Thinking ahead for Europe

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Public Hearing – "Financial instruments: defining the rationale to trigger their use"

19 June 2017 – European Parliament

ISSUES RAISED

- What is the role of a financial instrument?
  - From theory to practical realities
- Simplified overview of how it functions
  - EU supported equity and debt instruments
- Rationale for setting up FIs
  - Observations and issues detected
- Key recommendations on future steps
  - FIs and EFSI, different faces of same objectives
  - Moving to new areas, managing new risks
  - The adaptation of tools based on market realities

Financial instruments role

- EU budget offer finances for guarantees, loans and equity
- What is the purpose?
  - To finance bankable projects (or can be 'made' bankable) which are targeting EU objectives and where demand for credit is not met, because:
    - Less credit supply than demand for bankable and 'good' projects
    - Projects not financed due to timescale and Basel III rules
    - Risk (perception) high
    - The lack of monetisation of public goods from projects makes those projects not attractive enough

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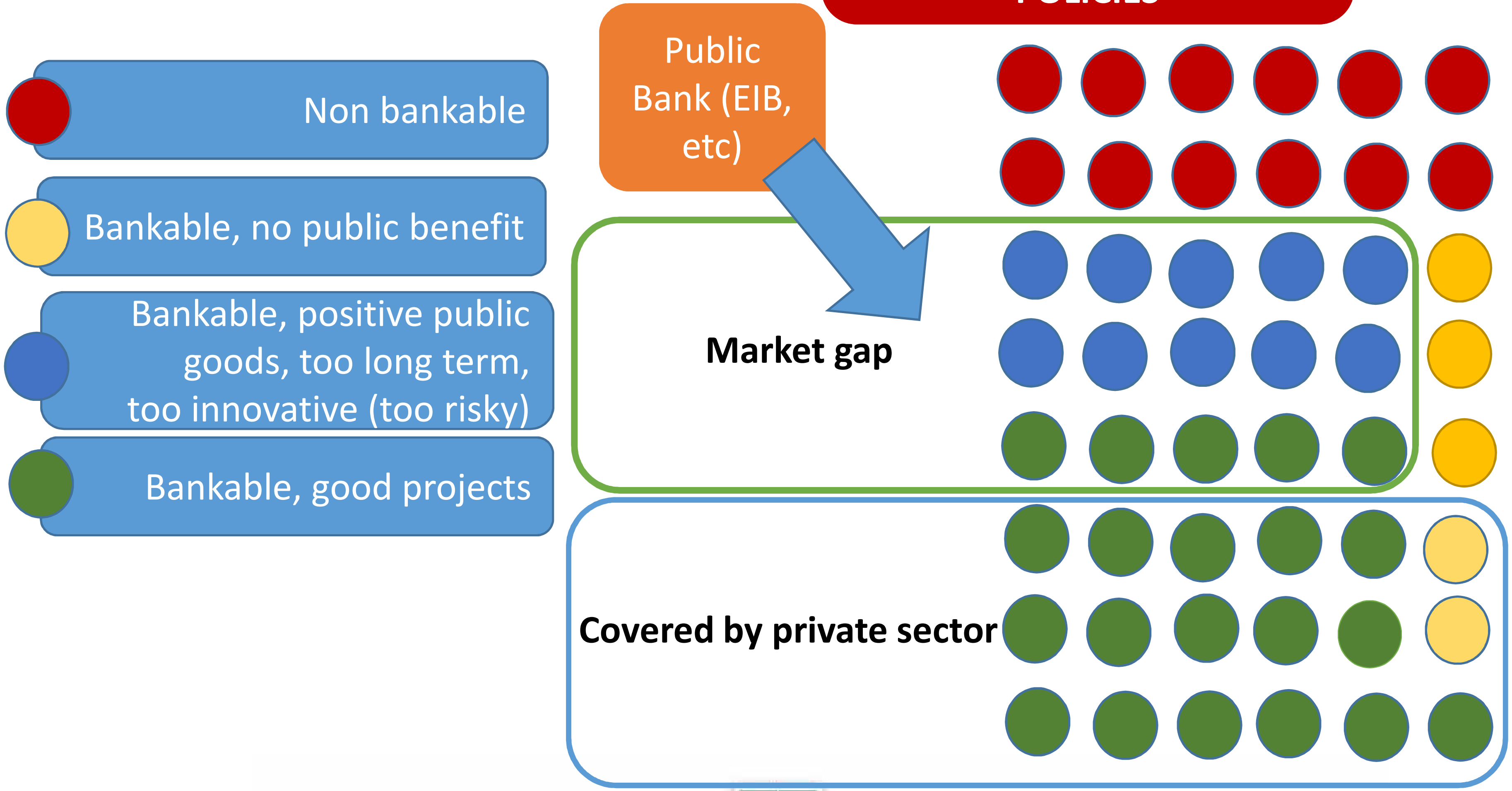
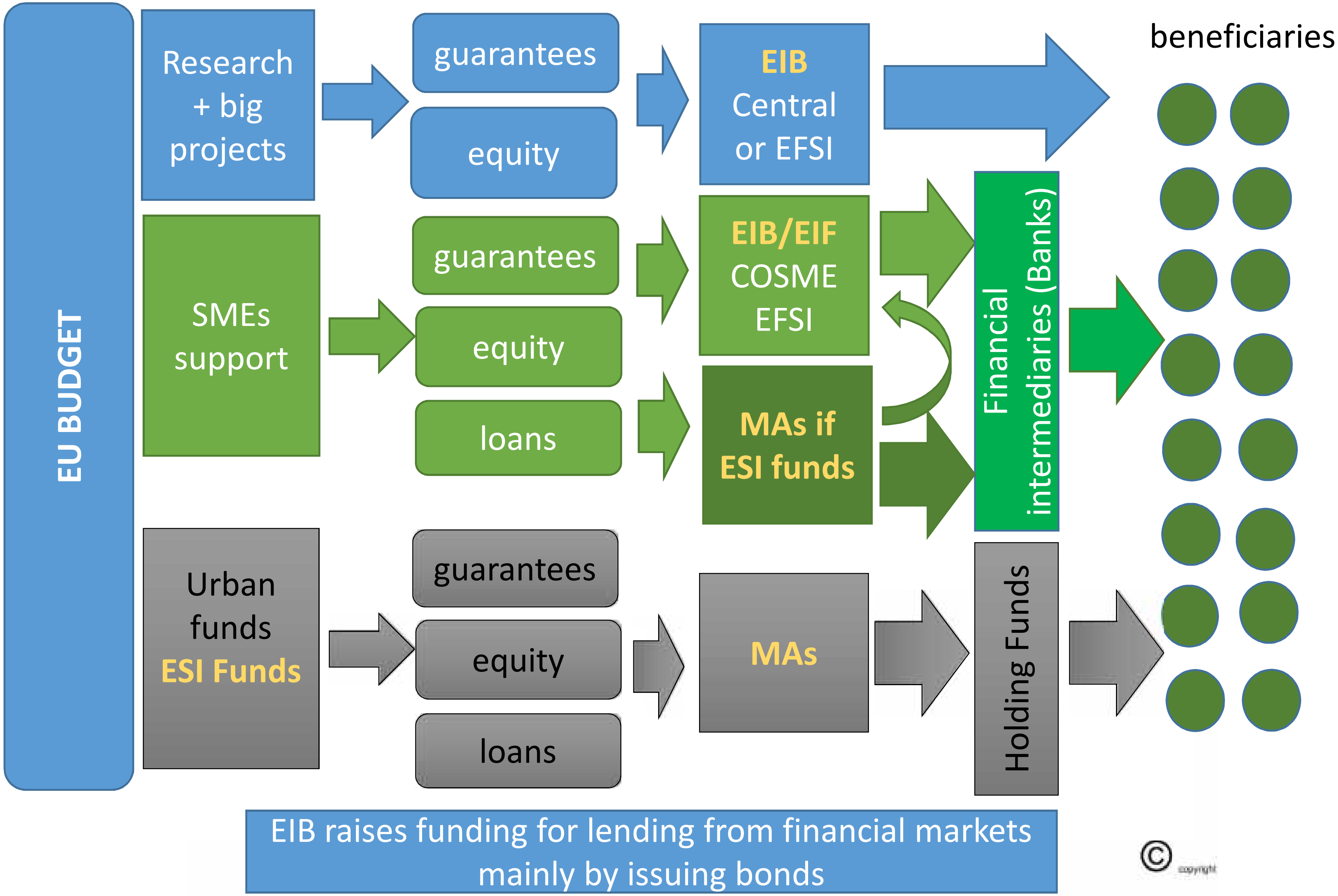
When to use FIs?

ATTENTION:
CORRECT FOR MARKET FAILURES/ NOT BAD POLICIES



Simplified view how they operate?



SETTING UP FIs

- With MFF 2014-2020:
  - **FIs extended to all thematic objectives**,
  - Managing Authorities can set their own + option of centrally planned FIs
- Compulsory ***ex-ante assessment***, but if transferred to centrally planned tools then not needed.

If so, what is the point of 50% of the assessment contents?

