European Parliament
2014-2019

Committee on Regional Development

2016/2302(INI)

20.12.2016

DRAFT REPORT

on the right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy
(2016/2302(INI))

Committee on Regional Development

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

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 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 (CPR)[1], 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 (EC) No 1084/2006[4],

– 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[5],

– having regard to its resolution of 28 October 2015 on cohesion policy and the review of the Europe 2020 strategy[6],

– having regard to its resolution of 9 September 2015 on 'Investment for jobs and growth:

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[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.
[4] OJ L 347, 20.12.2013, p. 281.
[5] OJ L 169, 1.7.2015, p. 1.
[6] Texts adopted, P8_TA(2015)0384.

promoting economic, social and territorial cohesion in the Union'[1],

– having regard to the opinion of its Committee on Regional Development on the report of its Committee on Budgetary Control entitled 'European Investment Bank (EIB) – Annual Report 2014'[2],

– 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' (2014/C 19/04)[3],

– having regard to the Commission's Sixth Report on economic, social and territorial cohesion of 23 July 2014 entitled 'Investment for jobs and growth. Promoting development and good governance in EU regions and cities' (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 Art. 140.8 of the Financial Regulation as at 31 December 2013' (COM(2014)0686),

– having regard to the Commission's Guidance for Member States on Article 42(1)(d) CPR – Eligible management costs and fees, of 26 November 2015,

– having regard to the Commission's Guidance for Member States on CPR_37_7_8_9 Combination of support from a financial instrument with other forms of support, of 10 August 2015,

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

– 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

[1] Texts adopted, P8_TA(2015)0308.
[2] Texts adopted, P8_TA(2016)0200.
[3] OJ C 19, 22.1.2014, p. 4.

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 Art. 140.8 of the Financial Regulation as at 31 December' (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 (A8-0000/2016),

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;

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

1. Welcomes the Commission's reporting exercise, which 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. Welcomes the fact that crucial regulatory changes in programming, implementation and management of financial instruments, such as direct links to and coverage of all 11 thematic objectives, compulsory ex-ante assessment, and creation of tailor-made and off-the-shelf solutions and reporting mechanisms, contribute to the implementation of financial instruments;

Grants and financial instruments - intervention logic defines the mix

6. Emphasises that although they are supporting the same Cohesion Policy objectives, ESI Funds' grants and financial instruments under shared management have different intervention logic and application addressing territorial development needs or market needs;

7. Recognises that grants have some 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;

8. Recognises that financial instruments offer advantages such as leverage and revolving effects as well as higher risk investments, including private capital through high-quality bankable projects; acknowledges that financial instruments come with certain disadvantages: slower implementation, higher complexity, and high management fees and implementation costs; notes that grants represent preferable investments in some policy areas, such as the ones covered by the ESF;

9. Highlights that intervention logic is not a dividing line but a meeting point 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 Member States should continue setting the share of financial instruments in respective operational programmes;

Financial instruments' performance - challenges

10. Recalls that the positive experience 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;

11. Notes that implementation delays will affect disbursement rates, revolving and leverage; recalls the fact that delays in the 2007-2013 period contributed irreversibly to sub-optimal performance of ERDF and ESF financial instruments; emphasises that all necessary steps should be taken to mitigate the negative effects of delayed implementation, especially regarding the risk of limited use and impact;

12. Notes the significant differences across the EU regarding the penetration of financial instruments, including ESI Funds and the European Fund for Strategic Investments (EFSI); 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;

Simplification, synergies and technical assistance – solutions

13. Welcomes the Commission's actions in optimising regulation; emphasises that, despite the improvements, complexity still exists and issues such as the long set-up time and the administrative burden for recipients are disincentives to use financial instruments; calls on the Commission to work closely with the EIB and the EIF to make access to ESI Funds microcredit, loans, guarantees, equity and venture capital as easy as using grants;

14. Highlights the importance of auditing financial instruments, including an audit of the EIB Group's operations on Cohesion Policy; calls on the Commission to focus on further capacity building, audit methodology and guidance;

15. Points out that combining grants and financial instruments has unexplored potential; emphasises that alongside guidance to authorities, further 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 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; calls for further promotion of combining grants with financial instruments; stresses that grant components can be used as a first loss piece and can therefore make the funding structure more attractive to beneficiaries and private sector investors;

16. Welcomes the existing technical assistance practices provided by the Commission and 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; calls for a joint technical assistance plan by the Commission and the EIB comprising financial and non-financial advice as well as capacity building, targeted at national authorities as well as fund managers;

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

17. 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;

18. 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, which is to achieve the five headline targets of the Europe 2020 strategy;

19. Highlights that financial instruments perform better in well-developed regions and metropolitan areas, while grants address regional structural issues; notes that increasing the share of financial instruments should not influence the grant appropriations 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;

20. 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, business environment and fiscal and economic stance;

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21. Instructs its President to forward this position to the Council, the Commission and the

national parliaments of the Member States.

