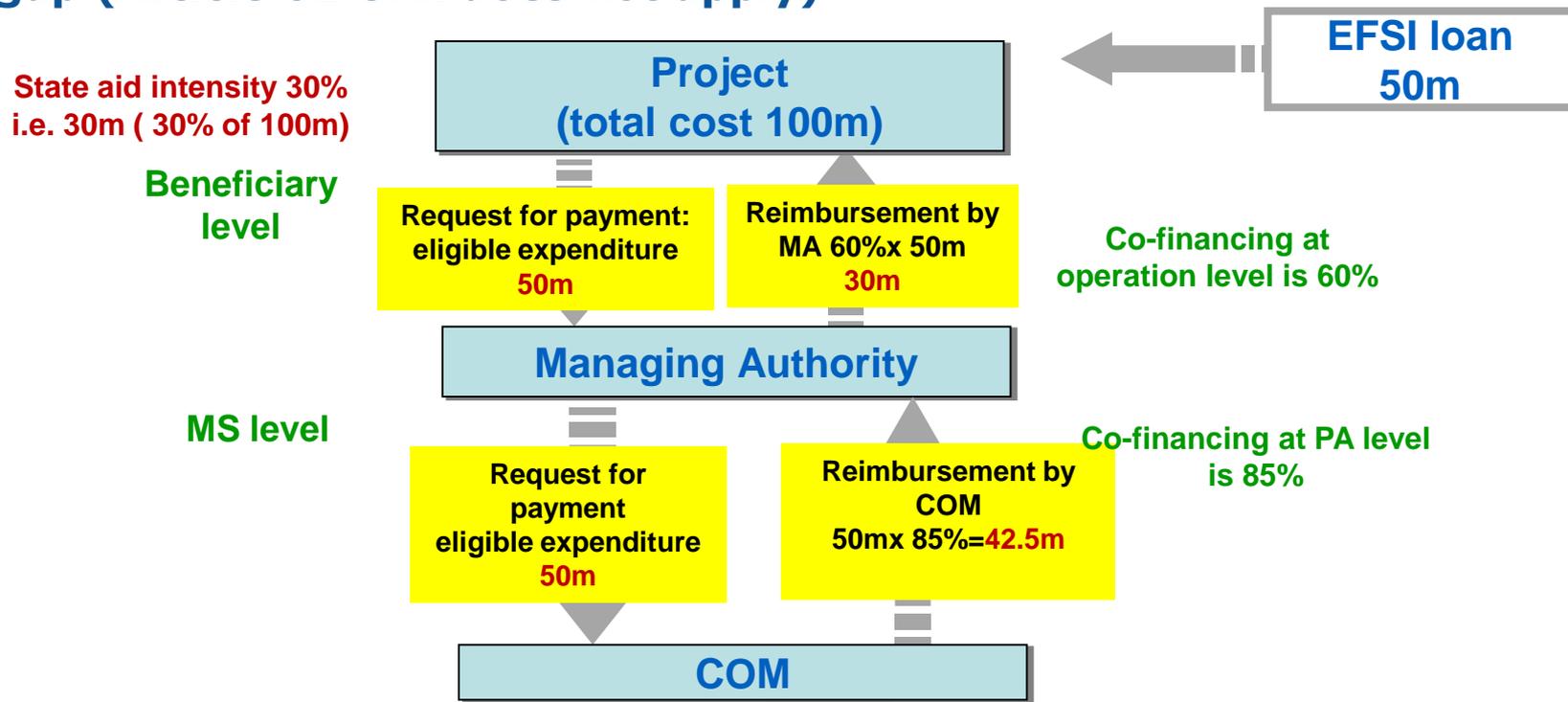
Chart 1 – project with funding gap (no State aid - Article 61 CPR applies)



Example of EIB EFSI loan and ESIF programme grant



Chart 2 – project where support constitutes State aid > no funding gap (Article 61 CPR does not apply)



