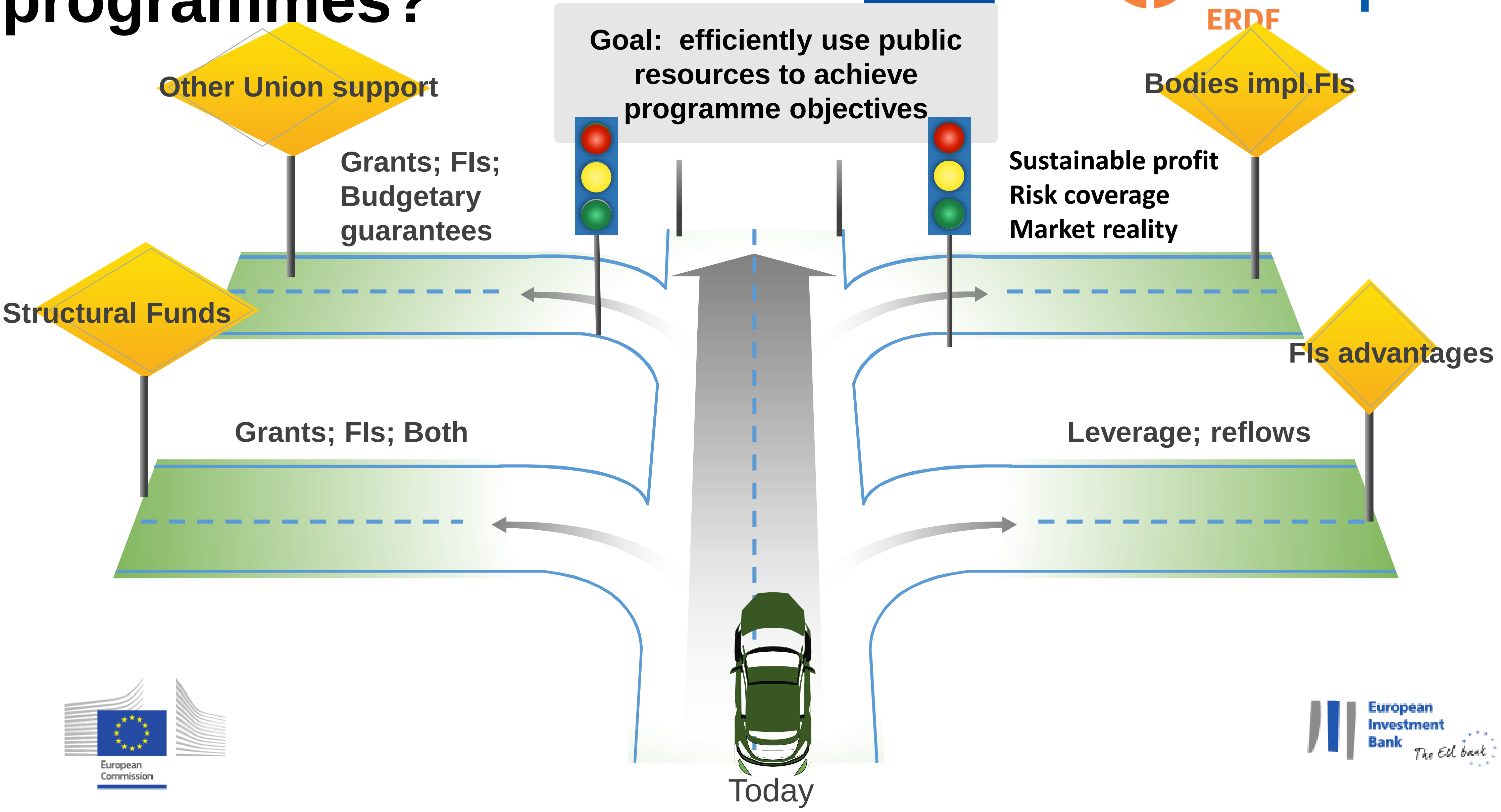
‘Financial instrument friendly’ programmes

Oana-Andreea Dordain, Deputy Head of Unit, DG REGIO, European Commission

Emily Smith, Head of Unit, Financial Instruments Advisory, European Investment Bank

#ficompass

How to build FI friendly programmes?



