European Parliament

Financial instruments and grants for EU regions

Financial instruments are increasingly used in EU regional funding, in addition to more traditional grants. Such instruments can be considered a resource-efficient way of using public funding in times of budgetary constraint. However, it is crucial to reach the right synergies and explore which combination best meets cohesion policy goals. The right mix of funding is an important issue for debate in the context of the EU's forthcoming post-2020 cohesion policy.

Background

The forms of EU cohesion funding have evolved over the years to include both grant-based assistance and financial instruments. The latter provide support in the form of microcredits, loans, guarantees, equity and venture capital. Compared with the previous period, the allocation amounts for financial instruments in the 2014-2020 period are expected to double to over €20 billion (representing 6 % of cohesion spending). Financial instruments can also be applied to all thematic objectives and all European Structural and Investment Funds (ESI Funds), and be combined with grants. According to the 2016 European Commission progress report on this issue, 21 Member States have already begun implementation. Evidence from the previous period shows positive contributions, but also challenges, such as the administrative burden for recipients, high management costs and fees, long set-up time, limited leverage and complex rules. The fi-compass platform run jointly by the European Commission and the European Investment Bank offers technical assistance tools.

Financial instruments versus grants

Financial instruments are believed to increase the efficiency and long-term sustainability of public funds due to their revolving nature. The requirement to repay can also stimulate better quality projects. Financial instruments can help increase access to finance for projects that are more high risk or encounter difficulties in obtaining private market funding. However, in some situations grants can be more effective. Grants are easier to set up for local and regional authorities, and may be more suitable for addressing structural issues or targeting specific beneficiaries in under-developed regions, in situations where financial returns are not realistic or limited, and in some policy areas (such as those covered by the European Social Fund). On the other hand, they may limit project quality and sustainability, foster a culture of grant-dependency or crowd out potential private investment. The effectiveness and impact of both tools requires further research and evaluation. Various combinations offer flexibility for managing authorities to choose the best tools to address specific needs, in line with the cohesion policy objective of reducing disparities between regions. The review of the multiannual financial framework and the approaching post-2020 cohesion policy provide a valuable opportunity for reflection on how to apply both tools in a balanced way to achieve optimum synergies.

European Parliament position

The own-initiative report on 'The right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy', adopted by the Committee on Regional Development is scheduled for plenary debate in May. The report points out that, although both tools support the same cohesion policy objectives, they 'have different intervention logic and application addressing territorial development needs, sectoral needs or market needs'. Therefore, the right mix cannot be a one-size-fits-all solution, and must take into account factors such as 'geographic region, policy area, beneficiary type and size, administrative capacity, market conditions, the existence of competing instruments, business environment and fiscal and economic stance'. The report also calls for improvements to the usability of financial instruments and to ease the regulatory burden to facilitate combining them with grants. The report highlights the importance of audits, synergies with other EU support, and proper technical assistance for authorities.

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