European Commission

# FINANCIAL INSTRUMENTS IN COHESION POLICY 2014-2020

## COHESION POLICY 2014-2020

**The new rules and legislation governing the next round of EU Cohesion Policy investment for 2014-2020 have been formally endorsed by the Council of the European Union in December 2013.**

**This factsheet is one in a series highlighting key elements of the new approach.**

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Financial instruments represent a resource-efficient way of deploying cohesion policy resources in pursuit of the Europe 2020 Strategy objectives. Targeting projects with potential economic viability, financial instruments provide support for investments by way of loans, guarantees, equity and other risk-bearing mechanisms, possibly combined with technical support, interest rate subsidies or guarantee fee subsidies within the same operation.

Besides the obvious advantages of recycling funds over the long term, financial instruments help to mobilise additional public or private co-investments in order to address market failures in line with Europe 2020 and cohesion policy priorities. Their delivery structures entail additional expertise and know-how, which helps to increase the efficiency and effectiveness of public resource allocation. Moreover, these instruments provide a variety of incentives to better performance, including greater financial discipline at the level of supported projects.

Financial instruments have been used for delivering investments for Structural Funds since the 1994-1999 programming period. Their relative importance has increased during the programming period 2007-2013 and they now represent around 5% of total European Regional Development Fund (ERDF) resources. In the light of the current economic situation and the increasing scarcity of public resources, financial instruments are expected to play an even stronger role in cohesion policy in the 2014-2020 programming period.

## What is the aim?

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Building on the implementation experiences with financial instruments in past cohesion policy cycles and reflecting the importance attached to them in the multiannual financial framework 2014-2020, the legislative and policy framework for 2014-2020 encourages further expansion and strengthening the use of financial instruments in the new programming period as a more efficient and sustainable alternative to complement traditional grant-based financing.

## Key features of the new legal and policy framework

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To encourage and increase the use of financial instruments in cohesion policy in 2014-2020 programming period, the new legal and policy framework:

- offers greater flexibility to EU Member States and regions in terms of target sectors and implementation structures;
- provides a stable implementation framework founded on a clear and detailed set of rules, building on existing guidance and experiences on the ground;
- captures synergies between financial instruments and other forms of support, such as grants; and
- ensures compatibility with financial instruments set up and implemented at EU level under indirect management rules.

The common provision regulation includes a separate section on financial instruments – Title IV (Articles 37 to 46), allowing for a clearer presentation of the instruments' specificities and regulatory requirements. Furthermore, implementation details are laid down in related secondary legislation (Delegated Acts and Implementing Acts).

There will therefore be a single set of rules governing financial instruments for all five ESI Funds, ensuring consistency with the provisions of the Financial Regulation.

## What has changed from 2007-2013?

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### Widening the scope of financial instruments

In contrast to the 2007-2013 programming period, the rules adopted for 2014-2020 financial instruments are non-prescriptive in regards to sectors, beneficiaries, types of projects and activities that are to be supported. Member States and managing authorities **may use financial instruments in relation to all thematic objectives covered by Operational Programmes** (Ops), and for all Funds, where it is efficient and effective to do so.

The new framework also contains clear rules to enable better **combination of financial instruments with other forms of support, in particular with grants**, as this further stimulates the design of well-tailored assistance schemes that meet the specific needs of Member States or regions.

Financial instruments are a special category of spending and their successful design and implementation hinges on a correct assessment of market gaps and needs. Therefore, in the context of an OP, there is a new provision that **financial instruments should be designed on the basis of an *ex ante* assessment** that has identified market failures or sub-optimal investment situations, respective investment needs, possible private sector participation and resulting added value of the financial instrument in question. Such an *ex ante* assessment will also help to avoid overlaps and inconsistencies between funding instruments implemented by different actors at different levels.

### A range of new implementation options

Across Member States and regions, the operational environment for financial instruments, as well as the administrative capacity and technical expertise required for their successful implementation, vary significantly. Against this background, the new regulations offer different implementation options from which Member States and managing authorities may choose the most suitable solution. ESIF programme support can be provided to:

1 **Financial instruments set up at EU level** and managed by the Commission, in line with the Financial Regulation (direct or indirect management). This includes specific provisions for the implementation of dedicated financial instruments combining ESI Funds with other sources of EU Budget and EIB/EIF resources with a view to stimulate bank lending to SMEs.

