THE INVESTMENT PLAN FOR EUROPE AND THE ESI FUNDS

An Investment Plan for Europe was announced by the European Commission in late 2014 as a priority [1]. The objective is to stimulate additional investment in the European economy to promote growth and job creation by mobilising at least EUR 315 billion additional investment and to change the way public money is spent structurally, opening up new investments.

The additional risk financing will be provided by the first pillar – the European Fund for Strategic Investments (EFSI). The second pillar is about making investment happen in the real economy with better technical assistance. This must be complemented by a series of measures to remove barriers to investment and to create a true Single Market – the third pillar.

It is intended that EFSI resources will be complementary to the European Structural and Investment Funds (ESIF). There is the possibility of combining the investment resources at the level of individual projects where a part could be financed by ESIF and another part supported by EFSI. Governance arrangements for the combination of funds will be put in place.

What is the role of ESIF in the Investment Plan for Europe?

Some EUR 450 billion of ESIF are available for Member States and their regions in the period 2014-2020. Cohesion, rural development and maritime policies combined are the biggest area of EU investment for smart, sustainable and inclusive growth.

ESIF programmes will make a significant contribution to the Investment Plan objectives, and the commitment by Member States to a more effective use of ESIF is a complementary element of the Plan. The intention is to structure ESIF to leverage more public, and above all private, investment through the reinforced use of financial instruments.

(1) *An Investment Plan for Europe* [COM(2014) 903 final].

What are ESIF financial instruments?

Member States and regions are encouraged to use financial instruments as an efficient and sustainable way of providing support targeted at the priorities of a programme co-funded by ESIF. Financial instruments are suitable for financially viable projects, i.e. those which are expected to generate enough income or savings to pay back the support received.

Financial instruments have at least four major advantages as compared to traditional grants.

- With the **same budget much more investment can be triggered** (leverage effect).
- As financial instruments normally imply private actors (banks or companies) there is an **inbuilt incentive for the economic viability of the supported investment**.
- Through their revolving character financial instruments are **still available after the end of the programming period**.
- They are also flexible and can provide **support in the form best suited for the investment** (as outlined below).

Examples of Financial Instruments

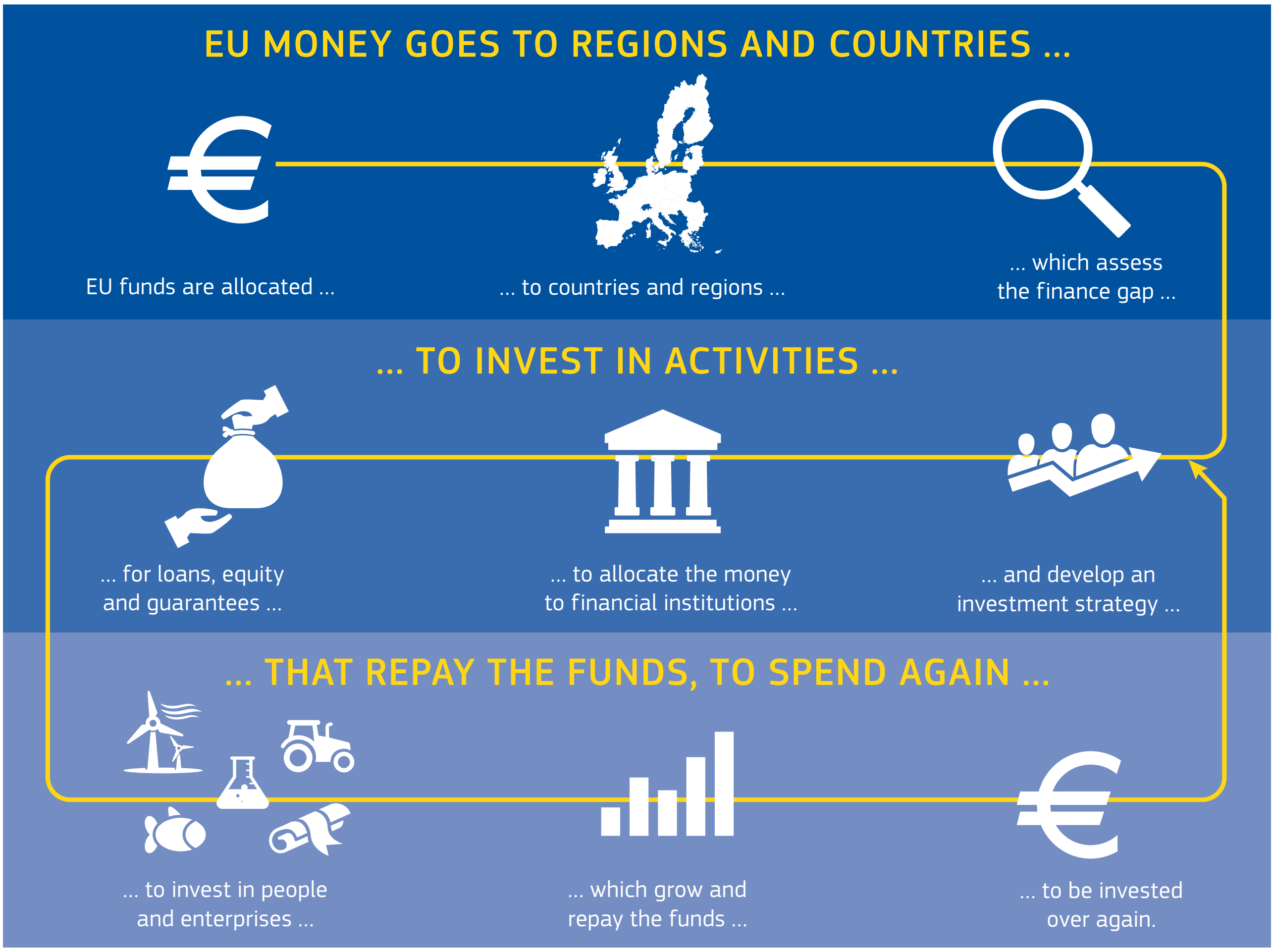
LOANS are advanced to a firm or individual and have to be repaid according to a pre-defined schedule. Subsidised loans are used where banks are unwilling to lend or to offer funding on better terms (e.g. a lower interest rate, a longer repayment period, or lower collateral requirements).

