

ERDF/CF seminars

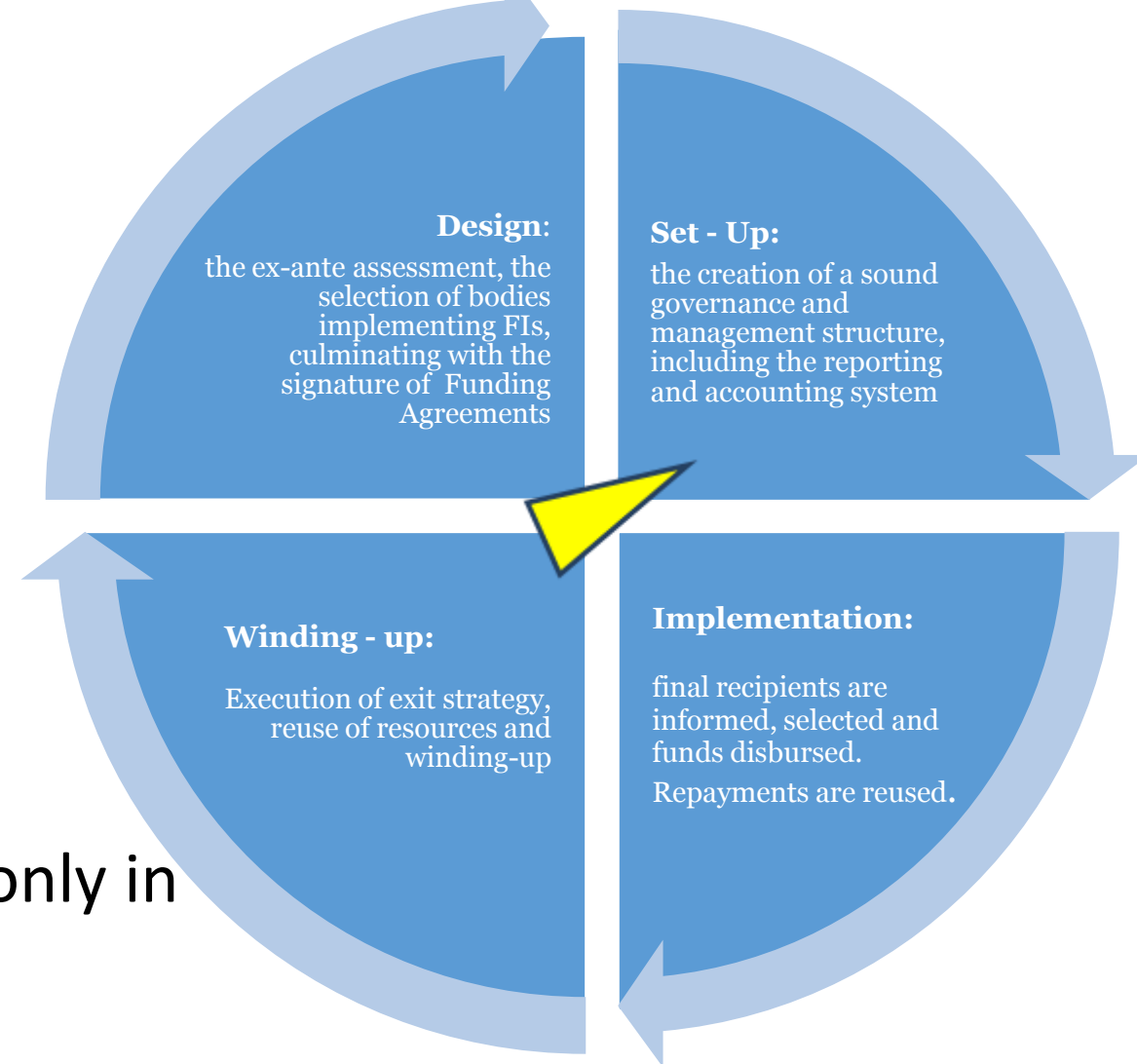
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An operational framing of the lifecycle of FIs: **Action Plan**

The Lifecycle of FIs

Why is it important?

- The legal framework for 2014-20
«methodological» and «legal» steps:
 - Ex ante assessemnt
 - Funding Agreement
 - Investment Strategy / Business Plan
 - ...
- These steps can be fully understood only in the light of the whole FI lifecycle






Why an Action Plan?

THE ACTION PLAN MAKES THESE
«METHODODOLOGICAL / LEGAL» STEPS
OPERATIONAL AND WILL ...





- help MAs and stakeholders getting a clearer picture of the FI lifecycle
- link regulations with the management of the FI
- provide a common conceptual framework



 **fi**  **compass**

advancing with ESIF financial instruments

Developing an Action Plan
Design, set-up, implementation
and winding-up of Financial Instruments.

