



Financial Instruments

**DG Regional and Urban Policy
Budapest 24th April 2015**



ESIF and the Investment Plan

Investment Plan for Europe

1. Mobilise finance for investment

European Fund for Strategic Investment (EFSI)

≥ EUR 315bn

- ✓ Long-term investments
 - ✓ SMEs and mod-cap firms
- ≥ EUR 20bn additional

Better use of ESI Funds
i.a. extensive use of Financial Instruments

investment for 2015-2017

- ✓ SMEs
- ✓ Research
- ✓ Transport
- ✓ Environment

2. Make finance reach the real economy

Technical Assistance

- ✓ JASPERS
- ✓ FI-Compass

3. Improve investment environment

Ex-ante Conditionalities

Financial Instruments (FI)

Resource-efficient way of using EU budget funds to enable investment in the economy

Through loans, guarantees, equity, venture capital, etc.

2014-2020

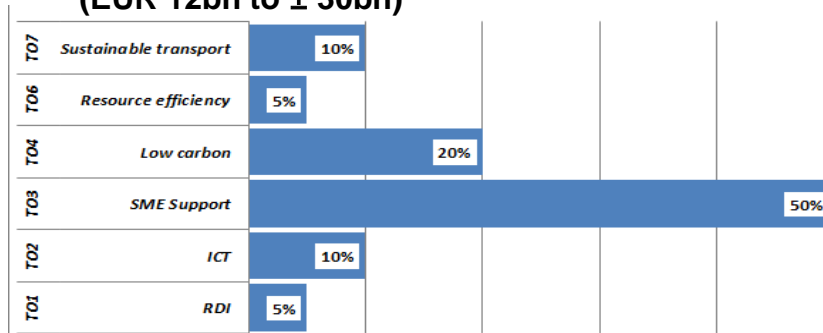
What's New?

✓ Regulation: FI extended to ALL thematic objectives and all ESIF funds

✓ Additional support: FI Compass – advisory service 'off-the shelf' instruments

TARGETS

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



Leverage Effect

Initial EU Investment

Target Total Investment



Quantified baseline and targets

<i>in million €, rounded</i>	ERDF contributions to FEI 2007-2013	ERDF contributions to FI		
	Commitments 2013	overall contributions according to Partnership Agreements	Possible target allocations to Financial Instrument	
			(a)	(b)
I. Pillar SME/mid-cap financing				
TO3 SME support	10 100	33 000	50%	16 500
Subtotal I	10 100	33 000	50%	16 500
II. Pillar long-term investment				
TO1 RDI	-	40 000	5%	2 000
TO2 ICT	-	14 000	10%	1 400
TO4 low carbon	1 100	30 000	20%	6 000
TO6 resource efficiency	200	16 000	5%	800
TO7 sustainable transport	100	25 000	10%	2 500
Subtotal II	1 400	128 000	10%	12 700
I+II (TO1 -TO7)	11 500	161 000	18%	29 200

Exploring the potential - smart

Thematic Objective 1

SMEs further down
the RDI chain

Large enterprises

*Example: TGFS in
Saxony*

Thematic Objective 2

Broadband (check
revenue-generation,
penetration rate)

Financing shift to e-
commerce

*Example:
PPP4Broadband*

Thematic Objective 3

Support to SMEs

*Example:
Languedoc-
Rousillon Loan,
Guarantee & Equity
Fund*

SME - Initiative

Exploring the potential - sustainable

Thematic Objective 4

Renewables

Mobilise ESCO/EPC
market

Explore smart
metering, smart grid

*Example: European
Energy Efficiency
Fund*

Thematic Objective 6

Water supply, waste
water treatment

Waste management,
recycling facilities

*Example: London
Green Fund*

Thematic Objective 7

Ports, airports &
intermodal terminals

Support to PPP in
road and rail sector

*Example: Marguerite
Fund*

Events on financial instruments for managing authorities

- 23 April SME Initiative workshop
- May and June: 'Regional' seminars (one in Brussels, two in other MS)
- October onwards: Member State events

