Financial Instruments 2014-2020 under European Structural and Investment Funds (ESIF)

Brussels, 19-20 January 2015

Financial Instruments under ESIF: Standard terms and conditions for financial instruments (2014/964/EU)

Thomas de Bethune,
DG REGIO, EC

European Commission

www.fi-compass.eu

European Investment Bank
The EU bank

Financial Instruments under ESIF: Standard terms and conditions for financial instruments. (2014/964/EU)

January 2015, Brussels

European Commission

Off the Shelf instruments are part of the Implementing options

CPR Art.38(1)- Managing authority may provide financial contribution to:

a) Financial instruments set up at EU level

b) Financial instruments set up at national, regional, transnational or cross-border level.

CPR Art.38(3)- Managing authority may provide financial contribution to:

a) **Financial instruments complying with the standard terms and conditions laid down by the Commission = off the shelf instrument (implementing act 2014/964/EU).**

b) Already existing or newly created financial instruments = tailor-made instrument.

Why off the shelf instruments have been developed?

- Help managing authorities to deliver faster and safer funds to the final recipients;
- Alignment with the EU level instruments (no overlapping);
- Combining public and private resources, seek for leverage on EU contributions;
- Encourage switch from grant dependency to a more sustainable way of project finance.
- Learn and build on the experience 2007-2013.

What are the principles of the off the shelf instruments?

- Optional implementation but mandatory terms and conditions if chosen (Additional terms and conditions are allowed)
- Managing authority can decide either to select directly financial intermediaries or OP contribution through a fund of funds
- Pre-defined but still flexible: keep adaptability to the needs of various type of regions
- Focus on the most commonly used type of instruments
- Compatibility with the state aid rules (no need for notifications)
- Implementation of the instruments according to market practice

What are the different off the shelf instruments?

One for energy efficiency/renewable energies

- Renovation Loan based on a Risk sharing loan model (RS Loan) (Annex IV of 2014/964/EU).

Two for SMEs

- Loan for SME's based on a portfolio risk sharing loan model (Risk Sharing Loan) (Annex II of 2014/964/EU) .
- Guarantee for SMEs (partial first loss portfolio, capped guarantee) (Annex III of 2014/964/EU).

Financial instruments 2014-2020: Possible additional "Off-the-shelf"

