



# Financial instruments - opportunities offered by the 2014-2020 framework

Key novelties and Commission guidance  
ATHENS, 3 DECEMBER 2015

# Financial instruments 2014-2020

**Centrally managed by COM**  
(Financial Regulation)

**Shared Management with MS**  
(Common Provisions Regulation)

Research,  
Development  
Innovation

**Horizon 2020**  
InnovFin (Equity and Risk Sharing  
Instruments)

**Instruments under  
Structural and Cohesion  
Funds**

Growth, Jobs  
and Social  
Cohesion

**Competitiveness &  
SME (COSME)**  
Equity & guarantees

**Creative Europe**  
Guarantee Facility

**Social Change  
& Innovation**

**Erasmus for all**  
Guarantee Facility

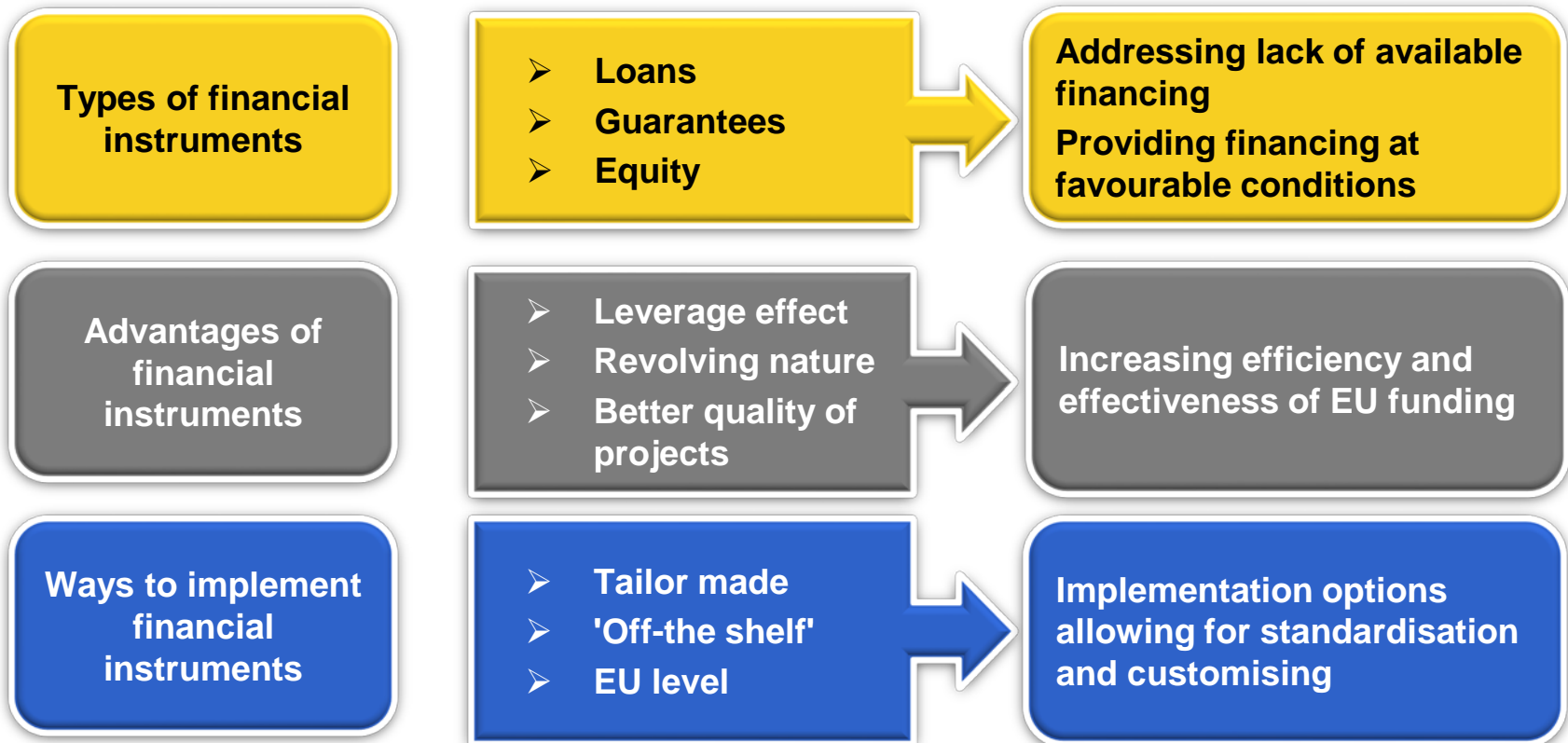
Infrastructure

**Connecting Europe Facility (CEF)**  
Risk sharing (e.g. project bonds) and equity  
instruments

- Contribution to EU level  
(central management)
- National/regional  
instruments (shared  
management)
  - Off-the shelf FIs
  - Tailor made FIs

*Significantly higher amounts  
expected than in current MFF!*

# Principles of financial instruments under ESIF



## 2014-2020 ESIF framework

- Performance oriented legal framework to **promote the use** of financial instruments (FI)
- 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 the **managing authority (MA)**

# 2014-2020 ESIF framework

## Key novelties (1)

**Single comprehensive legal framework** for all ESI Funds  
(common interpretation/guidance)

- **CPR title IV on FIs** (9 extensive articles and annexes), **DA/IA**,
- Some elements included in 2007-2013 in COCOF note become **legally binding in 2014-2020**
- **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** (c.f. guidance note)
- **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)

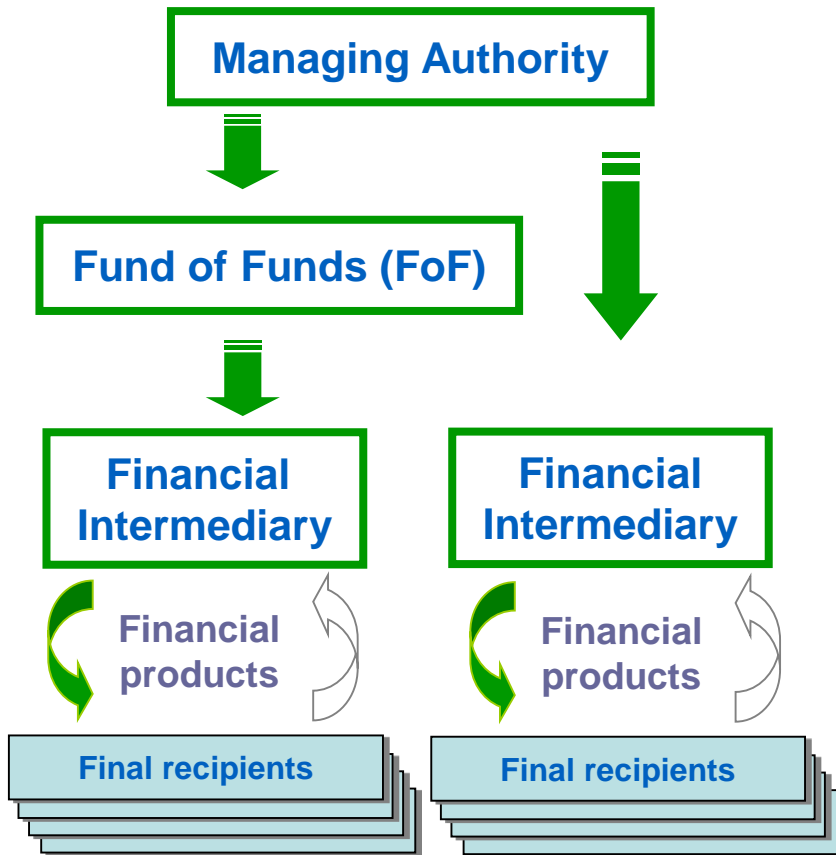
## 2014-2020 framework

### Key novelties (3)

- **Annual reporting by MAs**
  - MA to report on FI operations annually on a more comprehensive set of data, Commission 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 ESIF 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