ESTONIA An ERDF-funded loan scheme has supported the renovation to modern standards of 619 apartment buildings, with over 22 000 individual apartments, achieving substantial energy savings and improved living environments for the inhabitants.

MICROCREDITS are small loans made to people and very small businesses which are often excluded from access to financial services. They are typically provided over a short borrowing period and with no or low collateral required.

HUNGARY An ERDF-funded, combined microcredit and grant scheme has improved the situation of over 9 000 growing micro-enterprises by increasing their access to financial resources.

HOW DO **ESIF FINANCIAL INSTRUMENTS** WORK?



GUARANTEES provide assurance to a lender that their capital will be wholly or partially repaid if a borrower defaults on their loan.

ROMANIA An EAFRD-funded guarantee scheme has granted guarantees to over 694 beneficiaries (farmers and rural SMEs) to help improve their production methods and to protect and enhance the environment. This has so far helped to create or maintain 10200 jobs.

EQUITY INSTRUMENTS involve investing capital in a firm in return for total or partial ownership of that firm; the equity investor may assume some management control of the firm and may share the firm's profits. The instruments include venture capital (sometimes called risk capital), seed capital and start-up capital. The return depends on the growth and profitability of the business.

GERMANY An ERDF-funded venture capital instrument has invested in 45 young companies in Saxony, helping them overcome the difficult start-up phase and supporting their growth, enabling them to exploit innovative ideas and technologies. This helped to create or maintain over 450 jobs.

How do ESIF financial instruments work?

Before allocating money to a financial instrument, managing authorities have to assess what is needed, why and by whom. For example, a region may have high technology firms that cannot access ordinary bank funding because their projects are too risky. Or, there may be very small firms and entrepreneurs that cannot obtain loans because they have no track record with the bank or no collateral to offer. Based on a thorough assessment of needs, one or more financial instruments may be set up.

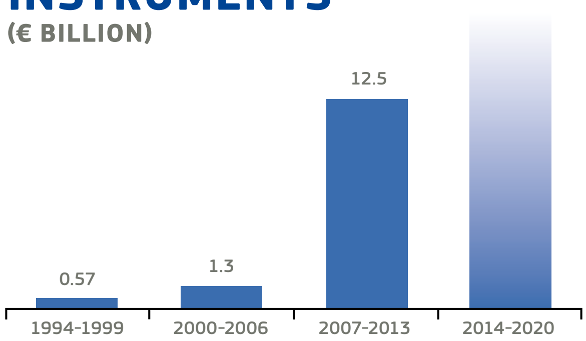
Financial instruments are usually managed by nationally or regionally operating financial institutions (such as banks) that are selected and entrusted with running financial instruments on behalf of the managing authority. The financial instruments using ESIF funds are therefore delivered regionally or locally, often by institutions that are already familiar to those who finally will receive the support.