The Phases

DESIGN

1. Reference to FIs in the OP

2. Ex-ante assessment

3. Selection of the implementation option

4. Selection of the body implementing FI

5. Formulation and signature of the Funding Agreement, including management costs and fees

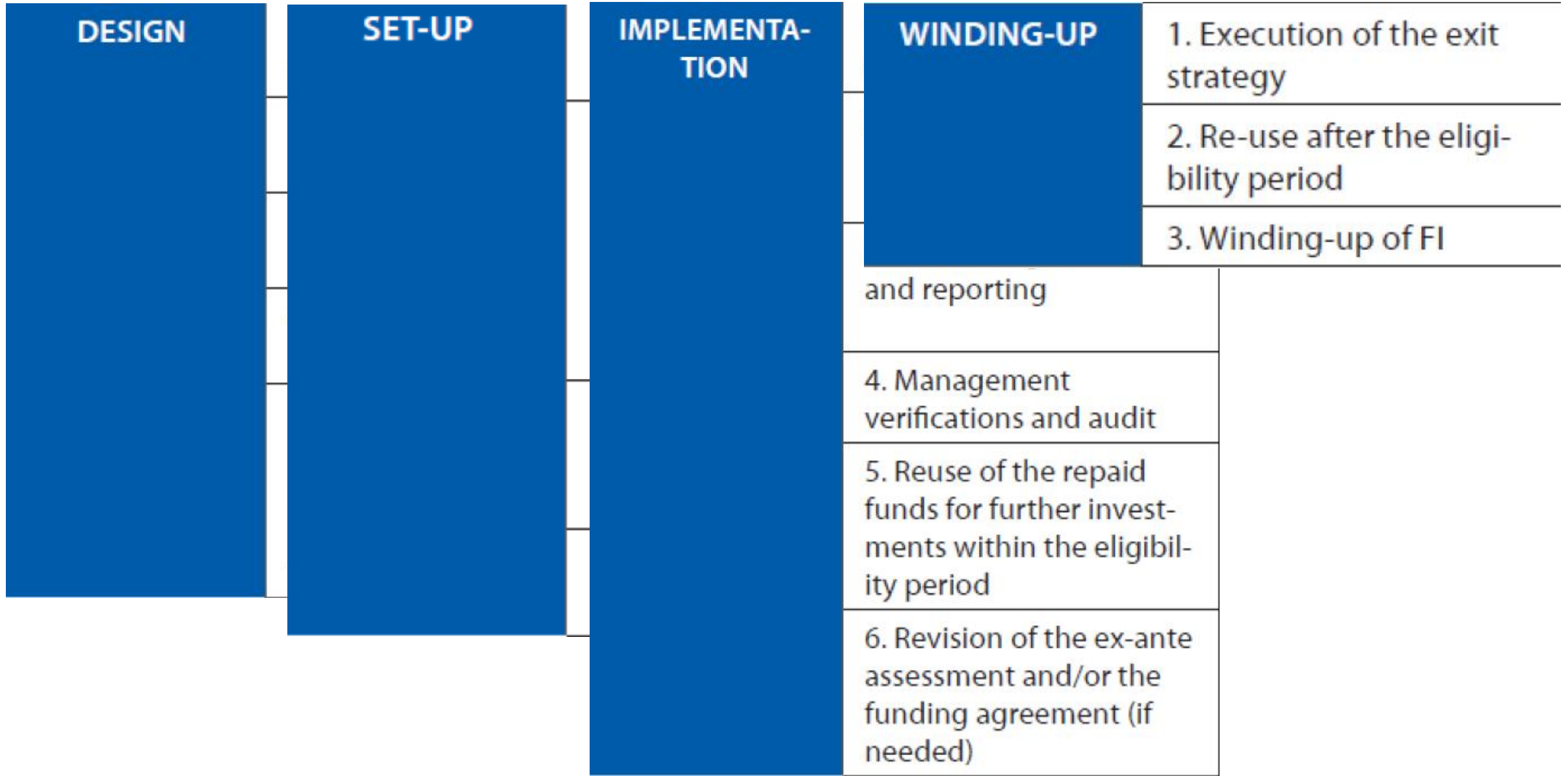
The Phases

DESIGN	SET-UP	
		1. Setting-up the governance structure
		2. Open fiduciary accounts or set up the FI as a separate block of finance and transfer resources (only valid for 38(4)(b))
		3. Documentation, management and control system
		4. Setting up operational structure

