



CPR and EMFAF legal framework related to financial instruments and implementation of EMFAF financial instruments in the post-2020

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CPR legal framework related to FIs post-2020

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CPR and FIs

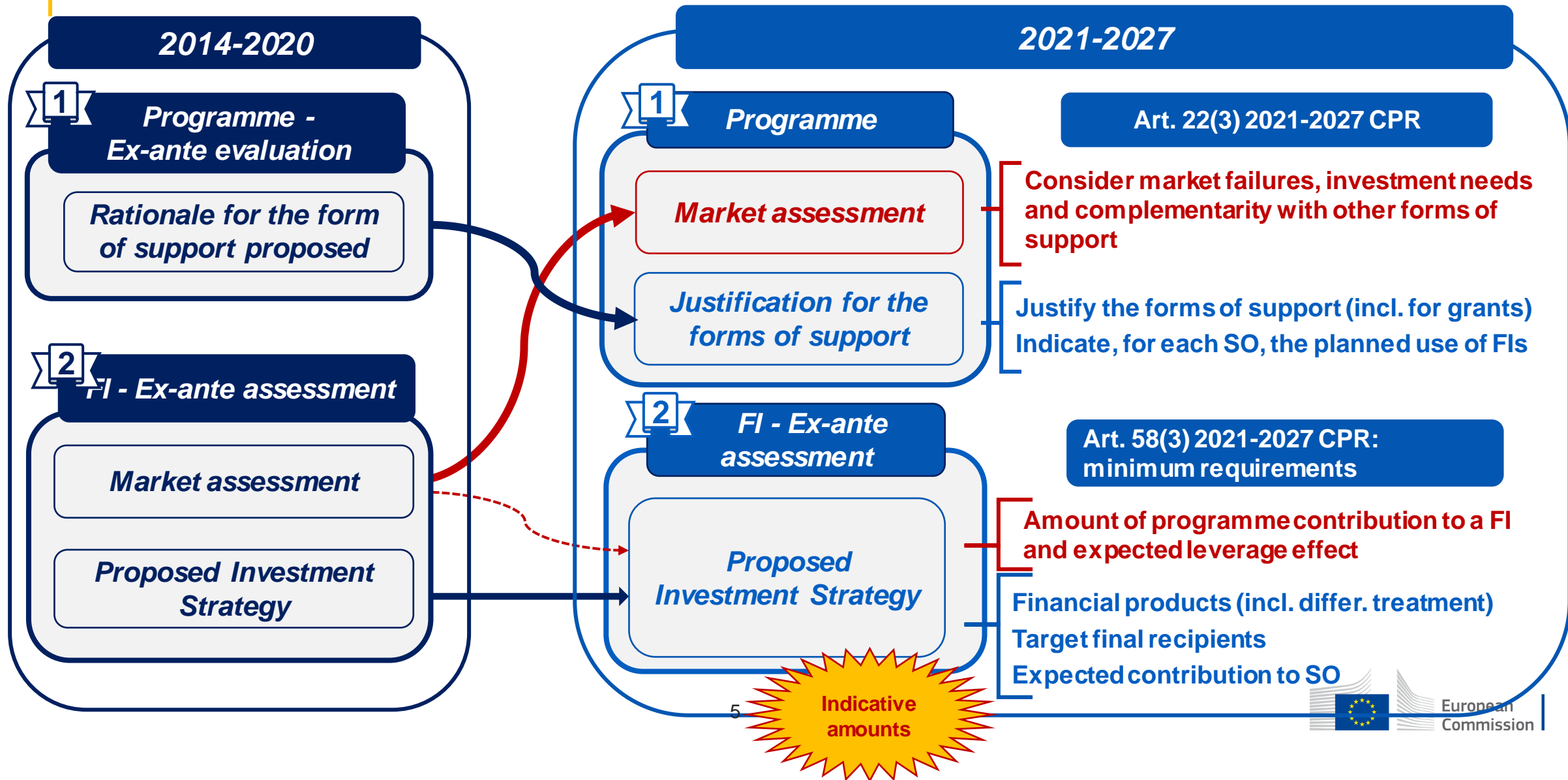
- ❖ The new Regulations provide more options and flexibility in the set up and implementation of financial instruments and the simplifications introduced will help increase their use and effectiveness.
- ❖ The role of financial instruments is not to support banks or financial institutions, but to support new investments in the real economy, investments in line with the objectives of the Funds.
- ❖ FIs represent a cost-efficient and sustainable mechanism to achieve policy targets, while at the same time, taking advantage of their specific characteristics, increasing the overall quality of supported projects.
- ❖ The broader economic rationale for FIs is to address funding gaps and suboptimal investment situations, i.e. when financially viable projects are not financed by the private sector or only financed at unsuitable conditions. They are meant to support any policy objective or investments with revenue-generating or cost-saving potential.
- ❖ FI represent efficiency gains due the **revolving nature** – resources returned from investments stay in the programme area for future use.