Guidance notes

Already available:

- Short guide for managing authorities (version 4)
- Ex-ante assessment methodologies
- Glossary
- Working capital
- Ex-ante assessment Q&A

Upcoming:

- Payments, combination of support



- Is a unique platform for advisory services on financial instruments under the European Structural and Investment Funds ([ESIF](#)) and microfinance under the Programme for Employment and Social Innovation ([EaSI](#)), provided by the European Commission in partnership with the European Investment Bank
- Is designed to meet the needs of ESIF managing authorities, EaSI microfinance providers and other interested parties, by providing practical know-how and learning tools on financial instruments
- Will include "how-to" manuals, factsheets for quick reference, e-learning modules, face-to-face training seminars and networking events

Already available on



- Presentations from the conference, e.g. on FI examples, main regulatory provisions, off-the-shelf instruments, the SME Initiative, fi-compass
- Short (2') promotional video about financial instruments and their benefits
- Factsheets (ca. 4 pp.) explaining what financial instruments are and how they work under the five ESIF
- 5 case studies (ca. 15 pp.): DE equity fund, BE guarantee fund, HU guarantee and micro-loan fund, London Green Fund, LV (ESF) Entrepreneurship Fund
- Short reference guide for MAs, ex-ante assessment quick guide

➤ **Please use them as reference documents!**

Next on  

- Recordings from the conference
- Further case studies (ca. 15 pp.): EE Kredex fund, PL urban fund, ES fund for innovation
- EC guidance notes: glossary, ex-ante assessment, working capital (and others as finalised)
- Revamp of the website and 1st newsletter in April
- Planning and registration for "regional" seminars on FIs in Brussels (May), Warsaw (June) and TBC (June)
- Planning for MS events on FIs starting in October
- "Developing an action plan" (f), "Development of business plan" (h), "Advice on FI products" (f), "Selection of bodies implementing FIs" (h), "Governance and implementation structures" (f)



Standard terms and conditions for financial instruments. Article 38(3)(a) of the Regulation 1303/2013

Financial instruments 2014-2020: legislation and guidance

Common Provisions Regulation for all ESIF: Title IV for the financial instruments
(Articles 37 – 46) (2013/1383/EU)

http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm

Delegated Act: Section II, Articles 4-14 (2014/480/EU)

http://ec.europa.eu/regional_policy/information/delegated/index_en.cfm

Implementing Act: Off the shelf instruments (2014/964/EU), funding agreement SME initiative (2014/660/EU)

http://ec.europa.eu/regional_policy/information/implementing/index_en.cfm

Financial Instruments in ESIF programmes 2014-2020: A short reference guide for Managing Authorities

http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

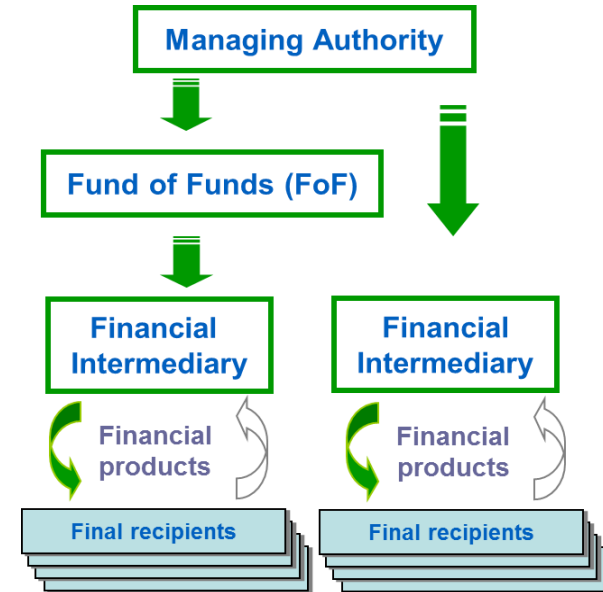
Financial instruments: Implementing options