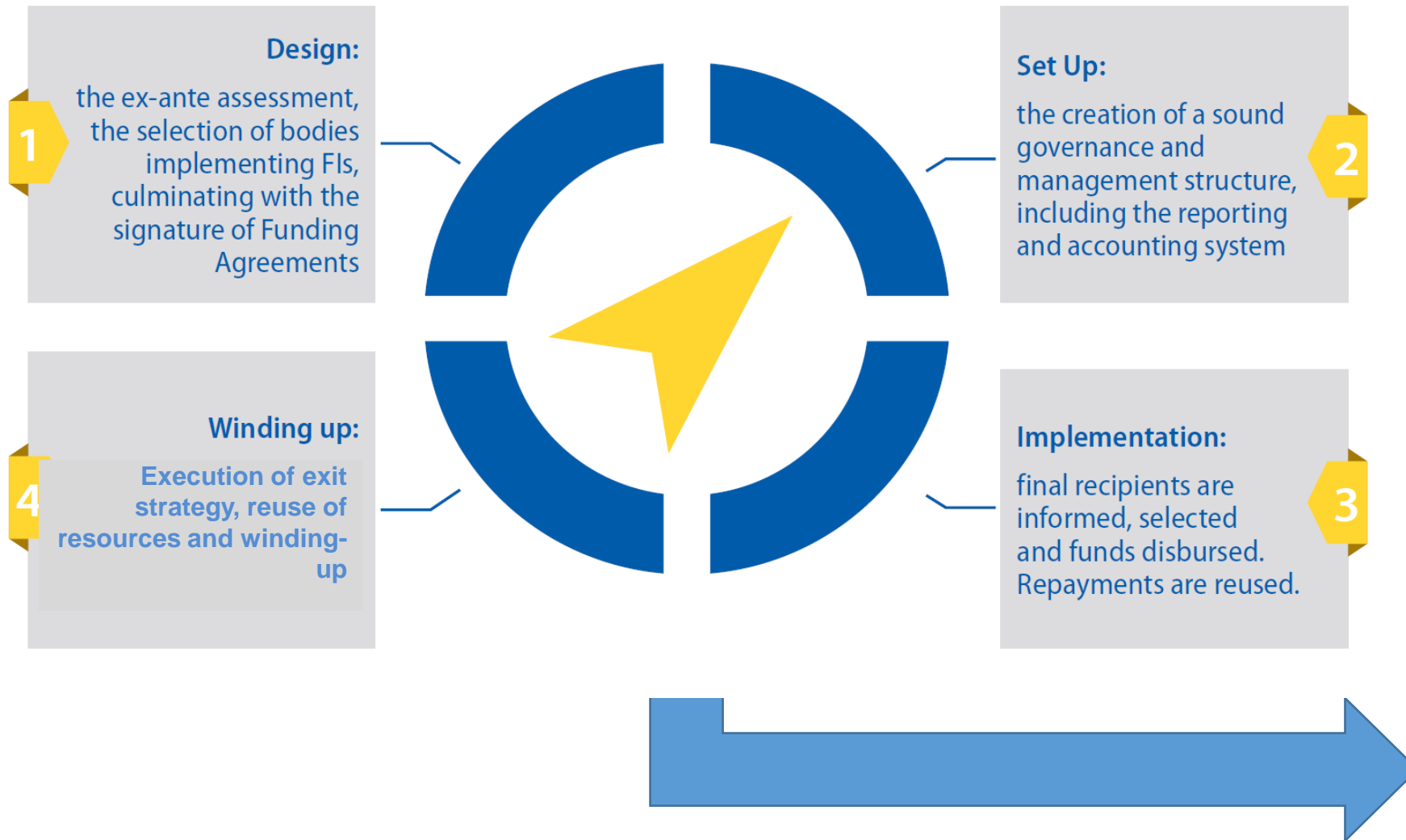
The Phases

DESIGN	SET-UP	IMPLEMENTATION	
			1. Selection, funding and disbursement to the FRs
			2. Payments
			3. Monitoring, control and reporting
			4. Management verifications and audit
			5. Reuse of the repaid funds for further investments within the eligibility period
			6. Revision of the ex-ante assessment and/or the funding agreement (if needed)

