1.Financial Instruments under ESIF 2014-2020
2. Synergies between ESIF and EFSI (Juncker Plan)
3. Commission Guidance on Financial Instruments

NIKOSIA, 14 APRIL 2016

Overview:all Financial instruments 2014-2020

	Centrally managed by COM (EU FI- Financial Regulation)		**Shared Management with MS** (ESIF FI - Common Provisions Regulation)
Research, Development Innovation	**Horizon 2020** InnovFin (Equity and Risk Sharing Instruments)		**Instruments under Structural and Cohesion Funds**
Growth, Jobs and Social Cohesion	**Competitiveness & SME (COSME)** Equity & guarantees	**Creative Europe** Guarantee Facility	➢ Contribution to EU level (central management)
	Social Change & Innovation	**Erasmus for all** Guarantee Facility	➢ National/regional instruments (shared management) ➢ Off-the shelf FIs ➢ Tailor made FIs
Infrastructure	**Connecting Europe Facility (CEF)** Risk sharing (e.g. project bonds) and equity instruments		*Significantly higher amounts expected than in current MFF!*

European Commission

Principles of financial instruments under ESIF

Types of financial instruments

- Loans
- Guarantees
- Equity

→ Addressing lack of available financing

Providing financing at favourable conditions

Advantages of financial instruments

- Leverage effect
- Revolving nature
- Better quality of projects

→ Increasing efficiency and effectiveness of EU funding

Ways to implement financial instruments

- Tailor made
- 'Off-the shelf'
- EU level

→ Implementation options allowing for standardisation and customising

2014-2020 ESIF framework

- Performance oriented legal framework to **promote the use** of financial instruments (FI)
- Financial instruments are a **delivery mode – not an objective**
- **Not all projects (investments) can be supported with FI.** The activity must be generating income/revenue/cost savings in order to ensure repayment of investment
- **Decision** to deliver OP support through FI is with the **managing authority (MA)**

2014-2020 ESIF framework

Key novelties (1)

Single comprehensive legal framework for all ESI Funds (common interpretation/guidance)

- **CPR title IV on FIs** (9 extensive articles and annexes), **DA/IA**,
- Some elements included in 2007-2013 in COCOF note become **legally binding in 2014-2020**
- **FI definitions:** operation, beneficiary, final recipient, financial instrument, escrow account, fund of funds
- **State aid** (frequent references in title IV, compliance required for MA/FoF/FI)

- **Wider scope:** Expansion to **all thematic objectives & priorities** foreseen by ESIF OPs (ERDF, ESF, Cohesion Fund, EAFRD,EMFF).

2014-2020 framework

Key novelties (2)

- **Ex-ante assessment to be carried out** before launch of FI operation under the ESIF
- **Incentives regarding EU co-financing rates**
- **Phased contributions to FIs** (c.f. guidance note)
- **More detailed rules concerning**
  - eligible expenditure at closure,
  - the (re-)use of interest/other gains and ESIF resources returned during the programming period,
  - the use of interest/other gains and ESIF resources returned after closure (legacy)

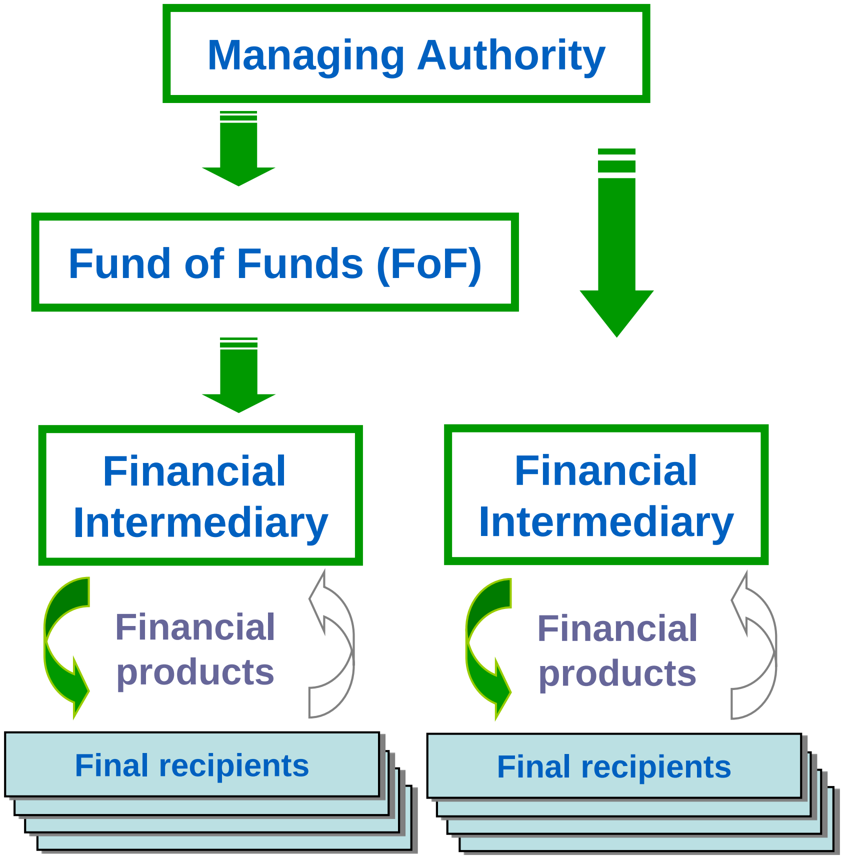
2014-2020 framework
Key novelties (3)

- **Annual reporting by MAs**
  - MA to report on FI operations annually on a more comprehensive set of data, Commission to publish annual summary report on the basis of data received

- **Implementation options**

  1) Traditional implementation possible: MA sets up a FI at national, regional, transnational or cross-border level
     - Tailor-made instruments
     - Standardised “off-the-shelf” instruments
  2) MA can contribute OP allocation to EU level instrument
  3) MA can implement loans or guarantees directly (or through intermediate body) without formal set-up of a fund

2014-2020 ESIF framework
Implementation options



Traditional implementation:

- **MA sets up a FI** at national, regional, transnational or cross-border level
- FI can be implemented with **FoFs and without FoFs**
- MA can: invest in capital of legal entity or entrust implementation

Novelty:

- **Off-the-shelf instruments** with standard conditions to facilitate the set–up phase

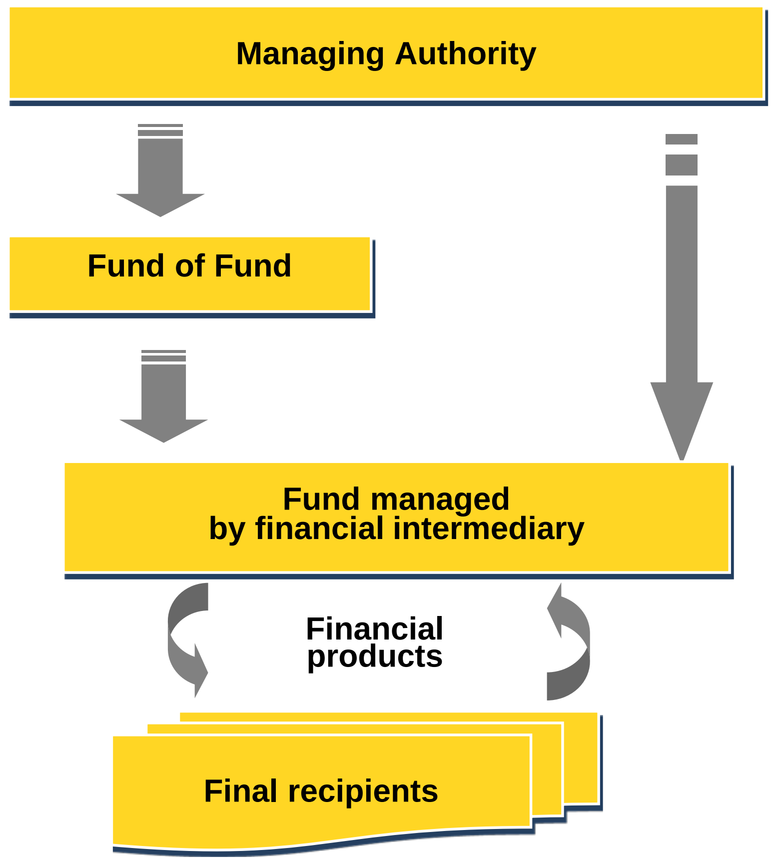
ESIF 14-20: Off-the-shelf instruments-1

What are off-the shelf instruments?