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

- a) Financial instruments set up at EU level (e.g. RSI, COSME, etc., i.e. financial instruments managed by the Commission);*
- b) Financial instruments set up at national, regional, transnational or cross-border level (i.e. financial instruments managed or under the responsibility of the managing authority).*

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



"Off-the-shelf" Funding agreement template (Annex I of 2014/964/EU)

Table of content:

- Preamble
- Definitions
- Scope and objective
- Policy objectives and ex-ante assessment
- Final recipients
- Financial advantage and State aid
- Investment, guarantee or lending policy
- Activities and operations
- Target results
- Role and liability of the financial intermediary: risk and revenue sharing
- Management and audit of the financial instrument

"Off-the-shelf" Funding agreement template (Annex I of 2014/964/EU)

- ...
- Account management
- Administrative costs
- Duration and eligibility of expenditure at closure
- Re-utilisation of resources paid by the managing authority (including interest yielded)
- Capitalisation of interest rate subsidies, guarantee fee subsidies (if applicable)
- Governance of the financial instrument
- Conflicts of interest
- Reporting and Monitoring
- Evaluation
- Visibility and transparency
- Exclusivity
- Settlement of disputes
- Confidentiality
- Amendment of the agreement and transfer of rights and obligations

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

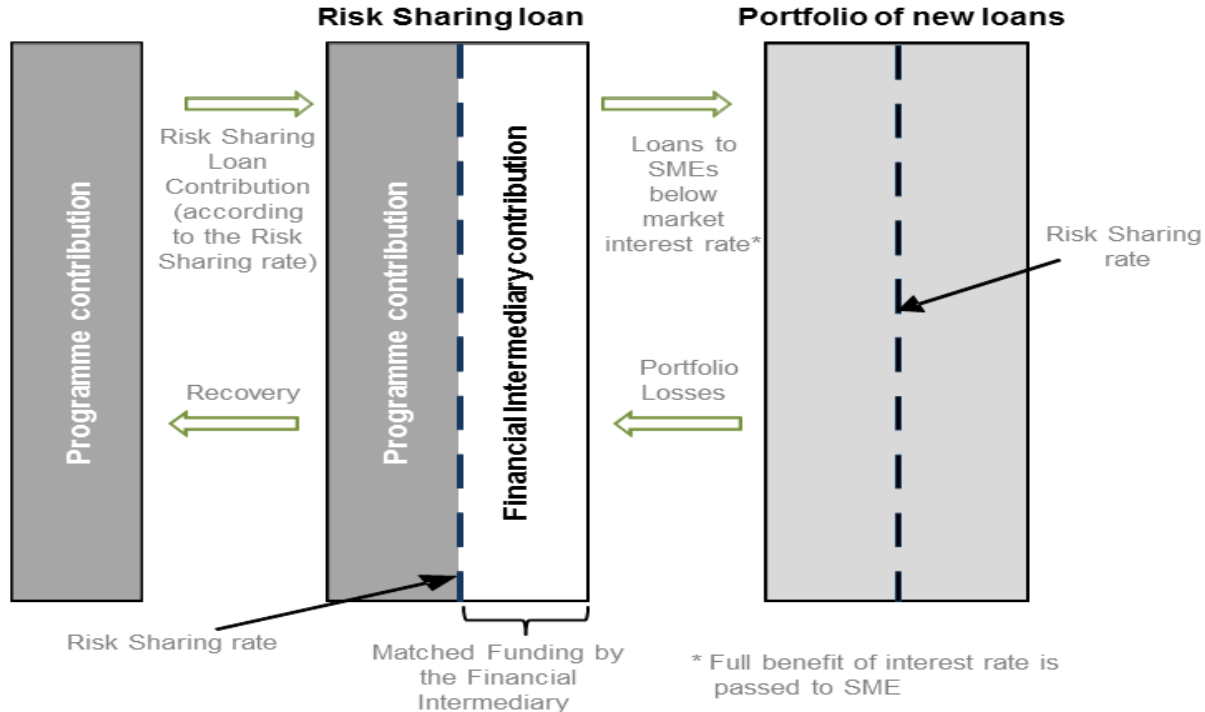
Two for SMEs

1. Loan for SME's based on a portfolio risk sharing loan model (Risk Sharing Loan) (Annex II of 2014/964/EU) .
2. Guarantee for SMEs (partial first loss portfolio, capped guarantee) (Annex III of 2014/964/EU).
+ Equity fund for SMEs and start-up companies (*in the future*).

