



# IMPLEMENTING EU FINANCIAL INSTRUMENTS IN A NATIONAL CONTEXT

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Hearing on  
“Financial Instruments, Grants and  
Other Means of Financing”  
European Parliament  
Brussels, June 19th 2017

## Financial Instruments in ESI Funds

- **Introduction: FIs as an alternative to grants**
- **FI co-financed by ERDF in Spain in 2007-2013 and 2014-2020**
- **Advantages, difficulties and specificities of FIs in 2014-2020**
- **Novelties included in the “OMNIBUS” proposal affecting Fis**
- **Recommendations from the point of view of a Management Authority.**

# Grants vs. Financial Instruments

## Operational Programme

**Intermediate Body /  
Body managing an aid scheme**

**Grant**

**Beneficiaries**

- Grant is paid by IB to beneficiary after justifying eligible expenses
  - ✓ Advanced payments are allowed (3 years to justify)
- IB verifies expenses and sends an application for reimbursement to MA
- Certifying Authority certifies expenses to the EC
- EC reimburses EU contribution to the MS
- Grant can be combined with a loan (e.g. at an interest rate below market conditions):
  - Equivalent subsidy is certified as a public expenditure

# Grants vs. Financial Instruments

## Operational Programme

### Management Authority / Intermediate Body

### Financial Instrument (Implementing body)

### Financial intermediaries

### Final recipients

### Final recipients

Financial products

Financial products

- Implementing body establishes the FI by a Financial Agreement (FA) with the MA
  - ✓ Ex-ante assessment
- Amounts paid to the FI are included in applications for reimbursement sent to the MA.
- CA certify these amounts to the EC
- EC reimburses EU contribution to the MS.
- Implementing body (and financial intermediaries) must justify the use of FI resources in the eligibility period.
  - ✓ Resources transferred (or committed for guarantees) to final recipients.
  - ✓ Minimum leverage fixed in FA
  - ✓ Management cost and fees
- Obligation to re-use the FI resources inside and beyond the eligibility period



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# Grants vs. Financial Instruments



Traditionally, Operational Programmes have cofinanced actions in the form of a **non-reimbursable grant**.

In 2007-2013 programming period, the use of **FIs** is included in SF regulations in order to make easier the **support of reimbursable aids** by SF.

- Loans, guarantees, risk-capital, equity loans
- Initiatives promoted by BEI/FEI: JEREMIE (SME) and JESSICA (Urban development and energy efficiency)

In 2014-2020 programming period, the use of **FIs is extended to all the ESI Funds priorities**. A detailed regulation is introduced

- Pre-defined FI
- FI implemented directly by the MA
- **FI created at EU level** managed directly or indirectly by the EC
  - \* SME Initiative implemented by BEI



## SPAIN SF 2007-2013: TYPE OF FINANCING OTHER THAN “NON-REIMBURSABLE ASSISTANCE”

			Programmed			Certified		
Fund	Objetivo	Subobjetivo	Total EU Contribution (A)	EU Contribution other than "type 1" (B)	% B / A	Total EU Contribution (A)	EU Contribution other than "type 1" (B)	% B / A
Cohesión	Cohesión	Cohesión	3.543.213.008	0	0,0%	3.730.017.740	0	0,0%
			3.543.213.008	0	0,0%	3.730.017.740	0	0,0%
ERDF	Convergencia	C Pura	16.156.688.157	2.180.750.313	13,5%	17.406.799.615	2.275.483.380	13,1%
		Phasing out	1.232.492.664	290.018.149	23,5%	1.499.062.767	417.628.732	27,9%
		Phasing In	3.736.440.401	357.092.544	9,6%	4.325.503.795	473.929.754	11,0%
	Competitividad	Competitividad	1.921.260.525	421.288.628	21,9%	2.049.253.633	487.078.364	23,8%
			23.046.881.747	3.249.149.634	14,1%	25.280.619.810	3.654.120.229	14,5%
			26.590.094.755	3.249.149.634	12,2%	29.010.637.550	3.654.120.229	12,6%