Novelties in the CPR

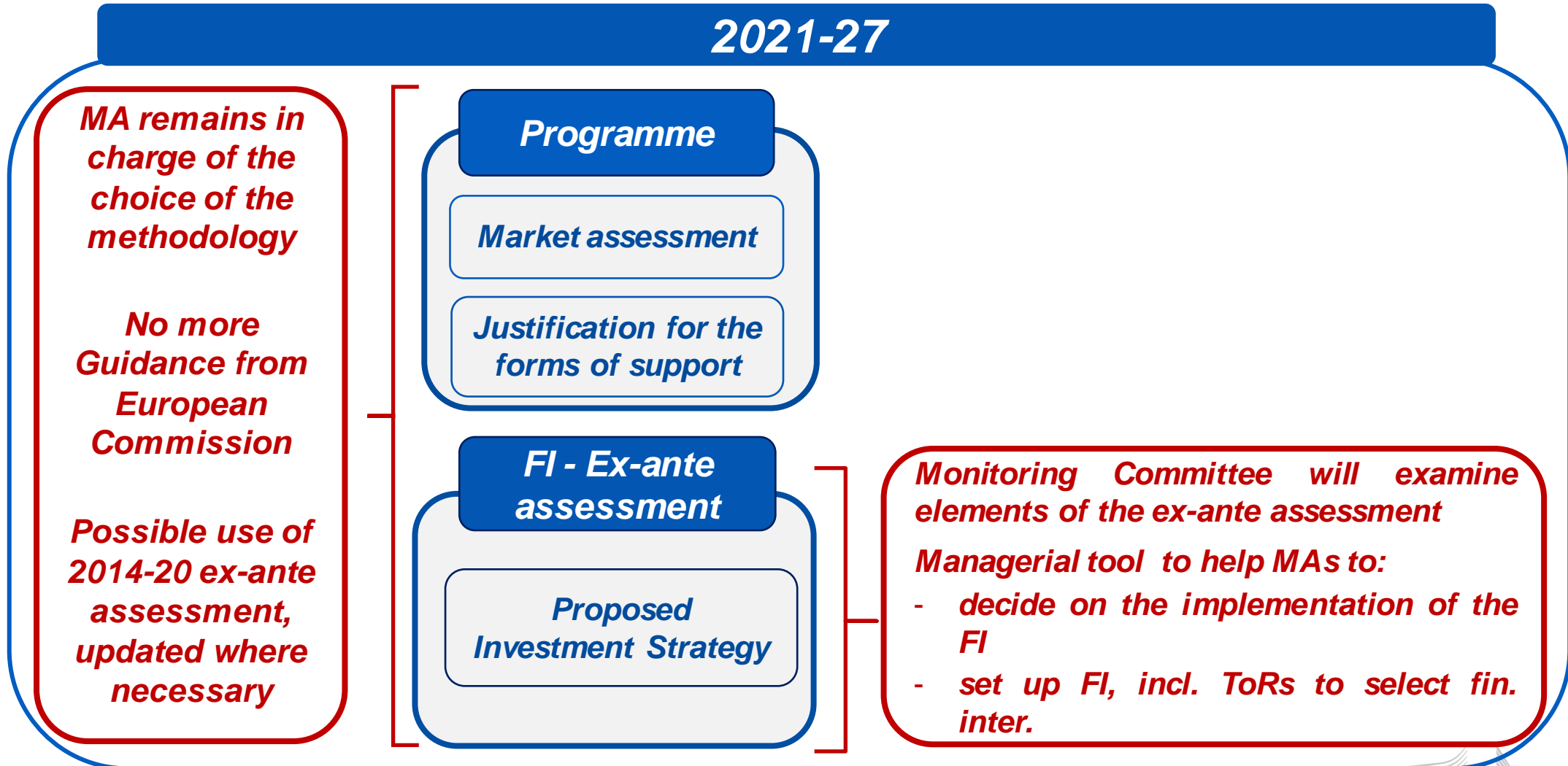
- **Financial instruments (FIs) better integrated into the programming and implementation process from the outset**
- **Streamlined ex-ante assessment**
- **Combination:**
 - In **ONE FI operation**: the grant shall be directly linked and necessary for the investment supported by the FI and shall have a lower value than the investments supported by the financial product at FI level
 - E.g. interest rate/guarantee fees subsidies, technical support, **NEW!:** “**capital rebate**”
- **Contribution from the Funds to InvestEU under ONE set of rules i.e. those of InvestEU**
- **Management costs and fees**
- **Possibility of continuation of FIs from one period to the subsequent one, including 2014-2020 – procurement contracts to foresee this possibility**
- **Payments from EC to MA:**

In case of FIs managed under the responsibility of the MA: NEW! First payment claim: advance of 30% of amounts committed and paid to the FI; to be cleared no later than in the final accounting year and disclosed separately in the appendix to the payment application; Subsequent payment claims: eligible expenditure. No tranches.

