



Financial instruments

2014-2020 legislative framework and Commission guidance

Bruxelles, 27 May 2015



2014-2020 framework

- 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 support through FI is with **MA**



2014-2020 framewrok

Key novelties (1)

- ➔ **Single comprehensive legal framework** for all ESI Funds (common interpretation/guidance)
 - Some elements included in 2007-2013 in COCOF note become **legally binding in 2014-2020**
 - **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)

- ➔ **Wider scope:** Expansion to **all thematic objectives & priorities** foreseen by ESIF OPs (ERDF, ESF, Cohesion Fund, EAFRD, EMFF).



2014-2020 framework

Key novelties (2)

- ➔ **Ex-ante assessment to be carried out** before launch of FI operation under the ESIF
- ➔ **Incentives regarding EU co-financing rates**
- ➔ **Phased contributions to FIs**
 - MAs to pay programme contributions in at least 4 tranches
 - Subsequent payments from MA to FI to be made on the basis of FI investment rate in relation to programme contributions received
- ➔ **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 novelties (3)

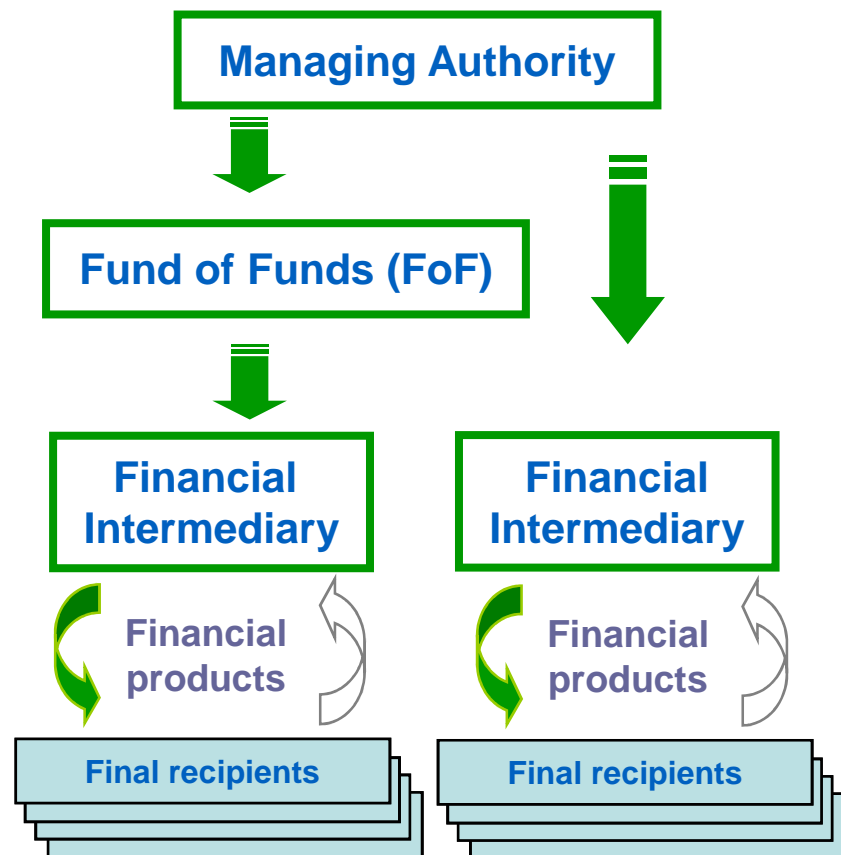
⇒ Annual reporting by MAs

- MA to report on FI operations annually, COM 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 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
- Off-the-shelf instruments with standard conditions to facilitate the set-up phase



2014-2020 Commission guidance

- Short guide for managing authorities

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



2014-2020 Commission guidance Glossary

- The glossary will develop over time. It will be completed once all the guidance notes are prepared.
- All the definitions and concepts developed in guidance notes will be added to the glossary
- The glossary contains for the moment only the basic definitions from the CPR and financial regulation in relation to financial instruments



2014-2020 Commission guidance Ex-ante assessment

The overall objective of the ex-ante assessment is to assess the rationale for a financial instrument against prevalent market failure and to ensure that the financial instrument will contribute to the achievement of the OP and ESIF objectives.

The ex-ante assessment requirement **should not be looked at only as a mere legal obligation but also as a tool to support implementation** from a sound financial management perspective.