## SPAIN ERDF 2007-2013: CO-FINANCED FINANCIAL INSTRUMENTS

FI for SME ("JEREMIE" type)			[Amounts in M€]		Total Amount		ERDF contribution	
Implementing Body	TYPE	OP	Paid to FI	Used Resources	Paid to FI	Used		
AGENCIA IDEA	Préstamos, Garantías, Capital Riesgo y Préstamos participativos	ANDALUCIA	237,5	117,1	190,0	93,6		
AGENCIA IDEA	Préstamos	ANDALUCIA	1,0	0,3	0,8	0,2		
SODECAM	Préstamos	CANARIAS	20,4	5,8	17,4	4,9		
SODECAM	Microcréditos, Préstamos Participativos y Coinversión	CANARIAS	21,0	4,8	17,9	4,1		
II.FF PARA EMPRESAS INNOVADORAS	Microcréditos, Garantías, Capital Riesgo y Préstamos participativos	CATALUÑA	51,2	55,2	25,6	25,6		
FEI	Préstamos	EXTREMADURA	18,9	25,2	15,1	15,1		
ICO	Garantías	FONDO TECNOLÓGICO	70,7	54,8	54,0	41,9		
ICO	Préstamos	FONDO TECNOLÓGICO	314,3	176,3	251,0	140,8		
CDTI	Préstamos	FONDO TECNOLÓGICO	154,4	143,3	113,7	105,5		
IGAPE	Préstamos	GALICIA	26,7	22,4	21,3	17,9		
DGIPYME / ENISA	Préstamos participativos	7 PP.OO Regionales (AS, MU, GA, EX, CM, AN, CN)	6,0	5,5	4,8	4,4		
AVAL CASTILLA LA MANCHA	Préstamos, Participaciones en Capital y Préstamos participativos	CASTILLA LA MANCHA	11,3	7,6	9,1	6,1		

<b>TOTAL "JEREMIE"</b>	<b>933,5</b>	<b>618,4</b>	<b>720,7</b>	<b>460,2</b>
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## SPAIN ERDF 2007-2013: CO-FINANCED FINANCIAL INSTRUMENTS

Urban & Energy efficiency (JESSICA) [Amounts in M€]			Total Amount		ERDF Contribution	
Implementing Body	TYPE	OP	Paid to FI	Used resources	Paid to FI	Used
BEI	Prestamos, Participaciones en Capital y Préstamos participativos	ANDALUCIA	89,1	79,5	71,3	63,6
IDAE / BEI	Préstamos	10 PP.OO Regionales (AN, EX, GL, CM, MU, CE, ML, CL, CV e IC)	130,5	86,4	104,4	69,1

<b>TOTAL JESSICA</b>	<b>219,5</b>	<b>165,9</b>	<b>175,6</b>	<b>132,7</b>
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<b>TOTAL FI</b>	<b>1.153,1</b>	<b>784,3</b>	<b>896,3</b>	<b>592,9</b>
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## SPAIN ERDF 2014-2020: CO-FINANCED FINANCIAL INSTRUMENTS

Operational Programme		TOTAL
19 Regional OP	ERDF	9.148,9
OP Crecimiento Inteligente	ERDF	3.939,2
OP Crecimiento Sostenible	ERDF	5.520,8
OP Iniciativa PYME	ERDF	800,0
TOTAL	ERDF	19.408,9

FI under art. 39 of CPR (Reg. 1303/2013)

- ✓ Uncapped guarantees for new portfolios of debt finance to SMEs
- ✓ FI set up at Union level
- ✓ Implemented by EIB
- ✓ Through financial intermediaries

# SPAIN ERDF 2014-2020: CO-FINANCED FINANCIAL INSTRUMENTS

OP	Current status
Iniciativa PYME	En funcionamiento Garantías PYMES por 800 M€
Andalucía	Finalizada evaluación ex ante. Cinco posibles II.FF: Capital riesgo con 5 M€ Capital riesgo con FEI con 24 M€ Préstamos a proyectos I+D con 96 M€ Garantías con 11,5 M€
Canarias	Finalizada evaluación ex ante
Castilla La Mancha	Finalizada la evaluación ex ante Préstamos y Capital
Cataluña	Finalizada evaluación ex ante Préstamos a PYME con 184 M€
Comunidad Valenciana	Finalizada evaluación ex ante Préstamos (participativos y subordinados) con 30 M€
Galicia	Finalizada evaluación ex ante Préstamos y Garantías
Crecimiento Sostenible	Evaluación ex ante realizándose por BEI. Evaluación ex ante a nivel nacional pero con conclusiones extrapolables a las peculiaridades de cada región
Navarra	Finalizada evaluación ex ante Capital para empresas de base tecnológica por 4 M€
Madrid	Finalizada evaluación ex ante Garantías a empresas que desarrollen proyectos de I+D+i
Murcia	Finalizada evaluación ex ante. Cuatro posibles II.FF: *Coinversión etapas tempranas con 3 M€ *Capital riesgo en fases de crecimiento con 4 M€ *Contragarantías a empresas con 7 M€ *Préstamos a empresas con 10 M€
Castilla y León	Finalizada evaluación ex ante Garantías para proyectos I+D y para competitividad