Change in the intervention rationale in post-2020

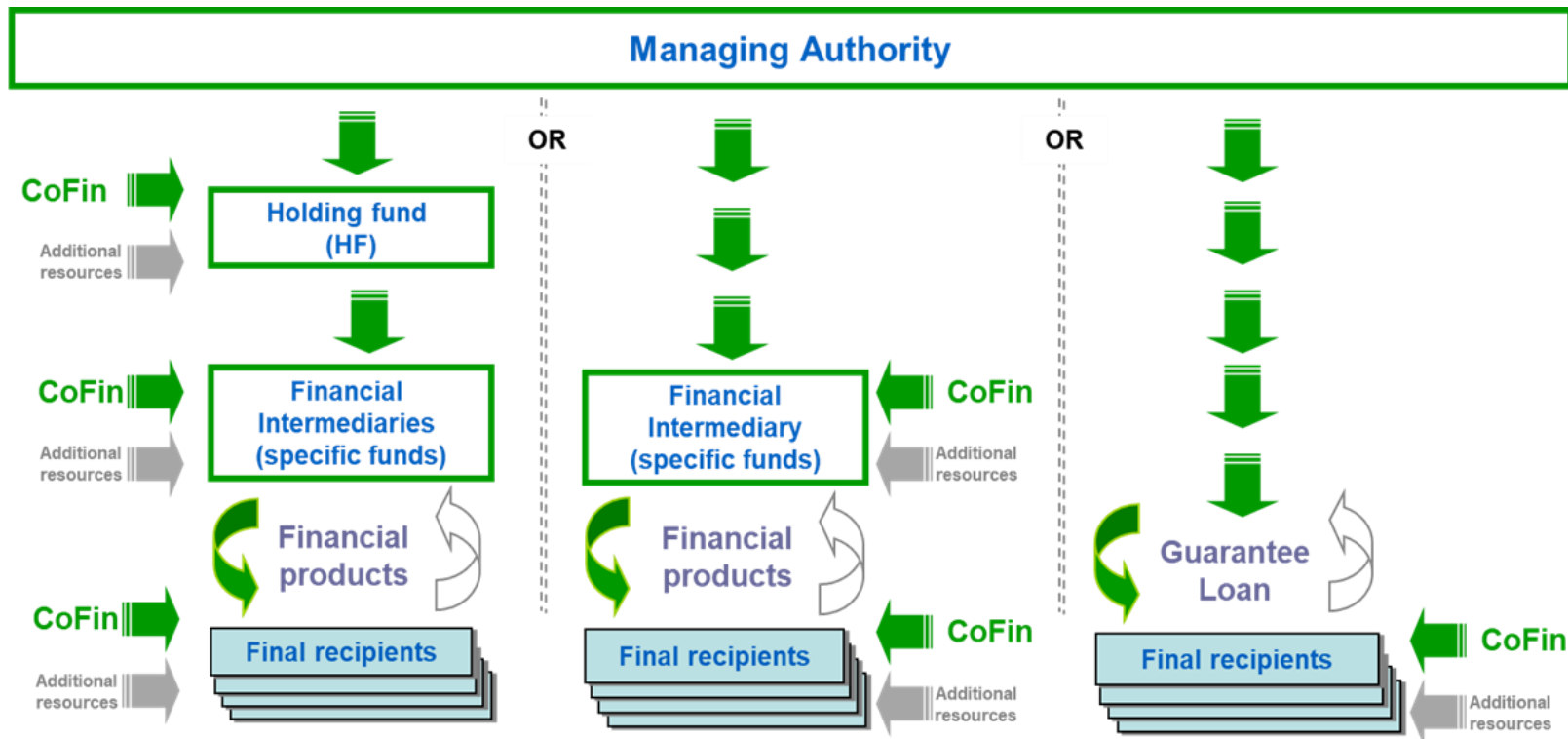


Change in the intervention rationale in post-2020

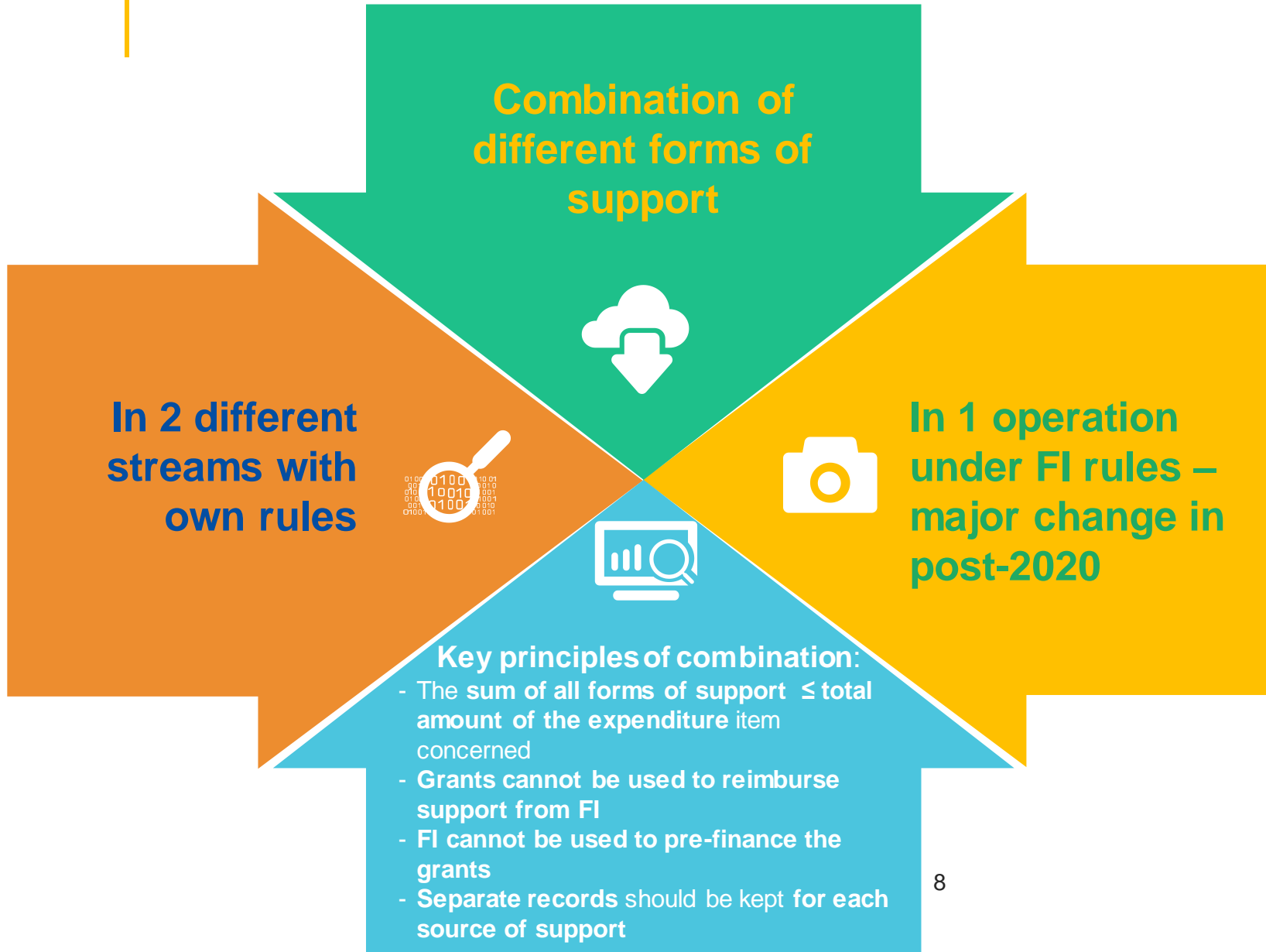


Implementation options (Article 59)