### Novelty:

- **Off-the-shelf instruments** with standard conditions to facilitate the set-up phase



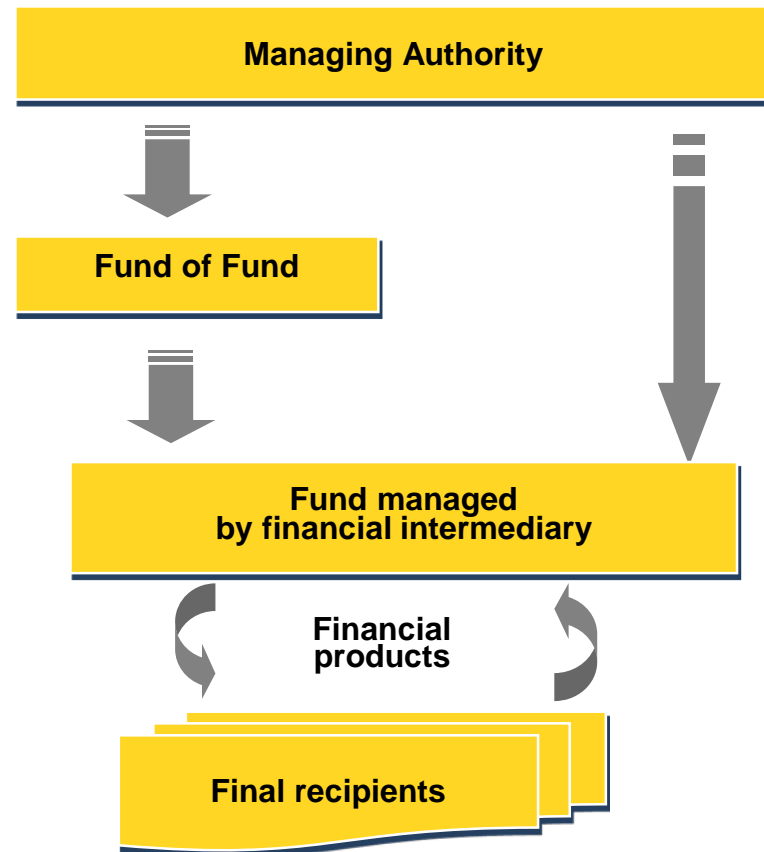
# ESIF 14-20: Off-the-shelf instruments-1

## What are off-the shelf instruments?

Financial instruments complying with the standard terms and conditions laid down by the Commission  
Help to accelerate implementation  
Learn and build on the experience from 2007-2013

## Key advantages

- State aid compatibility
- Governance structures
- Based market practise
- Full pass on of advantage to final beneficiary
- Minimum leverage ensured



# ESIF Financial instruments 14-2020: "Off-the-shelf instruments -2 "

## Three for SMEs

1. Loan for SME's based on a portfolio risk sharing loan model (Risk Sharing Loan).
2. Guarantee for SMEs (partial first loss portfolio, capped guarantee).
3. Equity fund for SMEs and start-up companies based on a co-investment model (*under approval*).

## One for energy efficiency/renewable energies and one for urban development

1. Renovation Loan based on a Risk sharing loan model (RS Loan).
2. Urban Development Fund (*under approval*).



## ➤ **Horizontal assistance**

- platform for advisory services on financial instruments under ESIF and EaSI (micro-finance)
- provided by the European Commission in partnership with the European Investment Bank
- designed to support managing authorities and other interested parties
- providing practical know-how and learning tools on financial instruments, newsletter, case studies, reference twxts
- National events (presentation of case studies, discussion of technical questions, hands-on workshops)
- Please Register in [www.fi-compass.eu](http://www.fi-compass.eu)

# EU Investment Plan: 3 pillars

European  
Commission

## 1. MOBILISING FINANCE FOR INVESTMENT

- Boost investment in strategic projects and access to finance via the European Fund for Strategic Investment (EFSI) – EIB/EIF
- Cooperation with National Promotional Banks and the EIB

## 2. MAKING FINANCE REACH THE REAL ECONOMY

- European Investment Project Portal
- European Investment Advisory Hub: technical assistance



## 3. IMPROVED INVESTMENT ENVIRONMENT

- Predictability and quality of regulation
- Removing non-financial, regulatory barriers in key sectors within EU Single Market
- Structural reforms at national level



**1. Mobilise finance for investment**

**European Fund for Strategic Investment (EFSI)**

- ≥ EUR 315 bn
- ✓ Long-term investments
- ✓ SMEs and mid-cap firms
- ✓ **COMPLEMENTARITY: ESIF / EFSI**

Better use of ESI Funds  
*i.a. extensive use of financial instruments*

- ≥ EUR 20 bn additional investment for 2015-2017
- ✓ SMEs
- ✓ Research
- ✓ Transport
- ✓ Environment

**2. Make finance reach the real economy**

**Technical Assistance**

- ✓ JASPERS
- ✓ FI-Compass  
*(existing programmes under EIAH)*

**3. Improve investment environment**

Ex-ante Conditionalities



# EFSI: Structure- Investment target

European Union budget



16bn

guarantee

21bn

Own resources

EIB



5bn

European Fund for Strategic Investments (EFSI)

Infrastructure and innovation window  
(through EIB)

16bn

11bn

Debt portfolio

5bn

Equity-type portfolio

Total EIB/EIF financing

49bn

Total investment mobilised

240bn

SME window  
(through EIF)

5bn

2.5bn

From EIB

2.5bn

Fully guaranteed by EU

12bn

75bn

# EFSI: objectives

European  
Commission

## Main areas of investment

- Research, development and innovation
- Development of the energy sector, including energy security
- Development of transport infrastructures , equipment and innovative technologies for transport
- Financial support through the EIF and EIB to companies having up to 3000 employees
- Development and deployment of information and communication technologies
- Environment and resource efficiency
- Human capital, culture and health





## ESIF and EFSI (Investment Plan)

- **ESIF** are some **EUR 450 bn** (cohesion policy)
- **EFSI** shall mobilise **EUR 315 bn** in 3 years (**15x leverage**), under an **EU guarantee** of EUR 21 billion, implemented via two components:
  - an **Infrastructure and Innovation Window (IIW)** through EIB to support investments of **EUR 240 bn**
  - an **SME window (SMEW)** through EIF to support investments of **EUR 75 bn**



## ESIF-EFSI complementarities

- Legal bases of both ESIF and EFSI allow for contributions to support each other's objectives (**complementarity element**)
- Their **combination** is also possible: at **project** level, **financial instrument** level and through **investment platforms**
- Implementation process has to respect applicable rules (**CPR v EFSI Regulation**)
- **State aid rules** apply on a case-by-case basis



