fi-compass State aid survey

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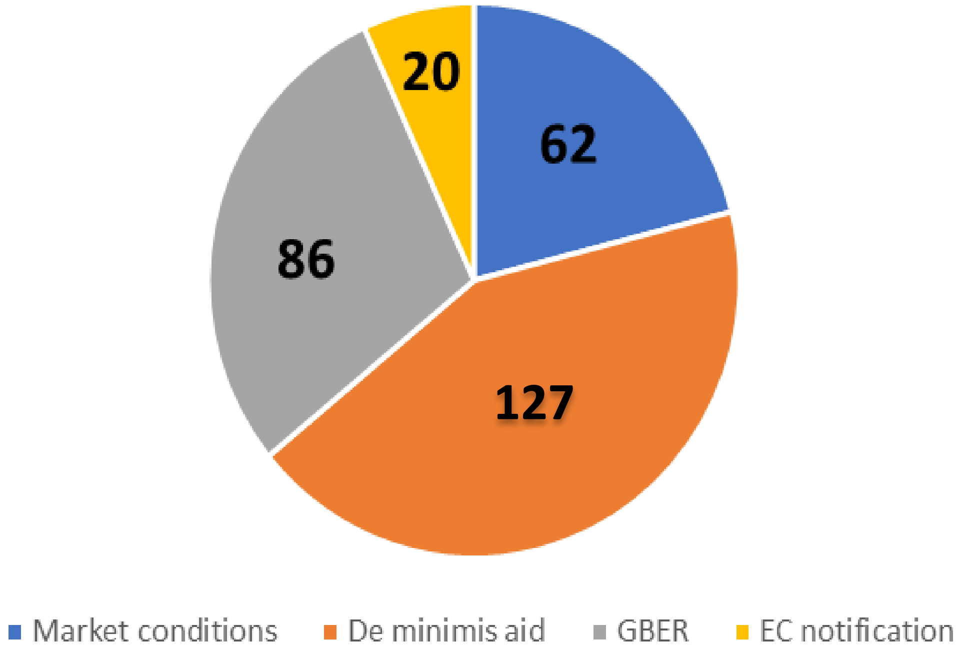
State aid Survey

- **324** respondents from **25** Member States
- Estimate approximately **200 FIs** represented (>50% of all ESIF FIs)
- **All ESI Funds** represented – best represented fund ERDF

Use of different State aid rules



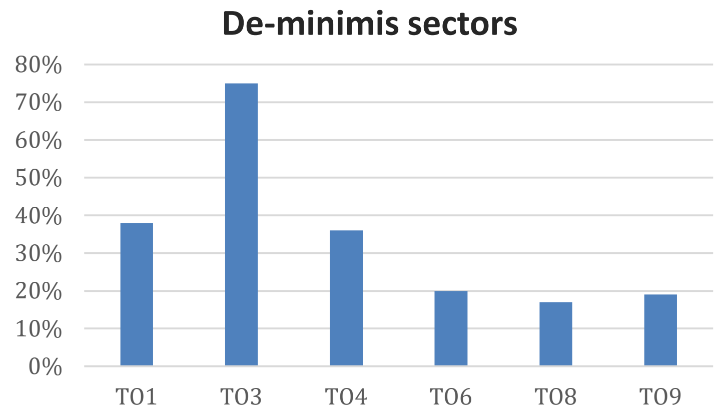
Conclusions

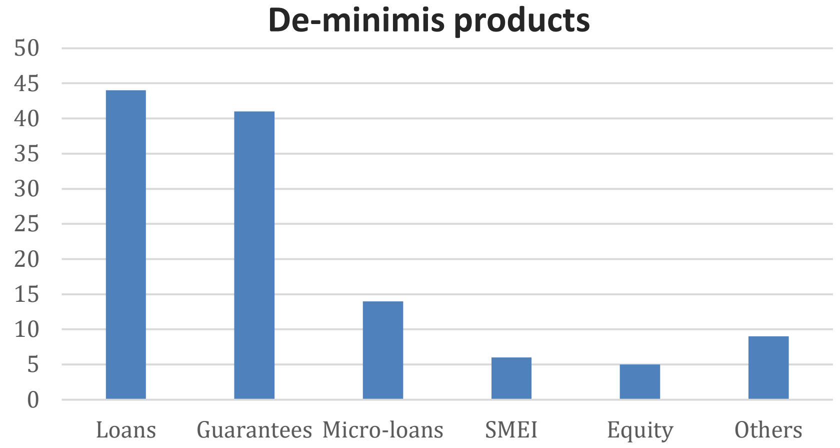
- De-minimis
  - Most common method of compliance – simple and quick to implement
  - Loan and guarantee products for SMEs
- GBER
  - Relatively well used – wider range of sectors (RD&I/Low Carbon) and products (including equity funds)
  - Use of wide range of articles not just FI articles (arts 16, 21 and 39)
- Notification
  - Used by exception - <10% of FIs notified
- Market Conditions
  - Used across all TOs
  - Important for equity/VC Funds – pari-passu investment