EXPLANATORY STATEMENT

Definitions, programming and implementation of financial instruments (FIs)

Delivery methods of EU Cohesion Policy consist mainly of a mix of grants and financial instruments (microfinance, loans, guarantees, equity and venture capital), invested through the ESI Funds under shared management (involving national authorities and intermediaries) or centrally managed by the Commission and the EIB Group.

According to Article 2(p) of the Financial Regulation, 'financial instruments' means 'Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi‑equity investments, loans or guarantees, or other risk‑sharing instruments, and may, where appropriate, be combined with grants'.[1]

2007-2013 programing period

The performance of Cohesion Policy through the turbulent financial and economic period after 2008 appeared as solid proof of EU's ability to support recovery and growth objectives. According to data provided by the European Commission, Cohesion Policy in the form of grants and financial instruments resulted in: approximately 15 million participants in ESF projects and measures, 400,000 direct investments in SMEs and support to 121,400 start-ups, creation of 41,600 new long-term research jobs and funding for 94,955 research projects, 4,900 km of newly-built roads and 28,500 km of reconstructed roads, 1,100 km of newly-built railways and 4,000 km reconstructed, production of 3,855 MW of renewable energy capacity, additional 8.3 million EU citizens connected through broadband and over 6.8 million EU citizens benefitting of wastewater projects[2].

In the framework of the last programming period, financial instruments were deployed through the ERDF and the ESF. 25 Member States took advantage of such instruments. In total 1,025 ERDF and ESF financial instruments were established in the EU and in 2014 approximately €16 billion from existing operational programmes were contributed to the available instruments. Alongside ESI Funds financial instruments, the EU budget contributed to 21 financial instruments managed directly or indirectly by the Commission. In 2007-2013 the overall amount allocated to the 21 financial instruments was approximately €5.5 billion targeted at areas such as research, SMEs and industry, education and culture, etc.[3]

2014-2020 programming period

The current programming period came with a number of improvements. The Common Provision Regulation (CPR) introduced enhanced ESI Funds delivery through grants and financial instruments and allowed for deployment of financial instruments also through the Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD) and the

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[1] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0966&from=en
[2] http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_synth_report_en.pdf
[3] http://www.eca.europa.eu/Lists/ECADocuments/SR16_19/SR_FIN_INSTRUMENTS_EN.pdf

European Maritime and Fisheries Fund (EMFF)[1].

The CPR arranges shared management implementation through several methods. Article 38(1)(a) and (b) of the CPR allows for financial contributions to Union-level financial instruments and national, regional, transnational or cross-border financial instruments. Article 38(3)(a) introduces off-the-shelf instruments – standardised conditions for different products (SME loan/guarantee/equity instruments) offered by entrusted entities. Article 38(4)(a) allows for investment in capital (shares) of existing or newly-established entities dedicated to delivery of financial instruments to final recipients. Entities such as the EIB, international financial institutions or financial institutions in the Member States are eligible for implementation tasks. Article 38(4)(c) enables delivery of loan and guarantee products directly through the managing authorities.[2]

The CPR also represents a new chapter regarding the role of the EIB in Cohesion Policy, The roles and participation of the EIB include lending, advisory and technical assistance, capacity building and mandate management. Through loans, the EIB provides co-financing for Cohesion Policy projects. Lending includes direct loans, global loans, framework loans and structural programme lending. In addition to lending, the EIB provides consultations to Member States in the process of setting up operational programmes. Apart from direct co-financing with ESI Funds, EIB lending contributes to attracting other investors to projects in less-advantaged regions by reducing risk. As a complementary support to Cohesion Policy objectives, the EIB contributes significantly to the management and implementation of EU-wide instruments such as EFSI, COSME, INNOVFIN and CEF. Significant advisory role of the EIB is involved in supporting national and local authorities in increasing the quality of the projects, especially in the context of investments through equity, loans and loan guarantees for sectors including regional, urban renewal and environmental.[3]

Financial instruments' performance

Performance of financial instruments' products in Cohesion Policy has been a long-standing discussion. Evidence from the last programming period suggests positive contribution to Cohesion Policy implementation and a number of benefits: Financial instruments can increase the impact of ESI Funds and leverage resources, the revolving nature of the instruments improves effectiveness and efficiency of operations with EU investments, projects benefit from improved quality (bankable projects) due to the fact that investment has to be repaid in the future, increased flexibility through a wide range of instruments for policy delivery and private sector involvement in the form of co-investment and know-how.[4]