Support to EU regions to use more and better ESIF financial instruments

Financial instruments under the ERDF and the ESF programmes have expanded significantly in recent years: geographically, financially and also in terms of sectors. In the context of the Investment Plan for Europe, the amounts are expected to increase even more in 2014-2020. The overall target is to more than double the use of financial instruments.

PROGRAMME CONTRIBUTIONS TO FINANCIAL INSTRUMENTS

(€ BILLION)



Solid and more specific legislative framework

The drive for more use of financial instruments is backed by a legislative framework which extends their use to all types of ESIF programmes (national, regional, transnational and cross-border) and to all eleven ESIF thematic objectives. There are also more implementation options for managing authorities, such as the so called 'off-the-shelf' financial instruments offering standard terms and conditions.

The much more solid and specific legal framework also addresses the shortcomings of the 2007-2013 legislation which was sometimes too vague and resulted in some negative developments, such as 'parking' money in holding funds to circumvent the eligibility period rules without reaching the real economy. New safeguard provisions are now in place: the compulsory *ex ante* assessment should ensure that financial instruments are created only where they are needed, phased payments will ensure that further liquidity is provided only if previous resources have been invested in the real economy, and the performance-oriented management fees will further incentivise the fund managers to make this happen as soon as possible.

FI-COMPASS SETS ITS COURSE

fi-compass was launched by the European Commission and the European Investment Bank on 19-20 January at a public conference in Brussels, which brought together more than 400 managing authorities, financial institutions and other stakeholders.

The partnership between the Commission and the EIB was underlined by Jyrki Katainen, Vice-President of the European Commission, and Wilhelm Molterer, Vice-President of the European Investment Bank, who expressed their shared commitment to seeing an increase in ESIF financial instruments, and placed fi-compass firmly within the context of the Investment Plan for Europe.

The main focus was to learn how financial instruments can complement the use of grants under the European Structural and Investment Funds.

A strong focus was given to learning from practice, with financial instrument 'pioneers' sharing know-how and success stories. Several national and local authorities offered case studies which highlighted examples of overcoming administrative obstacles, establishing good partnerships, and successful implementation from the 2007-2013 period.

FIND OUT MORE
www.fi-compass.eu

fi compass

▶Jyrki Katainen, Vice-President of the European Commission (right), and Wilhelm Molterer, Vice-President of the European Investment Bank (left) at the fi-compass launch.

Technical advice: fi-compass

Assistance and advisory services are available for managing authorities and other stakeholders through the new fi-compass initiative, to help them benefit from all the opportunities offered by ESIF financial instruments. fi-compass will also be an important element of the advisory hub of the Investment Plan for Europe.

fi-compass has been set up by the European Commission in partnership with the European Investment Bank. It is a unique service for all European Structural and Investment Funds and for all thematic objectives. It therefore replaces the successful technical assistance initiatives from the 2007-2013 programming period: JEREMIE for enterprises, JESSICA for urban development and JASMINE for microcredit.

fi-compass horizontal strand

fi-compass has a horizontal strand which will progressively develop and disseminate the know-how necessary for the implementation of ESIF-funded financial instruments and which will benefit all ESIF managing authorities. It is designed to meet their needs by providing practical knowledge and learning tools, such as 'how-to' manuals, factsheets for quick reference, e-learning modules, face-to-face training seminars and networking events.

fi-compass multi-region strand

fi-compass has a multi-region strand which will provide, on the basis of calls for proposals, EU funding to projects from at least two managing authorities covering at least two Member States to assess the possible use of ESIF financial instruments addressing an investment need which the regions share. This will typically include preparatory work such as market analysis and the possible design of financial instruments, in particular in specific thematic areas, such as Roma inclusion or in the context of Macro-Regional Strategies. The projects under the multi-region call will give a unique opportunity to managing authorities from different EU Member States to cooperate with each other, as well as with financial institutions, and benefit from mutual learning.

▶FIND OUT MORE
More details of actions under the fi-compass horizontal strand can be found in the 2015 work programme, which is available, along with news on calls for proposals under the fi-compass multi-region strand, at:
www.fi-compass.eu