De-minimis

Key Findings

- *De minimis* FIs are mainly offering loan and guarantee products in TO3 and to a lesser extent TO1 and TO4.
- *De minimis* is perceived as attractive due to its simplicity which allows for efficient and fast implementation
- Practitioners generally can calculate the aid amounts (GGE) where a methodology approved by EC has been published in the Member State.
- Comments disclose uncertainty regarding aid at investor level which may be a constraint in use/design of FIs under *de minimis* and may result in the authority opting for another legal basis.





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De-minimis
Insights and experience

- Cumulation Rules

“the biggest challenges arise from the obligation to follow the cumulation rules”

- GGE Calculation Methodology

“the challenges of quantifying the gross grant equivalent of aid are related with lack of legal certainty due to no generally accepted formulas and/or examples.”

- Co-investment at Fund Level

“it is an impossible task…without asymmetric profit or risk sharing it is not possible to attract private investors”

“… it is safer for fund manager to establish market orientated [FI] … even with less private contribution as a result.”

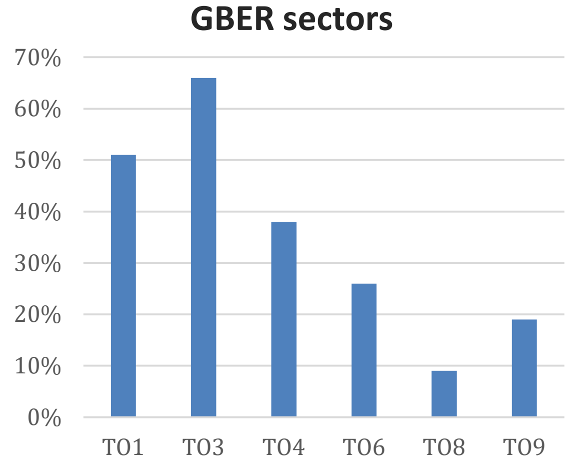
- Consistency between de minimis and other regulations

