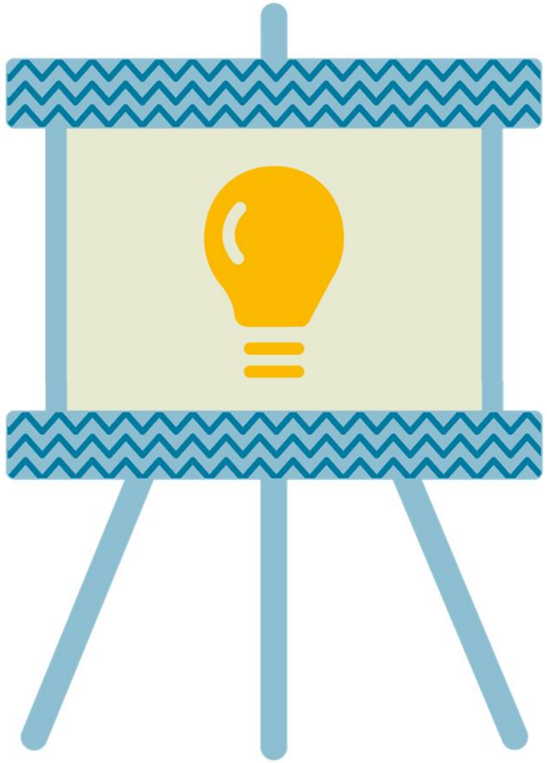
FIs in ESI funds

Interreg IPA-CBC finance meeting

20 - 21 November 2019 I Vienna, Austria



Iuliia Kauk, Interact

European Regional Development Fund

THINK

OUTSIDE

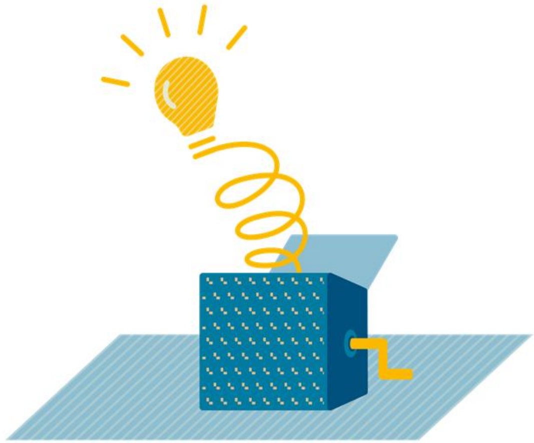
THE

BOX

EUROPEAN UNION

Content

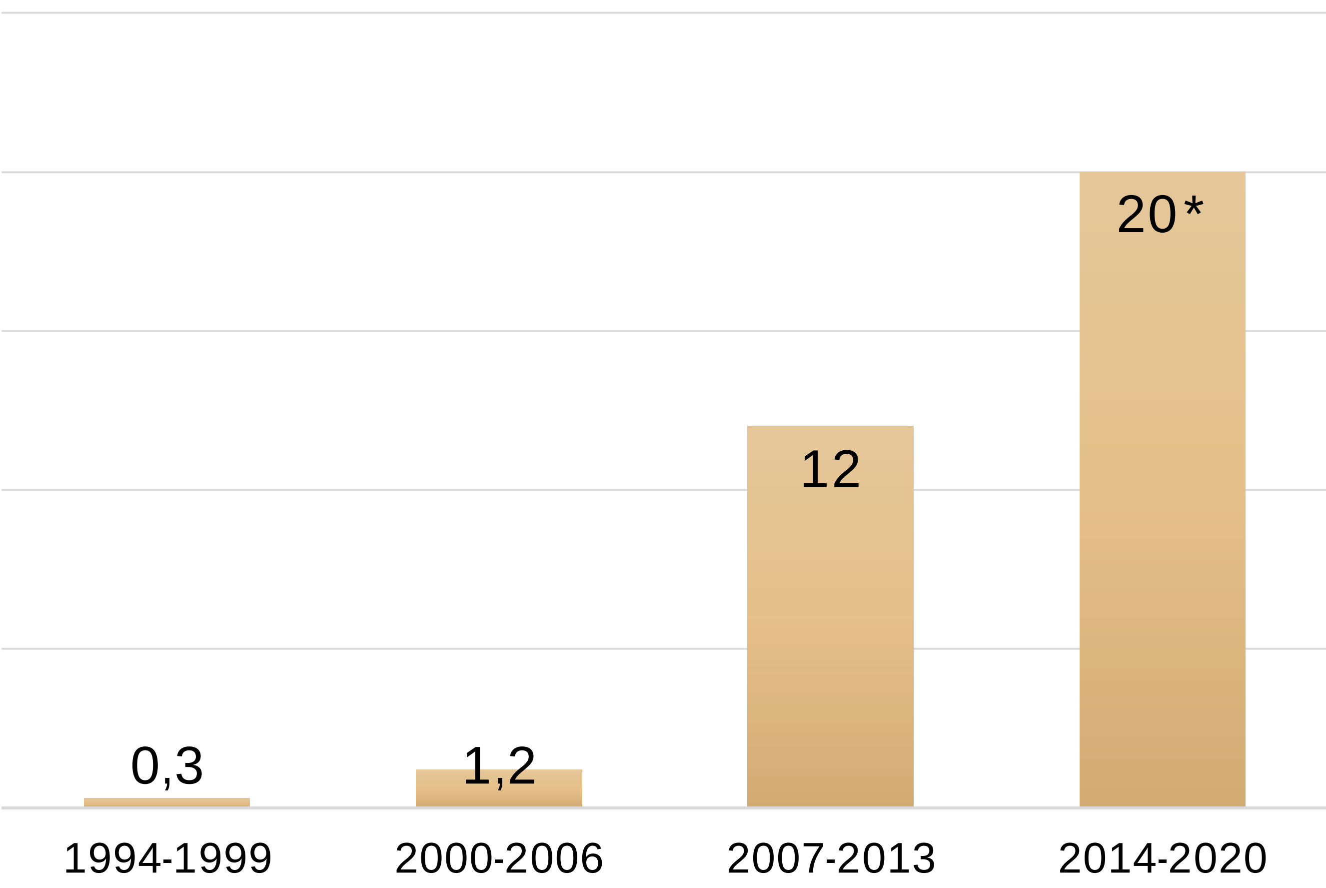
1. WIIFM
2. Financial instruments vs. Grants
3. Types of FIs
4. Ex-ante assessment
5. Implementation options
6. FIs in 2014-2020 and beyond
7. FIs and ETC: is there any future?
8. Case study



