European Parliament
2014-2019

TEXTS ADOPTED

P8_TA(2017)0222

The right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy

European Parliament resolution of 18 May 2017 on the right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy (2016/2302(INI))

The European Parliament,

– having regard to the Treaty on the Functioning of the European Union and in particular Title XVIII thereof,

– having regard to Article 349 of the Treaty on the Functioning of the European Union,

– having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006[1] (CPR), and the delegated and implementing acts linked to the relevant articles of this Regulation,

– having regard to Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006[2],

– having regard to Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006[3],

– having regard to Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation

[1] OJ L 347, 20.12.2013, p. 320.
[2] OJ L 347, 20.12.2013, p. 289.
[3] OJ L 347, 20.12.2013, p. 470.

(EC) No 1084/2006[1],

– having regard to Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments[2],

– having regard to its resolution of 13 September 2016 on European Territorial Cooperation – best practices and innovative measures[3],

– having regard to its resolution of 28 October 2015 on cohesion policy and the review of the Europe 2020 strategy[4],

– having regard to its resolution of 9 September 2015 on ‘Investment for jobs and growth: promoting economic, social and territorial cohesion in the Union’[5],

– having regard to the opinion of its Committee on Regional Development contained in the report of its Committee on Budgetary Control entitled ‘European Investment Bank (EIB) – Annual Report 2014’ (A8-0050/2016),

– having regard to the Commission communication of 14 December 2015 entitled ‘Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds’ (COM(2015)0639),

– having regard to the Commission communication of 26 November 2014 entitled ‘An Investment Plan for Europe’ (COM(2014)0903),

– having regard to the Commission communication of 22 January 2014 entitled ‘Guidelines on State aid to promote risk finance investments’[6],

– having regard to the Commission’s Sixth Report on economic, social and territorial cohesion of 23 July 2014 entitled ‘Investment for jobs and growth.’ (COM(2014)0473),

– having regard to the Commission’s synthesis report of August 2016 entitled ‘Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF)’,

– having regard to the Commission’s report of 30 October 2014 entitled ‘Financial instruments supported by the general budget according to Article 140(8) of the Financial Regulation as at 31 December 2013’ (COM(2014)0686),

– having regard to the Commission’s Guidance of 26 November 2015 for Member States

[1] OJ L 347, 20.12.2013, p. 281.
[2] OJ L 169, 1.7.2015, p. 1.
[3] Texts adopted, P8_TA(2016)0321.
[4] Texts adopted, P8_TA(2015)0384.
[5] Texts adopted, P8_TA(2015)0308.
[6] OJ C 19, 22.1.2014, p. 4.

on Article 42(1)(d) CPR – Eligible management costs and fees,

– having regard to the Commission's Guidance of 10 August 2015 for Member States on Article 37(7) (8) (9) CPR – Combination of support from a financial instrument with other forms of support,

– having regard to the Commission's Guidance of 27 March 2015 for Member States on Article 37(2) CPR – Ex-ante assessment,

– having regard to the Commission's reference guide for Managing Authorities of 2 July 2014, entitled 'Financial instruments in ESIF programmes 2014-2020',

– having regard to the Commission's summary report of November 2016 entitled 'Financial instruments under the European Structural and Investment Funds. Summaries of the data on the progress made in financing and implementing the financial instruments for the programming period 2014-2020 in accordance with Article 46 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council',

– having regard to the Commission's summary report of December 2015 entitled 'Summary of data on the progress made in financing and implementing financial engineering instruments for the programming period 2014-2020 in accordance with Article 46 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council',

– having regard to the Commission's summary report of September 2014 entitled 'Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006',

– having regard to the Commission Staff Working Document of 13 November 2015 entitled 'Activities relating to financial instruments' (accompanying the document: Report from the Commission to the European Parliament and the Council on financial instruments supported by the general budget according to Article 140(8) of the Financial Regulation as at 31 December 2014) (SWD(2015)0206),

– having regard to the European Court of Auditors' Special Report No 19/2016, entitled 'Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period',

– having regard to the European Court of Auditors' Special Report No 5/2015, entitled 'Are financial instruments a successful and promising tool in the rural development area?',

– having regard to the European Court of Auditors' Special Report No 16/2014, entitled 'The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies',

– having regard to the European Court of Auditors' Special Report No 2/2012 entitled 'Financial instruments for SMEs co-financed by the European Regional Development Fund',

– having regard to the opinion of the Committee of the Regions of 14 October 2015 entitled ‘Financial instruments in support of territorial development’,

– having regard to the European Investment Bank’s final report of March 2013, entitled ‘Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period’,

– having regard to the study entitled ‘Financial instruments in the 2014-2020 programming period: first experiences of Member States’, commissioned by Parliament’s Directorate-General for Internal Policies, Policy Department B: Structural and Cohesion Policies, October 2016,