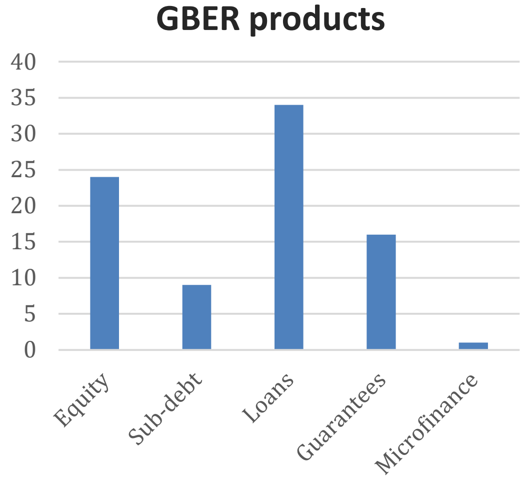
- Raising the de minimis threshold

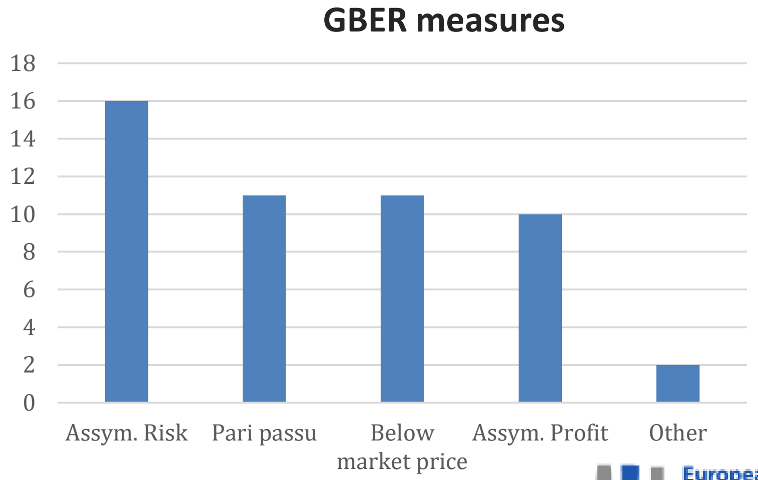
GBER

Key Findings

- GBER supports a greater number of equity and subordinated debt products than *de minimis*.
- The main instrument used to attract private investors is asymmetric risk sharing. However, below market price of the public investment and asymmetric returns are also important.
- Use of GBER is not limited to the Financial Instruments GBER Articles (ie Articles 16, 21 and 39 GBER). Respondents prefer other articles which seem to offer greater flexibility.
- Complexity of the rules, in particular the Financial Instruments GBER Articles, is a significant concern that may restrict use of the Financial Instrument GBER Articles







GBER
Insights and experiences

Art 16 - Regional urban development aid
Eligibility is restricted to assisted areas – limiting the geographic scope of the intervention
Eligibility excludes transport - while urban development plans typically encompass the development of transport as an integral urban plan

Art 21 - Risk finance aid
Paragraph 13 – open and transparent selection requirement (for example, one comment refers to uncertainty of how to apply this requirement in the co-investment model where co-investors are joining at the level of the final recipient).
Eligibility largely restricted to SMES <7 years from commercial sale
Too high private participation required for SMEs post 7 years from commercial sale (minimum 60%)
Private investment rate for tranches/follow on investment to a growing company are difficult to calculate or modify after closing for investors
Need to simplify the language
Calculating GGE for equity investments/VC fund para 10 restrictions

Art 39 - Investment aid for energy efficiency projects in buildings
Eligibility of industrial buildings, business sector and social housing
Calculation of aid to natural persons in residential blocks and/or at project level?
Eligibility unclear - whether interest rate subsidies and guarantees are eligible
Requirement for open and transparent call – no Art 21(17) equivalent. Not clear how to apply selection rules to in-house direct award
The definition of certain terms such as "Union standards"

Also …

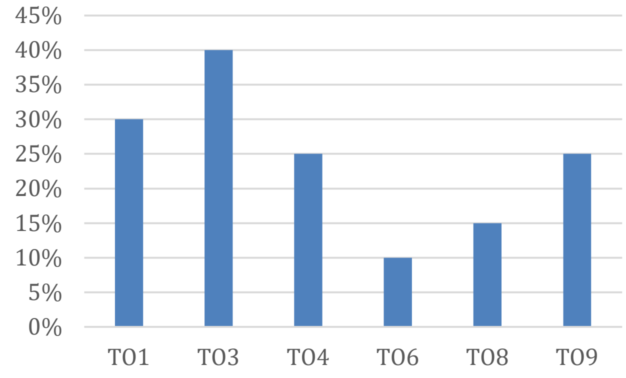
- Greater flexibility needed under the general GBER articles (ie other than Art 16, 21 and 39)
- Complexity of applying the rules – need for guidance
- Consistency between GBER and other regulations

Notification

Key Findings

- Notified ESIF FIs most commonly support the thematic objectives TO3, TO4, TO1 and TO9.
- The respondents had a mixed experience of the process with 40% saying they encountered difficulties with setting up notified FIs.
- Due to the small number of detailed responses it is difficult to identify trends save that the risk finance guidelines are mentioned several times.

Notification sectors



- Combination with grants

“the combination of grants with financial instruments at project level is one of the main difficulties encountered at project level”