Financial instruments complying with the standard terms and conditions laid down by the Commission

Help to accelerate implementation

Learn and build on the experience from 2007-2013



Key advantages

State aid compatibility

Governance structures

Based market practise

Full pass on of advantage to final beneficiary

Minimum leverage ensured

ESIF Financial instruments 14-2020: "Off-the-shelf instruments -2 "

Three for SMEs

1. Loan for SME's based on a portfolio risk sharing loan model (Risk Sharing Loan).
2. Guarantee for SMEs (partial first loss portfolio, capped guarantee).
3. Equity fund for SMEs and start-up companies based on a co-investment model (under approval).

One for energy efficiency/renewable energies and one for urban development

1. Renovation Loan based on a Risk sharing loan model (RS Loan).
2. Urban Development Fund (*under approval*).

- **Horizontal assistance**
  - platform for advisory services on financial instruments under ESIF and EaSI (micro-finance)
  - provided by the European Commission in partnership with the European Investment Bank
  - designed to support managing authorities and other interested parties
  - providing practical know-how and learning tools on financial instruments, newsletter, case studies, reference twxts
  - National events (presentation of case studies, discussion of technical questions, hands-on workshops)
  - Please Register in www.fi-compass.eu

Investment Plan for Europe: 3 pillars

1. MOBILISING FINANCE FOR INVESTMENT

- Mobilise at least €315bn over 3 years for investment in strategic projects and access to finance via the European Fund for Strategic Investments (EFSI) within EIB/EIF
- Cooperation with National Promotional Banks

2. MAKING FINANCE REACH THE REAL ECONOMY

- European Investment Project Portal
- European Investment Advisory Hub: technical assistance

3. IMPROVED INVESTMENT ENVIRONMENT

- Predictability and quality of regulation
- Removing non-financial, regulatory barriers in key sectors within EU Single Market
- Structural reforms at national level

ESI Funds contribution to the Investment Plan for Europe

1. Mobilising finance for investment

Better use of ESI Funds

COMPLEMENTARITY:
ESIF / EFSI

≥ EUR 20 bn additional investment through FI for 2015-2017

SMEs
Research
Transport
Environment

2. Making finance reach the real economy

Technical Assistance

- ✓ JASPERS
- ✓ FI-Compass
- ✓ Programme funding for project preparation

3. Improved investment environment

Ex-ante Conditionalities

ESI Funds Financial Instruments – doubling the use

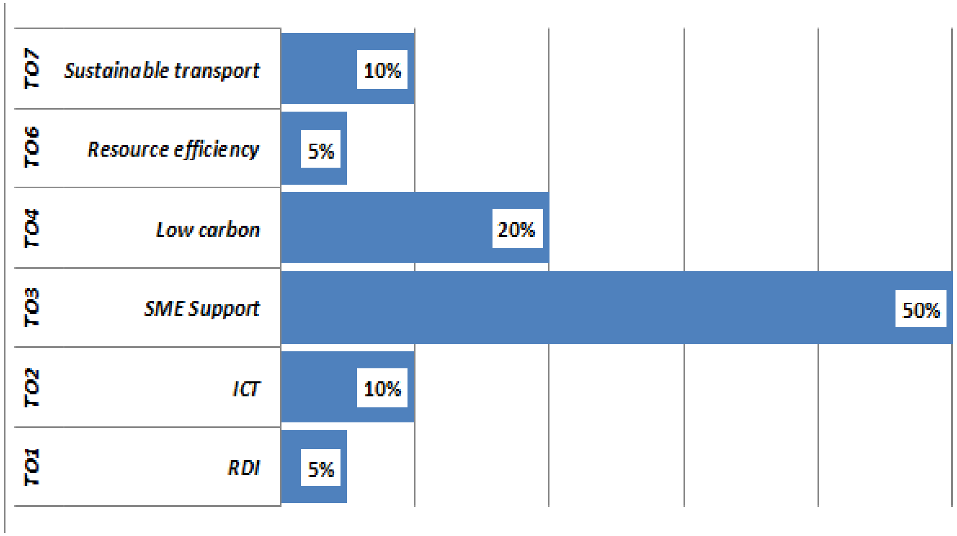
Resource-efficient way of using EU budget funds to enable investment in the economy - through loans, guarantees, equity, venture capital, etc.

2014-2020
What's New?

- ✓ **Regulation: FI extended to ALL thematic objectives and all ESIF funds**
- ✓ **Additional support: FI Compass - advisory service "Off-the Shelf" Instruments**

INDICATIVE TARGETS

- ✓ At least an overall doubling of the use of FI (EUR 12bn to ± 30bn)



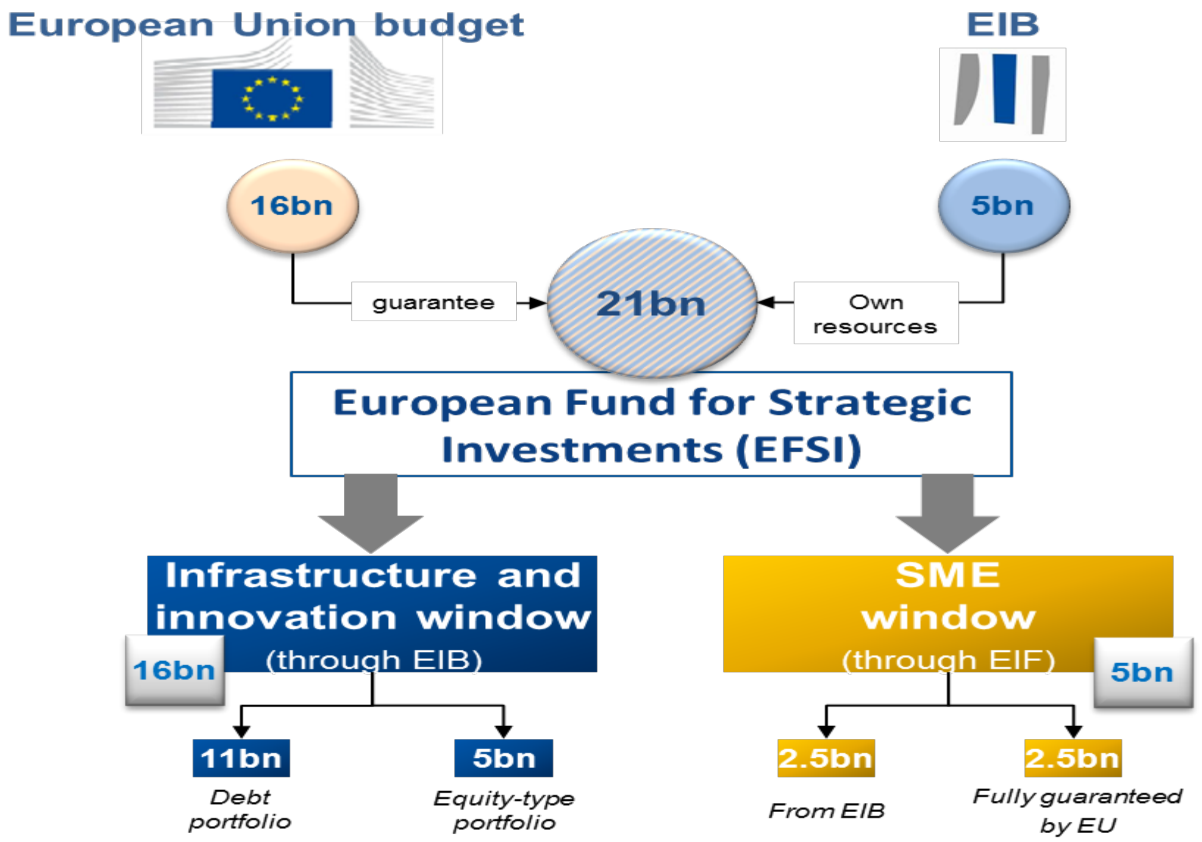
- ✓ Increased leverage effect

European Fund for Strategic Investments (EFSI)