- Continuation of basic flexible implementation options
 - management of FIs by the managing authority itself (**Art. 59(1)**) – **only for loans and guarantees, no MCF – the same as in 2014-2020**, or
 - management of FIs (by third parties) **under the responsibility of the managing authority (Art. 59(2))**



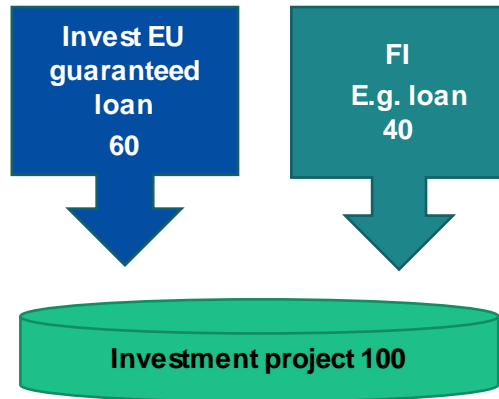
Combination - Articles 58(4) to (7)



Combination in a single operation - Article 58(5)

- Grant linked and necessary
- Grant component is smaller than FI component
- FI rules apply
 - Single funding agreement
 - Same body responsible for both components – i.e. financial intermediary manages both forms of support

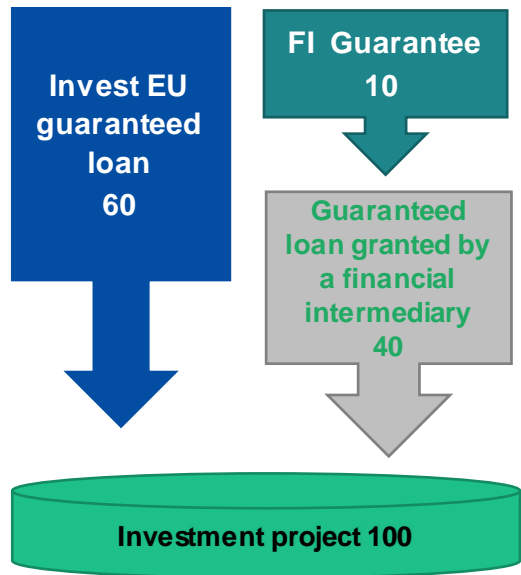
Combination in 2 separate streams of support - Article 58(4)



- **Combination in TWO separate operations:** each form of support following its own rules

- **Combination of two streams of support is done at final recipient level**

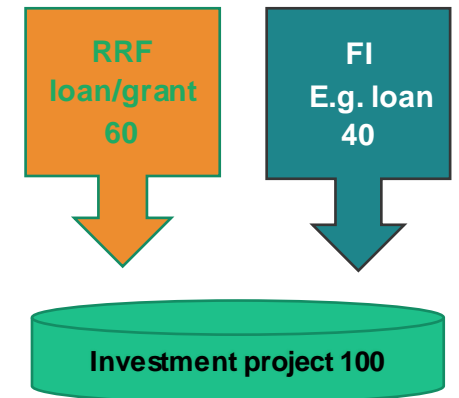
- **Combination at the level of final recipient with EU level instruments possible!**



- **Allows for consistency and synergies with policy objectives delivered through various financial streams of support**

- **Combination with EU level instruments at the level of the FI – Not possible under CPR**

- but possible through a financial contribution to InvestEU under a single set of rules those of InvestEU



Management costs and fees – Article 68(4)

Simplified rules for management costs and fees

1

Differentiated thresholds in case of **direct award of contract**:

- holding funds,
- specific funds

The **threshold** is applied to **programme contribution disbursed to final recipients or amount set aside for guarantee contracts** – final amount known at closure

2

3

Performance-based with a methodology to be defined by the managing authority in case of direct award and competitive tender

4

No thresholds in case of **competitive tender**

5

Management costs and fees – direct award of contract

Holding fund



5%

If a guarantee or a loan fund operates in the holding fund structure

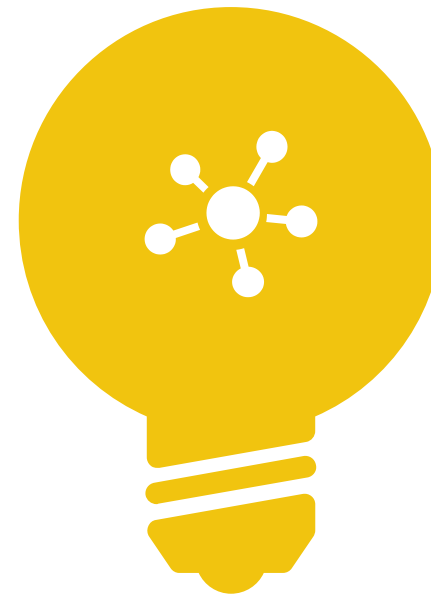
Holding fund



7%

If an equity fund operates in the holding fund structure

Specific fund



7%

Loans and guarantees

Specific fund



15%

Equity



European Commission

Eligibility for FIs Article 68(2)

NEW! Continuation of the FIs across two consecutive periods

(to replace escrow accounts)

Proposal aimed to cover the following issues:

Continuation of the existing FIs from the current period to the next one and/or from post-2020 to the subsequent one

Also for: interest rates & guarantee fees subsidies, MCF for equity-based instruments, follow-on investments, etc.