Example of combination of a loan and a grant 2007-2013 programming period

Product: combined grant & microloan

- *Target group: micro-enterprises (max 10 employees, max EUR 660,000 turnover)*
- *Composition of investment:*
 - + **10% own resources (minimum)**
 - + **45% ESIF programme grant - eligible expenditure (grant max. 60%)**
 - + **45% ESIF programme loan - eligible expenditure**
- *Loans to enterprises:*
 - **Interest rate: max.: 9%, average: 7%**
 - **Grace period: max. 12 months**
 - **Maturity: max. 10 years**

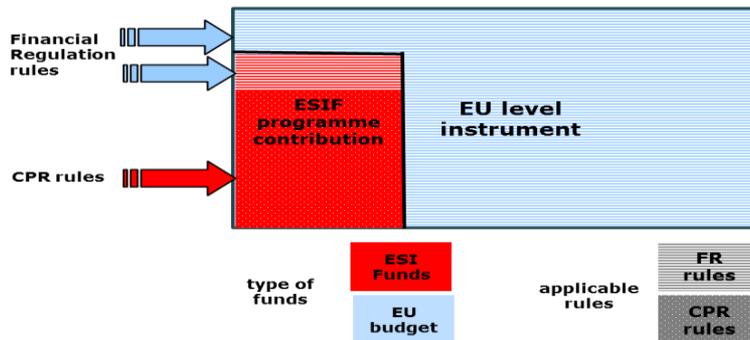
Q & A

CONTRIBUTION: HOW?

Contribution to EU level instruments

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Legal construction of instruments under Article 38(1)(a)



Article 39: main features

As for CPR 38(1)(a) but with a series of specifications and derogations for the ESIF part:

- Contribution (**ERDF – EAFRD**) from **MS** to EU level instrument;
- **EU-wide ex-ante assessment** carried out by the EIB and Commission;
- Setting up a **single dedicated OP** at MS level;
- Up to **7% of ERDF – EAFRD** per MS capped to **EUR8.5bn** from ERDF-EAFRD;
- **ERDF / EAFRD** as **junior/mezzanine tranche to other EU** funds, **minimum leverage** and **penalties**
- **Model funding agreement**
- Differentiated **payment modalities**
- Additional reporting elements, linked to the specific options....

Article 39: two different options...

...which are not mutually exclusive:

- **Option n°1: Uncapped guarantee instrument;**
- **Option n°2:** Joint securitisation instrument for new and existing loans;
- Option 1 is the one with highest demand so far: five out of six Member States are using this option; they all use ERDF (and partly national resources) and Horizon 2020
- This presentation uses option 1 to illustrate the mechanics

Contribution to COSME/H2020

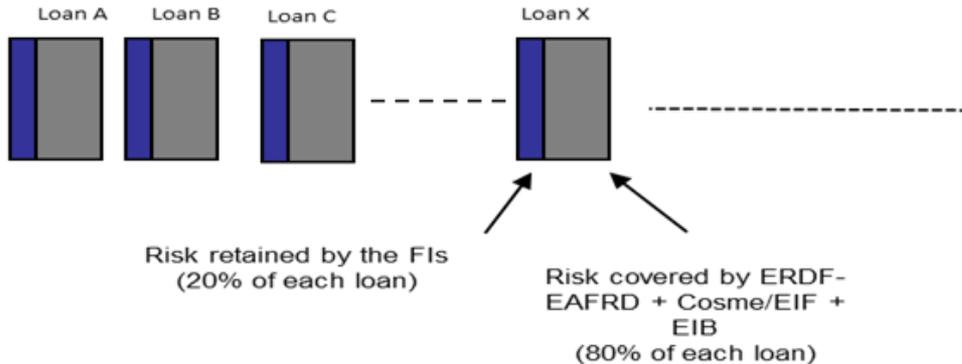
- Maximum contributions from COSME (EUR 175 m) and Horizon 2020 (EUR 175 m)
- Uses the same counterparties and applies the same terms in the calls
- Differences in eligibility criteria related to the final recipients (CPR – InnovFin, COSME), with regard to e.g. innovation content or geographic criteria, but there is significant congruence