EFSI shall mobilise **EUR 315 bn** in 3 years **(15x leverage),** under an **EU guarantee** of EUR 21 bn, implemented via two components:

- an **Infrastructure** and **Innovation Window (IIW)** through EIB to support investments of **EUR 240 bn**
- an **SME window (SMEW)** through EIF to support investments of **EUR 75 bn**

EFSI - structure and investment target



Total EIB/EIF financing	**49bn**	**12bn**
Total investment mobilised	**240bn**	**75bn**

EFSI features

- EFSI **is not** a financial instrument (as per CPR or FR)
- EFSI support takes the form of FI products (no grant support)
- EFSI has its own governance: **Steering Board** (3 EC + 1 EIB) and **Investment Committee** (independent entity granting the EU guarantee)
- EFSI will offer advice to project promoters through a dedicated **advisory hub (EIAH)**
- EFSI has **no geographical or sectorial** allocations
- EFSI, through EIB, will support **high risk** profile projects or projects bringing **additionality**

ESI Funds: key features

- ESI Funds = five funds
- Delivery through nationally co-financed multi-annual programmes
- Form of support: grants or financial instruments
- In 2014-2020: €454bn in 500 programmes
- Implemented by Member States and their regions under shared management
- ESI Funds have geographical and sectorial eligibility criteria as stipulated by the programmes

ESIF-EFSI complementarities

- Legal bases of both ESIF and EFSI allow for contributions to support each other's objectives (**complementarity element**)
- Their **combination** is also possible: at **project** level, **financial instrument** level and through **investment platforms**
- Implementation process has to respect applicable rules **(CPR v EFSI Regulation)**
- **State aid rules** apply on a case-by-case basis

European Commission

National Promotional Banks (NPBs)

- NPBs are entities mandated by Member States to carry out development or promotional activities
- NPBs hold a significant financing and advisory role in their constituencies – they "know" the local projects
- Member State participation under EFSI can be done through NPBs (8 MS already committed)
- NPBs may also receive EIB or other support
- NPBs' participation mode to be defined by EIB

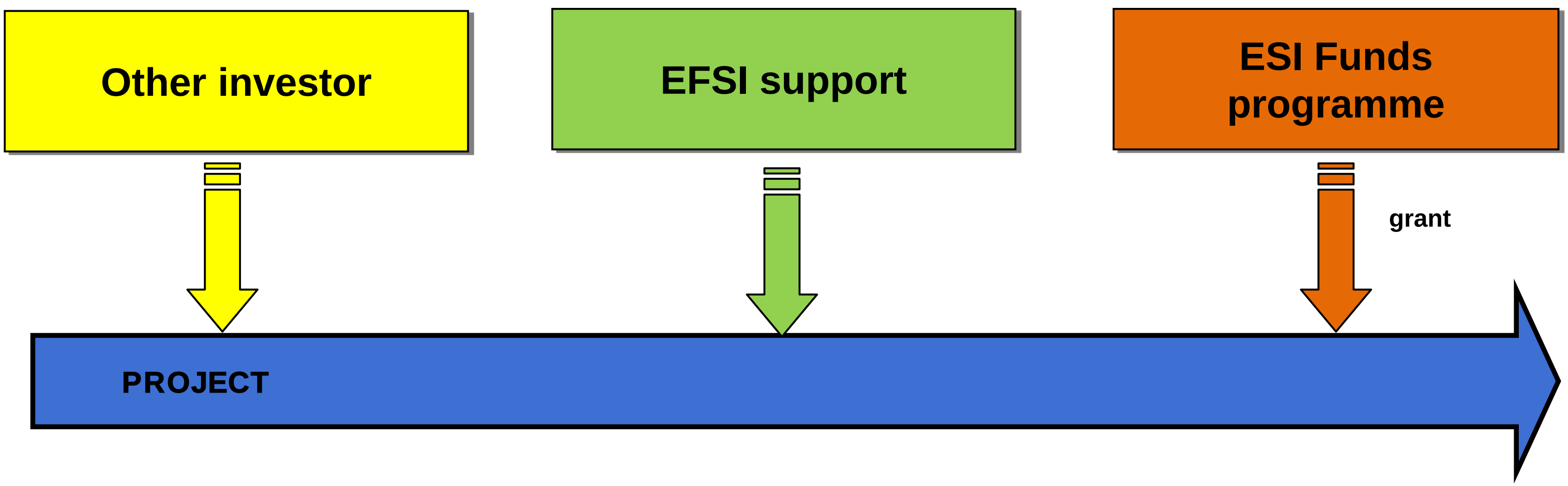
Investment Platforms (IPs)

- IPs are ad hoc vehicles by which financing is channelled to projects
- IPs may be set up through various legal structures (SPVs, managed accounts, other arrangements)
- They can have a geographical, product, sectorial dimension
- IPs may also receive EIB or other support (Member State, private investors)
- IPs participation mode to be defined by EIB

