



Financial instruments - opportunities offered by the 2014-2020 framework

**Key novelties and Commission guidance
Sofia, 6 October 2015**



2014-2020 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 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)

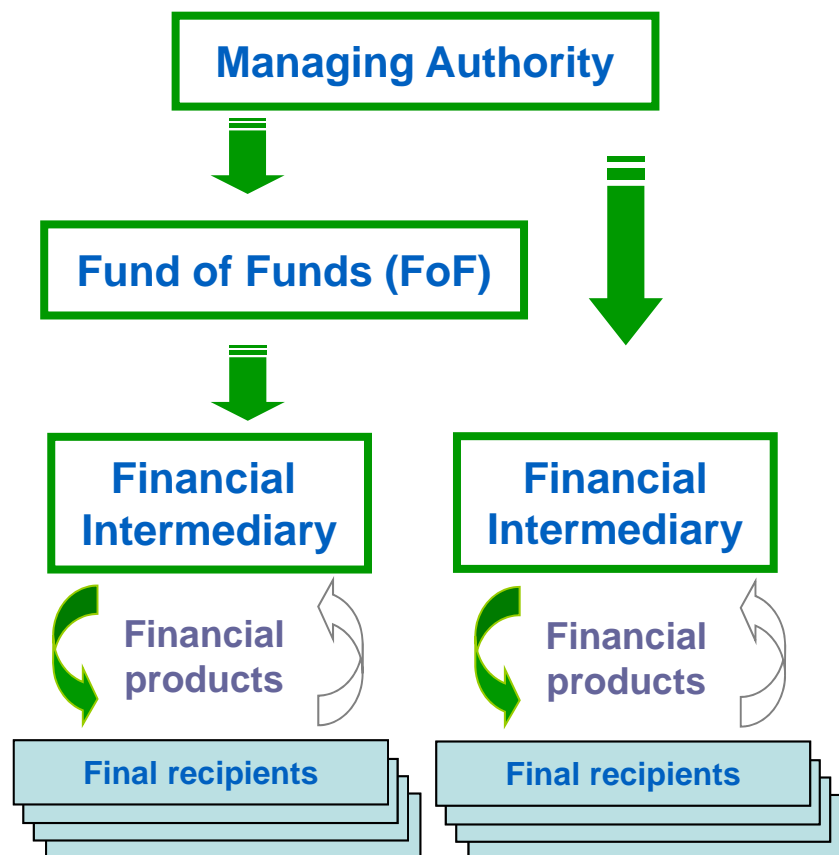
➤ **Annual reporting by MAs**

- 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 framework Implementation options (1)



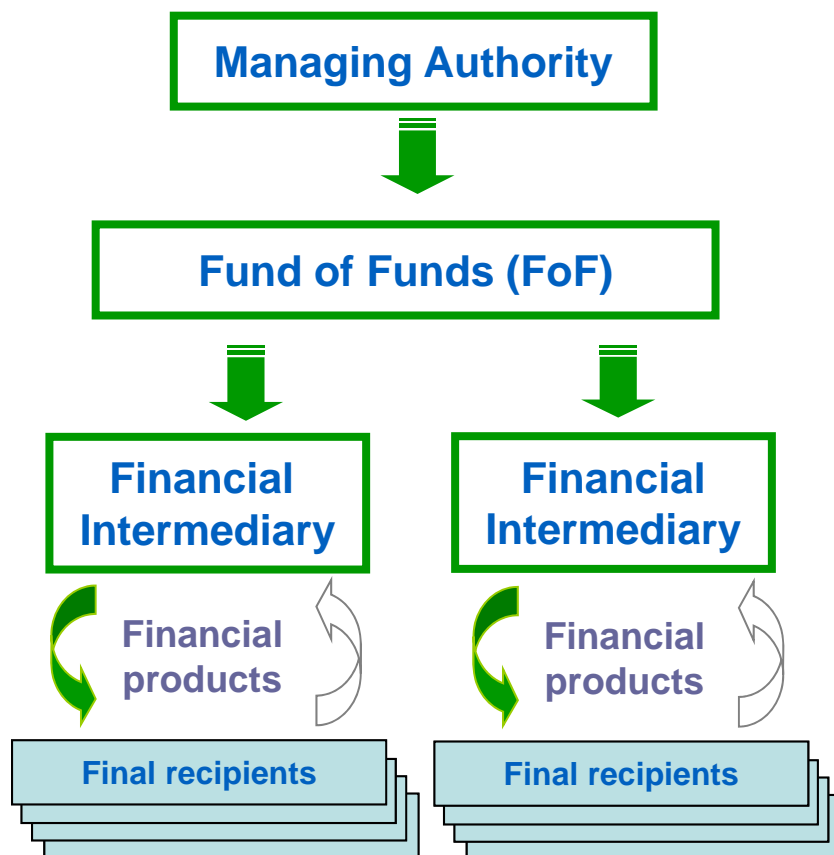
Traditional implementation:

- **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

2014-2020 framework Implementation options (2)



Traditional implementation with FoF:

- NB! Need for:
 - Signing a funding agreement for each ESIF programme contribution
 - Establishing distinct eligibility, payments, audit trail etc. per operation
 - Respect of the requirements set out in Article 7 of the DA, both by the FoF, and by the financial intermediaries.



2014-2020 framework

Implementation options (3)

The SME Initiative (1)

- **Legal base** - Article 39 CPR
- **Crisis response**, aiming to increase the volume of lending to SMEs and to provide capital relief to EU banks to incentivise them to extend additional loans to SMEs
- **Pooling resources**: ERDF/EAFRD + COSME and Horizon 2020 + combine with EIB and EIF funds
- Setting up a single dedicated OP at MS level
 - Option 1: **Uncapped guarantee** instrument
 - Option 2: Joint **securitisation** instrument for new and existing loans



2014-2020 framework

Implementation options (3)

The SME Initiative (2)

Advantages:

- Another tool to help deliver EU policy (and MS) objectives
- EU-wide ex-ante assessment already carried out by the EIB and Commission;
- Leverage effect on the ERDF (and EAFRD) contribution by combination of resources;
- No national co-financing required;
- Benefit passed on to SMEs (uncapped guarantees):
 - lending to riskier SMEs (e.g. innovative SMEs, start-ups, etc.)
 - reduction of collateral requirements and reduced pricing.



2014-2020 Commission guidance

- 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 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

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 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

Phased payments (1)

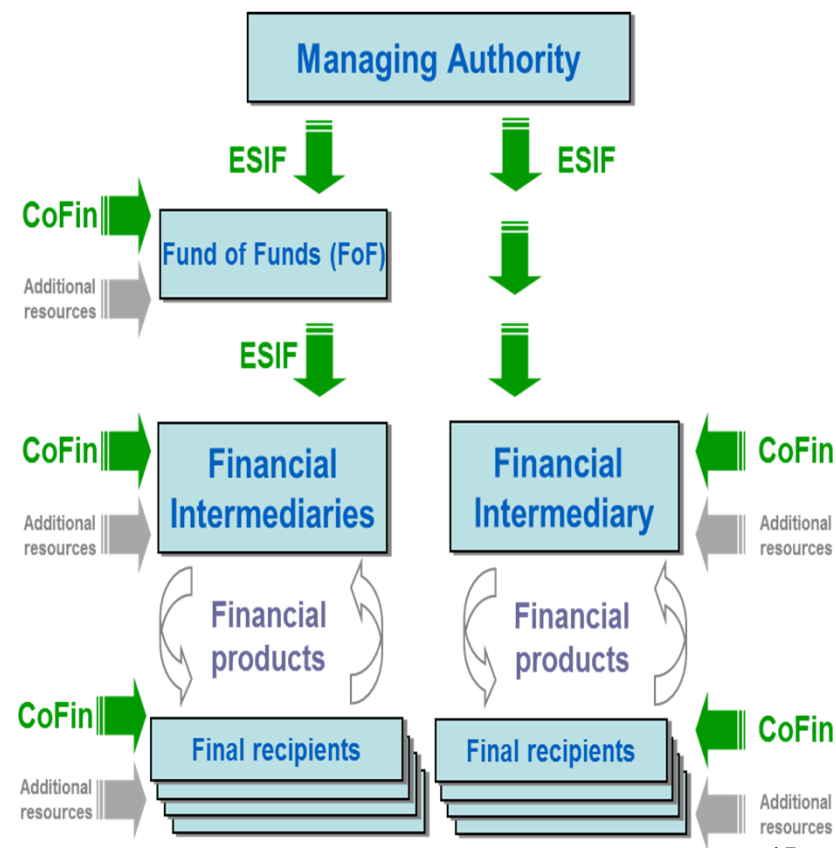
Main concepts:

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 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"



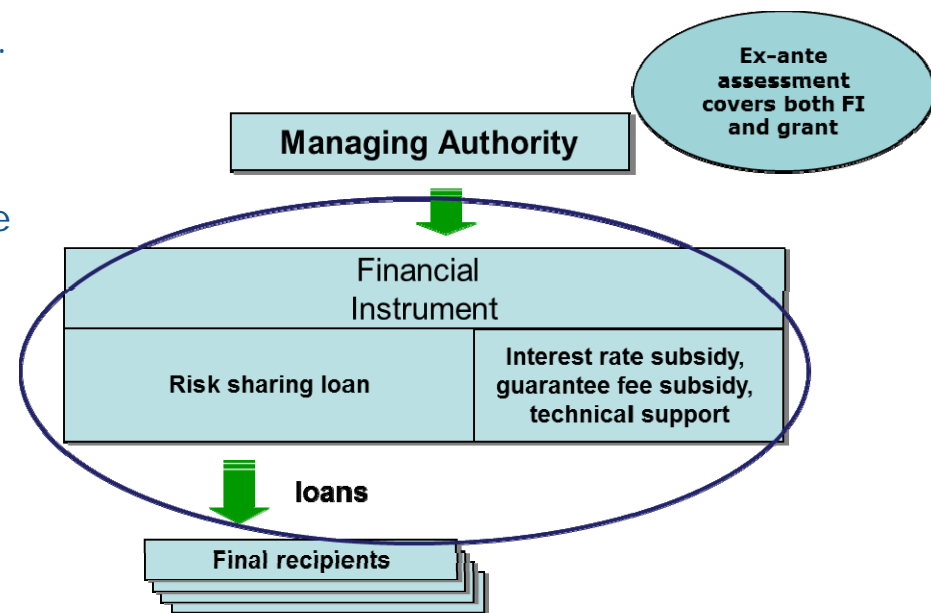
2014-2020 Commission guidance Combination (1)

- **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 two operations

2014-2020 Commission guidance Combination (2)

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

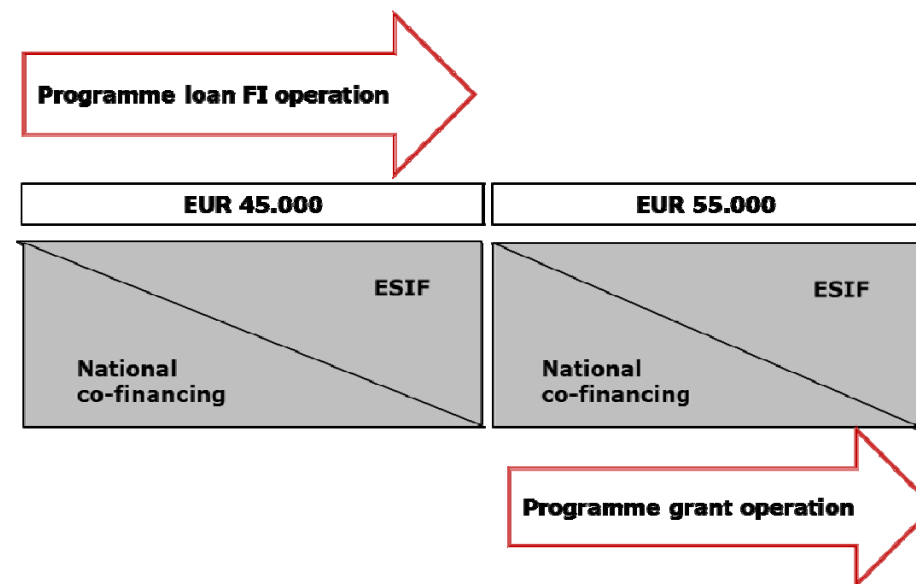
1. Grant is **directly related to financial instrument** targeting the same final recipients (interest rate subsidy, guarantee fee subsidy, technical support). **It is NOT a grant for the investment in final recipient.**
2. Grant and financial instrument constitute a **single operation**, which falls 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 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 \leq 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.**