Financial instruments is a delivery mechanism!

- FIs are public policy instruments (loans, credit guarantees and equity finance schemes) designed to overcome market failures experienced by small and medium-sized enterprises to promote productive investments in a way that would not result though market interactions alone.
- One of the 4 forms of support (Art. 66 CPR)
- Suitable ONLY for income-generating, financially viable, cost-saving, enabling the initial support to be repaid projects!
- Rooted in the inability of public funds to finance infrastructure projects, economic crisis, gap between the financial requirements and effective budget.

FIs in ERDF spent, bln EUR



*estimated.
20 bln EUR - 6% of the total ESIF commitments.

Financial instruments – What’s In It For Me?

Why to bother at all?

BENEFITS of FIs

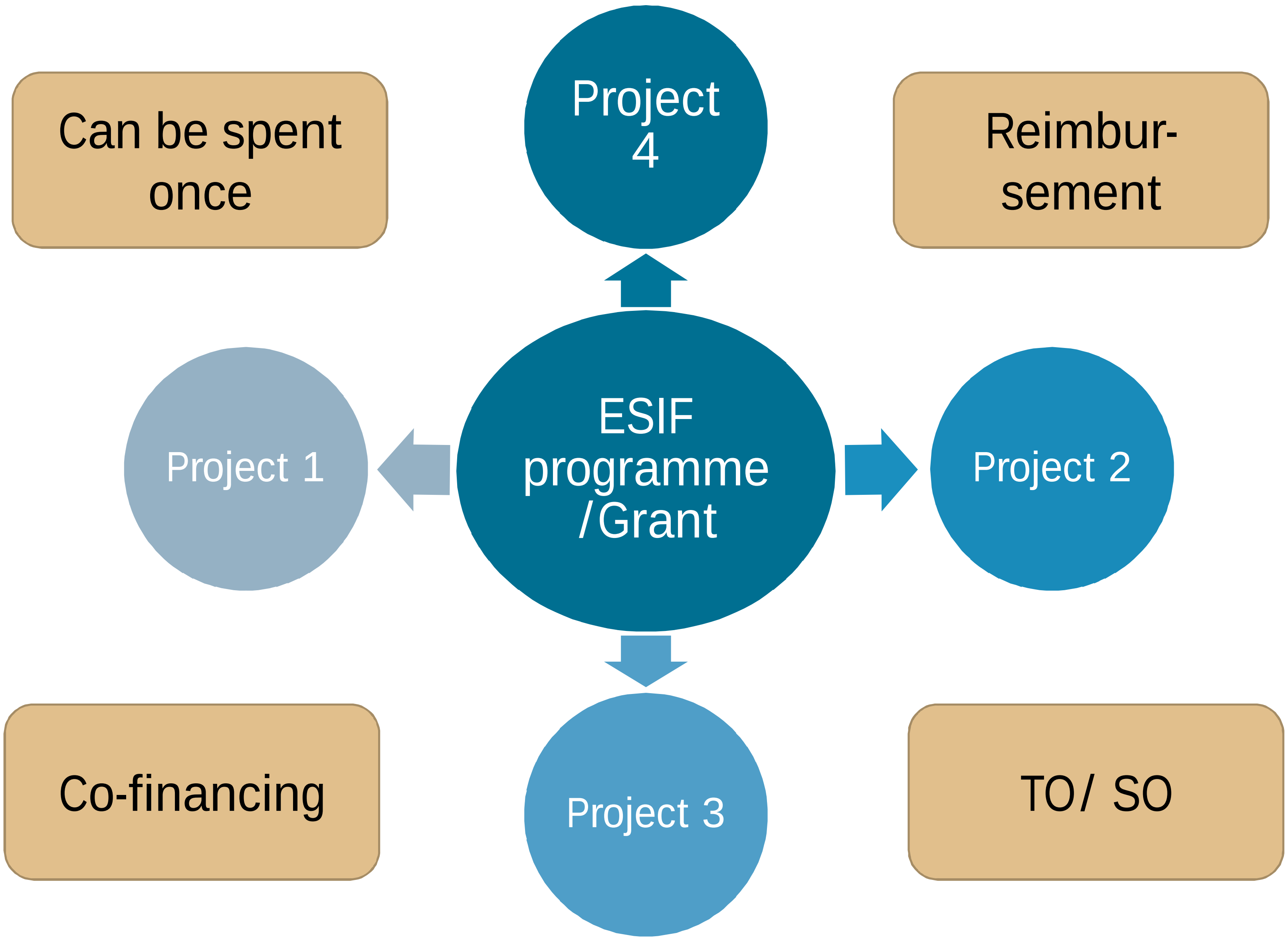
Benefits of FIs

- Revolving nature of funds – ‘more with less’
- Efficiency and effectiveness of gains
- Leverage/ multiplier effect
- Increased impact of ESIF programmes, cost-effectiveness
- Repaid sustainable investments
- Better quality of projects; legacy to invest again
- Private sector involvement and expertise
- Wider spectrum of financial tools for public policy delivery

