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Financial Instruments in Cohesion Policy

Looking ahead to 2021 and beyond

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REGIO B3 - Financial Instruments and IFI Relations

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The role of financial instruments in Cohesion Policy

- Financial instruments represent a **resource-efficient way to deploy Cohesion Policy** resources in pursuit of the Europe 2020 Strategy objectives.
- Financial instruments are a Cohesion Policy delivery mechanism to be used for **revenue-generating or cost-saving projects and not an end in themselves**.
- The Commission encouraged Member States to **double the use of financial instruments with regard to 2007-2013**.
- The Investment Plan for Europe launched in 2014 and its achievements so far have paved the ground for an **even stronger focus on financial instruments across the Commission proposals for the period 2021-2027**.

The 2014-2020 framework for financial instruments

- Building on the lessons learned in the 2007-2013 programming period, the **legislative and policy framework for 2014-2020 has encouraged further mainstreaming of Financial Instruments** as an alternative to traditional grant-based support to deliver cohesion policy and mitigate grant dependency.
- The 2014-2020 legislative framework facilitates a **wider and more flexible use of FIs**:
  - FIs may be used by Managing Authorities in the context of **all Thematic Objectives**
  - **Mandatory ex-ante assessment**, which supports the design of FIs in a demand-driven rather than supply driven fashion
  - Wide range of **implementing options**, e.g. direct implementation of debt FIs by MAs
  - More transparent and incentive-based methodology for the calculation of **management costs and fees**
  - **Clear rules for the re-use of resources** attributable to the support from ESIF until the end of the eligibility period and beyond
- **Commission support**
  - Guidance Notes
  - Off-the-self financial instruments
  - Fi-Compass platform
- Further adjustment of the regulatory framework by **Omnibus**
  - Direct award clarification
  - ESIF/EFSI combination

Financial Instruments post-2020 (1/3)

- In the 2021-2027 programming period, where Cohesion Policy resources are planned to be scarcer, the **overall importance of financial instruments will be increasing**.
- General aim to **trigger investments on the ground while maximising private investment with minimum public support**, taking into account the overall Cohesion Policy objectives of economic, social and territorial cohesion.
- Member States have two ways in order to deliver the policy objectives:

1. Financial instruments under CPR rules

2. Contribution to InvestEU

FIs post-2020 (2/3) – FIs under CPR

- The CPR proposal for 2021-2027 introduces **several simplification measures to incentivise an increase in the uptake of financial instruments** by streamlining and updating provisions to ensure better and easier implementation as well as quicker set-up:

Ex-ante assessment	Combination	Implementation options	Eligibility
Payments	Interest and other gains, differentiated treatment of investors and re-use	Reporting	Audit and financial corrections

FIs post-2020 (3/3) - Contribution to InvestEU

- Possibility provided to Member States to **contribute max. 5% to InvestEU** if scope to achieve their policy objectives in their Member States and/or regions with a better leverage, better coverage of risks, higher economies of scale, lower administrative burden etc.
- Contributions to **different policy windows** (e.g. sustainable infrastructure; research, innovation and digitisation; SMEs; social investment and skills)
- **CPR regulates the contribution arrangements to Invest EU** (at the Partnership agreement or thereafter) and back to the cohesion funds in case of slow or no implementation (e.g. late signature of contribution agreements or guarantee agreements, slow disbursements to final recipients)
- InvestEU rules apply for the rest!

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FIs as a Cohesion Policy delivery mechanism (1/2)

- Broader economic rationale for support is to **address funding gaps and suboptimal investment situations**, i.e. when economically and financially profitable projects are not financed by the private sector.

- Financial instruments become relevant as a policy delivery mechanism in case of **revenue-generating and cost-saving activities**, **also to "do more with less"** in the context of Brexit and scarce Cohesion Policy resources.

- Where appropriate, the **deployment of financial instruments can be more beneficial than traditional approaches** in terms of Cohesion Policy results:
    - **Recycling** funds over the long term;
    - Mobilise **additional public or private co-investments;**
    - Delivery structures entail **additional expertise and know-how; and**
    - **Incentives to better performance,** including greater financial discipline at the level of supported projects.

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FIs as a Cohesion Policy delivery mechanism (2/2)

- **Financial instruments help deliver Cohesion Policy to achieve territorial cohesion** through innovation, digitalisation, economic transformation and support to small and medium-sized businesses as well as foster a greener, carbon free Europe, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change.
  - **JEREMIE Bulgaria** was set up including two equity windows under the Acceleration and Seed scheme. The initiative's success is demonstrated by its positive impact on Sofia's entrepreneurship scene: it **helped create an early-stage equity market almost from scratch**, a knock-on effect that can also be observed in other regions.

  - Similarly as in other peripheral MS, in Malta SMEs represent the vast majority of employment. The **First Loss Portfolio Guarantee in Malta** was set up to improve access to finance for SMEs through credit risk protection and loans at preferential interest rates and has successfully **fostered the development of strategic sectors such as wholesale & retail or hospitality**.

  - The **CAP TRI** scheme deployed in France aims to stimulate investments by providing equity and quasi-equity, primarily for SMEs. The FI was developed to **help Nord-Pas de Calais become the first carbon-neutral region in France by 2050**.

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Thank you for your attention

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