



Shared management FIs under CPR

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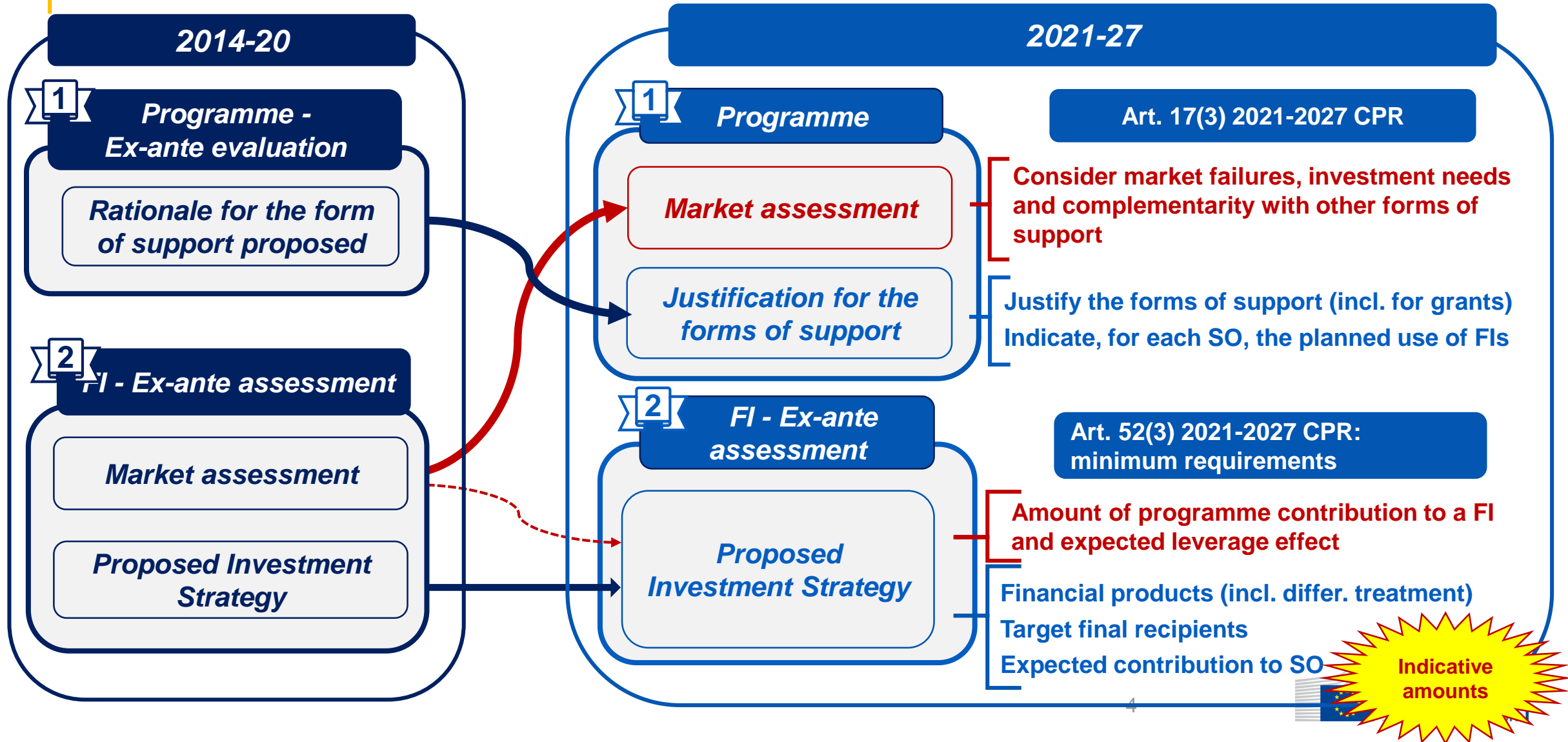
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Novelties in the CPR

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- **Financial instruments better integrated into the programming and implementation process from the outset**
- Streamlined ex-ante assessment
- Combination:
 - In **ONE FI operation**: the grant shall be directly linked and necessary for the investment supported by the FI and shall have a lower value than the investments supported by the financial product at FI level
 - E.g. interest rate/guarantee fees subsidies, technical support, **NEW!:** “**capital rebate**”
- Contribution from the Funds to InvestEU under ONE set of rules i.e. those of InvestEU
- Possibility of continuation of FIs from one period to the subsequent one, including 2014-2020 – procurement contracts to foresee this possibility
- Payments from EC to MA:
 - In case of FIs managed under the responsibility of the MA: NEW! First payment claim: advance of 25% [35% Council compromise] of amounts committed and paid to the FI; to be cleared no later than in the final accounting year and disclosed separately in the appendix to the payment application; Subsequent payment claims: eligible expenditure

Novelties in the CPR



Novelties in the CPR

2021-27

MA remains in charge of the choice of the methodology

No more Guidance from European Commission

Possible use of 2014-20 ex-ante assessment, updated where necessary

Programme

Market assessment

Justification for the forms of support

FI - Ex-ante assessment

Proposed Investment Strategy

Monitoring Committee will examine elements of the ex-ante assessment

Managerial tool to help MAs to:

- **decide on the implementation of the FI**
- **set up FI, incl. ToRs to select fin. inter.**

What information on FIs
should a Managing
Authority include in a
Programme?

