European Commission

Financial instruments - opportunities offered by the 2014-2020 framework

Key novelties and Commission guidance

Valletta, 25 January 2016

2014-2020 framework

- Performance oriented legal framework to **promote the use** of financial instruments (FI)
- Main **advantages** of FI:
  - Improve access to private sector resources and expertise to deliver public policy objectives
  - Better quality of projects as the investment must be repaid
  - A move from 'grant dependency' culture
  - Represent efficiency gains due the revolving nature meaning that funds stay in the programme area for future use

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/RDP support through FI is with the **managing authority (MA)**

2014-2020 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**,
  - **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 and final recipient)

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

European Commission

2014-2020 framework

Key novelties (2)

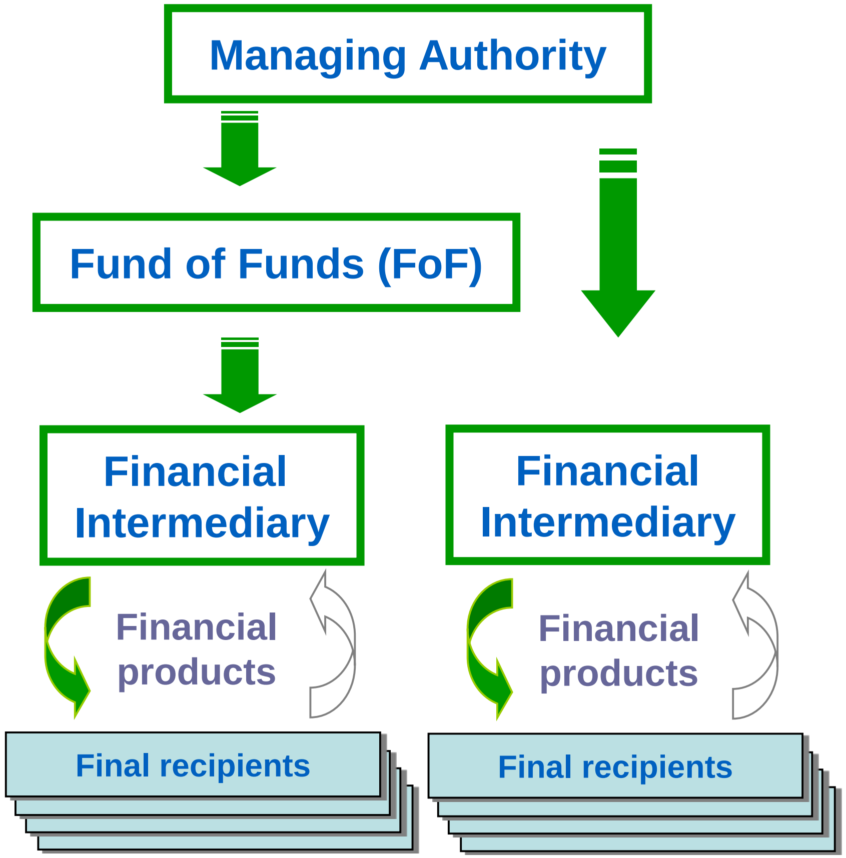
- **Ex-ante assessment to be carried out** before programme contribution to FI operation under the ESIF
- **Incentives regarding EU co-financing rates**
- **Phased payments to FIs**
- **More detailed rules concerning**
  - eligible expenditure at closure,
  - the (re-)use of interest/other gains and 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/RDP 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

Novelty:

- **Off-the-shelf instruments** with standard conditions to facilitate the set–up phase (State aid compliant from the onset)

2014-2020 framework
"Off-the-shelf"

Three for SMEs

1. Loan for SME's based on a portfolio risk sharing loan model (Risk Sharing Loan) (Annex II of 2014/964/EU) .
2. Guarantee for SMEs (partial first loss portfolio, capped guarantee) (Annex III of 2014/964/EU).

   \+ Equity fund for SMEs and start-up companies.