   Under this option, OP contributions to the financial instruments will be ring fenced for investments in regions and actions covered by the OP from which resources were contributed.

2 **Financial instruments set up at national/regional, transnational or cross-border level** and managed by or under the responsibility of the managing authority. For these instruments, managing authorities have the possibility of contributing programme resources to:

   a. **already existing or newly created instruments**, tailored to specific conditions and needs; and

   b. **standardised instruments** (off-the-shelf), for which the terms and conditions are pre-defined and laid down in a Commission Implementing Act. These instruments should be ready-to-use for a swift roll-out.

3 **Financial instruments consisting solely of loans or guarantees** may be implemented directly by managing authorities themselves. In such cases, managing authorities will be reimbursed on the basis of the actual loans provided or guarantee amounts committed for new loans, and without the possibility to charge management costs or fees under the FI operation.

## More flexible co-financing modalities and additional financial incentives

Payments by the Commission to managing authorities will in future be strictly linked to implementation on the ground. There will also be a possibility to include in the payment declaration the expected national contribution which is to be paid to the financial instrument or at the level of final recipients within the eligibility period.

1 For contributions to an **EU-level financial instrument under Commission management** (option 1 above), a separate priority axis is to be envisaged in the OP. The co-financing rate for this priority axis or national programme will be 100%.

2 For contributions to **national, regional**; transnational or cross-border **financial instruments** (options 2 a. and b. above), The EU co-financing share will be increased by ten percentage points in cases where a priority axis is fully implemented through financial instruments.

## Clear financial management rules

Building on the recent guidance issued to the Member States through the Coordination Committee of the Funds (COCOF), the Regulations provide for continuity and certainty regarding the financial management of EU contributions to financial instruments. The new framework contains clear rules in terms of the qualification of financial streams at the different levels of financial instruments and corresponding eligibility or legacy requirements. The following provisions are included in the Common Provisions Regulation:

- EU contributions to financial instruments are to be placed in accounts in Member States, and to be temporarily invested in accordance with the principles of sound financial management;

- Interest or other gains generated at the level of the financial instrument prior to investment in final recipients are to be used for the same purposes as the initial EU contribution within the eligibility period;

- EU share of capital resources paid back from investments, gains, earnings, or yields generated by investments is to be used until the end of eligibility period for:
  - further investment in the same or other instruments, in line with the specific objectives set out under a priority;

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- preferential remuneration of investors operating under the market economy investor principle (MEIP) and providing co-investment at the level of financial instrument or final recipient; and/or
- management costs/fees.

» Capital resources and gains and other earnings or yields attributable to the EU contributions to financial instruments are to be used in line with the aims of the OP for a period of at least 8 years after the end of eligibility date.

### Streamlined reporting on implementation progress

Given the specific procedures and delivery structures for financial instruments, the availability of reporting data on the use of budgetary resources from the ESI Funds is of key importance to all cohesion policy stakeholders as they allow for conclusions to be drawn on the actual performance of supported instruments and adjustments that may be needed to safeguard their effectiveness. Therefore, the new framework requires managing authorities to send to the Commission a specific report on operations comprising financial instruments as an annex to the annual implementation report. Based on the reports submitted the Commission will provide summaries of data collected.

## What are the practical effects?

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The new Regulations provide greater flexibility for Member States and managing authorities when designing programmes, both to choose between delivering investments through grants and financial instruments, and to select the most suitable financial instrument. They also give more clarity and certainty in the legal and policy framework for financial instruments.

From a budgetary perspective, the strengthening of financial instruments, as catalysts of public and private resources, will help Member States and regions to achieve the strategic investment levels needed to implement the Europe 2020 Strategy.

Moreover, if financial instruments are applied more widely and are well-tailored to the specific needs of regions and their target recipients, access to finance can be significantly improved for the benefit of a wide range of socio-economic actors on the ground. FIs can, for example, serve enterprises investing in innovation, households wishing to improve the energy efficiency performance of their dwelling, individuals pursuing their business ideas, as well as public infrastructure or productive investment projects that meet the strategic objectives of cohesion policy and deliver the expected outputs of its programmes.

## For more information

**For more factsheets related to aspects of Cohesion Policy:**
**http://ec.europa.eu/regional_policy/what/future/publication/index_en.cfm**

**For more general information about Regional Policy:**
**http://ec.europa.eu/regional_policy/index_en.cfm**