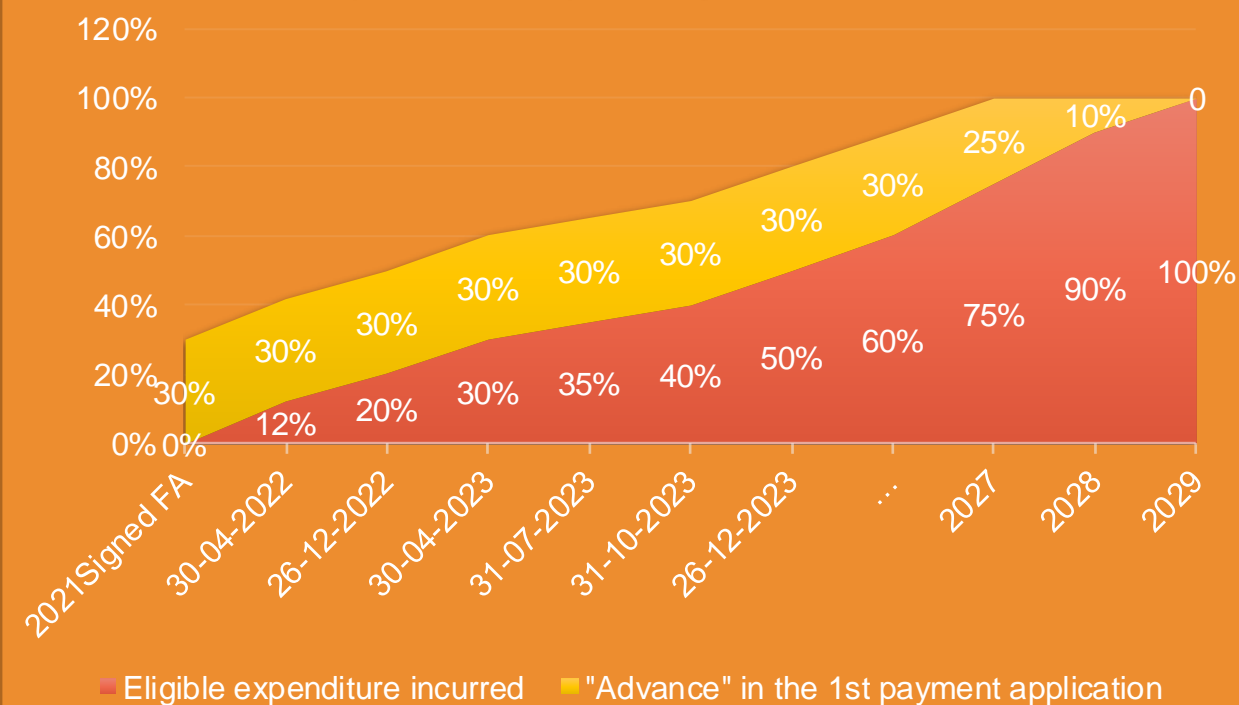


Conditions to be fulfilled cumulatively:

- FI operation already approved under one period and the financial instrument implementation continues in the subsequent period
- The necessary legal and financial agreements have been made to ensure the continuation
- The eligible expenditure related to one period is declared to the Commission only during that period

Payments – Article 92

Example of liquidity levels for FI



Amount signed in the FA = 500

Amount included in the 1st payment application = 150

Comments	Priority	Amount included in the first payment application and paid to the financial instrument in accordance with Article 86 (max 30% of the total amount of programme contributions committed to [the] financial instrument[s] under the relevant funding agreement)		Corresponding cleared amount as referred to in Article 86(3) ¹	
		(A)	(B)	(C)	(D)
		Total amount of programme contributions paid to financial instruments	Amount of corresponding public contribution	Total amount of programme contributions effectively paid, or, in the case of guarantees, committed, as eligible expenditure in the meaning of Article 86	Amount of corresponding public contribution
2021 Signed FA	Priority 1	150	150	0	0
30-04-2022	Priority 1	150	150	0	0
26-12-2022	Priority 1	150	150	0	0
30-04-2023	Priority 1	150	150	0	0
31-07-2023	Priority 1	150	150	0	0
31-10-2023	Priority 1	150	150	0	0
26-12-2023	Priority 1	150	150	0	0
...	Priority 1	150	150	0	0
2027	Priority 1	150	150	0	0
2028	Priority 1	150	150	50	50
2029	Priority 1	150	150	150	150

¹ This amount shall not be included in the payment application

Financial instruments (FI) specificities in payment applications submitted by MSs to the EC

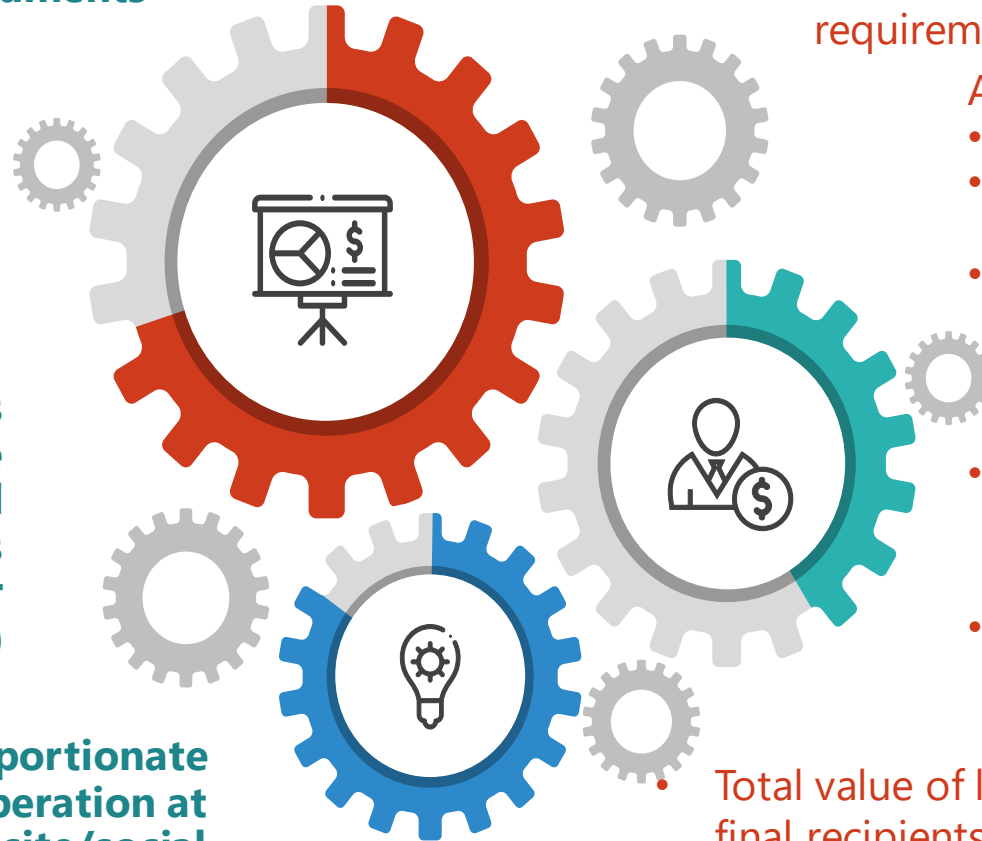
In case of direct implementation (Art. 92(1)): eligible expenditure incurred in line with Art. 68(1) 13