The Phases



Starting point: the 4 phases





EACH of the 4 phases is described in a specific

SECTION

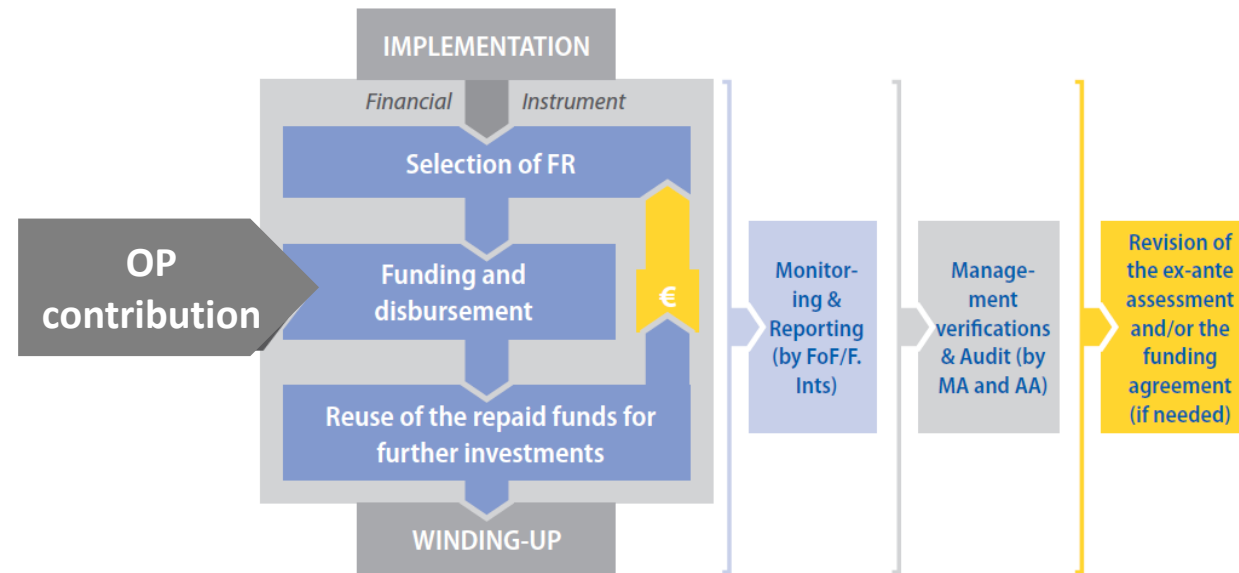
Layout of the single SECTION

Translating each phase into activities

ACTIVITY	HIGHLIGHTS	TIPS
<p><i>FIs in the Programme</i></p> 	<p>MAs who wish to implement FIs should signal this in the (operational) programme. Art. 120(5) of the CPR allows a 10% increase of the maximum co-financing rate where the whole of a priority axis is delivered through FIs.</p>	<p>Including information in the programme assures a better understanding of the delivery of the actions. The decision to implement a FI is taken on the basis of the ex-ante assessment.</p>
<p><i>Ex-ante assessment</i></p> 	<p>MAs organise the ex-ante assessment to provide evidence-based decision making in the design and implementation of FIs taking account of, <i>inter alia</i>, state aid issues. The MA must submit the document to the Monitoring Committee for information. The summary of the ex-ante assessment must be published. The ex-ante assessment must be completed before the MA decides to contribute programme resources to a FI.</p>	<p>Using off-the-shelf instruments under CPR 38(3)(a) can be a valid solution to ensure compliance with state aid rules.</p>