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

3. Renovation Loan based on a Risk sharing loan model (RS Loan) (Annex IV of 2014/964/EU).
+ Urban Development Fund (*in the future*).

Risk- Sharing Loan





Capped Guarantee (Guarantee for SMEs)

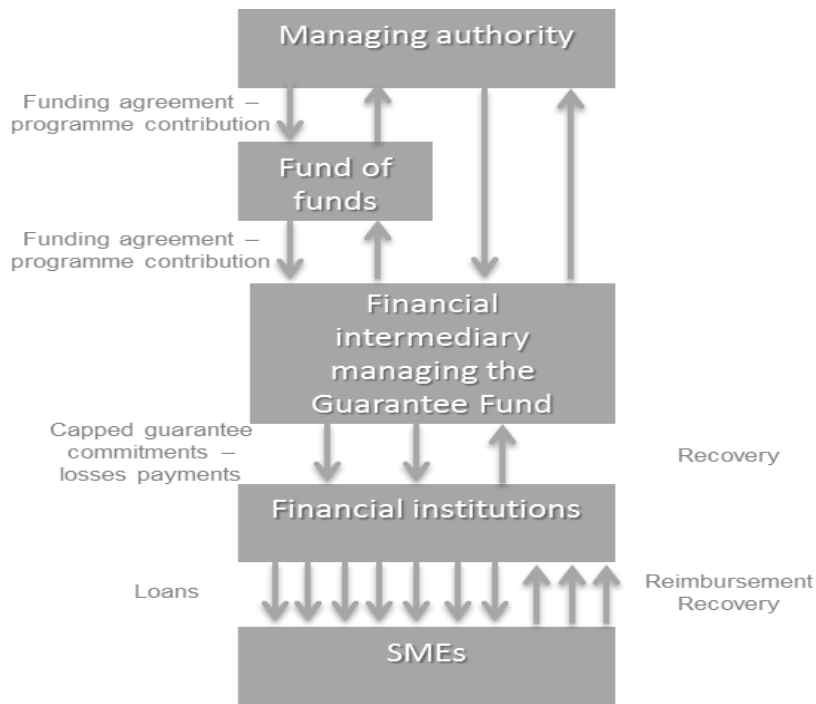
Aims

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).