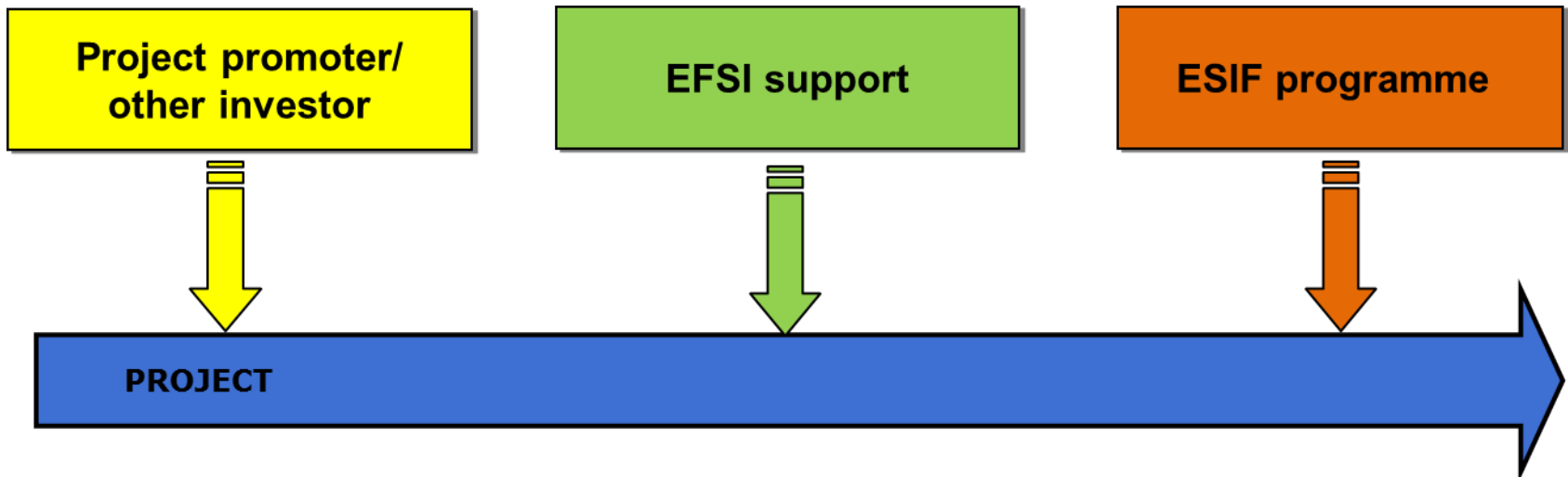
## National Promotional Banks (NPBs)

- NPBs are entities mandated by Member States to carry out development or promotional activities
- NPBs hold a significant financing and advisory role in their constituencies – they "know" the local projects
- 9 Member States already committed participation under EFSI, most through NPBs
- NPBs may also receive EIB or other support
- NPBs' participation mode to EFSI to be defined with EIB

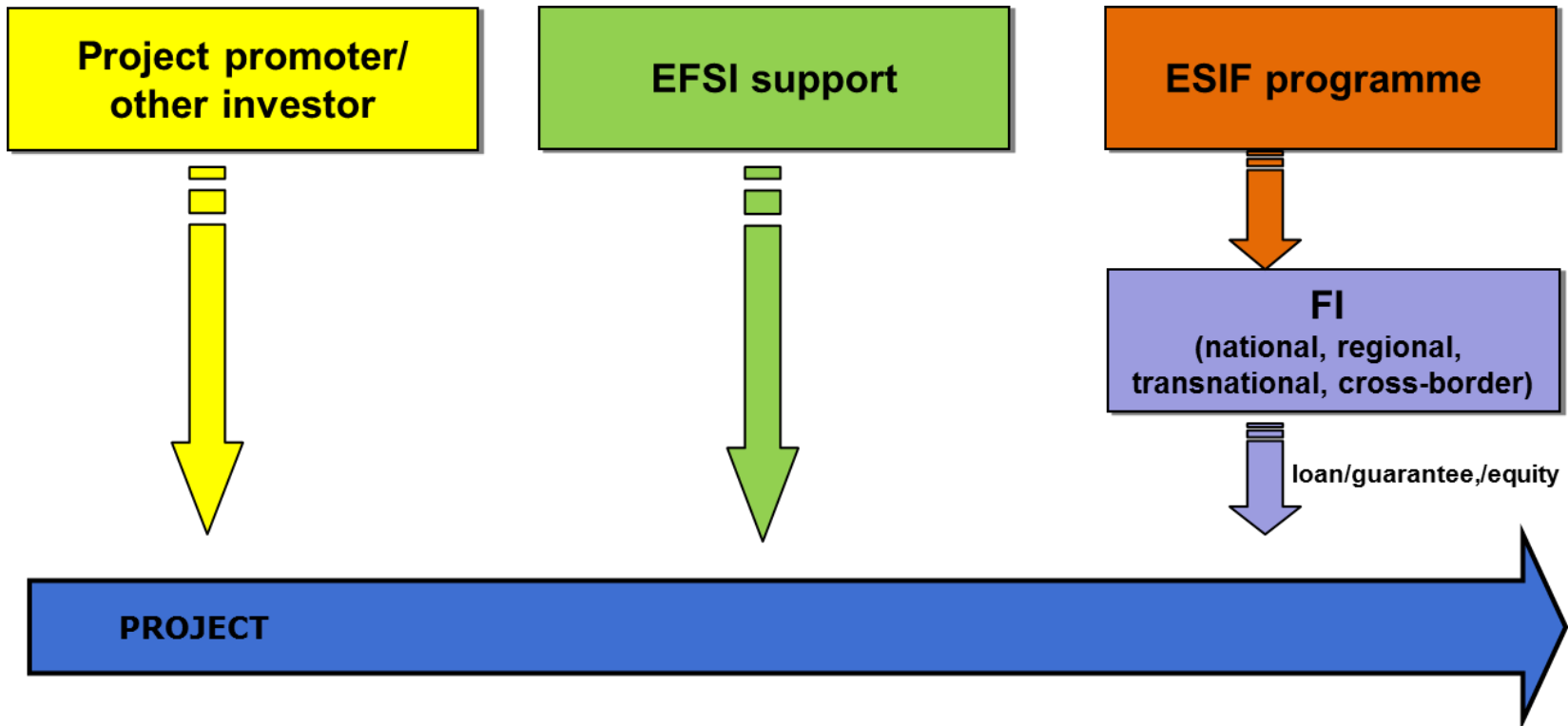
## Investment Platforms (IPs)

- IPs are ad hoc vehicles by which financing is channelled to projects
- IPs may be set up through various legal structures (SPVs, managed accounts, other arrangements)
- They can have a geographical, product, sectorial dimension
- IPs may also receive EIB or other support (Member State, private investors)
- EIB participation mode in IPs to be defined