Option 1: Uncapped Guarantee Instrument

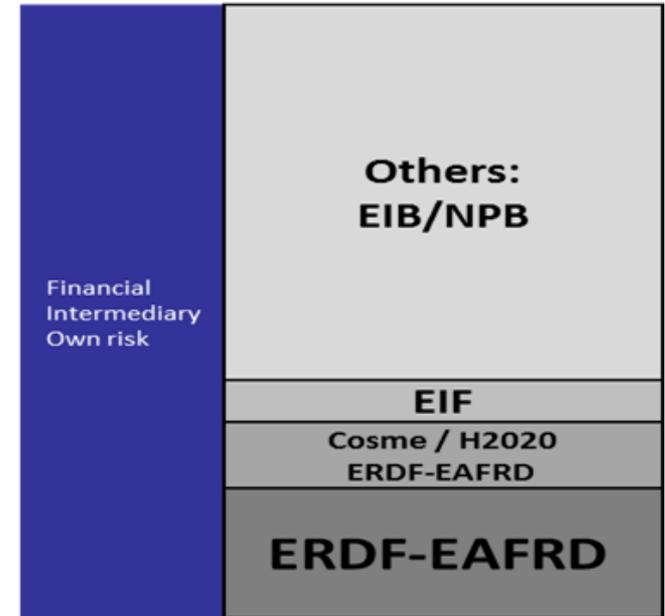
- ERDF-EAFRD, COSME, Horizon 2020 in one instrument;
- EIF, EIB share the residual risk;
- The instrument covers **up to 80%** of the losses from the banks' portfolios;
- Alignment of interest with the bank that retains at least **20% risk exposure**;
- Contributions from MA remain ring-fenced to support SMEs in their respective country or region;
- Benefit passed on to SMEs:
 - **lending to riskier SMEs (e.g. innovative SMEs, start-ups, etc.)**
 - **reduction of collateral requirements and reduced pricing;**

Uncapped guarantee: Option 1

Financial intermediary's underlying loans portfolio :



New debt finance portfolio



The framework and governance: OP, FA...

- Each participating Member shall provide the Commission with a **single dedicated national programme (SDNP)** per financial contribution by ERDF and EAFRD
- CPR (Article 97) foresees specific provisions regarding the SDNP programming
- The OP applies only to the ERDF/EAFRD contribution, as does the **Funding Agreement (FA)**
- There is a model Funding Agreement available (COM Implementing Decision 2014/660/EU of 11 September 2014) for interested parties to use – to be negotiated between MS and EIF

...and ICA/Common Provisions

- The **Common Provisions** (coordinating the interaction between the different legal bases) have been negotiated and set up by the contributors to the instrument
- They are annexed both to the Delegation Agreements between the EIF and the Commission's Designated Services (DG GROW for COSME and DG RTD for Horizon 2020) and to each **Intercreditor Agreement (ICA)**
- The ICA brings together the various contributors (creditors) to the structure: it is signed by the MS, the COM, the EIB and EIF (on the COM's side, ISC and COM decision necessary, incl. for amendments)
- It defines e.g. the size of the junior risk cover, mezzanine risk covers, senior risk cover, the respective target ratings, risk cover fees, governance provisions etc.
- ICA and FA are strongly linked and with cross-references – but the FA only applies to the ESIF ("MS") contribution, whereas the ICA applies to all risk takers

AND THE OMNIBUS PROPOSAL...?

Proposed change in Omnibus adds a further implementation option for managing authorities under CPR Title IV

Implementation options for FIs under CPR:

- **Article 38(1)(a)** contribution to EU level instruments, including (for SMEI) specific rules under Article 39
- **Article 38(1)(b)** national/regional/cross-border financial instruments
- **Article 38(1) (c) and Article 39a** – possibility to apply adapted rules for ESIF when combined with EFSI