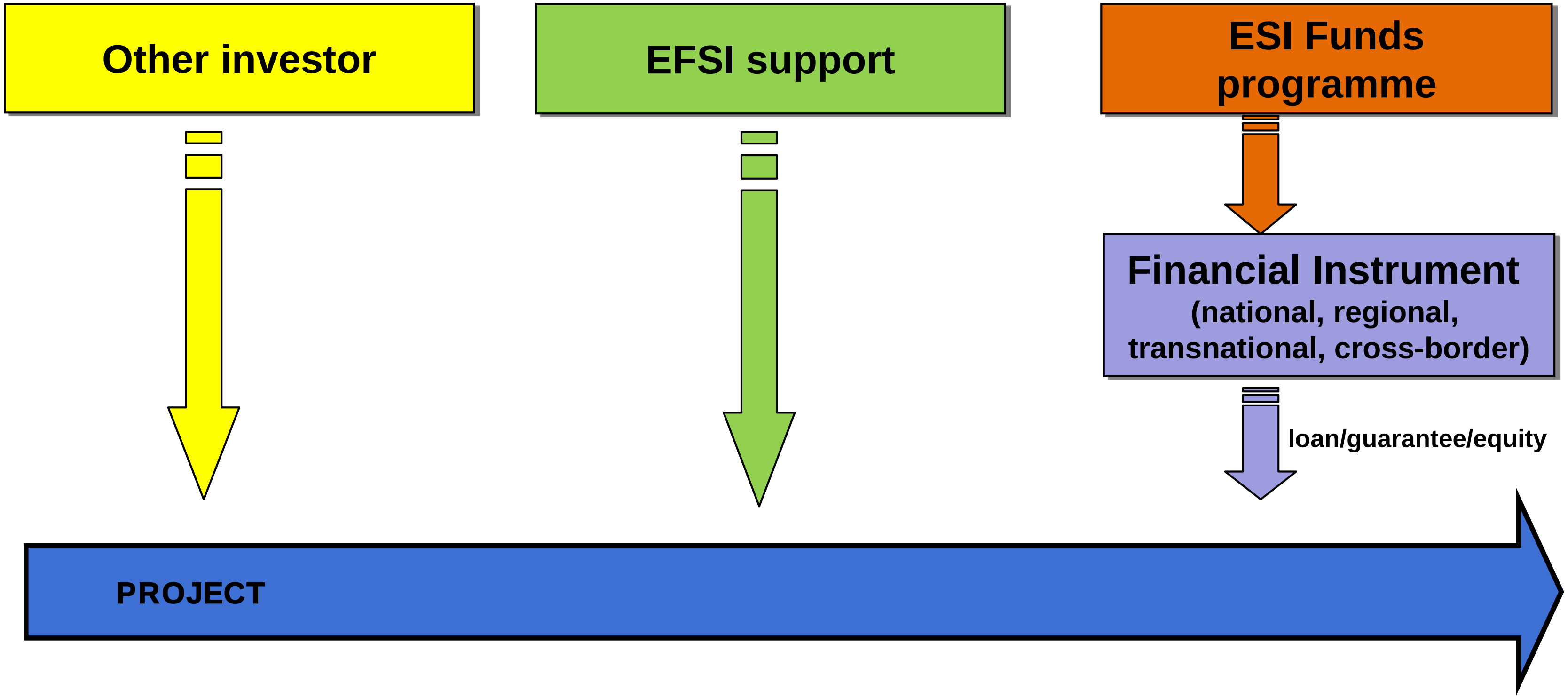
ESIF and EFSI combination

Examples presented in the Brochure on ESIF/EFSI synergies and complementarities published in February 2016

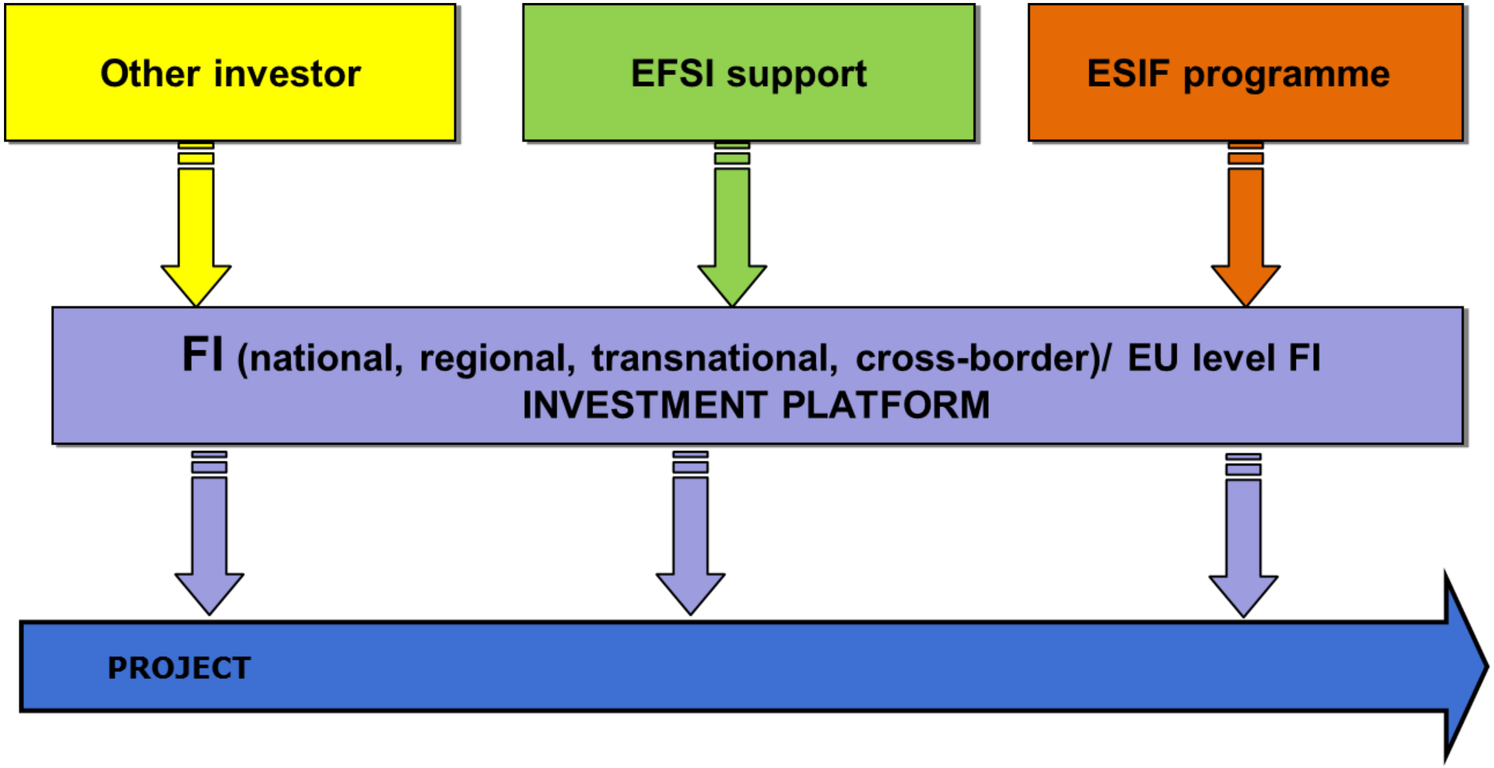
ESIF and EFSI combination – Project level



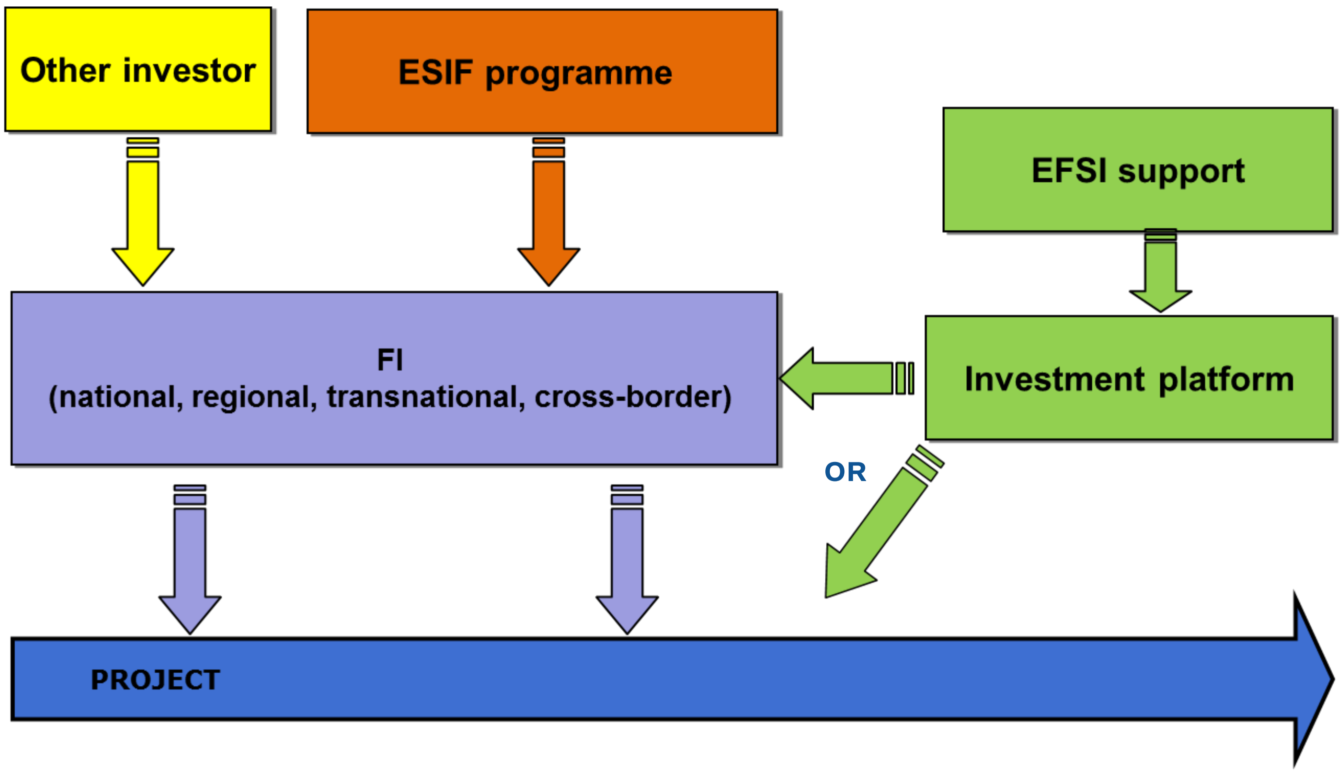
ESIF and EFSI combination –
Project level