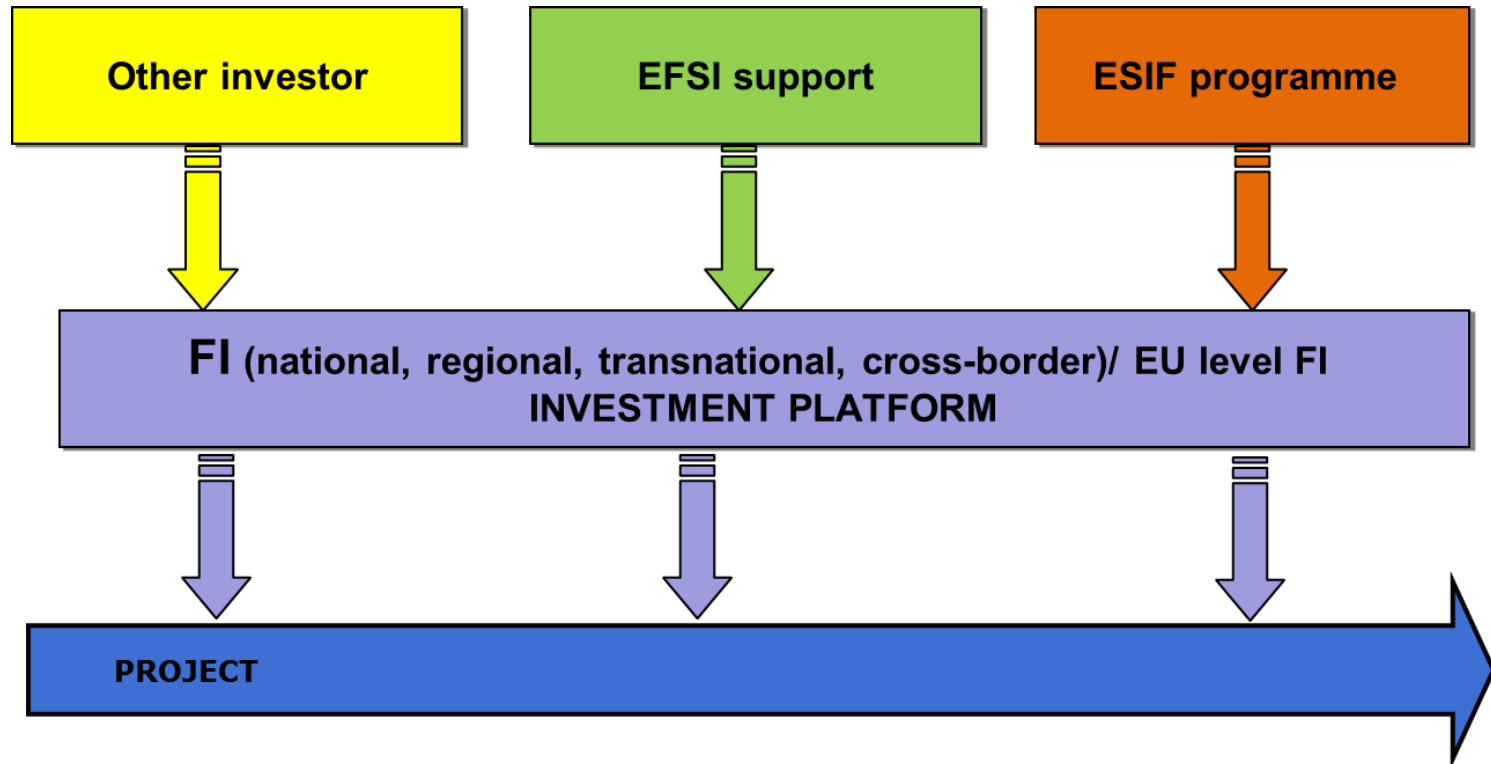
# ESIF and EFSI combination – Project level



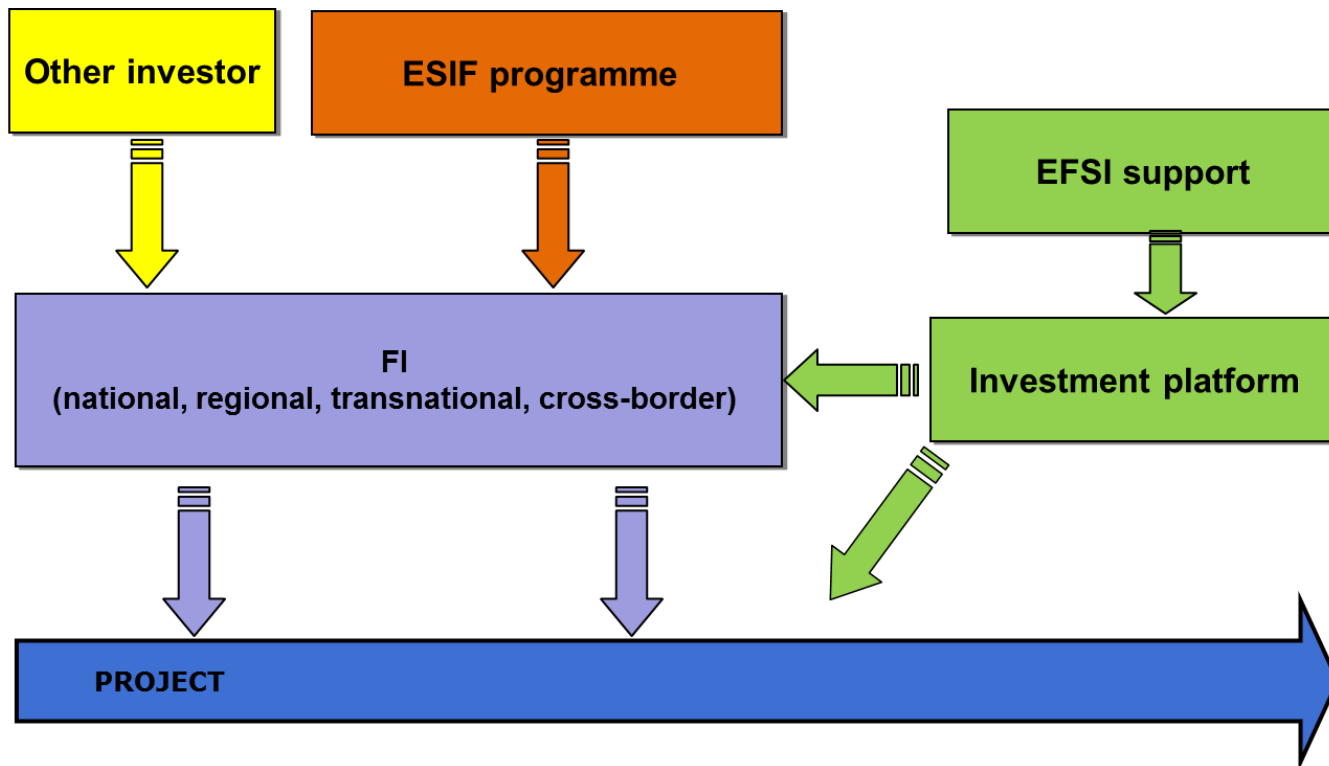
# ESIF and EFSI combination – Project level



