



Financial instruments - Commission guidance notes

Commission guidance
London, 18 February 2016

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 (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

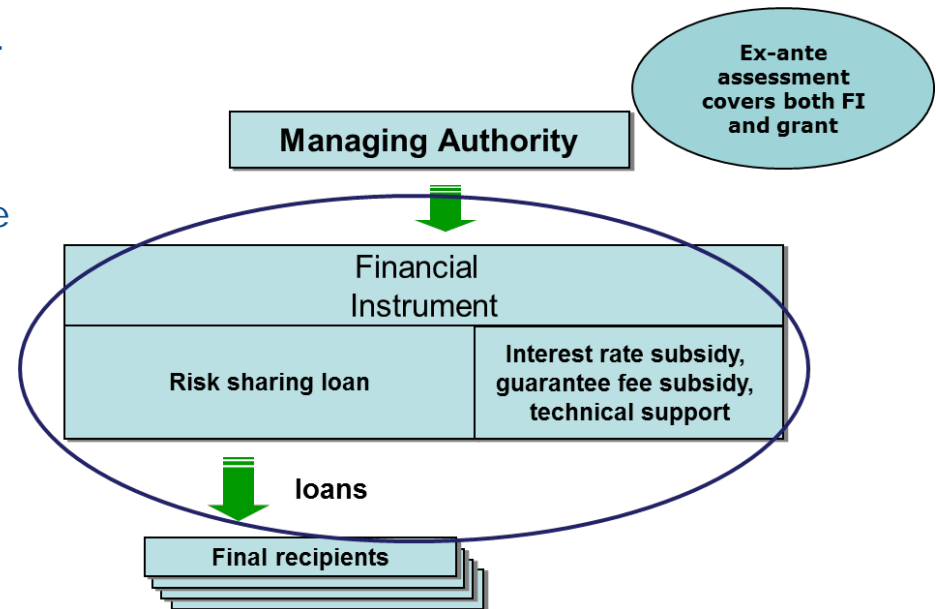
2014-2020 Commission guidance Combination (1)

- **Two types of combination** - 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**

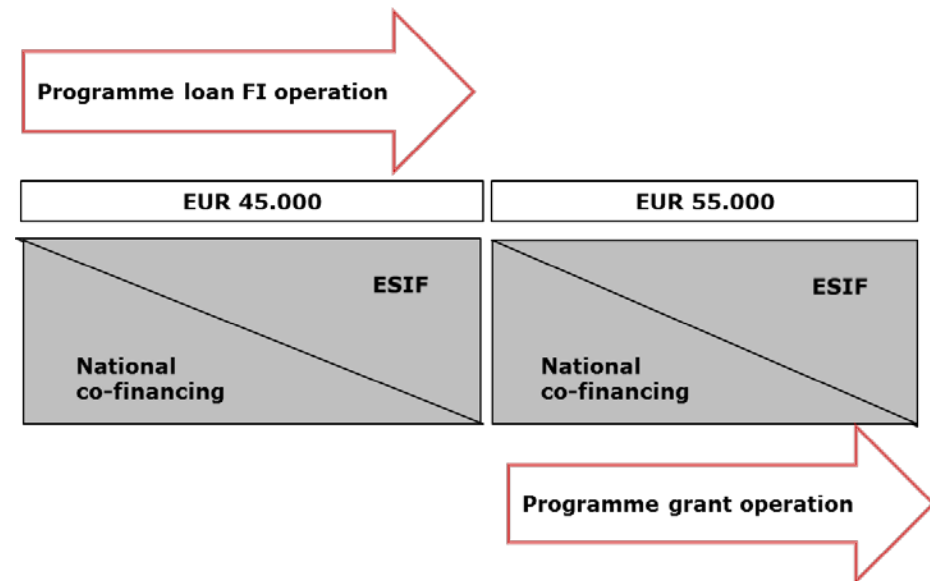
1. Grant is **directly related to financial instrument** targeting the same final recipients (interest rate subsidy, guarantee fee subsidy, technical support). **It is NOT a grant for the investment in final recipient.**
2. Grant and financial instrument constitute a **single operation**, which falls 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.