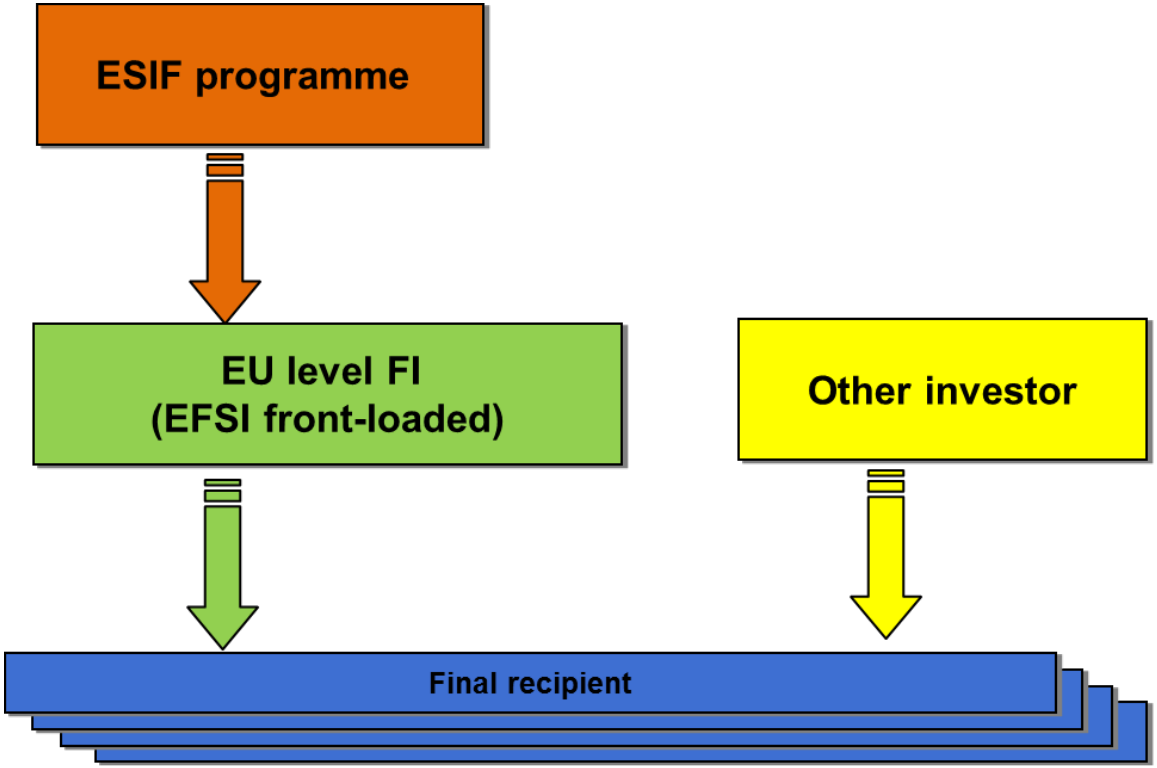
ESIF and EFSI combination –
Financial instrument/investment platform level



ESIF and EFSI combination –
Financial instrument/investment platform level



ESIF and EFSI combination –
SME products



2014-2020 Commission guidance for financial instruments

- Short reference guide for managing authorities

- **Guidance notes**
  - complementary to short guidance
  - covering all issues relevant to MA/fund managers
  - developed systematically
  - designed to be "living" documents (section on Q&A)
  - so far five guidance notes finalised and published

2014-2020 Commission guidance published

Glossary

- The glossary contains for the moment only the **basic definitions from the CPR and financial regulation** in relation to financial instruments
- The glossary will develop over time. It will be completed once all the guidance notes are prepared.
- All the definitions and concepts developed in guidance notes will be added to the glossary

2014-2020 Commission guidance published
Ex-ante assessment

- **Objective**: evidence based decision making
- **Requirement**: legal obligation and tool to support implementation
- **Completion**: before any programme contribution made to FI
- **Next steps**: submission to the programme monitoring committee and publication
- **Process**: raises awareness and ensures stronger ownership

2014-2020 Commission guidance
Working capital (1)

Support for working capital in enterprises **is eligible** as a mode of support to enterprises through financial instruments within certain conditions.

Working capital is explicitly mentioned in Article 37(4) CPR but firmly embedded in the context of CPR rules, fund specific conditions and State aid.

1. Eligibility of working capital is not **generic** (CPR provisions! Fund specific rules! ESIF programme conditions!)

2. Support of working capital and its eligibility will be more **on a case by case basis**.

2014-2020 Commission guidance published
Working capital (2)

Case by case assessment

- ESIF support for working capital in enterprises, as for any investment financing to enterprises through financial instruments, is subject to compliance with **two basic eligibility criteria**: the types of enterprise and seven support targets under Article 37(4)
- The fund manager will have to assess based **on the business plan** whether the investment proposed:
  - is potentially financially viable
  - the amount and proportion of working capital is justified in business and economic terms

2014-2020 Commission guidance published
Phased payments (1)

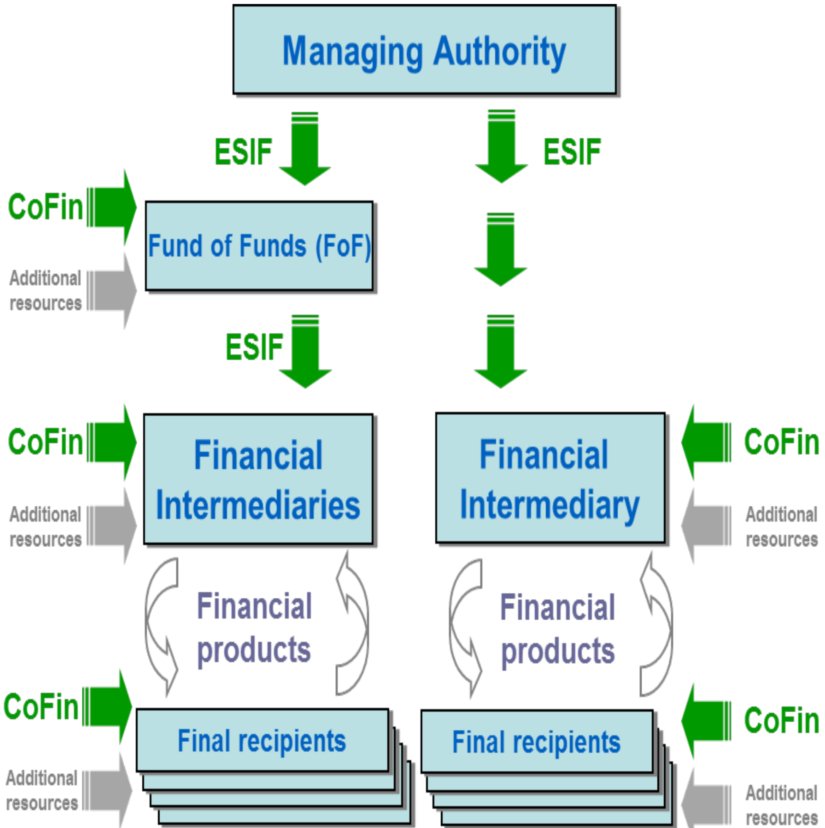
Main concepts:

1. ESIF programme contribution to financial instrument (ESIF contribution and national co-financing)

2. National co-financing at the level of FI operation

- can be different than at PA level,
- can be private/public,
- can come at different levels: MA (e.g. regional budget), FoF (e.g. national resources), financial intermediary (e.g. own resources), or at the level of investment in final recipient (e.g. co-investment by business angel).