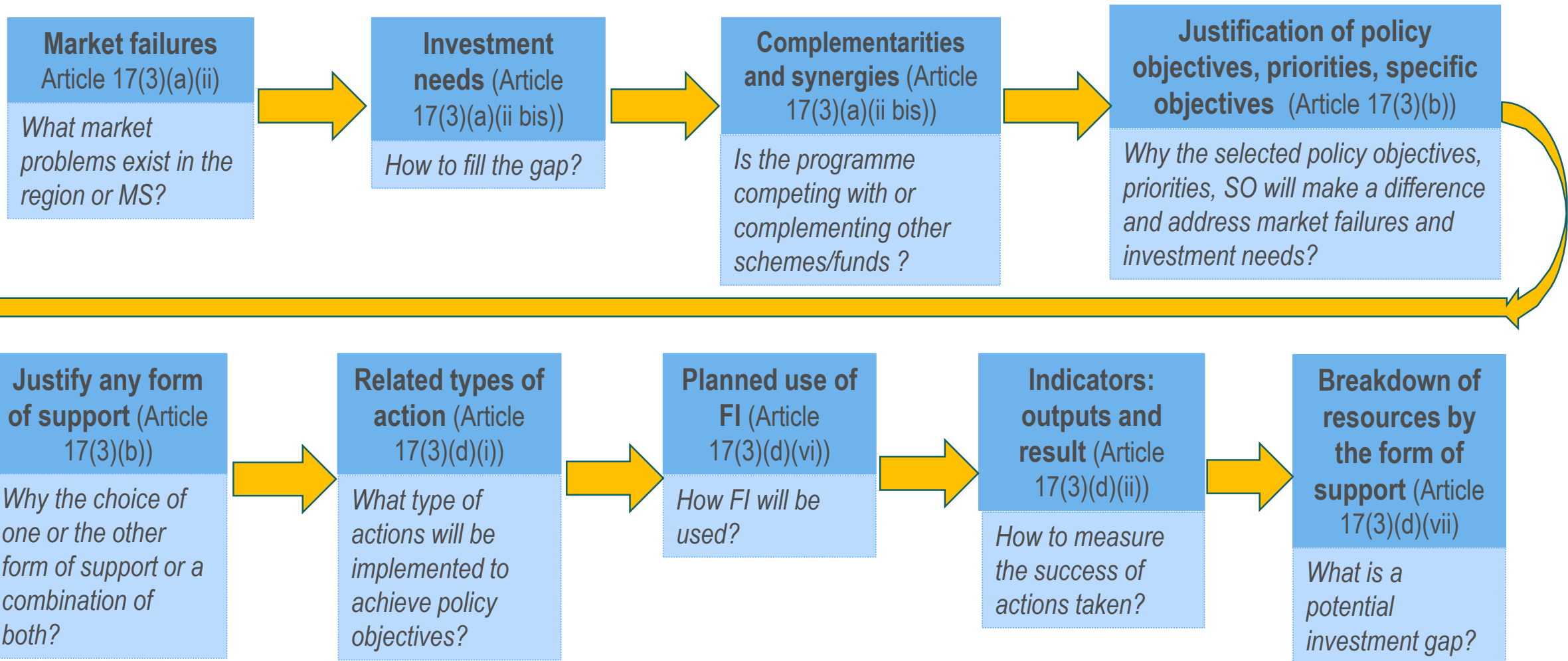
What should be in the Programmes?

The proposed CPR requires (under [Article 17\(3\)](#) and the [programme template Annex V](#)) that each programme shall set out, amongst others:

- (a) a summary of the main challenges, taking into account:
 - (ii) market failures,
 - (ii bis) investment needs and complementarity and synergies with other forms of support;
- (b) a justification for the selected policy objectives, corresponding priorities, specific objectives and the forms of support;
- (d) for each specific objective
 - (i) related types of actions
 - (ii) output and result indicators
 - (vi) the planned use of financial instruments;
 - (vii) breakdown of the programme resources by the form of support;

=> As much detail as possible in the programme to have a discussion with the MA!

Intervention rationale: to programme the resources most efficiently and effectively



Key considerations when building intervention rationale

• Market failures

Article
17(3)(a)(ii)

*Section 1 of
programme
template*

- Market assessment is a pillar of programming, and for FI basis for the proposed investment strategy
- Identify the market problems existing in a Member State or a region
- Non-functioning aspects of the market which result in an inefficient allocation of resources and entail the underproduction or overproduction of certain goods or services
- For example:
 - Limited availability of support to entrepreneurs
 - Limited export potential of enterprises
 - Insufficient supply of adequate financial products; limited willingness of banks' lending hence the need for alternative financial products
 - Limited innovation potential and limited development of higher value added in enterprises
 - Limited investment activity to achieve policy objectives, e.g. CO2 emissions

If the assessment of market failures has not been done yet or cannot be done in-house or sourced from the existing national/regional assessment/policy documents => it's the last moment to procure/outsource it!