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.**



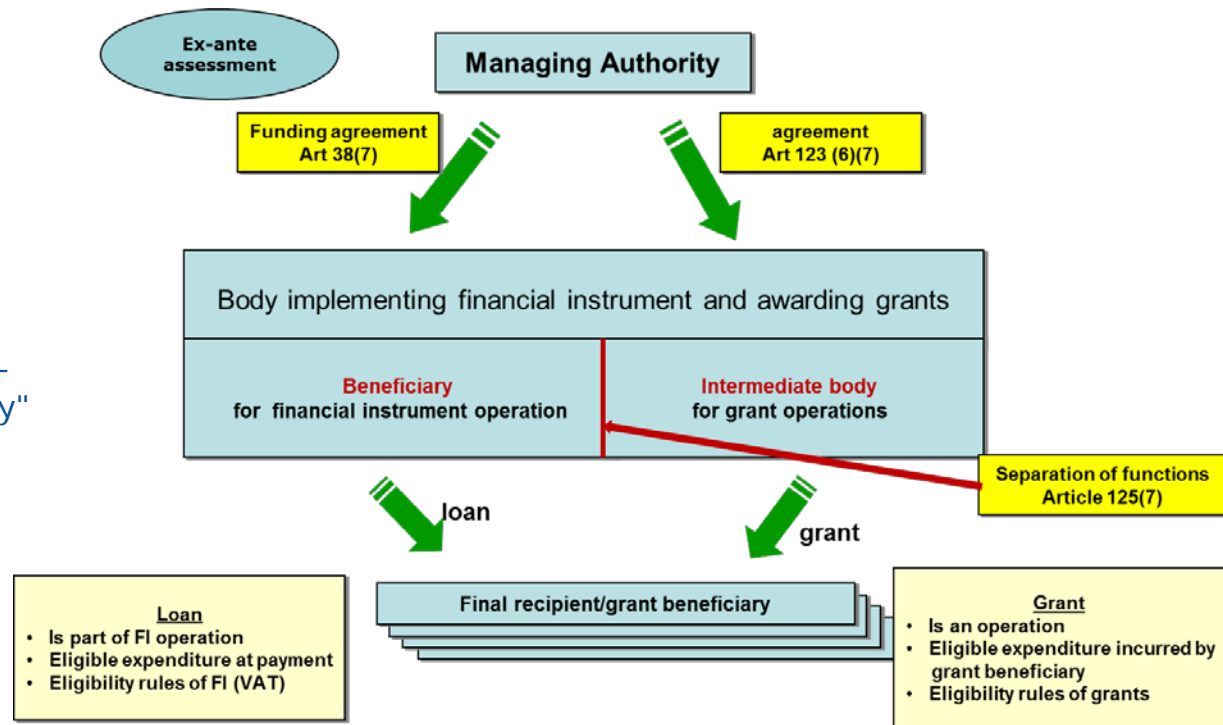
2014-2020 Commission guidance Combination (4)

Combination at the level of final recipient within two operations

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) !!!