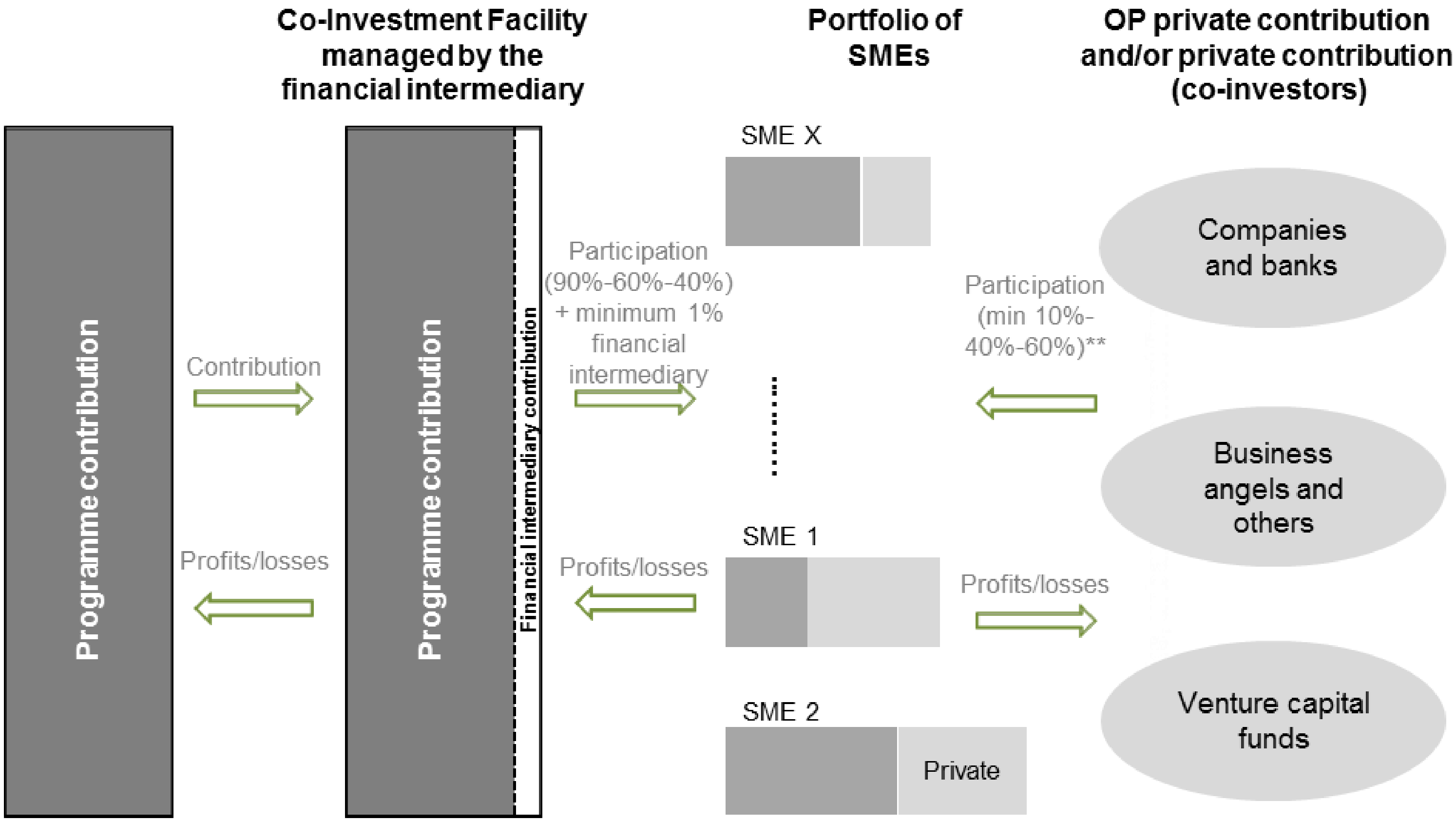
One for energy efficiency/renewable energies and one for urban development

3. Renovation Loan based on a Risk sharing loan model (RS Loan) (Annex IV of 2014/964/EU).

   \+ Urban Development Fund.

2014-2020 framework

"Off-the-shelf" - Co-Investment facility (1)



** including the minimum 1% financial intermediary contribution

2014-2020 framework

"Off-the-shelf" - Co-Investment facility (2)

Main features

- Under Article 21 of the General Block Exemption Regulation (EU No 651/2014)

- Final recipients are unlisted SMEs:
  a. not operating in any market, or
  b. operating for less than 7 years after first commercial sale, or
  c. entering a new product or market.

- Co-financing on a deal by deal basis. Co-investors shall be independent from the final recipients

- Aggregate private participation depending on the final recipient: minimum 10% for a., 40% for b. and 60% for c.

