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Final Discussion

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Why use financial instruments?

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- A **more efficient** use of (scarce) public sector resources, especially for revenue generating or cost saving projects
- Greater **leverage potential**
- Brings **financial discipline** into the project/initiative: transparency/identification/selection process
- Can be **combined** with technical support and/or grants to overcome market barriers
- Reutilisation of resources: **revolving nature** of the instruments

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Key success factors

- Should be **market driven**:

  Importance of ex-ante assessment and of market tests,
- Keep It Simple and Smart (**KISS**): right balance between policy objectives and real market absorption capacity,
- **Alignment of interests**:

  Manging Authority, (FoF), Financial Intermediary, Final Recipient,
- Constructive **collaboration** vs “not my problem” attitude,
- **Compliance** with the CPR and the relevant OP,
- Appropriate **governance** structure,
- Get a “good” **fund manager,**
- Flexible **investment strategy,**
- Financial intermediaries **as the champions**

  of the instrument,
- **Technical assistance** to prepare projects.

Ex-ante – market test

- The ex-ante analysis provides preliminary / framework information.
- A thorough market test is key for the successful implementation of a financial instrument:

  a)does a market gap actually exist? i.e. demand for credit not matched by the offer due to low liquidity/risk appetite of financial intermediaries.

  b) are the financial intermediaries actually operating on the reference market ready to increase the offer once supported by the envisioned financial instruments?

  c)are financial intermediaries and beneficiaries ready to the cultural shift implied by a financial instrument?

  d) how critical is the combination of grants and financial instruments?

- Methodology:
  - direct contact with financial intermediaries,
  - presentation of the instrument; analysis of existing portfolios,
  - benchmarking with different instruments/sectors with similar beneficiaries.

Dimension

- Two key aspects for the implementation of a financial instrument:

  - enough resources for the financial intermediaries to have incentives in deploying the instrument and for the process to be efficient given the “costs” implied,
  - linked to the first, but often calling for gradual/limited resources, the market absorption capacity of the instrument.

- Often the geographical scope of an instrument is also a key feature, with financial intermediaries less interested in instruments with limited scope and different conditions/rules in different Regions of the same Country.

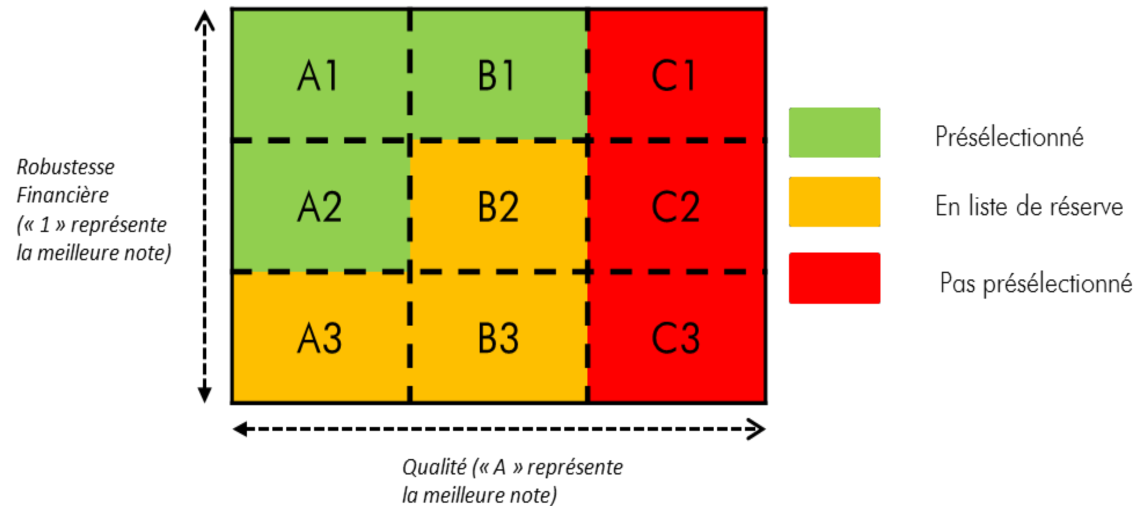
Eligibility Criteria

- A financial instrument requires the full engagement and understanding of its features by the financial intermediaries that are implementing the financial instrument.
- In particular, eligibility criteria and eligible expenditure are to be verified by the financial intermediary.
- Therefore it's important that eligibility criteria and eligible expenditure are defined in a clear and easy way (possibly simpler than for grants).
- Financial instruments are not suitable to support all the measures of an OP.