How could FIs be included in the programmes?

In the programmes:

- Identify the needs

- Justify the form of support (demarcation btw grants and FIs)

Financial Instruments:

- Priorities for **investments which support enterprises or generate energy savings** in the programmes under shared management **–** Automatically FIs

Grants:

- Justification needed for sectors like general SME support or energy efficiency

FI

- Investment strategy in the ex-ante, not in the programmes

FI + grants:

- Justify the need for the grant in the programmes

- Grant intensity methodology in the ex-ante

- For other sectors: 'keep the door open' for FIs if more analysis is needed

Economies of scale and critical mass

How to achieve policy objectives through FI while maintaining the incentives for the participation of financial intermediaries?

No “one-size-fits-all” approach…

- **A minimum size** of FIs ensures that management costs are proportionate. MA are encouraged to seek critical mass and economies of scale, but,
- FI **responsive to local and sectoral needs** should be considered and careful tailoring is required to specific circumstances.

Too **small allocations** to FIs:

- Too costly for the MA
- Not enough risk coverage or profits for Fin. Interm.

If **sufficient allocations** to FIs:

- Higher cost efficiency
- Wider investment opportunities

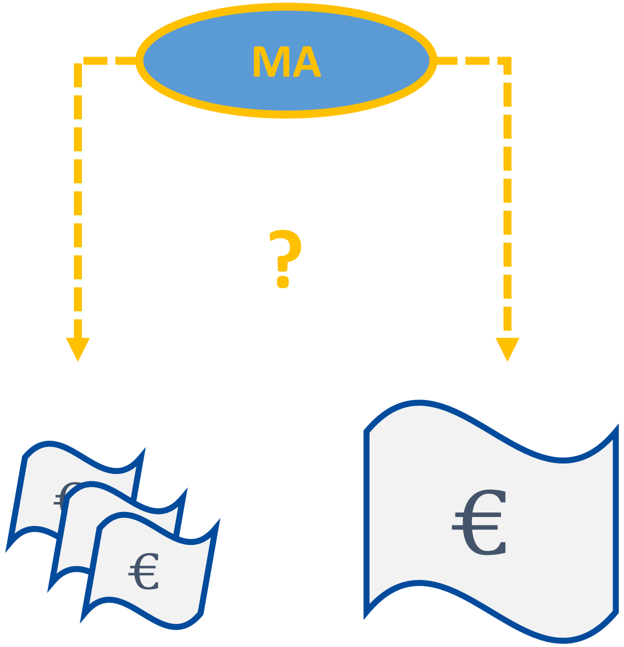
#ficompass

Economies of scale and critical mass

- In case of **regionalisation**:
  - **In line with the objectives** of the managing authority, several regional programmes could **make contributions to one financial instrument.**
  - **Standardised regional FIs in a specific sector** could enable an efficient and effective implementation by the same implementing body on a national scale.
  - Regional specificities would however need to be factored in.

Smaller or larger FIs: benefits

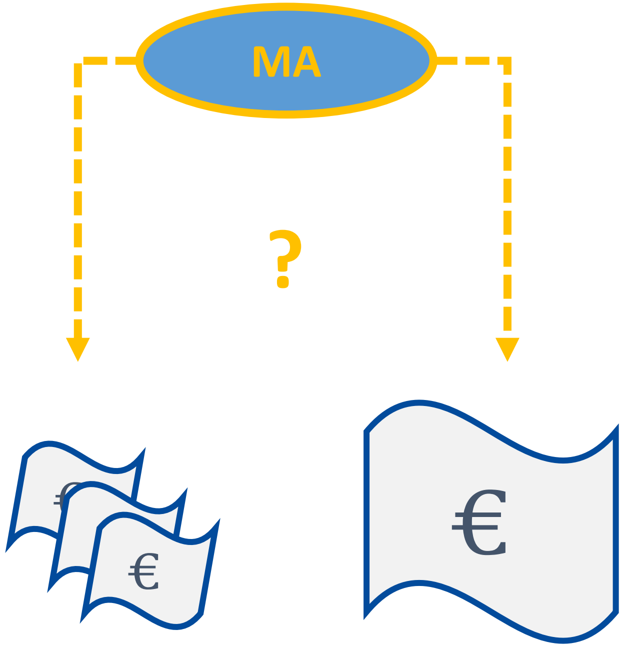
- Small FIs can be a first step before scaling up
- Small pilot FIs enable to test tailored support schemes
- Small FIs can help demonstrate feasibility and impact
- Small FIs for small and specialised markets
- Opportunity to learn and train stakeholders