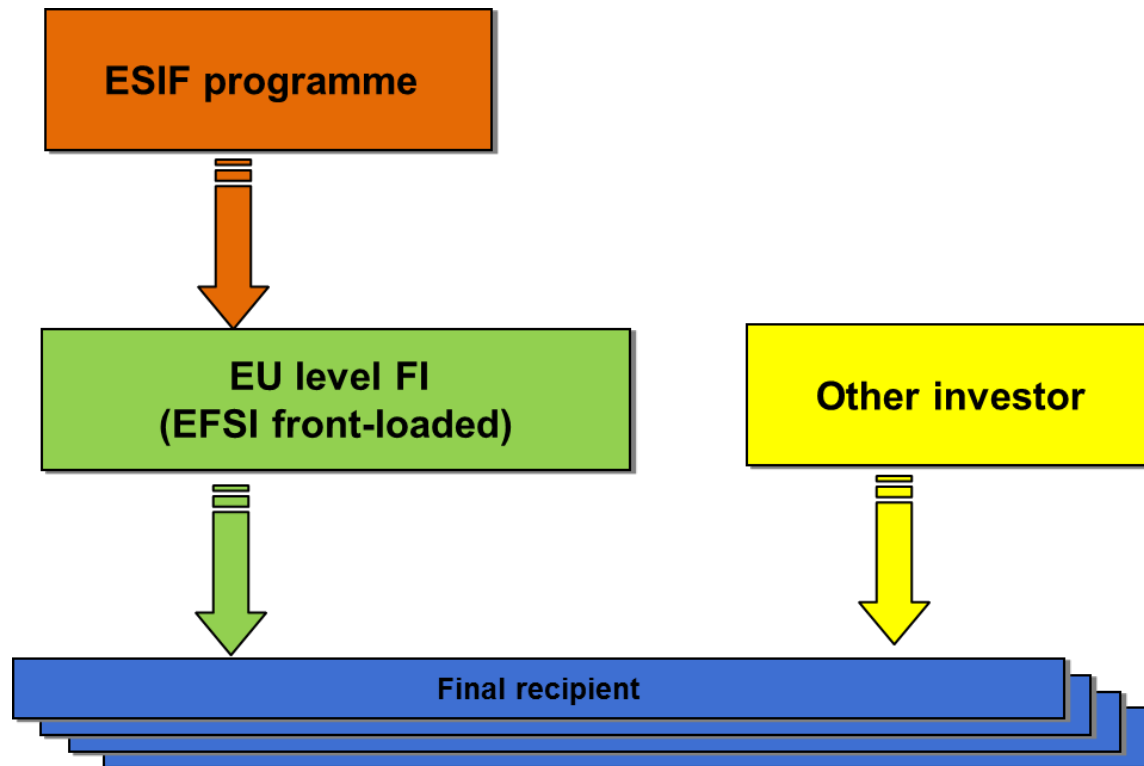
# ESIF and EFSI combination – Financial instrument/investment platform level



# ESIF and EFSI combination – Financial instrument/investment platform level



# ESIF and EFSI combination – SME products







## Useful links for more information

- [http://ec.europa.eu/regional\\_policy](http://ec.europa.eu/regional_policy)
- [www.fi-compass.eu](http://www.fi-compass.eu)
- [www.eib.org](http://www.eib.org) (information on Investment Plan, EFSI, EIAH, application process etc.)
- [www.eif.org](http://www.eif.org)
- [www.access2finance.eu](http://www.access2finance.eu)

## 2014-2020 Commission guidance

- Short reference 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)
  - so far five guidance notes finalised and published

# 2014-2020 Commission guidance

## Glossary

- The glossary contains for the moment only the **basic definitions from the CPR and financial regulation** in relation to financial instruments
- 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

## 2014-2020 Commission guidance Ex-ante assessment

- **Objective:** evidence based decision making
- **Requirement:** legal obligation and tool to support implementation
- **Completion:** before any programme contribution made to FI
- **Next steps:** submission to the programme monitoring committee and publication
- **Process:** raises awareness and ensures stronger ownership



## 2014-2020 Commission guidance Working capital (1)

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 (2)

### 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 (1)

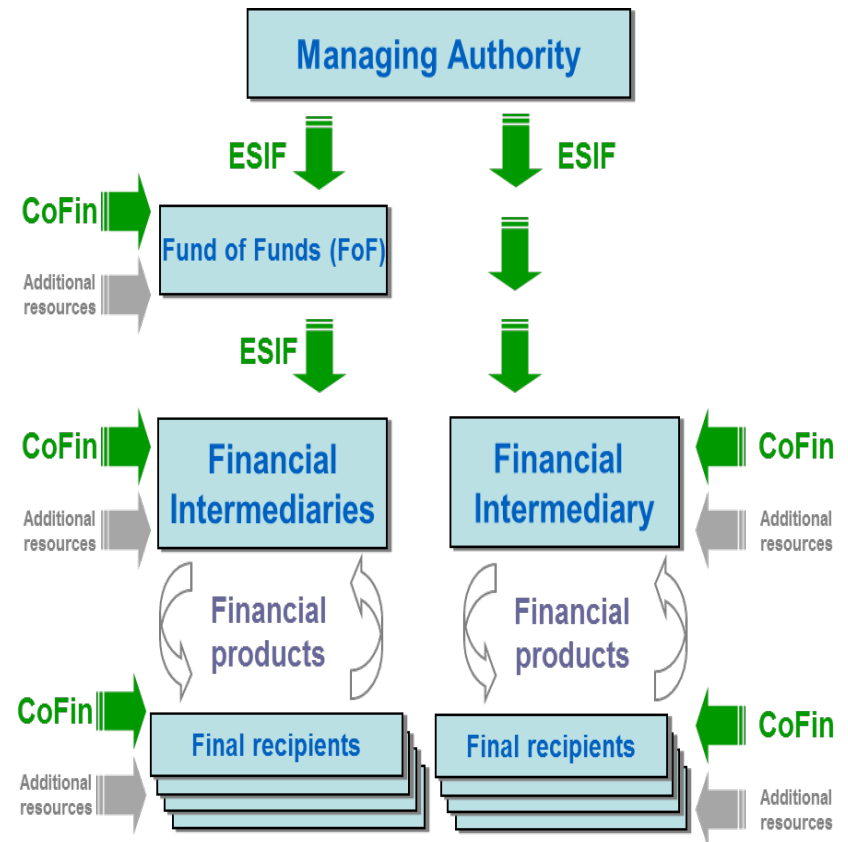
### Main concepts:

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 (2)

Main changes in relation 2007-2013 period:

- **phasing of max 25% of committed programme** amount in FA paid,
- **subsequent payments from Commission**  
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"



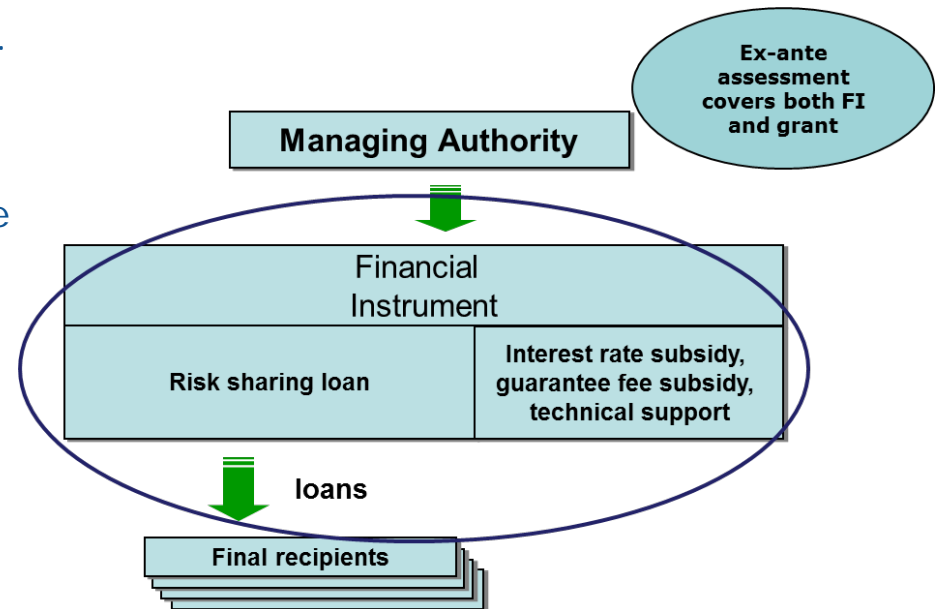
## 2014-2020 Commission guidance Combination (1)