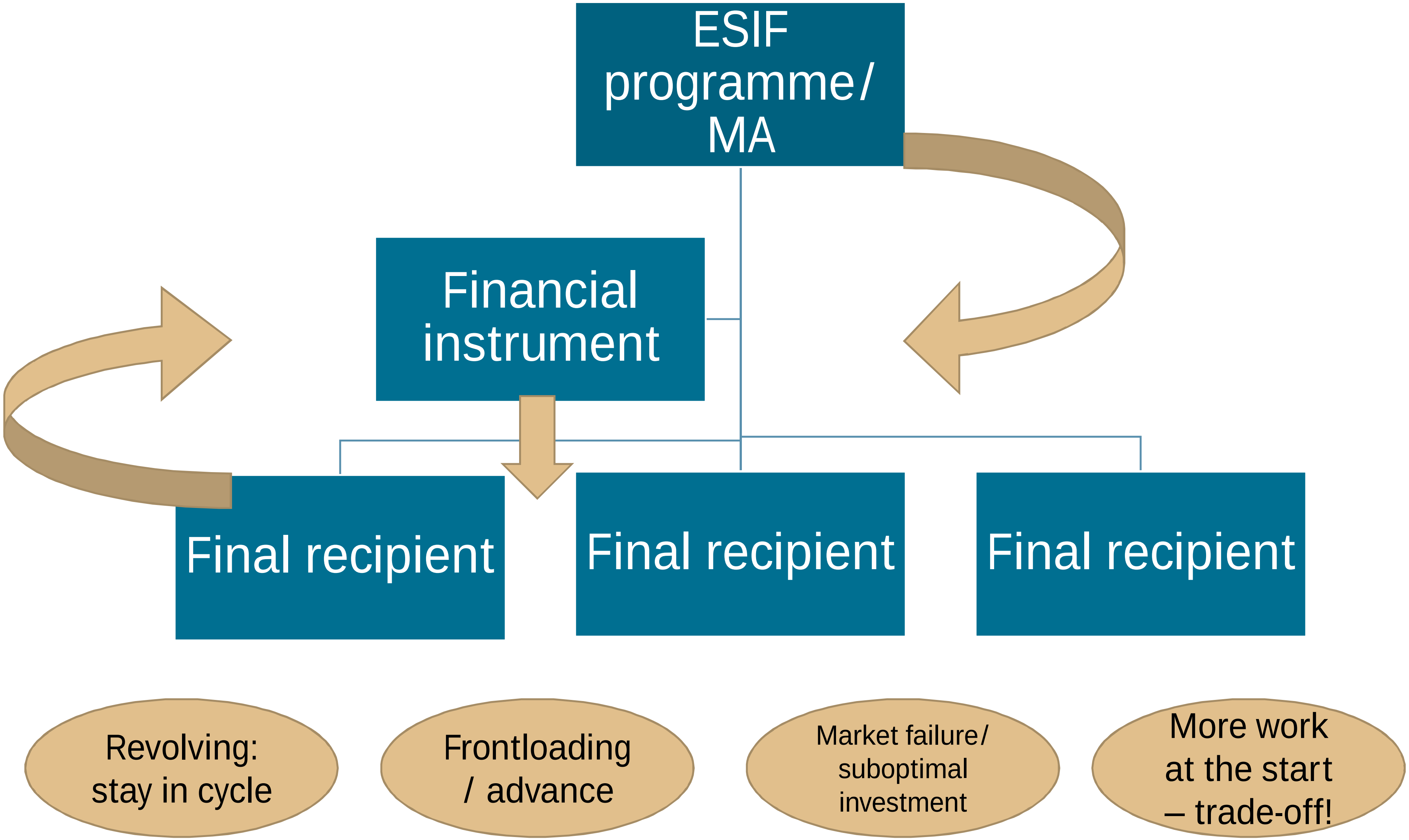
Financial instruments vs. Grants

WHAT

Grant


Can be spent once
Project 4
Reimbur-sement
Project 1
ESIF programme /Grant
Project 2
Co-financing
Project 3
TO/ SO

Financial instruments



Financial instruments vs. grants

- In specific areas of intervention FIs might be better suited than grants!
- On the other hand, in many policy interventions, grants are the only proper tools to use and FI are of complementary nature.

FIs

Support to businesses

Innovation

R&D

Investment in energy efficiency (e.g., housing) and urban development

GRANTS

Early stage R&D

Young small tech-based SMEs

Encourage change in behavior – investment in energy-saving measures

FIs in 2014-2020

Wider scope – all TOs and IPs

Set-up – mandatory ex-ante assessment

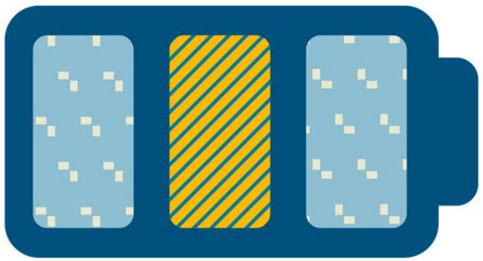
New implementation options + Omnibus Reg.