The entire ex-ante assessment process (preparation - discussion in monitoring committee - decision by managing authorities) will raise awareness and ensure stronger ownership of the financial instruments operation by managing authorities.



2014-2020 Commission guidance Ex-ante assessment

The guidance note includes:

- Background information (why the requirement?)
- Specific points to look out for
- Past experience
- Reference / links
- Q&A (based on the questions by MS)



2014-2020 Commission guidance Working capital

2007-2013:

Approach to working capital changed in recent years

- In **2007-2013** support to working capital was restricted only to establishment, early stages and expansion.
- In **2011** as a response to the crisis the Implementing Regulation was modified to provide a temporary opening to unrestricted eligibility of working capital (but only in financial markets with liquidity problems).



2014-2020 Commission guidance Working capital

Support for working capital in enterprises **is eligible** as a mode of support to enterprises through financial instruments within certain conditions.

Working capital is explicitly mentioned in Article 37(4) CPR but firmly embedded in the context of CPR rules, fund specific conditions and State aid.

1. Eligibility of working capital is not **generic** (CPR provisions! Fund specific rules! ESIF programme conditions!)
2. Support of working capital and its eligibility will be more **on a case by case basis**.



2014-2020 Commission guidance Working capital

Case by case assessment

- ESIF support for working capital in enterprises, as for any investment financing to enterprises through financial instruments, is subject to compliance with **two basic eligibility criteria**: the types of enterprise and seven support targets under Article 37(4)
- The fund manager will have to assess based **on the business plan** whether the investment proposed:
 - is potentially financially viable
 - the amount and proportion of working capital is justified in business and economic terms



2014-2020 Commission guidance Phased payments

Guidance note in finalisation

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

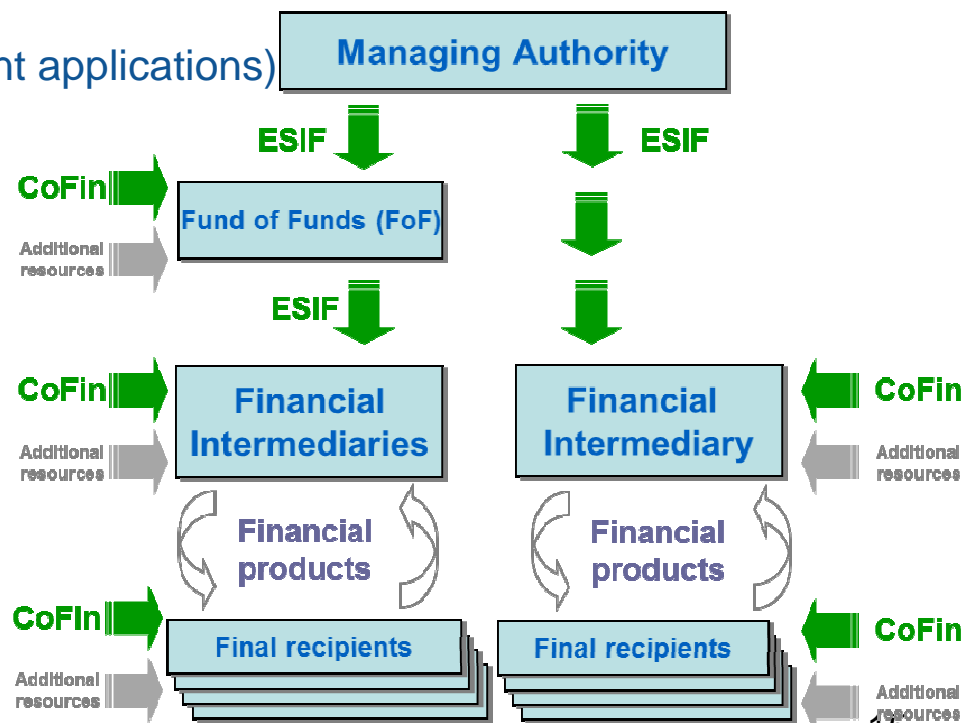
- can be different than at PA level,
- can be private/public,
- can come at different levels: MA (e.g. regional budget), FoF (e.g. national resources), financial intermediary (e.g. own resources), or at the level of investment in final recipient (e.g. co-investment by business angel).