- **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:
  - Combination of a grant and a FI within a **financial instrument operation**
  - Combination at the level of final recipient within two operations

## 2014-2020 Commission guidance Combination (2)

### Combination of a grant and a FI within a **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.

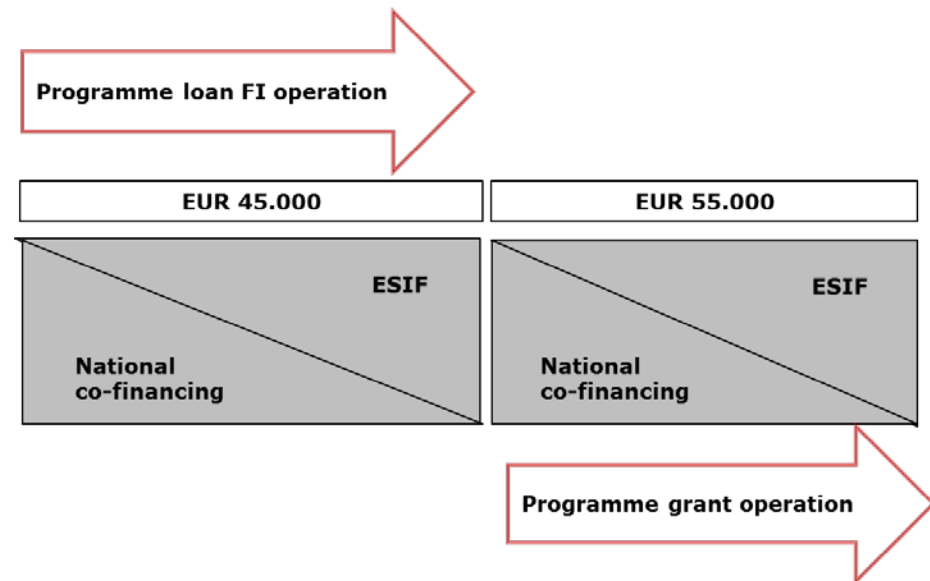


# 2014-2020 Commission guidance

## Combination (3)

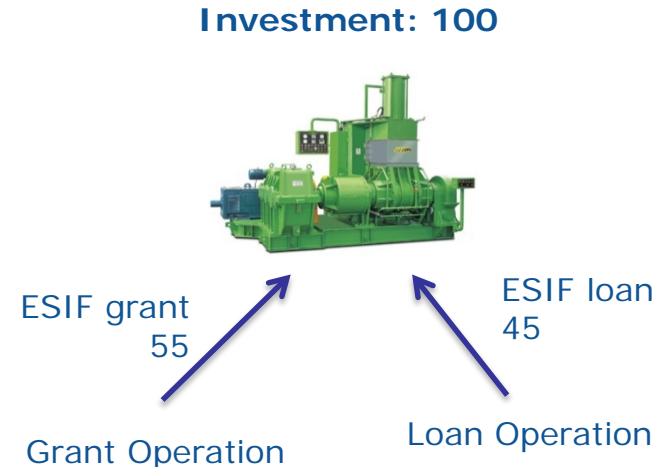
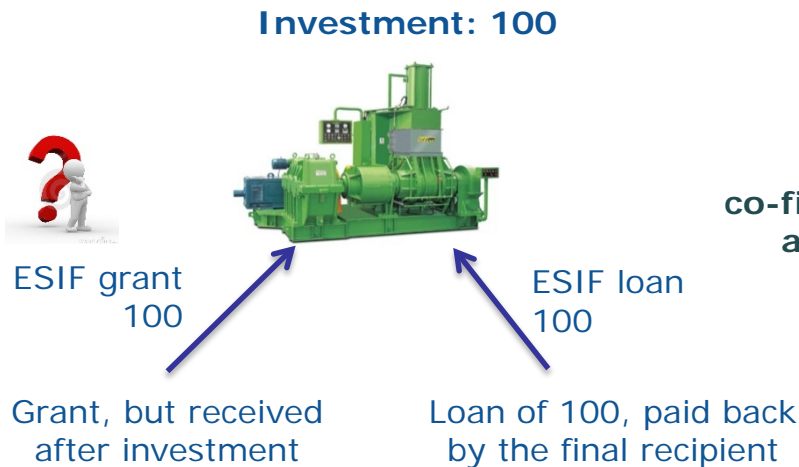
### Combination at the level of final recipient within two operations

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.**



# 2014-2020 Commission guidance Combination (4)

Combination at the level of final recipient within two operations



co-financing rate at PA 50%



1. **Not allowed by the Regulation** (see above)  
 2. **Even if no over-financing with ESIF (because of the 50% co-financing rate) - double declaration of the same expenditure, and loan used to pre-finance a grant:**  
**Eligible expenditure declared to EC:**  
 - Grant: 100  
 - Loan: 100  
**Total ESIF reimbursement:**  $(50\% * 100 + 50\% * 100)$  **100**



**Eligible expenditure declared to EC:**  
 - Grant: 55  
 - Loan: 45  
**Total ESIF reimbursement:**  
 $(55 * 50\% + 45 * 50\%)$  **50**