Key considerations when building intervention rationale

• Investment needs

(Article 17(3)(a)(ii bis))

Section 1 of programme template

- Necessary investments to close the gap and to address the identified market failures
- For example:
 - Support to enterprises to become export ready
 - Investments in smart technologies
 - Investments to improve environmental sustainability, to reduce CO2 emissions
 - Investments in business development and entrepreneurship
 - Investments in energy efficiency and renewable energy

Key considerations when building intervention rationale

- **Complementarities and synergies with other forms of support**

(Article 17(3)(a)(ii bis))

*Section 1 of
programme template*

- Programme support has to be considered:
 - within the overall portfolio of other Funds, EU/national/regional schemes, FI and grants, InvestEU
 - taking into account legacy resources from the investments of the previous and the new programming periods to fill in (part of) the identified market gap

Key considerations when building intervention rationale

- **Justification of policy objectives, corresponding priorities, specific objectives**

(Article 17(3)(b))

Section 1 of programme template

- A justification for the choice of policy objectives and corresponding priorities/specific objectives having regard to the Partnership Agreement, based on an identified of regional/national market failures and investment needs

Key considerations when building intervention rationale

• Justify any form of support

(Article 17(3)(b))

Section 1 of the programme template

- **Any form of support** has to be justified => equally concerns grants and FI
- Complementarity between FI and grants is made as much as possible at the programme level => **based on the compulsory justification in the programme**
- Justification could be linked to:
 - the types of investments (e.g. revenue generating or cost saving)
 - the targeted recipients (e.g. very low income , disadvantaged population)
 - the objectives (e.g. development of the markets)
- More certainty to financial intermediaries that there will be no competition with grant schemes

Key considerations when building intervention rationale

• Related types of actions and their contributions to the specific objectives

(Article 17(3)(d)(i))

Section 2.A.2.1 of programme template

- Provide an overview of the types of interventions that the Member State/region plans to support
- Explain how types of actions planned contribute to specific objectives e.g. through targeting of specific target groups, focus on particular themes (e.g. energy efficiency) or issues (e.g. soft business support or support to access to finance) etc.
- Clear understanding of how the objectives will be pursued and the results attained in practice, with the types of actions planned
- Note that the choice of output indicators and categories of intervention must be consistent with this description
- For example,
 - mentoring for SME management teams and individuals (one-to-one and on-to-many events) with growth potential within the nationally/regionally important sectors
 - Support to SMEs through FI in the growth sectors; enterprises with growth potential and potential to internationalise

Key considerations when building intervention rationale

•Planned use of FI

(Article 17(3)(d)(vi))

Section 2.A.2.1 of the programme template

- Considerations of financial instrument(s) on the basis of market failures, investment needs, the related types of actions, complementarities with other forms of support etc.
- An appropriate balance to be achieved between providing neither too much nor too little information in order to avoid a subsequent programme modification. It is also important to avoid pre-empting the results of the ex-ante assessment(s) for the FI(s).
- For example, the programmes may indicate that:
 - There is a continuous need for support through FI the enterprises in growth sectors and those exporting. On the supply there is a need for further flexible public sector debt product that can adapt to individual circumstances and risk profiling, in the situation of subdued lending situations. Therefore, to continue with the existing ERDF supported FI and to increase their volume would be a preferred option.
 - To support risk capital investment in the early stage risk capital market for new and young innovative knowledge based companies, which the banks would not support as many of these businesses will be start-ups, ERDF support will be provided together with the increased number of active investors (for example a network of business angels) most active in the early stage investment market in the country X.

Key considerations when building intervention rationale

• Indicators: outputs and results

(Article
17(3)(d)(ii))

Section 2.A.2.2
of the
programme
template

- *Note: Based on CPR Art. 13, the methodological document should include:*
 - *Criteria applied by the MS to select the indicators*
 - *Data or evidence, data quality assurance and calculation method*
 - *Factors that may influence the achievements of the milestones and targets and how they were taken into account*
- Methodological document is clearly needed for the understanding of the intervention logic, the use of resources and the choice of indicators by type of intervention. Indicators should reflect the related actions.
- The methodological document should present also the evidence which supports the assumptions used for the calculation of the 2024 milestones (for output indicators) and the 2029 targets (for output and result indicators).
- For example, where actions aim at providing financial instruments, the use of the common result indicator “RCR02 Private investments matching public support” should also be considered nearly as compulsory (unless 100% publicly supported).