!!! Own contribution by final recipient does NOT count as national co-financing



2014-2020 Commission guidance published

Phased payments (2)

Main changes in relation 2007-2013 period:

- **phasing of max 25% of committed programme** amount in FA paid,
- **subsequent payments from Commission** subject to implementation on the ground (60% second application, 85% subsequent applications)
- **flexibility for national co-financing**

Applicability!

- Formally MS –COM, but ..
- NOT for "SME initiative" and "FI directly managed by MA"

2014-2020 Commission guidance published

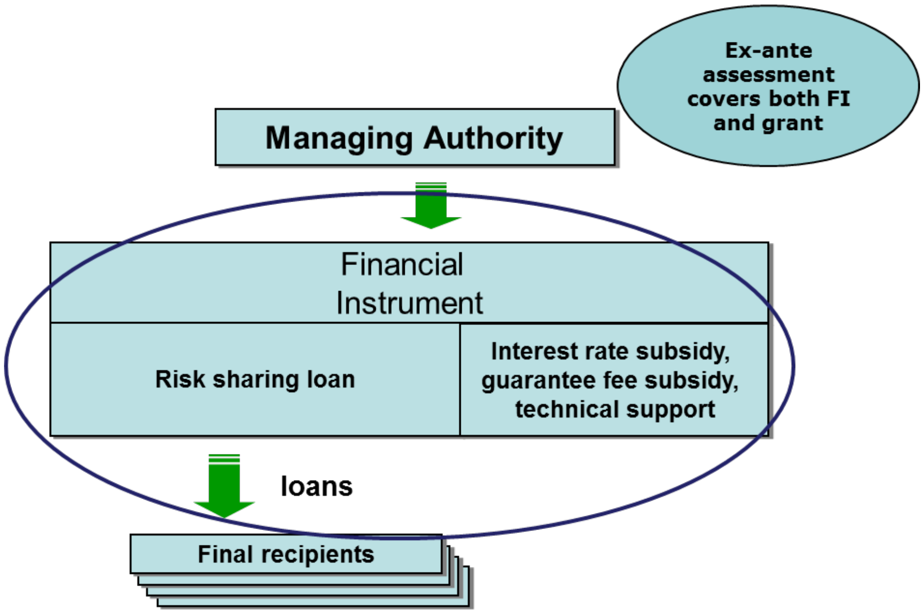
Combination (1)

- **Two types of combinations**, as provided for in 2007-2013, continue. However, the legal framework in 2014-2020 contains explicit provisions - CPR 37(7)(8)(9)
- The two types of combinations are envisaged also in Financial Regulation:
  - Combination of a grant and a FI within a financial instrument operation
  - Combination at the level of final recipient within <u>two operations</u>

2014-2020 Commission guidance published
Combination (2)

Combination of a grant and a FI within a financial instrument operation

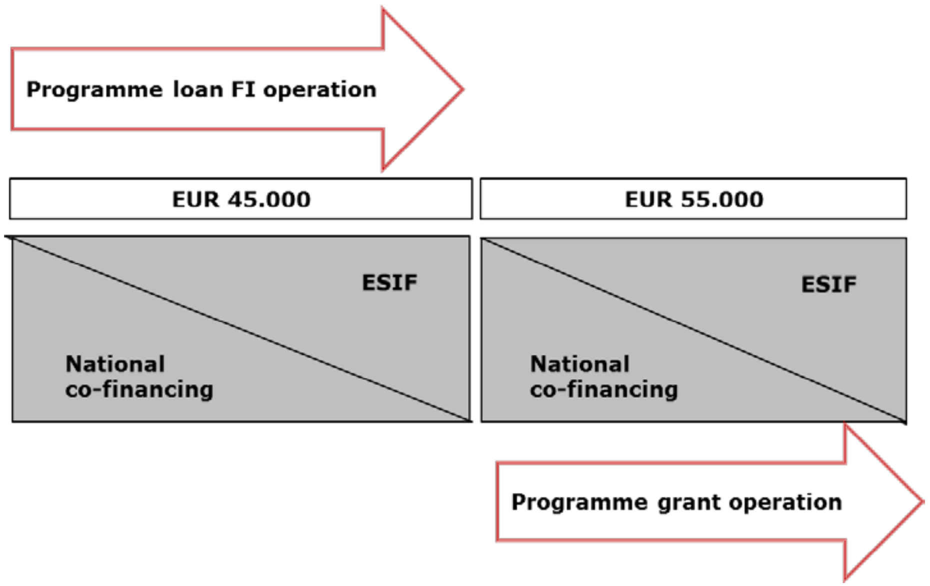
1. Grant is **directly related to financial instrument** targeting the same final recipients (interest rate subsidy, guarantee fee subsidy, technical support). **It is NOT a grant for the investment in final recipient.**
2. Grant and financial instrument constitute a **single operation**, which falls under the **provisions of Title IV** and is financed from the **same priority axis** (and the same ESI Fund)
3. A contribution from MA to FI operation (covering both a FI and a grant) is justified and estimated in ex-ante assessment.
4. Compliance with State aid rules is needed.
5. For each form of support **separate records** have to be maintained.



2014-2020 Commission guidance published
Combination (3)

Combination at the level of final recipient within two operations

1. **Combination** of support takes place **at the level of final recipients** ("beneficiary" in case of grants). The same body (enterprise) receives support from a grant and from a FI. Combination **can cover the same investment or** even the **same expenditure item**.
2. Combination results in **two separate operations** with distinct eligible expenditure.
3. The **sum of all forms of support ≤ total amount of the expenditure** item concerned.
4. State aid rules have to be respected (e.g. on cumulation, on own contribution free from state aid by the beneficiary in regional aid)
5. **Grants cannot be used to reimburse support from FI.**
6. **FI cannot be used to pre-finance the grants.**



2014-2020 Commission guidance published

Combination (4)

Combination at the level of final recipient <u>within two operations</u>

Investment: 100

ESIF grant
100

ESIF loan
100

Grant, but received after investment

Loan of 100, paid back by the final recipient

co-financing rate at PA 50%

Investment: 100

ESIF grant
55

ESIF loan
45

Grant Operation

Loan Operation

1. **Not allowed by the Regulation** (see above)
2. **Even if no over-financing with ESIF (because of the 50% co-financing rate) - double declaration of the same expenditure, and loan used to pre-finance a grant**:

Eligible expenditure declared to EC:
- Grant: 100
- Loan: 100

Total ESIF reimbursement: (50% *100 +50%*100) **100**

Eligible expenditure declared to EC:
- Grant: 55
- Loan: 45

Total ESIF reimbursement: (55*50% + 45*50%) **50**

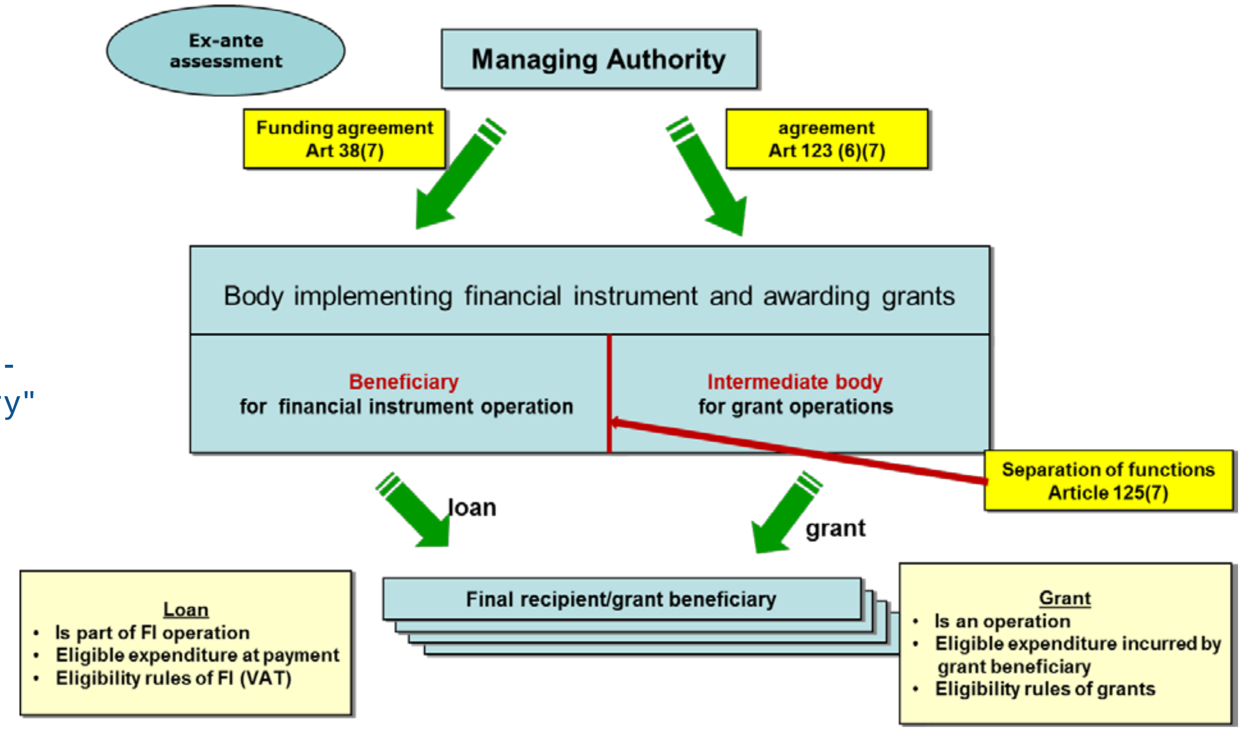
2014-2020 Commission guidance published
Combination (5)

Combination at the level of final recipient <u>within two operations</u>

In **combination within <u>two operations</u>** loan and grant can be given:

- **by the same body** (it will be "beneficiary" for FI and "intermediate body" in case of grant)
- **to the same body** (e.g. enterprise)- ("final recipient" for FI and "beneficiary" for grant)
- **for the same project** or even expenditure item (e.g. machinery)

!!! **NOT for the same eligible expenditure** (the same expenditure cannot be declared twice to COM) !!!



2014-2020 Commission guidance published

Management Costs and Fees/MCF (1)

Guidance Note under finalisation

2007-2013

MCF calculated on the basis of the amounts contributed to the FIs = decoupled from disbursements to final recipients AND rather high limits

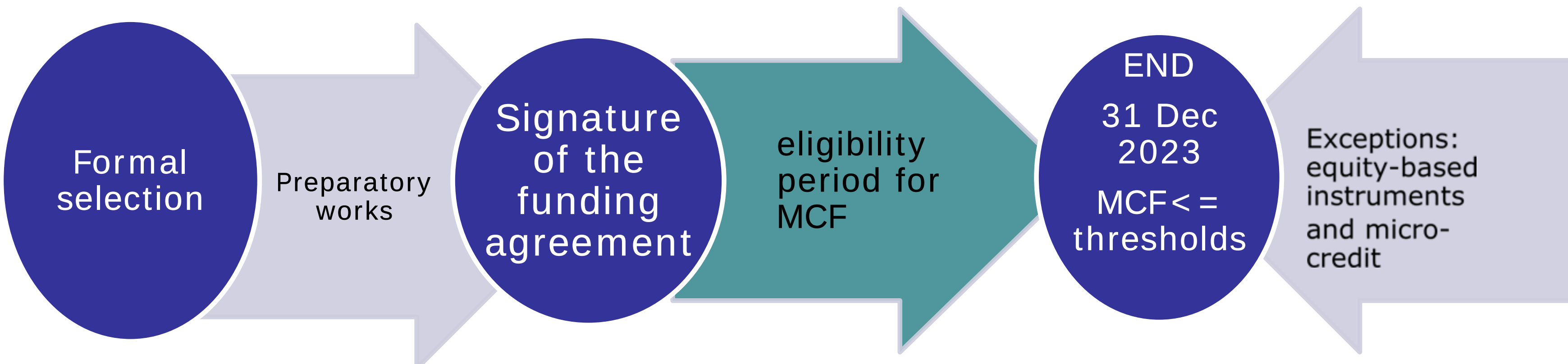
2014-2020

- requirement for performance orientation
- new calculation of thresholds

2014-2020 Commission guidance published

Management Costs and Fees/MCF (2)

Eligibility period



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2014-2020 Commission guidance published

Management Costs and Fees/MCF (3)

- **Eligible MCF**

1. **At closure**, they should **not exceed** the amount calculated in accordance with CDR Art. 13 which is a sum of:
   - **base remuneration** (the basis is programme contribution to FI, the investments in final recipients are not relevant here)
   - **performance remuneration** (the basis are investments in final recipients)
2. **Different calculation of thresholds** in function of the **implementation options** (fund of funds or a specific fund) and **type of instrument**
3. The **amount** calculated **under point 1** is to be **capped** by a general threshold on the entire programme contribution

2014-2020 Commission guidance published

Management Costs and Fees/MCF (4)

Body implementing…	General – cap rate-Thresholds Art 13(3) CDR	Implementation progress; Art 13(1) and (2) CDR	
		Base remuneration: rates p.a./pro rata temporis	Performance remuneration: rates p.a./pro rata temporis
Fund of Funds	7.00%	For first 12 months* 3.00%	0.50%
		For next 12 months* 1.00%	0.50%
		Following years 0.50%	0.50%
Loans	8.00%	0.50%	1.00%
Guarantees	10.00%	0.50%	1.50%***
Equity	20.00%	For first 24 months* 2.50%**	2.50%
		Following years 1.00%**	2.50%
Micro credit	10.00%	0.50%	1.50%
Other	6.00%	0.50%	0.50%

2014-2020 Commission guidance published
Management Costs and Fees/MCF (5)

Eligible MCF

The **methodology** of calculation eligible MCF **<u>does not apply if:</u>**

1. The **body implementing** the financial instrument **is selected through a competitive tender** which proves the need for higher MCF, or
2. **For equity** where the **majority of the capital invested** in financial intermediaries **is provided by private investors or public investors** operating under market economy principle and the programme contribution is provided ***pari passu*** with the private investors

Higher MCF can be paid from non-ESIF resources, e.g. from resources attributable to the support from ESI Funds programmes which are paid back from investments in final recipients, or from own resources (but state aid rules apply)

2014-2020 Commission guidance published

Management Costs and Fees/MCF (6)

Article 12(2) CDR: the managing authority shall inform the **monitoring committee** about the performance-based calculation of management costs and fees of the financial instruments (the Commission recommends that the monitoring committee is informed before the relevant funding agreements are signed as it was good practice in some cases in the 2007-2013 already). The monitoring committee shall also receive reports on an annual basis on the management costs and fees effectively paid in the preceding calendar year.