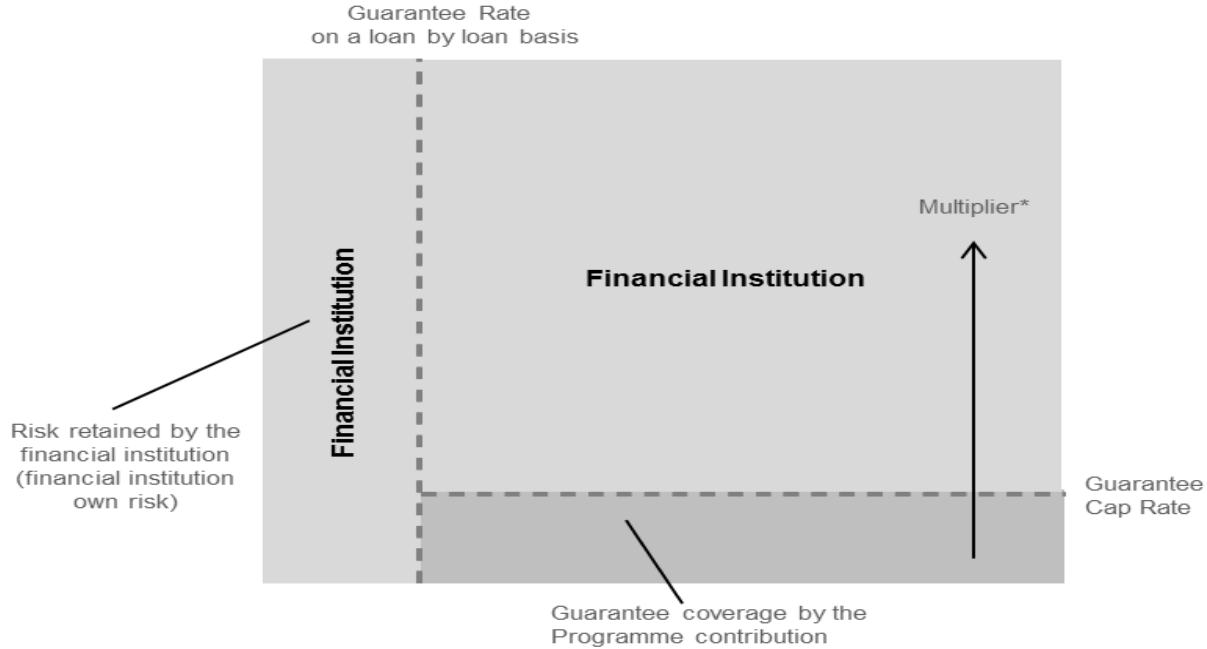
It aims at

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 = $(1/\text{Guarantee Rate}) \times (1/\text{Guarantee Cap Rate})$

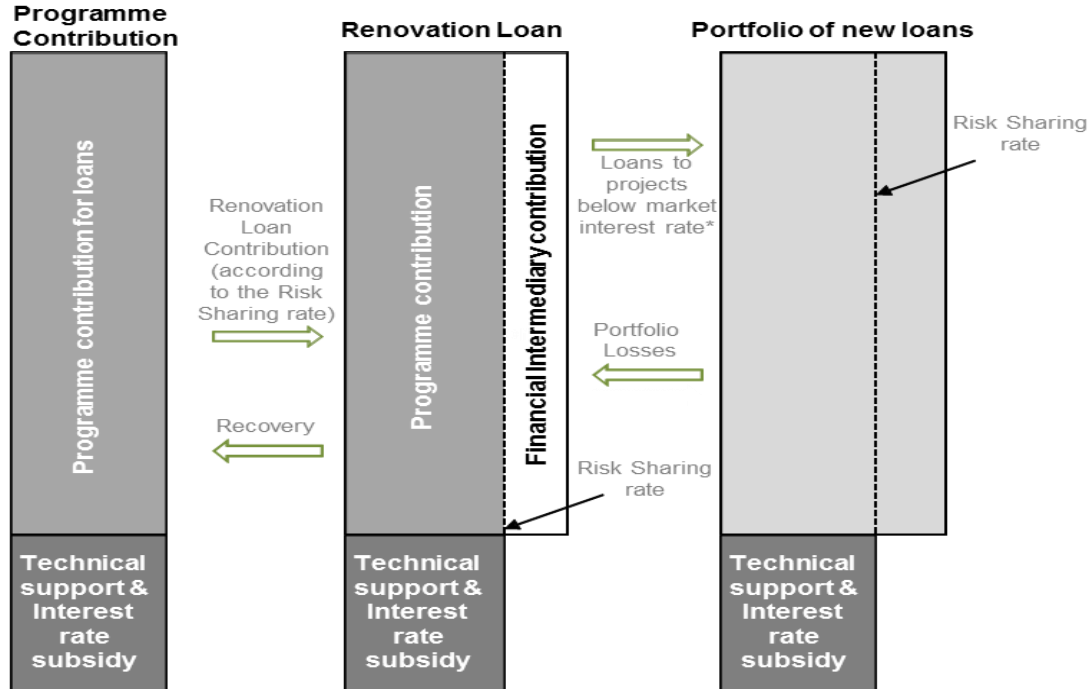
Renovation Loan (energy efficiency and renewable energies in the residential building sector)

Aims

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.