Key considerations when building intervention rationale

- **Breakdown of resources by the form of support**

(Article 17(3)(d)(vii))

Programme template – table 5 – form of financing

- Preliminary information on the **type of the FI** (loan, guarantee, equity) and of **the potential need for combination with grants** in one operation as well as the corresponding **indicative financial envelope**
- **Preliminary quantification of the market gap** – a rough estimation (*the size of the estimated gap will depend on the reasonable assumptions, therefore it is necessary to make transparent the assumptions on which the gap estimation is made to be taken into account during the ex-ante assessment*)

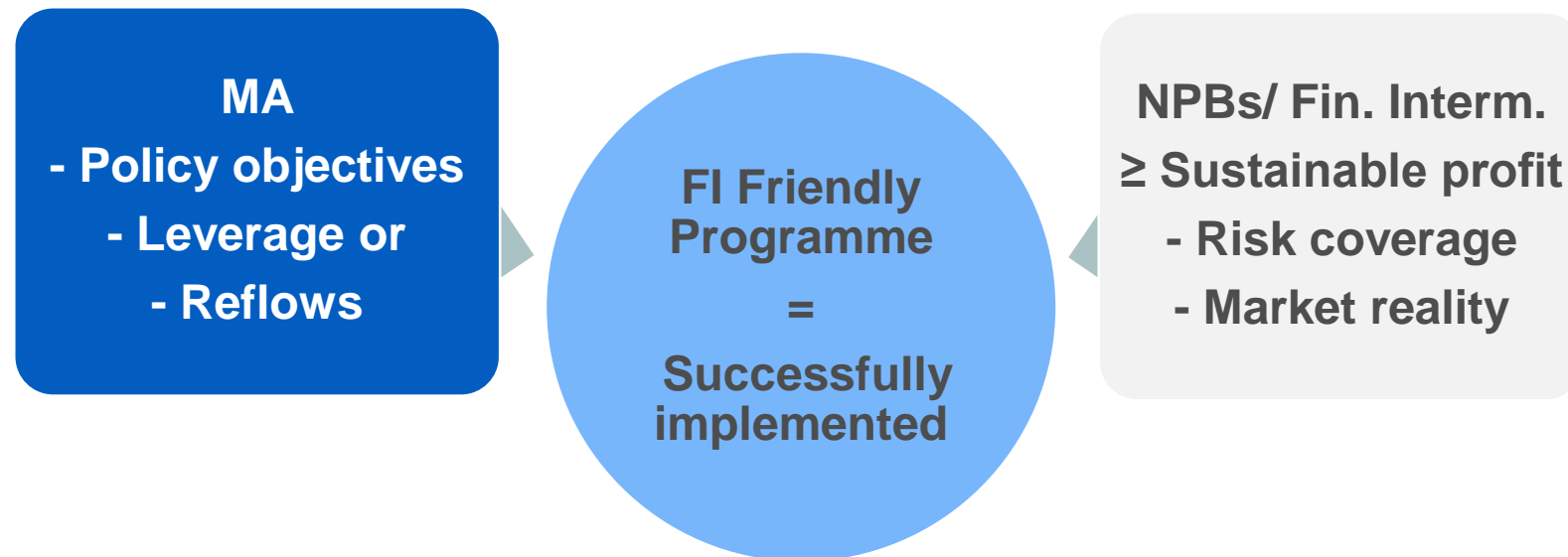
What happens if ex-ante assessment proves a lower/higher amount for FI?

- Reduction/increase of the programme contribution to an FI can be the result of changes in the market conditions and as the result of outcome of ex-ante assessment
- **Grants or other form of support does not become a default option** if programme contribution to FI is lower as compared to the initially planned
- The entire **intervention rationale has to be revisited and the programme adjusted accordingly** => market failures, investment needs, synergies with other forms of support, related actions, form of support , specific objectives, and respective quantified amounts; indicators may require revision
- The same logic applies to grants or other form of support if programme contribution to FI is higher as compared to the one planned in the programme

How could FIs be included in the programmes?

How could FIs be included in the programmes

- Objective: efficiently use public resources through FI to achieve programme objectives



How could FIs be included in the programmes

In the programmes:

- Identify the needs
- Justify the form of support

Financial Instruments:

- priorities supporting **revenue generating or costs saving projects** – Automatically FIs

Grants:

- Justification needed for sectors like general SME support or energy efficiency

FI

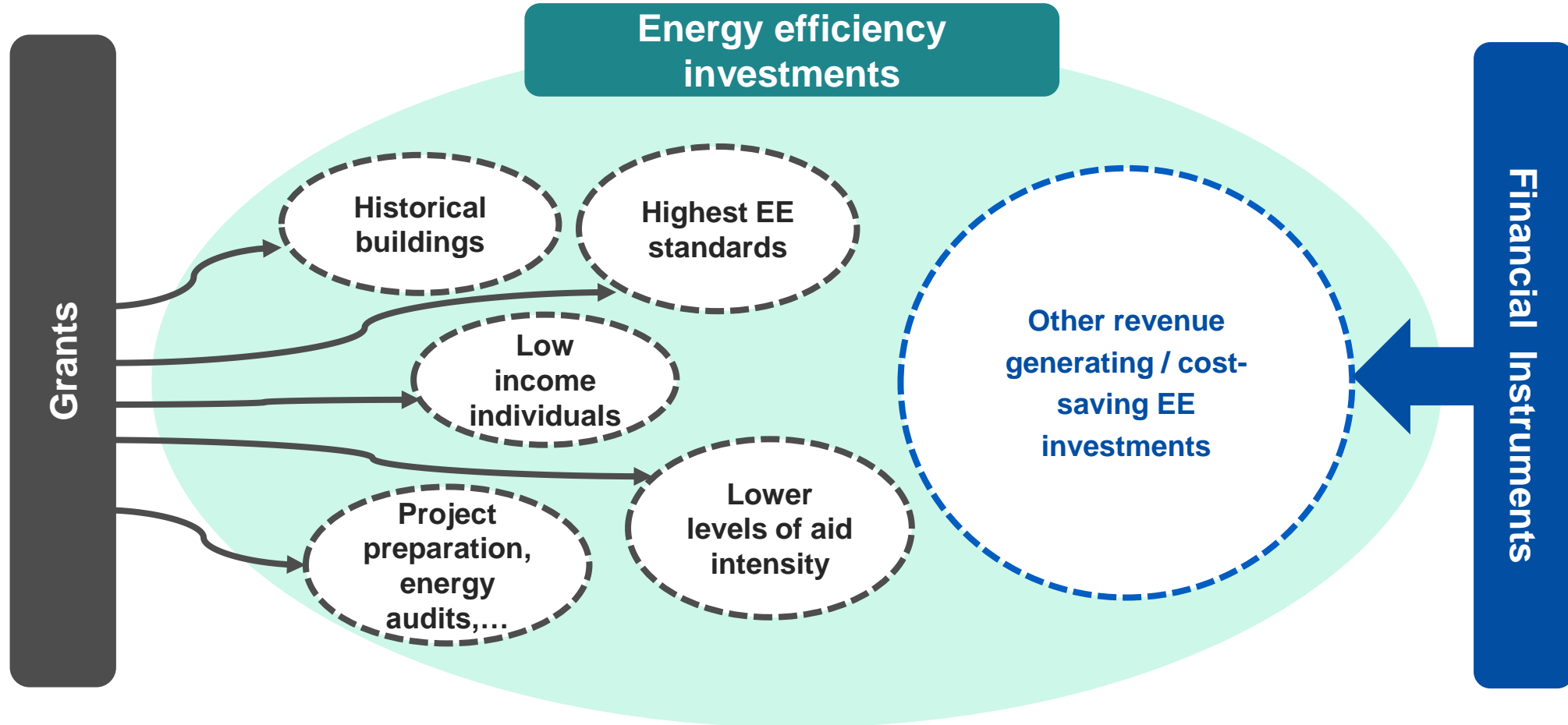
- Investment strategy in the **ex-ante**, not in the programmes

FI + grants:

- Justify the need for the **grant in the programmes**
- Grant intensity methodology in the ex-ante

- For other sectors: **'keep the door open'** for FIs if more analysis is needed

Example of choice of forms of support



Combinations: 2 possibilities

In 1 operation

Following FIs' rules: **one single set of eligibility rules reduces the risk of competition:**