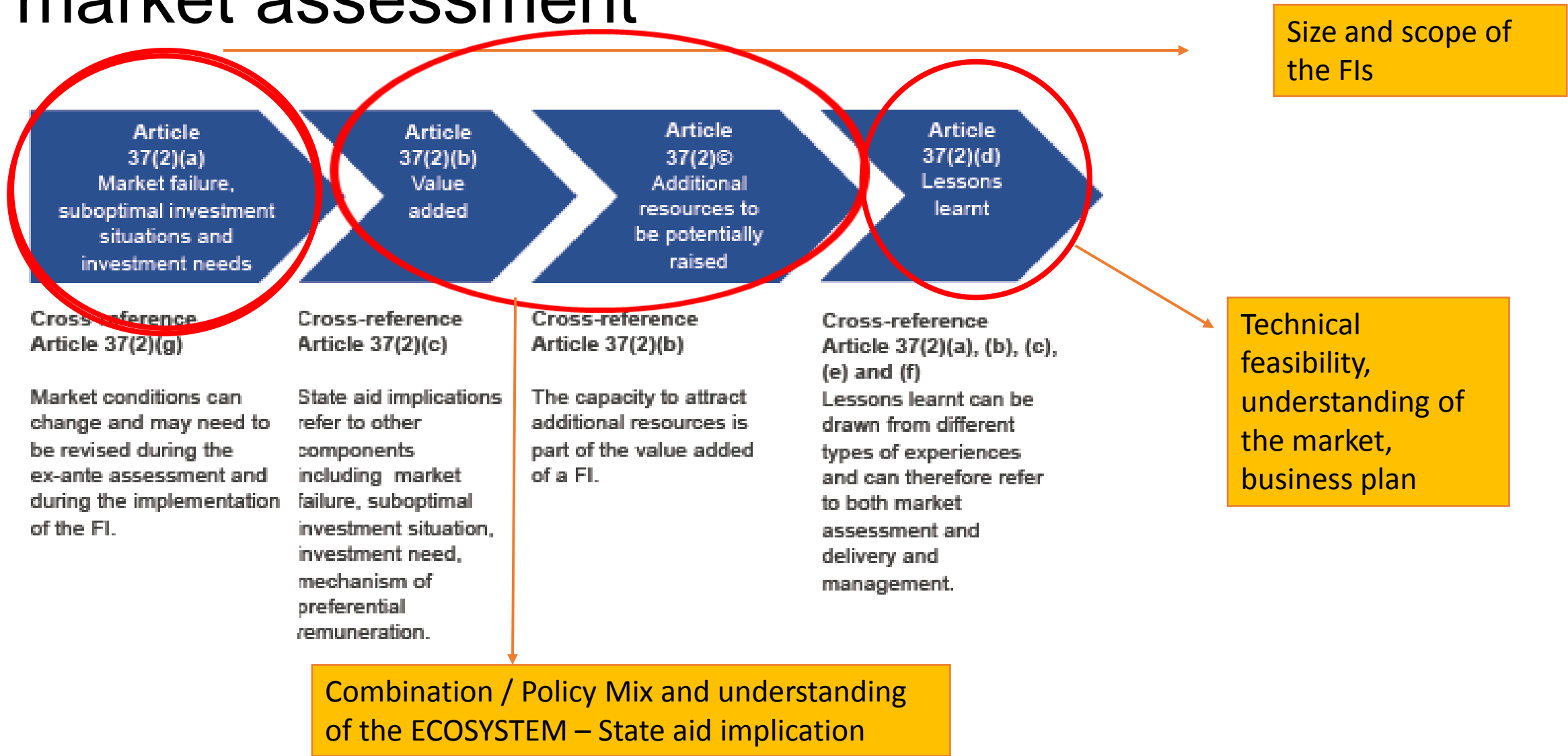
Activity flow chart

Figure 3.1 Implementation phase

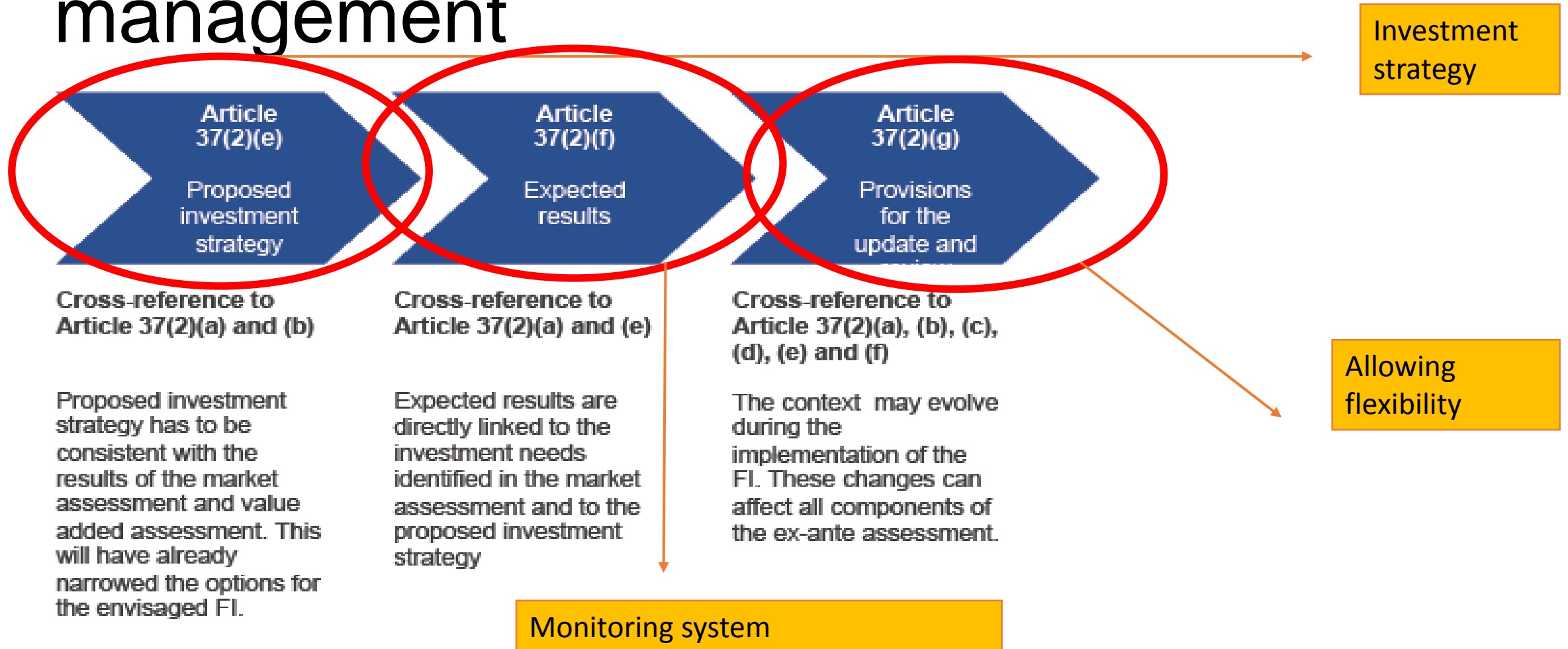