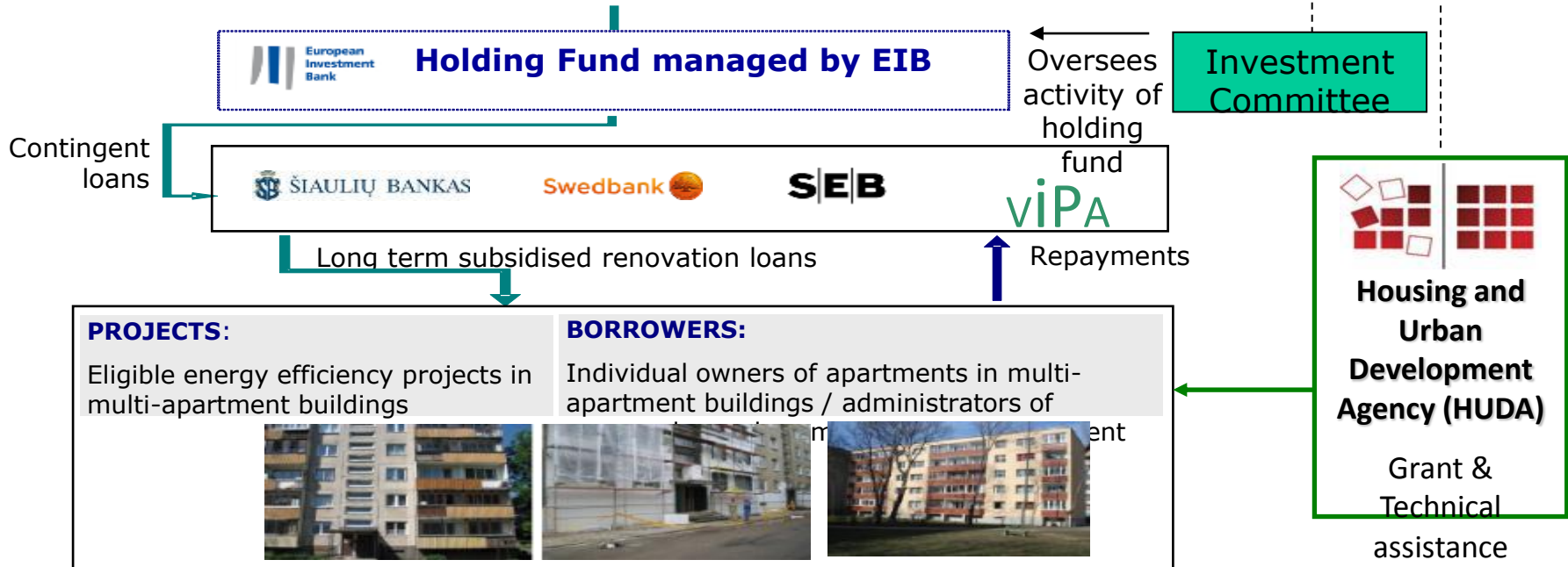
The loan shall incentivise the energy saving potential arising from the renovation of residential buildings

Renovation Loan



Renovation Loan: Lithuanian case study

Ministries of Finance and of Environment
 contribution of circa EUR 150m from Operational Programme:
 « Promotion of Cohesion 2007-2013 »



PROJECTS:	BORROWERS:
Eligible energy efficiency projects in multi-apartment buildings	Individual owners of apartments in multi-apartment buildings / administrators of
	 

Financial instruments 2014-2020: 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)**



Financial Instruments in Cohesion Policy 2014-2020:

The SME Initiative

Main features:

- **Article 39 CPR:** legal basis;
- **Voluntary** contribution (ERDF – EAFRD) from MS;
- **EU level instrument:** indirectly managed by the Commission and EIB for the implementation;
- **EU-wide ex-ante assessment** already carried out by the EIB and Commission;
- Setting up a **single dedicated OP** at MS level;
- Up to **7% of ERDF – EAFRD** per MS and capped to **EUR8.5bn** from ERDF-EAFRD;
- Maximum contributions from EU's COSME (EUR 175 m) and Horizon 2020 (EUR 175 m);
- Possible contributions from other FIs & national promotional banks and/or private investors