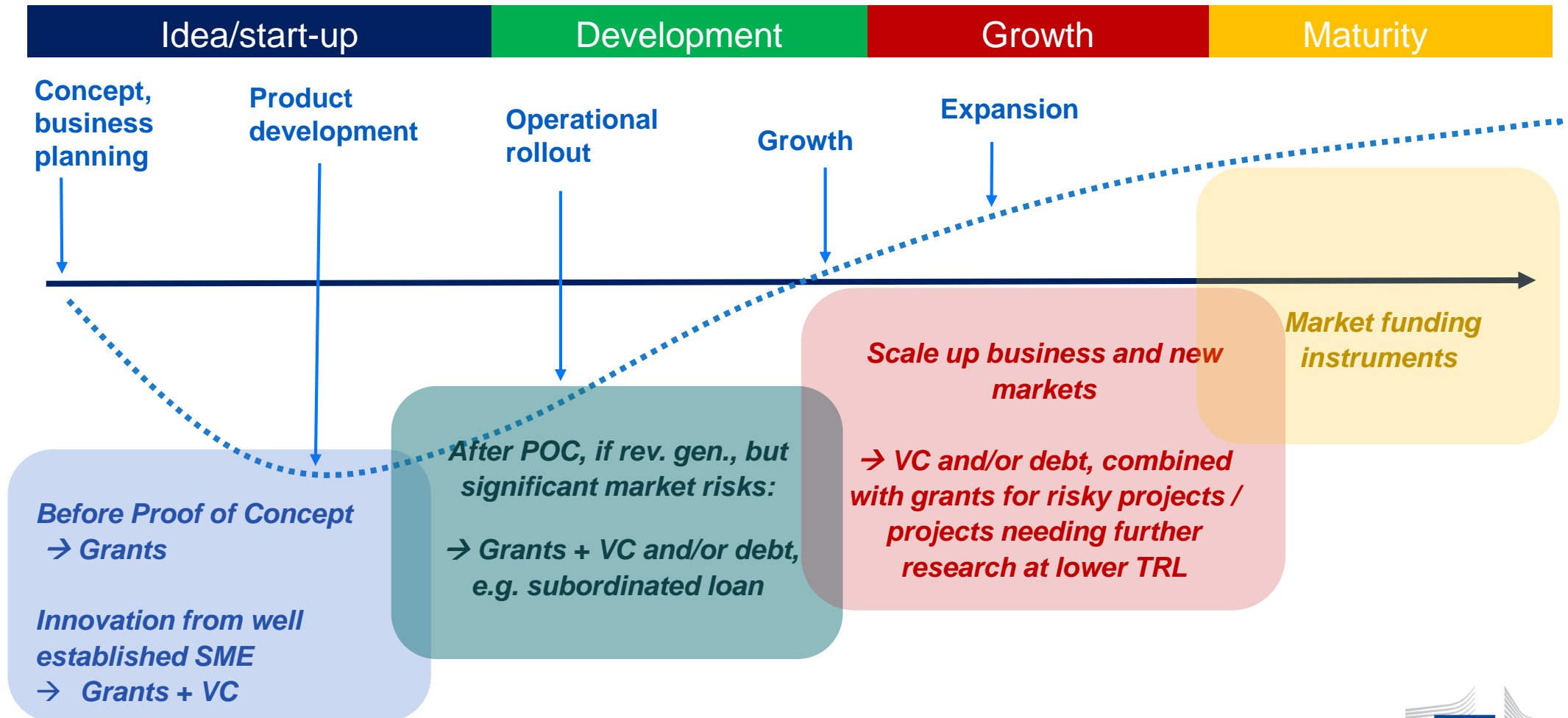
- The **programme could indicate in general terms why the grant is needed** (financing gap coverage, better project structuring / implementation,...)
- **No need to include in the programme the elements of the ex-ante assessment** (e.g. the grant intensity methodology)
- Articulation between grants and FI, incl. eligibility rules, will be **decided in the funding agreement**. Possible amendments during implementation.

In 2 operations

Grants and FIs are provided separately and follow their own rules:

- It is **important to have a clear line between those projects and the expenditure that is eligible for grants and that is eligible for FIs** (when possible at programme level)
- The programme may remain flexible ('support provided by grants and/or FIs') and the delimitation be defined in the ex-ante and investment strategy.
- At the level of the support provided to final recipients, grants' eligibility rules could be defined in a stricter way to favour a wider use of FI.

Example of combination



Some observations on draft programmes



- Draft programmes generally follow the structure described in article 17(3) CPR
- Market failures are generally identified and described
- Some draft programmes explicitly link the form of support to the revenue-generating character of the investment
- Some draft programmes keep the door open to all forms of support for more complex SO:
→ *E.g.: **Support for EE projects**: cost saving potential indicated; grants, FI as well as combinations are still envisaged until further analysis is performed.*



- ‘The use of FI will depend on the results of the ex-ante assessment’.
- The envisaged forms of support are not systematically mentioned or explicitly justified.
→ *E.g.: **Support for RDI projects**: no specific form of support is explicitly indicated in the draft, while FI or combinations of FI & grant could be used (e.g. to cover viability gaps or incentivize risk taking).*
- Indicative quantification of investment needs is sometimes missing.
- Some FI are already precisely described in draft programmes; keeping some flexibility until ex-ante outcomes is advisable to avoid later amendments.

Economies of scale and critical mass

- How to achieve policy objectives through FI while maintaining the incentives for the participation of financial intermediaries?

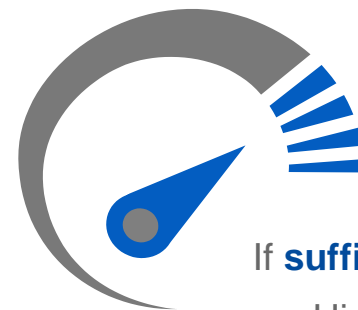
No “one-size-fits-all” approach...

- **A minimum size** of FIs ensures that management costs are proportionate. MA are encouraged to seek critical mass and economies of scale, but,
- FI **responsive to local and sectoral needs** should be considered and careful tailoring is required to specific circumstances.



Too **small allocations** to FIs:

- Too costly for the MA
- Not enough risk coverage or profits for Fin. Inter.