– having regard to the study entitled ‘Review of the Role of the EIB Group in European Cohesion Policy’, commissioned by Parliament’s Directorate-General for Internal Policies, Policy Department B: Structural and Cohesion Policies, March 2016,

– having regard to the briefing entitled ‘Challenges for EU cohesion policy: Issues in the forthcoming post-2020 reform’, European Parliamentary Research Service, May 2016,

– having regard to the fact sheet entitled ‘Cohesion Policy implementation in the EU28’, European Parliamentary Research Service, September 2015,

– having regard to Rule 52 of its Rules of Procedure,

– having regard to the report of the Committee on Regional Development and the opinions of the Committee on Budgets and the Committee on Agriculture and Rural Development (A8-0139/2017),

A. whereas the review/revision of the Multiannual Financial Framework (MFF) and the fact that the 2014-2020 programming period is approaching mid-term have given rise to the discussion on the mix of grants and financial instruments to be invested through the EU budget during the post-2020 period;

B. whereas the Omnibus Proposal (COM(2016)0605) represents the only opportunity for a range of mid-term improvements to the system that governs the current programming period;

C. whereas the term ‘financial instruments’ covers a variety of instruments, and the assessment and decisions on their use require constant detailed analysis on a case-by-case basis, linked to an assessment of the specific needs of local and regional economies or of a particular target group;

2007-2013 period – reliable investment through grants and financial instruments

1. Recognises that, although the financial instruments were designed before the financial and economic crisis and were not the most suitable for an economic context of crisis, the Commission’s reporting exercise provides strong evidence that European Structural and Investment (ESI) Funds investment through grants and financial instruments resulted in solid impact and visible results by investments in EU regions, which amounted to EUR 347,6 billion, excluding national co-financing and additionally leveraged resources;

2. Welcomes the existing European Investment Bank (EIB) Cohesion Policy operations

visible in annual reports and sector reports, revealing the impact on SMEs and mid-caps, infrastructure, research and innovation, the environment, energy and agriculture; concludes that EIB lending in support of Cohesion Policy for the period 2007-2013 is estimated at EUR 147 billion, which represents roughly 38 % of all lending in the EU;

2014-2020 period – a new page in investment through the ESI Funds

3. Welcomes the fact that in 2014-2020 the EU is expected to invest EUR 454 billion through ESI Funds, and with national co-financing for the investment in the form of grants and financial instruments the sum is expected to rise to EUR 637 billion;

4. Acknowledges that both the volume and the quality of financial instruments (in the form of microcredit, loans, guarantees, equity and venture capital) under Cohesion Policy's shared management increased; highlights the two main reasons for this trend – the 2007-2013 period provided valuable experience and lessons regarding ESI Funds implementation through grants and financial instruments, while the 2014-2020 MFF reflects the post-crisis need for more financial instruments owing to fiscal limitations;

5. Notes that, according to estimations, allocations in FIs from the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF) would almost double between 2007-2013, when they amounted to EUR 11,7 billion, and 2014-2020, when they would amount to EUR 20,9 billion; notes that the FIs would therefore represent 6 % of the overall cohesion policy allocation in 2014-2020 of EUR 351,8 billion, compared with 3,4 % of the EUR 347 billion allocated in 2007-2013;

6. Notes that the allocations from the CF amount to approximately EUR 75 billion, representing 11,8 % of the total FI's allocations in the 2014-2020 period; welcomes the allocation increase from EUR 70 billion in the 2007-2013 period to EUR 75 billion in the 2014-2020 period; highlights the fact that allocation to the CF should not be diminished, taking into consideration that approximately 34 % of the EU's population live in regions that receive aid from the CF;

7. Takes note of the total volume of EUR 5 571,63 million of operational programme contributions committed to FIs by 21 Member States by 31 December 2015 in the current MFF, EUR 5 005,25 million of which are from the ERDF and the CF;

8. Welcomes the fact that crucial regulatory changes in programming, implementation and management of financial instruments, such as direct links to all 11 thematic objectives, appropriate compulsory ex-ante assessment that enables market failures to be identified, the creation of tailor-made and simplified off-the-shelf financial instruments and reporting mechanisms, can have a critical positive impact on the attractiveness and speed of the implementation of Cohesion Policy, by addressing legal uncertainties that arose during the 2007-2013 period; calls, however, for efforts to be made to ensure that the changes in question do not affect the attractiveness and implementation speed of financial instruments;

Grants and financial instruments – intervention logic defines the mix

9. Emphasises that although they are supporting the same Cohesion Policy objectives, ESI Funds' grants and financial instruments, which are not an end in themselves, under

shared management have different intervention logic and application addressing territorial development needs, sectoral needs or market needs;

