



# Financial Instruments in Cohesion Policy

## State of play, lessons learned and outlook 2014-2020

**Directorate General for Regional and Urban Policy**

*Unit B3 : Financial Instruments and IFI Relations*

## Workshop on Financial Instruments

Madrid 17 April 2013

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## **FIs in cohesion policy - State of play 2007-2013**

- **FI uptake in Member States**
- **Key challenges detected**

## **Proposed framework for ESI Funds in 2014-2020**

- **Background & objectives**
- **Key novelties**
- **Next steps in developing and finalising the framework**

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# Implementation in Regional Policy 2007-13

- **Article 44 of the council Regulation 1083/2006 enables support through FEIs in three thematic areas:**
  - Art 44 (a): Enterprises, including SMEs & micro enterprises
  - Art 44 (b): Sustainable urban development
  - Art 44 (c): EE & RES in the building sector, including existing housing
- **Overall FEI Implementation progress in EU Member States (as per 31.12.2011):**

|  |     |         |
|--|-----|---------|
| OP contributions (SF + national contributions) paid to FEIs: | EUR | 10.7 bn |
| SF contributions paid to FEIs:                               | EUR | 7.0 bn  |
- **FEIs for enterprises (year end 2011):** EUR 8.9 billion of SF & national resources paid to 540 FEIs (Holding Funds and specific funds) across 25 Member States
- **FEIs for sustainable urban development (year end 2011):** EUR 1.5 billion of SF and national resources paid to 51 FEIs (Holding Funds and specific funds) across 10 Member States
- **FEIs for energy efficiency and renewable energies (year end 2011):** EUR 345 million of SF and national resources paid to 15 FEIs (Holding Funds and specific funds) across 5 Member States

# Financial instruments in Regional Policy 2007-2013

## Challenges with regard to design & implementation

- Delays in delivering funds to final recipients: FEIs represent a new approach to CP support, requiring new skills, partnerships and capacities
- Limited availability of reporting & monitoring data
- Over allocation of resources to financial instruments
- Shortcomings in the financial or market gap assessment - rationale for FEI deployment?
- Potential for achieving better leverage effects
- Legal and administrative framework not detailed enough from the outset (COCOF Guidance, audit methodology)

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# Financial instruments 2014-2020: Introduction

## Background:

Increased importance of financial instruments in implementing EU budget resources in future (Budget review, 5<sup>th</sup> Cohesion Report, MFF)

- ➔ **EU central level / „direct management“:** „EU Debt and Equity Platforms“ to serve as standardised rules for FIs using EU budget
- ➔ **Regional Policy / „shared management“:** Strengthening and expansion of financial instruments in the context of Cohesion Policy

## ESI Funds legislative framework 2014-2020 to:

- ➔ provide a clear set of rules, based on existing experience / guidance,
- ➔ facilitate wider and more flexible use (e.g. capture synergies with grants, wider thematic scope, more implementation options),
- ➔ ensure better targeting, budgeting and monitoring of FIs,
- ➔ achieve compatibility with financial instruments at EU level.

# Financial instruments 2014-2020: Key novelties <sup>(1)</sup>

## ➔ Wider scope:

- Common provisions cover all five ESI Funds: ERDF, ESF, Cohesion Fund, EAFRD and EMFF
- Expansion to all thematic objectives & priorities foreseen by OPs

## ➔ More implementation options for managing authorities:

- Contribution to national or regional EU level FIs under shared management
  - Tailor-made instruments (cf. current period)
  - Standardised "off-the-shelf instruments for quick roll-out
- Contribution to EU level FIs under central management (ring-fencing)



# Financial Instruments in MMF proposals 2014-2020

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

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

Research,  
Development  
Innovation

**Horizon 2020**  
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

➔ EU level (central  
management)

➔ National/regional  
instruments (shared  
management)

Infrastructure

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

- Off-the shelf FIs
- Tailor made FIs

*Significant higher amounts than  
currently!*

## Financial instruments 2014-2020: Key novelties (2)

### ➔ More flexible implementation modalities for FIs at national/regional level.

Managing Authorities may:

- Invest in the capital of existing or newly created legal entities
- Entrust implementations tasks to:
  - EIB
  - IFIs in which a MS is a shareholder or financial institutions acting in public interest / under control of public authority
  - A body governed by public or private law selected in accordance with EU and national rules
- Undertake implementation tasks directly for FIs consisting solely of loans and guarantees

## Financial instruments 2014-2020: Key novelties <sup>(3)</sup>

- ➔ **Ex-ante assessment to be carried out** before launch of FI operation under the ESIF including:
  - rationale/additionality against existing market gaps and demand/supply
  - Value added, potential additional public and private sector involvement
  
- ➔ **Better combination of FIs & other forms of support:**
  - In financial instrument: Grant component may cover financing (e.g. state aid compliant subsidy element) or technical assistance for the benefit of the final recipient
  - At the level of final recipients: Combination is now possible also with assistance from other programmes supported by the EU budget
  
- ➔ **Incentives regarding EU co-financing rates:**
  - EU-level instruments: Up to 100% of the paid support may come from ERDF, ESF and CF; separate priority axis to be foreseen
  - Instruments implemented at national/regional level: ERDF, ESF, CF co-financing rate to increase by 10% if an entire priority axis is implemented through financial instruments