Legal provisions set out from outset

Phasing of payments

Types of financial instruments

WHAT



Choice of financial products

Type of final recipient

- *Micro-enterprises, start-ups, innovative SMEs, high-risk investments*

Type of project

- *Interest rate, collateral conditions, credit risk protection*

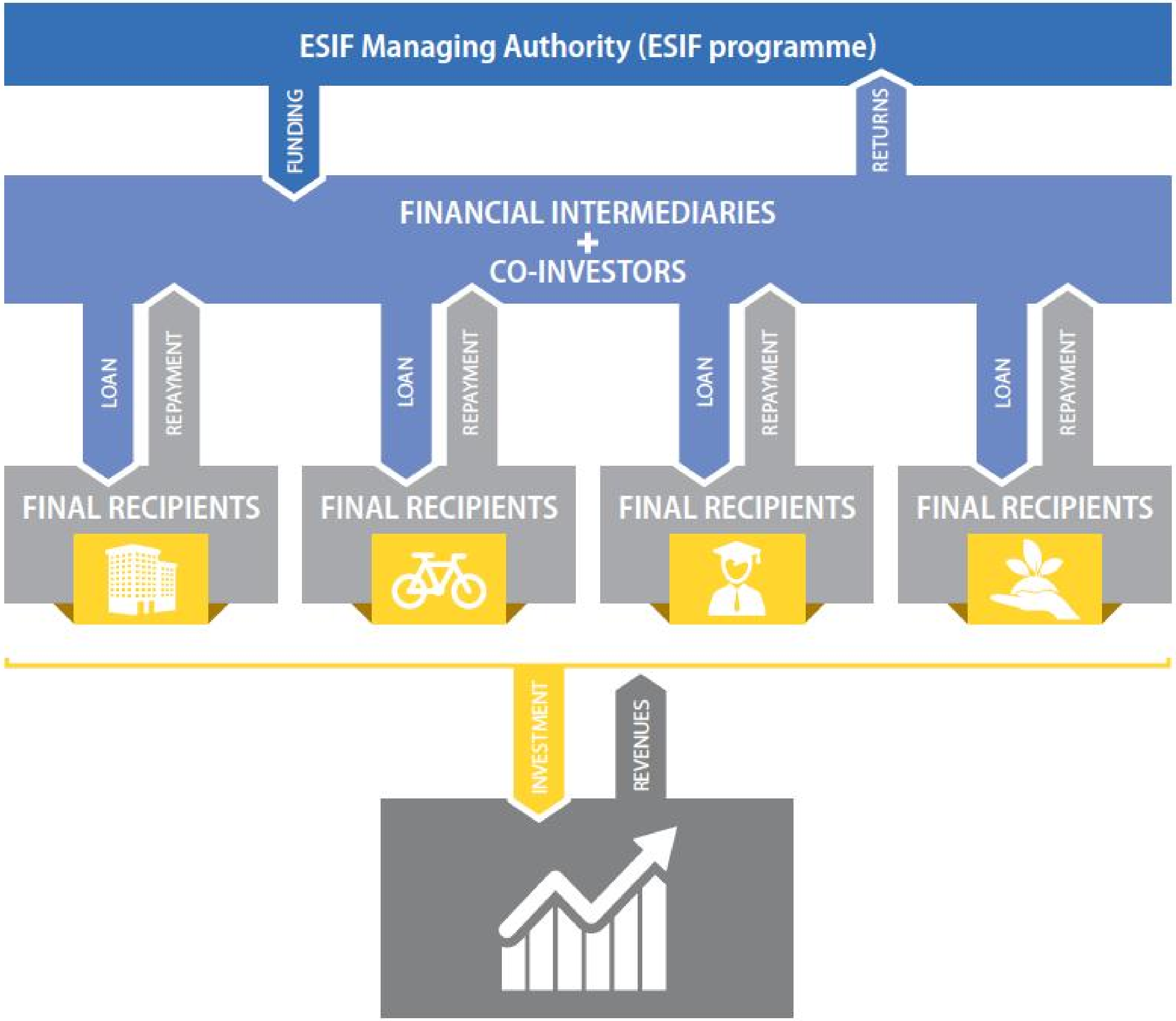
Financial context

- *Market failure, suboptimal investment situation, investment needs*

Financial products in ESIF

Loans	Guarantees
Equity	Quasi-equity