If **sufficient allocations** to FIs:

- Higher cost efficiency
- Wider investment opportunities

Economies of scale and critical mass

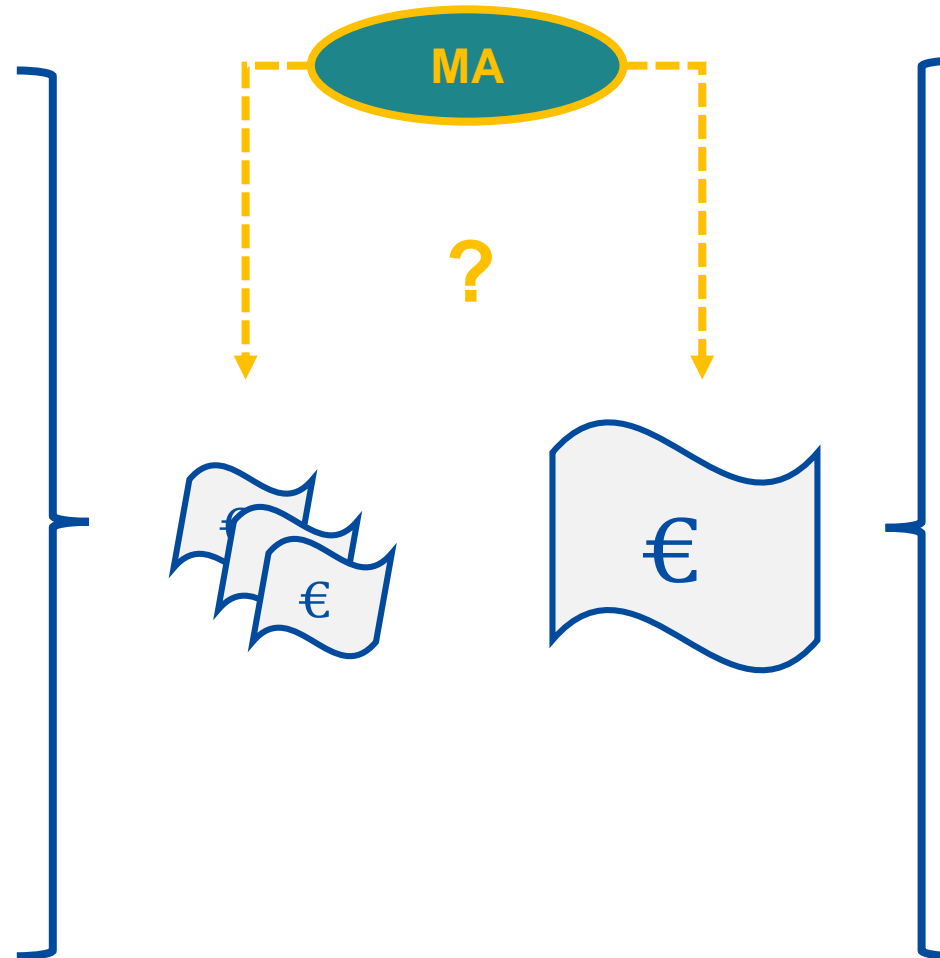
In case of **regionalisation**:

- **In line with the objectives** of the managing authority, regional programmes could **make contributions to one financial instrument**.
- **Standardised regional FIs in a specific sector** could enable an efficient and effective implementation by the same implementing body on a national scale.
- Regional specificities would however need to be factored in.



Smaller or larger FI: benefits

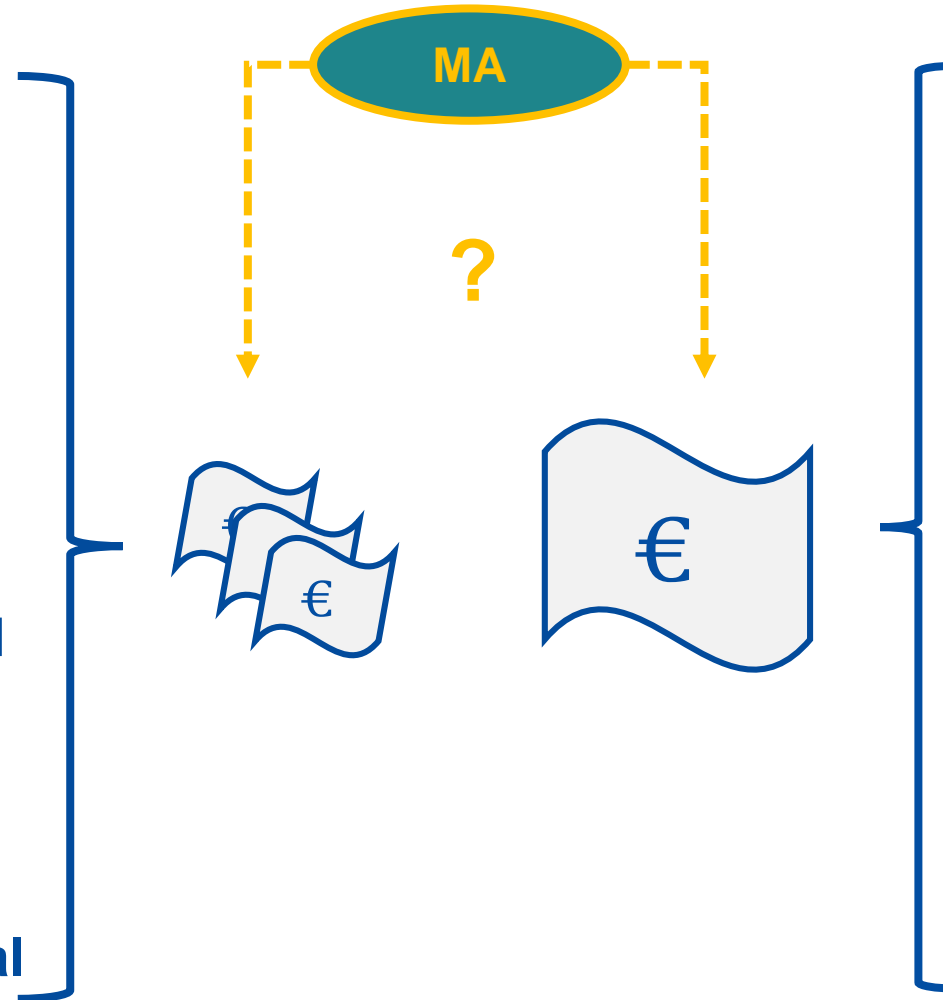
- Small FI can be a first step before scaling up
- Small pilot FI enable to test tailored support schemes
- Small FI can help demonstrate feasibility and impact
- Opportunity to learn and train stakeholders