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

2014-2020 Commission guidance Phased payments

Main changes in relation 2007-2013 period:

- phasing of max 25% of committed programme amount in FA paid,
- subsequent payments from MA to FI
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

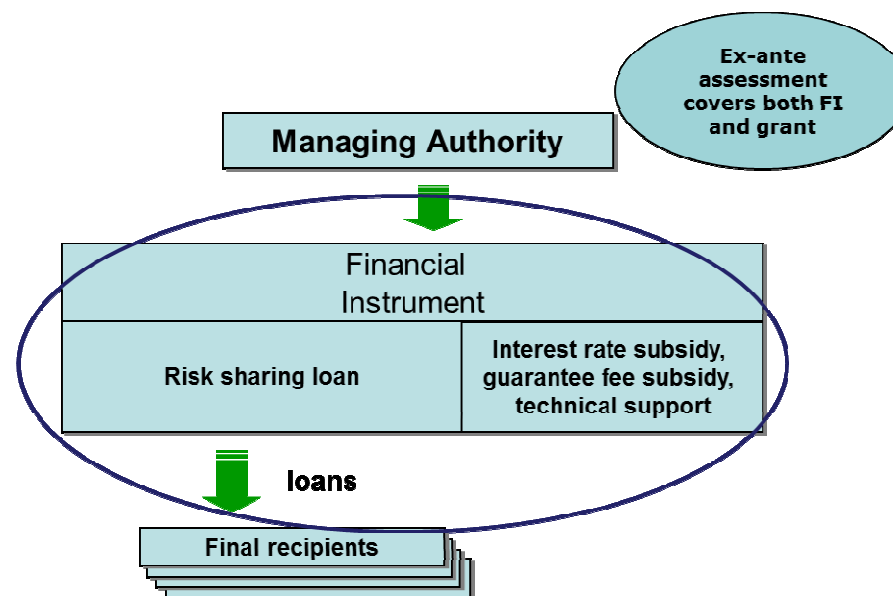
Note in discussions with MSs

- **Two types of combinations, 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 combinations are envisaged also in Financial Regulation**

2014-2020 Commission guidance **Combination**

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

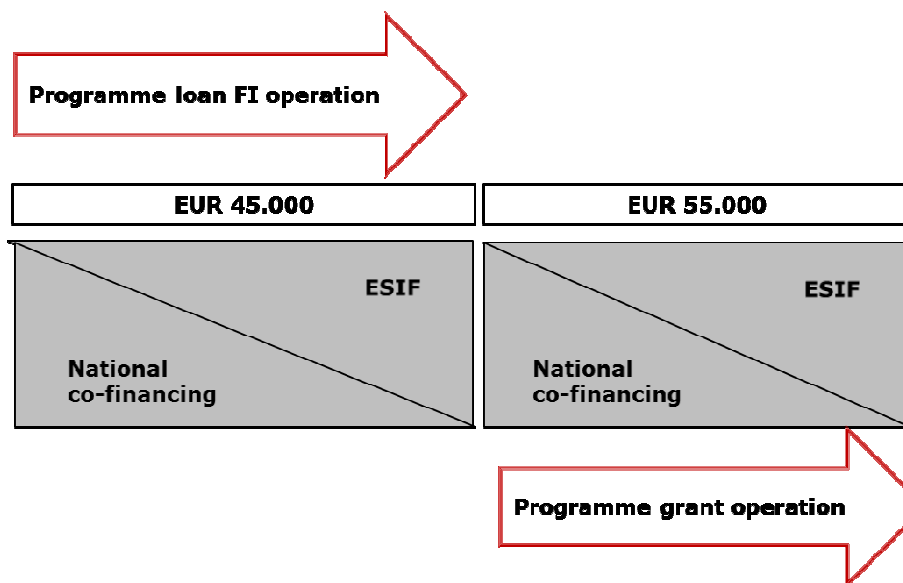
1. Grant is directly related to financial instrument targeting the same final recipients (interest rate subsidy, guarantee fee subsidy, technical support). It is NOT a grant for the investment in final recipient.
2. Grant and financial instrument constitute a single operation, which falls under the provisions of title IV and is financed from the same priority axis (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

Combination at the level of final recipient 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 a FI. Combination can cover the same investment or even 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.





European Commission

2014-2020 Commission guidance Combination

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)