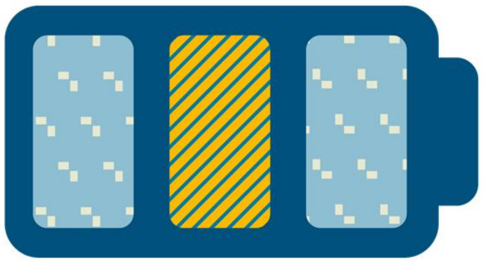
Loans



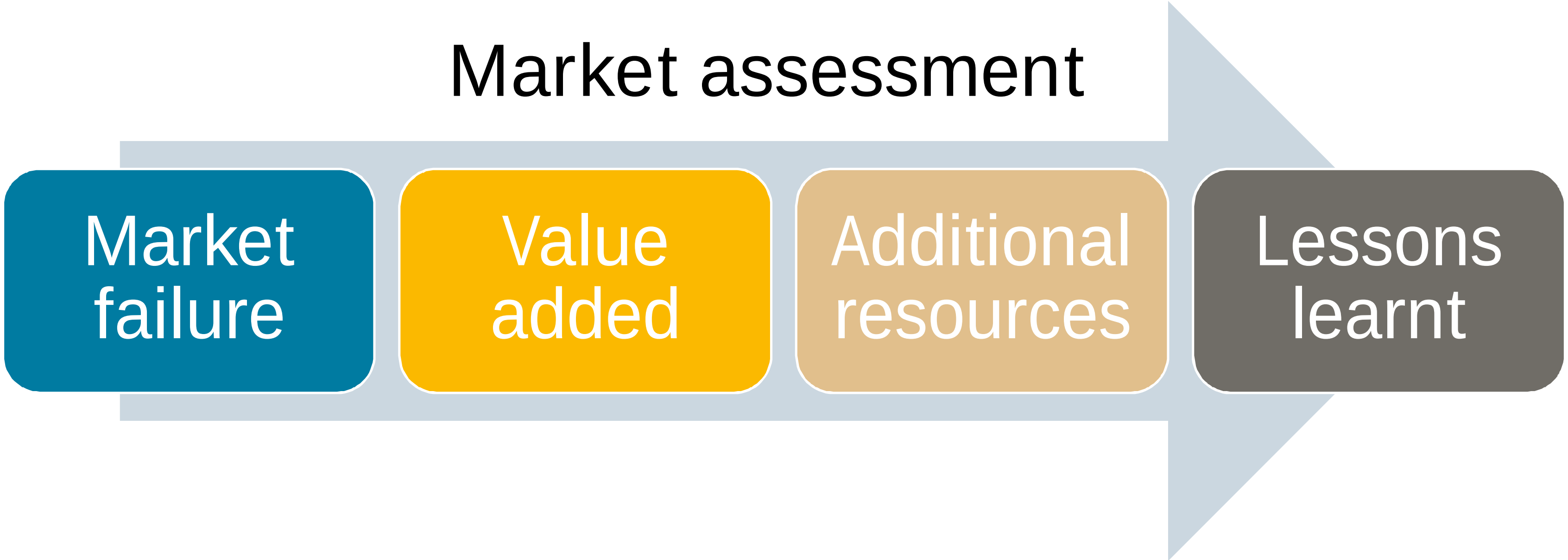
**Factsheet on FIs products – fi-compass.eu*

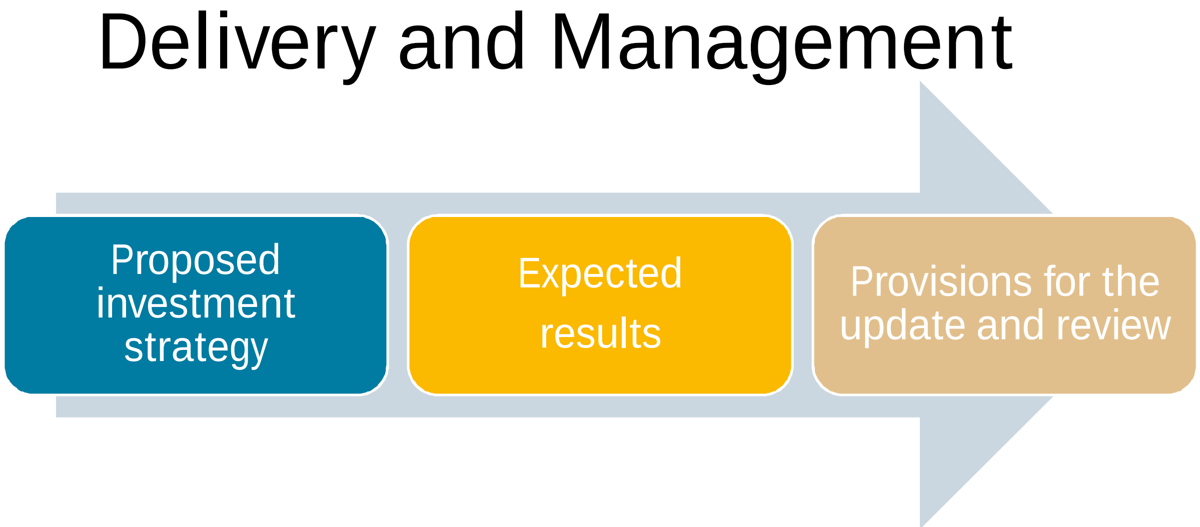
Ex-ante assessment

WHERE



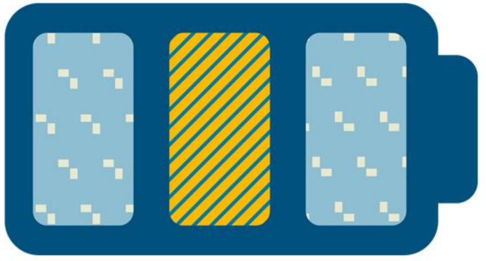
Ex-ante assessment (Article 37(2) CPR)





Implementation options for MAs

HOW



CPR Article 38(1)

MA ESIF programme

EU level instrument (Art. 38(1)(a))

FI set up at national, regional, transnational or cross-border level, managed by or under the responsibility of MA (Art. 38(1)(b))