NEW approach to submitting payment applications in case of FIs managed under the responsibility of the MA

NEW! The 30% included in the first payment application is cleared no later than in the final accounting year and also disclosed separately in the appendix to the payment application Art. 86(3)

Publicity (Article 50)

- Ensure the visibility of the Union funding and among other Union support instruments
- Provide coherent, effective and targeted information to multiple audiences, including the media and the public
- Statement that highlights the support from the Funds on documents and communication materials (intended for the public or participants)
 - Short, proportionate description of the operation at their official website/social media site, highlighting the Union support



Reporting (Article 42)

NEW! joint transmission of data on grants and FIs

SIMPLIFIED! fewer reporting requirements

A few FI specific data are collected:

- Eligible expenditure by product;
- Amount of management costs and fees declared as eligible expenditure;
- The amount, by type of financial product, of private and public resources mobilized in addition to the Funds ;
- Interest and other gains generated by support from the Funds to FIs, as referred to in Article 60;
- Resources returned attributable to support from the Funds, as referred to in Article 62
- Total value of loans, equity or quasi-equity investments in final recipients which were guaranteed with programme resources and which were disbursed to final recipients

Interest and other gains (Article 60) - Resources returned (Article 62)

- **Interest and other gains generated** - *provisions and principles the same as in 2014-2020*

Concerns only gains that are attributable to the Funds support paid into the financial instrument, and not to other sources of contribution into the FI.

The interest and other gains attributable to support from ESIF are to be used:

- *in the same FI, under the same objective or objectives as the initial support from the Funds (including management costs and fees), or*
- *in other FI or other forms of support, until the end of eligibility period, in case of winding up of the financial instrument.*
- *Interest and other gains not used in line with these provisions will need to be deducted from the accounts submitted for the final accounting year.*

- **Clearer rules on re-use of resources returned**

- *Enables smooth transition between programming periods*
- *Resources paid back to FI (incl. release from guarantees) before end of eligibility period: re-used in the same or other FI*
- *for further investments in final recipients,*
- *for management costs and fees associated to such further investments,*
- *to cover losses resulting from negative interest*
- *Resources paid back during the period of at least 8 years after end of eligibility period: re-used in accordance with policy objectives of the programme*

Contribution to InvestEU (Article 14)

- *Possibility provided to Member States to contribute to InvestEU max. 2% at the level of the Partnership Agreement and max. 3% after 2023 through one or more programme amendments.*
- *The scope is to achieve the policy objectives in their Member States and/or regions with a better leverage, better coverage of risks, higher economies of scale, lower administrative burden etc.*
- *InvestEU contributions are limited to 5%. The InvestEU contributions shall be spent essentially in the category of the contributing regions.*
- *InvestEU rules apply for the rest!*

Thank you



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General rules under the EMFAF

Vincent Guerre, Policy Officer, DG MARE, European Commission

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Financial instruments in the EMFAF

Specific provisions in the Regulation:

- Financial instruments are mandatory for investment in companies bigger than SMEs in the processing sector (Article 28)
- Up to 100% aid intensity for operations implemented through financial instruments (row 16 of Annex III)

Why using financial instruments in the EMFAF?

“Support under the EMFAF should have a clear European added value, inter alia, by addressing market failures or suboptimal investment situations in a proportionate manner, and should not duplicate or crowd out private financing or distort competition in the internal market.” (recital 7)

- Need to trigger investments for revenue generating and cost-saving activities while maximising private investment with minimum public support
- Financial instruments are an efficient and sustainable alternative to complement traditional grant-based support

For which types of investments (examples)?

- *energy efficiency technology and equipment*
- *purchase of selective gears*
- *productive investments in aquaculture and in the processing sector*



Financial instruments – main concepts

Mario Guido, Financial Instruments Advisor, European Investment Bank

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Financial instruments

Main features and elements



- ✓ co-funded by the Union Funds
- ✓ a sustainable and efficient way to invest in growth and development
- ✓ can support a broad range of development objectives to the benefit of a wide range of final recipients (FRs)



Revolving effect

Additional flows of money - generated through repayments or cost savings as well as realisation of investments, that can be reused for further investments