- Higher efficiency when set-up costs / management cost and fees are spread over larger portfolios
- Consolidation of priorities generates more investment options
- Attract financial intermediaries with larger capacities
- Clarify product offer, streamline monitoring

Smaller or larger FIs: conditions

- Avoid excessive fragmentation
- Carry out a thorough market gap analysis
- Select skilled financial intermediaries willing to take more correlated risks
- More suited for limited geographic scope, specific market failures, lower financing needs, final recipients require extensive non-financial support



- FIs may correspond to a single priority; a single FI integrating different windows for each policy objective can be created
- Different priorities should not entail a wide variety of specific objectives, eligibility criteria or indicators
- Limited geographic restrictions (e.g. regions placed in specific priority/programme)

Examples of programmes facilitating the use of FIs

- **Programmes containing several priority axes suitable for repayable support** with non-prescriptive provisions on the characteristics of FIs, allowing for further definition of the support scheme at a later stage (ex-ante assessment).
- **FIs as default option for innovation, digitalisation and support for SMEs.** Grants only available for recipients that have difficulties to access FIs, for example university R&D projects and spin-offs.
- **Ex-ante assessment** for equity financial instruments for SME **conducted in parallel to the programming process** and informing the latter in 'real time'. The two processes were coordinated and the ex-ante assessment's objectives matched the rationale of the programmes.
- **Rules for grants that are significantly stricter** than what the EAFRD regulation would allow, for example limiting aid to small and medium-sized farms and exclusion of specific types of investments such as used vehicles or buildings in food processing. For the guarantee instrument, much wider eligibility rules were chosen, meaning larger farms can have access to the guarantee but not to the grant.

Examples of constraining measures in programmes

fi compass ERDF

- **Minimum contribution of a fixed % of Shared Management Funds** earmarked from each programme to be invested into the national financial instrument.
- **Programme for environment in which the form of support is not prescribed.** FI and grants hence are competing on the ground, which delays FI delivery.
- **Support for EE split between several programmes,** depending on the final recipients of the support (different MA, eligibility and reporting criteria).
- Support to EE measures in multi-apartment buildings coming from **national and regional programmes, with different eligibility and reporting criteria, without clear delimitation**, leading to fragmented and competing FIs, which are unattractive to Fint.
- **Restrictive scope of support in programmes** limiting EE measures in the residential sector to lower income households, which is difficult to support through FI, even with grant elements.

Conclusions

Programming – Involvement of relevant stakeholders

Harmonised adm. requirements
Training

Clear demarcation between grants and FIs

FIs friendly programmes

Focused or wide-reaching FIs

Appropriate incentives for Fin. Intermediaries and private investors

Balance between small or large FIs

#ficompass


financial instruments
revolving
capacity building
added value
ERDF
funding agreement
ESF
EU guidance
governance
ex-ante assessment
technical support
seminars
leverage
financial intermediaries
microfinance
co-financing
case studies
investments
ESIF
fi-compass
final recipients
business plan
Thank you
thematic objectives
advisory services
guarantees
loans
CF
equity
banks
life cycle
combination of support
EAFRD
private investors
factsheets
conferences
EMFF
investment strategy
fund of funds
managing authorities
manuals

#ficompass