# Financial instruments 2014-2020: Key novelties (4)

## ⇒ 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)

## ⇒ Annual reporting by MAs

- MA to report to COM on FI operations annually (annex to the annual implementation report); reporting items should be aligned with requirements of the Financial Regulation
- COM to publish annual summary report on the basis of data received

| Challenges detected   | EC proposal: 2014-2020: CPR and envisaged DA / IA  |
|---|--|
| 2007-2013 provisions of legal framework not detailed enough                               | <ul style="list-style-type: none"> <li>• More <b>detailed and clearer rules</b>, based on existing guidance (continuity) and best practice (optimisation); <b>stronger rules on financial management including the re-use of capital resources paid back and income resources</b> (Art 37 and 38 CPR)</li> <li>• Ensure <b>alignment with FR and compatibility with FIs at EU level</b></li> </ul> |
| MS capacity deficit led to delays in launching and delivering the FIs to final recipients | <ul style="list-style-type: none"> <li>• <b>Guidance</b> envisaged already at programming stage</li> <li>• <b>Technical assistance platform for FIs in cohesion policy 2014-2020</b></li> <li>• <b>Flexible implementation options</b>, including support to FIs at Union level (Art 33 CPR)</li> </ul>  |
| Slow start of FI-related activities   | <ul style="list-style-type: none"> <li>• Possibility to implement <b>standardised "off-the-shelf" instruments</b> which allow for swift roll-out under Art 33 CPR; templates in IA; close co-operation between REGIO, ECFIN and COMP</li> </ul>  |
| Lack of reporting and monitoring data on FIs  | <ul style="list-style-type: none"> <li>• Legislative package to contain <b>minimum requirements for monitoring and annual reporting</b> (Art 40 CPR and envisaged IA)</li> </ul>   |
| Supply-driven instead of demand-driven design of FIs                                      | <ul style="list-style-type: none"> <li>• <b>Obligatory ex-ante assessment for each FI to identify market failure and justify CSF intervention</b> (Art 32 CPR); minimum requirements to be laid down in envisaged DA</li> </ul>  |
| Over-dimensioning of FIs  | <ul style="list-style-type: none"> <li>• Results of <b>ex-ante assessment</b> (please see above) to be taken into account when developing FI business plan and concluding relevant funding agreements</li> </ul>   |
| Avoidance of n+2 decommitment / parking of Structural Funds                               | <ul style="list-style-type: none"> <li>• <b>Phased payments from programmes to FIs</b>, based on actual investment performance and related capital requirements (Art 35 CPR)</li> <li>• <b>Incentive-based methodology for management costs &amp; fees</b> will discourage parking of funds</li> </ul>   |
| Intransparent management costs and fees structures  | <ul style="list-style-type: none"> <li>• <b>Envisaged DA</b> will lay down a methodology for <b>incentive-based management costs and fees</b></li> <li>• <b>Art 36 CPR</b> enables <b>capitalised management costs and fees for defined cases and timeframes</b></li> </ul>  |
| Multiplier effect below levels achievable outside cohesion policy                         | <ul style="list-style-type: none"> <li>• <b>Ex-ante assessment</b> to assess possible public or private sector participation beyond CSF</li> <li>• Clear rules on the <b>re-use of CSF Funds and their legacy beyond programme closure</b> (Art 37 to 39 CPR)</li> <li>• Envisaged DA to lay down <b>specific multiplier requirements for FIs &amp; guarantee-products</b></li> </ul>              |

## Financial instruments 2014-2020: Next steps

- ➔ REGI Committee vote on CPR in November 2012, trilogue negotiations to follow in Q1 2013
- ➔ Drafting of secondary legislation (envisaged Delegated Act and Implementing Act) on-going; adoption only after adoption of CPR
- ➔ Development of ready-to-use "off-the-shelf" instruments on-going (to be laid down in Implementing Act)
- ➔ Stakeholder meetings envisaged to discuss and test substance of envisaged Delegated Act and Implementing Act (Q2 2013)
- ➔ Concept for a TA platform for financial instruments in cohesion policy 2014-2020 to be developed

# Additional information on financial instruments

## ***Commission Staff Working Document - Financial Instruments in Cohesion Policy***

[http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/financial/financial\\_instruments\\_2012\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/financial/financial_instruments_2012_en.pdf)

## ***Factsheet: Financial Instruments in Cohesion Policy 2014-2020***

[http://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/financial\\_instruments\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/financial_instruments_en.pdf)

## ***Panorama Autumn 2012: Using financial instruments to leverage support for regional policy***

[http://ec.europa.eu/regional\\_policy/sources/docgener/panorama/pdf/maq43/maq43\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/maq43/maq43_en.pdf)

## **Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period**

[http://ec.europa.eu/regional\\_policy/thefunds/instruments/doc/fls\\_stocktaking\\_financial.pdf](http://ec.europa.eu/regional_policy/thefunds/instruments/doc/fls_stocktaking_financial.pdf)

# Thank you for your attention!

**DG Regional and Urban Policy – Directorate B, Policy**