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Financial instruments and territorial cohesion: current debates and future perspectives

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REGIO B3 - Financial Instruments and IFI Relations

European Commission

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.

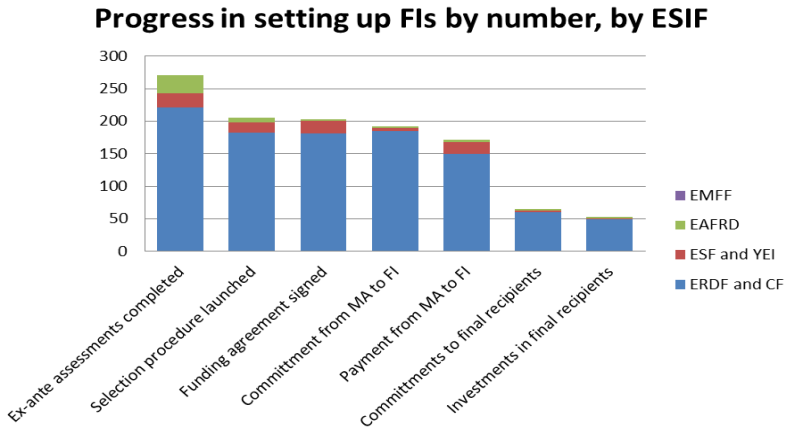
- The **Investment Plan for Europe** launched in 2014 and its achievements so far have paved the ground for an even **stronger focus on financial instruments across the Commission proposals for the period 2021-2027**.

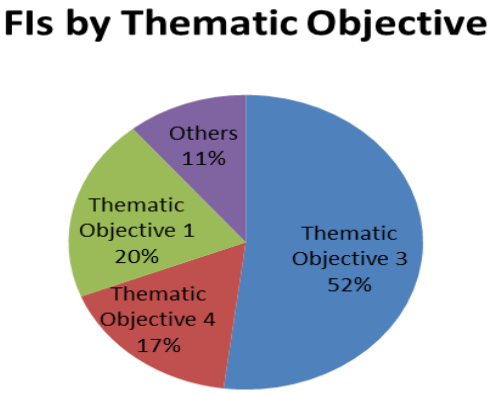
Implementation of Financial Engineering Instruments in 2007-2013

- 2007-2013 period saw a **significantly stronger use of FEIs**. Based on reported data by managing authorities at 31/03/2017:
  - FEIs implemented in **25 MS** + 1 CBC programme.
  - **192 OPs** reporting information on FEI (out of which 20 for ESF).
  - **1,058 FEI** – 77 Holding Funds, 981 specific funds.
  - EUR **16.4 bn paid to FEI**, including EUR 11.3 bn SF.
  - EUR **15.2 bn paid to final recipients (FRs)**.
  - Nearly **EUR 1 bn in MCF**.

Progress made in implementation of Financial Instruments in 2014-2020 (1/2)

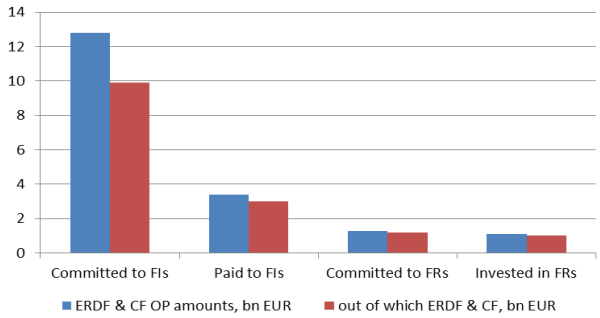
- **Reporting on all ESIF** in the context of FIs in 2014-2020.
- **Second annual summary of data on FIs** produced in December 2017 with **data as at 31 December 2016:**
  - **103 ERDF & CF OPs** reporting information on FIs.
  - **24 MS with 243 FIs in the process of set-up or already operational.**

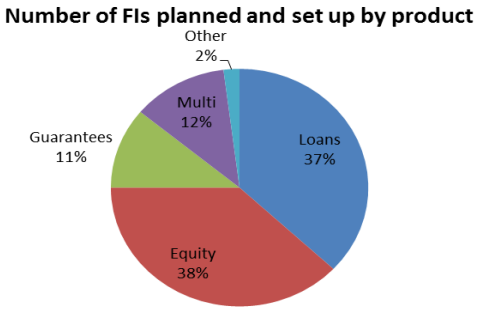




Progress made in implementation of Financial Instruments in 2014-2020 (2/2)

- **EUR 12.8 bn of OP contributions committed to FIs in 24 MS, incl. EUR 9.9 bn ERDF & CF**.
- Payments to FIs amounting to EUR 3.4 bn and payments to FRs of EUR 1.1 bn, confirming a **growing number of operational FIs.**
- Large number of ex ante assessments completed (+250) suggest that **more FIs are being set up.**





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**

Financial Instruments post-2020 (2/3) - Financial instruments 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**

Financial Instruments 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 level of 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!

Financial instruments as a Cohesion Policy delivery mechanism

- 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.

Thank you for your attention