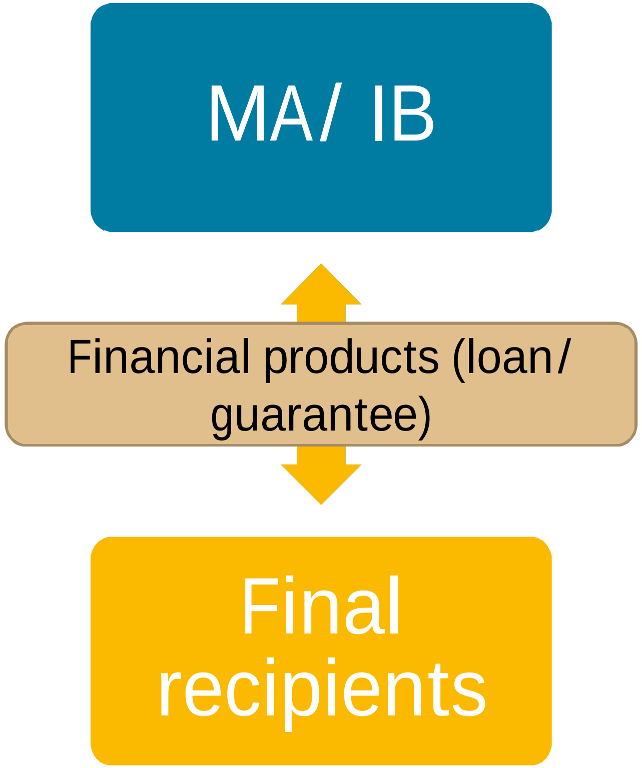
Combination of ESIF and EFSI (Art. 38(1)(c))

MA invests in a legal entity (Art. 38(4)(a))

MA entrusts implementation tasks to certain entities (Art. 38(4)(b)): EIB, IFI, NFI, ot.

MA implements directly loans or guarantees (Art. 38(4)(c))

NEW implementation option – FI implemented directly by the MA



MA is a 'beneficiary'

Selection of final recipients – advantage

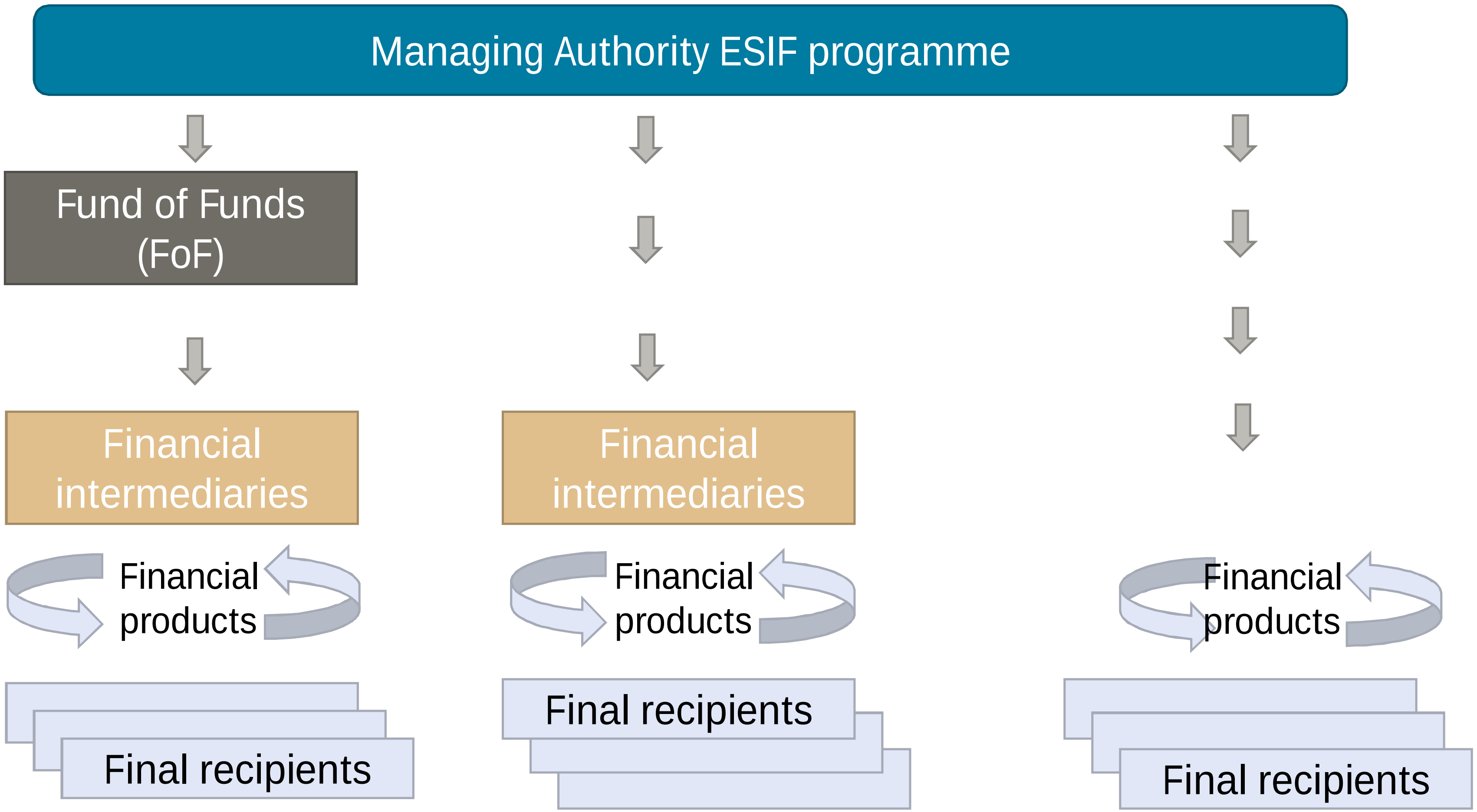
Relatively easy to set up (no establishment of FoF/ no financial intermediaries)

No management costs

No risk of 'parking money' – no frontloading

Capacity of MA – investment decision (ex-ante assessment)