10. Recognises that, depending on the type of the project, grants have various strengths as compared to financial instruments: supporting projects that do not necessarily generate revenue, providing funding to projects that for various reasons cannot attract private or public funding, targeting specific beneficiaries, issues and regional priorities, and lower complexity of use owing to existing experience and capacity; acknowledges that in some cases grants are bound to limitations: difficulties in achieving project quality and sustainability, risk of substituting public funding in the long-run and a crowding-out effect for potential private investment even when projects may have a revolving nature and a capacity to generate revenues to repay loan-based financing;

11. Recognises that financial instruments offer advantages, such as leverage and revolving effects, the attraction of private capital and coverage of specific investment gaps through high-quality bankable projects, thereby maximising the efficiency and effectiveness of the implementation of regional policy; acknowledges that financial instruments come with certain disadvantages, which could cause them to come into conflict with more attractive national or regional instruments, such as: slower implementation in some regions, higher complexity, lower than expected leverage of ESI Fund-supported financial instruments as well as, in some cases, higher implementation costs and management fees; notes that grants represent preferable investments in some policy areas such as certain types of public infrastructure, social services, research and innovation policy or, in general, projects that do not generate revenue;

12. Highlights that intervention logic is not a dividing line but a meeting point for establishing a level playing field of grants and financial instruments so that Cohesion Policy can ensure better coverage of beneficiaries and investment gaps through a variety of measures; points out that intervention logic is a bottom-up approach in ESI Funds programming and that all Member States and regions should continue to take into consideration the most appropriate option when freely setting the share of financial instruments or grants as delivery tools to contribute to the selected priorities in their respective operational programmes, bearing in mind that local and regional authorities are involved and have a crucial role to play; recalls that management authorities are the ones that must voluntarily decide about the type of financial instrument most appropriate for implementation;

Financial instruments' performance – challenges

13. Recognises the importance of using financial instruments in Cohesion Policy operations; welcomes the fact that reporting on the implementation of financial instruments in 2015 has revealed progress, despite the late start of the current programming period; notes, however, that progress on the implementation of ESI Funds financial instruments is highly divergent not just between one Member State and another but also within individual Member States; recalls that the positive experience and impact of using financial instruments in the 2007-2013 programming period was accompanied by a number of performance issues: late start of operations, inaccurate market assessment, diverging regional uptake, overall low disbursement rates, low leverage effect, problematic revolving, high management costs and fees and inadequately large endowments; recalls that by 2015, after the Commission extended

specific implementation deadlines for the financial instruments, a number of the observed shortcomings were mitigated through targeted measures;

14. Notes that implementation delays to ESI Funds may affect disbursement rates, revolving and leverage, the latter of which should be based on a definition and on methodologies used by international organisations such as the OECD, with a clear distinction being made between public and private contributions and an indication provided of the precise degree of leverage possible under each of the financial instruments, broken down by country and region; recalls the fact that delays in the 2007-2013 period contributed irreversibly to sub-optimal performance of ERDF and ESF financial instruments; emphasises that implementation delays, which can be attributed to the late start of the programming period, may harm the performance of ESI Funds financial instruments, which could lead to inaccurate evaluation conclusions at the end of the period; calls, therefore, for all the necessary steps to be taken by the Member States to mitigate the negative effects of delayed implementation, especially regarding the risk of limited use and impact of financial instruments;

15. Is seriously concerned about the strong possibility of a repetition of the accumulated backlog of unpaid invoices in the second half of the current MFF, as this could seriously impact other EU-funded policies;

16. Notes the significant differences across the EU regarding the penetration of financial instruments, including ESI Funds and the European Fund for Strategic Investments (EFSI), the initial results of these funds and the expected leverage of additional resources, as well as other EU-funded financial instruments in the Union's top-performing economies, which are serving to undermine the objectives of Cohesion Policy; emphasises that the overall success of such instruments depends on how easy they are to use and the ability of the Member States to manage investments through them, for which precise and differentiated indicators, which would enable their real impact on cohesion policy to be assessed, are required;

Simplification, synergies and technical assistance – solutions

17. Welcomes the Commission's actions in optimising regulation and reducing red tape; emphasises that despite the improvements, complexity still exists and issues such as the long set-up time and administrative burden for recipients are disincentives to use financial instruments; calls on the Commission to work closely with the EIB, the EIF and managing authorities to combine much more easily ESI Funds microcredit, loans, guarantees, equity and venture capital, while ensuring the same level of transparency, democratic scrutiny, reporting and control;

18. Notes that specific provisions limit flexibility in operations with financial instruments; points out that state aid rules appear to be particularly burdensome, especially when combining grants with financial instruments; calls on the Commission to ensure an adequate state aid framework and to explore further options to simplify state aid compliance on all three levels – managing authorities, the fund of funds and financial intermediaries; calls for a level playing field in state aid rules concerning all financial instruments in order to avoid preferential treatment of certain sources of funding over others, especially in the field of SME support;