- Higher efficiency when set-up costs / MCF are spread over larger portfolios
- Consolidation of priorities generates more investment options
- Attract Fint. with larger capacities
- Clarify product offer, streamline monitoring

Smaller or larger FI: conditions

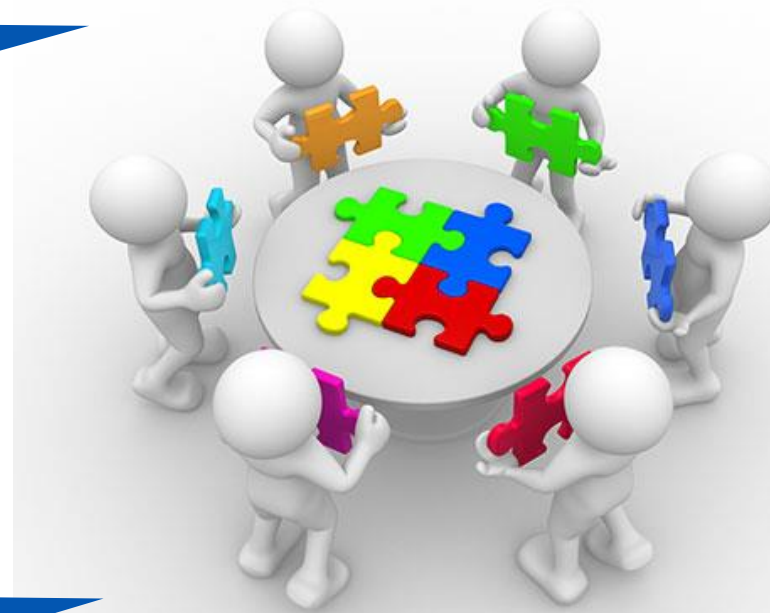
- Avoid excessive fragmentation
- Carry out a thorough market gap analysis
- Select skilled Fint. willing to take more correlated risks
- More suited for limited geographic scope, specific market failures, lower financing needs, FR extensive non-financial support



- FI may correspond to a single priority ; a FI with different windows for each policy objective can also be created
- Different priorities should not entail a wide variety of specific objectives, eligibility criteria or indicators
- Limited geographic restrictions (e.g. regions placed in specific priority/progr.)

Other considerations

Harmonised reporting



Complementarity with InvestEU

Appropriate indicators

Training of Fint.

Examples of supportive measures



- **Programmes containing several priority axes suitable for repayable support** with non-prescriptive provisions on the characteristics of FIs, allowing for further definition of the support scheme at a later stage.
- **FIs as default option for innovation, digitalisation and support for SMEs.** Grants only available for recipients that have difficulties to access FIs, for example university R&D projects and spin-offs.
- **Ex-ante assessment** for equity financial instruments for SME **conducted in parallel to the programming process** and informing the latter in 'real time'. The two processes were coordinated and the ex-ante assessment's objectives matched the rationale of the programmes.
- **Rules for grants that are significantly stricter** than what the EAFRD regulation would allow, for example limiting aid to small and medium-sized farms and exclusion of specific types of investments such as used vehicles or buildings in food processing. For the guarantee instrument, much wider eligibility rules were chosen, meaning larger farms can have access to the guarantee but not to the grant.

Examples of constraining measures



- **Minimum contribution of a fixed % of ESI Funds** earmarked from each programme to be invested into the national financial instrument.
- **Programme for environment in which the form of support is not prescribed.** FI and grants hence are competing on the ground, which delays FI delivery.
- **Support for EE split between several programmes**, depending on the beneficiaries of the support (different MA, eligibility and reporting criteria).
- Support to EE measures in multi-apartment buildings coming from **national and regional programmes, with differing eligibility and reporting criteria, without clear delimitation**, leading to fragmented and competing FIs, which are unattractive to Fint.
- **Restrictive scope of support in programmes** limiting EE measures in the residential sector to lower income households, which is difficult to support through FI, even with grant elements.

Thank you – Questions?