SME initiative comprises of two different options:

All these options are not mutually exclusive:

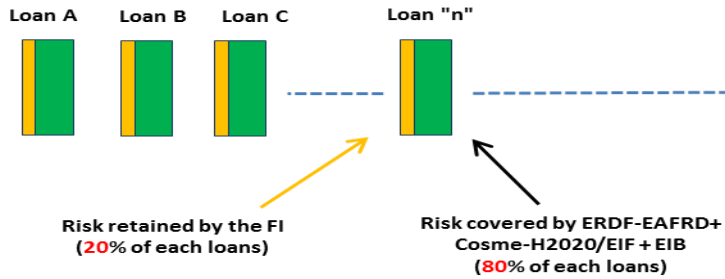
- **Option n°1:** Uncapped guarantee instrument;
- **Option n°2:** Joint securitisation instrument for new and existing loans;
- Option n°2 is also possible with **ERFD/EAFRD-EIB/EIF pooling of risks** (not covered by this presentation)
- Option 1 is the one currently most advanced and with highest demand

1. Uncapped Guarantee Instrument

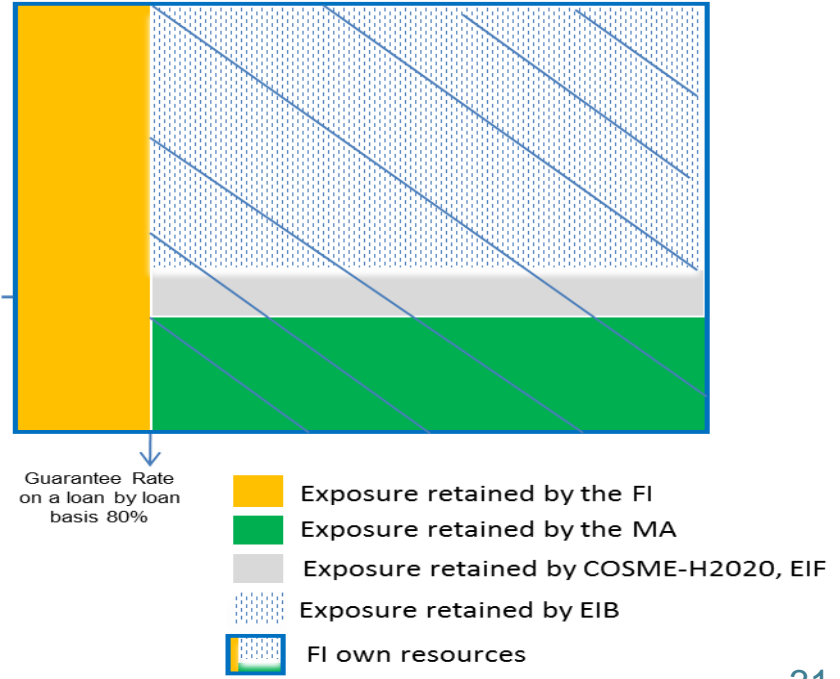
- **Combines** ERDF-EAFRD, COSME, Horizon 2020 in one instrument;
- EIF, EIB share the residual risk;
- The instrument covers **up to 80%** of the losses from the banks' portfolios;
- Alignment of interest with the bank that retains **20% risk exposure**;
- Contributions from MA remain ring-fenced to support SMEs in their respective country;
- Benefit passed on to SMEs:
 - **lending to riskier SMEs (e.g. innovative SMEs, start-ups, etc.)**
 - **reduction of collateral requirements and reduced pricing**;
- Gradual capital relief to financial intermediaries **to support new lending to SMEs**