Ex-ante assessment:
an investment in the future of
the FI

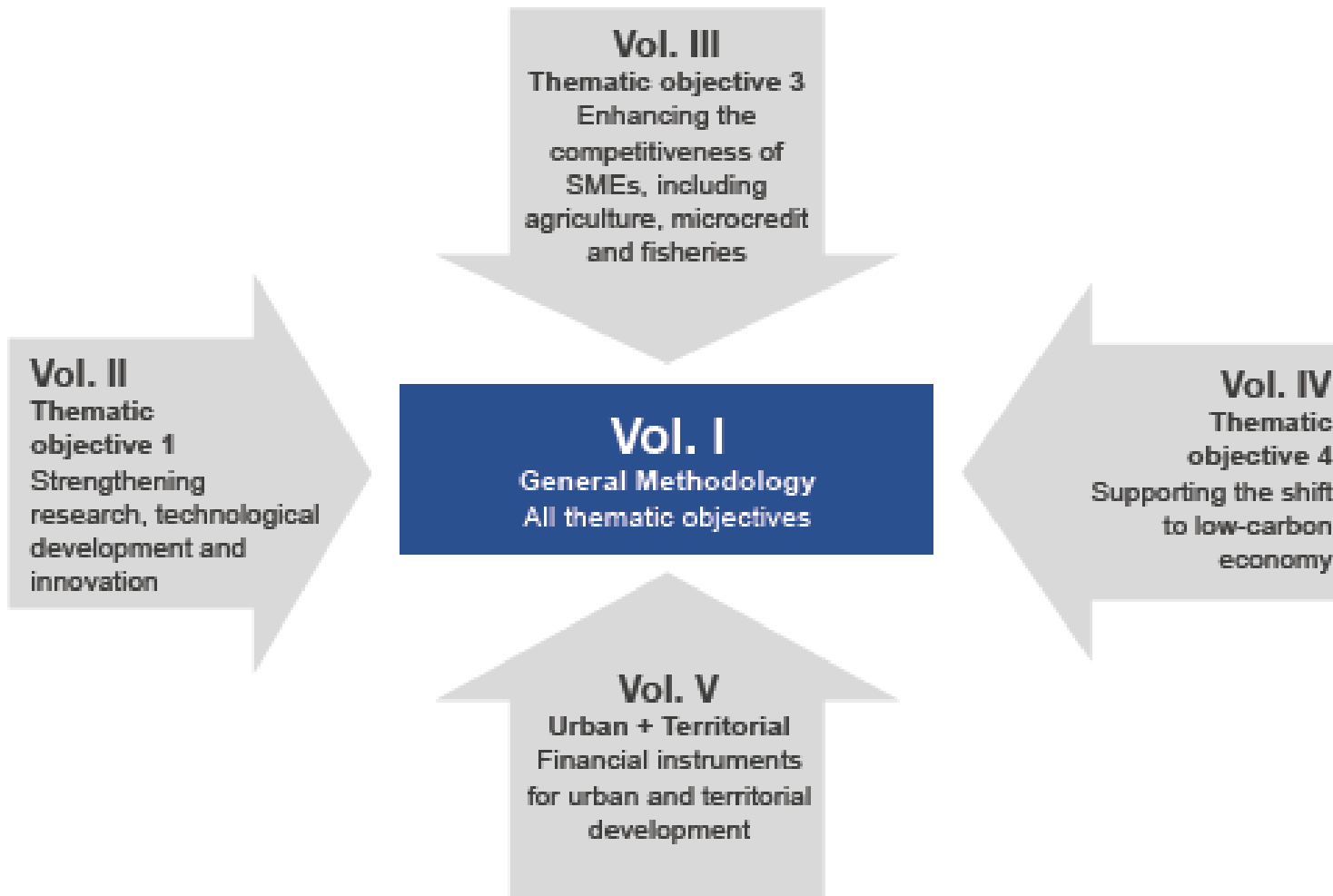
Ex-ante assessment: Block 1, market assessment