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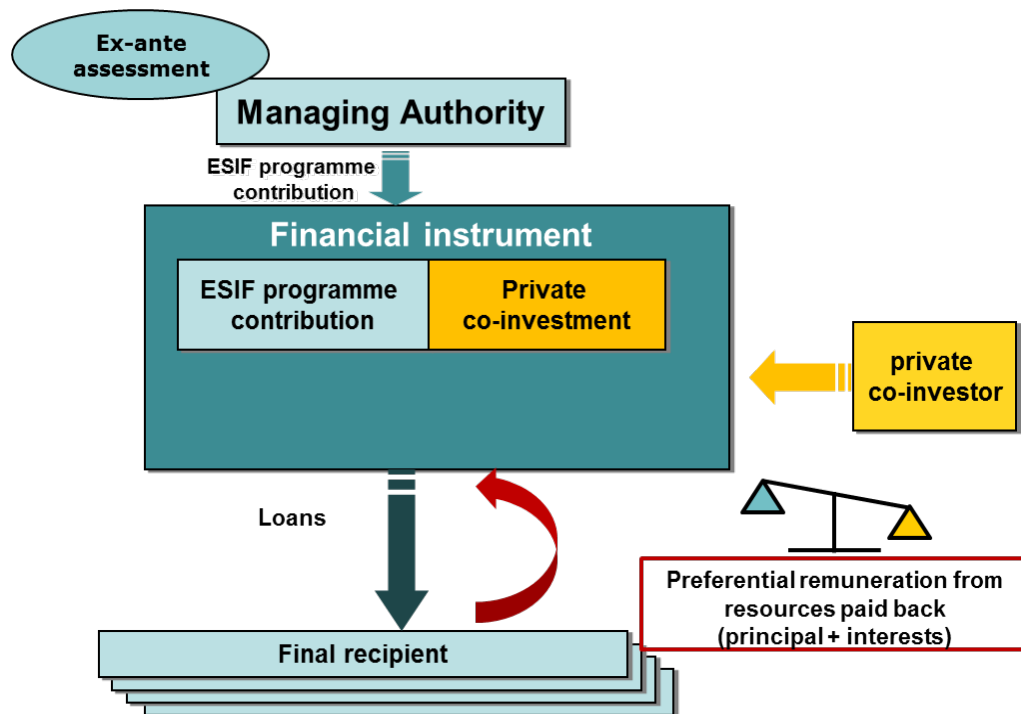
Preferential remuneration of private investor (1)

Purpose of the guidance note:

- to explain the concept of preferential remuneration and its use in the context of ESIF financial instruments (concept expanded, novelty to many MAs)
- NOT to provide guidance on establishing a particular need or level of preferential remuneration. This is an individual process which is part of the ex-ante assessment.

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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.

2014-2020 Commission guidance Phased payments

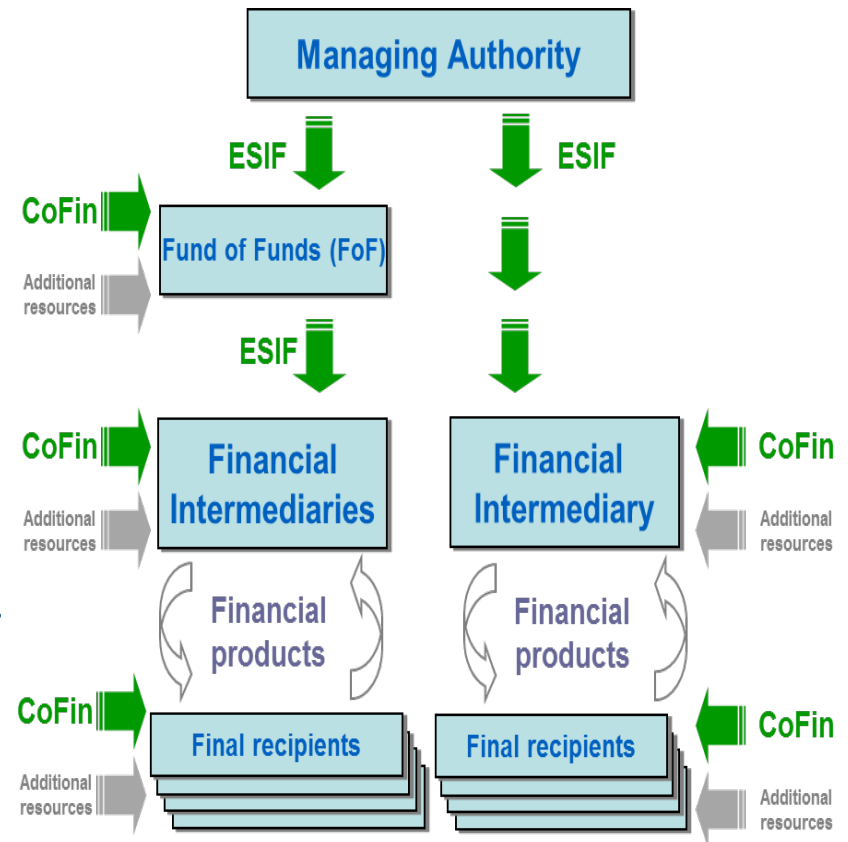
Main concepts:

1. ESIF programme contribution to financial instrument (ESIF contribution and national co-financing)

2. National co-financing at the level of FI operation

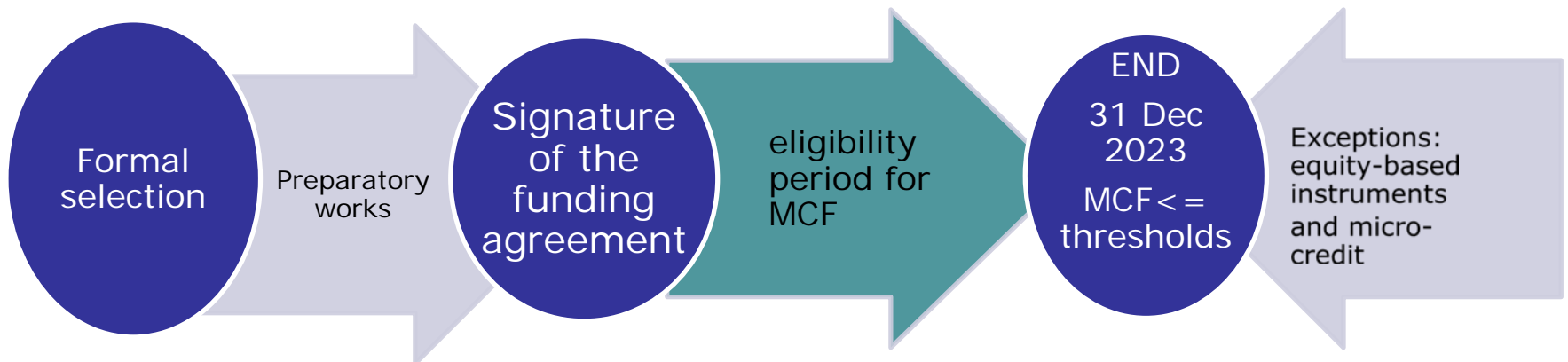
- can be different than at PA level,
- can be private/public,
- can come at different levels: MA (e.g. regional budget), FoF (e.g. national resources), financial intermediary (e.g. own resources), or at the level of investment in final recipient (e.g. co-investment by business angel).

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



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

- **Relevant only** to the ESIF support paid into the FoF/FI but not yet invested in final recipients (*not relevant under direct implementation of FIs*)
- 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 wound 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, it is recommended that 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.
- **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)



Thank you!

Q&A

Back-up slides



2014-2020 Commission guidance Working capital (1)

Support for working capital in enterprises **is eligible** as a means 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

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Working capital (3)

Questions & Answers

1. How the State Aid rules influence the ESIF financing of the working capital through FIs:
 - a) The support of working capital must be within the limits of State Aid
 - b) FI providing financing of working capital should attract co-investments by the private sector
2. "For financial instruments implemented in accordance with Article 38(1)b of the CPR, evidence of compliance with the eligibility conditions will be provided by the application forms, with supporting documents including business plans." At which level the supporting documents should be kept?

A: There is no requirement that the application forms with supporting documents including business plan are kept at the level of managing authority. In line with Article 9(1)(d) of Regulation (EU) 480/2014 supporting documents should be kept at any of the following levels: managing authority, financial intermediary, body that implements fund of funds. The arrangements for documentation to be kept at different levels should be agreed in the funding agreement.