- Equity fund for SMEs and start-up companies based on a co-investment model

- Urban Development Fund based on the Jessica model

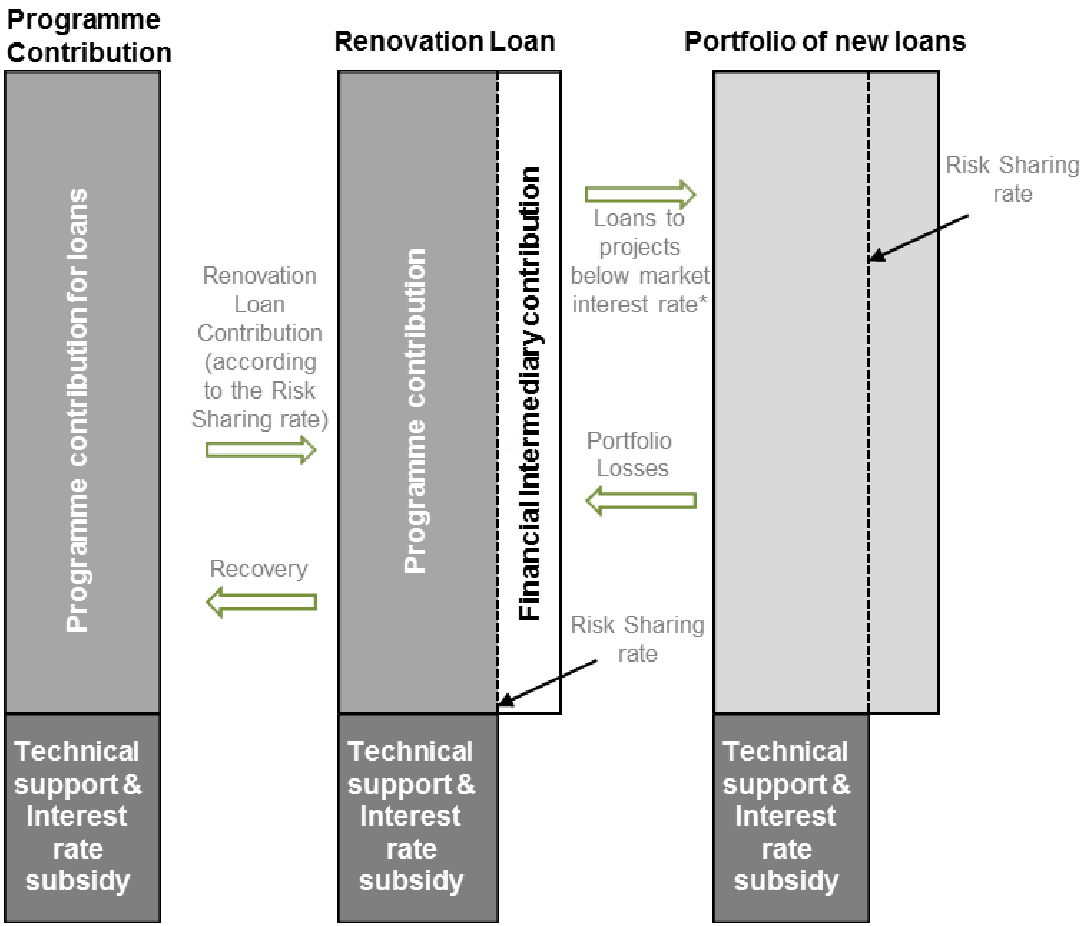
➢ Based on the General Block Exemption Regulation (EU No 651/2014)

Renovation Loan (energy efficiency and renewable energies in the residential building sector)

Offers preferential loans to natural and legal persons or independent professionals owning premises (apartment, social housing or individual household), as well as administrators or other legal bodies acting on behalf and for the benefit of the owners in order to undertake renovation works.

The loan shall incentivise the energy saving potential arising from the renovation of residential buildings

Renovation Loan



* Full benefit of interest rate is passed to house owners

Renovation Loan

- Risk-sharing: **85%/15%**, i.e. the financial intermediary shall contribute with its own private fund for a minimum of 15% (at market conditions);
- State aid:
  - **state-aid free at the level of the financial intermediary** (full pass on of the financial advantage) and
  - Compliant with **de-minimis** rule at the level of owners with economic activities.

Renovation Loan

- Purpose of the loan: energy efficiency or renewable measures (e.g. replacement or refitting of heating, Improvement of heat insulation, replacement of windows and entrance doors, roof insulation, etc.;
- Target: natural, legal persons or independent professionals (economic activity), as well as administrators or other legal bodies acting on behalf and for the benefit of owners, owning premises (**apartment or individual household**).
- Loan maturity: up to **20 years** (including grace period);
- Loan amount: **up to EUR 75.000 / owner**;
- Advantage for the owner: access to finance at **preferential conditions** (interest rate and collateral reductions)