Ex-ante assessment: Block 2, delivery and management



The Methodology tool box



Already available at:

http://ec.europa.eu/regional_policy/index.cfm/en/funding/financial-instruments/

«Additional» tools



**Quick
Guide**

**Ex ante
Methodology**

Coming Soon



Video

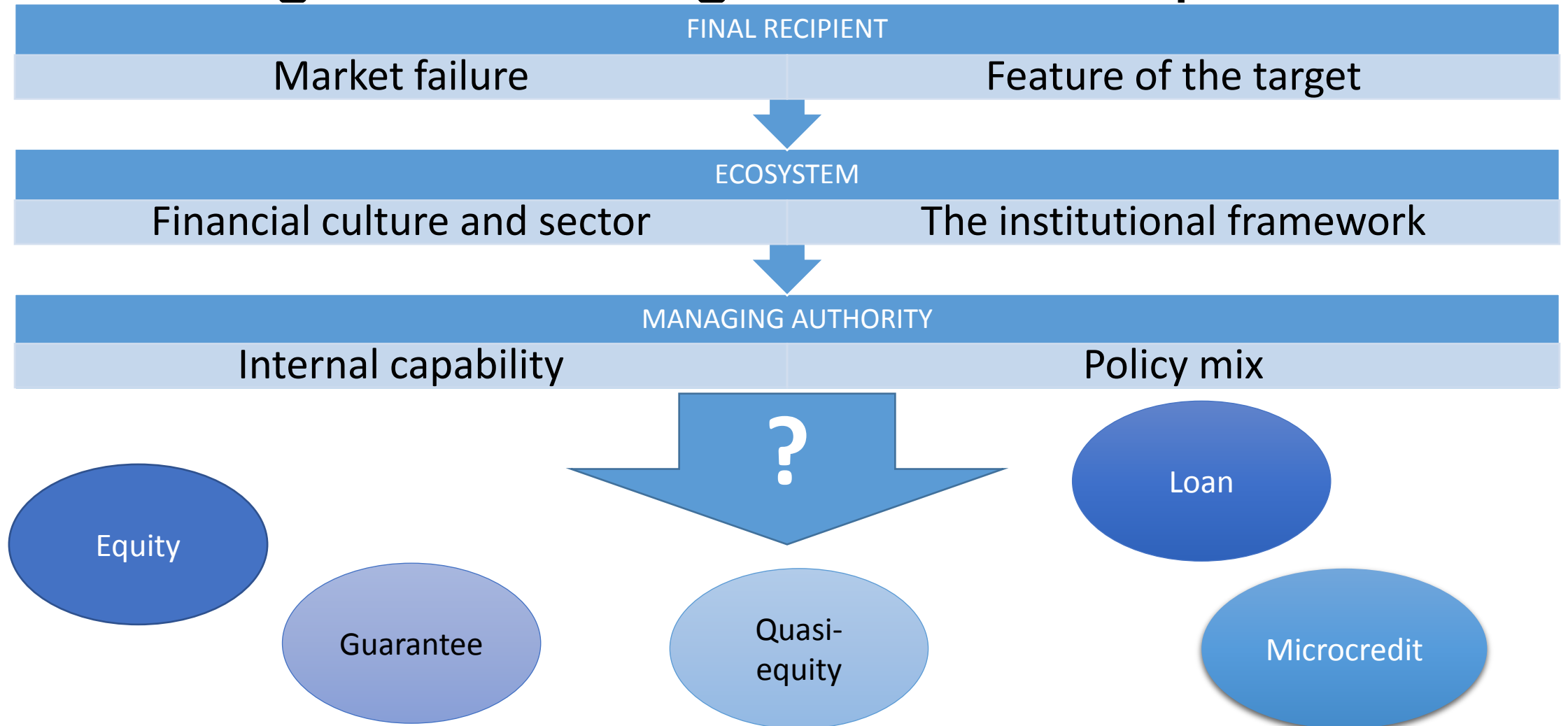


Case study

Already Available at:
<http://www.fi-compass.eu/resources/product/64>

Financial Products: understanding their potential and applicability

New opportunities, well-known challenges: choosing the financial product



ADVICE ON FINANCIAL PRODUCTS

This short reference guide is addressed to MAs, Financial Intermediaries (F.Ints), FRs and other stakeholders. It illustrates the key features and differences of the main financial products which may be offered by FIs, namely loans, guarantees, equity and quasi-equity



LOAN

LOAN

“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 within the agreed time”. Under a FI, a loan can help where banks are unwilling to lend on terms acceptable to the borrower. They can offer lower interest rates, longer repayment periods, or have lower collateral requirements.

PROS

1. Not particularly difficult to administer (so there are limited management costs/fees).
2. A defined repayment schedule makes budgeting easier.
3. The lending mechanism is well understood, reducing the need for training and the risk of misunderstanding.
4. Loans preserve the equity of the FRs as there is no claim on the ownership of the enterprise.