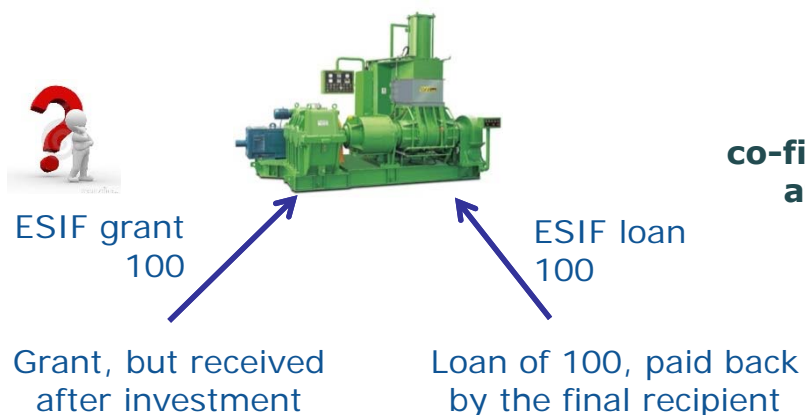


2014-2020 Commission guidance

Combination (4)

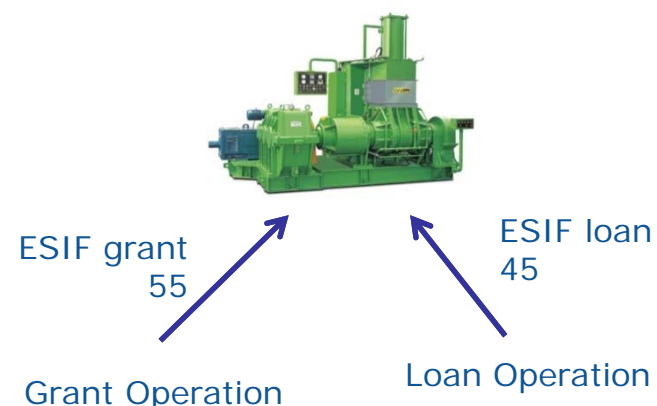
Combination at the level of final recipient within two operations

Investment: 100



co-financing rate
at PA 50%

Investment: 100



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: $(50\% \times 100 + 50\% \times 100)$ **100**



Eligible expenditure declared to EC:

- Grant: 55
- Loan: 45

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

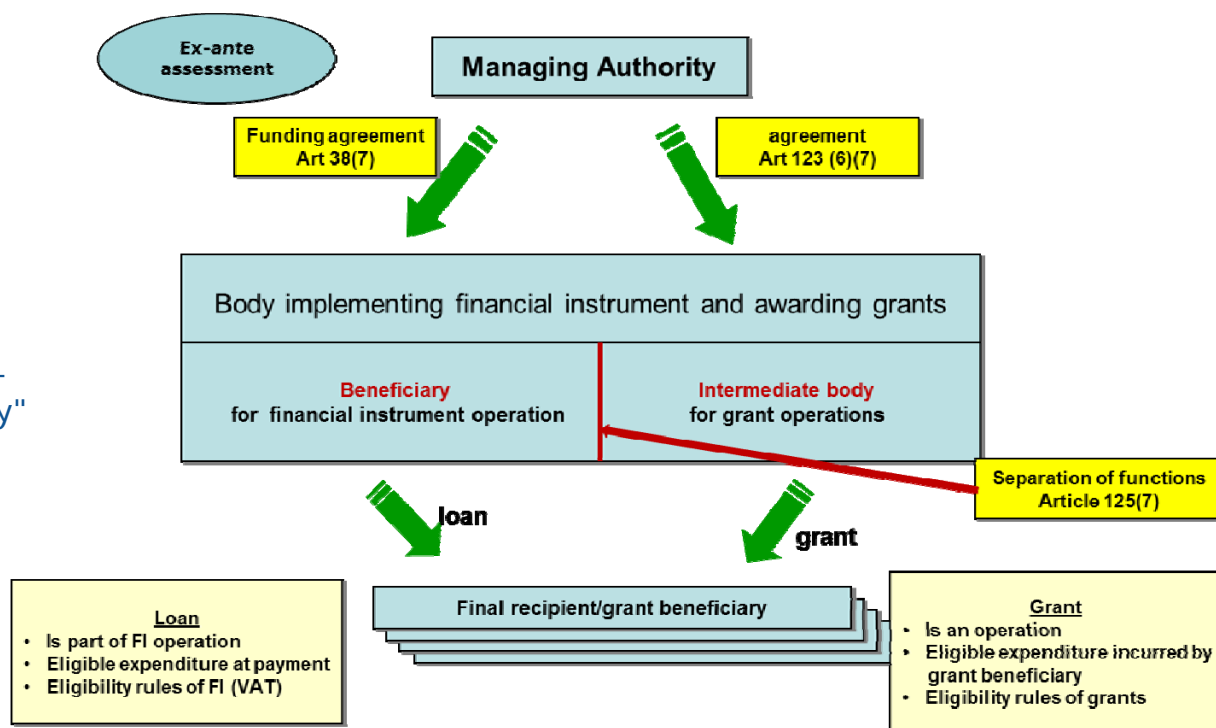
2014-2020 Commission guidance Combination (5)