Implementation options



EC off-the-shelf financial instruments

LOAN
- Risk-sharing loans

LOAN
- Urban development product

LOAN
- Renovation loan

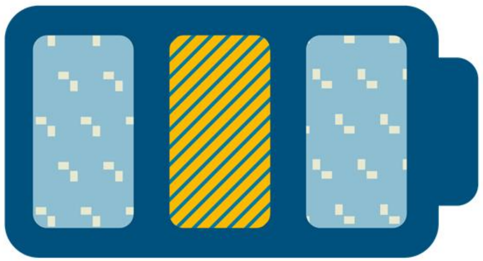
GUARANTEE
- Capped guarantees for SMEs

EQUITY
- Co-investment facility

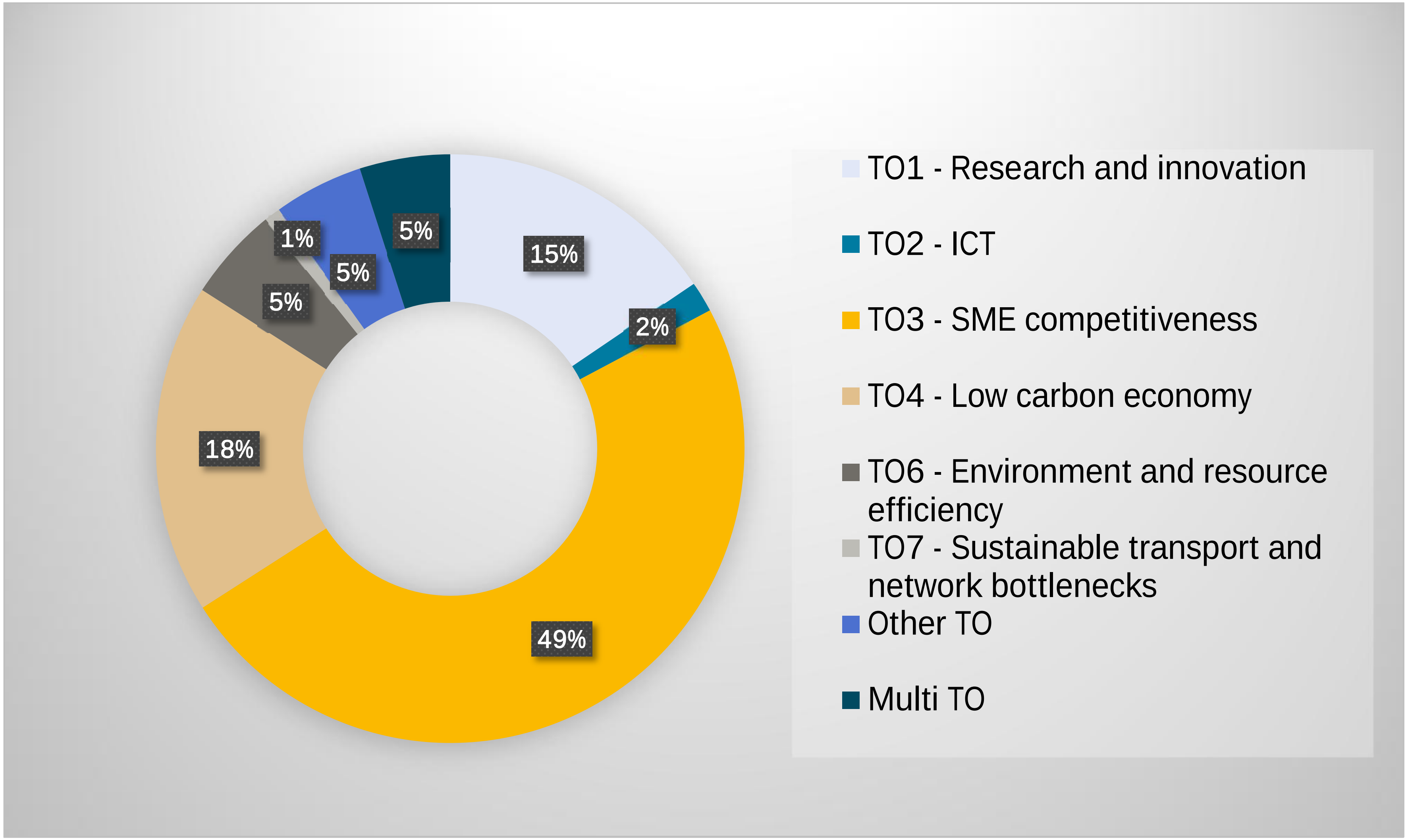
EU level financial instruments

- Set-up phase skipped (selection of FoF/ financial intermediaries, preparation of parametres) as EU level instrument delivery system is used
- MA ultimately responsible for this operation (CPR rules apply) but can rely on structures designated by the EC and EIB
- MA does not carry out on-the-spot management verifications; AA – no system audits/ audits of operations
- WHY? → Reinforcement of EU funds and scale effect, high co-financing rate (100%), easier, no much management, alignment with EU policy objectives
- Examples: Horizon 2020, COSME

Financial instruments in 2014-2020 and beyond



Financial instruments in 2014-2020
EUR 20 billion planned allocations to FI for ERDF, ESF and CF by Thematic Objective – ca 6.4% of ESIF



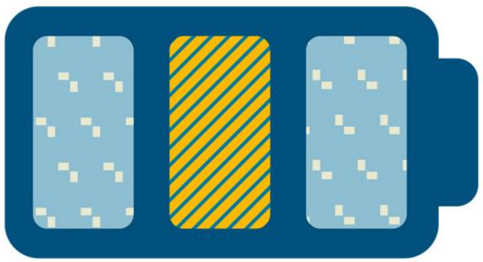
FIs in draft CPR 2021-2027:

Financial instruments will be a key delivery mechanism for 2021-2027 investments generating revenue or cost savings; the provisions for their use have been streamlined and updated to ensure better and easier implementation as well as quicker set-up.