## ERDF CO-FINANCED FI: ADVANTAGES (I)

- Leverage effect due to their revolving nature. Resources can (and must) be reinvested
- The most suitable way to co-finance types of assistance needing significant resources with a small amount of “equivalent aid” for beneficiaries:
  - ✓ Venture capital
  - ✓ Equity loans
  - ✓ Guarantees
- Mechanism to co-finance loans, alternative to certifying “equivalent aid” or subsidize interest rate.
  - ✓ ERDF financing for loan instruments close to market conditions (low level of equivalent aid).
- A quick way of certifying to ERDF. Assure execution to avoid decommitment by application of N+3 Rule.
- Management cost and fees are considered “used resources” (up to ceilings established by regulation)
- Possibility to mobilize private resources and take advantage from the private sector experience

## ERDF CO-FINANCED FI: ADVANTAGES (II)

- 2014-2020 ERDF regulations include incentives to the establishment of FI
  - ✓ Co-financing rate up to 100% for FI established at EU level, such as SME Initiative
  - ✓ Increase of 10% in co-financing rate for priority axes totally implemented via FI
  - ✓ Requests for interim payment to EC up to 25% of total amount including national co-financing expected to be paid to the FI
- Possibility of using experience of EIB, by designation of this entity as “implementing body”
- 2014-2020 ERDF regulations foresee several types of pre-defined instruments (“off-the-shelf FI”)
- Priorities of Thematic Concentration in ESI Funds ( R&D and Innovation, SME competitiveness, Low Carbon Economy) are specially fit to use FI
  - ✓ Large amount of investment needs in projects with reimbursement capability

- Complex development. It takes time
  - ✓ Need of a sound ex-ante analysis
  - ✓ Complex financial agreements with implementing bodies (EIB among others)
  - ✓ Lack of experience in ERDF managers
  
- Too complicate regulation (overregulation, kaffian provisions, ...)
  - ✓ Title IV (Art. 37-46) of Common Provisions Regulation of ESI Funds
    - Reg (UE) n° 1303/2013 of the EP and the Council
  - ✓ 1 Delegated Regulations
  - ✓ 4 Implementing Regulations
  - ✓ >14 Guidelines ( with “para-normative” contents)
  
- Rigidity and [not justified] regulatory restrictions
  - ✓ Certification by tranches of 25%
  - ✓ Difficulties to combine assistance from FI and grants

- Legal uncertainty (Delphi oracle)
  - ✓ E. g. Verifications of loans for working capital, re-use of resources, re-use of interests, ...
- Requirements go much further of normally accepted practices for well managed FI
  - ✓ Reporting
  - ✓ Ex-ante verifications: Trend to apply the same requirements as grants.

However, FI have many specificities

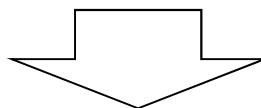
- When verifications takes place (e. g. venture capital)
- Scope and criteria (e.g. working capital)
- Acceptable degrees of deviation
- Ability of financial intermediaries to carry out monitoring
- Consequences of verification for the participating entities

Even Audit Authorities themselves have difficulties in pronouncing on those matters

- Difficulties for private sector
  - ✓ Financing intermediaries
  - ✓ Attraction of private funding

### ➤ Control requirements

- Every “subsequent financial support” provided by a FI has a similar treatment to a ESI co-financed operation. This implies strong justification requirements
- Very detailed definition of errors and corrections, but not clear application in some cases



- Discourages use of financial instruments managed by Member States
- Encourages use of financial instruments with centralized management or managed by EIB/ EIF
- Regulations seems to be thought to implement “traditional” programmes (e. g. supporting R+D and innovation) under a form of FI



## FI LEGAL BASIS FOR 2014-2020 PERIOD (I)

Type of document	Identification / Title	Content
Regulation (EU)	1303 (CPR)	Art. 37 to 46
Regulation (EU)	966/2020 Financial Regulation	Art. 2 and 140
Delegated Regulation (EU)	480/2014	Art. 4 a 14, about art. 37.13, 38.4, 40.4, 41.3, 42.1 y 42.6 RDC.
Implementing Regulation (EU)	821/2014	Art. 1 y 2, about art 38.10 and 46.3 RDC Annex I . Model for reporting on FIs.
Implementing Regulation (EU)	964/2014	About standards terms and conditions for FI
Implementing Regulation (EU)	660/2014	Model for financial agreement of FI under SME Initiative
Implementing Regulation (EU)	1157/2016	Modifying 964/2014 respect to a co-investment mechanism and an Urban Development Fund
Commission Notice	(2016/C 276/01). Guidance for member states on the selection of bodies implementing FI	About art. 37.1, 38.4 and 38.5 CPR and art. 7 Delegated Regulation 480/2014.
Commission Guide	A Short reference guide for managing authorities	General questions (ex ante assessment, implementations options, etc.)
Commission Guide	Ex ante evaluation	About art. 37 RDC
Commission Guide	Glossary	About definitions used in FI
Commission Guide	Support to enterprises/working capital	About art. 37.4 CPR
Commission Guide	Request for payment	About art. 41 CPR