19. Highlights the importance of financial instrument performance auditing, including

auditing of the EIB Group's operations on Cohesion Policy; notes that auditing activities include access to the entire ESI Funds cycle; calls on the Commission and national authorities to identify opportunities for simplification and synergies through the auditing process; calls on the Commission, therefore, to focus on a comparative analysis of grants and financial instruments as well as on further capacity-building, audit methodology and guidelines for audit processes, which should not increase the financial and administrative burden on beneficiaries;

20. Points out that combining grants and financial instruments has unexplored potential; emphasises that alongside guidance to authorities, further simplification and harmonisation is needed for the rules that concern combining different ESI Funds, as well as for the rules that concern combining the ESI Funds with instruments such as Horizon 2020 and EFSI; calls for better regulation in the form of clear, consistent and focused rules as regards easing the regulatory burden by facilitating the above-mentioned combining of allocations from more than one programme to the same financial instrument, as well as enabling combinations of microfinance instruments in ESF operations and further simplifying public procurement in the selection of financial intermediaries and for public-private partnerships; calls for better coherence between different strategies; stresses that combining ESI Funds grants and financial instruments with other funding sources can make the funding structure more attractive to beneficiaries and public and private sector investors due to improved risk sharing and project performance, and thus help the instruments to provide long-term growth potential;

21. Notes that take-up of financial instruments can be improved through investment partnerships, and that public-private partnerships improve synergies between funding sources and maintain the necessary balance between private and public interests; stresses that the use of financial instruments in the context of the community-led local development (CLLD) and integrated territorial investment (ITI) initiatives should also be encouraged;

22. Welcomes the existing technical assistance practices provided by the Commission and by the EIB Group through the fi-compass platform; regrets that the on-the-ground support services to authorities and especially to recipients of financial instruments, including EFSI, are limited, while many local and regional authorities have encountered technical difficulties and a lack of capacity and know-how to utilise financial instruments effectively; calls for technical assistance, which should be directed primarily at local or regional stakeholders, as well as at all partners involved, but which should not be used to finance the activities of national authorities; calls, in addition, for a joint technical assistance plan by the Commission and the EIB comprising financial and non-financial advisory activities, especially for major projects, as well as capacity-building, training, support and the exchange of knowledge and experience; further calls for a combination of expertise (including legal advice) on the cohesion policy regulations, financial products, state aid and public procurement, targeted at national authorities, fund managers and beneficiaries, while highlighting the importance of avoiding the duplication of structures;

23. Calls on the Commission to raise the profile of ESI Funds' investments and to make it clearer that EU funding is involved; further calls for adequate and comprehensive information and communication on EU funding opportunities, which would encourage the use of such opportunities for the public and private sector and would target potential

beneficiaries and young people in particular;

Towards the right funding mix for the post-2020 period and the future of Cohesion Policy

24. Recognises that challenges such as migration and security or ongoing and future political developments in the EU should not negatively affect the investments through Cohesion Policy or its goals and expected results, especially after the current programming period;

25. Recognises that both grants and financial instruments have their specific roles in Cohesion Policy but that they share the same focus pursued by the 11 thematic objectives, on the way to achieving the five headline targets of the Europe 2020 strategy towards smart, sustainable and inclusive growth; emphasises the need to ensure that financial instruments do not replace grants as the principal tool of cohesion policy, while also stressing the need to maintain the renewable nature of the funds to be made available for reinvestment on the basis of the sectors and actions they can support;

26. Highlights that financial instruments perform better in well-developed regions and metropolitan areas, where financial markets are better developed, whereas outermost regions and regions with high harmonised unemployment rates and low population density encounter difficulties in attracting investment, while grants, for their part, address regional structural issues and regional balanced financing; notes that the success of financial instruments depends on a number of factors and no general conclusions can be drawn on the basis of one criterion; notes that binding targets for the use of financial instruments in post-2020 cohesion policy cannot be considered a viable option; notes that increasing the share of financial instruments should not influence the non-refundable financial contributions as this would hinder the balance; emphasises that in a number of public policies grants have to dominate, while financial instruments can play complementary roles in full compliance with appropriate ex-ante assessment and market analysis; calls for the further promotion of financial instruments in Interreg programmes with a view to making them more consistent with the objectives of European Territorial Cooperation;

27. Recalls that existing experience in delivery of ESI Funds indicates that the funding mix of grants and financial instruments addresses country-specific realities as well as the gaps in social, economic and territorial cohesion; emphasises that the funding mix cannot result in a one-size-fits-all solution owing to a number of factors: geographic region, policy area, beneficiary type and size, administrative capacity, market conditions, the existence of competing instruments, business environment and fiscal and economic stance;

o

o o

28. Instructs its President to forward this resolution to the Council, the Commission and the national parliaments of the Member States.