CONS

1. Funded products such as loans require more initial resources than unfunded products such as guarantees.
2. It is sometimes difficult to establish the probability of default, especially with a lack of history of FRs.
3. The advantage for the FRs is almost entirely financial. There are limited additional benefits as know-how is not transferred.

GUARANTEE

GUARANTEE

“Written commitment to assume responsibility for all or part of a third party’s debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default”. Guarantees normally cover financial operations such as loans.

PROS

1. Guarantees can preserve the equity of FRs as there is normally no claim on the ownership of the enterprise.
2. Potential benefits for FRs could include inter alia lower or no guarantee fees, lower collateral requirements as well as lower risk premium.
3. Since Programme contributions cover only certain parts of loans (appropriate multiplier ratio), there is a high leverage effect
4. The investment risk for the third party lenders is reduced (because they only bear part of the risk of default)

CONS

1. The guarantee only represents a risk reserve for the lender and doesn’t provide liquidity.
2. Estimating the appropriate cap, or maximum limit, can be challenging.
3. There is no transfer of business expertise to FRs.

EQUITY

EQUITY

“Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm’s profits”. The financial return depends on the growth and profitability of the business. It is earned through dividends and on the sale of the shares to another investor (‘exit’), or through an initial public offering (IPO).

PROS

1. There are higher potential re- turns compared to pure debt instruments.
2. There is an active role in project management and access to share- holder information for the investor.
3. The local private equity industry and local investor activity in riskier areas can be encouraged.
4. The need for equity investment might prompt changes in regulatory framework to encourage a private equity market.
5. The company can benefit from investor’s management expertise.

CONS

1. There is insolvency risk for all the invested capital.
2. Time-consuming and cost-intensive investments.
3. These investments are more difficult to administer than normal loans (high set-up and operational costs), more time consuming and cost-intensive.
4. Short-term financing is not possible, since returns are feasible only in the long-term.
5. Establishing the process for the investment can be challenging.
6. Compared to debt instruments, equity can be less attractive.

QUASI-EQUITY

QUASI- EQUITY

“A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity investments can be structured as debt, typically un-secured and subordinated and in some cases convertible into equity, or as preferred equity”.

The risk-return profile typically falls between debt and equity in a company’s capital structure.

PROS

1. For co-investors, there may be higher returns compared to pure debt instruments.
2. Quasi-equity addresses specific risk capacity constraints in a particular market segment.
3. The local private equity industry and local investor activity in riskier areas can be encouraged.
4. Quasi-equity might prompt changes in the regulatory framework to encourage a private equity market.
5. Financial benefits are transferred from the funding source to FRs.

CONS

1. These investments are more difficult to administer than normal loans (high set-up and operational costs), more time-consuming and cost-intensive.
2. Short-term financing is not possible, since returns are feasible only in the long-term.
3. Any ancillary services such as management expertise would be an expense for the company.
4. There are typically a low number of investors and FRs, while the investment amounts are high.
5. Compared to debt instruments, they may be less attractive to FRs as they may involve loss of control when bonds are converted into equity.

Inside the factsheet: for each financial product

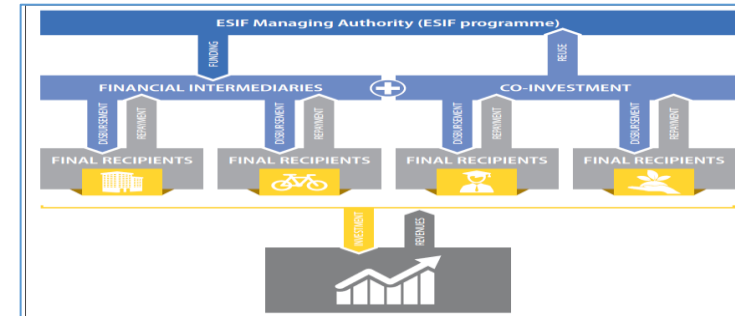
1) How does it work ?



3) Main subcategories

(e.g. microcredit/ seed capital, venture capital, business angels)

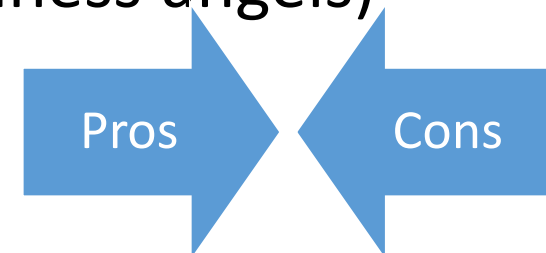
4) Examples



2) Thematic Objective

- possible application

5)



What's coming next

MANAGEMENT OF FIs

- Handbook on Investment Strategy and Business Plan
- Factsheet on Governance of FIs
- Hand book on Selection of F. Int/ FoF
- Case studies

STATE AID

Handbook and
factsheet

Thank you for your attention