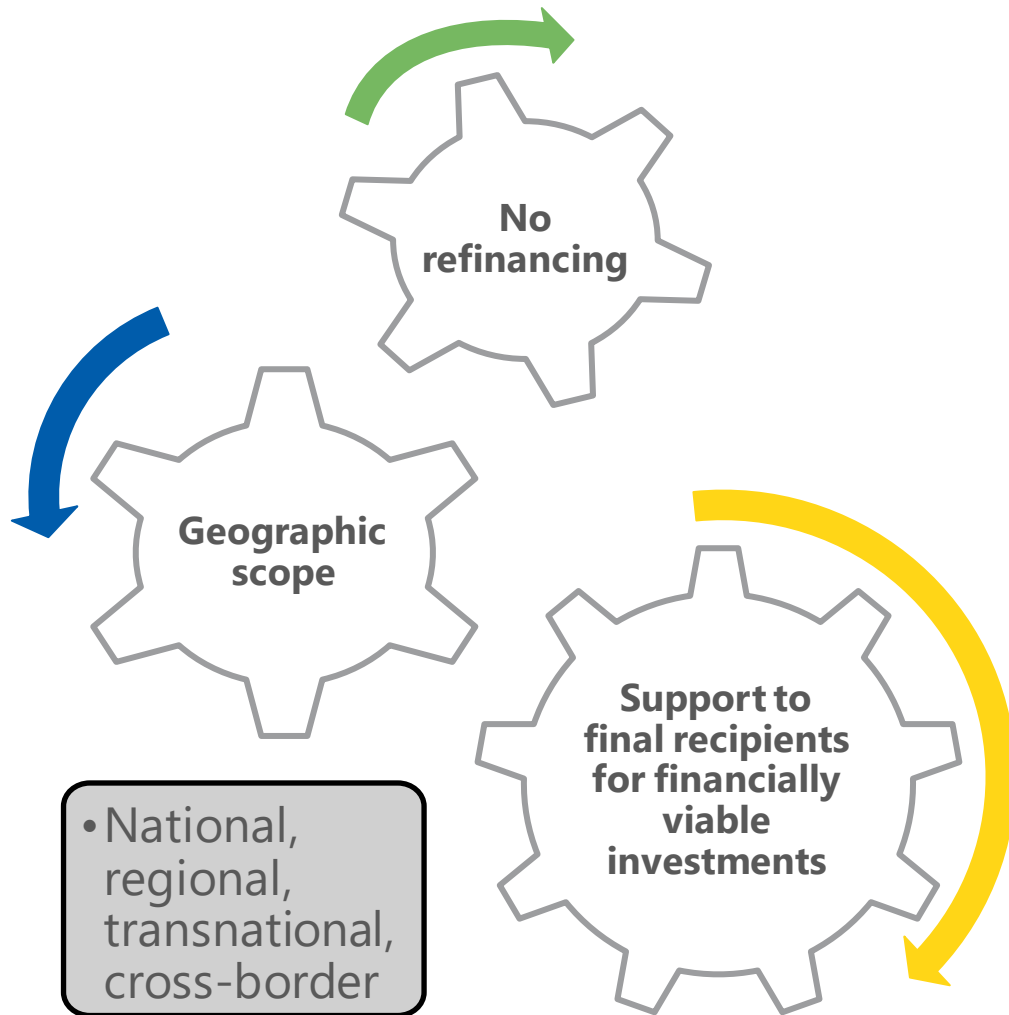
Leverage effect

Capacity to attract additional public and private resources. It is "the amount of reimbursable financing provided to final recipients divided by the amount of the contribution from the ESI Funds"

State aid: FIs must be implemented in accordance with State aid rules

Scope of Financial Instruments

What are the financial products?



Source: European Commission

Debt finance

Loans

Agreement which obliges the **lender** to make **available** to the **borrower** an agreed sum of money for an **agreed period** of time and under which the borrower is **obliged to repay** that amount plus interest within the **agreed time**.

Guarantees

Written commitment to **assume responsibility** for all or part of a **third party's debt** or obligation **if an event occurs** which **triggers** such **guarantee**, such as a loan **default**.

Equity

Provision of capital to a firm, invested directly or indirectly **in return** for partial **ownership** of that firm. Equity investor may assume some management control of the firm and may share the firm's profits.

Why using FI as form of support under EMFAF?



Simplified rules for MS level FIs

1

- **FIs integration in programming stage**, i.e. streamlined ex-ante
- Possible to **continue FI implementation** across programming periods

New combination possibilities

3

- More flexibility to **combine EMFAF FIs and grants in one operation**, incl. capital rebates
 - **One set of rules**
- Possibility to contribute programme resources to **InvestEU MS compartment**

Relying on private sector support and expertise

2

- **Leveraging additional private resources** to address the market needs
- **Building on the expertise** and market-based approach of the **financial intermediaries**
- Active fund manager's role in **project management and business development in case of equity**

Revolving effect

4

- **Resources paid back can be used again**
- and remain for the MS
- Fairer way to support the target groups

Efficient and fair support mechanism

5

- **Financing through FIs** reaches recipients **faster**
- Suitable for economically viable investments
- **Fairer competition** - wisely and thoroughly planned projects
- Lower administrative load for the MAs to implement