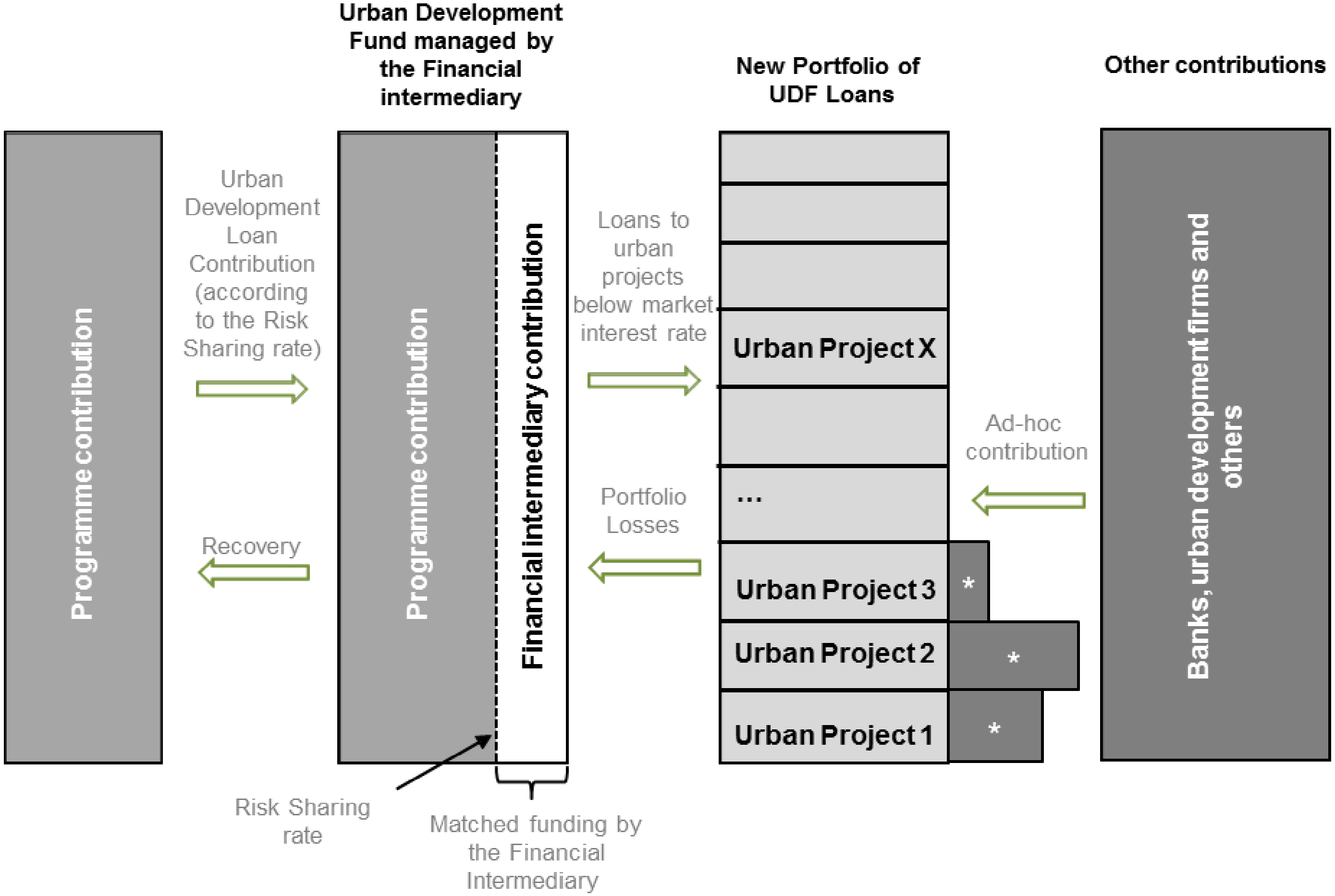
2014-2020 framework
"Off-the-shelf" - Co-Investment facility (3)

Main features

- Financial intermediary is a private body selected through open call and take investment decisions (with own participation of at least 1% pari-passu)
- Maximum total amount 15 m€ per final recipients.
- Co-investors are private, independent from the final recipients.
- Preferential remuneration is possible for co-investors if validated by the ex-ante assessment (preferential profit sharing).