Financial Intermediary Selection

- A financial instrument is successful if and only if financial intermediaries fully deploy it and increase finance to the final recipients.
  - The financial intermediary (FInt.) is technically the final recipient of the OP and needs to be selected in accordance to the Guidance on the selection of bodies implementing financial instruments.
  - The FInt. is responsible for the selection of the final recipients (SMEs) based on banking practices AND is responsible for the eligibility of the operation (final recipient, costs).
  - The FInt. is responsible for the reporting of the instruments and is subject to controls and auditing.
- The benefit of the public support to the financial instrument must be transferred to the final recipients. SMEs have to pay lower interests on the loans and/or have to provide less collateral/own guarantees.
- The Financial Intermediary needs to be selected (by the managing authority, or by the EIB/EIF if entrusted by the MA).

Example of a selection process:



- **Preselection phase n°1 :** Formal assessment of the Application received.
- **Preselection phase n°2:** Qualitative assessment of the Application.
- **Preselection phase n°3:** Financial robustness of the Applicant + Portfolio assessment.

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Selection process (1)

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1/ Main formal/selection criteria:

Based on Art.7 – COMMISSION DELEGATED REGULATION (EU) No 480/2014

- **Legal capacity** of the Financial Intermediary to carry out the tasks of implementation of the financial instrument under national and EU law,
- The **economic and financial capacity** of the Financial Intermediary to carry out the work,
- **Organisational capacity** of the Financial Intermediary: organisational structure, governance framework, internal control system, accounting system,
- **Experience of the Financial Intermediary** with the implementation of “similar” financial instruments.

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Selection process (2)

1/ Main Qualitative/Award criteria:

- **Track Record** (*before*) and **offer** in terms of implementation (*after*): origination strategy, marketing/visibility, duration, type of SMEs, maturity, amount, etc.,
- **Experience of the Financial Intermediary** (important for Equity type of instrument),
- **Advantage pass onto the Final Recipient**: important for Guarantee FLPG and for Loans type of instrument;
- **Ability of the Financial Intermediary to raise resources** for investments in final recipients,
- **Level of management costs and fees**,
- **Other specific requirements**, for e.g. financial start-ups. Quarterly report requirements, audit, etc.

Leadership/ Governance

- The full involvement of the managing authority, especially in the design phase of the financial instrument, is important.
- Quick and effective decisions often need to be taken in order to adapt the investment strategy to the market condition.
- Strategic decisions to be taken by the managing authority on:
  - The manager of the financial instrument,
  - The investment strategy,
  - The financial intermediaries that will deploy the instrument.

Complementarity

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- Financial Instruments have to be implemented in a market where many different public and private opportunities are offered to the same beneficiaries.

- Different dimension of consistency/complementarity:
  - Between financial instruments and grants,
  - Among different financial instruments at local/regional/national level,
  - Other sources of financing.

- Complementarity needs to be addressed in the ex-ante assessment and to be monitored throughout the implementation period.

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Communication and Middle-Office

- Involvement of the different stakeholders is key. Starting with the ex-ante assessment and during the implementation, an open dialog with the potential final recipients through their associations and with the banking/financial actors is important to take the right decisions on the financial instruments.

- Communication to the final recipients is important for the absorption and to avoid any crowding out among the different measures.

- Deploying a financial instrument requires specific knowledge on ESIF rules (both for the Managing Authorities and the Financial Intermediaries):
  - Treasury / Cash-flow,
  - Monitoring / Reporting / Audit.

Timing

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- Establishment of a financial instrument – from the ex-ante assessment to the selection of the financial intermediary – requires time.
- Market conditions can change fast.
- Different stages during a programming period can provide for different incentives/opportunities (e.g. in 2007-2013 many financial instruments have been seen as a mean to accelerate expenditure).
- Milestones: 1) inclusion in the OP of the relevant provisions for Fis / ex-ante assessment; 2) decision on how to manage the FI (art. 38.4 CPR); 3) selection of the manager; 4) definition of the investment strategy / funding agreement; 5) selection of the financial intermediaries.

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