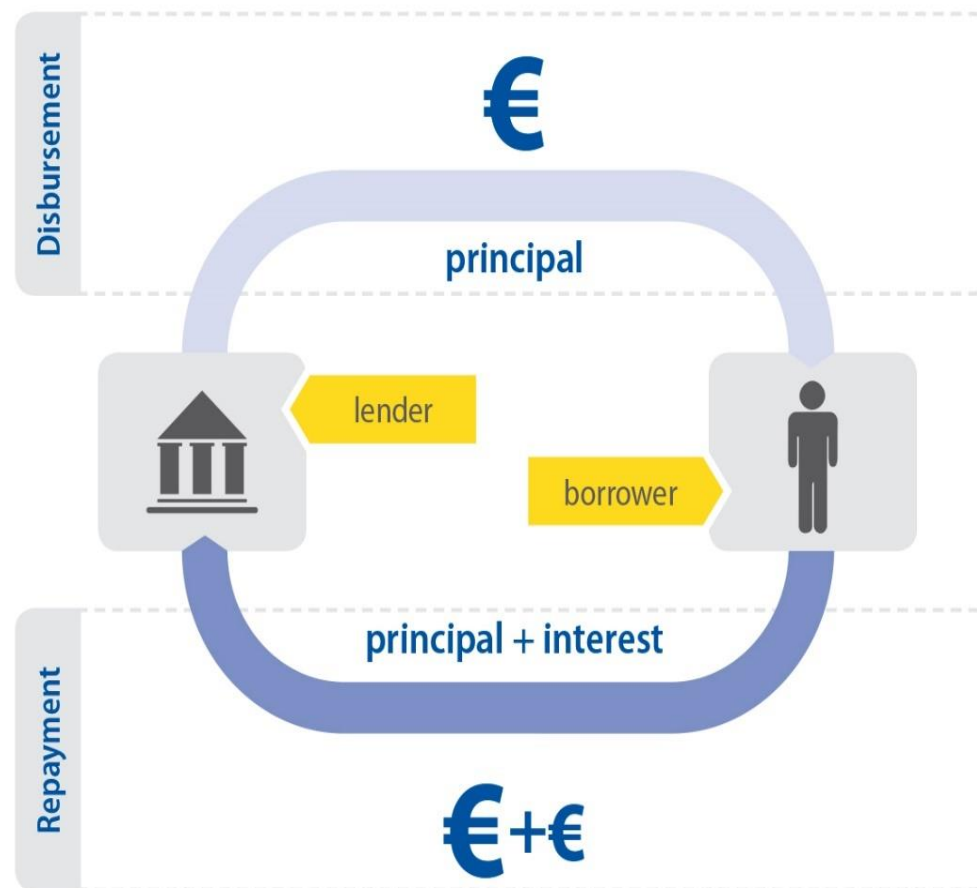
Advantages for fishers and enterprises when using FIs

Loans and guarantee products



EMFAF FIs can offer, among others:

- **lower** than market **interest** rates
- **longer** repayment **periods** (incl. grace periods)
- **reduced** collateral requirements
- **working capital** finance

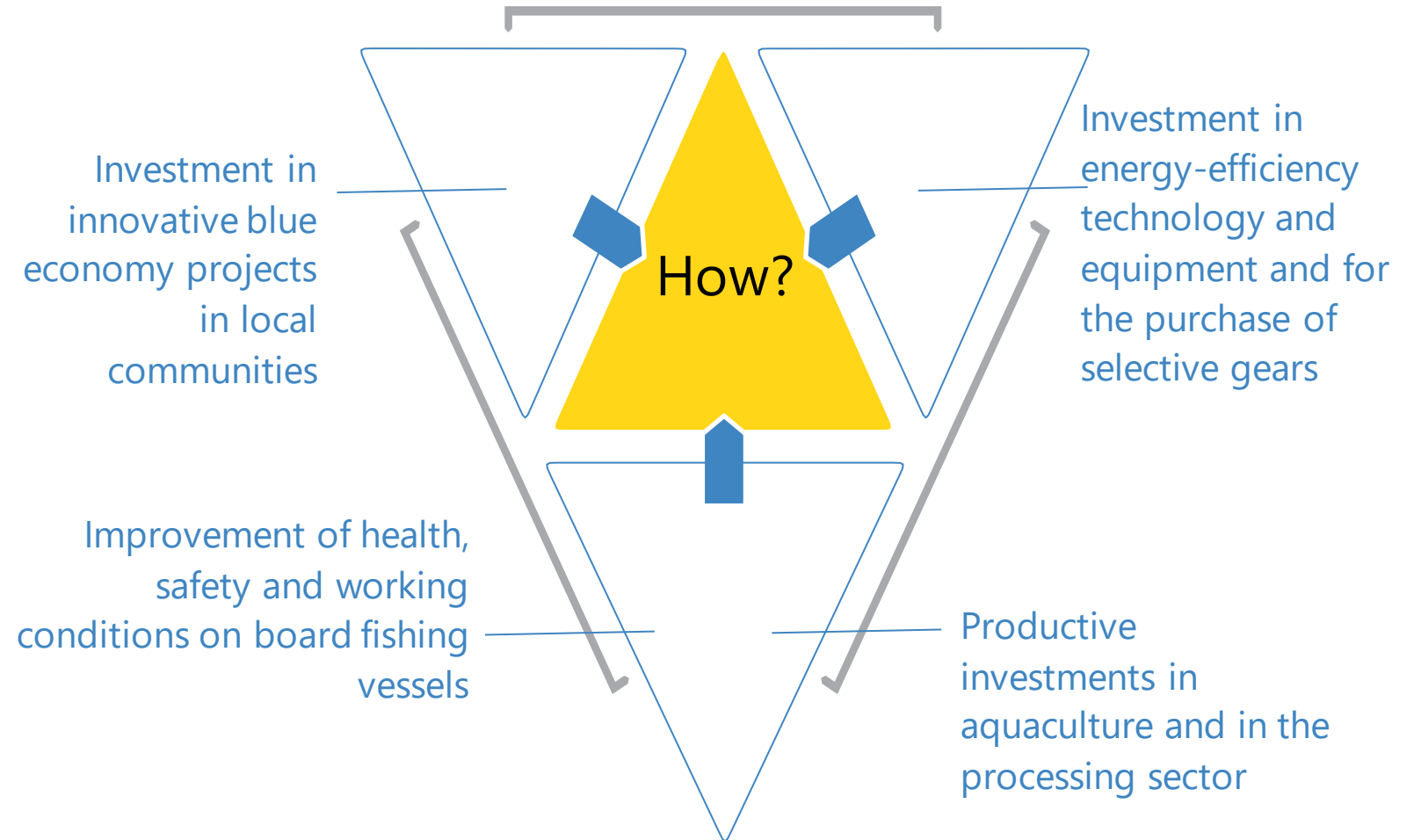


When guarantees might be useful?

- *High collateral requirements by banks;*
- *Risk-aversion of banks to finance riskier projects;*
- *Tightening of lending conditions stemming from regulatory pressure.*



EMFAF FIs - a sustainable and efficient way to contribute to sustainable and profitable fisheries and aquaculture and to the development of local coastal communities





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