2014-2020 framework

"Off-the-shelf"-Urban Development Fund (1)



2014-2020 framework
"Off-the-shelf"-Urban Development Fund (2)

Main features

- Under Article 16 of the of the General Block Exemption Regulation (EU No 651/2014)
- In assisted area (regional State aid map)
- Final recipients are urban development actors, investing in urban development projects
- co-financing shall be of 30% at the fund level by the financial intermediary – Private co-financing shall be minimum 30% at project level.
- Financial intermediary takes investment decisions (with own participation of minimum 1% pari-passu)
- Maximum total amount 20 m€ per urban development project.
- Preferential remuneration (asymmetric risk-sharing) is possible at the fund level if validated by the ex-ante assessment.

2014-2020 framework
"Off-the-shelf"-Urban Development Fund (3)

Urban development projects

- Shall be part of an integrated sustainable urban development strategy
- Based on business model, generating revenues or reduce expenditures
- Potential to attract other investors

Portfolio of urban development projects

- Financial intermediary shall identify, invest in and manage a portfolio of projects
- Inclusion shall be based i.e. on the sustainable urban development strategy and investment strategy confirmed in the ex-ante assessment

2014-2020 Commission guidance

- **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)

Guidance notes: state of play

(notes in today's presentation are marked in bold)

Finalised

- Short guide for MA
- Glossary
- **Ex-ante assessment**
- Working capital
- **Payments**
- **Management costs and fees**
- **Combination of support**

Forthcoming guidance

- Treasury management
- Selection of bodies implementing FIs
- ESIF/EFSI complementarities (brochure)
- Preferential remuneration of private investor
- Eligibility in FIs
- Reporting on FIs

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
Phased payments

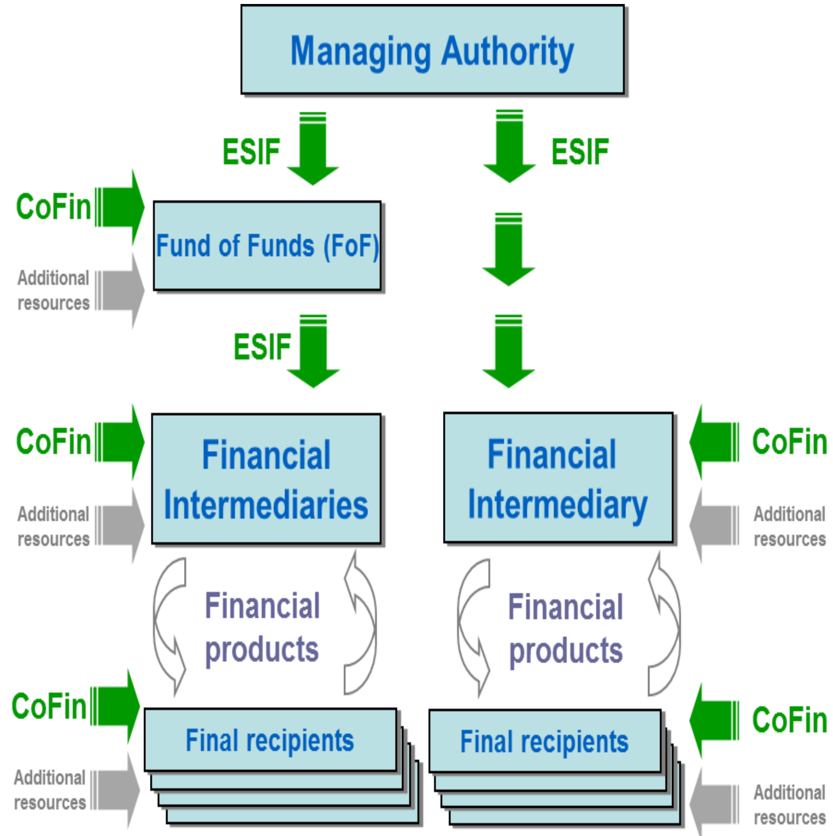
Main concepts:

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



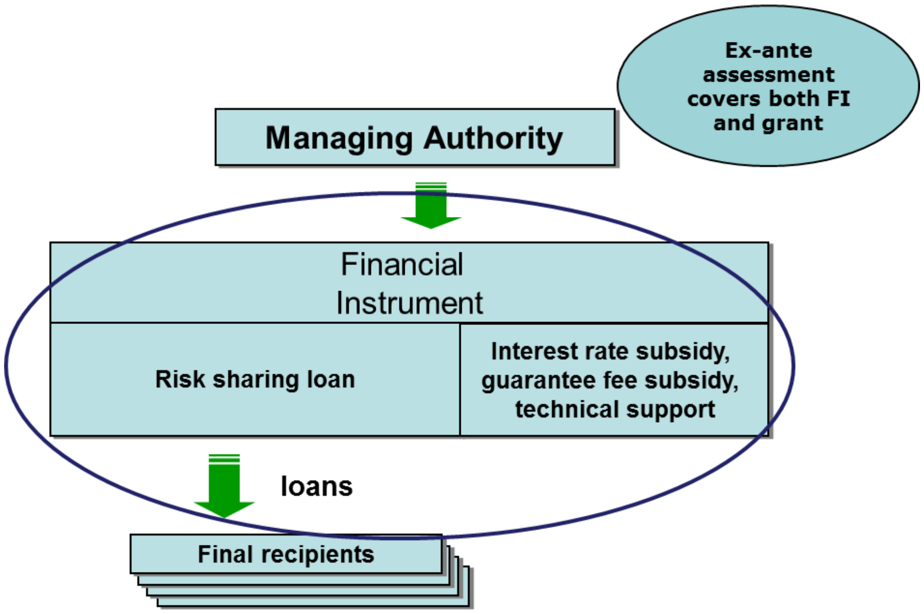
2014-2020 Commission guidance
Combination (1)

- **Two types of combinations -** the legal framework 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 / measure** (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.



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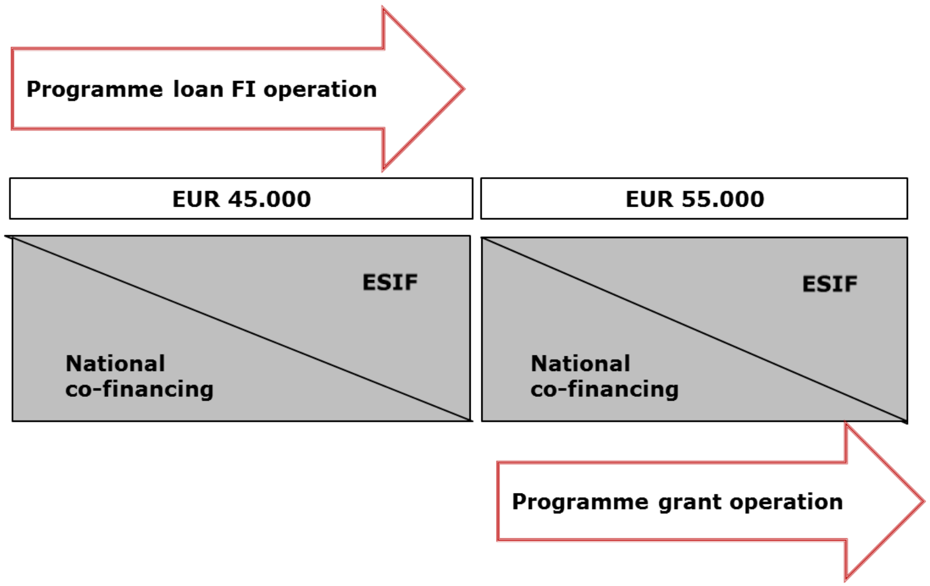
Combination (3)

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 ≤ 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