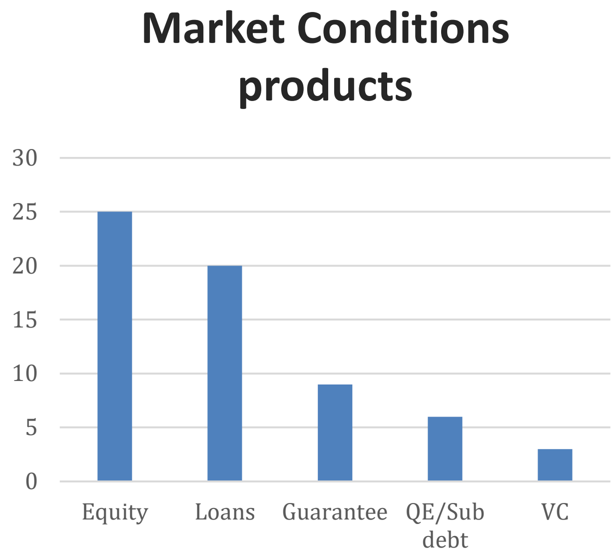
- FI specific state aid rules

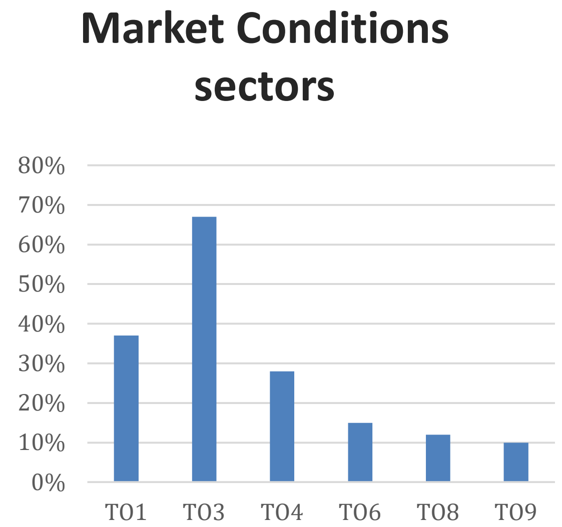
“there is a strong need for grouping State aid rules applicable to financial instruments in a clearer manner.”

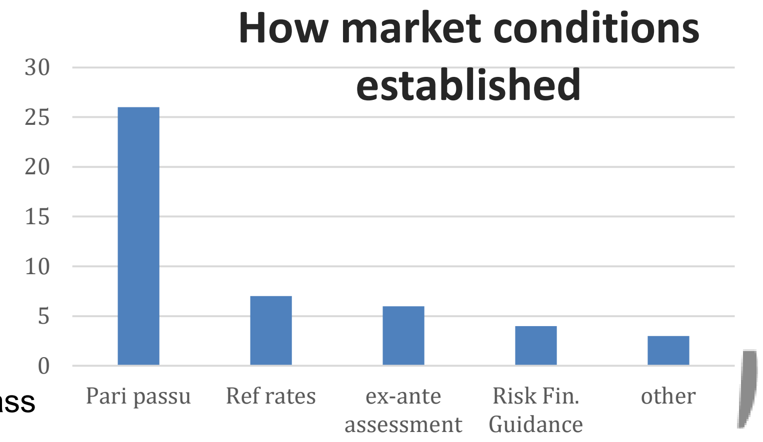
Market Conditions

Key Findings

- Equity based FIs are commonly set up under market conditions.
- The most common way of demonstrating market conformity is pari passu investment.
- The guidance contained on market-conform FIs in the Risk Finance Guidelines are cited as being important in demonstrating no aid – lack of similar guidance may inhibit use of market conform FIs in other sectors







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Market conditions
Insights and experience

- Establishing Market Conditions

“it is hard to prove that the FI is set-up in line with market conditions …there are situations where the market does not exist (or is small)”

The use of the Risk Finance Guidelines

“if we have invested in the company pari-passu with Investor A, do we need to exit at the same time?”

- Need for further guidance

“it would be easier …if more detailed guidance [was] provided in relation to (a) the specifics of pari-passu…(b) which assessment method for which level of…the financial instrument.”

“we would appreciate a separate guidance and a eligibility test evaluating…the market economy principles.”

Key challenges identified

- **The difficulty of ensuring no aid at investor level**
  - for FIs under under the *de minimis* and GBER (excl. Arts 19, 21 and 39);
  - Need for further development of the regulatory framework in the future; and
  - Consider further guidance, possibly following the model in the Risk Finance Guidelines (e.g. Para 37-43).
- **The need for simplification of the State aid rules for financial instruments**
  - grouping the rules in a single place;
  - using more straightforward language;
  - aligning with other regulations such as the ESIF rules and procurement regulations;
  - clarifying defined terms; and
  - reducing the complexity of the eligibility requirements.
- **The need for further guidance**
  - translated into other languages;
  - supported by training and other information campaigns to raise awareness of the rules and flexibilities; and
  - Capacity building within the practitioner community.

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financial instruments
revolving
capacity building
added value
ERDF
funding agreement
ESF
EU guidance
governance
ex-ante assessment
technical support
seminars
leverage
financial intermediaries
microfinance
co-financing
case studies
investments
ESIF
fi-compass
final recipients
business plan

Thank you

thematic objectives
advisory services
guarantees
loans
CF
equity
banks
life cycle
combination of support
EAFRD
private investors
factsheets
conferences
EMFF
investment strategy
fund of funds
managing authorities
manuals

European Commission

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European Investment Bank
The EU bank