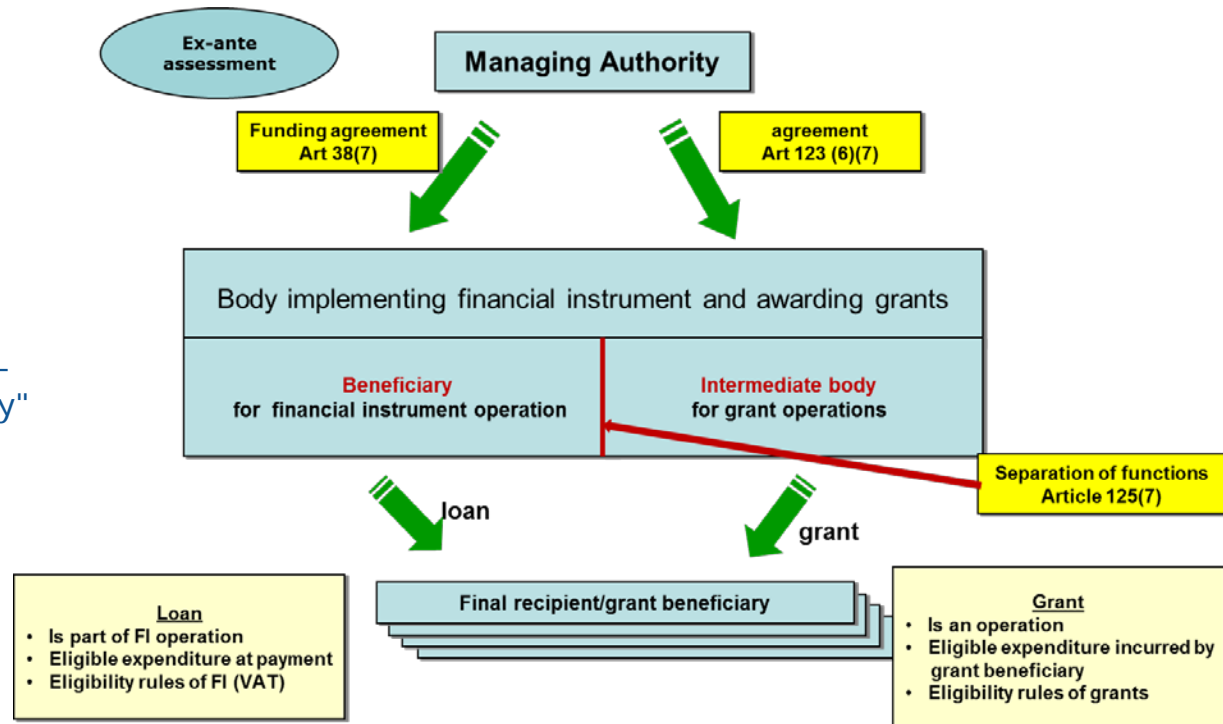
# 2014-2020 Commission guidance Combination (5)

## Combination at the level of final recipient within two operations

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) !!!





# **2014-2020 Commission guidance**

## **Management Costs and Fees/MCF (1)**

*Guidance Note under finalisation*

### **2007-2013**

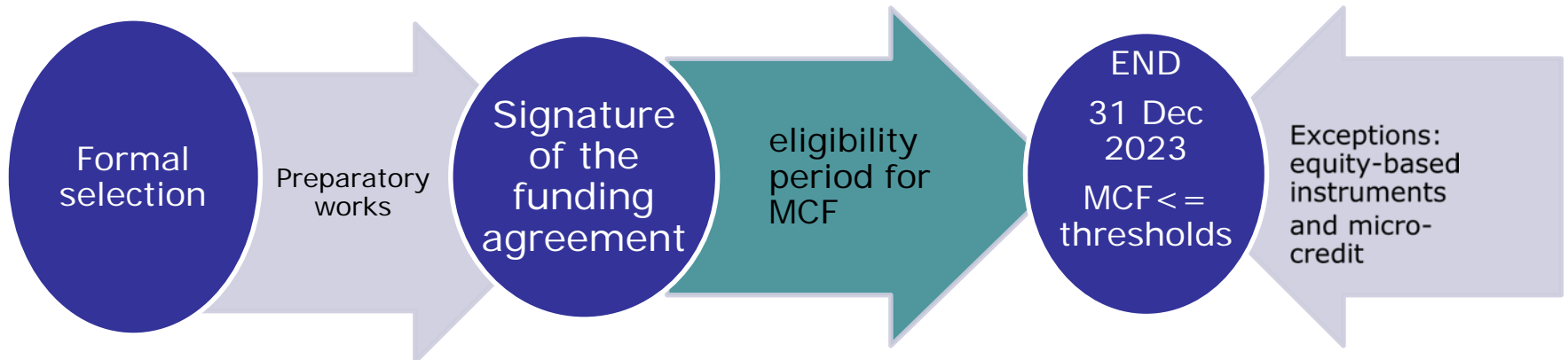
MCF calculated on the basis of the amounts contributed to the FIs = decoupled from disbursements to final recipients AND rather high limits

### **2014-2020**

- requirement for performance orientation
- new calculation of thresholds

## 2014-2020 Commission guidance Management Costs and Fees/MCF (2)

### Eligibility period



## 2014-2020 Commission guidance Management Costs and Fees/MCF (3)

### ➤ Eligible MCF

1. **At closure**, they should **not exceed** the amount calculated in accordance with CDR Art. 13 which is a sum of:
  - **base remuneration** (the basis is programme contribution to FI, the investments in final recipients are not relevant here)
  - **performance remuneration** (the basis are investments in final recipients)
2. **Different calculation of thresholds** in function of the **implementation options** (fund of funds or a specific fund) and **type of instrument**
3. The **amount** calculated **under point 1** is to be **capped** by a general threshold on the entire programme contribution





## 2014-2020 Commission guidance

### Management Costs and Fees/MCF (4)

Body implementing...	General – cap rate-Thresholds Art 13(3) CDR	Implementation progress; Art 13(1) and (2) CDR	
		Base remuneration: rates p.a./pro rata temporis	Performance remuneration: rates p.a./pro rata temporis
Fund of Funds	7.00%	For first 12 months* 3.00%	0.50%
		For next 12 months* 1.00%	0.50%
		Following years 0.50%	0.50%
Loans	8.00%	0.50%	1.00%
Guarantees	10.00%	0.50%	1.50%***
Equity	20.00%	For first 24 months* 2.50%**	2.50%
		Following years 1.00%**	2.50%
Micro credit	10.00%	0.50%	1.50%
Other	6.00%	0.50%	0.50%

## 2014-2020 Commission guidance Management Costs and Fees/MCF (5)

### Eligible MCF

The methodology of calculation eligible MCF does not apply if:

1. The **body implementing** the financial instrument **is selected through a competitive tender** which proves the need for higher MCF, or
2. **For equity** where the **majority of the capital invested** in financial intermediaries **is provided by private investors or public investors** operating under market economy principle and the programme contribution is provided *pari passu* with the private investors

**Higher MCF can be paid from non-ESIF resources**, e.g. from resources attributable to the support from ESI Funds programmes which are paid back from investments in final recipients, or from own resources (but state aid rules apply)



## 2014-2020 Commission guidance Management Costs and Fees/MCF (6)

Article 12(2) CDR: the managing authority shall inform the **monitoring committee** about the performance-based calculation of management costs and fees of the financial instruments (the Commission recommends that the monitoring committee is informed before the relevant funding agreements are signed as it was good practice in some cases in the 2007-2013 already). The monitoring committee shall also receive reports on an annual basis on the management costs and fees effectively paid in the preceding calendar year.

Article 46(2)(e) CPR: the **specific report on financial instruments** shall include the information about the management costs incurred or management fees paid, by each financial instrument and by programme and priority or measure.

# 2014-2020 Commission guidance

## Forthcoming guidance documents

### Already presented to Member States

- Selection of bodies implementing FIs
- Brochure on ESIF/EFSI complementarities
- Preferential remuneration of private investor
- Treasury management

### In preparation

- State aid
- Eligibility
- Implementation options
- Reporting on FI



Thank you for your attention

**Q&A**



Thank you for your attention

**Q&A**



**BACK UP SLIDES**

# 2014-2020 Commission guidance

## Preferential remuneration of private investor (1)

### In discussions with MSs

#### Rationale for this guidance note

- Driven not only by MSs questions
- Audit recommendation from internal audit at the Commission
- MAs not fully familiar with the concept of preferential remuneration
- Concept has expanded in 2014-2020

#### Purpose of the guidance

- to explain the concept of preferential remuneration and its use in the context of ESIF financial instruments

The purpose of the note is NOT to provide guidance on establishing a particular need or level of preferential remuneration. This is an individual process which starts in the ex-ante assessment.