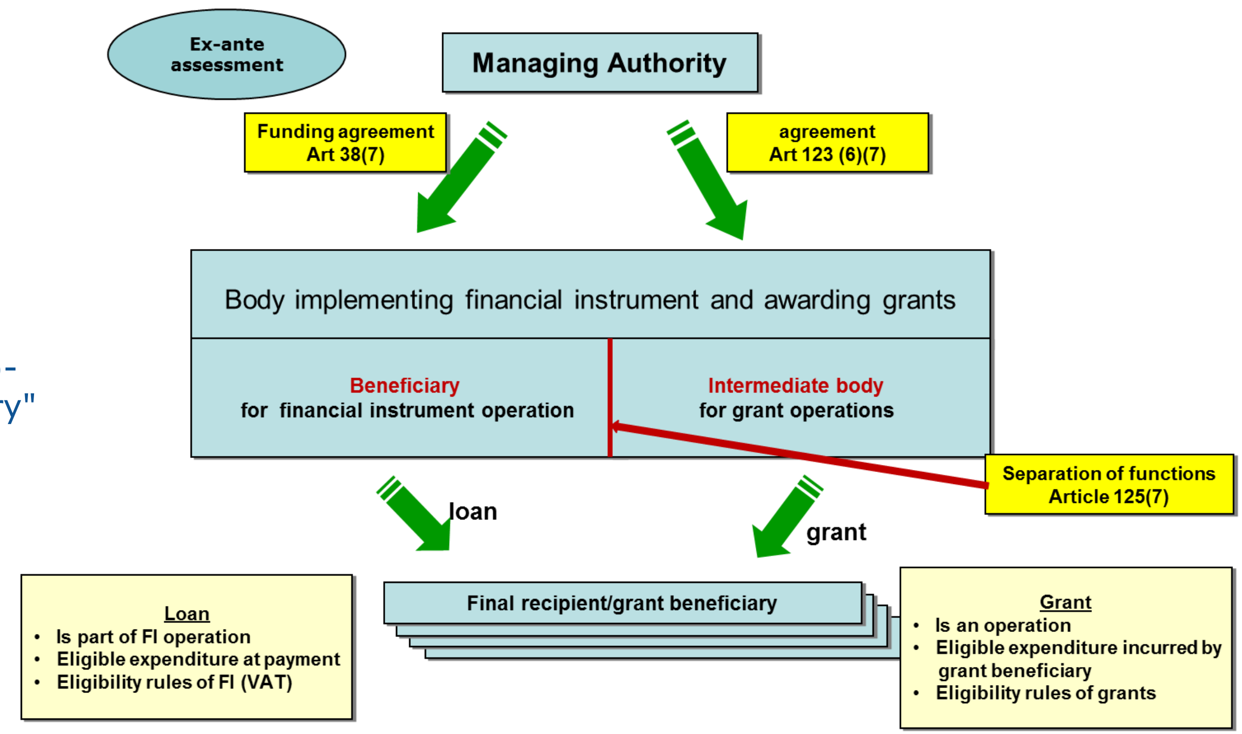
Combination (4)

Combination at the level of final recipient within two operations

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

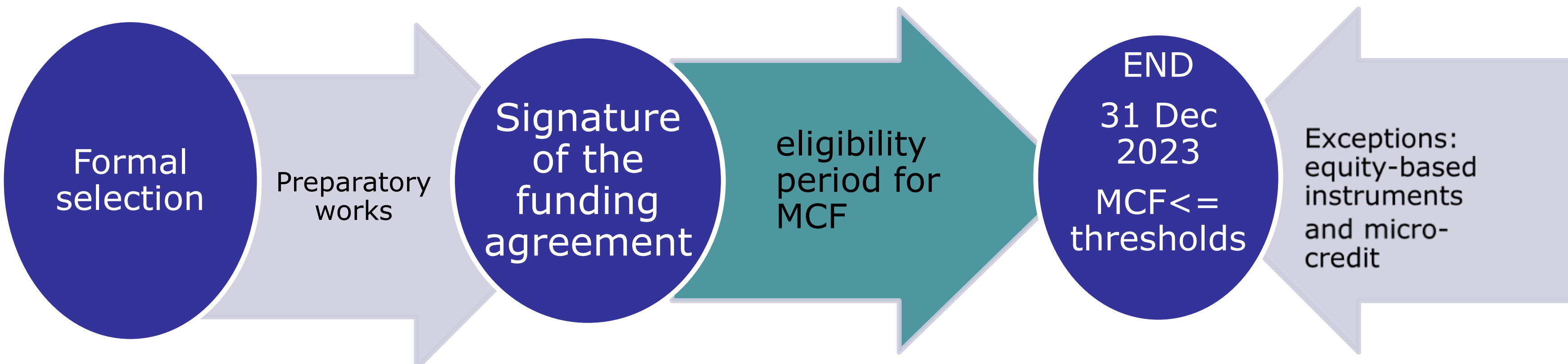
- **by the same body** (it will be "beneficiary" for FI and "intermediate body" in case of grant)
- **to the same body** (e.g. enterprise)- ("final recipient" for FI and "beneficiary" for grant)
- **for the same project** or even expenditure item (e.g. machinery)

!!! **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)

Eligibility period



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

- **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** (with or without a fund of funds) 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 (3)

- **Eligible MCF**

The **methodology** of calculation eligible MCF **<u>does not apply if:</u>**

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)

Thank you!

Q&A