2014-2020 Commission guidance

Phased payments (2)

Questions & Answers

1. If one or more funds under the fund of funds model do not perform as well as the others, will it delay payment of subsequent tranches?

Yes, the payment to the financial instrument is the payment from MA to the beneficiary (in this case the FoF) and the 60% threshold applies to this amount included in the previous application for interim payment (Article 41(1)(c) CPR). The task of FoF is however proper management of ESIF programme allocation to FI operation.

2. If the amount of programme contribution to the FI is increased, how are the payments and tranches affected?

The MA has to amend the funding agreement and pay an additional programme contribution to the FI. This additional payment to the FI may trigger a payment application for up to 25% of the additional committed amount. For the calculation of the maximum next tranche, the total increased commitment should be used. For the calculation of the progress in implementation, needed to justify the next payment application, the total amount included in the previous applications (with the 25% of the additional commitment) should be taken into account.

2014-2020 Commission guidance ESIF/EFSI (brochure)

EFSI features:

- The Investment Plan for Europe is based on three pillars – one of them is EFSI
- EFSI support will take the form of financial instruments (**no grant support**)
- EFSI has its own governance: **Steering Board** and **Investment Committee**
- EFSI has **no geographical or sectorial** allocations
- EFSI is **State aid free** (however EIB backed by EFSI is not a private investor)
- EFSI, through EIB, will support **high risk** profile projects or projects bringing **additionality**