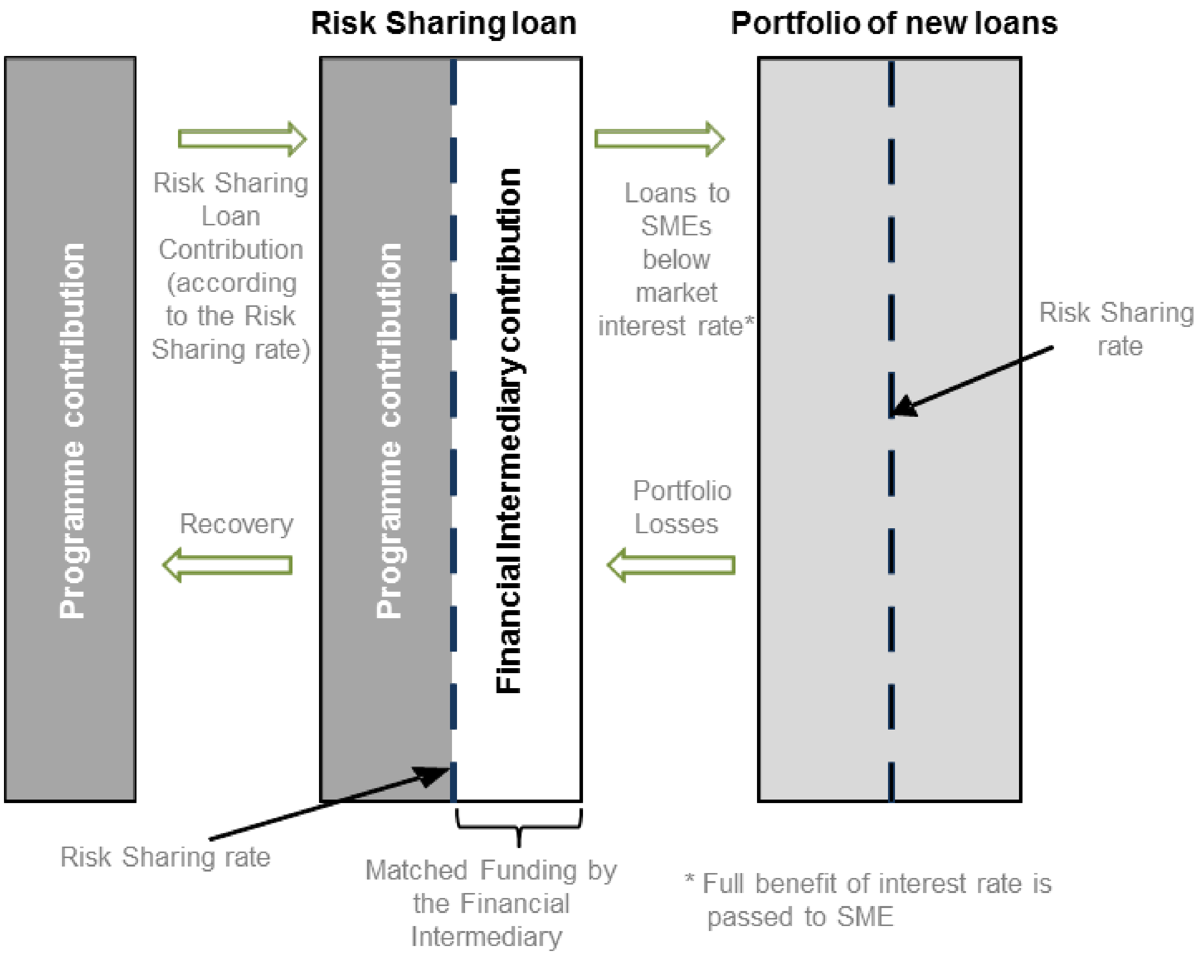
European
Commission

Risk- Sharing Loan (Loan for SME's)

1. Combine resources from the ESIF programme and the financial intermediary to support financing to SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013

2. Provide SMEs with easier access to finance by providing financial intermediary with a funding contribution and credit risk sharing and thereby offering SMEs more funds at preferential conditions in terms of interest rate reduction and if relevant collateral reduction.

Risk- Sharing Loan



Risk-Sharing Loan

- ESIF programme shall provide funding to the financial intermediary in order to build up a portfolio of newly generated loans to SMEs;
- Target: Eligible **SMEs**. SMEs in difficulty, de-minimis exclusions, delinquent/default, etc. are excluded.
- Risk-sharing: **75% / 25%**, i.e. the financial intermediary shall contribute with its own private fund for a minimum of 25% (at market conditions); to be determined in the ex ante assessment
- Duration: typically **4 years** after the signature of the funding agreement between the managing authorities and the financial intermediary;

Risk-Sharing Loan

- Purpose of the loan to Final Recipients: **financing tangible & intangible investments** as well as **working capital linked** to the investment financed;
- Loan maturity: **between 1y and 10y** (including grace period);
- Loan amount: **up to EUR 1m**;
- State aid:
  - **state-aid free at the level of the financial intermediary** (full pass on of the financial advantage) and
  - Compliant with **de-minimis** rule at the level of SMEs based on the calculation proposed;
- Advantage for the SMEs: access to finance at **preferential conditions** (interest rate reductions).