Combination at the level of final recipient within two operations

In **combination within two operations** 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

Management Costs and Fees/MCF (1)

Guidance Note under finalisation

2007-2013

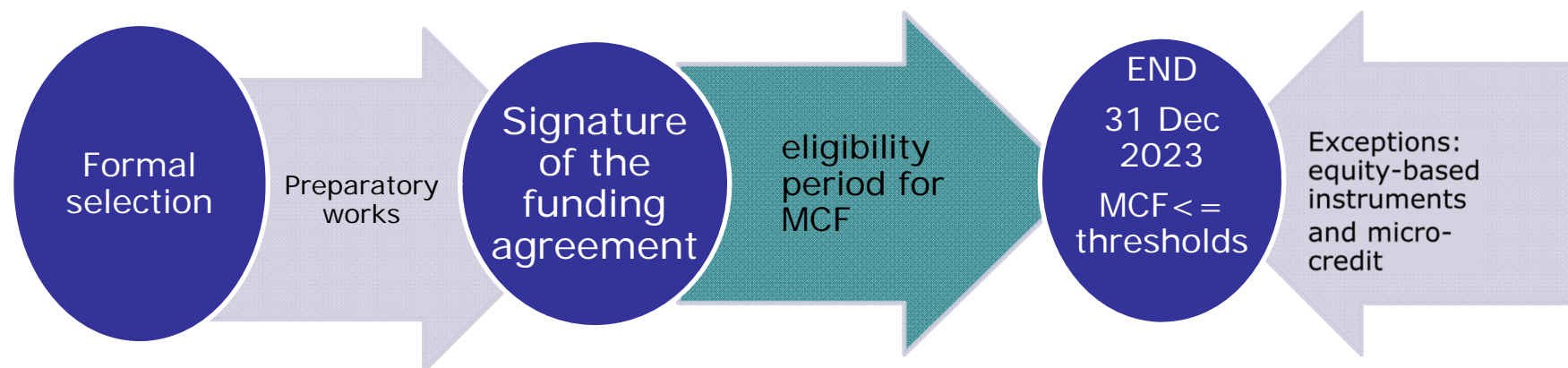
MCF calculated on the basis of the amounts contributed to the FIs = decoupled from disbursements to final recipients AND rather high limits

2014-2020

- requirement for performance orientation
- new calculation of thresholds

2014-2020 Commission guidance Management Costs and Fees/MCF (2)

Eligibility period





2014-2020 Commission guidance 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** (with or without a fund of funds) 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 Management Costs and Fees/MCF (4)

Eligible MCF

The **methodology** of calculation eligible MCF does not apply if:

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 **Forthcoming guidance documents**

- Selection of bodies implementing FIs
- ESIF/EFSI complementarities
- Preferential remuneration of private investor
- Treasury management



Thank you for your attention

Q&A