- We reviewed 40 of 111 ex ante assessment until 2015.
  1) Assessments not easy to find
  2) Rarely available in full, often executive summaries
  3) When complete, very long (>250pp) and some miss parts
  4) Impact on actual instrument choice unclear (are documents only justifying the chosen FIs)
- + interviews of experts

EX ANTE ASSESSMENTS (40/136):

- Market failures, suboptimal investment situations, and investment needs (too theoretical and expansive)
- Assessment of Added Value (variable quality)
- Leverage
- Lessons learned in past (evaluators are experts in hindsight)
- Investment strategy (often too weak, lack of finance knowledge)
- Expected results (often weak, more operational than economic)
- State aid implications (missing in several)
- Provisions for review (some have, but vague)

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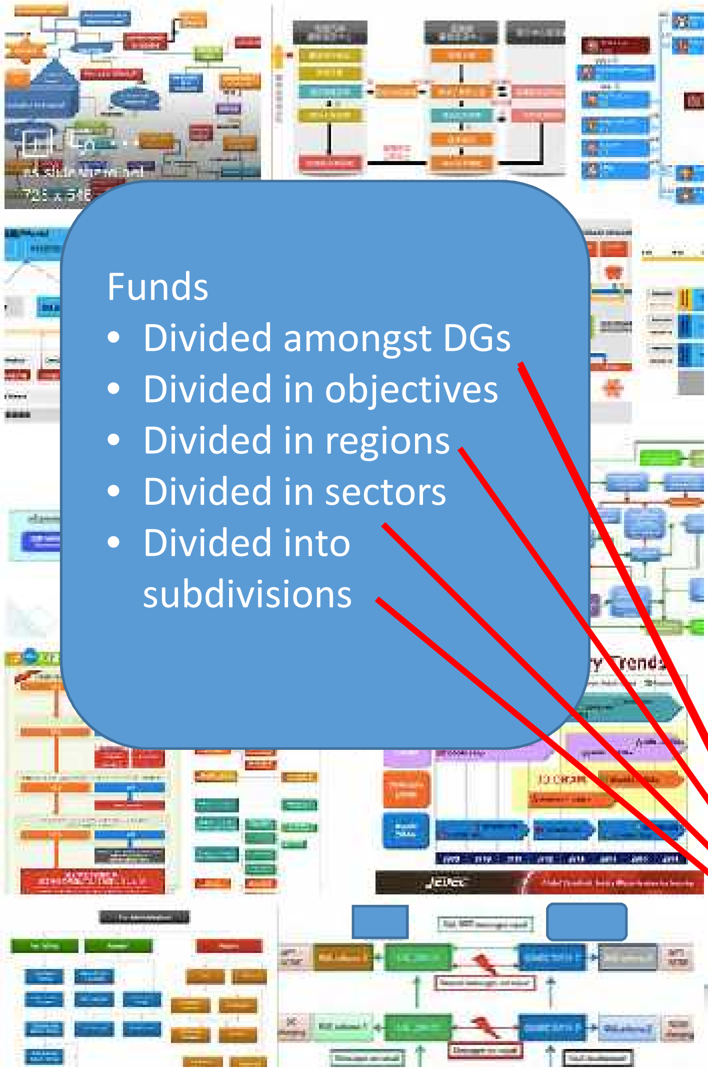
Conclusions on Ex ante assessments

- Assessment requirements for MAs excessive, if compared to central management ones.
- Assessments tend to analyse excessively the unimportant, crucial is “MARKET GAP”, “investment strategy” and FINAL “expected results” (not number of loans given, but impact on economy!)
- Often assessments miss parts, such as state aid rules application, which is important if set up without centrally planned available tools.

Conclusions on shared vs Centrally planned



Funds
- Divided amongst DGs
- Divided in objectives
- Divided in regions
- Divided in sectors
- Divided into subdivisions

SHARED	CENTRAL	
INFRASTRUC-TURES	INFRASTRUCTURES (CEF, etc.)	EFSI INFRASTRUCTURES
SME support	Innovfin SME support	
	COSME SME SUPPORT (also for innovation)	
Innovation	EFSI SME SUPPORT (also for innovation)	

UNNECESSARY DIVISION, overlap AND DUPLICATION

Conclusions on Financial instruments

- Financial instruments are better if placed on a higher capital endowment ‘central budget’, local operation. Regional FIs lack the portfolio risk spread of EU ones.
- Do not have competing and duplicated instruments.
- Focus on instrument strategy and set up, how it works rather than the justification.
- Focus on final objective, monitor it.
- Publish all assessments in full in fi-compass

Cont.

- Leverage and risk are not main tasks of such instruments. **It is the promotion of projects with high EU value added (EU objectives)**
- To go to more risky areas as often desired:
  - The instruments need to be part of big portfolio. *Local FIs in areas with economic problems are at high risk to fail*.
  - The higher the risk, the lower the leverage and the higher the guarantee needs -> the right balance needs to be struck. Instruments need to evolve by area of focus.