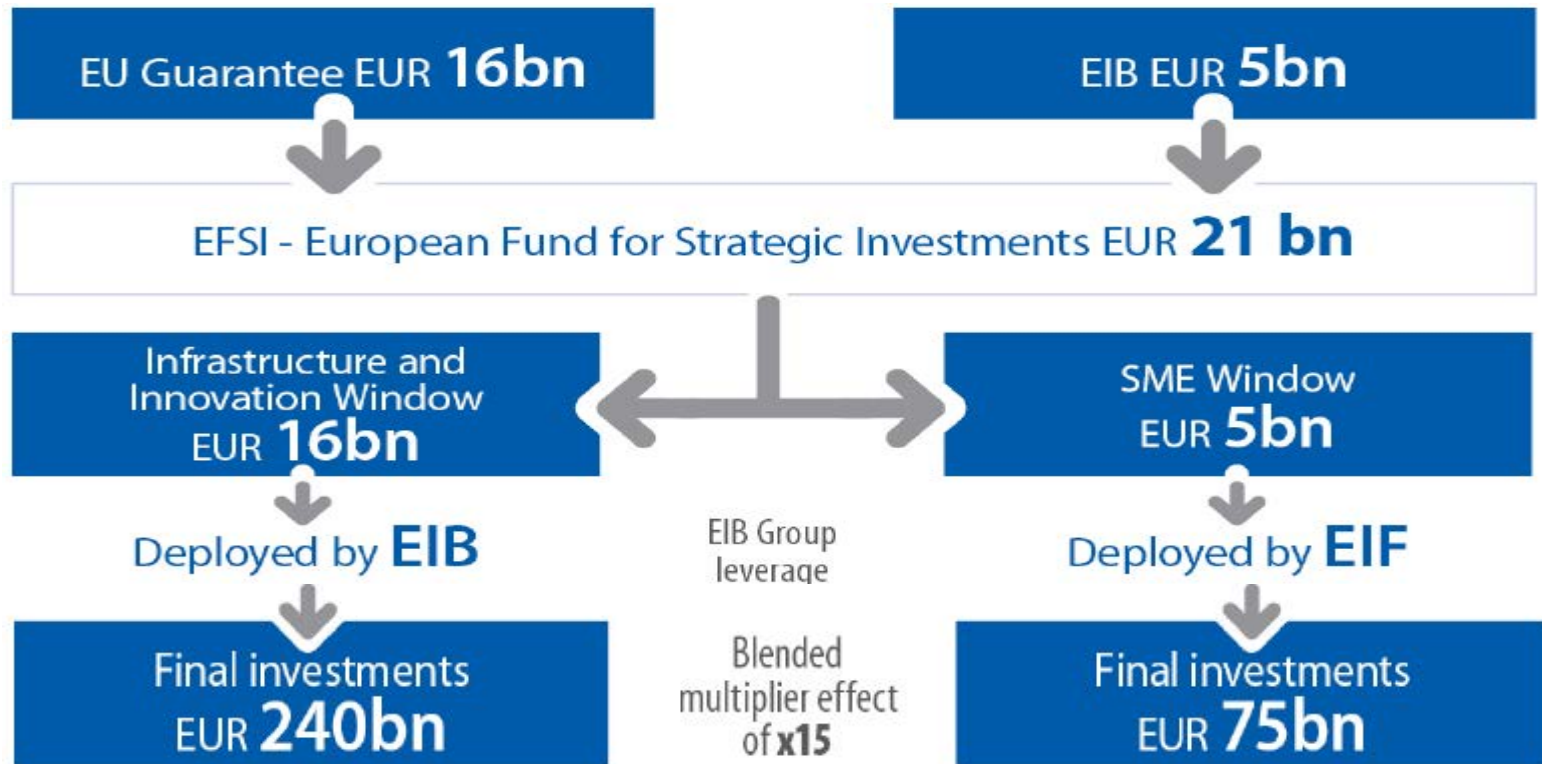


2014-2020 Commission guidance ESIF/EFSI (brochure)

How much under ESIF and EFSI?

- **ESI Funds** are some **EUR 450 bn**
- **EFSI** shall mobilise **EUR 315 bn** in 3 years (15x leverage), under an EU guarantee of EUR 21 bn, 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**

2014-2020 Commission guidance ESIF/EFSI (brochure)





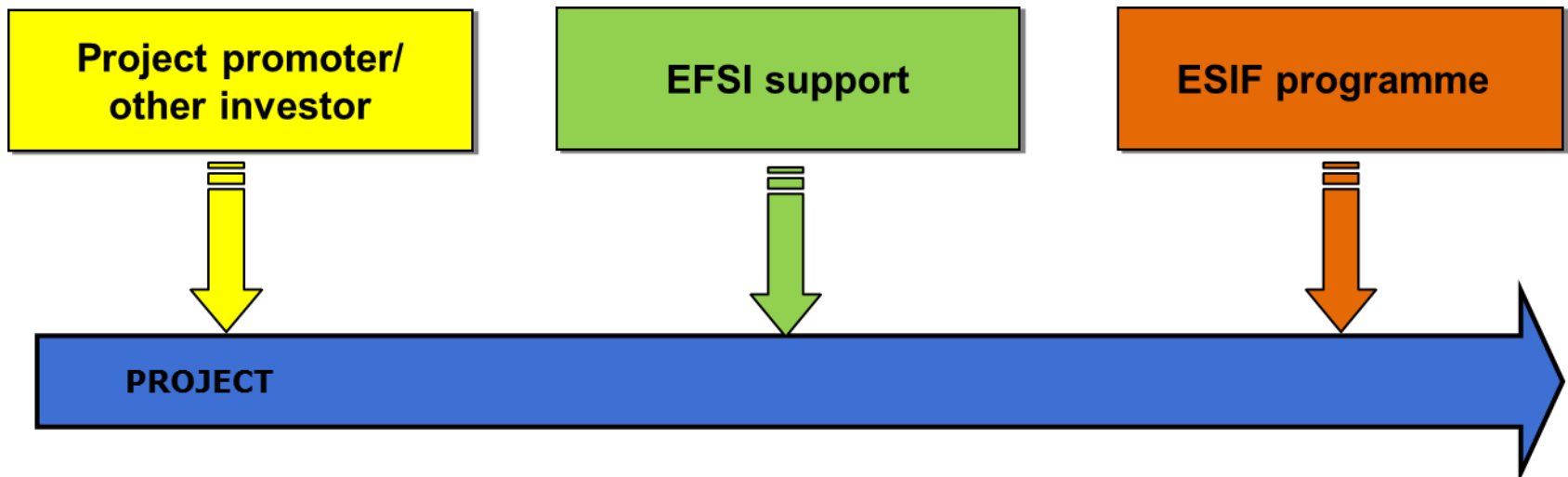
2014-2020 Commission guidance ESIF/EFSI (brochure)