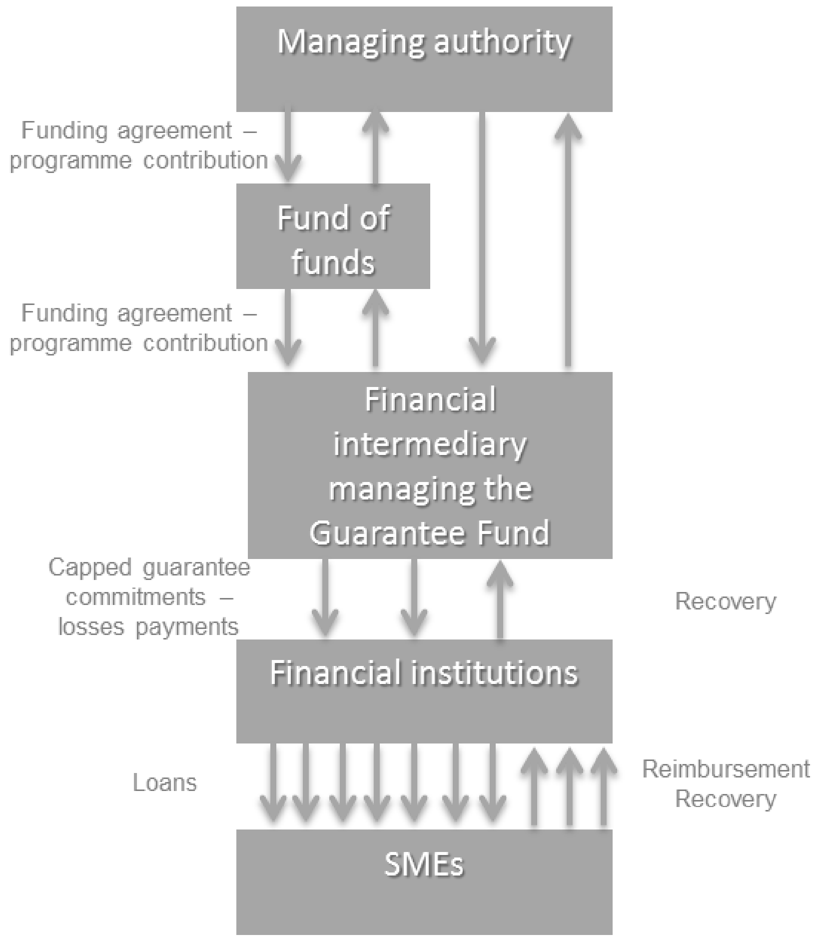
Capped Guarantee (Guarantee for SMEs)

The Capped Guarantee instrument shall provide credit risk coverage on a loan by loan basis, for the creation of a portfolio of new loans to SMEs up to a maximum loss amount (cap).