Uncapped Guarantee instrument: Option 1

*Financial intermediary's
underlying loans portfolio:*



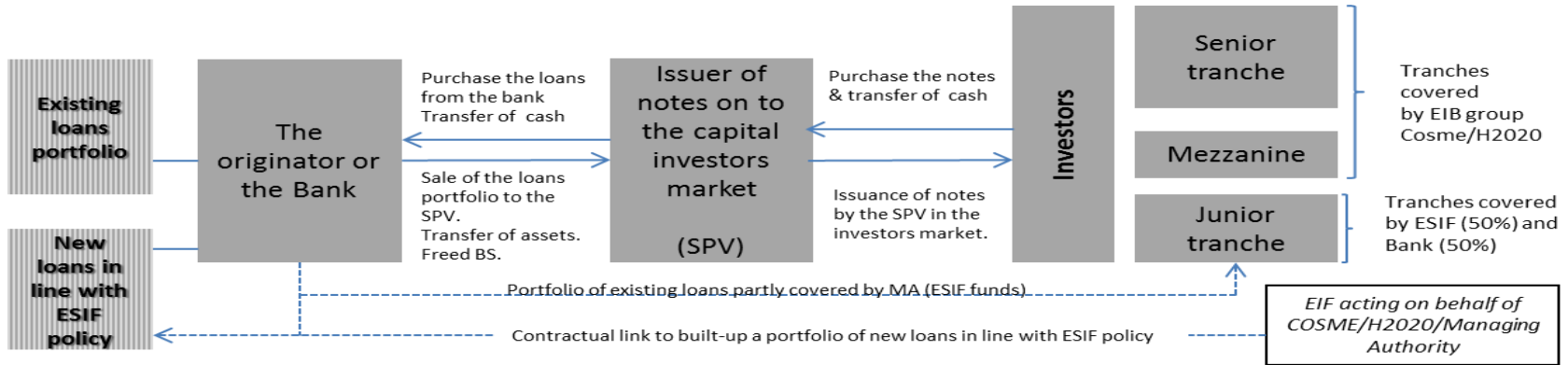
New debt finance portfolio





2. Joint securitisation instrument for new and existing loans

- Combining resources from ERDF-EAFRD, COSME, Horizon 2020, EIF, EIB and possibly NPBs in one instrument;
- Two steps: a) securitisation of an existing/new portfolio and b) construction by the bank of a new portfolio;
- Increase lending to SMEs by providing capital relief and/or liquidity to on-lending banks
- ERDF-EAFRD take 50% of the riskier tranche (Junior tranche);
- Bank would retain a material interest in the transaction (adequate portion of the Junior tranche appx. 50%) to help ensuring alignment of interest and good origination standards;
- EU resources together with EIF own resources guarantee the Mezzanine tranche
- EIB and other institutional investors invest in the Senior tranche.



Added value in general...

*At the level of participating **Member States***

- no national co-financing required for the contributions from ERDF-EAFRD
- Leverage effect on the ERDF-EAFRD contribution by a combination of resources (leverage definition in Art. 39(5) of the CPR)
- higher number of SMEs supported and more beneficial terms for SMEs thanks to risk-sharing with the EU and EIB Group
- Complement the existing financial instruments to address market failure

*At the level of **financial intermediaries***

- capital relief enabling new debt finance to SMEs
- additional funding in case of true securitization
- Extend volume of loans without impacting on risk exposure

*At the level of **SMEs***

- more liquidity for investments,
- improved financing conditions
- better terms of loan contracts with financial intermediaries
- Availability of financing for projects that would otherwise be turned down by banks

...cont'd...

- *Significant leverage*

→ resources are scaled up and critical impact is achieved by combining ERDF/EAFRD with COSME and/or H2020, EIF/EIB and possibly also funds from national promotional/development/public banks and private investors

→ alignment of interest through compulsory private financing

→ in line with Art. 39 CPR, a minimum leverage (to be negotiated between MS and EIF) is to be achieved (if not fin. intermediaries face penalties)

- *State aid clearance*

→ predefined State aid compliance framework

→ no prior notification necessary

- *Easier audit environment*

→ EIF has legal obligation to carry out the audit of the instrument and confirm the regularity of all the interventions that it manages

→ For preparing their own assurance Member States and the Commission can rely on the audit statements provided by the EIF

- *No loss of control*

→ Governance of the SMEI ensures through the Investors Board that the MA will keep control over the instrument and the investment decisions



**Thank you for your
attention**