Alongside the evident results and benefits, experience shows that financial instruments were susceptible to shortfalls and suffered certain issues in the near past. In the 2007-2013 period, a significant number of ERDF and ESF financial instruments were oversized and experienced low disbursement rates. For the 2014-2020 programming period this issue is mitigated by the CPR. During the last programming period, financial instruments under shared management were not very successful in attracting private capital. Financial instruments delivered through

[1] http://www.eca.europa.eu/Lists/ECADocuments/SR16_19/SR_FIN_INSTRUMENTS_EN.pdf
[2] http://eur-lex.europa.eu/eli/reg/2013/1303/oj
[3] http://www.europarl.europa.eu/RegData/etudes/STUD/2016/563410/IPOL_STU(2016)563410_EN.pdf
[4] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

ERDF and ESF operational programmes were not been very successful in providing revolving financial support. Cost effectiveness depends on management cost (expenses for attracting investors, legal and audit services) and fees (compensation for providing the services). Evidence from the 2007-2013 programming period revealed high management costs and fees, especially given the actual disbursement to final recipients. Commission data indicated that management costs and fees equalled 12% of payments to beneficiaries. In the current programming period, such costs were capped at half the amounts. Another issue with financial instruments turned out to be the market assessment for FIs in 2007-2013, which was generally too high. In 2014-2020 period, this problem was addressed through a mandatory detailed ex-ante assessment for shared management investments. In 2007-2013 ERDF and ESF FIs were fragmented and much smaller than centrally-managed funds or private investment funds. The calculation of the leverage effect following the investment through financial instruments turned out to be another issue due to the inclusion of national co-financing in the overall leverage, which distorts the ratio. [1]

Aggregated Commission data at the end of 2015 indicated additional issues in the process of implementing financial instruments. Deployment of financial instruments across the EU had a very divergent pattern. Some countries had not yet completed ex-ante assessments while other Member States experienced a second revolving of the investments. Member States performance in completion of the ex-ante assessment and signature of the funding agreement was very divergent across the EU - from 26 to 637 days. There is no up to date data on the progress of the abovementioned issues and the number of inconsistencies in data reporting shows the need to improve reporting. The Commission took action to improve reporting in the current programming period but results are still to confirm actual improvement.[2]

Synergies between ESI Funds grants, financial instruments and combinations of both

The European Parliament has been consistent in requesting improved framework for synergies between ESI Funds and other investments through the EU budget. For the current programming period, Article 37(7) of the CPR provides for combining financial instruments with technical support, interest rate subsidies, and guarantee fee subsidies under a single operation. Article 37(8) of the CPR allows combinations of financial instruments with other ESI Funds programme or another financial instrument at the level of final recipients.[3]

At the level of final beneficiaries, applicable rules provide for four options: A financial instrument can be combined with a grant from the same ESI Funds programme or from a different programme (FI ESIF + G ESIF); an ESI Funds' financial instrument can be combined with a financial instrument from another or the same ESI Funds' programme; a financial instrument from an ESI Funds' programme can be combined with a grant supported by the Union (FI ESIF + G non-ESIF); a financial instrument from an ESI Funds' programme can be combined with another financial instrument supported by the Union (FI ESIF + FI non-ESIF).[4]

In the context of synergies, the abovementioned combinations represent facilitation. However,

[1] http://www.eca.europa.eu/Lists/ECADocuments/SR16_19/SR_FIN_INSTRUMENTS_EN.pdf
[2] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fi_1420_2015.pdf
[3] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/guidance_combination_support_en.pdf
[4] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/combination_support_en.pdf

no conclusions can be made now, since it is too early to evaluate the effectiveness and the level of burden on authorities and recipients.

The vast range of opportunities provided by ESI Funds in the form of grants, financial instruments and synergies require adequate advisory support in the form of technical assistance such as workshops, exchange of experience, guidance, training, online resources, help desk, conferences and seminars. In the 2007-2013 programming period, there were specific obstacles to technical assistance delivery. Some of the reasons for weak performance of advisory services were insufficient time, no agreement on the needs, no provider, unrecognised needs or that public funds were not available.[1]

In the case of grants, the managing authorities provide such support, while ESI Funds investments delivered through financial instruments take advantage of the *fi-compass* platform. It was introduced for the first time for the 2014-2020 programming period to support ESIF managing authorities. The platform aims to provide technical assistance on behalf of the Commission to the Member States. On the one hand, it delivers help for all Member States and types of FIs in the form of best practice, networking, training, guidance. On the other, *fi-compass* provides assistance responding to stakeholder proposals, including ex-ante assessment for FIs.[2]

[1] http://www.eib.org/attachments/documents/jessica_stocktaking_final_report_en.pdf
[2] https://www.fi-compass.eu/