ESIF-EFSI complementarities:

- Legal bases of both ESIF and EFSI allow for contributions to support each other's objectives (**complementarity element**)
- Their **combination** is 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

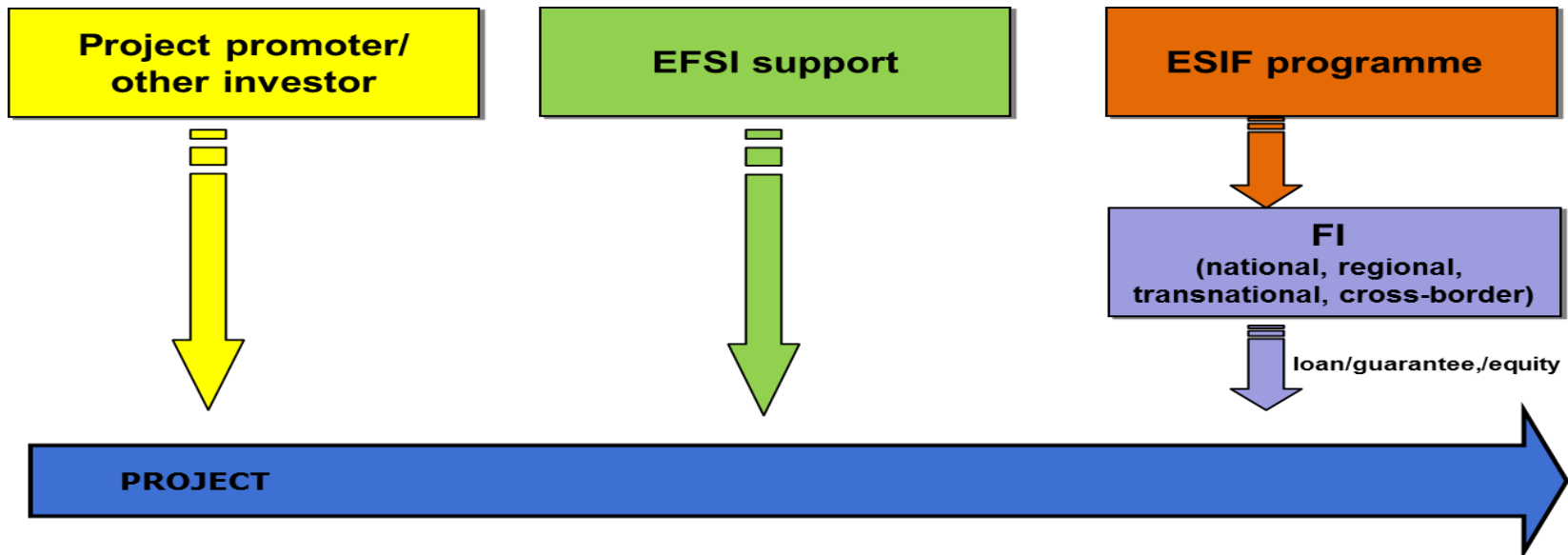
2014-2020 Commission guidance ESIF/EFSI (brochure)

ESIF and EFSI combination – Project level



2014-2020 Commission guidance ESIF/EFSI (brochure)

ESIF and EFSI combination – Project level



2014-2020 Commission guidance ESIF/EFSI (brochure)

ESIF and EFSI combination – Financial instrument/investment platform level