Article 46(2)(e) CPR: the **specific report on financial instruments** shall include the information about the management costs incurred or management fees paid, by each financial instrument and by programme and priority or measure.

2014-2020 Commission guidance in the pipeline

Forthcoming guidance documents

Already presented to Member States

- Selection of bodies implementing FIs
- Preferential remuneration of private investor
- Treasury management

In preparation

- State aid
- Eligibility
- Implementation options
- Reporting on FI

Thank you for your attention

Q&A

BACK UP SLIDES

2014-2020 Commission guidance in the pipeline
Preferential remuneration of private investor (1)

In discussions with MSs

Rationale for this guidance note

- Driven not only by MSs questions
- Audit recommendation from internal audit at the Commission
- MAs not fully familiar with the concept of preferential remuneration
- Concept has expanded in 2014-2020

Purpose of the guidance

- to explain the concept of preferential remuneration and its use in the context of ESIF financial instruments

The purpose of the note is NOT to provide guidance on establishing a particular need or level of preferential remuneration. This is an individual process which starts in the ex-ante assessment.

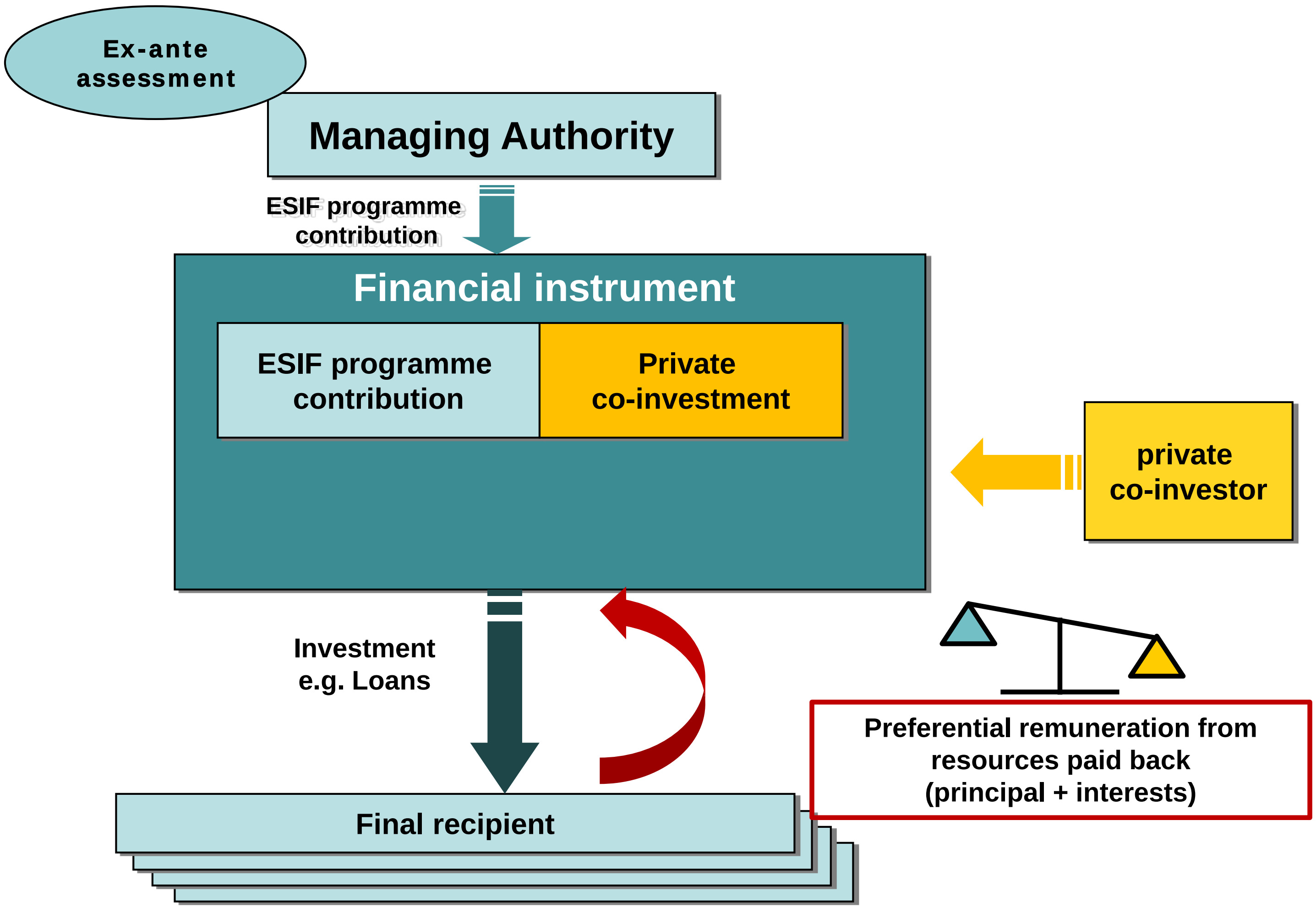
2014-2020 Commission guidance

Preferential remuneration of private investor (2)

Main considerations

- the presence of private co-investors is desired in ESIF financial instruments;
- to attract private investor there might be a need for a specific incentive, (in terms of higher profit or lower risk) which constitutes "preferential remuneration";
- this incentive is not paid from the initial ESIF programme contribution but from resources paid back;
- need and level of preferential remuneration in ex-ante assessment;
- since public resources are concerned State aid considerations are relevant.

Preferential remuneration of private investor (3)



2014-2020 Commission guidance

Treasury management (1)

- **Legal base** – Article 43 CPR
- **Relevant only:**
  - ✓*to the ESIF support paid into the FoF/FI*
  - ✓*at the level of the FoF/FI when ESIF support is paid into the FI but is not yet invested in final recipients*
- ESIF support to be invested on a temporary basis in line with the principles of **sound financial management,** follow a prudent treasury and investment behaviour (pre-agreed in the FA)
- Any **gains** from the treasury management:
  - ✓are additional (but not programme) resources;
  - ✓should be used until the end of the eligibility period for the same purposes (either within the same FI, or if would up - in another FI or form of support, in line with the OP priority objectives)

2014-2020 Commission guidance

Treasury management (2)

- Within the same FI, the use of gains should "**mirror**" the use of the initial ESIF contribution:
  - ✓by being added to the capital of the fund and used for investments in FR, and
  - ✓being used to cover a proportionate share of the MCF.
- The interest and other gains are **not eligible** expenditure at closure. To be deducted from the eligible expenditure if at the end of the programming period not used for the same purpose.
- **Reporting** –
  - ✓ FI/MA – reporting modalities to be part of the FA; the MA obliged to ensure that adequate records of the use of interest and other gains are maintained (Art 43(3))
  - ✓MA/COM – MA to send information on the interest and other gains generated from the support from the ESI Funds to the FI, as annex to the AIR (Article 46(1)(g) CPR)

2014-2020 Commission guidance
Treasury management (3)

Specific cases

➢**Direct implementation** of FIs (Article 38(4)(c) CPR) => treasury management not relevant

➢**Negative returns**:

- to be foreseen in advance by MA & FI
- possible ways to mitigate/reduce the risk:
    - ✓more frequent interim applications for payments + swift payments to FR
    - ✓extending maturities, but need for accurate assessment/forecast of cash-flow needs
    - ✓for FoF – asset transfer from another FI within the FoF portfolio, if possible, justified and envisaged in the FA

➢ **Overly prudent treasury management**

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