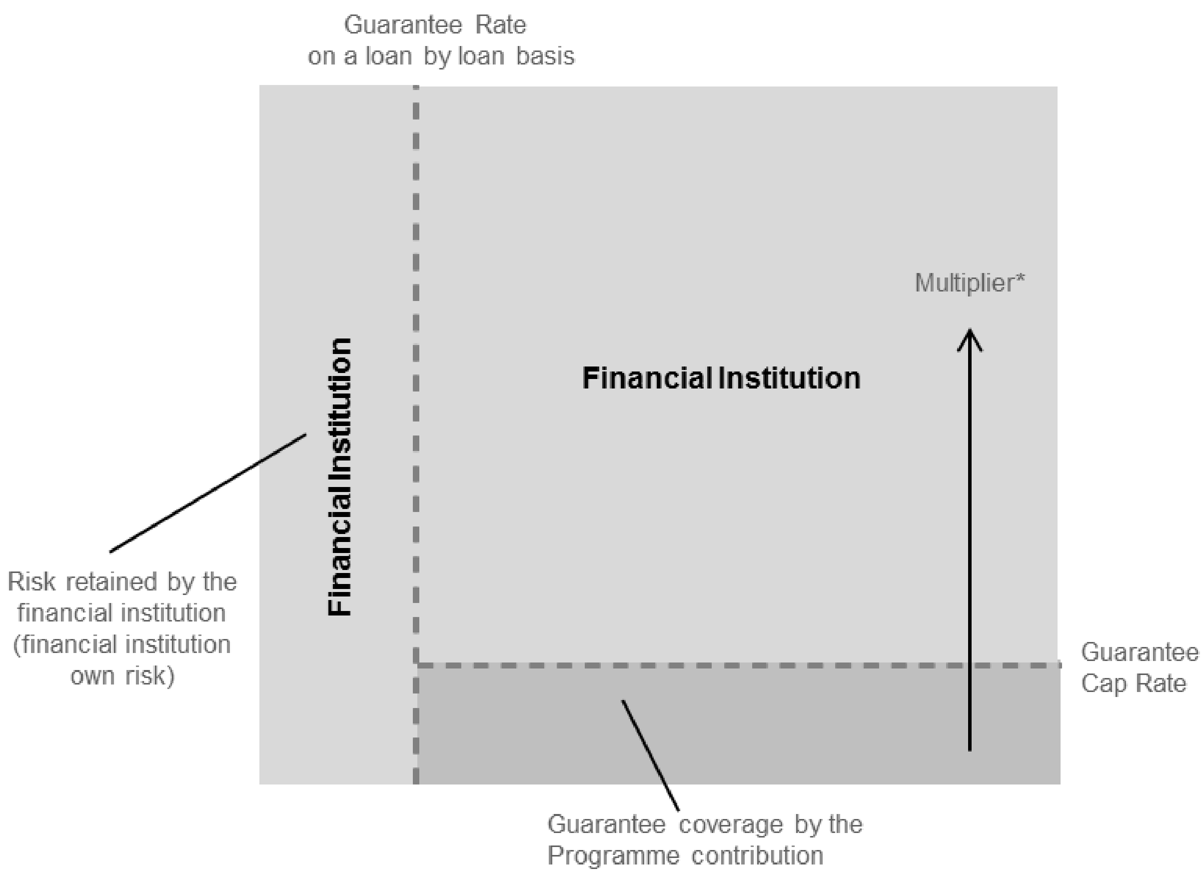
It aims at

1. Providing better access to finance to targeted SMEs, addressing concrete and well identified market gaps.
2. Leverage of the ESIFs to support financing for SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013.

Capped Guarantee



Capped Guarantee



* Multiplier=(1/Guarantee Rate)x(1/Guarantee Cap Rate)

Capped Guarantee

- Guarantee rate: up to **80%** on a loan by loan basis (credit risk retains by the financial intermediary in no case less than 20%);
- Target: Eligible **SMEs**. SMEs in difficulty, de-minimis exclusions, delinquent/default, etc. are excluded.
- Loan maturity: between **1y and 10y** (including grace period);
- Guaranteed Loan amount: up to **EUR 1.5m**;
- Cap rate (up to 25%) to be further determined in the ex ante risk assessment (Article 8 DA);
- Multiplier: **min.5x**;

Capped Guarantee

- State aid:
  - **state-aid free at the level of the financial intermediary** (full pass on of the financial advantage) and
  - Compliant with **de-minimis** rule at the level of SMEs
- Duration: typically **4 years** after the signature of the funding agreement between the managing authorities and the financial intermediary;
- Purpose of the loan guaranteed: **financing tangible & intangible investments** as well as the **working capital link** to the investment financed;
- Advantage for the SMEs: access to finance at **preferential conditions** (interest rate and collateral reductions).

Q&A time

Thank you