The European Regional Development Fund

Financial instruments
Financial instruments co-funded by the European Regional Development Fund are a sustainable and efficient way to invest in the growth and development of people and businesses in EU regions and cities. They can support a broad range of development objectives to the benefit of a wide range of recipients with the potential for funds to be reused for further investments.

The European Regional Development Fund (ERDF), one of the European Structural and Investment Funds, contributes to smart, sustainable and inclusive growth, as well as aims to reinforce economic, social and territorial cohesion in EU regions and cities.

For 2014-2020, the ERDF has an overall budget of almost €200 billion to support economic growth, create additional jobs and reduce regional disparities.

The ERDF support can be provided through grants and, increasingly, through financial instruments.

By the end of 2013, the ERDF had paid over €9 billion into financial instruments providing loans, guarantees and equity in almost every EU Member State. Over 200,000 individuals and firms had received support for business development, urban projects and investments in energy efficiency and renewable energies. Around 90% of this was support for business development targeted at small and medium-sized firms.
The European Regional Development Fund

Financial instruments

- are expected to be repaid;
- are revolving i.e. with funds repaid being used again in the same area;
- are suitable for financially viable projects, i.e. those which are expected to generate enough income or savings to pay back the support received;
- are designed to attract co-investment from other sources, including private investment, to increase the amount of funds available in particular in sectors/areas where there are problems with access to finance;
- can take the form of loans, guarantees or equity;
- can also support supply-side development, by contributing to development of the market;
- may be used in a complementary way with grants; and
- may be managed by national or regional banks, international organisations such as the European Investment Bank or European Investment Fund, by financial intermediaries, and (for loans and guarantees only) by managing authorities.

In 2014-2020, recognising the advantages of financial instruments, their use is extended to **all thematic objectives** and is expected to further intensify due to the improved and more flexible implementation options.

Financial instruments co-funded by the ERDF can **potentially be used for all investment priorities outlined in the ERDF operational programmes of the Member States and regions**, provided that they address an **identified market gap**, i.e. areas where banks are unwilling to lend and/or where the private sector is unwilling to invest (for instance where the market is not supplying enough capital to SMEs/ start-ups, where there is not enough funding available for high-growth firms or where commercial bank lending is limited or comes with conditions that firms cannot meet).
Financial instruments can thus contribute to the achievement of a broad set of ERDF investment priorities, for instance:

- promoting business investment in R&I;
- extending broadband deployment and the roll-out of high-speed networks and developing ICT products, services and e-commerce;
- supporting the capacity of SMEs to grow and to engage in innovation processes, including developing new business models;
- promoting the production and distribution of renewable energy, of energy efficiency and renewable energy in enterprises, in public infrastructure and housing;
- investments for adaptation to climate change;
- investing in the waste and water sectors;
- improving the urban environment, including regeneration of brownfield sites;
- supporting industrial transition towards a low-carbon economy; and
- supporting multimodal and environmentally-friendly transport and regional mobility.

In addition, because ERDF support has to focus on several key priority areas, which is known as “thematic concentration”, the use of financial instruments can be expected to be relatively high in the areas of R&I, SME support and energy efficiency and renewable energy sources.

Financial instruments co-funded by the ERDF can therefore be used to support a wide range of projects, from public infrastructure or productive investment projects, to support for households to improve the energy efficiency performance of their homes.

A broad range of ERDF financial instruments can be potentially implemented.

- Loans, which may be available where none are offered commercially (e.g. from banks), or may be on better terms than the commercial ones (e.g. with lower interest rates, longer repayment periods, or with less collateral required). For instance, interest-free start-up loans may be offered within a specific region to entrepreneurs who aim to build up their SMEs.
• **Microcredit**, which are smaller loans made to people sometimes excluded from financial services, often provided over a short term and with no or low collateral required. An example could be a microloan fund which offers loan support targeting disadvantaged individuals, sole traders, partnerships, limited companies and third sector enterprises within a region.

• **Guarantees**, where assurance is given to a lender that their capital will be repaid if a borrower defaults on a loan. For instance, counter-guarantees could be set up against a national SME agencies’ guarantee portfolio, thus ultimately reducing SME business financing costs and facilitating SME access to finance in that country.

• **Equity**, where capital is invested in return for total or partial ownership of a firm; the equity investor may assume some management control of the firm and may share the firm’s profits. This can include venture or risk capital and early-stage capital (seed and start-up funding). The return depends on the growth and profitability of the business and is earned when the investor sells its share of the business (“exits”) to another investor or through an initial public offering (IPO). Co-funded regional venture capital funds have, for example, successfully invested in sectors such as life sciences, IT/communications, industry/transport, trade and energy/environmental technologies.

Financial instruments may also be offered in combination with grants and other forms of assistance. It is often necessary to improve the investment readiness as a pre-requisite for attracting investment funds. Advisory and other support can be grant-aided through the ERDF.

Financial instruments co-funded by the ERDF can make significant long-term contributions to market development through supply-side development and support, by stimulating and supporting commercially-viable projects and opening up new market opportunities. They can also create opportunities for investors and financial intermediaries as projects can become more attractive investments due to public sector participation in financial instruments and related risk-sharing.
For more information

For information on financial instruments and regional policy:


For a reference guide for managing authorities on financial instruments in ESIF programmes:

For information on the ex-ante assessment methodology for financial instruments:

For the ‘fi-compass’ website, the platform for advisory services on financial instruments under the ESIF:
http://www.fi-compass.eu/

For the European Structural and Investment Funds legislation:
... supporting London’s transition to a low carbon economy ...

The London Green Fund targets investment in energy efficiency, waste and greener social housing. It is designed to address market imperfections that make projects (or parts of projects) too risky for the private sector, e.g. uncertain market demand, new or emerging technology, or an unusually long lead time until returns are generated.

Impact forecasts envisage the creation of over 2,000 jobs, 215,000 tonnes per annum CO2 saving, and 330,000 tonnes per annum waste to landfill.

This example illustrates the flexibility of a holding fund structure to broaden the delivery options, and how a financial instrument can attract additional resources and enable a greater input from the private sector.

... addressing the gap in commercial financing due to SMEs’ lack of collateral ...

The First Loss Portfolio Guarantee in Bulgaria aims to reduce aversion towards the risk of SME financing and related high collateral requirements in the banking sector. The guarantee provided to local banks results in lower interest rates and lower collateral requirements for SMEs, breaking the vicious cycle of ‘no credit – no growth – no trust’. The fund will allow building a loan portfolio of above EUR 300 million. Since 2011 it has benefited nearly 4,000 SMEs, in a market traditionally reluctant to support micro-enterprises, high-risk projects or innovative solutions.

This example illustrates how the use of a guarantee can increase lending from the private sector.

... enhancing innovation, growth and competitiveness of the regional economy ...

JEREMIE Languedoc-Roussillon invests equity with a focus on young companies with high potential, especially in information technology and health sectors. The holding fund additionally also offers loans and guarantees for companies in a different stage of their development.

21 companies have benefited from equity investments since 2010, of which 2 have already made the next step to raise capital on the stock exchange.

This example illustrates that a financial instrument can attract substantial private co-investment and accelerate the growth of regional SMEs.