Web page on FI: [www.fi-compass.com](http://www.fi-compass.com)

## FI LEGAL BASIS FOR 2014-2020 PERIOD (II)

Type of document	Identification / Title	Content
Commission Guide	Combination of support from a FI with other forms of support	About art. 37.7, 37.8, 37.9, 42.1 and 65.11 CPR
		About art. 7, 12, 13 and 14 Delegated Regulation 480/2014
		About art. 1 and 2 Implementing Regulation 821/2014
Commission Guide	Implementation options for FI managed by or under the responsibility of managing authority	About art 38.1.b, 38.4, 38.5, 38.6, 38.7, 38.8, 38.9, 123.6, 123.7 RDC
Commission Guide	Eligible management cost and fees	About art. 42 CPR and art. 12, 13 and 14 of Delegated Regulation 480/2014
Commission Guide	ESI Funds and European Fund for Strategic Investment (EFSI). Ensuring coordination, synergies and complementarity	Coordination of aids between ESIF and EFSI
Commission Guide	Interest and other gains generated by ESI Funds support to FI	About art. 43 CPR
Commission Guide	Eligibility rules for ESI Funds FI	About art. 2, 37, 38, 39, 40, 41, 42, 44, 45, 46, 65, 69, 70, 71 and 120 CPR
		About art. 4, 5, 6, 8, 9, 11, 12, 13, 14 and 25 Delegated Regulation 480/2014
		About art. 1, 3 4, and 5 Implementing Regulation 821/2014
Commission Working Document	SWD (2017) 156 final. Guidance on state aid in ESI Funds FI in the 2014-2020 programming period	About public aids in FI.
EIB	Manual ex ante assessment	Quick reference guide
EIB	Manual ex ante assessment	Vol ,I General methodology
EIB	Manual ex ante assessment	Vol II, Competitiveness of SME
EIB	Manual ex ante assessment	Vol II, Research, technical development and innovation
EIB	Manual ex ante assessment	Vol, IV Low carbon economy
EIB	Manual ex ante assessment	Vol V, Urban and territorial development

## SOME NOVELTIES FOR FI REGULATION INCLUDED IN “OMNIBUS” PROPOSAL

- New type of FI combining ESI Funds contribution with EIB financial products under the EFSI (“Juncker Plan”)
  - ✓ ESI contribution limited to 25% of total support to final recipients (except less developed regions up to 50%)
  - ✓ Co-financing rate up to 100% for a priority axis implemented through this type of FI
- SME Initiative FI can be implemented as a separate priority axis of an OP (currently as a single dedicated national programme)
- Authorities of OP shall not carry out on-the-spot verifications at the level of the EIB or for FI implemented by that body. Similar exemption for the case of audits (currently only for FI under art. 39)
  - ✓ However, the Authorities, taking into account the risks identified, shall consider whether to carry out verifications and/or audits, at the level of other bodies implementing the FI in the jurisdiction of their respective Member State
    - FI under art 39 (SME Initiative) established before this modification do not apply this provision.

## SOME RECOMMENDATIONS FROM A MANAGEMENT AUTHORITY

- Management practices of FI should be aligned with those of similar instruments not co-financed by ESI Funds
- A short, clear and precise regulation is needed, avoiding the overregulation
- Reimbursable support should not have the same treatment as grants in terms of ex-ante verification and control (specially when the equivalent aid is zero or very low).
  - E.g. "...an operation is constituted by the financial contributions from a programme to financial instruments and the subsequent financial support provided by those financial instruments".
- Avoid provisions introducing superfluous or restrictive conditions
  - ✓ E. g. Art. 37.8 Reg. 1303/2013:  
"... and the ESI Funds financial instrument support shall be part of an operation with eligible expenditure distinct from the other sources of assistance" .... Why ?!
  - ✓ E.g. Certifying by tranches of 25%
- Favour the autonomy of national Authorities in the design of FI

Thank you!



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*“A way of making Europe”*

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