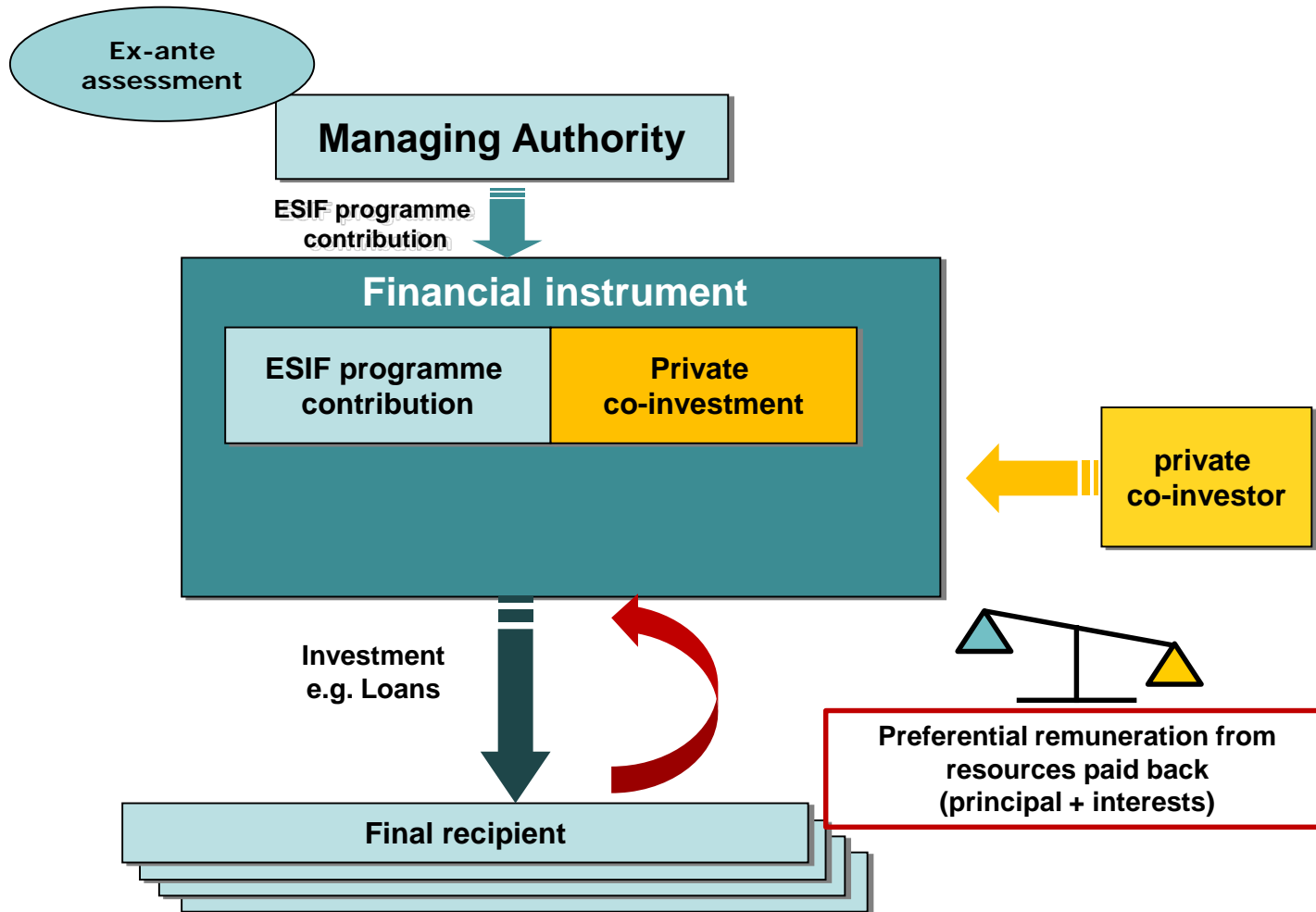
## 2014-2020 Commission guidance

### Preferential remuneration of private investor (2)

#### Main considerations

- the presence of private co-investors is desired in ESIF financial instruments;
- to attract private investor there might be a need for a specific incentive, (in terms of higher profit or lower risk) which constitutes "preferential remuneration";
- this incentive is not paid from the initial ESIF programme contribution but from resources paid back;
- need and level of preferential remuneration in ex-ante assessment;
- since public resources are concerned State aid considerations are relevant.

## Preferential remuneration of private investor (3)



## 2014-2020 Commission guidance Treasury management (1)

- **Legal base** – Article 43 CPR
- **Relevant only:**
  - ✓ to the ESIF support paid into the FoF/FI
  - ✓ at the level of the FoF/FI when ESIF support is paid into the FI but is not yet invested in final recipients
- ESIF support to be invested on a temporary basis in line with the principles of **sound financial management**, follow a prudent treasury and investment behaviour (pre-agreed in the FA)
- Any **gains** from the treasury management:
  - ✓ are additional (but not programme) resources;
  - ✓ should be used until the end of the eligibility period for the same purposes (either within the same FI, or if would up - in another FI or form of support, in line with the OP priority objectives)

## 2014-2020 Commission guidance

### Treasury management (2)

- Within the same FI, the use of gains should "**mirror**" the use of the initial ESIF contribution:
  - ✓ by being added to the capital of the fund and used for investments in FR, and
  - ✓ being used to cover a proportionate share of the MCF.
- The interest and other gains are **not eligible** expenditure at closure. To be deducted from the eligible expenditure if at the end of the programming period not used for the same purpose.
- **Reporting** –
  - ✓ FI/MA – reporting modalities to be part of the FA; the MA obliged to ensure that adequate records of the use of interest and other gains are maintained (Art 43(3))
  - ✓ MA/COM – MA to send information on the interest and other gains generated from the support from the ESI Funds to the FI, as annex to the AIR (Article 46(1)(g) CPR)

## 2014-2020 Commission guidance Treasury management (3)

### Specific cases

- **Direct implementation** of FIs (Article 38(4)(c) CPR) => treasury management not relevant
- **Negative returns:**
  - to be foreseen in advance by MA & FI
  - possible ways to mitigate/reduce the risk:
    - ✓ more frequent interim applications for payments + swift payments to FR
    - ✓ extending maturities, but need for accurate assessment/forecast of cash-flow needs
    - ✓ for FoF – asset transfer from another FI within the FoF portfolio, if possible, justified and envisaged in the FA
- **Overly prudent treasury management**

## Reporting in new programming period

### Article 46 of CPR

- First summary report on progress of implementation FI in 2016
- Deadline for report: AIR deadline (31 May / 30 June) + 6 months
- ⇒ Time to review and correct data in parallel to AIR process
- Report on FI as annex to AIR

**Model for reporting on FI** in Implementing Regulation (EU)  
No 821/2014 – Annex I

Additional information compared to current reporting in the areas of:

- Management costs and fees, reflows and follow on investment, default of loans and guarantees,
- leverage and output indicators (only in 2017, 2019 and final report)