Simplification in regards to FIs post2020

- Streamlined: less prescriptive ex-ante assessment (4 components), a strategic part is integrated into programming -> You can do it in-house!
- Facilitating combination of grants and loans (capital rebate): using Fis for projects which are only partially self-financing
- Eligibility rules simplified (also payments and management costs and fees);
- One reporting system of all forms of finance (no specific reporting on individual FIs, part of programme general reporting and monitoring)

Financial instruments and IPA-CBC programmes



Financial Instruments in Interreg? Reality or Wishful thinking?

1. Critical mass for FIs!
2. Identification of areas where there could be potential interest in using FIs (where there's a need, financially viable projects!) – could be done 'in-house' as a part of the programming for post 2020 (no need for fully-fledged ex-ante assessment of FI)
3. EC's point of view – energy efficiency to be the area with the highest potential for using FIs (e.g., public buildings, multi-apartment building, single dwellings) + SME support:

- The eligible costs are easy to define
- The instrument could be relatively simple
- Implementation could be fast

4. Grant component to make the instrument sufficiently attractive

Financial Instruments in Interreg?
Reality or Wishful thinking?

Alternative 1:

Financial instrument for several Interreg programmes (e.g., sharing management fees and costs)?

Alternative 2:

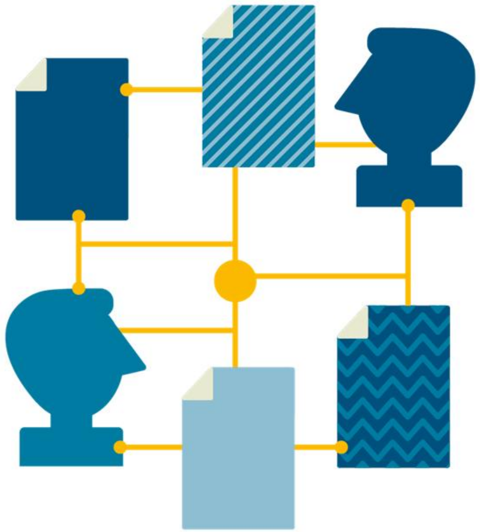
A dedicated product in an existing national FI ?

Reflection time

- Q1: Which TOs/PAs/SOs could be suitable for FIs in your programme?

- Q2: What added value could FIs bring to reaching your programme's objectives?

- Q3: Potential challenges for implementation of FIs?



Financial Instruments and ETC

- Does it fit with the agreed priority axis?
- What about CB/ TN cooperation?
- What is the value added or additionality?
- Who decides on the final beneficiary/ recipient/ project?
- How to deal with reflows/ returns of investment?
- How to monitor financial instruments?
- What about state aid?
- What is the definition of eligibility?

Implementation of FIs in ETC

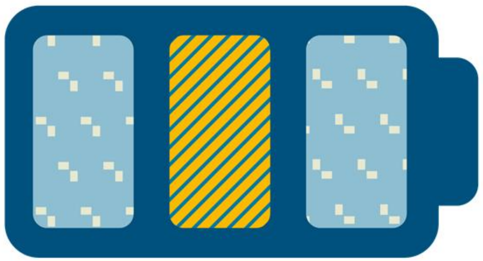
- Critical mass
- Setting the ‘Investment strategy’
- Ensuring cross-border/ transnational cooperation
- Setting OP indicators
- Governance process and delegation principles
- State aid compliance
- Repayment and reinvestment schemes
- Upward reporting and downward monitoring at all levels

Barriers to implementation of FIs in ETC

- Differentiated state aid rules applied to FIs under shared management and directly managed FIs (de-minimis and GBER)
- Selection of FoF managers and financial intermediaries
- National regulation adds further complexity (e.g. no para-banking)
- Insufficient capacity on the side of MAs
- Competition with grants
- Combination with grants
- others

Energy Savings in Existing Housing Programme, Greece

Case study by fi-compass.eu



Problem: reluctance of private investors to fund energy efficiency projects in residential building

Analysis: cost-benefit assessment 2008, 30% of final energy consumption in Greece by building sector

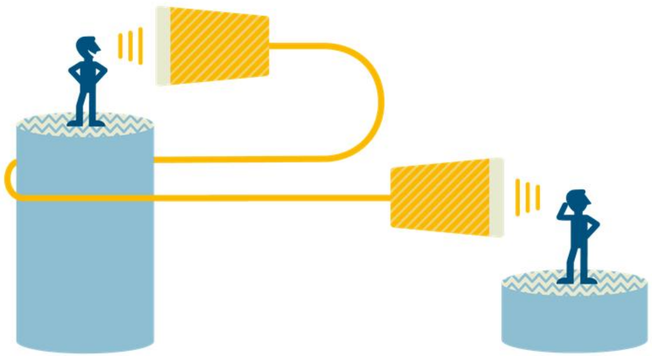
Financial products: loans combined with grants

Fund: ERDF, 4 regional OPs + 2 sectoral OPs

Size: EUR 249 mln: 101 mln from ERDF + 148 mln from FinInter + 307.2 mln from ERDF grants

Thematic focus: energy efficiency & renewable energy

Timing: 2010-2017



Achievements

Absorption rate: 99.5% of ERDF

EU leverage: 1.36 times

Re-investment: returned funds were reused for energy-saving actions

Main outputs: 51152 households assisted by March 2017.

Cooperation works

All materials will be available on:

www.interact-eu.net

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